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FRC

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Dear Sir/ Madam

ACCOUNTING AND CORPORATE REPORTING DURING THE TRANSITION PERIOD (TP)

This letter sets out information on accounting and corporate reporting standards now that we have left the EU and are in a TP. During the TP there is no change to the UK's accounting and corporate reporting framework.

Last year the Government issued guidance and correspondence to business about the potential effects of a 'No Deal' on their sectors. Now that the UK has left the European Union (EU) with the Withdrawal Agreement that guidance and correspondence is no longer relevant. During this period the Government also laid necessary Statutory Instruments for the accounting and audit sector. These Statutory Instruments did **not** come into force on 31 January 2020 (Exit Day) and instead will come into force at the end of the TP.

The information covered below is immediately relevant for the TP only. The TP will end on 31 December 2020. Communication on changes that come into effect after the end of the TP to reflect our future trading relationship with the EU, will be issued in due course.

UK INCORPORATED COMPANIES AND GROUPS

The Companies Act requires that UK-incorporated companies prepare their annual accounts either in accordance with International Accounting Standards (IAS) that have been adopted by the EU ("EU-adopted IAS"), or in accordance with UK Generally Accepted Accounting Practice (UK GAAP) standards.

For financial years beginning after 31 December 2020, UK incorporated companies and groups that currently use EU-adopted IAS will instead be required to prepare accounts using UK-adopted international accounting standards. There will be no change for UK incorporated companies that use UK GAAP to prepare their annual accounts.

UK public companies with a UK listing

During the TP there will be no change to the reporting requirements for UK incorporated groups with securities admitted to trading on a UK regulated market: they can continue to prepare their accounts using EU-adopted IAS for the purposes of the Transparency Directive (TD) and Prospectus Directive (PD) as they do now.

For financial years beginning during the TP, companies will continue to use EU-adopted IAS. Any new or amended standards adopted by the EU during the TP can continue to be used. Where new or amended standards are adopted by the UK after the TP but before those companies file their accounts for the relevant financial years (i.e. those financial years beginning before but ending on or after the end of the TP), we intend for companies to have two options. They can either (i) continue to use EU-adopted IAS as they existed at the end of the TP, or (ii) choose to apply the 'new' UK-adopted international accounting standards, that will include the new or amended accounting standards adopted by either the BEIS Secretary of State, or the UK Endorsement Board, as relevant. If companies take advantage of option (ii) they will be required to clearly state the use of this option when preparing their accounts for that financial year. The regulations to permit the second option will be laid in Parliament in the coming weeks.

For financial years beginning after 31 December 2020 those companies will be required to prepare accounts using UK-adopted international accounting standards.

UK companies with cross-border presence in the EEA

During the TP UK incorporated parent companies with EEA based immediate subsidiaries, that themselves are intermediate parent companies, can continue to rely on the equivalence of UK GAAP for the purpose of exemptions for their EEA based subsidiary.

However, we would encourage such companies to use the TP to check the relevant reporting requirements in the EEA State where the subsidiary is based because at the end of the TP, the corporate reporting requirements of the UK's Companies Act may not be deemed automatically equivalent to the EU's Accounting Directive.

UK public companies with EEA listing

During the TP there will be no change to the reporting requirements for UK incorporated Groups that have a debt listing on an EU regulated market.

After the end of the TP, such Groups may need to comply with local EEA regulatory provisions, for the EEA country where they have listed their debt. This may include the need to prepare accounts, using EU-adopted IAS or IAS as issued by the International Accounting Standard Board (IASB) for the subsidiary, for the parent company or for the whole group. Such companies may want to use the TP to understand what, if any, requirements might affect them after the end of the TP.

This will be in addition to the requirement to produce accounts in the UK for domestic filing purposes.

Audit Committees

All UK Public Interest Entities ("PIEs" - banks, building societies, insurers or issuers of shares or debt securities that are admitted to trading on UK regulated markets) will continue to be subject to the requirements in the Disclosure and Transparency Rules issued by the Financial Conduct Authority (FCA), and other rules issued by the Prudential Regulation Authority (PRA), for an audit committee.

