UKEB
UK Endorsement Board

Cost and benefits assessment of accounting standards

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Prevalence of IFRS in the UK

Estimated number of IFRS reporters in the UK

Approx. 1,400 listed entities[1] → Mandatory application

Approx. 11,000 unlisted entities[2] → Voluntary application

Estimates as of July 2025

[1] Source: UKEB estimates based on London Stock Exchange Group (LSEG) and Eikon data, July 2025. This calculation includes companies listed on the Main market and on the Alternative Investment Market (AIM).
[2] Source: HMRC estimates based on annual report filings.

UKEB statutory functions

Statutory powers given to the UKEB by the Department of Business and Trade (DBT)

Statutory functions set out in Statutory Instrument 2019/685

Influence the development of international accounting standards

Adopt international accounting standards for use in the UK

UKEB reports annually to DBT Secretary of State on technical work

UKEB adoption criteria

When a standard or amendment is issued by the IASB, to adopt it for use in the UK, the UKEB must assess whether it meets the following criteria:

1. Standard is not contrary to the principle that the accounts must give a **true and fair view**
2. Standard meets the **technical accounting criteria** of understandability, relevance, reliability and comparability
3. The use of the standard is likely to be conducive to the **long term public good (LTPG)** in the UK

LTPG assessment: regulatory requirements

The long term public good assessment is comprised of a further technical analysis and an assessment of economic effects

1. Whether use of the standard is **likely** to **improve the quality of financial reporting**
2. **Likely costs and benefits** from the use of the standard
3. Whether use of the standard is likely to have an **adverse effect on the UK economy**

Focus of today's presentation

LTPG assessment: UKEB work

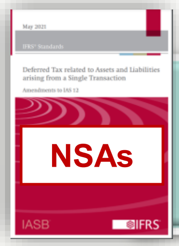
The UKEB embeds LTPG considerations in all its project types

Research, e.g. intangibles

Influencing, e.g. RRA

Endorsement, e.g. IFRS 18

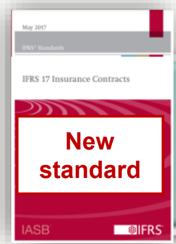
LTPG assessment: proportionality



Smaller project

Narrow-scope amendment

1. Proportionate desk-based research
2. Public consultation
3. Proportionate stakeholder engagement
    a) Advisory groups
    b) Structured Interviews (ad-hoc)
4. Simple data analysis



