A GUIDE TO THE NEW RULES FOR FINANCIAL DISCLOSURES AND FINANCIAL REPORTING – COMPANIES (ACCOUNTING) ACT 2017

The Companies (Accounting) Act 2017 ('the Act') came into force on 9 June 2017. The main purpose of the Act is to transpose the EU Accounting Directive into Irish law and also to fix a few anomalies which were identified in the application of the Companies Act 2014.

The act will apply to financial periods commencing on or after 1 January 2017 for Financial Statements and other Reports. We outline below our guide to the key impacts of the Act which include:

- The new filing obligations of Irish Unlimited Companies
- Introduction of the new micro company
- Other changes regarding audits and financial statements

1. New filing obligations of unlimited companies

1.1 How will the act impact on financial disclosures by unlimited companies

The scope for unlimited companies to avoid filing financial statements with the Companies Registered Office is much reduced. Under the new measures, Irish registered unlimited companies which have a (direct or indirect) limited liability holding company will have to file financial statements (Designated ULC's). Where a company is a "pure" unlimited company (i.e. there is no ultimate protection of limited liability in the group structure) it will still be possible to avail of an exemption from filing financial statements.

Designated Unlimited Companies (ULCs) will now include: a)

a) An ULC that has been at any time during the financial year a direct or indirect *subsidiary* of a limited undertaking:

b) An ULC that has been at any time during the financial year a *holding company* of a limited undertaking; or

c) An ULC, the direct or indirect members of which comprise any combination of companies such that the *ultimate beneficial owners enjoy the protection of limited liability*.

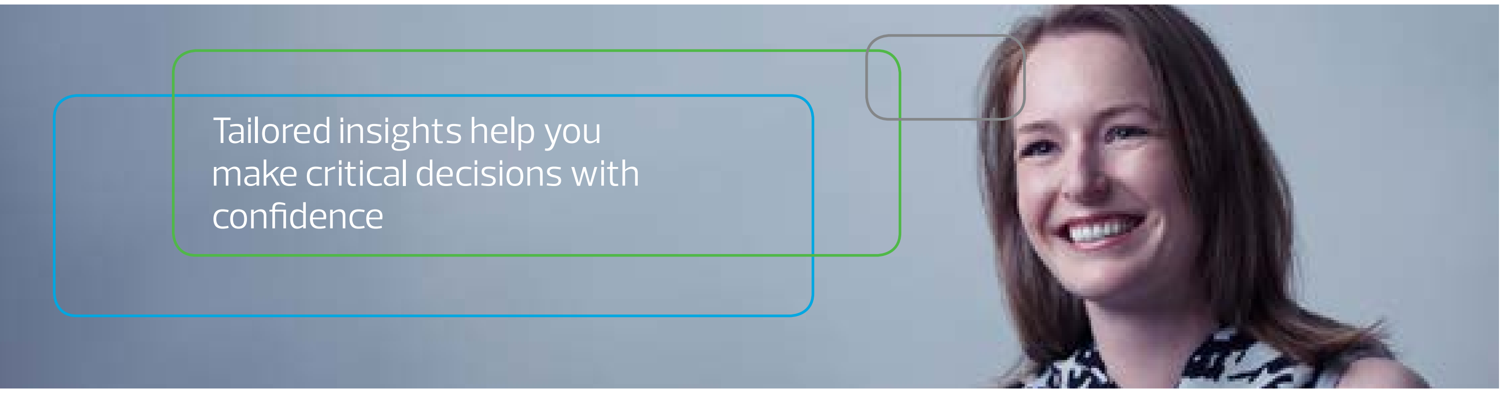
Designated ULC's will be required to file Financial Statements for financial periods commencing on or after 1 January 2017. An Unlimited Holding Company that has a limited liability undertaking (at (b) above) will be exempt until January 2022.