Appointment of auditors

UK companies will continue to be required to appoint a UK registered audit firm. It will then be for an individual UK registered auditor to sign the audit report on behalf of the firm when it is due. There is a separate open letter that the Government and FRC are sending to audit firms and the professional accountancy bodies that covers audit during the TP[1].

EEA INCORPORATED COMPANIES AND GROUPS

EEA companies and groups with cross-border presence in the UK during the TP

During the TP EEA companies with a UK incorporated subsidiary will continue to benefit from existing exemptions from preparing and filing of accounts. This includes the exemption for intermediate UK parent companies with an immediate EEA parent, which will continue to be exempt from producing group accounts during the TP. Further, UK registered dormant companies with EEA parents will continue to be exempt from the need to produce accounts and file them with Companies House. Separate exemptions from producing the non-financial information statements and alteration of accounting reference dates will also continue to apply.

EEA companies and groups with cross-border presence in the UK after the TP

From 1 January 2021 intermediate UK companies with an immediate EEA parent may not be exempt from producing group accounts.

UK registered dormant companies with EEA parents will need to file individual annual accounts with Companies House for financial periods beginning after 31 December 2020.

Other exemptions that may be removed for financial periods beginning on or after 31 December 2020 relate to exemptions from producing non-financial information statements and alteration of accounting reference dates.

EEA public companies with UK listing

During the TP EU incorporated groups that issue equities, debt or any other securities, which are admitted to trading on a UK market, will continue to be able to prepare their accounts in accordance with EU-adopted IAS, as they do now.

This will continue after the end of the TP because the Government has made an equivalence direction that determines that EU-adopted IAS are considered equivalent to UK-adopted international accounting standards for the purpose of preparing financial statements for TD regime requirements and for the purpose of preparing a prospectus under the PD regime. This decision delivered on a commitment made by the Government in November 2018, allowing overseas issuers with securities admitted to trading on a UK regulated market, or overseas issuers making an offer of securities in the UK, to continue to use EU-adopted IAS when preparing their consolidated financial accounts for future financial years.

UK Endorsement Board

The Government is in the process of establishing the UK Endorsement Board (UK EB) to undertake the work of assessing, endorsing and adopting any new or amended International Accounting Standards published by the IASB. Updates on recruitment will be issued during the TP, as relevant.

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[1] http://www.frc.org.uk/document-library/frc/2020/eu-exit-position-letters/audit-position-letter-feb-2020

Further information on the structure, legal basis and establishment of the UK EB can be found on the FRC website[2].

CONCLUSION

We hope that you find the information in this letter helpful as you use the TP to adjust to the UK no longer being a Member State of the EU.

You should also note that the UK is seeking equivalence decisions on accounting and audit, and an adequacy decision on audit from the European Commission. The Political Declaration, agreed with the EU prior to the UK's departure, sets the expectation that assessments should be concluded by June 2020, with the UK and EU assessing each other's equivalence and adequacy in parallel. In the meantime, if you have any questions in relation to the content of this this letter or would like to offer any thoughts on the issues raised, you can email companylaweuexit@beis.gov.uk

Yours sincerely,

Debbie Gillatt, Director, Business Frameworks, BEIS
Sir Jon Thompson, Chief Executive Officer, FRC

[2] https://www.frc.org.uk/endorsement-of-ias

Frequently Asked Questions (FAQ)

1. When will 'exit day', as described in Accounts and Reports (Amendment) (EU exit) Regulations 2019 and International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019, come into effect?

EU exit day was 31 January 2020. At that point the Transition Period commenced, and that Period ends on 31 December 2020 at 11:00pm. Exit legislation previously stated that the Regulations will come into force on 'exit day', this will now be amended to state that the Regulations will come into force at the end of the Transition Period.

During this Transition Period UK companies will continue to follow the EU process of endorsement and adoption of IFRS, as the UK will remain subject to EU legislation.

2. Can a UK public company with an EEA listing still use IAS as adopted by the EU to prepare its accounts during the TP?

Yes. There will be no change during the TP to the reporting requirements for UK public companies with an EEA listing.

