

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Sixth Delegated Legislation Committee

DRAFT ACCOUNTING STANDARDS (PRESCRIBED
BODIES) (UNITED STATES OF AMERICA AND
JAPAN) (AMENDMENT) REGULATIONS 2024

Wednesday 24 April 2024

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Sunday 28 April 2024

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The Committee consisted of the following Members:

Chair: MR PHILIP HOLLOBONE

† Ali, Rushanara (*Bethnal Green and Bow*) (Lab)
 † Byrne, Liam (*Birmingham, Hodge Hill*) (Lab)
 † Cates, Miriam (*Penistone and Stocksbridge*) (Con)
 † Clarke-Smith, Brendan (*Bassetlaw*) (Con)
 Cruddas, Jon (*Dagenham and Rainham*) (Lab)
 † Gardiner, Barry (*Brent North*) (Lab)
 Greenwood, Margaret (*Wirral West*) (Lab)
 † Hollinrake, Kevin (*Minister of State, Department for
 Business and Trade*)
 † Hudson, Dr Neil (*Penrith and The Border*) (Con)
 Hussain, Imran (*Bradford East*) (Lab)

† Lewer, Andrew (*Northampton South*) (Con)
 † Marson, Julie (*Hertford and Stortford*) (Con)
 † Penrose, John (*Weston-super-Mare*) (Con)
 † Tami, Mark (*Alyn and Deeside*) (Lab)
 † Tuckwell, Steve (*Uxbridge and South Ruislip*) (Con)
 † Vickers, Matt (*Stockton South*) (Con)
 † Wood, Mike (*Lord Commissioner of His Majesty's
 Treasury*)

Sara Elkhawad, *Committee Clerk*

† **attended the Committee**

Sixth Delegated Legislation Committee

Wednesday 24 April 2024

[MR PHILIP HOLLOBONE *in the Chair*]

Draft Accounting Standards (Prescribed Bodies) (United States of America and Japan) (Amendment) Regulations 2024

4.30 pm

The Minister of State, Department for Business and Trade (Kevin Hollinrake): I beg to move,

That the Committee has considered the draft Accounting Standards (Prescribed Bodies) (United States of America and Japan) (Amendment) Regulations 2024.

It is a pleasure to serve with you in the Chair, Mr Hollobone.

The regulations were laid before the House in draft on 21 February, and were debated and agreed under the affirmative resolution procedure in the Grand Committee of the House of Lords on Tuesday 26 March. The Accounting Standards (Prescribed Bodies) (United States of America and Japan) Regulations 2015 provide a regulatory easement of the UK's company reporting rules for US or Japanese-listed parent companies that have chosen to re-domicile in the UK. The easement was originally introduced in 2012, and was extended in 2015 and 2022. It provides qualifying companies with extra time to transition from their national accounting practices to UK-recognised accounting standards.

Parent companies listed in the US or Japan may take up to four financial years, following UK incorporation, in which to make the transition, in order to prepare their group accounts in line with UK accounting principles. When originally introduced in 2012, this was deemed especially helpful for companies using US or Japanese accounting standards, which might otherwise have struggled to adapt to UK domestic standards when domiciling to the UK. By providing this exemption, the regulations make the UK a more attractive place for companies in those jurisdictions to re-domicile into.

In 2023, the Department published a post-implementation review of the 2015 regulations. The review took evidence from a small number of previously US or Japanese-listed, now UK-domiciled, firms about their cost savings from the easement. The survey responses confirmed that the regulatory easement provides flexibility and enables cost savings for the businesses using it. Businesses that responded to the survey reported that the easement reduced their conversion costs significantly. One company also said that the regulations allowed it to submit accounts in the "most prudent and efficient" way while listed in the US.

