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The Future of Irish GAAP - Good News from the ASB

The ASB are listening and responding to what they hear. Fiona Hackett highlights how they are listening and what this means for accountants.

Introduction

Over 7 years ago, in March 2004, the UK Accounting Standards Board (ASB) issued a discussion paper proposing convergence of UK and Irish GAAP with IFRS and has been working towards and consulting on overhauling UK and Irish GAAP ever since. As IFRS has become more complex the ASB has moved away from the goal of complete convergence with IFRS. However the ASB's most recent proposals of October 2010 represent the ASB's most detailed proposals on the future of UK and Irish GAAP and build on all the ASB's previous consultations and work on the future of UK and Irish GAAP.

FREDS 43 and 44

The October 2010 proposals were in the form of Financial Reporting Exposure Drafts (FREDS) 43 and 44, which proposed a new financial reporting regime for current UK and Irish GAAP reporters. The proposals centred on a three tier reporting framework focusing on the nature of the entity.

The goal of these proposals, according to the ASB, is to achieve "a suite of high quality financial reporting standards, all of which are fit for purpose".

FREDS 43 and 44 proposed that for financial periods beginning on or after 1 July 2013;

1. All publicly accountable entities would prepare financial statements that comply with EU adopted IFRS (IFRS). An entity is publicly accountable if it is listed or takes the public's money in a fiduciary capacity, (e.g. banks, insurance companies, investment funds and credit unions).

2. Entities that qualify as small, based on the company law thresholds for a small company, would prepare financial statements that comply with the ASB's Financial Reporting Standard for Smaller Entities.

3. All other entities would prepare financial statements in accordance with the Financial Reporting Standard for Medium-sized Entities (FRSME). The FRSME is the ASB's version of the International Accounting Standards Board's (IASB) IFRS for SMEs. The IASB developed the IFRS for SMEs to address a global need for an IFRS suitable for private entities. The IFRS for SMEs is a single accounting standard tailored to the financial reporting requirements of private entities, which as it has been developed by the IASB is built on a number of fundamental IFRS principles but doesn't repeat a number of the complexities of IFRS. The FRSME amends the IFRS for SMEs to ensure it is suitable for use in the UK and Ireland. Therefore the FRSME would still represent a move in the direction of IFRS for UK and Irish GAAP reporters.

Since 2009, the ASB has been actively seeking public comment on its proposals about improving UK and Irish GAAP and has held public meetings with interested parties to raise awareness about its proposals, issued a discussion paper in 2009 and most recently the FREDS in late 2010.

Key Messages from Responses

The ASB received over 400 responses to the 2009 discussion paper and the 2010 FREDS. Overall, the responses are very positive about the ASB's proposals however they do contain some key messages for the ASB to consider, including whether;

- it is appropriate for all banks, insurance companies, investment funds and credit unions to have to prepare IFRS financial statements,
- the proposed effective date allows adequate time for entities to prepare for a new financial reporting framework,
- the proposals could provide an opportunity for economies in preparing financial statements of subsidiaries,
- guidance could be developed in relation to accounting by entities in the not for profit sector.

As it aims to improve UK and Irish GAAP the ASB has been listening to the messages from interested parties and the good news for UK and Irish accountants is that the ASB are responding to what they are hearing.

Good News for Accountants Working for Banks, Insurance Companies, Investment Funds or Credit Unions

FREDS 43 and 44 include a list of entities considered by the ASB to be publicly accountable and therefore would be required to prepare IFRS financial statements. This list included banks, credit unions, insurance companies and investment funds. Interested parties from these sectors argued that the cost of preparing IFRS financial statements for such entities outweighs any benefit that would be obtained from IFRS financial statements.

The ASB has listened to these concerns and in recent months tentatively decided not to extend the application of IFRS in the UK and Ireland beyond what is currently required by company law. This tentative decision is good news for accountants working in banks, insurance companies, investment funds or credit unions as those entities would not be forced to use IFRS going forward and would be entitled to use a less complex accounting framework such as the ASB's FRSME.

Good News for all Accountants Using Irish GAAP

A number of respondents to the ASB's proposals suggested the ASB's proposed effective date of 1 July 2013 was optimistic and that the ASB should have regard to the current extensive work plan of the IASB.

The ASB has listened to the concerns raised and has tentatively deferred the proposed effective date to 1 January 2014, allowing all accountants impacted by the proposals additional time to prepare for the changes that are coming.

Good News for Accountants Working for Subsidiaries

Currently, where a parent entity prepares consolidated IFRS financial statements but its subsidiaries continue to prepare UK or Irish GAAP statutory accounts, the statutory accounts process for subsidiaries can be onerous due to differences between the subsidiary's IFRS group reporting numbers and the UK or Irish GAAP statutory accounts numbers. To date the level of disclosure required by IFRS has meant that any incremental benefit that would be gained by aligning the group reporting numbers with the statutory accounts numbers has been outweighed by the cost of preparing detailed IFRS financial statements. The ASB's initial proposals did not contain any concessions for subsidiaries.

The ASB received a number of requests from interested parties for a financial reporting framework which would allow subsidiaries of IFRS reporters to prepare financial statements using IFRS numbers but without having to provide complete IFRS disclosures, many of which would duplicate disclosures already included in the parent's consolidated financial statements.

The ASB has listened to these requests and has developed a 'reduced disclosure framework' which would entitle subsidiaries to use their group reporting numbers in their statutory accounts without having to provide a number of disclosures in their statutory accounts which would be duplicating disclosures already included in the parent's consolidated financial statements.

Good News for Accountants Working for Public Benefit Entities

In developing its proposals about the future of UK and Irish GAAP the ASB was conscious of the fact that the accounting requirements of IFRS and current UK and Irish GAAP are aimed at profit seeking entities and don't adequately address certain areas of accounting that might be relevant to entities in the not for profit sector.

In 2009 the ASB sought views about whether it should develop tailored accounting guidance for entities in this sector. Interested parties in the not for profit sector were very supportive of the ASB's offer to develop such guidance and in March 2011 the ASB published FRED 45, 'Financial Reporting Standard for Public Benefit Entities'. FRED 45 proposes financial reporting requirements for issues that are unique to 'public benefit entities', including; accounting for incoming resources from non-reciprocal transactions (i.e. donations) and accounting for concessionary loans (i.e. loans given or received by a public benefit entity that don't attract a market rate of interest). The issue of FRED 45 is good news for accountants working for public benefit entities.

Winston Churchill once said "Courage is what it takes to stand up and speak; courage is also what it takes to sit down and listen". In light of the good news above I think it's fair to say that the ASB are showing great courage in the way they are shaping the future of UK and Irish GAAP.