However, such companies may want to use the TP to check with the listing authority in the relevant EEA country whether any additional requirements might be required for third country companies that hold a listing so that they are prepared once the TP has ended.

3. Can an EEA company with a UK listing still use IAS as adopted by the EU to prepare its accounts?

Yes. There will be no change during the TP to the reporting requirements for EEA companies with a UK listing.

This will continue after the end of the TP because the Government has made an equivalence direction that determines that EU-adopted IAS are considered equivalent to UK-adopted international accounting standards for the purpose of preparing financial statements for the Transparency Directive (TD) regime requirements and for the purpose of preparing a prospectus under the Prospectus Directive (PD) regime. This decision delivered on a commitment made by the Government in November 2018, allowing overseas issuers with securities admitted to trading on a UK regulated market, or overseas issuers making an offer of securities in the UK, to continue to use EU-adopted IAS when preparing their consolidated financial accounts for future financial years.

4. Can a UK incorporated company with a UK listing still use IAS as adopted by the EU to prepare its accounts after UK's exit from the EU?

During the TP EU-adopted IAS will continue to be acceptable. For financial years that begin on or after the end of the TP UK incorporated companies will be required to comply with UK-adopted international accounting standards.

For financial years beginning during the TP, companies will continue to use EU-adopted IAS. Any new or amended standards adopted by the EU during the TP can continue to be used. Where new or amended standards are adopted after the TP but before those companies file their accounts for the relevant financial years (i.e. those financial years beginning before but ending on or after the end of the TP), companies have two options. They can either (i) continue to use EU-adopted IAS as they existed at the end of the TP, or (ii) choose to apply the 'new' UK-adopted international accounting standards, that will include the new or amended accounting standards adopted by either the BEIS

Secretary of State, or the UK EB, as relevant. If companies take advantage of option (ii) they will be required to clearly state the use of this option when preparing their accounts for that financial year. The regulations to permit the second option will be laid in Parliament in the coming weeks.

For financial years beginning after the end of the TP, UK incorporated companies and groups will be required to prepare accounts using UK-adopted international accounting standards.

5. What are the implications of the TP on UK subsidiaries of EEA companies?

During the TP EEA companies with a UK incorporated subsidiary will continue to benefit from existing exemptions from preparing and filing of accounts.

However, these exemptions will be removed from 1 January 2021. This includes:

- Intermediate UK companies with an immediate EEA parent may not be exempt from producing group accounts.

- UK registered dormant companies with EEA parents will need to file individual annual accounts with Companies House for financial periods beginning after 31 December 2020.

- The exemption for UK incorporated subsidiaries with an EEA parent from producing non-financial information statements and alteration of accounting reference dates may no longer be available for financial periods beginning after 31 December 2020.

6. When will IAS as adopted by the UK be ready for use?

UK-adopted international accounting standards will be ready for use immediately after the end of the TP. Subsequently, new IASs will be adopted in the UK, either by the Secretary of State for BEIS or by the UK EB once it is established.

7. When will transfer of endorsement responsibility to the UK EB come into play?

The establishment of the UK EB will continue during the TP, and the Government's aim is that it is ready to assess new and amended IAS issued by the IASB for adoption in the UK after the end of the TP.

The appointment of staff, Board members and a Chair for the UK EB will continue during the TP. Updates on recruitment will be issued during the TP, as relevant.

8. What will be the impact on how a UK private company prepares its UK accounts?

There will be no change during the TP.

If a company prepares its accounts in accordance with EU-adopted IAS before the end of the TP, it will need to use UK-adopted international accounting standards for financial years that start on or after the end of the TP.

If a company prepares its accounts in accordance with UK GAAP there will be no change now, or at the end of the TP.

9. What will be the impact for a dormant UK subsidiary of an EEA parent?

During the TP a UK incorporated dormant subsidiary of an EEA parent will continue to be exempt from the requirement to prepare and file individual accounts. After the end of the TP it is likely that such a subsidiary will be required to prepare individual accounts and file these with Companies House.