Having conducted the post-implementation review, the Government decided to extend the regulations, which we believe make a small but useful contribution to a pro-growth regulatory regime that supports inward investment. To give effect to that decision, the Government laid the Accounting Standards (Prescribed Bodies) (United States of America and Japan)

(Amendment) Regulations 2023 before the House on 6 September 2023. Those regulations extended the easement in recognition of its evident benefit to businesses that have used it so far. The easement would have expired without those regulations, thereby requiring newly domiciled US and Japanese companies to immediately convert accounting practice when filing their first set of UK accounts.

Although the post-implementation review found that the regulations are a helpful feature of the UK's regulatory environment, it also identified a small risk of abuse or misunderstanding. The review noted that more could be done to improve the understanding that the easement is a transitional, time-limited concession, not a permanent exemption from the UK's company reporting rules. In particular, the 2015 regulations did not require companies to indicate when their four-year period ends, which made it difficult to determine whether a company had exceeded the easement period. That would leave the door open for companies to use the easement for longer than permitted and make it difficult to monitor that risk.

The Government did not find any specific evidence of that abuse; none the less, we chose to take a proactive measure to prevent it. Regulation 4 of the 2023 regulations introduced an obligation on companies using the easement to include a note in their accounts stating when the easement ceases to apply. This additional requirement on companies was deemed to be a simple and proportional mechanism to reduce the potential risk of abuse. Regrettably, in making the provision to require a note in the accounts, the Department for Business and Trade made an error of parliamentary procedure by using the negative resolution procedure, rather than correctly using the affirmative resolution procedure.

The new statutory instrument is intended to correct the error. It removes regulation 4 of the 2023 amending regulations and substitutes a new regulation 5A in the 2015 regulations, doing this through the correct, affirmative resolution procedure. The rest of the 2023 amending regulations were made correctly, but the Government are grateful to the Joint Committee on Statutory Instruments for drawing their attention to the procedural error.

Driving growth in the UK economy requires attracting inward investment. The regulations are just one example of how we can make it easier for overseas companies to incorporate in the UK and create jobs in the UK economy. I urge the Committee to approve them.

4.36 pm

Rushanara Ali (Bethnal Green and Bow) (Lab): It is a pleasure to serve under your chairmanship, Mr Hollobone. I welcome the regulations, which correct an error. A mistake was made, as the Minister has described. Of course, we support this correction and support regulations that aim to enhance the attractiveness of the UK as a domicile for businesses. We must ensure that the UK remains an inviting destination for businesses. We must continue to work towards making our country an important destination for businesses to do business and somewhere they feel welcomed, and our legal arrangements must be such that that is the case.

The 2015 regulations provide to US and Japanese-listed parent companies an extended transition period of up to four financial years, after incorporation in the UK, to convert to UK accounting principles. We support the

objective of the regulation to encourage US and Japanese-listed companies to re-domicile in the UK. As the Minister set out, regulation 4 of the 2023 regulations was laid incorrectly, under the negative resolution procedure, and today's legislation corrects that error. Parent companies are therefore not subject to any enforceable obligation to note their group accounts under the existing, incorrectly laid regulation. I am glad that the new instrument corrects the mistake.

Driving growth in the UK must be one of our top priorities. To enable that, we need to ensure that we attract inward investment. I therefore welcome the correction to the regulations, which ensures that the aim of the process of overseas companies integrating into the UK is fulfilled.

4.38 pm

Kevin Hollinrake: The prescribed bodies regulations provide an easement of the UK's company reporting rules to support US and Japanese-listed parent companies

that have chosen to domicile in the UK. I very much appreciate the shadow Minister's support for the measures. For some larger companies, the savings can be in the millions of pounds. Helping companies to more easily move their incorporation to the UK, by reducing the costs of the switch, is the right thing to do for our economy and helps to ensure that the UK remains attractive and open for business. The Government now propose to correct the procedural error in making regulation 4 of the 2023 regulations, by means of this affirmative statutory instrument. I commend the regulations to the Committee.

Question put and agreed to.

4.39 pm

Committee rose.

