

# Economic impact assessment of narrow-scope amendments – standardised cost model survey

## Executive Summary

<b>Project Type</b>	Endorsement
<b>Project Scope</b>	N/A
<b>Purpose of the paper</b>	
This paper is to presents for approval an amended version of a survey for UK preparers, that will help UKEB estimate implementation costs for narrow-scope amendments.	
<b>Summary of the Issue</b>	
<p>SI 2019/685 requires the UKEB to conduct an economic impact assessment for endorsement projects. Under the terms of the Small Business, Enterprise and Employment Act 2015 the UKEB is not a ‘relevant regulator’ – those required to undertake impact assessments in accordance with the Better Regulation Framework. However, the Board previously decided that its work would benefit from aligning it with this model.</p> <p>The Board discussed a proposed strategy for impact assessment, including an approach on how to practically conduct the impact assessment for significant and Narrow Scope Amendments (NSAs), which were approved at its October 2022 meeting. This included a preparers’ survey designed to help the Board estimate implementation costs for NSAs that would enable the streamlining of the impact assessment work for such amendments whilst still adhering to the Better Regulation Framework. The Board requested further amendments to the survey design before it was issued to preparers.</p> <p>An amended version of that survey is attached to this paper as Appendix A.</p>	
<b>Decisions for the Board</b>	
Board members are asked to approve the survey approach and questionnaire.	
<b>Recommendation</b>	
We recommend that the Board approve the survey for distribution.	
<b>Appendices</b>	
Appendix A: Questionnaire	

## Background

1. The endorsement and adoption of international accounting standards (or amendments to standards) is one of the UKEB's statutory functions. The legislation requires that the adoption decision takes into account the UK long term public good so that ultimately the standard or amendment is appropriate for use in the UK.
2. An estimation of costs and benefits as well as an analysis of whether the use of a standard is likely to have an adverse effect on the economy of the UK, including on economic growth, is required by SI 2019/685 before a standard is adopted for use in the UK. However, the SI does not contain any further guidance on how to conduct these analyses.
3. Under the terms of the Small Business, Enterprise and Employment Act 2015 the UKEB is not a 'relevant regulator' – required to undertake impact assessments in compliance with the governance guidance, the Better Regulation Framework (BRF).
4. The BRF contains guidance for UK government entities on how to conduct economic impact assessments. While the BRF is binding for many public bodies and regulators, the UKEB is not currently included within its scope. However, the regulations are currently under review, so it is not clear whether the adoption of IFRS would be included within the scope at a later date.
5. At the September 2021 Board meeting, the UKEB considered and agreed at a high level its approach to the endorsement criteria in SI 2019/685, including that in conducting the economic impact assessments it should broadly follow the BRF.
6. The proposed strategy was discussed by the Board, including an approach on how to practically conduct the impact assessment, and approved at the October 2022 Board meeting.
7. The Secretariat considered that a proportionate way to conduct the economic impact assessment for NSAs would be to largely standardise the approach to be deployed when developing the economic impact assessment for the endorsement of NSA. This would enable efficiencies in resource allocation whilst ensuring that the assessments themselves are of the quality expected under the BRF.
8. As part of the standardisation process, the secretariat proposed that adoption costs for the preparers shall be estimated using a standardised cost model. Costs will be estimated by means of a one-off survey of preparers of accounts, with the model parameters being updated every three to five years. The model estimates would be used to assess direct implementation costs for the adoption of NSAs, removing the need for conducting project-by-project stakeholder engagement to assess the cost of implementation.

9. For more details about the proposed strategy, approach and standardised cost model draft questionnaire, please refer to the [October 2022 Board meeting papers](#).

## Amended survey

10. A draft preparers' questionnaire, to help estimate the standardised cost model, was considered by the Board at the October 2022 meeting. The Board comments on the survey related to: the population of interest; the proposed sample; outreach techniques; and the design of the questionnaire itself. This paper and the amended survey at Appendix A address the Board's comments.

