GUIDANCE FOR COMPANIES PREPARING IAS ACCOUNTS FOR ACCOUNTING PERIODS STRADDLING IP COMPLETION DAY (11pm, 31 December 2020)

Introduction

After the end of the transition period on 31 December 2020, the UK will cease to be subject to EU law. The EU acquis will be 'frozen' in time by virtue of provisions in the European Union (Withdrawal) Act 2018 meaning existing IFRS adopted by the European Commission (EU-adopted IFRS) will remain 'frozen' as in force at the end of the Transition Period (known in legislation as IP completion day ('IPCD')). Companies preparing IAS accounts for accounting periods which straddle the end of the transition period (11pm on 31 December 2020) must prepare those accounts with reference to the frozen onshored IFRS standards in accordance with the 2019 IAS Regulations[1]. Adoptions, interpretations and amendments of IFRS made in the EU after that date will no longer apply in the UK.

For subsequent financial years, companies must use UK-adopted international accounting standards. At IPCD those standards will be identical to the EU-adopted IFRS in force on that date but subsequently the UK will have its own endorsement process to adopt new standards, interpretations and amendments of IFRS.

Regulatory requirements

Companies Act 2006

For accounting periods which start before but where filing occurs after the end of the transition period, UK companies that are preparing IAS accounts are required to use the frozen EU-adopted IFRS. However, in order to give UK companies the ability to use standards or amendments to a standard that are adopted after 31 December 2020 by the UK, UK companies have the option to use any standards which have been adopted for use within the UK in addition to the frozen EU-adopted IFRS.

Financial Conduct Authority's Disclosure Guidance and Transparency Rules ('DTRs')

Under the FCA's DTRs, if a UK company has transferable securities admitted to trading on a UK regulated market and is required to prepare consolidated accounts, accounts for periods which start before the end of the transition period must be prepared in accordance with international financial reporting standards as adopted from time to time by the European Commission in accordance with Regulation (EC) No 1606/2002 as it applies in the European Union. This includes any standards, interpretations, and amendments to standards adopted by the European Commission after 31 December 2020.

Companies with transferable securities admitted to trading on a regulated market in the EU

UK companies with transferable securities admitted to trading on a regulated market in the EU are advised to check disclosure requirements with their relevant EU Competent Authority.

[1] The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019.

Accounts

The effect of the Companies Act provisions is to enable companies to continue to use the same IFRS as are adopted for use in the EU, but by reference to UK law rather than EU law. The FCA's DTRs continue to reference IFRS as adopted for use in the EU by reference to EU law to preserve parity between UK and third country issuers with transferable securities admitted to trading on a UK regulated market. However absent serious timing differences in the endorsement programmes of the UK and the EU, accounts prepared for Companies Act purposes should be identical to those prepared for the purposes of complying with the FCA's DTRs and consequently, the same set of accounts should meet both Companies Act and FCA DTR requirements.

Required disclosures

Companies refer to the basis on which their accounts have been prepared in the basis of preparation. Auditors similarly refer to that basis of preparation in their audit opinion. To promote consistency of language and approach and to reflect the policy intention described above, we recommend that the following terms be used:

- **If a company is preparing accounts based on international accounting standards for Companies Act purposes,** the accounts should state that they are prepared "in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006"

- **If a company also has transferable securities admitted to trading on a UK regulated market, is required to produce consolidated accounts and is preparing accounts to satisfy DTR requirements**, those accounts should additionally state that they are "prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union"

Explanatory statement: The "requirements of the Companies Act 2006" here means accounts being prepared in accordance with "international accounting standards" as defined in section 474(1) of that Act, as it applied immediately before IP completion day (end of transition period), including where the company also makes use of standards which have been adopted for use within the United Kingdom in accordance with regulation 1(5) of the International Accounting Standards and European Public Limited Liability Company (Amendment etc.) (EU Exit) Regulations 2019.

For accounts prepared for financial years beginning on or after 1 January 2021 the accounts of all UK companies preparing IAS accounts should be referenced as being prepared in accordance with UK-adopted international accounting standards.

The changes in the way that international accounting standards are described, as a result of the UK's exit from the EU, including the move to UK-adopted international accounting standards for accounting periods starting on or after 1 January 2021, do not represent a change in the basis of accounting which would necessitate a prior year restatement.