

# *Preparing for what's ahead*

## The future of Irish GAAP

*Assessing strategy  
and options*

*November 2010*

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### What is the latest position on the future of Irish GAAP?

Two exposure drafts (EDs) on the future of UK/Irish GAAP were published by the UK Accounting Standards Board (ASB) at the end of October. Based on the EDs:

- The move to a version of IFRS (Full IFRS or the ASB's version of the IFRS for small and medium sized entities - the 'FRSME') will be delayed by at least one year, compared to the effective date originally proposed by the ASB. Years beginning on or after 1 July 2013 will now be the earliest impacted, although early adoption will be permitted.

- EU-adopted IFRS measurement with reduced disclosures (such as an exemption from presenting a cash flow statement) will be available to qualifying subsidiaries.

What does this mean for you?

- You now have more time to plan for transition and the risks and opportunities it may bring.
- Additional options have become available, both in terms of choice of GAAP and timing (see below).

### Choice of GAAP available

	Full IFRS	FRSME	Full IFRS with reduced disclosures*	Old Irish GAAP
Year ending 30 June 2011	✓	X	X	✓
Year ending 30 June 2012	✓	? <sup>**</sup>	? <sup>**</sup>	✓
Year ending 30 June 2013	✓	? <sup>**</sup>	? <sup>**</sup>	✓
Year ending 30 June 2014	✓	✓	✓	X

\*available for subsidiaries whose parent prepares consolidated accounts under full IFRS or an equivalent GAAP

\*\*early adoption is permitted, although it is not clear whether this will be in place for fiscal years ending in 2012

# Assessing strategy and options

## **1. Tax planning opportunities**

Adoption of EU-adopted IFRS (full IFRS) now may have a significant tax advantage where it would either decelerate recognition of income or accelerate recognition of cost, and hence defer cash tax payments. Tax and finance functions should work closely to assess the fact patterns and assess opportunities and risks.

## **2. Group simplification**

Large groups with many subsidiaries may wish to take the opportunity to simplify the group structure prior to transition, to reduce the time and cost of conversion to IFRS.

## **3. Impact on contracts which rely on GAAP measures - banking covenants, royalty agreements, bonus arrangements**

Companies may wish to consider the impact of a change in GAAP on contracts with clauses linked to GAAP measures. For example, measurement of loan covenant ratios on an IFRS basis may result in a breach; transition to IFRS may result in greater volatility in profit that could impact achievement of employee performance bonuses. Such arrangements may need to be renegotiated or revisited in advance of the change in GAAP.

## **4. Distributable reserves**

A change in GAAP may result in a reduction in distributable reserves, for example from the recording of derivatives at fair value. Companies may wish to assess how the change will impact distributable reserves.

## **5. Impact on acquisitions**

Companies contemplating acquisitions may wish to assess the impact of a change in GAAP on their acquisition model. Under full IFRS, transaction costs such as legal and advisory fees must be expensed, and the way in which the deal is structured can have an impact on earnings for several years post-acquisition.

## **6. Overseas-parented groups**

Overseas-parented groups may wish to consider how best to manage the transition to IFRS in their Irish subsidiaries. In particular, the choice of GAAP should be made with regard to the position in other territories, as there may be an opportunity to converge the GAAPs across a number of locations, and to use the Irish transition to create a roadmap for transition elsewhere in the group.

## **7. Systems and data requirements**

Information requirements for measurement and disclosure will be more onerous under both full IFRS and FRSME. For example, additional financial instrument data will be required for all entities. Where the capture of additional data requires more than a simple system modification, companies may need to think about how to approach this most efficiently.

## **8. Resources**

Companies may need to plan to ensure they have sufficient resources, with the right skills, to deliver a successful transition.

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