

## Financial Reporting Brief Special Edition The New Irish GAAP

### In a nutshell

- FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* – the long-awaited standard that will replace current Irish GAAP is published.
- Mandatory for accounting periods beginning on or after 1 January 2015, although early adoption is possible.
- Almost all companies and groups should consider their options as to which financial reporting framework to follow in the future – full IFRSs, FRS 101, FRS 102 or the FRSSE. Listed groups will still need IFRS consolidated financial statements.
- Existing accounting, in particular around financial instruments, is likely to change.
- It will not only affect financial statements – the potential impacts on tax, banking arrangements, distributable profits, financial reporting systems and performance-related remuneration schemes will all need careful consideration.

### The wait is over

After many years of debate, consultations and exposure drafts, the FRC has published a finalised standard to replace Irish GAAP. Following on from FRS 100 *Application of Financial Reporting Requirements* and FRS 101 *Reduced Disclosure Framework*, which were published at the end of 2012, FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* is a single coherent standard, which replaces all existing FRSs, SSAPs and UITF Abstracts.

The new standard is considerably shorter than the patchwork Irish GAAP it replaces, being derived from the IFRS for SMEs but with significant modifications made to address company law and incorporate extra accounting options. FRS 102 includes integrated guidance for public benefit entities and in due course most existing SORPs will be updated in line with FRS 102. Further amendments to the financial instruments' section of FRS 102 and a separate standard for insurers will also be published.

The mandatory effective date of FRS 102 is for accounting periods beginning on or after 1 January 2015, although early adoption is permitted for periods ending on or after 31 December 2012. Given the widespread effect of these changes to the Irish financial reporting regime, the time for companies to start preparing themselves for change or to consider early adoption is now.

*FRS 100, FRS 101 and FRS 102 are available here*

*The January 2012 special edition provides further background and reasons for the change*

*The October 2012 special edition outlines some changes made during the review process*

**This is a change with very real consequences for nearly all Irish companies. Opportunities and challenges abound.**



## Will I have to apply FRS 102?

The consolidated financial statements of listed groups will still need to be prepared under EU-adopted IFRSs. However, all other entities, including subsidiaries of listed groups and parents preparing their separate financial statements, should consider the options available to them:

- Full EU-adopted IFRSs;
- FRS 101 – EU-adopted IFRSs with reduced disclosures for qualifying entities;
- FRS 102 – the replacement for Irish GAAP, with disclosure exemptions available for qualifying entities; or
- FRSSE – still available for small companies within scope.

A recent change to the law means that a company that had previously moved to IFRSs voluntarily will be able to move to FRS 101 or 102. However, parents and subsidiaries will still need to prepare financial statements using the same framework, being Companies Act or IAS individual accounts, with certain exceptions or where 'good reasons' exist for a difference. Certain subsidiaries could adopt FRS 101 whilst others adopt FRS 102, since both are 'Companies Act' accounts.

## What will change from existing Irish GAAP?

FRS 102 differs from existing Irish GAAP in a number of respects – in this publication we highlight three of the more significant changes. Previous special editions summarise other aspects of the changes of broad significance.

*The December 2012 special edition describes FRS 101's reduced disclosure framework, which entities qualify and key considerations in choosing whether to adopt it*

### Highlight 1 – Financial instruments

One of the biggest areas of change will be the accounting for financial instruments, at least for those who haven't applied FRS 26. Complex financial instruments, such as derivatives which may historically have been off balance sheet, will now come on balance sheet and be measured at fair value through profit or loss. This will impact earnings, potentially increasing volatility, and the tax effect on transition and beyond will also need careful consideration. An option to adopt the more detailed recognition and measurement provisions of IAS 39 (as adopted in the EU) or IFRS 9 also exists within FRS 102.

*Financial instruments is a big area of change*

### Highlight 2 – Goodwill and intangibles

Another significant change will be that intangibles and goodwill must have finite lives under FRS 102 and must be amortised. In the absence of a reliable estimate the life is presumed to be a maximum of five years – a significantly shorter period than the existing presumption of 20 years or less, although tax deductions may also be accelerated. IFRSs may appear more attractive for some in this area, since goodwill and indefinite life intangibles are tested for impairment rather than being amortised. FRS 102 may be more attractive for others due to possible accelerations of tax deductions

*Intangibles and goodwill must be amortised under FRS 102*

### Highlight 3 – Group pension schemes

For groups that operate defined benefit pension schemes the multi-employer exemption that enables all the individual group entities to use defined contribution accounting in their separate financial statements, with no obligation appearing on their individual balance sheets, will disappear. Under FRS 102 or IFRSs, allocating these balances (often sizeable deficits) to one or more group entities may significantly change the appearance of a company's balance sheet and its ability to pay dividends.

