



Department
for Business
Innovation & Skills

**UK IMPLEMENTATION OF THE EU
ACCOUNTING DIRECTIVE**

Chapters 1-9: Annual financial
statements, consolidated
financial statements, related
reports of certain types of
undertakings and general
requirements for audit

AUGUST 2014

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UK Implementation of the EU Accounting Directive, Chapters 1-9

The Government has a strong and on-going commitment to reducing unnecessary administrative burdens on businesses, in particular for small businesses. These changes in European law provide an opportunity for the Government to further reduce the administrative burdens associated with the preparation and publication of statutory accounts, especially for small companies.

There can be no doubt that financial reporting is a vital component in maintaining effective business relationships. Informative and meaningful financial reporting is key to supporting vibrant financial markets and continuing economic growth. There are huge variations in the size and nature of businesses operating in the UK. It is, therefore, essential that our regulatory framework properly reflects the needs of the wide range of users of financial information and avoids placing unnecessary burdens on business.

In June 2013, the EU adopted a new Accounting Directive – “EU Directive 2013/34/EU on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings”. (The full text of the Directive is available from <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:182:0019:0076:EN:PDF>.) Chapters 1 – 9¹ of the Accounting Directive provide the legal foundations upon which the UK’s financial reporting framework is built.

This new Directive consolidates, modernises, and updates the previous directives² governing this area of regulation. It introduces a building block approach to the statutory financial statements that companies prepare, with increasing levels of disclosure dependant on the size of the undertaking. It seeks to increase the comparability of financial reports across Member States by reducing the number of options available to the preparers of financial statements in respect of recognition, measurement and presentation. Further, the Accounting Directive creates a largely harmonised small company regime and limits, for the first time, the amount of information that Member States are permitted to require small undertakings to place in their annual statutory accounts. However, the effects of this on the UK are limited as we had already implemented many of the options previously available and which form the basis for this regime.

The Government is now seeking views on the UK’s proposed implementation of the EU’s new Accounting Directive, Chapters 1-9, and welcomes comments on all aspects of the proposals. In particular, any information on costs and related benefits, or issues arising out of the proposals are of key interest, and will help to inform the Government’s approach to UK implementation.

¹ Chapter 10 of Accounting Directive 2013/34/EU introduces new reporting requirements for large and/or listed undertakings actively engaged in the extractive industries. The requirements of Chapter 10 have been subject to a separate consultation and will be implemented to a different timescale. You can view more information about the implementation of Chapter 10 from <https://www.gov.uk/government/consultations/extractives-industries-reporting-implementing-the-eu-accounting-directive>

² The 4th and 7th Company Law Directives. 78/660/EEC and 83/349/EEC respectively.

The UK is required to transpose the Accounting Directive into UK law no later than 20 July 2015. However, we propose to take up the option permitting that the changes may first apply to financial years beginning on or after 1 January 2016.

Issued: 29 August 2014

Respond by: 24 October 2014

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This consultation is relevant to: companies registered in the UK and any business or partnership required to prepare and publish financial statements (annual accounts) in accordance with the provisions of the Companies Act 2006 and associated regulations. It will also be of interest to the preparers of financial statements, professional bodies and users of companies' financial information.

IMPORTANT NOTES

a. Terminology

Terminology differences between the Accounting Directive and common UK usage

There are a number of areas where the new Accounting Directive 2013/34/EU uses different terminology to that commonly used in the UK. For example, the Accounting Directive refers to annual “financial statements” meaning the balance sheet, the profit and loss account and the notes to the financial statements. In the UK, many people would commonly refer to these as the “annual accounts” or “statutory accounts”. Similarly the Accounting Directive refers to an “abridged” balance sheet or “abridged” profit and loss account whereas we use the term “abbreviated”. These terms should be considered to be inter-changeable when reading this document and/or cross referencing the Accounting Directive.

Another area of difference relates to the Accounting Directive’s use of the term “management report”. The UK does not use this term so references to it in relation to UK companies should be taken to mean the combined “Strategic Report” and “Directors Report”.

b. Scope

“Undertaking” and “Company”

“Undertaking” or “undertakings” is used to refer to those legal entities within scope of the Accounting Directive. For the UK, undertakings include public companies limited by shares or by guarantee; private companies limited by shares or by guarantee; and partnerships, limited partnerships and unlimited companies all of whose members (direct or indirect) have limited liability³.

References in this document to “company” or “companies” should be taken to refer to any or all of the legal forms included within the scope of “undertaking”.

³ Article 1 of the Accounting Directive (2013/34/EU).

1. Executive Summary

- 1.1 There can be no doubt that financial reporting is a vital component in maintaining effective business relationships. Informative and meaningful financial reporting is key to supporting vibrant financial markets and continuing economic growth. However, there are huge variations in the size and nature of businesses operating in the UK. It is essential that our regulatory framework properly reflects the needs of the wide range of users of financial information whilst ensuring that the burden imposed on business is both necessary and proportionate. The Government has a strong and on-going commitment to reducing unnecessary administrative burdens on businesses, in particular for small businesses.
- 1.2 In June 2013, the EU adopted a new Accounting Directive – “EU Directive 2013/34/EU on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings”. (To see the full text of the Directive, please [click here](#)). Chapters 1 – 9⁴ of the Accounting Directive provide the legal foundations upon which the UK’s financial reporting framework is built. These changes in European law provide an opportunity for the Government to further reduce the administrative burdens associated with the preparation and publication of statutory accounts, especially for small companies.
- 1.3 This new Directive consolidates, modernises, and updates the previous directives⁵ governing this area of regulation. It incorporates the EU’s “think small first” principle and aims to reduce financial and administrative burdens, particularly for small and medium sized enterprises (SMEs), and improve the wider business environment to promote the growth and internationalisation of SMEs. It does this by introducing a building block approach to the statutory financial statements that companies prepare, with increasing levels of disclosure dependant on the size of the undertaking. It seeks to increase the comparability of financial reports across Member States by reducing the number of options available to the preparers of financial statements in respect of recognition, measurement and presentation. Further, the Directive creates a largely harmonised small company regime and limits, for the first time, the amount of information that Member States are permitted to require small undertakings to place in their annual statutory accounts. However, the effects of this on the UK are limited as we had already implemented many of the options previously available and which form the basis for this regime.
- 1.4 In implementing the provisions of the new Accounting Directive, the Government’s priority is to maintain the integrity of, and confidence in, the UK’s well-respected accounting and financial reporting framework. The UK’s framework must continue to provide high quality information for users/third parties such as creditors, shareholders and regulators. The Directive does not set out to make significant changes to the fundamentals of the EU financial reporting and, as such, most of the Member State

⁴ Chapter 10 of the Accounting Directive (2013/34/EU) introduces new reporting requirements for large and/or listed undertakings actively engaged in the extractive industries. The requirements of Chapter 10 have been subject to a separate consultation and will be implemented to a different timescale. More information about the implementation of Chapter 10 is available from: <https://www.gov.uk/government/consultations/extractives-industries-reporting-implementing-the-eu-accounting-directive>

⁵ The 4th and 7th Company Law Directives. 78/660/EEC and 83/349/EEC respectively.

options previously available⁶ have been retained. For the majority of these previously available Member State options, the UK has well-established positions. Generally speaking, it is not intended that these positions will change⁷.

- 1.5 Consequently, this consultation notes those areas where a mandatory change is imposed and sets out the Government's proposals where a new option is available or where it is intended that an established position should be changed.
- 1.6 The Government is now seeking views on the UK's proposed implementation of the EU's new Accounting Directive, Chapters 1-9, and welcomes comments on all aspects of the proposals. We are also taking this opportunity to consider changes to the accounting regime in response to issues raised during the Company and Commercial Law Red Tape Challenge⁸ process.
- 1.7 We propose to:
- Raise the thresholds for determining company size (micro-entity, medium-sized and large) in line with the mandatory thresholds imposed by the Accounting Directive;
 - Take up the option to maximise the threshold for determining what is a small company and so allow c11,000 additional companies to access the lighter-touch financial reporting framework available under the small company accounting regime;
 - Consider if the method for determining thresholds for company size should be amended where "net turnover" is not a relevant factor for a company or where it might be more appropriate to consider the thresholds on a consolidated or aggregated basis;
 - Implement changes to comply with the new largely harmonised small company regime - including changes to the mandatory notes to the accounts;
 - Consider whether small companies should be permitted to prepare an abbreviated balance sheet and abbreviated profit and loss account;
 - Review the exclusion of public companies from the small company regime and the medium-sized company regime;
 - Explore the opportunities offered by the option to provide greater flexibility in the layout of the profit and loss account and balance sheet;
 - Amend the approach in relation to the writing off of goodwill and development costs as required by the Accounting Directive;

⁶ As provided by the 4th and 7th Company Law Directives. 78/660/EEC and 83/349/EEC respectively.

⁷ The Government, working with stakeholders, has considered every option set out in the Accounting Directive (2013/34/EU). Where the UK already has a well-established position and there are no obvious areas for concern, no change is proposed. A technical reference table indicating the position on each of the options is available at <https://www.gov.uk/government/consultations/eu-accounting-directive-smaller-companies-reporting>

⁸ On 24 January 2014, Prime Minister David Cameron renewed the Government's commitment to the Red Tape Challenge, a programme with the aim to leave office having reduced the overall burden of regulation.

- Require that information on subsidiaries included with the consolidated financial statements is only provided as a note to those statements;
 - Remove the requirement for micro-entity companies to prepare a Directors Report;
 - Seek views on the interaction of the Accounting Directive with our statutory audit framework; and
 - Seek views on the implications of the revised accounting framework for charitable companies.
- 1.8 The UK is required to transpose the Accounting Directive into UK law no later than 20 July 2015. We propose to take up the option permitting that the changes may first apply to financial years beginning on or after 1 January 2016 but are inviting views on whether adoption of the new reporting framework ahead of this date may be desirable or practicable.
- 1.9 The Government proposes to introduce legislation implementing the Directive early in 2015.
- 1.10 This consultation begins on 29 August 2014 and will be open until 24 October 2014.

2. How to respond

- 2.1 When responding please state whether you are responding as an individual or representing the views of an organisation. If you are responding on behalf of an organisation, please make it clear who the organisation represents by selecting the appropriate interest group on the consultation form and, where applicable, how the views of members were assembled.
- 2.2 The consultation response form is available electronically on the consultation page: <https://www.gov.uk/government/consultations/eu-accounting-directive-smaller-companies-reporting> (until 24 October 2014). The form is provided for your convenience but responses may also be made by letter. Responses can be submitted by email or by letter to:
- John Conway
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Department of Business, Innovation and Skills
3rd Floor, Spur 2
1 Victoria Street
London SW1H 0ET
- Tel: 020 7215 6402
Email: Accounting_Directive@bis.gsi.gov.uk
- 2.3 A list of those organisations and individuals consulted directly is in Annex 2. We would welcome suggestions of others who may wish to be involved in this consultation process.
- 2.4 A list of those organisations and individuals consulted directly is in Annex 2. We would welcome suggestions of others who may wish to be involved in this consultation process.
- 2.5 You may make printed copies of this document without seeking permission.
- 2.6 Other versions of the document in Braille, other languages or audio-cassette are available on request.

3. Confidentiality & Data Protection

- 3.1 Information provided in response to this consultation, including personal information, may be subject to publication or release to other parties or to disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004). If you want information, including personal data that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence.
- 3.2 In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

4. Help with queries

Questions about the policy issues raised in the document can be addressed to:

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The consultation principles are in Annex 1.

