

The Future of Irish/UK GAAP

Michael Kavanagh
Head of Financial Reporting Supervision

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Future of Irish/UK GAAP

- Overview of the original policy proposals
- Review of what respondents said
- Proposals in the current FRED
- What are the key changes and how are stakeholders affected?

The Future of Irish/UK GAAP: The Debate So Far

- ASB has consultedextensively, and listened
 - March 2004 Discussion Paper
 - March 2005 Policy Statement Exposure Draft
 - January 2006 Public Meeting and Proposals for Comment
 - May 2006 Tentative Proposals
 - April 2007 IASB's proposed IFRS for SMEs
 - August 2009 Policy Proposal: The Future of UK GAAP
- **Strong and consistent view that two different accounting frameworks cannot be sustained**

What did the ASB originally propose?

- ASB published a Policy Proposal: 'The Future of UK GAAP' on 11 August 2009
- The consultation period closed 1 February 2010
- Over 150 responses received

What did the ASB originally propose?

Summary from an Irish perspective

Accounting Framework	Accounting Regime	Type/Nature of Entities	Potential implications for...
IFRS	IFRS (EU Endorsed)	<ul style="list-style-type: none"> •EU listed –consolidated accounts •IEX listed 	<ul style="list-style-type: none"> •No change
Converged Irish/UK GAAP	IFRS (EU endorsed)	<ul style="list-style-type: none"> •Publicly accountable entities, including 100% publicly accountable subsidiaries 	<ul style="list-style-type: none"> •Irish Debt and Fund listed entities; •Building societies; •Friendly societies; •Credit Unions
Converged Irish/UK GAAP	IFRS for SMEs	<ul style="list-style-type: none"> •Large and Medium Non-Publicly Accountable Entities (NPAs) 	<ul style="list-style-type: none"> •NPA groups; •NPA entities; •NPA subsidiaries
Converged Irish/UK GAAP	FRSSE	<ul style="list-style-type: none"> •Small companies 	<ul style="list-style-type: none"> •Small companies

What did the ASB originally propose? Framework

- Under these proposals all entities will have the option to adopt a higher tier voluntarily
- No reduced disclosures for subsidiaries
- No exceptions to public accountability

