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iGAAP Newsletter.

New UK Regulations – accounting and reporting requirements change

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Once again, the UK accounting and reporting landscape has changed. Three sets of Regulations were laid before Parliament in August 2005. These changes to existing legislation are mainly consequential, resulting from the introduction of International Financial Reporting Standards (IFRS) and other regulatory developments. Their objectives are deregulatory and they are expected to provide important clarification and additional flexibility for affected companies.

The new Regulations extend the option to prepare and distribute summary financial statements from listed companies to all companies that have had their accounts audited. They also ensure that companies preparing their accounts in accordance with IFRS can continue to use summary financial statements.

There are also a number of other amendments concerning:

- voluntary revision of the Operating and Financial Review (OFR) and Directors' Remuneration Report (DRR);
- the requirements for adjustment and disclosure of corresponding amounts; and
- the distribution provisions as they apply to investment companies.

The regulations also include certain limited simplifications for specific categories of small companies. With the exception of the changes for small financial services companies, these Regulations come into force on 1 October 2005. The amended requirements for corresponding amounts apply in respect of financial periods beginning on or after 1 January 2005 which end on or after 1 October 2005.

The Financial Services Authority (FSA) has made amendments to the Listing Rules which came into force as of 1 July 2005. For financial reporting requirements, these changes are mostly technical changes to the structure and numbering of the requirements. There are, however, a few changes of substance.

This Alert analyses the key changes in accounting and reporting requirements arising from the new regulations and considers the implications for UK companies in this dynamic regulatory environment.

Summary Financial Statements

All companies that have had their accounts audited may now choose to issue summary financial statements to 'entitled persons' as defined in law, if they have obtained the entitled persons' consent and provided they are not prohibited from doing so, say by a company's articles of associations. This option was previously restricted to listed public companies.

The full financial statements are still required to be sent to the Registrar of Companies and to those shareholders who have requested them. Companies therefore have to weigh up the additional costs of preparing two separate documents against the possible savings in printing and postage costs. Companies should also consider that some shareholders may welcome the chance to receive a shorter document that is more tailored to their needs.

There is no longer a requirement to summarise the directors' report following the introduction of a requirement for certain companies to prepare an OFR. Companies that are required to prepare an OFR must send a full copy to 'entitled persons' or publish it on a web site and include details of the web site in the summary financial statements. They may also include information from the OFR in the summary financial statements.

A quoted company still needs to include a summarised directors' remuneration report in its summary financial statement. An unquoted company that prepares a summary financial statement must include information on directors' emoluments and other benefits as outlined in paragraph 1(1) of Schedule 6 to Companies Act 1985 (either in full or summarised form).

As the summary financial statement regime was based on UK accounting formats, changes have also been made to ensure that companies using IFRSs will also be able to prepare summary financial statements. The requirement is broadly that either the level of detail should be the same as on the face of the income statement and balance sheet in the full financial statements, or where the directors consider appropriate, some headings may be combined.

The Regulations do not explicitly require a cash flow or a statement of changes in equity/statement of recognised income and expense. However, companies should consider whether to include these statements to meet the requirement that the summary financial statement should contain any other information necessary to ensure that the statement is consistent with the full financial statements.

Voluntary Revisions

The new Regulations clarify procedures for companies revising their DRR and OFR. Previously, the regulations only covered requirements for companies revising their annual accounts and directors' reports and were silent on DRR and OFR revision requirements.

Companies that prepare summary financial statements can now revise them irrespective of whether the original financial statements were defective. A supplementary note indicating the corrections to the original summary financial statement may be provided instead of preparing a further summary financial statement. Similar rules apply for abbreviated financial statements.

Prior Year Comparatives

The Regulations remove the requirement for corresponding amounts (i.e. comparative figures) to be adjusted if not comparable. They also remove from the law the requirement for comparatives to be disclosed for items included in the notes to the financial statements. In future these are to be matters for accounting standards rather than the law.

The ASB issued an exposure draft FRED 35 **Corresponding Amounts** dealing with this issue. This is expected to result in a new accounting standard, FRS 28 **Corresponding Amounts**, being issued. The requirements of FRS 28, which will broadly reflect the previous requirements in the Act, will apply unless an accounting standard or UITF Abstract permits or requires an alternative treatment. This is intended to ensure that entities using IFRS-based UK accounting standards are able to use the same exemptions from restating corresponding amounts as entities adopting IFRSs.

Distribution provisions for investment companies

The Regulations now provide that an investment company may make a distribution out of accumulated, realised revenue profits if the amount of its assets is at least equal to one and a half times the aggregate of its liabilities **to creditors** as shown in the accounts of the company (previously the reference was only to 'liabilities'). The amendment seeks to ensure that recent accounting changes, whereby certain shares are to be classified as liabilities in a company's accounts, do not disrupt established dividend practices.

Partnerships

Two Statutory Instruments make consequential amendments dealing with IFRS, the Modernisation Directive and the Fair Value Directive for qualifying partnerships and limited liability partnerships. The amendments ensure that such partnerships may prepare their accounts under the IFRS framework.

Simplifications for certain smaller companies

The simplifications for specific categories of small companies will:

- allow certain small financial services companies to exempt themselves from statutory audit;
- bring forward to years beginning on or after 1 January 2005 the effective date for directors' report exemptions for small companies that are part of groups; and
- restore exemptions for disclosure of staff particulars that were inadvertently removed in earlier structural changes to the Companies Act 1985.

Listing Rules changes

The FSA has made amendments to the Listing Rules which came into force as of 1 July 2005. Two amendments affecting financial reporting are worth noting. These concern half-yearly reports and commentary on forecasts.

The amended Listing Rules include a new requirement for half-yearly reports to include either:

- a statement of all changes in equity; or
- changes in equity other than those arising from capital transactions with owners and distributions to owners.

The accounting policy followed for any defined benefit pension scheme may dictate that only the second of these two options is open to companies accounting in accordance with IFRS.

The requirements to disclose a commentary on forecasts is broader under the new Listing Rules as:

- disclosure is no longer limited to where there is a difference of 10% between the profit forecast or profit estimate and the actual figure reported; and
- the Listing Rules now also refer to certain unaudited financial information and hence the requirement is not restricted to profit forecasts or estimates only.

Listed companies are encouraged to consider the detailed Listing Rules changes and consider whether the many wording changes have other subtle implications for them.

References

The new Statutory Instruments (SIs) are:

- SI 2005 No. 1987 The Partnerships and Unlimited Companies (Accounts) (Amendment) Regulations 2005.
- SI 2005 No. 1989 Limited Liability Partnerships (Amendment) Regulations 2005.
- SI 2005 No. 2280 The Companies Act 1985 (Investment Companies and Accounting and Audit Amendments) Regulations 2005.
- SI 2005 No. 2281 The Companies (Summary Financial Statement) (Amendment) Regulations.
- SI 2005 No. 2282 The Companies (Revision of Defective Accounts and Report) (Amendment) Regulations 2005.

These can be obtained on http://www.opsi.gov.uk/

FRED 35 is available on ASB's website http://www.frc.org.uk/asb/

The new listing rules are available on the FSA's website http://www.fsa.gov.uk/

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