

Economic impact assessment of narrow-scope amendments – proposed approach

Executive Summary

Project Type	Economic assessment of endorsement projects
Project Scope	N/A
Purpose of the paper	
<p>This paper sets out the:</p> <ul style="list-style-type: none"> • strategy for undertaking the economic impact assessment of narrow-scope amendments and annual improvements (NSAs); • the approach to measuring the adoption costs for those projects; • a draft survey for the estimation of NSAs implementation costs 	
Summary of the Issue	
<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' required to undertake impact assessments in accordance with the Better Regulation Framework. The board noted however that the UKEB would benefit in aligning itself with this model. At the April 2022 Board Meeting the Secretariat proposed an approach for conducting impact assessments for Narrow Scope Amendments (NSAs) that was broadly in line with the Better Regulation Framework. The proposed strategy was discussed by the Board, including the scale of how impact assessment would be undertaken. The Board agreed to a bespoke approach for significant endorsement projects and a standardised approach for NSA projects. This document seeks the Board's final approval on the proposed strategy and approach.</p>	
Decisions for the Board	
<p>Board members are asked whether they agree with:</p> <ol style="list-style-type: none"> 1. the proposed strategy; and 2. the proposed approach, specifically the survey for preparers (see paragraph 28 and Appendix 2). 	
Recommendation	
<p>We recommend that the Board approve the proposed strategy and approach.</p>	
Appendices	
Appendix 1	Contents of the economic impact assessment
Appendix 2	Standardised direct adoption cost quantitative model and preparers' survey
Appendix 3	Economic impact assessment of NSAs – template
Appendix 4	Differences between the bespoke and the standardised approach

Introduction

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).¹
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 regulators², 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 its 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 for significant projects, it should broadly follow the BRF. In addition, further detailed discussions were undertaken by the Board on its approach to economic impact assessment in relation to significant endorsement projects during its work on the endorsement of IFRS 17 *Insurance Contracts*.
6. During the discussion at the September 2021 Board meeting, the Secretariat had also undertaken to conduct further work and bring forward a paper that proposed how best to tailor that BRF approach to the peculiar features of the UKEB's endorsement projects. This paper presents the results of that work.

Proposed Strategy for economic impact assessment

7. This section sets out the proposed strategy to ensure that the economic impact assessment on endorsement projects undertaken by the UKEB broadly adheres to the BRF.
8. In line with the Secretariat's recommendations at the Board's September 2021 meeting, at a strategic level we continue to believe that the UKEB would benefit

¹ Section 24A of the Small Business, Enterprise and Employment Act 2015 (SBE Act), requires Relevant Regulators to publish a list of their "qualifying regulatory provisions" (QRPs), an impact assessment on business of those QRPs and a summary of regulatory provisions that are not QRPs ("NQRPs"). In carrying out impact assessments, Relevant Regulators are required to adhere to the Regulatory Impact Assessment (RIA) guidelines contained in the Better Regulation Framework (BRF) and the HM Treasury Green Book. The Green Book contains guidance on how to appraise policies, programmes and projects.

² The list of regulators currently bound by BRF include the FRC and the FCA.

from broadly following the BRF when undertaking impact assessment for endorsement projects as it would help ensure a balance between adhering to the highest standard and the efficient and effective deployment of resources.³ Following the BRF will ensure the UKEB would:

- Benefit from the guidance contained in the BRF.
- Streamline the economic impact assessment of endorsement projects.
- Be ready if the BRF become binding for the UKEB in future.

9. Therefore, we propose the following approach to the different types of UKEB endorsement and adoption projects⁴:

- A bespoke approach is applied for significant endorsement projects; and
- A standardised approach is applied to narrow-scope endorsement projects.

10. However, to deciding the approach to be taken requires an upfront triage exercise to ascertain the costs. So, the following sections first cover how the initial assessment of cost to business and then provides more details on the proposed bespoke and standardised approaches.

Initial assessment of adoption costs

11. The BRF prescribes that interventions with an estimated cost to business lower than £5 million should be subject to a light-touch approach.⁵ We believe that most narrow scope amendment (NSA) issued by the IASB and to be adopted by the UKEB would fall within this category, however this needs to be ascertained. We therefore propose to firstly, to test the assumption that the NSA being assessed leads to an estimated net cost to business that is below the threshold. We propose that the economic impact assessment for all NSA should start with a high-level initial estimate of the adoption costs.