5. Background to the directive

5.1 EU Directive 2013/34/EU on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC, entered into force in July 2013. The Directive is referred to as the 'Accounting Directive'. The full text of the Directive is available from <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:182:0019:0076:EN:PDF>

5.2 This new Directive

- consolidates, modernises, and updates Council Directives 78/660/EEC and 83/349/EEC on annual individual and consolidated financial statements and reports, known as the 4th and 7th Company Law Directives;
- amends Directive 2006/43/EC on statutory audits of individual and consolidated accounts; and
- repeals, and incorporates the provisions of, Directive 2012/6/EU on the annual accounts of certain types of companies as regards micro-entities ("the Micros Directive").

5.3 Chapters 1 – 9 of the Accounting Directive establish the minimum legal requirements for statutory accounts at EU level.

5.4 Chapter 10 of the Accounting Directive (Report on Payment to Governments) is being implemented separately from the rest of the Directive and a separate consultation was undertaken in relation to its implementation. The closing date for responses to that consultation was 16 May 2014 and the response to consultation was published on 21 August 2014. More information about the implementation of Chapter 10 is available from <https://www.gov.uk/government/consultations/extractives-industries-reporting-implementing-the-eu-accounting-directive>

5.5 The main objectives of the new Accounting Directive are to:

- Simplify accounting requirements and reduce the associated administrative burden (with particular emphasis on small companies);
- Increase the clarity and comparability of financial statements of companies within the EU with a view to contributing to the better functioning of the single market, increased access to finance, reductions in the cost of capital and increased levels of cross-border trade and merger and acquisition activity; and
- Protect essential user needs by retaining necessary accounting information for users.

5.6 It does this by:

- introducing a building block approach to the statutory financial statements that companies prepare, with increasing levels of disclosure dependant on the size of the undertaking;
- reducing the number of options available to the preparers in respect of recognition, measurement and presentation⁹; and
- creating a largely harmonised small company regime and, for the first time, limiting the amount of information that Member States are permitted to require small undertakings to place in their annual statutory accounts.

5.7 The majority of the EU's reporting framework remains unchanged.

6. The Government's Approach to Implementation

6.1 There can be no doubt that financial reporting is a vital component in maintaining effective business relationships. Informative and meaningful financial reporting is key to supporting vibrant financial markets and continuing economic growth. However, there are huge variations in the size and nature of businesses operating in the UK. It is essential that our regulatory framework properly reflects the needs of the wide range of users of financial information whilst ensuring that the burden imposed on business is both necessary and proportionate.

6.2 The Government has a strong and on-going commitment to reducing unnecessary administrative burdens on businesses, in particular for small businesses. These changes in European law provide an opportunity for the Government to further reduce the administrative burdens associated with the preparation and publication of statutory accounts, especially for small companies.

6.3 In implementing the provisions of the new Accounting Directive, the Government's priority is to maintain the integrity of, and confidence in, the UK's well-respected accounting and financial reporting framework. The UK's framework must continue to provide high quality information for users/third parties such as creditors, shareholders and regulators. The Directive does not set out to make significant changes to the fundamentals of the EU financial reporting and, as such, most of the Member State options previously available¹⁰ have been retained. For the majority of these previously available Member State options, the UK has well-established positions. Generally speaking, it is not intended that these positions will change¹¹.

⁹ However, the Accounting Directive provides over 100 Member State options to enable Member States to adapt the Directive effectively and in accordance with national accounting frameworks.

¹⁰ As provided by the 4th and 7th Company Law Directives 78/660/EEC and 83/349/EEC respectively.

¹¹ The Government, working with stakeholders, has considered every option set out in the Accounting Directive (2013/34/EU). Where the UK already has a well-established position and there are no obvious areas for concern, no change is proposed. A technical reference table indicating the position on each of the

6.4 Therefore, this consultation notes those areas where a mandatory change is imposed: and sets out the Government’s proposals where a new option is available or where it is intended that an established position should be changed.

Question 1: Do you agree that the Government should maintain the UK’s existing approach to financial reporting and only introduce changes where imposed by the Directive or where new options have been introduced?

Yes, No

Please provide information in support of your answer.

6.5 We are also taking this opportunity to consider changes to the accounting regime in response to issues raised during the Company and Commercial Law Red Tape Challenge¹² process.

6.6 Allied to this, the Government’s Guiding Principles for EU Regulation includes guidance to avoid “gold-plating” of EU regulations during implementation. These considerations will be taken into account throughout the implementation of this Directive.

Simplification of the regulations

6.7 As part of planning for implementation, we have considered whether it would be appropriate to consolidate the regulations for small companies and groups with those for medium-sized and large companies and groups¹³. Taking account of the complexity and length of these regulations and having regard to views expressed by stakeholders during the planning process, we conclude that it would not be appropriate or helpful to users to consolidate these regulations.

Question 2: Do you agree that the Government should maintain the current position of providing discrete regulations for small companies and for large and medium-sized companies?

Yes, No

Please provide information in support of your answer.

6.8 However, we consider that it might be helpful to prepare a new set of regulations for small companies and groups, incorporating the micro-entity exemption within it. The Small Companies and Groups (Accounts and Directors’

options is available at <https://www.gov.uk/government/consultations/eu-accounting-directive-smaller-companies-reporting>

¹² On 24 January 2014, Prime Minister David Cameron renewed the Government’s commitment to the Red Tape Challenge, a programme with the aim to leave office having reduced the overall burden of regulation.

¹³ [The Small Companies and Groups \(Accounts and Directors’ Report\) Regulations 2008](#) and [The Large and Medium-sized Companies and Groups \(Accounts and Reports\) Regulations 2008](#)

Report) Regulations 2008/409 and The Small Companies (Micro-Entities' Accounts) Regulations 2013/3009 would then be repealed.

Question 3: Do you agree it would be helpful to have a new set of Small Companies and Group Regulations which set out the new small company regime and incorporate both the small companies' exemption and the micro-entities exemptions clearly and in one place?

Yes, No

Please provide information in support of your answer.

Question 4: Do you have suggestions for other regulations that might reasonably be consolidated as part of the implementation of this Directive? If so, please provide references to the relevant regulations with an explanation for your proposal and the benefits you expect this would deliver.

Yes, No

Please provide information in support of your answer.

7. Timetable for implementation

a. Transposition deadline

7.1 The EU has set a deadline of 20 July 2015 for Member States to transpose the Accounting Directive into national law¹⁴. However, it also provides an option for Member States to permit that the changes may be applied to financial statements for financial years beginning on or after 1 January 2016. As this provides the longest period for companies to make the transition to the new regulations, the Government proposes to implement this option.

Question 5: Do you agree that the new regulations should apply to financial statements for financial years commencing on or after 1 January 2016?

Yes, No

If no, please provide an explanation for your position

b. Early Adoption

7.2 The raising of the thresholds for determining company size and the harmonisation of the small company regime are deregulatory measures. Approximately 11,000 companies currently classified as medium-sized companies are expected to be in scope of the small company regime as a result of the proposed new thresholds. As indicated above, we do not intend to require adoption of the new regulations before 1 January 2016 but we would welcome views on whether companies should be permitted to adopt the new financial reporting regime in advance of that date. In particular, we would welcome comments

¹⁴ Article 53 of the Accounting Directive (2013/34/EU).

about the pros and cons, costs and benefits associated permitting early adoption of the new financial reporting regime. For example, some companies who are currently large/medium might find it beneficial to access the medium/small regime by applying the new size thresholds; but preparers and users of accounts may find comparability is reduced during the transition period or that supporting elements of the framework e.g. accounting standards, are not available at the beginning of a company's new financial year.

Question 6: Should companies be able to access the new financial reporting regime (increased thresholds and revised reporting requirements) ahead of the mandatory application date of 1 January 2016?

Yes, No

Please provide information in support of your answer. In particular, we would welcome information about the costs/benefits associated with your preferred option.

8. The Proposal

8.1 As noted above, much of the Accounting Directive maintains the position under the earlier Accounting Directives. Using Member State options under the earlier Directives, the UK has already taken up options appropriate to the UK accounting framework, and as a result, the impact on most companies (especially medium and large undertakings) will be very limited.

a. Definitions including Public Interest Entities (PIEs)

8.2 The revised list of definitions¹⁵ provided in the Accounting Directive will be reflected into UK law as appropriate.

8.3 The inclusion in the Accounting Directive, for the first time, of a definition of Public Interest Entity¹⁶ (PIE) is of interest. PIEs, broadly speaking, are defined as companies listed on a regulated exchange¹⁷, credit institutions and insurance undertakings. In

¹⁵ Article 2 of the Accounting Directive (2013/34/EU) defines the following terms: public interest entities; participating interest; related party; fixed assets; net turnover; purchase price; production cost; value adjustment; parent undertaking; subsidiary undertaking; group; affiliated undertaking; associated undertaking; investment undertakings; financial holding undertakings; and material.

¹⁶ 'Public-interest entities' means undertakings which are: (a) governed by the law of a Member State and whose transferable securities are admitted to trading on a regulated market of any Member State within the meaning of point (14) of Article 4(1) of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments; (b) credit institutions as defined in point (1) of Article 4 of Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions, other than those referred to in Article 2 of that Directive; (c) insurance undertakings within the meaning of Article 2(1) of Council Directive 91/674/EEC of 19 December 1991 on the annual accounts of insurance undertakings; or (d) designated by Member States as public-interest entities, for instance undertakings that are of significant public relevance because of the nature of their business, their size or the number of their employees.

¹⁷ For the UK, this relates principally to companies listed on the Main Market of the London Stock Exchange.

addition, Member States can designate as PIEs other undertakings that are of significant public relevance because of the nature of their business, their size or the number of their employees, for example.

8.4 Significantly, companies defined as PIEs must report as large companies unless the Accounting Directive explicitly provides otherwise. This is because the extent to which PIEs are funded by the public and a high degree of transparency around their performance and financial position is considered necessary to allow fully informed decisions to be taken by members of the public before dealing with such an entity. As such, the simplified and reduced accounting requirements for small and medium-sized privately-owned companies are considered inappropriate for PIEs.

8.5 PIEs will always report in the same way as large undertakings regardless of their number of employees, balance sheet total or turnover.

8.6 NOTE: Companies defined as PIEs under the provisions of the Accounting Directive will also be subject to mandatory statutory audit. However, whilst companies that are PIEs for accounting purposes, like any other company subject to statutory audit, fall *within scope* of the Audit Directive, this does not mean that they are all PIEs for the purpose of the provisions of the Audit Directive and Audit Regulation. The definition of PIE for this latter purpose will be subject to consultation as part of the implementation of the Audit Directive and Audit Regulation.

b. Size Categories

8.7 IMPORTANT: The thresholds considered below are for **accounting purposes only**. It is **not** intended that they should apply in relation to the small company audit exemption. The Government's proposals in respect of interaction with the audit regime are set out in section 9.

8.8 The Accounting Directive sets mandatory thresholds for micro, small, medium and large companies relative to their average number of employees, balance sheet total and, net turnover at the balance sheet date¹⁸. (See also paragraph 8.9 below concerning thresholds for small companies.) A micro or medium company comes under the relevant size if it does not exceed the limits of at least two of the three criteria. Large undertakings (or groups) are those which on their balance sheet date exceed at least two of the three criteria for medium-sized undertakings (or groups).

The table overleaf sets out the revised thresholds for micro-entities, medium-sized and large companies.

¹⁸ Article 3 of the Accounting Directive (2013/34/EU).

