

Simplified IFRS represents the end of Irish GAAP as we know it

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We can help you

To discuss the impact that these developments will have on your entity's financial statements please call your usual PwC contact or:

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Irish GAAP will soon disappear in its present form to be replaced by a new version of the international rules. The Ireland and UK accounting standard-setter, the Accounting Standards Board (ASB), has in a discussion paper issued this week proposed to base the future of Irish and UK accounting on a version of International Financial Reporting Standards (IFRS).

The International Accounting Standards Board (IASB) has developed a reporting standard for non-publicly accountable companies (IFRS for Small and Medium-sized Entities - SMEs), based on IFRS which was published in July.

The SME standard differs from full IFRS in a number of key areas, including the amortisation of goodwill and by its exclusion of some IFRS requirements altogether, such as earnings per share and segmental reporting.

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One of the attractions for certain entities of the standard is the significantly reduced disclosure requirements compared to full IFRS. PwC estimates that disclosure requirements will be up to 80% less than under full IFRS with the entire standard running to about 300 pages, compared to about 3,000 pages in full IFRS. However, for many Irish entities the new standard presents challenges. For Irish entities currently using Irish GAAP, there are a number of measurement differences and significantly enhanced disclosure requirements (compared to Irish GAAP). Also, a number of private entities that meet the definition of publicly accountable are faced with transitioning to full IFRS. The proposed structure means that there is no size limit on the definition of “public accountability”, therefore a number of entities such as credit unions and investments funds would have to prepare financial statements in accordance with full IFRS.

Conversion to the new standards will be a significant amount of work for most businesses but the payback will be consistency of treatment, and therefore comparability. Companies should start planning and working on the basis that the ASB will require adoption of IFRS in Ireland, either full IFRS or based on the SME standard, by 2012. The year 2012 may seem a long way off but companies should start thinking about this now. The opening balance sheet for December year ends will be as at 1 January 2011, which means that related conversion decisions need to be made in 2010.

Irene O’Keeffe, IFRS for SME’s Partner, PricewaterhouseCoopers, said:

“The ASB has had a conundrum for some years: how should it develop UK and Irish GAAP? While UK and Irish GAAP has adopted some aspects of full IFRS, adopting the rest of full IFRS was not attractive, as it would have imposed on private companies and subsidiaries a system of reporting that is more geared towards the capital markets. In contrast, to base future Irish practice on the IFRS for SMEs, whilst presenting challenges for many entities makes sense for two reasons. Firstly, it gives the Irish market something that is fit for purpose for entities that are not publicly accountable. Secondly, by recognising that the days of national accounting rules are largely over, it contributes to global harmonisation.

“In Ireland, there are a significant number of subsidiaries of listed groups. It would be a benefit for them if, when the ASB implements these proposals, they are able to use full IFRS for the purposes of measurement of profits, assets and liabilities (that is, adopting the same approach as their parent companies and thus making consolidations easier) but at the same time take advantage of the disclosure reductions in the SME standard (compared to full IFRS) and therefore avoid the need for pages of unnecessary disclosures.”

Notwithstanding the benefits, for entities currently using Irish GAAP this new regime introduces challenges by way of significantly enhanced disclosure requirements



and measurement differences, for example under IFRS for SME's there is no option to carry property, plant and equipment at valuation."

Terry O' Rourke, Director in Accounting Consulting Services, PricewaterhouseCoopers, commented:

"There is little doubt that the ASB's proposal will be welcomed by some companies and not by others.

Large unquoted Irish groups with cross-border financing and operations would be able to

use IFRS for SMEs, a globally recognised accounting framework, but without having to meet the rigours of full IFRS.

Similarly, many subsidiaries of Irish quoted companies would be able to use an accounting framework that is similar to the full IFRS used by their parents, but with greatly reduced disclosure requirements.

On the other hand, entities that find themselves classified as publicly accountable may find it daunting to have to adopt full IFRS, as it can be challenging and costly.

Similarly, medium sized Irish companies with mainly domestic operations that are quite content to use Irish GAAP would have to adopt IFRS for SMEs, which is in many ways more prescriptive and demanding.

Finally, the implications of adopting new accounting standards for companies' tax liabilities, distributable profits and banking covenants will need careful consideration."

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