12. In principle the assessment should be quantitative in nature, but a qualitative assessment is possible if deemed proportionate. In line with the BRF, the assessment should be evidence-based.

13. If the cost to business is estimated to be below the £5 million threshold set out in government regulation, the approach set out in paragraphs 18-20 below applies to the endorsement project. Otherwise, the approach described in paragraphs 15–17 below applies.

³ As highlighted at the September 2021 Board meeting, in the eventuality that the UKEB will be included in the list of relevant regulators, it will need to fully comply with government requirements.

⁴ Guidelines on impact assessments from other government bodies included in the list of relevant regulators (namely, the Financial Conduct Authority and the Financial Reporting Council) were also considered when developing our proposals.

⁵ The BRF sets out a threshold to discriminate between interventions that should be subject to a mandatory full scale regulatory impact assessment and interventions with a smaller impact, subject to a lighter-touch approach. The BRF mandates that interventions with an “equivalent annual net direct cost to business (EANDCB)” greater than ±£5 million should follow the regulatory impact assessment procedure set out in the BRF itself, while interventions with an EANDCB lower than ±£5 million are subject instead to a self-certified proportionate impact assessment (the “de minimis” guidance). See Section 2.4 in the Better Regulation Framework.

14. When feasible, the preliminary assessment should be included in the Project Initiation Plan (PIP) of the endorsement project.

Bespoke approach for significant endorsement projects

15. In line with BRF, the economic impact assessments for significant endorsement projects (usually when a new accounting standard is published by the IASB) would normally be expected to be bespoke exercises that reflect the specific changes brought about by the standard being considered for adoption and the likely impact on the entities within scope. In addition, any NSA that are deemed to be above the £5 million threshold at the initial assessment of costs stage will also follow the bespoke approach.
16. Such economic impact assessment, which is conducted as part of the Draft Endorsement Criteria Assessment, would explicitly consider and broadly adhere to the guidance contained in the BRF. BEIS may be consulted for added guidance. The analyses would be published for stakeholder consultation. We think this approach is broadly akin to the full impact assessment approach under the BRF.
17. We have already deployed this approach when undertaking the economic impact assessment for the endorsement of IFRS 17 and is included in the [Draft] Endorsement Criteria Assessment published in November for stakeholder consultation.

Standardised approach for narrow-scope endorsement projects

18. However, every year the IASB also publish some annual improvements as well as a range of narrow-scope amendments to existing standards.⁶ For example, three narrow-scope amendments were published in 2021. These types of amendments typically have limited economic impact.
19. The Secretariat considers that a proportionate approach to the economic impact assessment for such amendments 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.
20. A table outlining the main differences between the two approaches is included in Appendix 4.

Questions for the board:
21. Does the board agree with the strategy of deploying a standardised approach to the economic impact assessment for NSAs?

⁶ For simplicity, throughout the document we will collectively refer to the annual improvements and narrow-scope amendments as NSAs.

Economic impact assessment for NSAs: proposed standardised approach

22. We think that the standardised approach to the NSA economic impact assessment should be broadly akin to the de-minimis impact assessment approach under the BRF.
23. Once ascertained that cost to business is likely to be below the £5 million threshold (as per paragraphs 10-13 above), the following broad approach should be followed:
 - To then address a **high-level list of matters** (see paragraphs 23-24 for the list and further details on the individual items in Appendix 1).
 - To develop and use a **standardised cost model** to efficiently develop the economic impact assessment for NSAs. See paragraph 25 for more details on the standardised cost model.
24. Finally, a template for the economic assessment of NSAs incorporating the above information will be completed and presented to the UKEB to enable self-certification that the economic impact assessment is conducted in line with the agreed approach. Details on the template are contained in paragraphs 26-27.

Questions for the board:
25. Does the board agree with the proposed approach to economic impact assessment set out above?