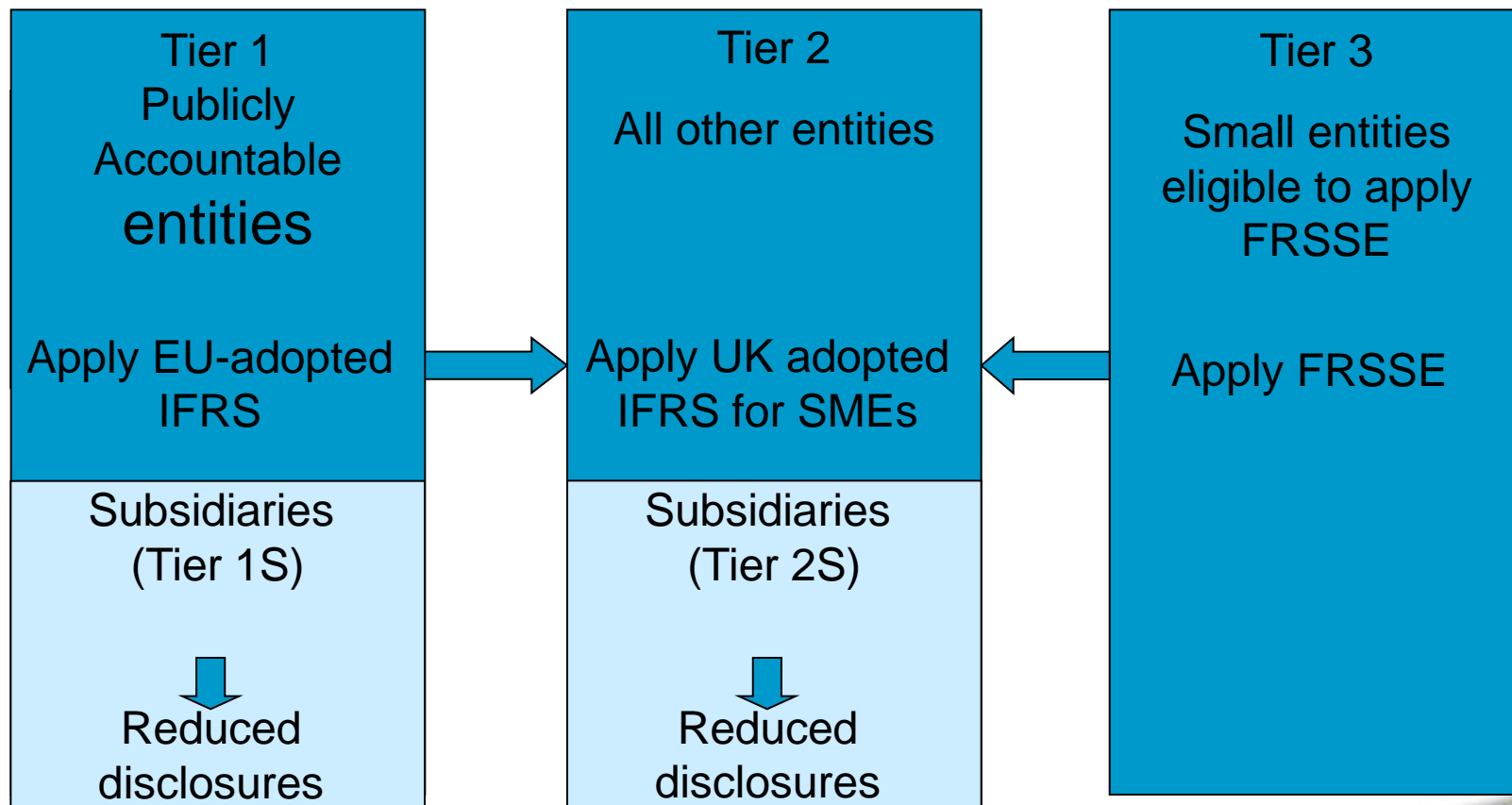
What did Irish respondents say? Framework

- Strong support for public accountability determining which entities in Tier 1

But:

- Subsidiaries

ASB Decision – post consultation: Framework



What did ASB originally propose: Tier 1

An entity has public accountability if:

- Its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market including local and regional markets); OR
- It is a deposit-taking entity and/or holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds or investment banks.

What did UK and Irish respondents say?

Tier 1

- More clarity required about definition
- Questions about application to certain entities:
 - Funds and debt issuers in Ireland
 - pension plans
 - co-operatives
 - Credit Unions

ASB Decisions post consultation: Tier 1

- Irish Funds and debt are still publicly accountable
- Provide application guidance on definition
- Clarify certain entities have public accountability

ASB Decisions: Tier 1

- Provide an exception for small entities with public accountability
 - *Will impact Irish Credit Unions*
- Decision that Co-ops are not publicly accountable
- Provide application guidance on definition

What did ASB originally propose: Tier 2

- Apply the IFRS for SMEs
- Wholesale adoption of the IFRS for SMEs

What did respondents say?

Tier 2

- Good support for Tier 2
- Yes adopt wholesale but
 - What about compliance with EU Directive
 - Tax

ASB Decisions: Tier 2

- IASB's IFRS for SMEs is changed and will be called the FRSME
- Proposed amendments are for:
 - Compliance with Directives
 - Tax – use IAS 12

Amendments made to IFRS for SMEs

Amendment	Reason
<p>Conflicts with Directives (both compulsory treatments and options) for example:</p> <ul style="list-style-type: none"> • Negative goodwill • Extraordinary items • Treatment of associates and joint ventures 	<p>Ensure compliance with legal requirements.</p>
<p>Refer to company law for requirement to prepare consolidated accounts; and</p> <p>Exemption from parent company cash flow statement</p>	<p>Avoidance of gold plating legal requirements</p>
<p>Replace Section 29 Income Tax with IAS 12.</p>	<p>IFRS for SMEs reflects abandoned proposal for IFRS.</p>

Most Irish companies will transition to FRSME

Summary of the main differences?