		Balance sheet, £	Net turnover, £	Average no. of employees
<i>For individual company accounts:</i>				
Micro-entity company		≤ 316,000	≤ 632,000	≤ 10
Medium-sized company		≤ 18,000,000	≤ 36,000,000	≤ 250
Large company		≥ 18,000,000	≥ 36,000,000	≥ 250
<i>For group/consolidated accounts:</i>				
Medium-sized group ¹⁹	Net	≤ 18,000,000	≤ 36,000,000	≤ 250
	Gross	≤ 21,600,000	≤ 43,200,000	
Large group ²⁰	Net	≥ 18,000,000	≥ 36,000,000	≥ 250
	Gross	≥ 21,600,000	≥ 43,200,000	

8.9 Similarly, the Accounting Directive sets a mandatory minimum threshold for small companies. Again, a small company comes under the relevant size if it does not exceed the limits of at least two of the three criteria. However, for small companies only, the Directive permits Member States to increase the balance sheet total and net turnover values by up to 50%. This gives Member States the opportunity to allow more companies to access to the less burdensome small company regime if they wish.

¹⁹ The Companies Act 2006 provides two values in relation to the turnover and balance sheet thresholds when calculating medium-sized groups (section 466, Companies Act 2006). These are expressed as the “net” and “gross” values for those thresholds (as defined in those sections) – the gross figure is 20% greater than the net figure and is used in relation to balance sheet and turnover figures which do not include set-offs and other adjustments made to eliminate group transactions.

²⁰ cf. footnote 19 above. As per para 8.8 above, large groups are those which exceed two out of three of the thresholds.

The table below shows the minimum and maximum thresholds permitted for the small company regime.

		Balance sheet, £	Net turnover, £	Average no. of employees
<i>For individual company accounts:</i>				
Small company Using <i>minimum</i> mandatory threshold values		≤ 3,500,000	≤ 7,000,000	≤ 50
Small company Using <i>maximum</i> threshold values permitted		≤ 5,100,000	≤ 10,200,000	≤ 50
<i>For group/consolidated accounts:</i>				
Small group ²¹ Using <i>minimum</i> mandatory threshold values	Net	≤ 3,500,000	≤ 7,000,000	≤ 50
	Gross	≤ 4,200,000	≤ 8,400,000	
Small group ²² Using <i>maximum</i> threshold values permitted	Net	≤ 5,100,000	≤ 10,200,000	≤ 50
	Gross	≤ 6,100,000	≤ 12,200,000	

8.10 If we adopted the minimum thresholds defining a small company, this would offer only a very small increase – around 7% - over the current thresholds. This would mean just 1,000 medium-sized companies would be re-categorised as small. Therefore, in line with the Government’s commitment to reduce burdens on small business, we propose to adopt the maximum small company thresholds. We expect this increase to allow an additional 11,000 companies currently categorised as medium-sized to access the small company regime if they wish. Companies would, of course, need to consider if the information requirements of the small company regime were sufficient to meet their business needs. As now, small companies may voluntarily provide additional information or prepare full accounts.

²¹ The Companies Act provides two values in relation to the turnover and balance sheet thresholds when calculating small-sized groups (section 383, Companies Act 2006). These are expressed as the “net” and “gross” values for those thresholds (as defined in those sections) – the gross figure is 20% greater than the net figure and is used in relation to balance sheet and turnover figures which do not include set-offs and other adjustments made to eliminate group transactions.

²² cf. footnote 21 above.

Question 7: Do you agree with the Government’s proposal to maximise the small company thresholds and provide as many eligible companies as possible with the opportunity to access the small company regime?

Yes, No

Please provide information in support of your answer.

Question 8: We have been able to draw on academic studies and responses to earlier consultations but we would welcome any additional information/evidence you are able to provide to support your response. What benefits or costs do you think will arise from raising the company size thresholds? (Information may relate to both monetised and non-monetised benefits and costs.)

c. Reference point for calculating thresholds

8.11 The Accounting Directive now provides Member States with the opportunity to consider additional factors²³ when determining the reference point for calculating a company’s size.

- First, it permits that Member States may require other sources of income to be included for companies for which “net turnover²⁴” is not relevant²⁵. This is because many companies derive significant income from sources other than the sale of products or the provision of services. Examples include investment income or donations (in cash or in kind). By ignoring income from these sources a company, which may otherwise be regarded as medium-sized or even large, may be able to access the small company regime with its significantly reduced disclosure requirements.
- Second, it allows that Member States may require parent undertakings to calculate their thresholds on a consolidated basis rather than an individual basis; and/or require “affiliated undertakings” to calculate their thresholds on a consolidated or aggregated basis. This might, for example, be used to deal with situations where companies may have been established to avoid the reporting of certain information.

8.12 The Government has no plans to change the way in which UK law currently operates²⁶. It is Government policy to reduce or remove burdens on business and we

²³ Article 3 of the Accounting Directive (2013/34/EU).

²⁴ “Net turnover” is defined as *the amounts derived from the sale of products and the provision of services after deducting sales rebates and value added tax and other taxes directly linked to turnover*. (Article 2.5 of the Accounting Directive (2013/34/EU)).

²⁵ Article 3.12 of the Accounting Directive (2013/34/EU).

²⁶ We note that currently, for example, a parent undertaking may only qualify as a small company if the group headed by it is a small group (and as a medium company if the group headed by it is a medium group). No changes are proposed to these or other provisions which already apply flexibilities now offered in Article 3.12.

would not wish to prevent companies from accessing the small or medium-companies regimes unless there was a clear public interest in doing so. However, we welcome views on the flexibility offered by these Member State options.

Question 9: Do you agree that the Government should continue to measure a company's size by reference to its balance sheet total, net turnover and average number of employees?

Yes, No

Please provide information in support of your answer.

Question 10: Do you consider that there are circumstances where the Government should include other sources of income as net turnover for the purposes of determining company size?

Yes, No

Please provide details of the circumstances in which you consider the option should be applied, indicating the problem to be addressed and the costs/benefits that would arise. Information about the number of companies affected would be useful in assessing the impact of any change.

Question 11: Do you consider that there are circumstances (beyond those already in the UK accounting framework) where it would be appropriate to require:

- (a) parent undertakings to calculate their thresholds on a consolidated basis rather than an individual basis; or**
- (b) "affiliated undertakings" to calculate their thresholds on a consolidated or aggregated basis?**

Yes, No

Please provide details of the circumstances in which you consider the option should be applied, indicating the problem to be addressed and the costs/benefits that would arise.

8.13 When determining thresholds, the Directives also allows that Member States may:

- i. require parent undertakings to calculate their thresholds on a consolidated basis rather than an individual basis; and/or
- ii. require "affiliated undertakings"²⁷ to calculate their thresholds on a consolidated or aggregated basis.

²⁷ "Affiliated undertakings" means any two or more undertakings within a group.

The purpose of this provision²⁸ is to deal with situations where companies may have been established for the sole purpose of avoiding the reporting of certain information.

Question 12: Do you consider that there are circumstances where the Government should adopt either or both of the above provisions?

Yes, No

Please provide details of the circumstances to which the option should be applied, indicating the problem to be addressed and the costs/benefits that would arise.

d. New small company regime

8.14 The Commission applied its "think small first" approach to this Directive²⁹. In doing so, it has created a small company regime that enables companies to prepare profit and loss accounts, balance sheets and notes that are more proportionate to their size and to the information needs of the users of their financial statements. By increasing the thresholds more undertakings will be considered as small. As noted above, we expect approximately 11,000 could benefit from reduced administrative burdens by maximising the increase in small company thresholds.

8.15 The Directive imposes a new, largely harmonised small company regime. Several of the changes introduced do not impact on the UK as we already operate a small company regime e.g. we recognise "small" as a size category, allow small companies to publish only an abbreviated balance sheet etc. However, other changes either require or allow the Government to further reduce the administrative burden associated with the preparation and publication of statutory accounts.

(i) Notes to the Accounts

8.16 The Directive restricts Member States' ability to require statutory disclosures from small companies within national reporting regimes. (For the UK, this restriction extends to the accounting standards published by the Financial Reporting Council as, taken alongside the provisions of the Companies Act 2006 and regulations, the standards form an integral part of the UK's Generally Accepted Accounting Practice.) However, **a small company is still required to consider if its financial statements ("annual accounts") provide a true and fair view of its financial position. Therefore, a small company may be obliged to provide additional notes in order to provide a true and fair view if the mandatory notes are insufficient for this purpose.**

8.17 The Accounting Directive³⁰ permits that Member States may only require small companies to provide the following 13 disclosures notes:³¹

²⁸ Article 3.12 of the Accounting Directive (2013/34/EU).

²⁹ Recital (1) of the Accounting Directive (2013/34/EU).

³⁰ Article 16.1 of the Accounting Directive (2013/34/EU).

Accounting policies adopted

- Fixed assets revaluation table
- Fair valuation note
- Financial commitments, guarantees or contingencies not included in the balance sheet
- The amount of advances and credits granted to members of the administrative, managerial and supervisory bodies (with supporting information)
- Exceptional items
- Amounts due or payable after more than 5 years and entire debts covered by valuable security
- Average number of employees during the financial year
- Fixed asset note (in addition to the mandatory revaluation table)
- Name and registered office of the undertaking drawing up the consolidated financial statements of the smallest body of undertakings of which the undertaking forms part
- Nature and business purpose of arrangements not included in the balance sheet
- Nature and effect of post balance sheet events
- (Limited) related party transactions.

8.18 Member States need not include five of these notes³² as mandatory disclosures. They are the:

- Fixed asset note (in addition to the mandatory revaluation table)
- Name and registered office of the undertaking drawing up the consolidated financial statements of the smallest body of undertakings of which the undertaking forms part
- Nature and business purpose of arrangements not included in the balance sheet
- Nature and effect of post balance sheet events
- (Limited) related party transactions.

8.19 However, we consider that provision of all thirteen notes, as listed in 8.17, to be important to a proper understanding of a company's financial statements. We believe they are consistent with the present UK accounting framework and – importantly - support the delivery of true and fair accounts. We do not consider that the requirement for these notes, and in particular the five notes listed at 8.18, is unduly burdensome for small companies. Many companies would, in any case, need to provide this information in order to ensure that their accounts gave a true and fair view of their financial position. Also, the very smallest companies – micro-entity companies – are able to take advantage of the light-touch micro-entity regime if they meet the eligibility requirements. Therefore, we

³¹ Except eligible micro-entity companies taking advantage of the micro-entities exemptions (Article 17.1 of the Accounting Directive (2013/34/EU)).

³² Article 16.2 of the Accounting Directive (2013/34/EU) referencing Article 17.1 (a), (m), (p), (q) and (r) of the Accounting Directive (2013/34/EU).

propose that the thirteen notes listed at 8.17 must continue to be provided by all small companies³³ as part of their notes to the accounts.

Question 13: The Accounting Directive offers an option to reduce from 13 to 8 the number of mandatory notes required from small companies. Do you agree with the Government position to continue to require the five notes listed at paragraph 8.18?

Yes, No

If no, please provide an explanation, indicating which, if any, of the five notes you believe should be mandatory for small companies.

Question 14: Should the requirement for these notes be set out in regulations or should the need for notes be set out in accounting standards?

Please provide any information to support your views.

(i) Preparation of an abbreviated balance sheet and profit and loss account

8.20 Small companies are already permitted to *publish* abbreviated accounts under the provisions of the previous Accounting Directives and may choose only to publish an abbreviated balance sheet if they wish. The UK already takes up this option and many small companies take advantage of this flexibility when submitting their accounts to Companies House. The Accounting Directive also provides an option for small companies to *prepare* an abbreviated balance sheet and an abbreviated profit and loss account³⁴. This option has not previously been taken up in the UK. Currently all companies, except those eligible for the micro-entity regime, must prepare a full balance sheet and profit and loss account with accompanying notes. This set of “full accounts”, which must present a true and fair view of the company’s financial position, is what the company circulates to its shareholders.