List of matters for the NSA economic impact assessment

26. The economic impact assessment is performed as part of the [D]ECA for the NSA. The contents of the impact assessment and the depth of the analyses involved would be proportional to the estimated economic impact of the NSA. Referring to the RPC Proportionality Guidance, the economic impact assessment for NSAs should include:
 - (a) A clear description of the NSAs, including the timeline of adoption.
 - (b) A description of the businesses likely to be impacted and of the expected impact (referred to in this paper as the scope of the standard).
 - (c) A qualitative description of the likely direct costs and benefits of the standard for stakeholders.
 - (d) A best estimate of the monetised direct costs of adoption. As a general rule this should be performed using the standardised cost model described in paragraph 25. In the exceptional circumstance, where an NSA estimated to have a more sizable cost to business (though still below the £5 million threshold) and/or characterised by a higher degree of complexity, the assessment of costs and benefits may instead be performed using a bespoke analysis (described in Appendix I, paragraph 25).

- (e) A best estimate of the direct benefits of adoption, with a monetised impact if available and/or feasible to estimate.⁷
- (f) A qualitative description of the indirect costs and benefits, with a monetised impact if available and/or proportionate to estimate.
- (g) A proportionate evaluation of whether the NSA is likely to have an adverse effect on the UK economy. Proportionality will be assessed against the complexity and the broadness of economic consequences related to the NSA on a case-by-case basis.

27. More detail on the contents listed in paragraph 24 are described in Appendix 1.

Standardised cost model

28. The standardised cost model is the proposed framework for estimating the costs of implementing NSAs without recourse to project-by-project stakeholder engagement. It is designed to streamline, standardise, and facilitate the assessment of direct implementation costs for NSAs. Costs will be estimated by means of one-off engagements with 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. To develop the model, we will follow the following process:

- **Quantitative model:** as a first step, we propose that direct implementation costs follow a generalised quantitative model, consistently with the approach adopted for the endorsement of IFRS 17. Further details on the proposed model are included in Appendix 2.
- **Survey outreach:** Based on previous experience conducting surveys to estimate implementation costs, the Secretariat has created a questionnaire to gather data about implementation costs to estimate the model. A draft survey questionnaire is included in Appendix 2. The questionnaire would be sent to preparers of account every three to five years. Pending the Board's approval, we will start conducting the first round of the survey during Q4 2022, and to complete the survey half-way through Q1 2023. We aim to estimate costs separately for large, medium and small listed firms, identified using market capitalisation thresholds. The survey will be piloted with a selected sample of friendly stakeholders. We aim to collect the survey from a large enough sample to cover the three size segments identified above and a diverse enough to cover different industries/sectors and as well as some large unlisted companies. We are however unlikely to achieve statistical representativeness. Therefore, the appropriateness of the sample will also entail qualitative considerations (such as achieving a diversity of sizes and industries).
- **Application and subsequent rounds:** The estimated model is used to assess direct implementation costs for NSAs without relying on project-by-project

⁷ The RPC caveats that a quantitative estimate should always be the preferred solution, with a qualitative estimate being more of a "last resort" solution. While we agree in principle, we do have to acknowledge that, in our context, a monetary estimate for benefits would be typically very difficult to obtain ex ante.

stakeholder engagement for most NSAs. Under the assumptions that estimates of additional hours spent on the implementation of NSAs would likely remain constant over time, we aim to update the survey results every three to five years. Monetary values (such as the average hourly rate) would instead be updated yearly by adjusting the estimates for inflation.

Questions for the board:

29. Does the board agree with the proposed approach to estimate the standardised cost model?

NSA impact assessment template

30. We propose that a NSA impact assessment template be submitted to the board together with the DECA as part of standard procedures on NSA adoption work for the Secretariat. The purpose of the template is twofold:
- To assist the Secretariat in performing the economic impact assessment in line with this guidance.
 - To summarise evidence collected and the main conclusions arising from the economic impact assessment for reporting to the Board, in line with the self-certification process under the BRF.
31. A copy of a blank NSA impact assessment template can be found in Appendix 3.

Questions for the board:

32. Does the board have any comments on the template (Appendix 3)?

Next Steps

33. If the Board approved the strategy and approach set out in this paper, we will bring a paper to the public meeting to commence the process for developing the standardised cost model described above.

Appendix I: Contents of the economic impact assessment

1. This appendix describes more in detail how to develop the contents of the economic impact assessment listed in paragraph 23 of the main document.
2. The contents indicated in the sections below are meant to be the most exhaustive possible but can be pared down for NSAs deemed to have a small impact (for example, annual improvements associated with only cosmetic changes to a standard) following the principle of proportionality.