## Population and sample

11. Our main population of interest are UK preparers that are required to use IFRS when preparing their annual accounts, either in the UK Companies Act 2006 or stock exchange listing rules and are therefore directly affected by the UKEB's adoption of IFRS for use in the UK. As such, this population comprises group companies listed on the London Stock Exchange, including on AIM.
12. Excluding companies that are solely investment vehicles (closed and open-end funds, and real estate investment trusts), as of 18 November 2022, there were 1,230 companies listed on the LSEG adopting IFRS (including companies listed on AIM). These had a combined market capitalisation of £2.3 trillion (Source: Refinitiv-Eikon).
13. Resource constraints and consideration of proportionality restrict the ability to achieve statistical representativeness for this exercise. Therefore, as already noted in the October 2022 Board paper, the appropriateness of the sample will also entail qualitative considerations. In particular, the aim is to collect a sample large enough to cover different size segments and different industries/sectors.

14. The Secretariat segmented the population of companies identified in paragraph 12 by size (quartiles of market capitalisation) and by sector of activity (ICB super sector name as provided by Reuters-Eikon) to help focus efforts when targeting potential respondents:

Industry	Quartile 1	Quartile 2	Quartile 3	Quartile 4	Total
Health Care	31	32	26	18	107
Energy	38	28	20	16	102
Consumer Staples	6	8	13	23	50
Financials	30	30	44	55	159
Basic Materials	62	49	26	18	155
Consumer Discretionary	35	54	56	63	208
Utilities	2	4	2	9	17
Telecommunications	5	6	4	7	22
Industrials	52	42	73	69	236
Technology	38	40	34	24	136
Real Estate	7	15	10	6	38
<b>Total</b>	<b>306</b>	<b>308</b>	<b>308</b>	<b>308</b>	<b>1230</b>

Note: Quartiles of market capitalisation. Source: UKEB calculation based on Reuters-Eikon data.

15. In the UK, there are an estimated additional 15,000 unlisted companies that use IFRS voluntarily (sources: FAME, Companies Watch, proprietary UKEB data). While these companies are within the UKEB remit, access to their information is impeded due to the private nature of their operations and lack of publicly accessible information. Therefore, for the purposes of this survey such companies will be considered only to the extent it is possible to obtain information from them in a proportionate manner. As such, we expect to elicit responses from larger unlisted companies that apply IFRS, which should help enhance the sample size and diversity.
16. Based on past experience, responses from 20-30 respondents of different sizes and industries should represent a satisfactory response rate and provide a reasonable basis for calculating average costs.

## Questionnaire

17. At its October 2022 meeting, the Board provided a number of comments on the questionnaire. An amended version of the questionnaire, addressing those comments, is attached as Appendix A. The Appendix explicitly notes where it was amended with respect to the October 2022 Board meeting version. At a high level the changes related to:
- a) Respondents are required to consider implementation costs with reference to the NSAs endorsed by the UKEB in 2022, while in the previous version costs were calculated with reference to an “average” or “typical” NSA;
  - b) Respondents are required to provide a measure of total administrative costs;
  - c) The breakdown of the magnitude of implementation costs is less granular than in the previous version; and
  - d) The questionnaire now asks more explicitly for a split between implementation costs that can be subsumed into business-as-usual costs and incremental costs.

## Questionnaire: piloting

18. At the end of November 2022, the Secretariat piloted the survey with three preparers from the UKEB Preparers Advisory Group (PAG) who provided feedback on whether: questions were meaningful in the context of their work; questions are understandable; the questionnaire flowed logically; the estimates are available/easy to compile.
19. Three preparers from the PAG provided feedback on the survey. The piloting exercise however also confirmed that the questionnaire is clear and understandable, and the questions would lead respondents to provide the information the secretariat needs. The feedback received also helped further improve the structure of the questionnaire and the language of the questions.
20. The feedback received from the piloting was incorporated in the questionnaire reported in Appendix A.

## Next steps and survey outreach

21. The survey will be sent to preparers during Q1 2023 (exact dates to be confirmed).
22. To obtain the targeted sample response rate, we expect to undertake the following activities:
  - a) Distribute the survey among:
    - i. Preparers contacted for past UKEB projects, such as the Goodwill and Impairment report;
    - ii. Members of the PAG;
    - iii. the AFIAG and ask them to promote it to preparers on their distribution lists;
    - iv. Organisations representing preparers such as the 100 Group. A representative from the 100 Group is a member of the PAG and has indicated that they would help with the distribution of the survey; and
    - v. The QCA and similarly ask them to promote it to their preparers; and
    - vi. The London Stock Exchange.
  - b) Promote the survey on the UKEB website and LinkedIn page.
23. Any help or suggestions from Board members on how to broaden the outreach are welcome.