8.21 Clearly, it is important that directors of companies give their shareholders the information they need to properly assess the company’s performance and financial position. Equally, there are considerable differences between the size and complexity of companies falling within the small company regime. For some small companies there will be an agency relationship between the shareholders as owners and the directors as managers of the business. Here, the need for greater levels of detail in the financial statements will be justified. By contrast, for other small companies the owners may be the managers, and possibly the employees too. In such situations, the agency relationship is not present and the need for the detail in the accounts is reduced. The Government believes that companies – shareholders and directors together – should have a choice about the level of detail included in their accounts having regard to the size and nature of their business. Therefore,

³³ Except eligible micro-entity companies taking advantage of the micro-entities exemptions.

³⁴ Article 14 of the Accounting Directive (2013/34/EU).

we propose to take up the option and to allow eligible small companies to *prepare*³⁵ and *publish*³⁶ abbreviated accounts if they wish.

Question 15: Do you agree that small companies should have the choice of preparing an abbreviated balance sheet and profit and loss account if they wish?

Yes, No

Please provide information in support of your answer.

Question 16: If small companies were permitted to prepare an abbreviated balance sheet and profit and loss account, please indicate if there are any line items which you would consider it essential to retain to support the presentation of a true and fair view of a company's financial position? Please explain.

Question 17: What benefits or costs might a small company see from deciding to prepare an abbreviated balance sheet and P&L? Evidence in support of your views would be helpful.

(ii) Small Groups exempted from the requirement to produce consolidated accounts

8.22 The Directive requires Member States to exempt small groups from consolidation unless a member of the small group is a PIE³⁷. This change will be reflected in our legislation.

Question 18

: What benefits do you believe this change will offer to small groups of companies? Evidence in support of your views would be helpful.

(iii) Exclusions from the Small Company Regime

8.23 Any PIE is automatically excluded from access to the small company regime. Therefore, we will continue to exclude PIEs as described in section 8a.

8.24 Under the provisions of the Companies Act 2006³⁸ all public companies are currently excluded from the small company regime. Whilst it is necessary to exclude those public

³⁵ The company would be required to **prepare** an abbreviated balance sheet AND profit and loss account AND mandatory small company notes AND other notes as necessary to provide a true and fair view of the company's financial position.

³⁶ As now, companies would be permitted to **publish** only the abbreviated balance sheet and accompanying notes.

³⁷ Article 23 of the Accounting Directive (2013/34/EU).

³⁸ Companies Act 2006, part 15.

companies trading securities on a regulated market, we wish to consider if it is appropriate, or necessary, to continue to exclude all other public companies.

Question 19: Should the Government only exclude from the small company accounting regime those public companies whose securities are traded on a regulated market?

Yes, No

Please explain. If no, are there any types of public companies (other than those whose securities are traded on a regulated market) which should be allowed to access the small company regime (and why)?

8.25 Currently, we also exclude from the small companies regime³⁹ those companies (which come within the small company thresholds) that are in the same group as a public company. Groups containing public companies are one type of “ineligible group”. We wish to consider if it is appropriate or necessary to continue to include in the definition groups that contain a public company.

Question 20: Should the Government allow small companies who are members of a group which includes a public company to access the small companies regime?

Yes, No

Please explain. If no, are there any circumstances in which small companies within a group which includes a public company should be allowed to access the small company regime (and why)?

e. Medium-sized and Dormant Companies Regimes

(i) Exclusions from the medium-sized companies accounting regime

8.26 Companies are also excluded from provisions relating to medium-sized companies if they are public companies or in the same group as a public company.

Question 21: Should the Government only exclude from the medium-sized company regime those public companies whose securities are traded on a regulated market?

Yes, No

Please explain. If no, are there any types of public companies (other than those whose securities are traded on a regulated market) who should be allowed to access the medium-sized companies regime (and why)?

³⁹ Companies Act 2006, section 384, subsections (1)(c) and (2).

Question 22: Should the Government allow companies who are members of a group which includes a public company to access the medium-sized companies' regime?

Yes, No

Please provide information in support of your answer.

(ii) Exclusions from the dormant companies accounting regime

8.27 Finally, the exemptions from preparing and filing accounts for dormant subsidiaries (where the subsidiary has a parent company guarantee) excludes quoted companies from being able to take up the exemption. We are proposing to amend this so that all companies with securities traded on a regulated market are excluded. This would include most quoted companies and some companies that are not quoted companies. Meanwhile, the dormant subsidiaries exemptions do not exclude companies that are part of an “ineligible group” as defined for the purpose of the small companies accounting regime. Given the changes to the definition of “ineligible group” that we are considering for the purposes of small company accounts, we are also considering whether it would be appropriate to add such exclusion to the dormant subsidiaries exemptions.

Question 23: Do you consider that the exclusions from the dormant subsidiaries accounting exemptions (where the subsidiary has a parent company guarantee) should be amended so that:

a) Companies are excluded because they have securities traded on a regulated market rather than because they are quoted companies?

Yes, No

Please provide information in support of your answer.

b) Companies are excluded if they are part of an “ineligible group” under that definition as amended for the purposes of the small companies accounting regime?

Yes, No

Please provide information in support of your answer.

f. Reduced options for Profit and Loss (P&L) account formats

8.28 The Accounting Directive reduces the number of P&L account formats permitted by the Directive from four to two⁴⁰. The remaining profit and loss formats are those currently

⁴⁰ Article 13 (annexes V and VI) of the Accounting Directive (2013/34/EU).

implemented as Formats 1 and 2 in both the regulations for small companies⁴¹ and for large and medium-sized companies⁴². The regulations will be amended to reflect this limitation of options. However, we understand that Formats 1 and 2 are the formats most commonly used by companies in the UK. As such, we do not expect that this change will impact significantly on UK companies.

8.29 The two permitted Balance Sheet formats both remain available. Minor drafting changes will be required to all these formats in order to implement the Accounting Directive, but we do not anticipate that these will be substantive or require any changes in the approach of preparers of accounts.

Question 24: Do you agree that only permitting Formats 1 and 2 of the P&L should not impact significantly on UK companies?

Yes, No.

If no, please provide an explanation for the impact (for example, which companies and in what circumstances) and what its effects might be. Any evidence of the cost of the impact would be welcome.

g. Greater flexibility within layouts

8.30 The Accounting Directive⁴³ provides a significantly increased flexibility in relation to the customisation of layouts of profit and loss accounts and balance sheets, allowing for sector-specific layouts. We are considering if, and how, this flexibility might be used. For example, should a “flexible” layout be included as a separately available P&L Account and Balance Sheet formats in the Regulations or is this a matter for accounting standards? In particular, we are exploring if the flexibilities offered might accommodate IFRS layouts. We would welcome views on this issue.

Question 25: Should the UK take advantage of this option to provide greater flexibility in the layout(s)?

Yes, No

Please provide any information in support of your views here including any cost and benefits of providing greater flexibility in the use of layouts.

If sector-specific layouts are suggested, please can you provide information on the need for such a layout within the sector, the issues the standard layouts currently present to that sector and the nature and value of any benefits greater flexibility might bring.

⁴¹ The Small companies and Groups (Accounts and Directors’ Report) Regulations 2008 (2008 No. 409).

⁴² The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (2008 No. 410).

⁴³ Articles 11 and 13(2) of the Accounting Directive (2013/34/EU).

Question 26: If the UK took up this option, should flexibilities be dealt with in the regulations or in accounting standards and why?

h. Individual Accounts - Accounting for participating interests using the equity method

8.31 The Accounting Directive⁴⁴ now provides an option to permit or require participating interests to be accounted for using the equity method in an investor's individual financial statements. It further allows that Member States may permit or require that the proportion of the profit or loss attributable to the participating interest be recognised in the investor's profit and loss account only to the extent of the amount corresponding to dividends already received or the payment of which can be claimed.

8.32 Currently company law and UK accounting standards do not permit use of the equity method when preparing Companies Act individual company accounts; only cost-based and fair value measurement methods are available. However, use of the equity method is required when preparing consolidated financial statements. In addition to the new flexibilities offered by the Accounting Directive, we note that international accounting standards now also permit the use of the equity method as an accounting policy choice for accounting for participating interests in individual company financial statements. Again, this is in addition to usually requiring the equity method in consolidated financial statements.

8.33 We consider that this option provides greater flexibility in the preparation of financial statements and may assist some companies in providing financial statements which better represent their financial performance. We therefore propose to enable the use of the equity method in the preparation of individual company financial statements.

Question 27: Do you agree that the legislation should enable participating interests to be accounted for using the equity method in individual company financial statements?

Yes, No

Please provide any information in support of your views, including any costs and benefits of allowing this option.

i. Changes in value adjustments including goodwill

8.34 The Accounting Directive requires a change in approach in relation to the writing off of goodwill and development costs *where the useful life of those items cannot be reliably estimated*. For these circumstances, the Accounting Directive requires that Member States set a maximum period over which the write off can be applied. This period must not be shorter than 5 years and must not exceed 10 years⁴⁵.

⁴⁴ Article 9.7 of the Accounting Directive (2013/34/EU).

⁴⁵ Article 12.11 of the Accounting Directive (2013/34/EU).

8.35 This option is only intended to be applied in very narrow, exceptional circumstances – it will only apply to development costs and goodwill, only in situations where the useful life *cannot be reliably estimated* and we would not expect this provision to be relied upon very often.

8.36 To allow maximum flexibility, the Government intends to implement the upper limit of 10 years allowed by the Accounting Directive. (FRS 102, which becomes mandatory on 1 January 2015, currently allows a maximum of 5 years for all intangible assets, including goodwill. The FRC will review this limitation if legislation permits the upper limit of 10 years.)

Question 28: Do you agree that the Government should provide for the 10 year maximum period for write-off offered in the Accounting Directive?

Yes, No

Please provide any information in support of your views, including any reasons that the period should be kept to 5 years, or to any alternative period.

j. Information on subsidiaries included within the consolidated financial statements.

8.37 The Accounting Directive requires that the notes to the consolidated financial statements include information in relation to the subsidiaries⁴⁶ included within the consolidation. It also allows an option that this information may be provided in accordance with Article 3(3) of Directive 2009/101/EC. This is not new. The UK currently permits companies to alternatively provide this information when submitting their annual return to Companies House. Whilst this is a useful flexibility used by many companies, it does mean that the consolidated financial statements are not as informative as might otherwise be the case; and there are delays in making this information publicly available. This was identified as a problem area during the Company and Commercial Law Red Tape Challenge.

8.38 Following a consultation, launched in October 2013, the Government Response⁴⁷ to the Company Filing Requirements consultation set out the intention that companies provide information in relation to their subsidiaries through their accounts only. Accordingly, when implementing this Directive, the option to provide information on subsidiaries included in a consolidation as part of a company's Annual Return will be removed. We proposed that this change comes into effect alongside the introduction of the revised financial reporting framework – see section 8.

Question 29: Do you agree that the removal of this option should take effect alongside other changes to the UK's financial reporting framework?

⁴⁶ Article 28.2 of the Accounting Directive (2013/34/EU).

⁴⁷ See 'Company Filing Requirements Red Tape Challenge – Government Response (BIS, April 2014). https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/304946/bis-14-635-company-filing-requirements-response.pdf

Yes, No

If no, please provide an explanation and indicate when the change should be effective and what the reasons are for this.

k. Audit

8.39 The Accounting Directive determines which companies are within scope of mandatory audit for financial statements. The Directive introduces changes related to audit in three areas: –

- the companies within scope of audit, impacting upon the application of the audit exemption;
- the audit report; and
- group reporting of fees paid for non-audit services.