2. New rules regarding audits and financial statements

2.1 Changes to size thresholds

The act introduces *new thresholds* to determine company size, and a new "micro" category of company has been created. To qualify to a specific category, a company *must not exceed 2 of the 3 thresholds below.*

	Micro	Small	Medium
Net turnover	€700,000	€12m (€8.8m)	€40m (€20m)
Balance sheet (net assets)	€350,000	€6m (€4.4m)	€20m (€10m)
Average no. employees	10	50	250



2.2 Introduction of the new micro company

New micro companies can avail of *reduced disclosure requirements*. Amongst other exemptions, micro companies will be *exempt from disclosing directors' remuneration* and are *not obliged to prepare or file a director's report*.
The act allows for qualifying companies to opt into the micro companies regime for the financial periods commencing on or after 1 January 2015.

A number of companies cannot however qualify as a micro company, including investment undertakings, a holding company that prepares group financial statements, a financial holding undertaking or a subsidiary that is included in the consolidated financial statements of a higher holding undertaking.

2.3 Changes affecting small and medium companies

There is a significant *increase in minimum size thresholds* for small and medium companies (as per table above). Both can avail of an *exemption from including a business review* in the Directors' Report and an exemption from the requirement to disclose number of employees employed by category. Instead companies can disclose *average number employed in the financial year*.

Medium companies will be required to prepare group financial statements as the exemption relating to the size of the company will now only apply to micro and small companies.

3. Other changes

3.1 Abridged financial statements

Only Micro and Small Companies will be permitted to file Abridged Financial Statements with the Companies Registrations Office (CRO).

Medium size companies will be required to file the full shareholders' financial statements without any abridgement.

3.2 Change in Financial Reporting Framework

At present, a company may only change financial reporting framework (i.e. from IFRS to Companies Act requirements and vice versa) if there is a "relevant change of circumstances". The Bill provides that, in the absence of a relevant change of circumstances, *a company may change its financial reporting framework once every 5 years.*

The company will be obliged to explain in the notes to the financial statements the reason for, and any impact of, a change in accounting policy, if it makes such a change.

3.3 Payments to third parties for the services of directors

There are *new disclosure requirements* for companies (other than micro companies) in relation to payments to third parties for making available the services of any person as a director of the company or its subsidiary undertakings, or otherwise in connection with the management of the company's affairs or any of its subsidiary undertakings.

Third parties do not include the director or a person connected with the director, a body corporate controlled by the director or the company itself or any of its subsidiaries.

3.4 Scope of parent company guarantee of a subsidiary company in relation to filing of financial statements

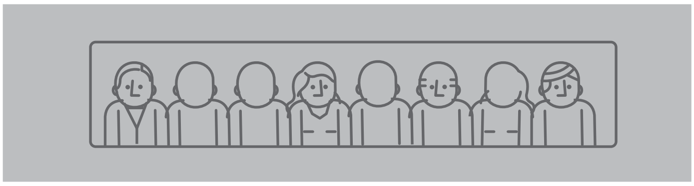
The guarantee to be given by a parent company with regard to the liabilities of its subsidiary (when relying on the filing exemption) will be *required to cover "commitments" entered into* by the subsidiary as well as "liabilities".

3.5 Unlimited company names

The act *removes the option* for an Unlimited Company to apply for a suffix exemption. This Act does not affect any exemption already granted by the Minister.

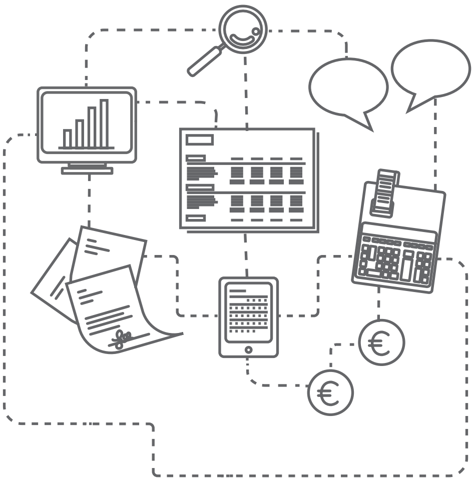
3.6 Charities–financial statements

The Act permits charities and other not-for profit companies to produce an *"income and expenditure account"*, rather than a profit and loss account, in accordance with the Charities SORP (Statement of Recommended Practice).



What are the next steps?

Directors of companies affected by the new requirements of the act should ensure they are fully informed about the changes and the impact of same on their financial reporting obligations. If you have any queries in respect of the impact of the act on your company, please contact one of our RSM team members.



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