

Written Ministerial Statement

Thursday 17 July 2003

TRADE AND INDUSTRY

Extension of the use of International Accounting Standards

The Minister of State for Industry and the Regions and Deputy Minister for Women and Equality (Jacqui Smith): On 26 November 2002 the consultation period on the possible extension of the European Regulation on the application of International Accounting Standards (“the Regulation”) ended. The Regulation requires EU companies whose securities are admitted to trading on EU regulated markets to prepare their consolidated accounts on the basis of International Accounting Standards (as adopted by the European Commission) from 2005. The Regulation includes Member State options to extend its application to any other class or classes of company, and to the individual accounts of publicly traded companies, on either a permissive or a mandatory basis.

Having considered the responses to the consultation, I am announcing today that the Regulation will be extended by permitting publicly traded companies to use adopted International Accounting Standards in their annual accounts. All other companies will also be permitted to use adopted International Accounting Standards, in both their annual and consolidated accounts. Limited Liability Partnerships will be treated in the same way.

This approach is consistent with the UK’s long held support of the idea of common, internationally accepted standards. Companies will be able to switch to International Accounting Standards based on their own circumstances, when the benefits outweigh the costs. No additional burden will be imposed; burdens on publicly traded groups may be reduced, as they will be able to use the same standards in both their consolidated and subsidiary accounts.

I have decided against mandatory extension for the time being, mainly because it would impose burdens. In particular, International Accounting Standards do not as yet offer a simplified regime for smaller companies comparable to that provided by the UK system. Also, International Accounting Standards are in a state of transition and their impact on companies’ profits (and tax liabilities) is therefore uncertain at present.

Nonetheless, it is clearly preferable that all UK companies use the same standards in due course. I therefore propose to review the impact of the Regulation around 2008 and decide if the time is right to move to mandatory use of International Accounting Standards. Time is needed for International Accounting Standards to become settled and established, for the development of a regime for smaller companies, and for companies and auditors to become more familiar with these standards.

My Department will consult by early next year on draft regulations to make necessary amendments to the Companies Act 1985.