8.40 These points have implications for the UK's current audit regime and our proposed approach is set out in more detail in section 9.

l. Removal of the requirement for Micro-entities to prepare a Directors' report

8.41 Since December 2013, subject to meeting eligibility criteria, the UK's very smallest companies – micro-entities – have been able to prepare and publish very simple accounts. The regulations⁴⁸ dealt with matters relating to the preparation and publication of the P&L and balance sheet with footnotes and removed the obligation to provide information that would otherwise have been required by the Directive. However, under UK law, micro-entities are still required to prepare, but not publish, a Directors' Report. The information contained within a micro-entity's Directors' Report is minimal:

- the names of the persons who, at any time during the financial year, were directors of the company;
- the principal activities of the company in the course of the year; and
- details of any acquisition by the company of its own shares.

8.42 Given the nature and size of micro-entities, and that this information need not be published, it is questionable what value producing this information provides to the company. However, the note on any acquisition of the company's own shares is a mandatory requirement under the Accounting Directive⁴⁹. We, therefore, propose to:

- (i) remove the obligation for micro-entity companies to prepare a Directors' Report; but
- (ii) require that the note on any acquisition of its own shares appears as a footnote to the micro-entity's abbreviated balance sheet.

⁴⁸ [The Small Companies \(Micro-Entities' Accounts\) Regulations 2013](#)

⁴⁹ Article 36.1(c) of the Accounting Directive (2013/34/EU).

Question 30: Do you agree that the companies eligible to take advantage of the micro-entity regime should be relieved of the obligation to prepare a Directors' Report? What costs or benefits would result from this change?

Yes, No

If no, please provide information in support of your view and the value that the Directors' Report offers to a micro-entity company.

9. Implications for the UK's Approach to Statutory Audit

a. Audit Exemption

9.1 The Accounting Directive⁵⁰ adopts a new approach to what was previously the exemption from the audit requirement for the accounts of small undertakings. Previously the 4th Company Law Directive contained a Member State derogation allowing the introduction of an audit exemption for some or all small undertakings. Instead the Accounting Directive simply excludes all small undertakings, other than those that are Public Interest Entities, from the audit requirement. It is then a matter for Member States to require an audit as a matter of national law in those cases where they consider it appropriate.

9.2 Also, as has already been discussed, the balance sheet and turnover thresholds for small undertakings have been raised⁵¹. Given the Government's proposals on the implementation of this change for some undertakings that currently are medium-sized, it would be possible to provide an audit exemption to some or all of the current medium-sized companies qualifying as small under the increased accounting thresholds. We have therefore considered how and when it might be appropriate for the UK to make the audit exemption available to these companies.

9.3 We are not proposing to increase the audit exemption thresholds for the small undertakings as part of the initial implementation of the Accounting Directive. This will mean that the balance sheet and turnover thresholds for the small undertakings will differ for the purposes of the small companies regime for accounting purposes and the small companies audit exemption.

9.4 The small companies audit exemption in the Companies Act will therefore need to be amended so that it no longer refers back to the thresholds that apply for small company regime for accounting purposes. Instead the audit exemption framework in the Companies Act will have to explicitly set out the current thresholds so that those thresholds continue to apply for the purpose of audit exemption, while the thresholds that apply for the purpose of the small companies accounting regime are increased.

9.5 The Government will then consider in due course the possible increase in the audit exemption thresholds for small undertakings. However this will not form part of the initial implementation of the Accounting Directive or of the Audit Directive and Regulation.

Question 31: Do you agree that the thresholds for the small companies audit exemption should remain unchanged for the time being i.e that the thresholds for the audit exemption should not be increased in line with thresholds for the small company regime for accounting purposes at this time?

Yes, No

Please provide information in support of your answer.

⁵⁰ Article 34 of the Accounting Directive (2013/34/EU).

⁵¹ Article 3(2) of the Accounting Directive (2013/34/EU) – see Section 8b for more information.

9.6 Implementation of Accounting Directive will require some amendments to the exclusions from the small companies accounting regime and we have considered the effect on the small companies audit exemption framework.

9.7 Currently, all public companies are excluded from taking up the small companies audit exemption. We are therefore consulting on whether, instead of this wide exclusion, a narrower exclusion might be provided covering only companies whose securities are admitted to trading on a regulated market. This would mean that the exclusions from the small companies audit exemption would continue to be broadly consistent with those under the small companies accounting regime.

9.8 Small companies are also excluded from the small companies audit exemption in several cases where they are part of a group. The first case is where the group is not a small group. We are not proposing to change this or to change the definition of a small group for audit exemption purposes. However, the framework will need to be amended so that it no longer refers back to the definition of a small group for accounting purposes. Instead the audit exemption framework will have to set out the current thresholds for a small group, without the increases that are proposed for the purpose of the small companies accounting regime.

9.9 A second type of group whose members may not take up the small companies audit exemption is an “ineligible group”. Like the definitions of “small company” and “small group” the definition of “ineligible group” is currently included in the small companies accounting framework. We are considering whether the amendments to that definition, as part of the amendments to that framework, should continue also to apply for the purpose of the small companies audit exemption. The amendments to that framework, as explained earlier in this document would have the effect of narrowing the definition of an ineligible group so that the presence of a public company in a group would no longer make that group ineligible.

9.10 Currently the subsidiaries audit exemption (where the subsidiary has a parent company guarantee) excludes quoted companies from being able to take up the exemption. We are proposing to amend this exclusion so that all companies with securities admitted to trading on a regulated market are excluded, including some companies that are not quoted companies. Meanwhile, the subsidiaries exemption does not exclude any companies based on whether they are part of an “ineligible group”. Given the changes proposed to the definition of an “ineligible group”, we are considering whether it would be appropriate to add such an exclusion.

Question 32: Do you consider that the exclusions from the small companies audit exemption should be amended so that:

- a) Small companies are no longer excluded simply because they are public companies, though they are excluded if they have securities admitted to trading on a regulated market?**

Yes, No.

If no, are there any types of public company (other than those with securities admitted to trading on a regulated market) which should be allowed to access the small companies audit exemption?

- b) **Small companies are only excluded if they are part of an “ineligible group” under that definition as amended for the purpose of implementing changes to the small companies accounting regime?**

Yes, No.

If no, are there any circumstances in which small companies that are part of an “ineligible group” (as amended) should be allowed to access the small companies audit exemption?

Question 33: Do you consider that the exclusions from the subsidiaries audit exemption (where the subsidiary has a parent company guarantee) should be amended so that:

- a) **Companies are excluded because they have securities admitted to trading on a regulated market rather than because they are quoted companies?**

Yes, No

Please provide information in support of your answer.

- b) **Companies are excluded if they are part of an “ineligible group” under that definition as amended for the purpose of implementing changes to the small companies accounting regime?**

Yes, No

Please provide information in support of your answer.

9.11 Finally the dormant companies audit exemption is currently available to companies whose securities are traded on a regulated market and to companies that are part of an “ineligible group”. Given the changes we propose to make to the small companies audit exemption and to bring the dormant companies audit exemption into line with that for small companies, we are considering whether these exclusions should also be introduced into the dormant companies audit exemption.

Question 34: Do you consider that the exclusions from the dormant companies audit exemption should be amended so that:

- a) **Companies are excluded if their securities are traded on a regulated market?**

Yes, No

Please provide information in support of your answer.

- b) **Companies are excluded if they are part of an “ineligible group” under that definition as amended for the purpose of implementing the small companies accounting regime?**

Yes, No

Please provide information in support of your answer.

b. Audit Report

9.12 The Accounting Directive sets out the requirements as to the contents of an audit report, inserting some of these into the Audit Directive⁵². However, following the approval of the Accounting Directive, the Audit Directive⁵³ has been amended further by the new Audit Directive (2014/56/EU) which will further affect the changes to be implemented.

9.13 The Accounting Directive⁵⁴ extends the requirements on an opinion in an audit report on the company's management report. Previously, the 4th Company Law Directive only required an opinion on whether the management report was consistent with the financial statements of the same year. The Accounting Directive now goes further and requires auditors to:

- i. Express an opinion on the compliance of the management report with the applicable legal requirements; and
- ii. State whether any material misstatement has been identified by the auditor in light of knowledge and understanding of the audited entity which they have gained during the course of the audit.

9.14 The new Audit Directive further amends the framework governing the auditor's opinion and statement⁵⁵ so that both of these need now be based only on the work undertaken in the course of the audit. This reduces the regulatory burden that would otherwise arise from the new requirement in the Accounting Directive.

9.15 To avoid creating an intervening period (following the implementation of the Accounting Directive) in which this amendment does not apply, and in which the resulting regulatory burden is briefly increased, it seems sensible for the relevant provision in the new Audit Directive to be implemented at the same time as the implementation of the requirement in the Accounting Directive.

⁵² Articles 34 and 35 of the Accounting Directive (2013/34/EU) are both provisions on the audit report. Article 35 replaces Article 28 of the 2006 Audit Directive (2006/43/EC), including in it some of the requirements that were previously included in Article 51A of the 4th Directive and Article 37 and 38 of the 7th Directive.

⁵³ Article 28 of the Audit Directive.

⁵⁴ Article 34(1) of the Accounting Directive (2013/34/EU).

⁵⁵ Article 1, paragraph 23 of the new Audit Directive (2014/56/EU) replaces Article 28(2)(e) of the 2006 Audit Directive, as inserted by Article 35 of the Accounting Directive. Originally Article 28(2)(e) required that the audit report should include the opinion and statement referred to in Article 34(1) of the Accounting Directive. Article 28(2)(e) now requires that the opinion and statement are both to be "based on the work done in the course of the audit".

Question 35: Do you agree that Article 28 (2)(e) of the Audit Directive, as inserted by Article 1 paragraph 23 of the Audit Directive 2014/56/EU, should be implemented with the changes included in the new Audit Directive?

Yes, No

Please provide information in support of your answer.

Question 36: Are there any other changes made to Article 28 of the Audit Directive under Directive 2014/56/EU that you consider should be implemented at the same time as the changes introduced with the insertion of Article 28 of the Audit Directive by Article 35 of the Accounting Directive?

Yes, No

Please provide information in support of your answer.

c. Group Reporting of Fees Paid for Non-Audit Services

9.16 The Accounting Directive⁵⁶ requires some companies to include in the notes to their accounts a statement of the amounts they have paid to their auditor for audit and non-audit services. The Accounting Directive suggests three changes to the scope of this requirement.

- First, disclosure of non-audit service fees will no longer be required for medium sized companies. As a matter of UK law we intend to continue to require disclosure of audit fees by all audited undertakings. However we are proposing to revoke the current requirement for disclosure of non-audit service fees for medium sized undertakings.
- Second, at the moment, UK law provides that all public companies and companies in the same group as a public company are required to disclose the fees paid for their audit and non-audit services. We are considering whether this blanket requirement should be maintained in respect of the disclosure of non-audit services by most medium sized and small public companies. We are proposing that these companies (excepting those that are banks, insurers or whose securities are traded on a regulated market) should not be required to disclose in the notes to their accounts a statement of the amounts paid to their auditor for non-audit services.
- Third, we are also proposing that small and medium sized companies in the same group as a public company should not be required to disclose their non-audit fees on this basis.

Question 37: Do you agree that the regulations⁵⁷ should be amended to revoke the current requirement for disclosure of fees paid to auditors of medium sized companies for non-audit services?

⁵⁶ Article 18(1)(b) of the Accounting Directive (2013/34/EU).

⁵⁷ The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 (SI 2008/489).

