
EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations amend the law relating to the preparation of the annual accounts of companies (and partnerships all of whose members have limited liability) and related matters such as the filing of such accounts. They extend to the whole of the United Kingdom.

These Regulations implement obligations in Directive 2013/34/EU (“the Directive”) of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (OJ L 182, 29.6.2013, p. 19). UK law is changed to the extent that amendments are required by the Directive.

Part 1 of the Regulations contains introductory matters and these include the application of the Regulations. The Regulations apply in respect of financial years beginning on or after 1st January 2016, but a company may instead apply the amended law (except in one respect) to its financial year beginning on or after 1st January 2015 (but before 1st January 2016) if this is desired (regulation 2).

Part 2 of the Regulations amends the Companies Act 2006 (“the Act”). Regulation 4(3) and (4) raises the thresholds which determine when a company or group qualifies as “small” for the purposes of certain accounting and reporting exemptions, and for exemption from audit. Regulation 4(5)(b) substitutes a new section 384(2)(a) with the effect that a company that is a member of a group of companies one or more of which is admitted to trading on an EEA regulated market (such as the London Stock Exchange) does not qualify as “small”. The former section 384(2)(a) had the effect that a company that was a member of a group of companies one or more of which was a public company did not qualify as “small”.

Regulation 5(6), (7) and (8) makes changes to the law in connection with the preparation by a parent of group accounts and the exemptions from that obligation. One such change is to provide that a parent company need not prepare group accounts if the only reason why it does not qualify as “small” is because it is a public company, provided that it is not a company admitted to trading on a regulated EEA market. Other changes to the law concern the exemptions from a parent company's obligation to prepare group accounts where that parent is itself included in the group accounts of a larger group.

Regulation 5(13) repeals section 410 of the Act with the effect that it will no longer be possible for a company to disclose relevant information about related companies (for instance, its subsidiaries) in its annual return – such information (where required) will have to be disclosed in the annual accounts. Regulation 5(14), (15) and (16) makes changes to sections 410A, 411 and 413 of the Act as regards the information which, generally speaking, companies must provide in their annual accounts concerning “off-balance sheet arrangements”, employee numbers and costs, and directors' benefits.

Regulation 7 has the effect that small companies which qualify as “micro-entities” (see section 384A) are no longer required to prepare directors' reports. Regulation 8(3) amends section 444 of the Act, which section concerns the filing obligations of small companies. Key changes here reflect the fact that a small company will no longer be able to file (at Companies House) annual accounts which are an abbreviated version of the accounts which it prepares and sends to shareholders – instead a small company will file the versions of the balance sheet and profit and loss account (where the profit and loss account is filed) which are prepared and sent to the shareholders.

Regulation 9(2) and (3) raises the thresholds which determine when a company or group qualifies as “medium-sized” for the purposes of certain accounting and reporting exemptions. Regulation

Changes to legislation: *There are currently no known outstanding effects for the The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015. (See end of Document for details)*

11 substitutes new sections 496 and 497A of the Act. The substituted sections contain more detailed requirements than the current sections as to the content of an auditor's report on a company's non-financial reports – strategic reports, director's reports and (where applicable), separate corporate governance statements.

Part 3 of the Regulations amends the Small Companies and Groups (Accounts and Directors' Report) Regulations 2008 (S.I. 2008/409). Regulation 16 makes various changes to Part 1 of Schedule 1 to S.I. 2008/409 and these include allowing companies which qualify as “small” to prepare abridged versions of the prescribed balance sheet and profit and loss account formats set out in Schedule 1, and allowing “small” companies to adapt the prescribed formats if conditions are satisfied. Regulation 16 also makes changes to the prescribed formats.

Regulation 17 amends Part 2 of Schedule 1 to S.I. 2008/409 concerning accounting principles and rules applicable to the annual accounts of “small” companies. The changes are largely minor and/or technical. Regulation 18 amends Part 3 of Schedule 1 to S.I. 2008/409 and the effect is greatly to reduce the number of notes to the annual accounts of “small companies”. Regulations 19 and 20 revoke Schedules 2 and 3 respectively to S.I. 2008/409. Regulations 18 to 20 reflect Article 16.3 of the Directive pursuant to which the information which Member State can compel “small” companies to provide in their accounts is limited. Regulation 21 revokes Schedule 4 to S.I. 2008/409 to reflect the fact that “small” companies are no longer permitted to file accounts which are different to those which they prepare and send to their shareholders. Regulations 21 and 22 amend Schedule 6 to S.I. 2008/409 concerning the accounts of a “small” group.

Part 4 of the Regulations amends the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (S.I. 2008/410). Regulation 27 makes various changes to Part 1 of Schedule 1 to S.I. 2008/410. These include allowing such companies to adapt the prescribed balance sheet and profit and loss account formats set out in Schedule 1 and changes to the prescribed formats. Regulation 28 amends Part 2 of Schedule 1 to S.I. 2008/410 concerning accounting principles and rules applicable to “medium-sized” and “large” companies. These are largely minor and/or technical and mirror the changes being made to Part 2 of Schedule 1 to S.I. 2008/409.

Regulation 29 amends Part 3 of Schedule 1 to S.I. 2008/410. The effect is to make some largely minor amendments to the law relating to the notes to the annual accounts of these companies. Regulations 32 and 33 make parallel provision to regulations 28 and 29 respectively as regards “banking companies”, and regulations 35 and 36 make similar provision in the case of “insurance companies”. Regulations 37 and 38 amend Schedule 4 to S.I. 2008/410 which schedule concerns the information which all companies to which S.I. 2008/410 applies must provide in their annual accounts as regards “related undertakings” (including subsidiaries). Regulation 37(4) amends paragraph 7 to this Schedule with these companies must provide information regarding their membership of undertakings which have unlimited liability. Regulation 39 amends Schedule 6 to S.I. 2008/410 as regards the accounts of “medium-sized” and “large” groups.

Part 5 of the Regulations amends the Partnership (Accounts) Regulations 2008 (S.I. 2008/569). S.I. 2008/569 applies, with modifications and omissions, Parts 15 and 16 of the Act and S.I. 2008/409 and 2008/410 to “qualifying partnerships”, essentially partnerships all of whose members have limited liability. Part 5 of the Regulations makes a small number of minor amendments to S.I. 2008/569 as a consequence of the Directive and changes being made to S.I. 2008/409 by regulations 18, 19 and 20 of the Regulations.

A full regulatory impact assessment of the effect that this instrument will have on the costs of business and the voluntary sector is available from the Business Environment Directorate, Department for Business, Innovation and Skills, 1 Victoria Street, London SW1H 0ET or at www.gov.uk/bis and is annexed to the Explanatory Memorandum which is available alongside the instrument on www.legislation.gov.uk.

Changes to legislation:

There are currently no known outstanding effects for the The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015.