Description of the standard

3. A description of the standard should be included as part of the economic impact assessment. A clear reference to the adoption timeline should be included.

Scope of the standard

4. The impact assessment should include a description of the businesses (and/or industries) affected. Identifying the scope of the standard is necessary to:
 - estimate costs and benefits of adoption.
 - identify sources of evidence that might be needed for the assessment.
5. The analysis of the scope of the standard should be brief and contain basic information such as:
 - The affected sector(s).
 - An estimate of the number of companies affected.
 - A monetary estimate of the aggregate size of the entities affected (ideally based on easy-to-find figures such as revenues or market capitalization).
6. An NSA might apply to all IFRS-reporting entities. In that case, we would refer to the standardised information on the population of IFRS-adopting entities in the UK collected and regularly updated by the UKEB.

Cost and benefit analysis (CBA)

7. The cost-benefit analysis (CBA) is a structured procedure to assess the costs and benefits arising from the adoption of an accounting standard for both preparers and users of financial accounts. It describes and, when possible, quantifies the likely direct monetary impacts of the adoption of a standard.¹

¹ This definition borrows from the definition adopted by the Financial Conduct Authority (FCA), as laid out in their 2018 document "How we analyse the costs and benefits of our policies". See: <https://www.fca.org.uk/publication/corporate/how-analyse-costs-benefits-policies.pdf>

8. In accordance with the SI, the secretariat is required to conduct a CBA as part of the endorsement process. However, as per the letter of the SI, the CBA does not need to demonstrate that the benefits of adoption exceed its costs, but simply to consider and assess both within the context of the adoption process.²
9. As mentioned, for most NSA endorsement projects direct adoption costs would be estimated using the standardised cost model (paragraph 5 of the board paper). A non-standardised procedure to estimate direct adoption costs is described below (paragraph 25) and applies to exceptional NSA endorsement projects characterised by higher impacts (though still below £5 million) and/or a higher degree of complexity. The Secretariat will discretionally choose whether the application of a bespoke procedure is proportionate.
10. Paragraphs 11–24 contain general principles that apply to a proportionate estimation of costs and benefits in line with the BRF regardless of the methodology used to estimate them.

Costs and benefits to be included in the analysis

Counterfactual

11. In line with government regulation, costs and benefits should be evaluated against the counterfactual.
12. The counterfactual, or business as usual (BaU) in the language of the Green Book, “is defined as the continuation of current arrangements, as if the proposal under consideration were not to be implemented...The purpose [of identifying one] is to provide a quantitative benchmark, as the “counterfactual” against which all proposals for change will be compared.”³
13. In other words, the counterfactual represents “what would have happened in absence of the intervention”⁴, and should serve as a baseline comparison against which to compare incremental costs and benefits linked to the adoption of the standard.
14. It would be wrong to think of the counterfactual as a do-nothing, static situation to benchmark against. Depending on the outcome of interest, the counterfactual should be considered in a dynamic state, taking into account upward and downward trends that would have taken place even if the standard were not adopted, and explicitly considering the consequences of non-adoption in a global environment where other jurisdictions may adopt instead.⁵

² The FCA is subject to similar rules, as imposed by the Financial Services and Markets Act (2000), s.3B(1)(b).

³ HM Treasury (2020), The Green Book: central government guidance on appraisal and evaluation, page 25:
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/938046/The_Green_Book_2020.pdf

⁴ FCA (2018), “How we analyse the costs and benefits of our policies”, table 1, page 10. See <https://www.fca.org.uk/publication/corporate/how-analyse-costs-benefits-policies.pdf>

⁵ For example, consider a standard that requires considerable investment in accounting systems for companies to be compliant. If companies were already modernizing their accounting systems regardless