Yes, No

If no, are there any types of medium sized company (other than banks or insurers or those with securities traded on a regulated market) who should be required to disclose the fees paid to their auditor for non-audit services?

Question 38: Do you agree that the current requirement for disclosure by large companies of fees they have paid to auditors for non-audit services should no longer be extended to small and medium sized public companies unless they have securities traded on a regulated market?

Yes, No

If no, are there any types of small and medium sized public companies (other than banks or insurers or those with securities traded on a regulated market) who should be required to disclose the fees paid to their auditor for non-audit services?

Question 39: Do you agree that the current requirement for disclosure by large companies of fees they have paid to auditors for non-audit services should no longer be extended to small and medium sized companies in the same group as a public company?

Yes, No

If no, are there any circumstances in which other small or medium sized companies within a group which includes a public company should be required to disclose the fees paid to their auditor for non-audit services?

9.17 We are also considering whether small or medium sized companies that are members of any ineligible group (as defined for the purpose of the small companies accounting regime) should continue to be required to disclose their non-audit service fees in the same way.

Question 40: Do you consider that the current requirement for disclosure by large companies of fees they have paid to auditors for non-audit services should continue to be extended to small and medium sized companies that are members of ineligible groups?

Yes, No

Please provide information in support of your answer.

9.18 These changes have also prompted us to reassess the UK's implementation of the current derogation⁵⁸ for undertakings that are part of a group. Currently for a group in the UK, only the fees paid to the group auditor for non-audit services are required to be disclosed in notes to the consolidated accounts. The subsidiaries in the group are then

⁵⁸ Article 18(3) of the Accounting Directive (2013/34/EU).

exempted from the requirement to disclose the non-audit fees they have paid their auditors. This is on the basis that group companies will usually all use the same auditor, in which case the non-audit services provided to the subsidiaries will all be disclosed as part of the disclosure of the total non-audit fees paid to the group auditor. However, in the event that one of the subsidiaries uses a different auditor, the non-audit services provided by that auditor will not be disclosed as that subsidiary will also be exempt from disclosing the non-audit fees it has paid. We question whether the exemption should go this far.

9.19 We have considered two ways in which this problem could be addressed:

- (a) Amending the current exemption so it is no longer available to those subsidiaries that are not audited by the group auditor. Instead they would be required to disclose both the audit and non-audit fees they have paid to their auditor, as they would if they were not part of a group. The non-audit fees paid to the auditor of the subsidiary would not be included in the disclosure in the consolidated accounts, which would continue to include only those fees paid to the group auditor.
- (b) Requiring the non-audit fees paid to an auditor of a subsidiary who is not the group auditor to be disclosed in the consolidated accounts for the exemption to be available to that subsidiary. However, this would mean an increase in the work required overall as the disclosure in the consolidated accounts would have to include all the non-audit fees paid to that auditor by all of the undertakings in the group.

9.20 The Government prefers the approach under option (a).

Question 41: Do you:

- a) agree that the regulation should be amended so that the current exemption from the disclosure of non-audit fees paid by subsidiaries is no longer available to a subsidiary whose auditor is not the group auditor; or**
- b) think the exemption should be available to these subsidiaries where the total non-audit service fees paid to their auditor by all the companies in the group is disclosed in the notes to the consolidated accounts?**

(a) or (b)?

Please provide information in support of your answer.

10. Application to Charitable Companies

10.1 Charities established as companies under the Companies Act 2006 have to comply with the requirements of company law as to the form and content of their accounts and prepare their accounts in accordance with Financial Reporting Standards and requirements of UK-Irish Generally Accepted Accounting Practice (GAAP) as issued by the Financial Reporting Council. Changes to company accounting potentially affect company charities.

10.2 Of the estimated 193,000 charities registered in the UK, some 40,000 are established as companies. Charities exist to provide public benefit, and when established as a company, they are normally established as companies limited by guarantee. To be a

charity, a company is prohibited from making any distribution from its assets to its members.

10.3 Charities operate for public benefit and enjoy particular tax exemptions. They are often funded by way of gifts from the public, and are perceived as having a higher level of public accountability than privately owned companies of a similar size. The public interest in charities is reflected in establishment of charity regulators in England and Wales, Scotland and Northern Ireland whose objectives include increasing public trust and confidence in charities and enhancing the accountability of charities to donors, beneficiaries and the general public.

10.4 This higher expectation for public accountability has resulted in particular financial reporting requirements being applied to them through the application of charity law and the Statement of Recommended Practice: Accounting and Reporting by Charities (the SORP). These requirements included a number of charity specific disclosures including detail of emolument received by directors who are also trustees of a charity, more detailed disclosure of related party transactions, information about grant payments and the preparation of an annual report by the trustees describing the charity's governance arrangements, remuneration policies and activities that the charity has undertaken for public benefit.

10.5 Although the Accounting Directive limits the disclosure requirements placed on small companies, this limitation does not apply to not-for-profit undertakings that are companies. Recital 5 excludes not-for-profit undertakings from the scope of the Accounting Directive and the Directive specifically recognises that this exclusion is in line with point (g) of Article 50(2) of the Treaty on the Functioning of the European Union (TFEU). This means that additional reporting requirements currently placed on charities in the UK would not be contrary to the requirements of the Accounting Directive once implemented.

10.6 At present, additional reporting requirements, necessary to ensure accountability, are placed on company charities through the operation of charity law and the SORP rather than through specific provisions within the Companies Act 2006 or regulation made under that Act. A continuation of this approach remains our policy preference although we recognise that for reason of clarity, in the regulations made under company law it should be stated there may be a case for specifically stating that the Accounting Directive does not limit the provision of additional information by way of notes to the financial statements by company charities.

Question 42: Do you agree that there would be merit in specifically stating in regulations made under company law that the information provided in the notes to the financial statements of a company charity is not limited to the information required by the Accounting Directive?

Yes, No

Please provide information in support of your answer.

10.7 Company law also recognises that certain requirements need to be modified in the context of charities that do not trade for profit; in particular, an income and expenditure account is substituted for the requirement to prepare a profit and loss account (section 474(2) of the Companies Act 2006). In addition, regulations made under the Companies

Act 2006 also require a company's director to adapt the arrangement, headings and sub-headings otherwise required (in respect of items given an Arabic number) in the balance sheet or profit and loss account format where the special nature of the company's business requires it. These provisions enable charities to present an income and expenditure account that provides information about a charity's income sources and the activities on which its income has been expended. This flexibility allows charities to present information in a format that is relevant to donors, beneficiaries and the general public.

Question 43: Do you agree that the current flexibility in presentation of financial statements of charities, in particular the requirement for an income and expenditure account and to adapt the arrangement, headings and sub-heading of financial statements to reflect the special nature of the company's activities, should be retained?

Yes, No

Please provide information in support of your answer.

10.8 The thresholds that define a small company are in part set in relation to a company's turnover. Turnover is defined by reference to amounts derived from the provision of goods and services falling within the company's ordinary activities. This definition does not work well in the context of an income and expenditure account. Moreover, the definition excludes donations, gifts and legacies that may form the whole or a substantial proportion of a charity's gross income. Our view is that for company charities, a more appropriate threshold would be gross income from all sources. (See also section 8c. "Reference point for calculating thresholds – turnover vs. income from other sources").

Question 44: Do you agree that a threshold based on gross income is more appropriate than its turnover for company charities?

Yes, No

Please provide any information in support of your view.

11. Other Considerations

Financial Reporting Council (FRC)

11.1 The FRC is simultaneously consulting on the implications for accounting standards of the new legislative requirements, in its consultation “*Accounting standards for small entities - Implementation of the EU Accounting Directive*”. The development and amendment of accounting standards for the UK and Republic of Ireland will depend upon the changes made to legislation. Broadly the FRC proposes:

- A new Financial Reporting Standard for Micro-entities (FRSME);
- Small entities will apply FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, with a new section setting out the presentation and disclosure requirements for small entities, which will be based on the new legal provisions; and
- Limited changes will be made to FRS 101 Reduced Disclosure Framework and FRS 102, where necessary to reflect changes in legislation or where other options are now permitted.

12. Impact Assessment

12.1 An initial impact assessment is available at:

<https://www.gov.uk/government/consultations/eu-accounting-directive-smaller-companies-reporting>. This has been prepared drawing on available research and information gathered in response to related consultation activity.

12.2 The Government would welcome any additional information on the anticipated benefits arising from, or costs of implementing, implementing the changes in this Directive. It would be particularly helpful to receive information about the benefits to UK companies. For example, quantified and monetised evidence of how the increased thresholds and reductions in the reporting requirements for small companies will reduce costs directly or indirectly. Similarly, information about the costs of change, such as implementation or assimilation costs, would be useful.

13. Consultation questions

- 13.1 This section summarises the questions contained throughout this consultation document. A proforma is provided to assist you in making a response. Comments may be provided to any or all of the questions posed using the proforma, by letter or by any other appropriate method.

SECTION 6. The Government's Approach to Implementation

Question 1: Do you agree that the Government should maintain the UK's existing approach to financial reporting and only introduce changes where imposed by the Directive or where new options have been introduced? (*Paras 6.3-6.4*)

Question 2: Do you agree that the Government should maintain the current position of providing discrete regulations for small companies and for large and medium-sized companies? (*Para 6.7*)

Question 3: Do you agree it would be helpful to have a new set of Small Companies and Group Regulations which set out the new small company regime and incorporate both the small companies' exemption and the micro-entities exemptions clearly and in one place? (*Para 6.8*)

Question 4: Do you have suggestions for other regulations that might reasonably be consolidated as part of the implementation of this Directive? If so, please provide references to the relevant regulations with an explanation for your proposal and the benefits you expect this would deliver. (*Para 6.8*)

SECTION 7. Timetable for implementation

Question 5: Do you agree that the new regulations should apply to financial statements for financial years commencing on or after 1 January 2016? (*Para 7.1*)

Question 6: Should companies be able to access the new financial reporting regime (increased thresholds and revised reporting requirements) ahead of the mandatory application date of 1 January 2016? (*Para 7.2*)

SECTION 8. The Proposal

Question 7: Do you agree with the Government's proposal to maximise the small company thresholds and provide as many eligible companies as possible with the opportunity to access the small company regime? (*Para 8.10*)

Question 8: We have been able to draw on academic studies and responses to earlier consultations but we would welcome any additional information/evidence you are able to provide to support your response. What benefits or costs do you think will arise from raising the company size thresholds? (Information may relate to both monetised and non-monetised benefits and costs.) (*Para 8.10*)

Question 9: Do you agree that the Government should continue to measure a company's size by reference to its balance sheet total, net turnover and average number of employees? (*Para 8.12*)

Question 10: Do you consider that there are circumstances where the Government should include other sources of income as net turnover for the purposes of determining company size? (*Para 8.12*)

Question 11: Do you consider that there are circumstances (beyond those already in the UK accounting framework) where it would be appropriate to require:

- (a) parent undertakings to calculate their thresholds on a consolidated basis rather than an individual basis; or
- (b) “affiliated undertakings” to calculate their thresholds on a consolidated or aggregated basis?

