Are you ready?

Future of UK and Irish GAAP
Helping you through a successful conversion
2015
The new financial reporting framework in the UK and Ireland is now a reality. Understanding the business and financial impacts of the change today will allow management to anticipate and resolve key strategic and operational issues ahead of adoption.

Key facts:
- All companies using UK or Irish GAAP, in their statutory accounts, need to move to the new regime.
- This includes foreign companies with subsidiaries in the UK or Ireland.
- UK GAAP is replaced in the 31 December 2015 accounts.
- Early adoption is permitted and potentially beneficial.
- There is a choice of framework – either IFRS or a new form of UK GAAP.

When changing the financial reporting in individual statutory accounts, the most significant implications are:
- Cash tax paid will change.
- Distributable reserves could be diluted.

While the deadline is some way away, when all intervening steps are considered, and given that conversion to a new framework must take place alongside normal activities, planning for these mandatory changes should start now.

Companies need to determine whether to adopt IFRS or FRS 102 frameworks and the timing of their transition. Qualifying entities will be able to take advantage of reduced disclosure requirements under either IFRS or FRS 102, but it is important to understand the differences between the two frameworks and the changes required.

Conversion projects require careful management to ensure that decisions on accounting frameworks align with the entity’s strategic direction.

Why EY
Converting away from UK or Irish GAAP means changing more than just the numbers. Early assessment is essential in order to maximise your benefits and minimise your risks of converting.

EY has brought together teams with extensive experience of IFRS conversions, accounting, tax, pensions, distributable reserves, entity rationalisation and beyond. Our breadth and depth of GAAP conversion experience enables us to identify issues early and quickly provide practical implementation advice.

In turn, this will allow you the time to anticipate and resolve strategic and operational issues, enabling a smooth transition.

Introduction of the new standards in UK and Ireland
In March 2013, the UK’s Financial Reporting Council (FRC) issued the last of three new standards replacing UK GAAP in its entirety:
- FRS 100 sets out the application of financial reporting requirements in the UK and Republic of Ireland.
- FRS 101 or ‘IFRS with reduced disclosures’ outlines the reduced disclosure framework available for use by ‘qualifying entities’ choosing to report under IFRS.
- FRS 102 is the Financial Reporting Standard applicable in the UK and Republic of Ireland (known as new UK GAAP), including the reduced disclosures available for ‘qualifying entities’. This FRS is based upon the IASB’s IFRS for small and medium sized entities, but has been significantly amended.

(FRS — Financial Reporting Standard)

Timetable for change

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<thead>
<tr>
<th></th>
<th>2013</th>
<th>Early adoption possible</th>
<th>2014</th>
<th>2015</th>
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<td>Jan</td>
<td>Jun</td>
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<td>Opening balance sheet (1 Jan 2014)</td>
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<td>Comparative year balance sheet (31 Dec 2014)</td>
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<td>Financial statements for the year ended (31 Dec 2015)</td>
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<td>First mandatory non-UK GAAP financial statements</td>
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Ongoing conversations with a wide variety of companies have unearthed a number of significant implications of adopting the new framework; further impressing the need for early assessment.

**Key implications:**

- Increase in accounting complexity.
- Potential volatility in cash tax payments.
- Dividend blockages arising.
- Pension deficits being recognised in entity accounts for the first time.
- Tax structures under UK GAAP needing to be re-engineered.
- A large number of subsidiaries creating a volume exercise for conversion.
- A required change to iXBRL taxonomies.
- Financial statement close processes and controls requiring redevelopment.
- Concern that KPIs or contractual arrangements will need to be re-based.

IFRS will continue to only be mandatory for group accounts for those entities with securities admitted to trading on an EU-regulated market (under EU 1606/2002) or where market rules or other regulations require its use. Even these groups will have the option to apply FRS 102 or FRS 101 in their individual entity accounts.