Costs

15. The following costs should be included in the analysis.
16. **Direct (compliance) costs:** the costs incurred as a direct result of meeting the requirements of the standard (or amendment to it). They are the incremental changes that firms would not have undertaken in the absence of the standard.⁶
17. An assessment of compliance costs:
 - should be “incremental”, that is carried out against the counterfactual (see paragraphs 11-14 above).
 - should be performed for both preparers and users, though most compliance costs are expected to be borne by preparers.
 - should be split into one-off implementation and ongoing costs.
18. **Indirect costs:** i.e. the short to medium term costs incurred as an indirect result of meeting the requirements of the standard. Given the small scale of the projects these are expected to be negligible. Indirect costs are monetised only when possible and proportionate, and otherwise estimated using qualitative evidence.
19. **Sunk costs:** in economics, sunk costs are cost that have already been incurred, cannot be recovered, and therefore should not matter for future decision-making. According to the Green Book, “expenditure or payments already incurred should be excluded from the appraisal of social value. What matters are costs and benefits affected by decisions still to be made.” Crucial to the estimation of sunk costs is the determination of a date prior to which costs are considered as “sunk”, i.e. not affected by the endorsement decision to be made. While we don’t expect sunk costs to be particularly relevant for NSAs, we consider the possibility that some sunk costs may be excluded from the cost and benefits assessment.
20. We don’t believe that other costs should be considered, as NSAs are expected to have a minor impact on UK business. Should the evaluation of additional costs become necessary after an initial assessment, we will refer to the BRF for further guidance.
21. Avoided direct costs should be netted off incremental direct cost rather than included as a benefit.
22. While in standard setting costs are by and large borne by preparers, we will consider direct and indirect costs borne by other stakeholder categories in our analyses.

of the adoption of the standard, it would be wrong to include all the money spent on systems improvement in the cost of compliance. The cost of compliance should instead include only the incremental cost attributable to the standard, that is, the total cost net of what the firm would have spent anyway if the standard did not exist or were not endorsed.

⁶ This definition borrows from the one contained in FCA (2018), “How we analyse the costs and benefits of our policies”, page 22. See <https://www.fca.org.uk/publication/corporate/how-analyse-costs-benefits-policies.pdf>

Benefits

23. **Direct benefits** the aim of an accounting standard is generally to improve the quality of financial reporting for the direct benefit of users of accounts. As such, we expect users to reap most direct benefits of NSAs, though we can't exclude the existence of direct benefits for preparers or other stakeholders (which would be assessed case by case).
24. An assessment of direct benefits:
 - should be "incremental", that is carried out against the counterfactual.
 - should be performed for both preparers and users, though most direct benefits are expected to be enjoyed by users.
 - should be monetized, when possible and proportionate.
25. **Indirect benefits:** i.e. the short to medium-term benefits incurred as an indirect result of meeting the requirements of the NSA. Most benefits for preparers would most likely fall under this categorization, and as consequence a qualitative discussion of indirect long-term benefits for preparers might be included in the assessment.
26. Considerations about other types of benefits might also be included into the economic assessment. If that appears to be necessary, we will refer to the BRF for further guidance.

Bespoke cost assessment

27. For NSAs with a larger impact (though still within the £5 million threshold) and/or a higher degree of complexity a bespoke assessment based on project-specific stakeholder engagement may be performed. The collection of evidence should follow the principle of proportionality.

Assessment of whether the NSA has an adverse effect on the UK economy

28. The SI requires the UKEB to perform an assessment of whether the standard is likely to have an adverse effect on the UK economy, including on economic growth.
29. Resources dedicated to the economic assessment should be in principle proportionate to the small-scale of the projects under consideration here. However, we anticipate that some NSA with an estimated low impact on businesses may nonetheless have broader economic effects that deserve deeper analyses. The level of complexity of the analyses will be assessed on a case-by-case basis. As a general rule, a proportionate approach would:
 - Be based on the analysis of relevant technical and academic literature, focusing in particular on impact assessments on the same NSAs performed by other standard setters (such as EFRAG), reports by large accounting firms, reports by national regulator, and any relevant economic/academic studies.

- Rely on UKEB's expertise in the performance of endorsement projects, and in particular focus on economic impacts identified in previous endorsement projects and likely to be broadly applicable to other standards, such as:
 - 1.a.1. Likely effects on the cost of capital and capital formation.
 - 1.a.2. Likely effect on competition.
 - 1.a.3. Likely effects on product offering and pricing.
 - 1.a.4. Likely effects on financial stability.
 - 1.a.5. Likely effects on economic growth (following the SI).
- Use simple statistics based on external data sources and utilise qualitative arguments based on economic reasoning to demonstrate the non-adverse effects on the UK economy.
- Rely on stakeholder engagement for arguments that would require it. For the sake of proportionality, stakeholder engagement should be kept to a minimum.
- Complex quantitative analyses (e.g. econometric models) should in principle be avoided and performed only whether strictly necessary, and as a last resort should evidence from stakeholder engagement and external sources not be enough to demonstrate an argument.

