Overview

The adoption of International Financial Reporting Standards (IFRS) for statutory reporting purposes in Hungary was approved by the Government in Government Resolution No. 1387/2015 published in the Hungarian Gazette on 12 June 2015.

The related regulations, including the rules on adoption of IFRS and subsequent return to Hungarian Accounting Standards (HAS), and related tax issues, are set out in Bill No. T/6638 “Adoption of International Financial Reporting Standards for local stand-alone financial reporting purposes and amendment of certain financial acts” which was passed by the Hungarian Parliament on 17 November 2015 and approved and published in the Hungarian Gazette on 26 November 2015.

The adoption of IFRS for Hungarian statutory reporting purposes and the timing of adoption for various types of companies is as follows:

<table>
<thead>
<tr>
<th>Company type</th>
<th>as of 1 Jan 2016</th>
<th>as of 1 Jan 2017</th>
<th>as of 1 Jan 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listed companies (except entities under MNB supervision)</td>
<td>Optional</td>
<td>Mandatory</td>
<td></td>
</tr>
<tr>
<td>Subsidiaries included in an IFRS consolidation - subject to parent decision (except entities under MNB supervision)</td>
<td>Optional</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Companies authorised to enter into a concession agreement or required by Act XVI of 1991 to perform concession-based business activities or companies that qualify as a ‘concession company’ under section 20 of the Concession Act.</td>
<td>Optional</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit institutions and financial companies that meet equivalent prudential regulations (except: funding societies and other credit institutions involved in the integration of these, and certain smaller credit institutions)</td>
<td>Mandatory</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurers (except insurance associations not subject to Solvency II)</td>
<td>Optional</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other institutions under MNB supervision (except funds)</td>
<td>Optional</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other businesses subject to mandatory audit</td>
<td>Optional</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Saving societies and other credit institutions involved in the integration of saving societies, certain smaller credit institutions</td>
<td></td>
<td>Mandatory</td>
<td></td>
</tr>
</tbody>
</table>

Based on the legislation, the use of IFRS is not allowed for entities that manage state municipality property, not-for-profit entities, mutual insurance societies governed by the Insurance Act, pension funds, health care funds and self-help funds.

More than just accounting impacts

Conversion to IFRS requires thorough planning to ensure that a complete, robust process is followed and that decisions made are aligned to the strategic direction of the business.

Beyond the accounting and finance functions, the conversion process may also impact the IT, legal, sales, marketing, human resources, investor relations, planning and forecasting functions of an organisation.

The conversion process will involve a number of steps which may include:

• an initial gap analysis or impact assessment to identify key differences between IFRS and current local reporting standards
• careful development of a set of IFRS accounting policies that support the organization's overall business strategy;
• quantification of accounting differences and preparation of IFRS financial statements
• assessment of taxation, financing and investor relations impacts
• business processes and IT systems impacts
• training staff with appropriate professional and technical backgrounds.
In considering whether to use IFRS for stand-alone financial reporting purposes, a Company needs to confirm compliance with section 114/C of the Bill, i.e. whether or not the Company has an auditor’s report which confirms the preparedness of the entity for the adoption of IFRS. Further, the entity’s intention to adopt IFRS must be reported to the Hungarian National Revenue Authority and Central Statistics Office at least 90 days before the planned adoption date.

Five step model

Conversion to and the ongoing application of IFRS is a significant challenge as the project must take place alongside normal operating activities. Our conversion process follows a comprehensive and tested approach to ensure an effective, timely and risk focused adoption process. The five step model, developed from our extensive experience in IFRS conversions, enables us to identify issues early and quickly provide practical implementation advice.

<table>
<thead>
<tr>
<th>Diagnostic</th>
<th>Design and Planning</th>
<th>Solution Development</th>
<th>Implementation</th>
<th>Post implementation review</th>
</tr>
</thead>
<tbody>
<tr>
<td>High level impact assessment to identify key differences, their impacts on business processes and IT systems and clear recommendations</td>
<td>Develop the project charter, team, project planning and change management strategy</td>
<td>Develop solutions, accounting policies, IT solutions, tax and business impacts and develop implementation plan for delivery. Roll out training</td>
<td>Approval and testing of solutions developed, roll out business processes and system changes</td>
<td>Debrief and assess implementation, embed IFRS into operational structure, ongoing training and communications</td>
</tr>
</tbody>
</table>

How EY can help

Our experienced multidisciplinary team of accounting, tax and IT specialists can help assess the potential impacts of the adoption of IFRS. Whether you are looking for early guidance or comprehensive support, we have the right team, tools and experience to help you with:

- A general understanding of IFRS standards, and analysis of first time adoption options under IFRS 1
- Preliminary diagnostic analysis / impact assessment and recommendations
- Compliance review in the context of legal regulations pertaining to reporting to supervisory authorities
- Identification and review of the risk management tasks related to IFRS (in particular IFRS9 and IFRS13)
- Support in implementing the new accounting standards, detailed research on specific issues and development of accounting policies
- Assessment of data collection, controls and IT system processes and redesign of new processes
- Assessment of the entity’s tax position in the context of IFRS
- Preparation/review of skeleton accounts and financial statement disclosures including transition notes
- Development of an IFRS adoption project plan
- Communication of the impacts of the conversion to IFRS to stakeholders (analysts, regulators, funders and owners/shareholders) and understand the impacts of changes on KPIs
- IFRS Training

Why EY

Based on our significant experience with IFRS and other GAAP conversions we have developed a number of tools and methodologies to support the efficient management of an IFRS conversion project.

Our extensive experience gained through various adoption and transition projects enables us to anticipate and identify issues at an early stage and quickly respond with practical advice. As a result, more time can be devoted to clarifying and addressing strategic and operational issues in order to ensure a truly effective and tailor-made transition process.

Our services have the flexibility to accommodate the different needs of our clients that can trust EY’s extensive professional experience throughout the IFRS adoption and transition process. We consistently involve industry specialists in the delivery of our services so that our clients experience a perfectly smooth and fully customised transition process.

EY’s clients can enjoy continuous support throughout the adoption process from diagnostics to follow-up work. This enables our clients to carefully and thoroughly assess the impacts of IFRS standards with their strategic goals in mind with respect to both the adoption and transition process and future application.
About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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