Question 12: Do you consider that there are circumstances where the Government should adopt either or both of the above provisions? (*Para 8.13*)

Question 13: The Accounting Directive offers an option to reduce from 13 to 8 the number of mandatory notes required from small companies. Do you agree with the Government position to continue to require the five notes listed at paragraph 8.18? (*Para 8.19*)

Question 14: Should the requirement for the five additional notes be set out in regulations or should the need for additional notes be set out in accounting standards? (*Para 8.19*)

Question 15: Do you agree that small companies should have the choice of preparing an abbreviated balance sheet and profit and loss account if they wish? (*Para 8.21*)

Question 16: If small companies were permitted to prepare an abbreviated balance sheet and profit and loss account, please indicate if there are any line items which you would consider it essential to retain to support the presentation of a true and fair view of a company’s financial position? Please explain. (*Para 8.21*)

Question 17: What benefits or costs might a small company see from deciding to prepare an abbreviated balance sheet and P&L? (*Para 8.21*)

Question 18: What benefits do you believe the exemption of small groups from consolidation will offer to small groups of companies? (*Para 8.22*)

Question 19: Should the Government only exclude from the small company accounting regime those public companies whose securities are traded on a regulated market? (*Para 8.24*)

Question 20: Should the Government allow small companies who are members of a group which includes a public company to access the small companies regime? (*Para 8.25*)

Question 21: Should the Government only exclude from the medium-sized company regime those public companies whose securities are traded on a regulated market? (*Para 8.26*)

Question 22: Should the Government allow companies who are members of a group which includes a public company to access the medium-sized companies' regime? (*Para 8.26*)

Question 23: Do you consider that the exclusions from the dormant subsidiaries accounting exemptions (where the subsidiary has a parent company guarantee) should be amended so that:

- a) Companies are excluded because they have securities traded on a regulated market rather than because they are quoted companies? (*Para 8.27*)
- b) Companies are excluded if they are part of an "ineligible group" under that definition as amended for the purposes of the small companies accounting regime? (*Para 8.27*)

Question 24: Do you agree that only permitting Formats 1 and 2 of the P&L should not impact significantly on UK companies? (*Para 8.29*)

Question 25: Should the UK take advantage of this option to provide greater flexibility in the layout(s)? (*Para 8.30*)

Question 26: If the UK took up this option, should flexibilities be dealt with in the regulations or in accounting standards and why? (*Para 8.30*)

Question 27: Do you agree that the legislation should enable participating interests to be accounted for using the equity method in individual company financial statements? (*Para 8.33*)

Question 28: Do you agree that the Government should provide for the 10 year maximum period for write-off offered in the Accounting Directive? (*Para 8.36*)

Question 29: Do you agree that the removal of this option should take effect alongside other changes to the UK's financial reporting framework? (*Para 8.38*)

Question 30: Do you agree that the companies eligible to take advantage of the micro-entity regime should be relieved of the obligation to prepare a Directors' Report? What costs or benefits would result from this change? (*Para 8.42*)

SECTION 9: Implications for the UK's Approach to Statutory Audit

Question 31: Do you agree that the thresholds for the small companies audit exemption should remain unchanged for the time being i.e that the thresholds for the audit exemption should not be increased in line with thresholds for the small company regime for accounting purposes at this time you agree that the thresholds for the small companies audit exemption should remain the same for the time being as part of the initial implementation of the Accounting Directive? (*Para 9.5*)

Question 32: Do you consider that the exclusions from the small companies audit exemption should be amended so that:

- a) Small companies are no longer excluded simply because they are public companies, though they are excluded if they have securities admitted to trading on a regulated market? (*Para 9.10*)
- b) Small companies are only excluded if they are part of an “ineligible group” under this definition as amended for the purpose of implementing changes to the small companies accounting regime? (*Para 9.10*)

Question 33: Do you consider that the exclusions from the subsidiaries audit exemption (where the subsidiary has a parent company guarantee) should be amended so that:

- a) Companies are excluded because they have securities admitted to trading on a regulated market rather than because they are quoted companies? (*Para 9.10*)
- b) Companies are excluded if they are part of an “ineligible group” under that definition as amended for the purpose of implementing changes to the small companies accounting regime? (*Para 9.10*)

Question 34: Do you consider that the exclusions from the dormant companies audit exemption should be amended so that:

- a) Companies are excluded if their securities are traded on a regulated market? (*Para 9.11*)
- b) Companies are excluded if they are part of an “ineligible group” under that definition as amended for the purpose of implementing the small companies accounting regime? (*Para 9.11*)

Question 35: Do you agree that Article 28 (2)(e) of the Audit Directive, as inserted by Article 1 paragraph 23 of the Audit Directive 2014/56/EU, should be implemented with the changes included in the new Audit Directive? (*Para 9.15*)

Question 36: Are there any other changes made to Article 28 of the Audit Directive under Directive 2014/56/EU that you consider should be implemented at the same time as the changes introduced with the insertion of Article 28 of the Audit Directive by Article 35 of the Accounting Directive? (*Para 9.15*)

Question 37: Do you agree that the regulations⁵⁹ should be amended to revoke the current requirement for disclosure of fees paid to auditors of medium sized companies for non-audit services? (*Para 9.16*)

Question 38: Do you agree that the current requirement for disclosure by large companies of fees they have paid to auditors for non-audit services should no longer be extended to public companies unless they have securities traded on a regulated market? (*Para 9.17*)

⁵⁹ The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 (SI 2008/489).

Question 39: Do you agree that the current requirement for disclosure by large companies of fees they have paid to auditors for non-audit services should no longer be extended to companies in the same group as a public company? (*Para 9.17*)

Question 40: Do you consider that the current requirement for disclosure by large companies of fees they have paid to auditors for non-audit services should continue to be extended to medium sized and small companies that are members of ineligible groups? (*Para 9.17*)

Question 41: Do you:

- a) agree that the regulation should be amended so that the current exemption from the disclosure of non-audit fees paid by subsidiaries is no longer available to a subsidiary whose auditor is not the group auditor; or
- b) think the exemption should be available to these subsidiaries where the total non-audit service fees paid to their auditor by all the companies in the group is disclosed in the notes to the consolidated accounts?

(a) or (b)? (*Para 9.20*).

SECTION 10: Application to Charitable Companies

Question 42: Do you agree that there would be merit in specifically stating in regulations made under company law that the information provided in the notes to the financial statements of a company charity is not limited to the information required by the Accounting Directive? (*Para 10.6*)

Question 43: Do you agree that the current flexibility in presentation of financial statements of charities, in particular the requirement for an income and expenditure account and to adapt the arrangement, headings and sub-heading of financial statements to reflect the special nature of the company's activities, should be retained? (*Para 10.7*)

Question 44: Do you agree that a threshold based on gross income is more appropriate than its turnover for company charities? (*Para 10.8*)

14. What happens next?

14.1 This consultation is open for 8 weeks. Responses are requested by 24 October 2014.

14.2 Please don't hesitate to get in touch if you have considerations you would like to discuss before providing a response.

14.3 The comments we receive will inform our approach to implementation of the Accounting Directive. All comments, whether in full or in part, will be considered. We will also consider views heard during the planning process and any information gathered by other means.

14.4 We may also continue to seek views and clarification of issues after the consultation has closed. This will assist us in resolving any outstanding and help inform the drafting of the regulations.

14.5 The Government's response to the consultation on the implementation of Chapters 1-9 of the Accounting Directive, 2013/34/EU and a proposed timetable for the laying of the regulations will be published within 12 weeks of the closing date. These will be published on the BIS website. Paper copies of the Government response and summary of responses will be made available on request.

Annex 1: Consultation principles

The principles that Government departments and other public bodies should adopt for engaging stakeholders when developing policy and legislation are set out in the consultation principles.

<http://www.cabinetoffice.gov.uk/sites/default/files/resources/Consultation-Principles.pdf>

If you wish to comment on the **conduct** of this consultation or make a complaint about the way this consultation has been conducted, please write to:

Angela Rabess
BIS Consultation Co-ordinator,
1 Victoria Street,
London
SW1H 0ET

Telephone Angela on 020 7215 1661
or e-mail to: angela.rabess@bis.gsi.gov.uk

However if you wish to comment on the specific policy proposals you should contact the policy lead (see section 4).

Annex 2: List of Individuals/Organisations consulted

Regulatory Bodies

Charity Commission
 Charity Commission for Northern Ireland
 Financial Conduct Authority (FCA)
 Financial Reporting Council (FRC)
 Office of the Scottish Charity Regulator (OSCR)
 Prudential Regulatory Authority (PRA)

Accounting Firms

Baker Tilly
 BDO
 Deloitte
 Ernst & Young
 Grant Thornton
 KPMG
 PWC

Chartered Accountancy Bodies

Association of Chartered Certified Accountants (ACCA)
 Chartered Institute of Management Accountants (CIMA)
 Chartered Institute of Public Finance and Accountancy (CIPFA)
 Institute of Chartered Accountants in England and Wales (ICAEW)
 Institute of Chartered Accountants of Scotland (ICAS)

Representative and Other Bodies

Association of Accounting Technicians (AAT)
 Confederation of British Industry (CBI)
 Federation of Small Business (FSB)
 Institute of Certified Bookkeepers (ICB)
 Institute of Directors (IoD)
 Quoted Companies Alliance (QCA)
 British Chambers of Commerce (BCC)
 EEF Manufacturers Association
 Forum for Private Business

Annex 3: UK IMPLEMENTATION OF THE ACCOUNTING DIRECTIVE RESPONSE FORM

The Department may, in accordance with the Code of Practice on Access to Government Information, make available, on public request, individual responses.

The closing date for this consultation is 24 October 2014

Name:

Organisation (if applicable):

Address:

Please return completed forms to:

John Conway
 Corporate Frameworks, Accountability and Governance Team
 Department for Business, Innovation and Skills
 3rd Floor, Spur 2
 1 Victoria St
 London SW1H 0ET

Email: Accounting_Directive@bis.gsi.gov.uk

Please indicate which of following best represents the group you or the organisation you represent belong to.

	Business representative organisation/trade body
	Central government
	Charity or social enterprise
	Individual
	Large business (over 250 staff)
	Legal representative
	Local Government
	Medium business (50 to 250 staff)
	Small business (10 to 49 staff)
	Micro business (up to 9 staff)
	Trade union or staff association
	Other (please describe)

SECTION 6. The Government's Approach to Implementation

Question 1: Do you agree that the Government should maintain the UK's existing approach to financial reporting and only introduce changes where imposed by the Directive or where new options have been introduced? (*Paras 6.3-6.4*)

Yes No Not sure

Please provide information in support of your answer:

Question 2: Do you agree that the Government should maintain the current position of providing discrete regulations for small companies and for large and medium-sized companies? (*Para 6.7*)

Yes No Not sure

Please provide information in support of your answer:

Question 3: Do you agree it would be helpful to have a new set of Small Companies and Group Regulations which set out the new small company regime and incorporate both the small companies' exemption and the micro-entities exemptions clearly and in one place? (*Para 6.8*)

Yes No Not sure

Please provide information in support of your answer:

Question 4: Do you have suggestions for other regulations that might reasonably be consolidated as part of the implementation of this Directive? If so, please provide references to the relevant regulations with an explanation for your proposal and the benefits you expect this would deliver. (*Para 6.8*)

Yes No Not sure

Please provide information in support of your answer:

SECTION 7. Timetable for implementation

Question 5: Do you agree that the new regulations should apply to financial statements for financial years commencing on or after 1 January 2016? (*Para 7.1*)

Yes No Not sure

Please provide information in support of your answer:

Question 6: Should companies be able to access the new financial reporting regime (increased thresholds and revised reporting requirements) ahead of the mandatory application date of 1 January 2016? (*Para 7.2*)

Yes No Not sure

Please provide an explanation for your position. In particular, we would welcome information about the costs/benefits associated with your preferred option:

SECTION 8. The Proposal

Question 7: Do you agree with the Government's proposal to maximise the small company thresholds and provide as many eligible companies as possible with the opportunity to access the small company regime? (*Para 8.10*)

Yes No Not sure

Please provide information in support of your answer:

Question 8: We have been able to draw on academic studies and responses to earlier consultations but we would welcome any additional information/evidence you are able to provide to support your response. What benefits or costs do you think will arise from raising the company size thresholds? (Information may relate to both monetised and non-monetised benefits and costs.) (*Para 8.10*)

Question 9: Do you agree that the Government should continue to measure a company's size by reference to its balance sheet total, net turnover and average number of employees? (*Para 8.12*)

Yes No Not sure

Please provide information in support of your answer:

Question 10: Do you consider that there are circumstances where the Government should include other sources of income as net turnover for the purposes of determining company size? (*Para 8.12*)

Yes No Not sure

Please provide details of the circumstances in which you consider the option should be applied, indicating the problem to be addressed and the costs/benefits that would arise. Information about the number of companies affected would be useful in assessing the impact of any change:

Question 11: Do you consider that there are circumstances (beyond those already in the UK accounting framework) where it would be appropriate to require:

- (a) parent undertakings to calculate their thresholds on a consolidated basis rather than an individual basis; or
- (b) "affiliated undertakings" to calculate their thresholds on a consolidated or aggregated basis?

