

# Periodic Review of UK and Ireland financial reporting standards

## Q&A – Consultation Stage Impact Assessment

### 1. What is the impact of the proposed changes?

We expect the options considered in this consultation stage impact assessment to affect the following groups:

- a) **entities** that may be required to implement systems and processes that enable them to apply the amended standards;
- b) **individual accountants**, who might be required to familiarise themselves with the amendments to the standards in order to apply them in their work, or to maintain a general awareness of accounting practice;
- c) **auditors** of financial statements of affected entities that may need to design new audit and assurance processes that address new accounting requirements, and apply them in the audit of affected entities.
- d) **users** of financial statements, who will benefit from improvements to the quality of financial reporting of the affected entities.

### 2. What is the monetised impact of the proposed changes?

We anticipate the benefits of our preferred option will outweigh the costs. However, because of the nature of the anticipated benefits it has been impracticable to quantify them.

For estimated costs:

- a) we have monetised the present value of costs for our preferred option (Option 4a) compared to the cost of doing nothing (Option 1) over a five-year appraisal period, as £637 million. We estimate that these changes would apply to over 3.5 million entities, and therefore an estimated average impact per entity is £182.
- b) this results in an equivalent annual net direct cost to business (EANDCB) of approximately £123 million per year in the UK.<sup>1</sup> We estimate the changes affect 3.2 million entities in the UK, and therefore an estimated average EANDCB per entity is £38.

Note that the averages are broad estimates, and we expect the costs to fall differently on different-sized entities, and to depend on the extent to which an entity has transactions that fall within the scope of particular sections of the FRC's financial reporting standards.

### 3. What benefits do you anticipate from the proposed changes?

We expect the options considered in this consultation stage impact assessment have the following potential benefits:

- a) increasing the quality of financial reporting of affected entities, thereby enabling investors, lenders, analysts and other users of financial statements to better assess the financial position and financial performance of an entity, with wider benefits such as the potential for a reduction in the cost of capital;
- b) improving the comparability of financial statements of reporting entities, particularly in maintaining consistency with international accounting standards, which is a long-standing policy that has been developed through consultation and reflects the wider approach taken by the FRC; and
- c) in some areas, reducing the cost to affected entities of preparing financial reports or of having those financial reports audited, because some of the proposed amendments simplify some existing requirements and have also been designed to promote efficiency within groups.