Different formats for primary financial statements

Property, plant and equipment

Investment properties

Financial instruments

Intangible assets and goodwill

Development costs

Borrowing costs

Defined benefit schemes

Foreign exchange

Agricultural assets

Associates and joint ventures

How the FRSME differs from current Irish GAAP– Format of primary statements

- Must still comply with Companies Act
- Considerable flexibility in IFRS for SMEs
- FREDs 43 and 44, Appendix 1, gives an example
 - Revise descriptions of some line items in profit and loss account (eg turnover → revenue)
 - Include more line items in balance sheet (eg separate out different components of receivables)

How the FRSME differs from current Irish GAAP– Revenue recognition

- Similar approach but ... words different:
 - Service contracts
 - Construction contracts
 - Contracts with contingent fees

Key facts about the proposals: How the FRSME differs from current Irish accounting – Fixed Assets

- No revaluation
 - If previously chose a policy of revaluation will need to change accounting policy
 - Can adopt current valuation as deemed cost
 - Can disclose valuation in Directors' Report if useful for shareholders and lenders
- Borrowing costs must be expensed
 - If previously chose to capitalise interest will need to change accounting policy
 - Prospective – no need to restate prior periods

Key facts about the proposals: How the FRSME differs from current Irish accounting – Fixed Assets cont.

- Investment properties at fair value through profit & loss, rather than reserves
 - Increased volatility of profit/loss for the year
 - Consider implications for distributable reserves

Key facts about the proposals: How the **FRSME** differs from current Irish accounting - Intangible Assets

- Development costs must be expensed, like research costs
 - If previously chose to capitalise costs in the development phase of a project will need to change accounting policy
 - Prospective – no need to write off assets recognised in prior periods
- Conversely could see more intangible assets recognised as part of future acquisitions
 - Revised definition of intangible assets

Key facts about the proposals:

How the FRMSE differs from current Irish accounting – Liabilities and Provisions

- Required to accrue for short-term employee benefits (holiday pay)
 - Will need to measure holiday earned, but not taken, at the year end
 - Might be easier in practice if holiday year coincides with financial year
- Government grant liability derecognised when performance obligation met
 - This may result in earlier recognition of grants as income, and a reduction in deferred grants
 - Upfront recognition of capital grants as income?

Key facts about the proposals: How the FRSME differs from current Irish accounting – Leases

- High level definitions the same, but...
 - Some differences in detailed application
 - No requirement to split land and buildings?
 - Retrospective – would need to restate operating leases as finance leases in opening balance sheet
- Recognition of lease incentives
 - Same principle but ... period not specified, full IFRS differs from Irish accounting standards
- No reference to detail of IFRIC 4, presumption that outsourcing arrangements include a lease?

Key facts about the proposals: How the FRSME differs from current Irish accounting – Financial instruments

- FRSME has more requirements than current Irish FRS (for non-quoted companies)
 - Determine whether financial instruments are ‘basic’
 - Straight-forward accounting for ‘basic’ instruments
- Derivatives are not ‘basic’ and are fair valued
 - Foreign currency forwards contracts
 - Interest rate swaps

Key facts about the proposals: How the FRSME differs from current Irish accounting – Financial instruments cont.

- Embedded derivatives
 - Can be a lot of work for transition to EU-adopted IFRS but ...
 - FRSME does not require entities to look for embedded derivatives that need separate accounting – significant simplification
- Possible use of hedge accounting
 - Limited circumstances where permitted, and must designate in advance – does not flow through naturally

Key facts about the proposals: How the **FRSME** differs from current Irish accounting – Foreign exchange

- Not permitted to use contract rate for sales and purchases, must be spot rate
 - No change in cash flows but ...
 - If previously used contracted rates, gains and losses from exchange rate movements will now be disclosed separately
 - for example movement between spot rate and contracted rate
 - May need systems changes
 - Cash flows associated with forward contracts must be classified as ‘financing’ in the cash flow statement

Key facts about the proposals: How the FRSME differs from current Irish accounting – Foreign exchange cont.