Yes No Not sure

Please provide details of the circumstances to which the option should be applied, indicating the problem to be addressed and the costs/benefits that would arise:

Question 12: Do you consider that there are circumstances where the Government should adopt either or both of the above provisions? (*Para 8.13*)

Yes No Not sure

Please provide details of the circumstances to which the option should be applied, indicating the problem to be addressed and the costs/benefits that would arise:

Question 13: The Accounting Directive offers an option to reduce from 13 to 8 the number of mandatory notes required from small companies. Do you agree with the Government position to continue to require the five notes listed at paragraph 8.18? (*Para 8.19*)

Yes No Not sure

If no, please provide an explanation, indicating which, if any, of the five notes you believe should be mandatory for small companies:

Question 14: Should the requirement for the five additional notes be set out in regulations or should the need for additional notes be set out in accounting standards? (*Para 8.19*)

Yes No Not sure

Please provide any information to support your views:

Question 15: Do you agree that small companies should have the choice of preparing an abbreviated balance sheet and profit and loss account if they wish? (*Para 8.21*)

Yes No Not sure

Please provide information in support of your answer:

Question 16: If small companies were permitted to prepare an abbreviated balance sheet and profit and loss account, please indicate if there are any line items which you would consider it essential to retain to support the presentation of a true and fair view of a company's financial position? Please explain. (*Para 8.21*)

Question 17: What benefits or costs might a small company see from deciding to prepare an abbreviated balance sheet and P&L? (*Para 8.21*) Evidence in support of your view would be helpful.

Question 18: What benefits do you believe exempting small groups from consolidation will offer to small groups of companies? (*Para 8.22*) Evidence in support of your view would be helpful.

Question 19: Should the Government only exclude from the small company accounting regime those public companies whose securities are traded on a regulated market? (*Para 8.24*)

Yes No Not sure

Please explain. If no, are there any types of public companies (other than those whose trading securities are traded on a regulated market) which should be allowed to access the small company regime (and why)?

Question 20: Should the Government allow small companies who are members of a group which includes a public company to access the small companies regime? (*Para 8.25*)

Yes No Not sure

Please explain. If no, are there any circumstances in which other small companies within a group which includes a public company should be allowed to access the small company regime (and why)?

Question 21: Should the Government only exclude from the medium-sized company regime those public companies whose securities are traded on a regulated market? (*Para 8.26*)

Yes No Not sure

Please explain. If no, are there any types of public companies (other than those whose securities are traded on a regulated market) who should be allowed to access the medium-sized companies regime (and why)?

Question 22: Should the Government allow companies who are members of a group which includes a public company to access the medium-sized companies' regime? (*Para 8.26*)

Yes No Not sure

Please provide information in support of your answer:

Question 23: Do you consider that the exclusions from the dormant subsidiaries accounting exemptions (where the subsidiary has a parent company guarantee) should be amended so that:

a) Companies are excluded because they have securities traded on a regulated market rather than because they are quoted companies? (*Para 8.27*)

Yes No Not sure

Please provide information in support of your answer:

b) Companies are excluded if they are part of an "ineligible group" under that definition as amended for the purposes of the small companies accounting regime? (*Para 8.27*)

Yes No Not sure

Please provide any information in support of your answer:

Question 24: Do you agree that only permitting Formats 1 and 2 of the P&L should not impact significantly on UK companies? (*Para 8.29*)

Yes No Not sure

If no, please provide an explanation for the impact (for example, which companies and in what circumstances) and what its effects might be. Any evidence of the cost of the impact would be welcome.

Question 25: Should the UK take advantage of this option to provide greater flexibility in the layout(s)? (*Para 8.30*)

Yes No Not sure

Please provide any information in support of your views here including any cost and benefits of providing greater flexibility in the use layouts.

If sector-specific layouts are suggested, please can you provide information on the need for such a layout within the sector, the issues the standard layouts currently present to that sector and the nature and value of any benefits greater flexibility might bring.

Question 26: If the UK took up this option, should flexibilities be dealt with in the regulations or in accounting standards and why? (*Para 8.30*)

Yes No Not sure

Please provide information in support of your answer:

Question 27: Do you agree that the legislation should enable participating interests to be accounted for using the equity method in individual company financial statements? (*Para 8.33*)

Yes No Not sure

Please provide any information in support of your views, including any costs and benefits of allowing this option:

Question 28: Do you agree that the Government should provide for the 10 year maximum period for write-off offered in the Accounting Directive? (*Para 8.36*)

Yes No Not sure

Please provide any information in support of your views, including any reasons that the period should be kept to 5 years, or to any alternative period:

Question 29: Do you agree that the removal of this option should take effect alongside other changes to the UK's financial reporting framework? (*Para 8.38*)

Yes No Not sure

If no, please provide an explanation and indicate when the change should be effective and what the reasons are for this:

Question 30: Do you agree that the companies eligible to take advantage of the micro-entity regime should be relieved of the obligation to prepare a Directors' Report? What costs or benefits would result from this change? (*Para 8.42*)

Yes No Not sure

If no, please provide information in support of your view and the value that the Directors' Report offers to a micro-entity company:

SECTION 9: Implications for the UK's Approach to Statutory Audit

Question 31: Do you agree that the thresholds for the small companies audit exemption should remain unchanged for the time being i.e that the thresholds for the audit exemption should not be increased in line with thresholds for the small company regime for accounting purposes at this time? (*Para 9.5*)

Yes No Not sure

Please provide information in support of your answer:

Question 32: Do you consider that the exclusions from the small companies audit exemption should be amended so that:

- a) Small companies are no longer excluded simply because they are public companies, though they are excluded if they have securities admitted to trading on a regulated market? (*Para 9.10*)

Yes No Not sure

If no, are there any types of public company (other than those with securities admitted to trading on a regulated market) which should be allowed to access the small companies audit exemption?

b) Small companies are only excluded if they are part of an “ineligible group” under this definition as amended for the purpose of implementing changes to the small companies accounting regime? (*Para 9.10*)

Yes No Not sure

If no, are there any circumstances in which small companies that are part of an “ineligible group” (as amended) should be allowed to access the small companies audit exemption?

Question 33: Do you consider that the exclusions from the subsidiaries audit exemption (where the subsidiary has a parent company guarantee) should be amended so that:

a) Companies are excluded because they have securities admitted to trading on a regulated market rather than because they are quoted companies? (*Para 9.10*)

Yes No Not sure

Please provide information in support of your answer:

b) Companies are excluded if they are part of an “ineligible group” under that definition as amended for the purpose of implementing changes to the small companies accounting regime? (*Para 9.10*)

Yes No Not sure

Please provide information in support of your answer:

Question 34: Do you consider that the exclusions from the dormant companies audit exemption should be amended so that:

a) Companies are excluded if their securities are traded on a regulated market? (*Para 9.11*)

Yes No Not sure

Please provide information in support of your answer:

b) Companies are excluded if they are part of an “ineligible group” under that definition as amended for the purpose of implementing the small companies accounting regime? (*Para 9.11*)

Yes No Not sure

Please provide information in support of your answer:

Question 35: Do you agree that Article 28 (2)(e) of the Audit Directive, as inserted by Article 1 paragraph 23 of the Audit Directive 2014/56/EU, should be implemented with the changes included in the new Audit Directive? (*Para 9.15*)

Yes No Not sure

Please provide information in support of your answer:

Question 36: Are there any other changes made to Article 28 of the Audit Directive under Directive 2014/56/EU that you consider should be implemented at the same time as the changes introduced with the insertion of Article 28 of the Audit Directive by Article 35 of the Accounting Directive? (*Para 9.15*)

Yes No Not sure

Please provide information in support of your answer:

Question 37: Do you agree that the regulations⁶⁰ should be amended to revoke the current requirement for disclosure of fees paid to auditors of medium sized companies for non-audit services? (*Para 9.16*)

Yes No Not sure

If no, are there any types of medium sized company (other than banks or insurers or those with securities traded on a regulated market) who should be required to disclose the fees paid to their auditor for non-audit services?

Question 38: Do you agree that the current requirement for disclosure by large companies of fees they have paid to auditors for non-audit services should no longer be extended to public companies unless they have securities traded on a regulated market? (*Para 9.16*)

Yes No Not sure

If no, are there any types of public companies (other than banks or insurers or those with securities traded on a regulated market) who should be required to disclose the fees paid to their auditor for non-audit services?

Question 39: Do you agree that the current requirement for disclosure by large companies of fees they have paid to auditors for non-audit services should no longer be extended to companies in the same group as a public company? (*Para 9.16*)

Yes No Not sure

If no, are there any circumstances in which other small or medium sized companies within a group which includes a public company should be required to disclose the fees paid to their auditor for non-audit services?

Question 40: Do you consider that the current requirement for disclosure by large companies of fees they have paid to auditors for non-audit services should continue to be extended to medium sized and small companies that are members of ineligible groups? (*Para 9.17*)

⁶⁰ The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 (SI 2008/489)

Yes No Not sure

Please provide information in support of your response:

Question 41: Do you:

- (a) agree that the regulation should be amended so that the current exemption from the disclosure of non-audit fees paid by subsidiaries is no longer available to a subsidiary whose auditor is not the group auditor; or
- (b) think the exemption should be available to these subsidiaries where the total non-audit service fees paid to their auditor by all the companies in the group is disclosed in the notes to the consolidated accounts? (*Para 9.20*)

a b Not sure

Please provide information in support of your response:

SECTION 10: Application to Charitable Companies

Question 42: Do you agree that there would be merit in specifically stating in regulations made under company law that the information provided in the notes to the financial statements of a company charity is not limited to the information required by the Accounting Directive? (*Para 10.6*)

Yes No Not sure

Please provide information in support of your view:

Question 43: Do you agree that the current flexibility in presentation of financial statements of charities, in particular the requirement for an income and expenditure account and to adapt the arrangement, headings and sub-heading of financial statements to reflect the special nature of the company's activities, should be retained? (*Para 10.7*)

Yes No Not sure

Please provide information in support of your view:

Question 44: Do you agree that a threshold based on gross income is more appropriate than its turnover for company charities? (*Para 10.8*)

Yes No Not sure

Please provide information in support of your view:

Do you have any other comments that might aid the consultation process as a whole?

Please use this space for any general comments that you may have, comments on the layout of this consultation would also be welcomed.

Thank you for taking the time to let us have your views. We do not intend to acknowledge receipt of individual responses unless you tick the box below.

Please acknowledge this reply

At BIS we carry out our research on many different topics and consultations. As your views are valuable to us, would it be okay if we were to contact you again from time to time either for research or to send through consultation documents?

Yes No

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