Major project

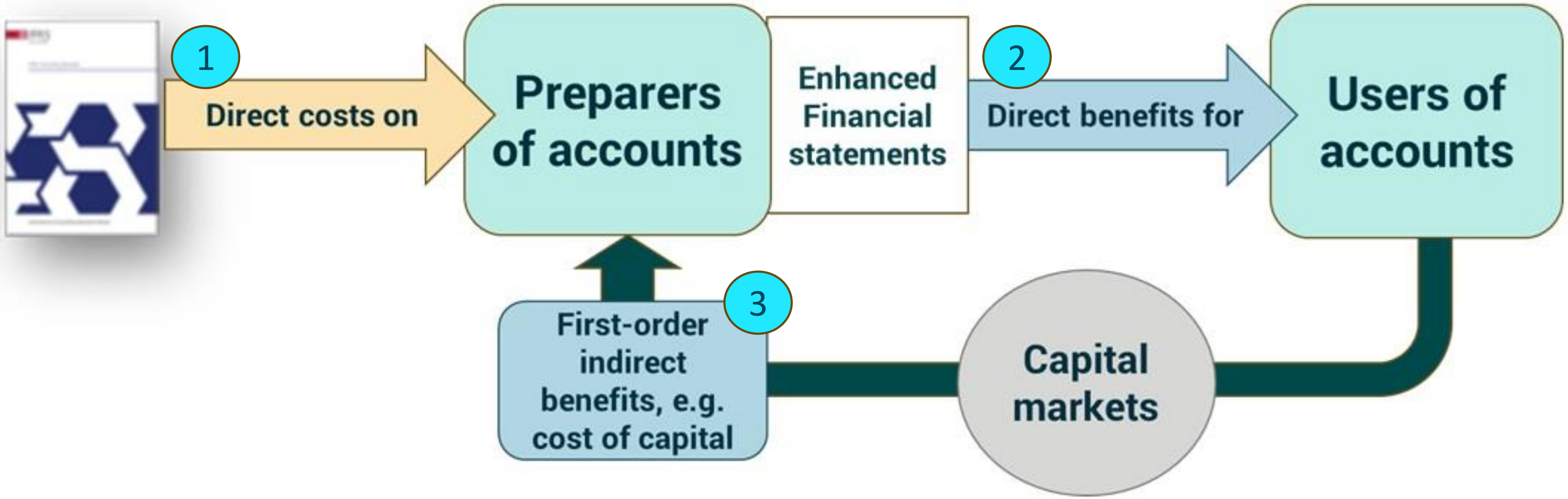
Full standard

1. Comprehensive desk-based research
2. Public consultation
3. Extensive stakeholder engagement
    a) Advisory groups
    b) Structured Interviews
    c) Surveys
    d) Other (e.g. roundtable)

May entail:

1. External economic study
2. Complex data analysis
3. Ad-hoc technical advisory group
4. Webinar/webcast
5. Field testing

UKEB approach to costs and benefits assessment



Assessment of direct costs : UKEB questionnaire

- The UKEB developed a standardised questionnaire to assess implementation costs
- Survey questions are based on academic literature and industry expertise
- **Direct (compliance) costs** - preparers are asked about costs incurred as a direct result of meeting the requirements of the standard
- Costs are both monetary and opportunity costs
- The table displays the cost categories investigated through the survey

Questions focused on…	Incremental one-off	Incremental ongoing
Familiarisation	✓	⊗
Changes to data handling processes and controls	✓	✓
Accounts preparation	✓	✓
Accounting system changes	✓	✓
Communication with third parties	✓	✓
Audit (internal and external)	✓	✓
Legal (internal and external)	✓	✓
Other	✓	✓

References: Meeks and Meeks (2002); Schipper (2010); IFAC (2010); HMRC (2022); BIS (2010)