### Questions for the Board

1. Do Board members approve the survey questionnaire and approach?

## Appendix A: Questionnaire

- A1. This Appendix contains a draft survey that incorporates Board’s comments from the October 2022 Board meeting, additional revisions from secretariat staff members, and comments received from PAG members who agreed to pilot the survey.
- A2. A draft of the questionnaire originally submitted to the Board can be found here ([Appendix 2](#)).
- A3. The questionnaire was programmed in Microsoft Forms for the purpose of piloting. As such the questionnaire has a different look and feel from the one submitted to the Board in October 2022.
- A4. Here is the detail on how the secretariat addressed the Board’s main comments:
- a) One Board member commented that it would be useful to assess implementation costs both in absolute terms (that is, money spent) and in relative terms, for example as a fraction of more general costs. This was addressed by asking respondents to indicate their selling, distribution and administrative costs in the demographics section of the survey.
  - b) One Board member commented there is no such a thing as “a typical NSA” and suggested instead to focus on their economic impact. As such, the survey now asks respondents to refer to the 2021 NSAs when considering their implementation costs. This is to avoid judgement from either the secretariat or the respondents on the impact or “size” of the NSAs, and to ensure consistency of responses and estimates.
  - c) One board member suggested that the cost breakdown was too granular. The granularity of the cost breakdown at the low end of the spectrum has been reduced to address this point.
  - d) One board member suggested to better tease out the difference between compliance “sunk costs” (that is costs that would be incurred anyway) and incremental costs (that is costs that are directly attributable to NSAs). The survey now asks respondents to explicitly break down total implementation costs into sunk and incremental costs.
- A5. A pdf of the questionnaire is reported below. A link to the questionnaire can be accessed [here](#).

# Preparers' survey - standardised cost model for narrow scope amendments

This short survey aims to collect information on adoption costs borne by IFRS preparers when implementing narrow scope amendments to existing standards published by the IASB every year ('Narrow Scope Amendments, or 'NSAs').

The UK Endorsement Board (UKEB) is the UK standard setter for IFRS, with statutory role to endorse IFRS standards in the UK. As part of its role, the UKEB needs to assess whether standards (or amendment to standards) are conducive to the UK public good; this assessment includes a cost an benefit analysis.

With this survey the UKEB aims to collect information on one-off adoption and ongoing costs related to the implementation of NSAs, their nature (i.e. external vs internal, financial reporting vs IT costs) and, when relevant, their amount.

This information will support the UKEB in developing a standardised cost model to estimate adoption costs for NSAs, thus helping the board endorse NSAs in a timely manner. Timely endorsement will in turn benefit both preparers and users of accounts.

The survey will take 10-15 minutes to complete. Please complete our survey to help us understand how your business is tackling the implementation of NSAs.

Responses will be anonymised and the data gathered utilised as supporting evidence for endorsement projects. Individual responses will not be published.\*



\*The data collected through completing this survey will be stored and processed by the UKEB. By submitting this document, you consent to the UKEB processing your data for the purposes of influencing the development of and endorsing IFRS Standards for use in the UK. For further information, please see our Privacy Statements and Notices and other Policies (e.g. Consultation Responses Policy and Data Protection Policy) on our website at [www.endorsement-board.uk](http://www.endorsement-board.uk)

\* Required

## Demographics

Could you please fill in the following information:

1. Name: \*

Email address:

2. Job title: \*

Organisation: \*

### 3. Sector of activity \*

- Consumer Discretionary
- Health Care
- Energy
- Industrials
- Technology
- Customer Staples
- Financials
- Basic Materials
- Utilities
- Telecommunication
- Real Estate
- Other

4. Annual turnover:

(£ million)

5. Total assets:

(£ million)

6. Total Selling, Distribution & Administrative costs:

(£ million)

Number of employees:

7. Could you please indicate your financial year-end? \*

Is your organisation: \*

- A company listed on the LSE - Main Market - Premium Listing
- A company listed on the LSE - Main Market - Standard Listing
- A company listed on the LSE - AIM
- An unlisted company
- Other

8. The IASB issues narrow-scope amendments (NSAs) to international accounting standards as part of its effort to maintain and improve IFRS and support their consistent application. Narrow-scope amendments address concerns about a specific aspect of a standard without causing major or significant changes in practice.