*More pension deficits/surpluses on balance sheet*

### Which GAAP should I choose?

The choice of framework and the decision on whether to early adopt will always depend on the particular company circumstances. Factors relevant to both these decisions include, but are not limited to, tax effects and timing of tax payments, distributable profits, other group accounting policies and the potential evolution of accounting frameworks. For example, the IASB’s project on leasing (where most leases are proposed to come on balance sheet) could make IFRSs less appealing in some cases.

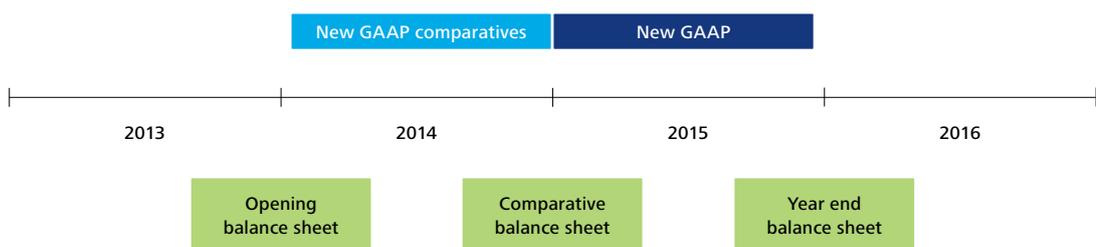
### Looking beyond the debits and credits

Key areas impacted by a change of framework	
Tax	Some transitional adjustments will be taxed immediately, whilst others will be spread and some will have no tax effect. Continuing effects exist too, for example there may be more cash tax volatility in respect of assets and liabilities that have been fair valued, unless a specific mechanism is available in tax legislation to eliminate it. The effects on cash tax payments should be considered in budgeting and forecasting activities.
Distributable profits	A new framework could impact the availability of distributable profits.
Banking covenants	Covenants on lending agreements should be assessed carefully to ensure that the adoption of a new framework will not cause a breach.
Remuneration and earnouts	Remuneration schemes or earnout agreements that are based on financial measures may be impacted by new accounting treatments and could require renegotiation.
Reporting systems	Reporting systems will need preparing for the new regime and, in addition to training, adequate staff resources will be necessary to make an informed decision on which framework to adopt and when to transition. For many this may represent an opportunity to rationalise group structures and improve reporting processes, including the tagging of accounts for iXBRL purposes.

Nearly all Irish companies will be impacted to some degree, particularly when it comes to tax.

### Time for action

The first task will be to decide on which framework to follow and when to transition. Given the need for comparatives in the first set of FRS 102 financial statements, an effective date of periods beginning on or after 1 January 2015 means that those with December year-ends will need to prepare a transition balance sheet as at 1 January 2014, although this will only appear in the year-ended 31 December 2015 financial statements. The diagram below reflects such a timeline.



If the direct and indirect effects of applying the new standards to existing business arrangements appear undesirable then renegotiations may be required before 1 January 2014. As set out above, this could include items such as debt covenants, performance based remuneration schemes, earn-outs and tax. Ensuring reporting systems are ready to capture all necessary information from the outset will be important.

*Renegotiations may be required before 1 January 2014*

For those who have avoided FRS 26, the days of Irish GAAP’s more ‘liberal’ approach to hedge accounting are at an end. Both IAS 39 and FRS 102 require formal designation and documentation of a hedging relationship, and IAS 39 is clear that this should be from inception if hedge accounting is to be applied, i.e. it cannot be achieved with retrospective effect. Entities wishing to apply hedge accounting may need to ensure all is in order as at their date of transition to FRS 102 or IFRSs (for December year-ends this would be 1 January 2014).

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**Contacts**

If you would like further, more detailed information or advice and to discuss how this will affect you, please contact your local Deloitte partner or:

**Glenn Gillard**  
Partner  
T: +353 1 417 2802  
E: ggillard@deloitte.ie

**Ciaran O'Brien**  
Partner  
T: +353 1 417 3829  
E: ciobrien@deloitte.ie

**Brendan Sheridan**  
Director  
T: +353 1 417 2357  
E: bsheridan@deloitte.ie

**Honor Moore**  
Partner  
T: +353 21 490 7082  
E: homoore@deloitte.ie

**Oliver Holt**  
Director  
T: +353 1 417 5731  
E: oliverholt@deloitte.ie

Our firm's website, [www.iasplus.com](http://www.iasplus.com), provides a world-leading continuously updated information source on international financial reporting developments and includes a link to our freely accessible IFRS eLearning programme.

Dublin  
Deloitte & Touche  
Deloitte & Touche House  
Earlsfort Terrace  
Dublin 2  
T: +353 1 417 2200  
F: +353 1 417 2300

Cork  
Deloitte & Touche  
No.6 Lapp's Quay  
Cork  
T: +353 21 490 7000  
F: +353 21 490 7001

Limerick  
Deloitte & Touche  
Deloitte & Touche House  
Charlotte Quay  
Limerick  
T: +353 61 435500  
F: +353 61 418310

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