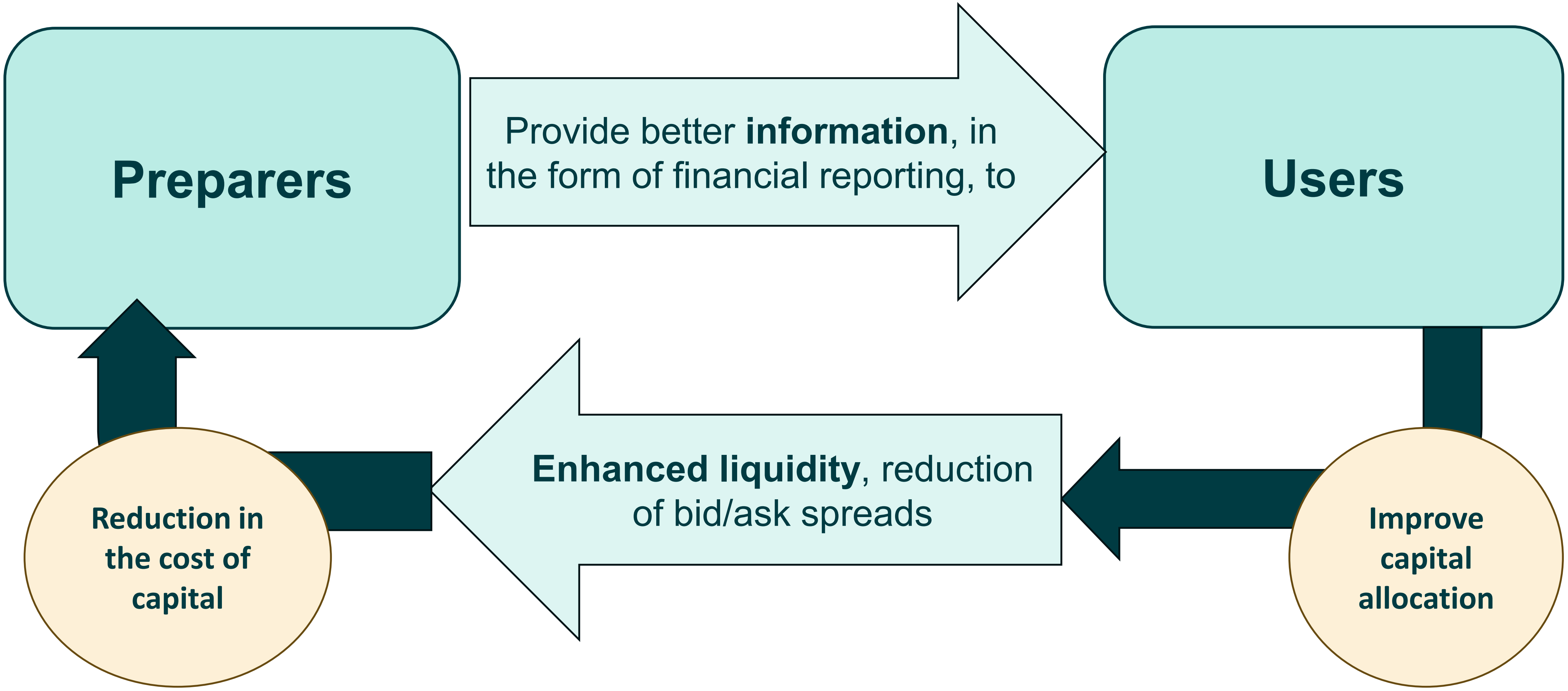
Assessment of direct benefits for users

- Assessing direct benefits for users is more challenging because:
  - The impact on users' day-to-day activities and decision-making is difficult to identify and measure
  - Users typically would not draw conclusions on benefits before seeing the updated accounts
  - Impacts would depend on user type
  - Users generally find it more difficult to engage with standard setting

- So far, the UKEB has conducted only **qualitative assessments** of benefits for users, using a standardised questionnaire

- Future UKEB research may focus on a more systematic assessment of direct benefits to users. This would allow:
  - More targeted and better engagement
  - A potential quantification of benefits

Indirect benefits for preparers: theory



References: Leuz and Wisocki (2016); Armstrong, Core, Taylor and Verrecchia (2011); Meeks and Meeks (2001)

Estimating cost of capital effects: UKEB approach

1

Implementation costs: for a given standard, the UKEB would firstly estimate market wide implementation costs

2

Benefits for users: for a given standard, the UKEB would then assess whether users are likely to find the standard useful

3

If users find the standard useful then it may be **plausible to expect a cost of capital reduction**