Appendix 2 – Standardised direct adoption cost quantitative model and preparers' survey

1. Based on the secretariat's own experience in estimating adoption costs for endorsement projects as well as other standard setters' work, we model implementation costs as follows:

Direct one-off costs = Accounting costs + IT system costs + Governance costs
Direct one-off implementations costs are understood as the sum of:

- **Accounting costs:** these can be internal or external. Internal costs refer to the one-off incremental costs of familiarising with the NSA and designing data collection and other internal processes. External costs refer to the one-off incremental costs of obtaining external audit and advice;
- **IT system costs:** these can be internal or external. Internal costs refer to the one-off incremental costs of updating the accounting systems and/or acquiring additional data. External costs refer to the one-off incremental costs of obtaining advice and purchasing software and IT;
- **Governance costs:** these are internal only and refer to the one-off incremental costs of approving internal system changes;

Expected direct ongoing costs = Ongoing compliance costs

Expected direct ongoing costs are understood as:

- **Ongoing compliance costs:** any incremental costs that the preparer anticipates having to bear on an annual basis for a given number of years, including any potential recurring costs among the one-off implementation costs.
2. Costs should be incremental, that is considered with reference to the counterfactual, an estimate of what costs would be absent the NSA. The approach to the counterfactual is described in more detail in Appendix 1, paragraphs 11-14.
 3. Costs are considered and assessed in terms of additional hours of staff or external time staff time the preparer needs to implement the NSA
 4. We consider most of the above costs to be minor (i.e. subsumed to the business as usual situation) or negligible (higher than in the business as usual situation though very small) in most cases, though we consider the possibility that these costs might be significant (not very small but below the materiality threshold) or material (above the materiality threshold).
 5. A short section of the questionnaire will focus on benefits for preparers.
 6. Based on this model, the secretariat has drafted a questionnaire to be submitted to preparers during Q4 2022 to estimate standardised costs that would be representative of the average preparer.

7. To make sure that the UKEB will collect as numerous a sample as possible, the secretariat will:
 - disseminate the survey the growing number of preparers as well as relevant organisations (such as the 100 Group)the Secretariat regularly engages with
 - rely on the advice and contacts of the Preparers' Advisory Group
 - Disseminate the survey on professional social media, such as LinkedIn
8. A draft survey is reported below. The survey will be circulated using a survey tool that the secretariat is in the process of purchasing at the time of writing. As a consequence its look and feel may be different, though its content will be maintained:

Estimation of direct adoption costs for narrow-scope amendments – survey tool

Cover Letter

Dear preparer,

This short survey aims to collect information on adoption costs borne by IFRS preparers when implementing annual improvements and narrow-scope amendments to existing standards published by the IASB every year (and herein referred to as Narrow-scope Amendments, NSAs, for simplicity).

Our aim is 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.

The survey should take 10-15 minutes to complete and should in principle be responded to by [ROLE In the organisation]. Please direct the survey to a relevant person within your organisation if you feel that you wouldn't be the best person to respond.

The data collected through completing this survey will be stored and processed by the UKEB. By completing this survey, you consent to the UKEB processing your data. For further information, please see our Stakeholder Engagement Privacy Notice and Freedom of Information Policy.

Responses to this survey will be aggregated with input from other responses and sources.

The deadline for completing the survey is DATE.

Should you have any questions on the survey and the work we are conducting on narrow-scope amendments, please don't hesitate to contact us at email@email.com

We thank you in advance for your contribution and we look forward to receiving your response.