As an indication of the range and scope of NSA, below is a list of NSA issued by the IASB during 2021 and adopted by the UKEB on 13 April 2022:

- Onerous Contract: Cost of Fulfilling a Contract (Amendments to IAS 37)
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- Reference to the Conceptual Framework (Amendments to IFRS 3)

\*

Please rate the magnitude of your **implementation costs** for the NSAs identified above **in the first year of adoption** (or across any number of years in the run up to implementation):

	No cost	Negligible	Significant	Material - above the materiality threshold for your organisation
Familiarisation costs - internal	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
Familiarisation costs - External financial	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>

Material -  
above the  
materiality  
threshold  
for your  
organisation

No cost

Negligible

Significant

reporting  
advice

Data  
collection  
processes  
design costs



System  
development  
costs -  
internal



System  
development  
- purchase of  
IT hardware  
and software



System  
development  
- external  
support



	No cost	Negligible	Significant	Material - above the materiality threshold for your organisation
Data costs - to capture additional data requirements	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
Audit costs - external	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other costs	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>

9. Please estimate the monetary costs for existing employees (i.e. portion of their salary) that you incurred for each cost type that you indicated to be significant or material? \*

For example: Familiarisation costs: £9,000 External Audit: £10,000. Please report in £ units. If unavailable, please write N/A.



10. Please estimate the man-hours required to **existing employees** for **each cost type** that you indicated to be **significant or material?** \*

For example: Familiarisation costs: 20 hours External Audit: 10 hours. If unavailable, please write N/A.

11. Please estimate the **incremental** monetary costs that you incurred for **each cost type** that you indicated to be **significant or material?** \*

For example: Familiarisation costs: £9,000 External Audit: £10,000. Please report in £ units. If unavailable, please write N/A.

Please estimate the **incremental** man-hours required for **each cost type** that you indicated to be **significant or material?** \*

For example: Familiarisation costs: 20 hours External Audit: 10 hours. If unavailable, please write N/A.

12. Please rate the annual magnitude of any expected **ongoing costs** associated with the implementation of the NSAs identified above: \*

	No cost	Negligible	Significant	Material - above the materiality threshold for your organisation
Familiarisation costs - internal	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Familiarisation costs - External financial reporting advice	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Data collection processes design costs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
System development costs - internal	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

	No cost	Negligible	Significant	Material - above the materiality threshold for your organisation
System development - purchase of IT hardware and software	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
System development - external support	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Data costs - to capture additional data requirements	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Audit costs - external	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other costs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

13. Could you please indicate, if available, the **yearly** ongoing monetary costs that you expect to incur for each cost type anticipated to be **significant or material**? \*

For example: Familiarisation costs: £3,000 External Audit: £5,000. Please report in £ units. If unavailable, please write N/A.

Could you please indicate, for **how many years** do you expect ongoing costs to last, for each cost type anticipated to be **significant or material**? \*

For example: Familiarisation costs: 3 years. External Audit: 5 years. If unavailable, please write N/A.

Estimated benefits

14. Consider once more the NSAs endorsed by the UKEB in 2022:

- Onerous Contract: Cost of Fulfilling a Contract (Amendments to IAS 37)
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- Reference to the Conceptual Framework (Amendments to IFRS 3)

Could you please indicate whether your company has receive/will receive any of the below benefits as a result of adoption? \*

(Select all that apply)

- Enhanced transparency/comparability with other companies
- More useful information for users
- The standard more closely aligns to the underlying economics
- Ability of using UK-adopted IFRS as similar to IFR

15. Do you consent to being contacted to discuss your responses to this survey? \*

Yes

No

16. Do you consent to being contacted by the UKEB for additional projects in the future? \*

Yes

No

17. Please indicate whether there's anything else you would like to add:

End of survey