- May now choose a presentation currency other than functional currency
 - Might be useful for subsidiaries of global groups

Key facts about the proposals: How the FRSME differs from current Irish accounting – Financial Assets

- Equity investments:
 - where fair value is reliably measurable, use fair value through profit and loss;
 - little practical impact? but more volatility where applies
- Impairment of financial assets:
 - includes ‘bad debt’ provision for trade debtors
 - must be based on objective evidence
 - can still include ‘general’ provision, as long as based on objective evidence

Key facts about the proposals:

How the FRSME differs from current Irish accounting - Pensions

- IFRS and IFRS for SMEs are largely aligned with FRS 17
- Defined benefit (final salary) schemes:
 - Group schemes are not multi-employer schemes
 - Significant difference – group schemes can no longer recognise surplus/deficit in group accounts only
 - Depending on circumstances, subsidiaries may use defined contribution accounting, but the legal sponsor (usually the parent?) would recognise the full surplus/deficit in its individual accounts
 - Consider implications for distributable reserves

Key facts about the proposals: How the **FRSME** differs from current Irish accounting - Acquisitions

- No merger accounting
 - prospective – no need to restate previous mergers as acquisitions
 - must identify one party as the acquirer
 - no guidance on ‘group reconstructions’ – anticipate that FRS 6 principles will still be relevant

Key facts about the proposals: How the FRSME differs from current Irish accounting – Acquisitions cont.

- Goodwill assumed life is 5 years
 - can use a different period if there is evidence to support it
 - prospective, but in practice, unlikely to need to ‘re-life’ existing goodwill
- 12 months to make adjustments eg to fair values

Key facts about the proposals: How the FRSME differs from current Irish accounting – Taxation

- Not IFRS for SMEs, replaced by IAS 12
- IAS 12 and FRS 19 differ
 - no discounting
 - must provide for deferred tax on revaluations
 - based on tax written down value of asset/liability, not future tax payable
 - likely to result in more deferred tax being recognised
 - deferred tax balances must be taken into account for distributable profits

What did ASB propose: Tier 3

- Keep FRSSE
- Transitional period or how long
- What about EU proposals on micro-entities

What did UK respondents say?

Tier 3

- Agreement that FRSSE should remain for the immediate future, but what to do next?
 - Move to IFRS for SMEs
 - Rewrite FRSSE based on IFRS for SMEs
 - Await outcome of EU debate on micros
- Irish issue – FRSSE not widely used

ASB Decisions post consultation: Tier 3

- Retain FRSSE
- Review after period of implementation of IFRS for SMEs
- Wait for outcome of micro-entities
- Consequential amendments
 - References to current FRS removed
 - Update to look to IFRS for SMEs for reference
- **Question – should a FRSSE eligible company transition to FRSSE or FRSME?????**

What did the ASB originally propose: SORPs and PBEs

- Is there a future role for SORPs? Is there still any benefit in terms of having SORPs?
- Future of the majority of SORPs dependent on the progress of IASB's initiatives e.g. Insurance
- Remaining SORP's should be withdrawn and replaced by IFRS e.g. LLP's, Investment Companies

What did UK respondents say? SORPs

- SORPs play a useful role
- Have increased comparability by providing guidance
- Strong preference to retain certain SORPs

ASB Decisions: SORPs

- Streamline number of SORPs, in the longer term retain
 - Pensions
 - Authorised Funds
 - Association of Investment Companies
- ASB will produce a PBE FRS

Issue for Ireland – SORPs are UK specific and Irish
PBE FRS?

Summary of stakeholders affected by ASB proposals

- In short everyone!

Key facts about the proposals:

Effective date

- [If proceeds to a standard] Likely effective date of 1 July 2013
 - will be 18 months after issue of the FRS
- Early adoption will be permitted

ASB want to hear from you:

- The FRED includes 27 questions – don't be put off by the amount, just answer the ones you're most interested in/apply to you.
- Comments due by 30 April 2011

Further Information

- Further information on IAASA and its activities may be obtained from:

IAASA
2nd Floor, Willow House
Millennium Park
Naas
Co. Kildare

Tel: +353 (0)45 983600

Email: info@iaasa.ie

Fax: +353 (0)45 983601

Web: www.iaasa.ie

www.iaasa.eu