Kindest regards,

Stefano Alderighi
Project Director – Economics Team Leader

Part A: Your details

1. Your details:

Name	<i>Click or tap here to enter text.</i>
Email address	<i>Click or tap here to enter text.</i>
Organisation	<i>Click or tap here to enter text.</i>
Job title	

2. Is your organisation (please select the appropriate box):

A UK listed company	<input checked="" type="checkbox"/>
An AIM company	<input type="checkbox"/>
An unlisted company	<input type="checkbox"/>

3. Please could you provide the following information:

Financial year	
Annual turnover	
Number of employees	
Sector of activity	

4. Do you consent to being contacted to discuss your response to this survey? Yes/no
5. Do you consent to being contacted by the UKEB for additional surveys and/or projects in the future? Yes/no

Part B: Incremental costs of implementing the NSAs

The IASB issues narrow-scope amendments (NSAs) to international accounting standards as part of its continuous effort to maintain and improve IFRS and to support their consistent application. Proposals for amendments often arise from questions submitted to the IFRS Interpretations Committee.

The following table contains a list of the NSAs issued by the IASB over the past **three** years:

[TABLE ABOUT HERE – DD to prepare]

6. Considering the implementation of a typical or average NSA, please rate the magnitude of the below incremental implementation costs on the first year of adoption:

(Incremental: additional costs considered with respect to the business-as-usual situation, i.e. in addition to the normal costs the firm would have incurred anyways in case the NSA wasn't implemented. Avoided direct costs should be netted off incremental direct cost rather than included as a benefit.)

Types of costs	Scale				
	No cost	Negligible – likely to be subsumed into BaU work	Minor – some additional work required	Significant – non-negligible but less than the level of materiality for your firm	Material – over the level of materiality for your firm
Internal					
Accounting					
(a) Familiarisation - understanding the requirements of the NSA	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b) Design - of data collection process and additional disclosures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
IT system					
(c) Data - to capture additional data required	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(d) System development – to update the accounting system itself	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Governance					
(e) Governance - approval of systems changes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
External					
Accounting					
(f) External audit - of changes due to the NSA and additional disclosures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(g) External financial reporting advice	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
IT system					
(h) External IT system advice - of changes due to the NSA and additional disclosures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(i) Purchase of IT hardware and software	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other costs – internal or external					
(j) Other costs - please specify (in comments box below)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other costs:					

7. Please indicate which NSA(s) you referred to when considering those costs.
8. Please indicate the materiality threshold at your organization.

For all costs indicated to be significant or material the respondent will see the following questions:

9. With reference to [significant or material cost], please indicate how that cost is broken into in terms of worked hours:

Level	Number of people	Hours worked	Average hourly wage in £
Junior			
Mid-senior			
Senior			
Director/executive			

10. Have [significant or material cost] been recurring? Yes/No

For all costs indicated to be significant or material and recurring the respondent will see the following questions

11. Please indicate the annual amount of these recurring costs
12. Please indicate for how many years you believe these costs are on average carried forward:

For all respondents:

13. Have you faced any other significant/material ongoing costs during the years because of the implementation of the NSA?

For all respondents who answer yes to 14

14. Please indicate the annual amount of these ongoing costs
15. Please indicate for how many years you believe these costs are on average carried forward:

Part C: Incremental benefits of implementing the NSAs

16. Considering the implementation of a typical or average NSA, please indicate whether your company on average has reaped any of the below incremental benefits:

(Select all that apply)

- Ability to use the NSA in case the accounting would be meaningless or not reflecting the underlying economics in its absence
- Ability of using UK-adopted IFRS as similar to IFRS as issued by the IASB
- Enhanced transparency/comparability with other companies' accounts nationally

- Enhanced transparency/comparability with other companies' accounts internationally
- Other benefits (please specify)

Part D: End of the survey

17. Please indicate if you have any other comments

Thank you! [End of survey page]

Appendix 3 – Economic impact assessment of NSAs – template

Narrow-scope amendment: [NAME of the amendment]
Estimated date of adoption: [INSERT DATE]
Date after which NSA is effective: [INSERT DATE]
Estimate for the direct cost to business included in the PIP: £ [INSERT amount]
Methodology and parameters used for the direct cost to business calculation: [Insert]

Economic impact assessment checklist:

1. A clear description of the NSAs	Description:
Evidence provided and conclusions reached:	Corresponding section in the [D]ECA:
2. A description of the businesses likely to be impacted and how (scope)	Description:
Evidence provided and conclusions reached:	Corresponding section in the [D]ECA:
3. A qualitative description of the likely direct costs and benefits of the standard for stakeholders	Description:
Evidence provided and conclusions reached:	Corresponding section in the [D]ECA:
4. A best estimate of the monetised direct costs of adoption.	Description:
Evidence provided and conclusions reached:	Corresponding section in the [D]ECA:
Standardised cost model used:	
5. A best estimate of the direct benefits of adoption, with a monetized impact if available and/or feasible to estimate	Description:
Evidence provided and conclusions reached:	Corresponding section in the [D]ECA:
6. A qualitative description of the indirect costs and benefits, with a monetized impact if available and/or feasible to estimate	Description:
Evidence provided and conclusions reached:	Corresponding section in the [D]ECA:

7. A proportional economic evaluation of whether the NSAs has a potential adverse effect on the UK economy	Description:
Evidence provided and conclusions reached:	Corresponding section in the [D]ECA:

Appendix 4 – Differences between the bespoke and the standardised approach

A clear description of the Standard/NSAs	
<p>Bespoke approach (regular standard):</p> <p>The description of a standard is likely to be relatively long and detailed in accordance with the degree of complexity associated with a new standard.</p>	<p>Standardised approach (NSA):</p> <p>The description is likely to be relatively short given the narrow scope of the amendments, particularly so for annual improvements, which typically entail only cosmetic changes.</p>
A description of the businesses likely to be impacted and how (scope)	
<p>Bespoke approach (regular standard):</p> <p>The description would typically be detailed and contain estimates of the total size of the entities likely to be impacted (such as revenues, or market capitalisation), estimates of market concentration and examples of subsets of business categories that are likely to be affected differently by the standard, if applicable.</p>	<p>Standardised approach (NSA):</p> <p>The description would contain a proportionate level of detailed with estimates of the total size of the entities likely to be impacted only when appropriate (such as revenues, or market capitalisation) and depending on the nature of the NSA. Subsets of business categories that are likely to be affected differently by the NSA may be included if relevant and proportionate but not as a general rule.</p>
A qualitative description of the likely direct costs and benefits of the standard/NSA	
<p>Bespoke approach (regular standard):</p> <p>Consistently with the high degree of complexity that a new standard entails, the description is likely to be detailed, with clear indication of the different types of costs and benefits likely to be involved.</p>	<p>Standardised approach (NSA):</p> <p>Consistently with the low degree of complexity that a NSA entails, the description is likely to be high-level.</p>
A best estimate of the monetised direct costs of adoption.	
<p>Bespoke approach (regular standard):</p> <p>The adoption cost estimate would be based on based on ad hoc stakeholder engagement, likely to entail a survey/questionnaire.</p>	<p>Standardised approach (NSA):</p> <p>The adoption cost estimate would be based on based on the standardised cost and benefits model.</p>

A best estimate of the direct benefits of adoption, with a monetized impact if available and/or feasible to estimate	
<p>Bespoke approach (regular standard):</p> <p>The estimation or description of benefits would be based on based on ad hoc stakeholder engagement, likely to entail a survey/questionnaire.</p>	<p>Standardised approach (NSA):</p> <p>The estimation or description of benefits would be based on based on the standardised cost and benefits model.</p>
A description of the indirect costs and benefits, with a monetized impact if available and/or feasible to estimate	
<p>Bespoke approach (regular standard):</p> <p>The estimation or description of indirect costs and benefits would be based on based on ad hoc stakeholder engagement, likely to entail a survey/questionnaire.</p>	<p>Standardised approach (NSA):</p> <p>The estimation or description of indirect costs and benefits would be largely descriptive and high-level.</p>
A proportional economic evaluation of whether the NSAs has a potential adverse effect on the UK economy	
<p>Bespoke approach (regular standard):</p> <p>The economic valuation is likely to be very detailed, with a discussions on a wide range of economic consequences, and evidence collected through:</p> <ul style="list-style-type: none"> • Desk-based research • Stakeholder engagement • Quantitative estimates, including econometric models where appropriate 	<p>Standardised approach (NSA):</p> <p>The estimation or description of indirect costs and benefits would be largely descriptive and high-level. More involved economic analyses could be performed for NSAs that entail broader economic consequences, though these would in any event be proportionate to the narrow-scope nature of the amendment.</p>