 Regulatory Policy Committee	Opinion	
Impact Assessment (IA)	Implementation of Chapter 10 of the EU Accounting Directive (2013/34/EU)	
Lead Department/Agency	Department for Business, Innovation and Skills	
Stage	Final	
IA number	BISBE777	
Origin	European	
Expected date of implementation	1 October 2014 (SNR8)	
Date submitted to RPC	14 July 2014	
RPC opinion date and reference	03 September 2014	RPC13-BIS-1977(2)
Departmental assessment		
One-in, Two-out (OITO) status	IN	
Estimate of the equivalent net cost to business (EANCB)	£0.75 million (in scope) £5.66 million (out of scope - EU)	
RPC overall assessment	GREEN	
RPC comments <p>The IA is fit for purpose. The costs and benefits have been assessed adequately. In response to the comments made by the RPC in its opinion dated 10 February 2014 on the consultation stage IA, the assessment of the costs and benefits now reflects additional costs arising from the possibility of some UK-listed companies, and subsidiaries of these companies, being required to provide reports earlier than would otherwise be required under the Transparency Directive.</p> <p>The RPC is able to validate the estimated equivalent annual net cost to business (EANCB) figure of £0.75 million. This figure relates to the impact of the early implementation (gold-plating) of the Directive.</p>		
Background (extracted from IA) What is the problem under consideration? Why is government intervention necessary? <p><i>Across the world, natural resources are worth over a thousand trillion dollars and make substantial contributions to the public budgets of many developing countries. However, their citizens often remain extremely poor. This is, in part, because many governments of developing countries have failed to manage responsibly the large payments made to them by extractive companies in return for access to natural resources. The absence of good governance and the lack of transparency around these payments reduce the positive impact that extractive industries can have on economic development. It also impacts negatively on, and increases the risk for, UK companies and investors active in the extractives</i></p>		

sector, through civil unrest and poor business environment.

What are the policy objectives and the intended effects?

The aim of Chapter 10 of the Accounting Directive is to raise the global standards of transparency in the extractives sector. Allowing citizens in developing countries to access information about payments made is intended to improve accountability, reduce the space for corruption and other illicit activities, and ensure that citizens benefit appropriately from the extraction of their natural resources. This relies on the assumption that the democratic processes in the relevant countries are sufficiently robust to allow citizens to hold governments to account.

This is also expected to bring benefits to UK companies operating in resource-rich developing countries by reducing risk and improving the business environment, as well as to UK investors who will be able to assess the risk profiles of extractives projects. The proposals will apply to all large UK incorporated extractive companies, and all UK incorporated extractive companies listed on the UK main market.

Preferred Option

The proposal is to implement Chapter 10 of the Directive earlier than required (for financial years beginning on or after 20 July 2015)) by bringing regulations into force in 2014 to apply to financial years beginning on or after 1 January 2015.

The IA states this would ensure that the (non-monetised) benefits to UK extractive companies and investors would accrue as soon as possible.

Comments on the robustness of the OITO assessment

The IA states that implementation of Chapter 10, in line with the minimum requirements of the Directive, would be out of scope of OITO. The IA states that the preferred option would be in scope of OITO because of early implementation (gold-plating) of Chapter 10 of the Directive.

The IA assesses the ongoing costs (in EANCB terms) of early implementation of Chapter 10 of the Directive as £6.41 million against £5.66 million for implementation in line with the minimum requirements of the Directive. It therefore reports the difference between the two figures (£0.75 million) as being an IN for OITO purposes. Based on the information presented, this assessment is reasonable and consistent with paragraph 1.9.8 ii of the Better Regulation Framework Manual (July 2013).

Comments on the robustness of the small & micro-business assessment (SaMBA)

The proposals are European in origin, so a SaMBA is not applicable. The IA, nevertheless, includes a short assessment explaining that the scope of Chapter 10 of the Directive extends to all UK incorporated large and/or listed extractive companies. This includes small and micro-businesses listed on the UK main market, but would impact on just two small companies. The assessment could be

improved by inclusion of some discussion about why the Directive's general exemption of small companies should not be extended to these two small listed companies, or what consideration has been given to mitigation of the impact on them of Chapter 10 of the Directive.

Quality of the analysis and evidence presented in the IA

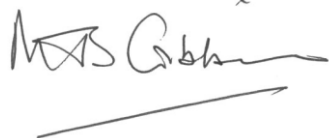
The impact assessment (IA) explains that the Accounting Directive is being replaced and that Chapter 10 introduces a new set of reporting requirements for extractive companies, which the Government propose to introduce earlier than required by the Directive.

Chapter 10 will introduce the requirement that reports must be prepared annually in which large EU registered extractive companies must detail payments they make to governments in all of their countries of operation. The detail should be prepared on the basis of individual projects, include all payments made in money or in kind, disclose the payments made to each level of government, and disclose the total amount by type of payment (e.g. production entitlements, taxes, dividends, licence fees, rental fees etc.).

The IA states that it is assumed the Accounting Directive will be implemented at the same time as the Transparency Directive. However, if the Accounting Directive is implemented earlier than the Transparency Directive, some UK-registered subsidiaries, whose UK-listed parent companies are registered outside the UK and are not yet required to make a report, would have to provide a report earlier than required by the Transparency Directive. The IA states that since the two options are the same apart from the timing of implementation, the nature of the costs and benefits are the same for both options. These would fall on 153 UK businesses. An additional 38 subsidiaries of EU parent companies will be required to report in year 1 due to the early implementation element. Following year 1, these companies will be reported on by their parents in line with the Transparency Directive.

The costs would be greater (an estimated EANCB of £6.41 million compared to £5.66 million) due to the additional extractive report that companies would be required to compile under early implementation. The additional cost of this is incurred in year 1. The impact has been annualised over the appraisal period, resulting in the difference in the EANCB figures of the two options.

Signed



Michael Gibbons, Chairman