Small entities currently eligible to apply the Financial Reporting Standard for Smaller Entities (FRSSE) will continue to be able to do so. Should a new framework for micro-entities be introduced as a result of EU consultation processes, the ASB would then review the status of the FRSSE and consult again on amendments.

FRS 102 has some elements similar to IFRS, some similar to IFRS for SMEs, some similar to UK GAAP and others completely unique. It becomes a new form of UK GAAP for the UK and Ireland. It is an independent standard of 35 chapters based on the IASB’s IFRS for SMEs. It addresses all of the recognition, presentation and disclosure requirements for entities using this standard and has a reduced level of mandatory disclosure requirements in comparison to IFRS. Qualifying entities are able to take advantage of reduced disclosure requirements that include exemption from disclosure of a cash flow statement, certain financial instruments and related party and share-based payments disclosures.

There is limited cross reference or fallback to IFRS, although additional references to certain IFRS, including segment reporting, interim reporting, recognition and measurement of financial instruments, insurance and earnings per share, has been added to help entities assess the implications in these areas.

A move to FRS 102 would make financial reporting simpler for entities compared to IFRS. But it is a new standard that no one has yet been trained to use and future interpretations may develop as the standard is adopted. For groups with reporting requirements under other GAAPs, the move would not take away a reconciliation requirement and thus many will choose IFRS where this simplifies group reporting.

### The new framework

<table>
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<tr>
<th>Current state</th>
<th>Future state</th>
<th>‘IAS accounts’</th>
<th>‘Companies Act accounts’</th>
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<tbody>
<tr>
<td>EU listed consolidated (mandatory) and any entity voluntarily choosing to apply IFRS</td>
<td></td>
<td>FRS 102 New UK GAAP</td>
<td>FRS 102 New UK GAAP with reduced disclosure*</td>
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<tr>
<td>All other entities UK GAAP</td>
<td>FRS 101 IFRS with reduced disclosure*</td>
<td>FRS 102 New UK GAAP with reduced disclosure*</td>
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<td>Available now</td>
<td>Available now</td>
<td>Available to all companies now</td>
<td>Unrestricted early adoption permitted for FRS101. Early adoption is available for periods ending on or after 31 December 2012</td>
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</table>

*Available now for small entities only

*A qualifying entity (a parent or subsidiary undertaking) which is consolidated in publicly available consolidated financial statements that give a true and fair view can take advantage of the reduced disclosure framework. Applies to individual financial statements only and shareholders must be notified in writing about and not object to the disclosure exemptions. There are restrictions over IFRS 7 and IFRS 13 disclosure exemptions for financial institutions.
Reduced disclosures (FRS 101 or FRS 102)

A qualifying entity (a parent or subsidiary undertaking) that is consolidated in publicly available consolidated financial statements that give a true and fair view, can take advantage of the reduced disclosure framework. This applies to individual financial statements only and shareholders must be notified in writing about it and not object to the disclosure exemptions. There are restrictions over IFRS 7 and IFRS 13.

Using IFRS with reduced disclosures will enable IFRS reporting groups to use consistent accounting policies across the group, for internal and external reporting, without the burden of extensive statutory reporting disclosures.

Guidance on converting to new GAAP

We recommend companies examine the reporting implications and address the following aspects of their business which will be affected by the new framework:

► Understand the tax impact and decide whether early adoption or careful planning ahead for adoption at the mandatory date is most appropriate.
► Consider use of IFRS with reduced disclosures to maximise the consistency of accounting policies in an IFRS reporting group while minimising the burden of statutory reporting.
► Consider any distributable reserves aspects and restructure the group ahead of transition if needed.
► Future-proof covenants, contracts, KPIs and other performance measures for the move away from UK GAAP.

Early assessment of these implications is essential in order to maximise your benefits and minimise your risks of conversion. We have brought together a team with extensive experience of these projects and their wider implications.

Whether you are looking for early guidance or comprehensive support, we have the right teams, tools and experience to give you complete control over your conversion from UK or Irish GAAP.