

IFRS: Changes in the UK Statutory Reporting Environment Potential Implications for U.S. Companies



Overview

International Financial Reporting Standards (IFRSs) are required for listed companies in the United Kingdom (UK). Currently, larger private companies, including UK subsidiaries of U.S. multinationals, can choose to follow IFRSs or UK generally accepted accounting principles (GAAP). But, beginning in 2012, the options may change under a proposal from the UK Accounting Standards Board (ASB) to replace UK GAAP, which would require companies reporting under UK GAAP to either adopt full IFRSs or IFRS for Small and Medium-sized Entities (SMEs) for statutory reporting.

This change will require careful planning by companies to meet this potential requirement effectively, and use this change as a foundation to prepare for IFRS requirements in other jurisdictions.

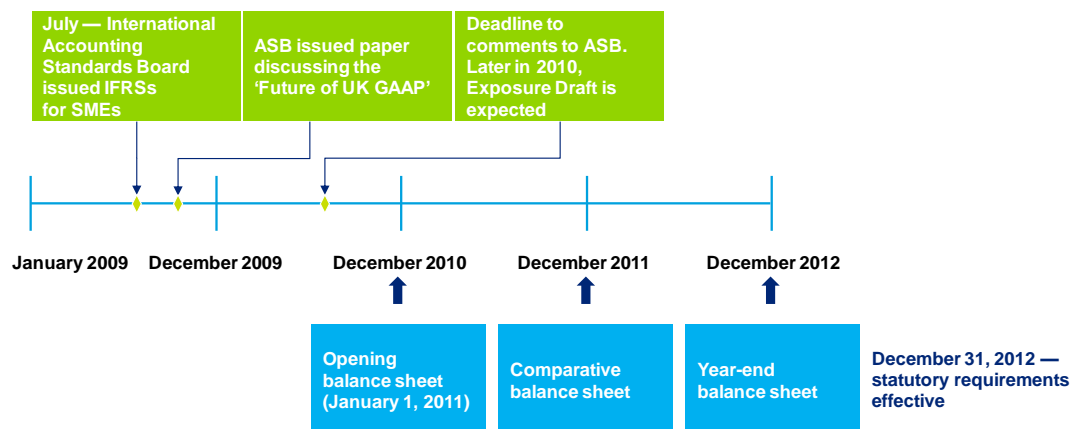
UK GAAP may soon be replaced with IFRSs or IFRS for SMEs and U.S. companies should be prepared for this potential change.

How might these recent developments in the UK affect U.S. companies?

These recent developments are expected to affect most UK subsidiaries of U.S. companies that are required to prepare financial statements for statutory reporting purposes. UK subsidiaries will be facing a potential near-term mandatory conversion that — if not properly planned — could create unanticipated and difficult challenges.

These potential challenges include complications that the U.S. parent company could encounter if the UK subsidiary makes accounting policy decisions unilaterally, which may need to be revisited or reversed at some later date when the U.S. parent company addresses these issues as part of a broader IFRS conversion. There are also potential tax implications which should be carefully managed as well, due to the linkage between tax reporting and statutory reporting in the UK. Distributable reserves and transfer pricing could also be impacted.

The timeline below outlines implications of a transition date of January 1, 2011 given the current UK ASB proposal



Timeline

The UK ASB is likely to propose that IFRS or IFRS for SMEs would be applicable for periods as early as 2012. The proposal is likely to be finalized in the near future, and it is possible that the effective date could be deferred by one year; however, because comparative information will be required upon adoption, the opening balance date of the first period presented could be as early as January 1, 2011. This requirement to develop comparative figures increases the importance of timely planning.

- Consider long-term benefit opportunities
 - Leverage this required conversion to develop practical experience and tools and templates to be used by subsidiaries in other jurisdictions and for broader IFRS efforts
 - Assess tax planning opportunities, particularly given the connection between UK tax reporting and statutory requirements

Preparing for the change

This proposed elimination of UK GAAP could force many UK subsidiaries of U.S. companies to change their accounting to full IFRSs or IFRS for SMEs. Regardless of the option that the UK subsidiaries select, there are some key steps that U.S. companies should take:

- Understand the differences and impact of converting from UK GAAP to full IFRSs or IFRS for SMEs, both from an accounting and tax perspective
- Plan a cost-effective implementation
 - Address key stakeholder questions regarding the potential impact (e.g. repatriation plans, transfer pricing)
 - Analyze potential conversion impacts with longer lead-times needed to address the process and system implications
 - Provide training and working sessions to identify potential challenges and implications of this transition
 - Develop resource estimates and a plan of attack
- Monitor the UK financial reporting environment to provide appropriate support to subsidiaries
- Assess the potential impact on in-flight system modifications that impact the UK subsidiaries during this timeframe

The Deloitte difference

Deloitte personnel are ready to meet with you to help you better understand these requirements and to provide broad multi-disciplinary assistance. We have a dedicated group of professionals with extensive experience helping clients in their IFRS implementations, across various industries, in the U.S., the UK, and around the globe. We offer broad assistance, providing accounting, financial reporting, tax, systems, and technology consulting services.

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