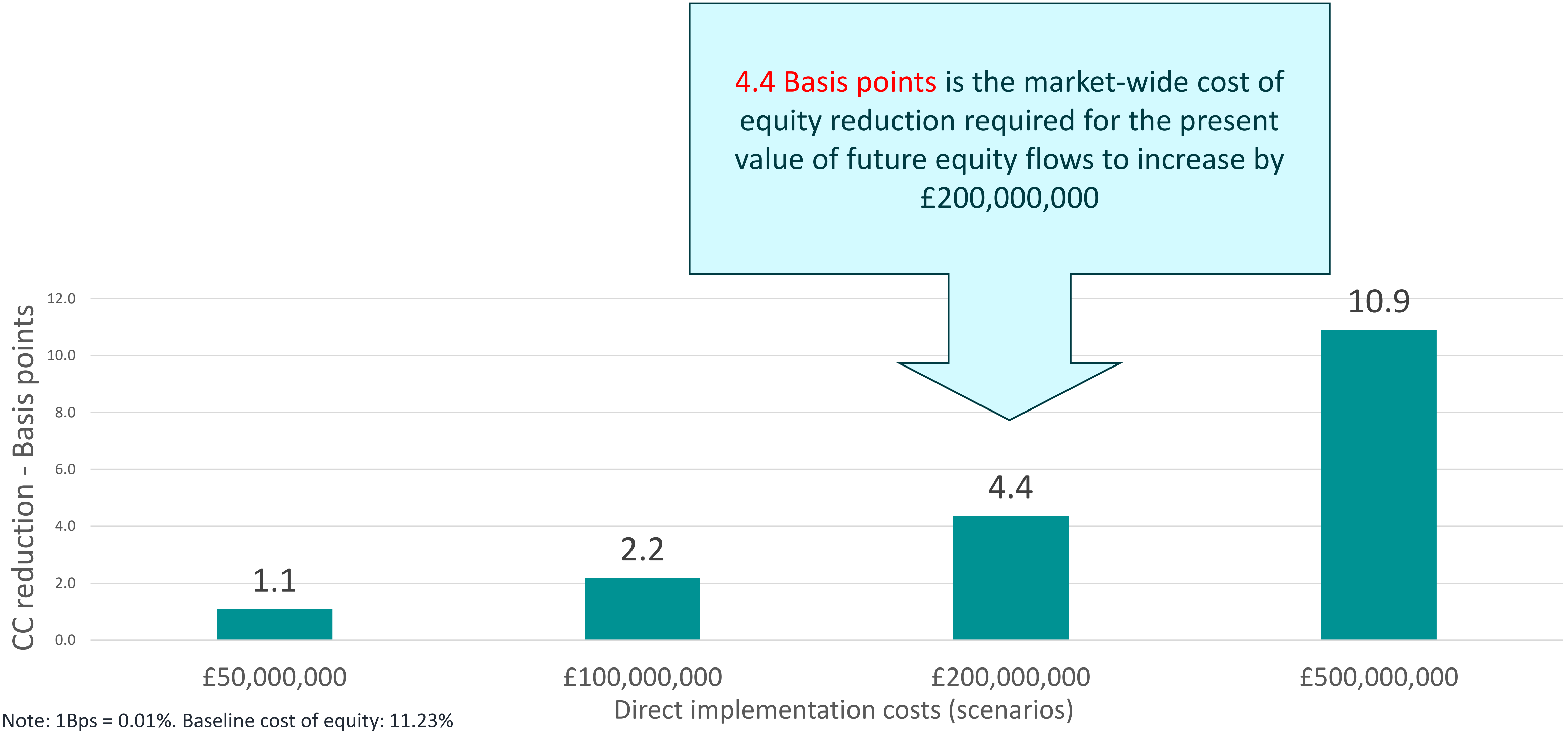
4

The approach aims to estimate what cost of capital reduction would allow preparers to **recover the estimated implementation costs** in the long run

How are the indirect benefits expected to be delivered?

	Equity	Debt
Increase in the value of traded securities	Market capitalisation	Market value of outstanding corporate bonds
Increase in the present value of future capital flows, discounted at the cost of capital	More projects funded through public equity issuances	More projects funded through publicly traded corporate bonds

Example: equity flows



Note: 1Bps = 0.01%. Baseline cost of equity: 11.23%

Source: UKEB calculations based on LSEG and Reuters-Eikon data

Application to IFRS 18

Implementation costs: UKEB estimated UK-specific implementation costs for IFRS 18 to be £390m and assessed that the standard would deliver benefits to users

For preparers to recover these costs, **split between the four capital market effects** described in the previous slide

A cost of equity reduction of:	
0.02 BPs would deliver the required increase in market cap	**3.22 BPs** would deliver the required increase in the PV of future equity flows
A cost of debt reduction of:	
0.72 BPs would deliver the required increase in value of bonds	**0.64 BPs** would deliver the required increase in the PV of future debt flows

Assuming:

75% through equity markets

25% through debt markets

Questions and answers