

Summary of Regulatory Impact Analysis (RIA)

Department/Office:

Department of Jobs
Enterprise and Innovation

Title of Legislation:

Companies (Accounting) Bill 2015

Stage:

Heads of Bill

Date:

February 2015

Related Publications:

Directive 2013/34/EU (on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings) :

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013L0034&from=EN>

Single Market Act (COM(2011) 206 final):

<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52011DC0206&from=EN>

Review of the Accounting Directives:

http://ec.europa.eu/finance/accounting/sme_accounting/review_directives/index_en.htm

Proposal for a Directive (COM(2011) 684 final):

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0684:FIN:EN:PDF>

European Commission Impact Assessment (SEC(2011) 1289 final):

http://ec.europa.eu/internal_market/accounting/docs/sme_accounting/review_directives/SEC_2011_1289_1_en.pdf

CSES study "4th Company Law Directive and IFRS for SMEs":

http://ec.europa.eu/internal_market/accounting/docs/studies/2010_cses_4th_company_law_directive_en.pdf

Ramboll Management "Study on administrative costs of the EU Company Law Acquis", Final Report, July 2007:

http://ec.europa.eu/internal_market/company/docs/simplification/final_report_company_law_administrative_costs_en.pdf

Consultation by the Department of Jobs, Enterprise and Innovation on Member State Options under the New Accounting Directive:

http://www.djei.ie/commerce/companylawlegislation/Consultation_Directive_2013-34-EU.pdf

Available to view or download at:

<http://www.djei.ie/>

Contact for enquiries:

Telephone:

John Moynihan

(01) 631 2702

What are the policy objectives being pursued?

To implement certain provisions of Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC; implementation requires amendments of Chapter 6 of the Companies Act 2014 (Number 38 of 2014) and of the Schedules related to Part 6.

What policy options have been considered?

1. Do nothing.
2. Transpose Directive 2013/34/EU by the deadline of 20 July 2015 by amending the Companies Act 2014, the most notable consequence being a marked reduction in the disclosures in the notes to the financial statements that small companies can be required to make.

Preferred Option:

The “Do Nothing” option is not viable as pursuing it would constitute a breach of Ireland’s Treaty obligations and would give rise to infringement proceedings and significant penalties for not transposing the EU Directive.

The preferred option is therefore to transpose Directive 2013/34/EU and amend the Companies Act 2014 as necessary.

POLICY OPTIONS

	COSTS	BENEFITS	IMPACTS
Policy option 1	<u>Cost to Exchequer</u> The virtual certainty of infringement proceedings resulting in significant and recurring penalties.		<u>Impact on small companies</u> Small companies would incur costs of providing information in the notes to the financial statements in compliance with National law; the requirements of National being contrary to EU law.
Policy option 2	<u>Cost to Exchequer</u> No significant cost to Exchequer.	<u>Benefit to Exchequer</u> The avoidance of the penalties that would certainly result from a failure to transpose Directive 2013/34/EU.	<u>Impact on small companies</u> Small companies would incur lower costs by having to provide less information in the notes to the financial statements.

2. Description of Policy context and objectives

Introduction

The policy objectives of EU Directive 2013/34/EU (on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings) are set out in the Communication from the Commission to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions - Single Market Act - Twelve levers to boost growth and strengthen confidence - "Working together to create new growth" (COM(2011) 206 final) of April 2011).

The "Simplification of the Accounting Directives as regards financial information obligations and reduction of the administrative burden, particularly for SMEs" was the eleventh of "Twelve levers to boost growth and strengthen confidence" as set out in the European Commission's Single Market Act¹. According to paragraph 2.11 of the Single Market Act, the main aim of the proposed revision of the Directives on accounting rules was to reduce the administrative burden stemming from accounting requirements on micro- and small public limited companies and limited liability companies. According to the second sub-paragraph of paragraph 2.11, the potential savings generated by this proposal amount to EUR 1.5 billion per year for 1.1 million small companies and EUR 5.2 billion per year for 5.9 million micro-enterprises (on an EU wide basis, as is clear from the context). According to the same sub-paragraph, these savings would be mainly due to "easier" financial reporting requirements on these micro- and small enterprises. In addition, the review of the Directives would also improve the clarity and comparability of the financial statements of small- to large-sized companies across the EU.

Paragraph 3.2.1. of the European Commission's impact assessment accompanying its Proposal for a Directive (SEC(2011) 1289 final²) stated that recent studies had indicated that, given the numerous disclosure requirements in the Accounting Directives then in force, compliance with the requirements regarding the notes to the financial statements was laborious and their preparation represented the most time consuming part of the process, especially for smaller companies. The notes, being descriptive, required additional analysis and contained information that, for the most part, could not be easily obtained from the accounting software. According to the Commission

¹ Single Market Act: <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52011DC0206&from=EN>

² Commission Impact Assessment: http://ec.europa.eu/internal_market/accounting/docs/sme_accounting/review_directives/SEC_2011_1289_1_en.pdf

impact assessment, it was estimated¹ that, under the old Accounting Directives, for small companies up to 50% of time spent on preparing financial statements was devoted to the preparation of notes.

Effect of EU Directive 2013/34/EU

The new Accounting Directive, Directive 2013/34/EU of 26 June 2013 “on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings”, replaces both the Fourth² and Seventh³ Directives (on annual accounts and consolidated accounts respectively). It takes the small company or group as the starting point and imposes additional requirements on medium-sized companies and groups and even more requirements on large companies and groups as well as on “public interest entities” (essentially listed⁴ companies as well as banks and insurance undertakings whether listed or not, regardless of size). This is described as a “think small first” approach. In contrast to this, the old Directives took the largest companies as the norm, providing medium-sized and small companies with exemptions in the form of Member State derogations or options. A consequence of this is that options and derogations have a greatly diminished role in the new Directive, leaving Member States with less discretion.

For the purpose of determining company size, thresholds remain a feature of the new Directive but Member States have only limited scope to set the thresholds for small companies at a level different from that prescribed by the Directive. For example, in the case of small companies other than “micro-undertakings”, Member States may set the thresholds at, in the case of the balance sheet total, any level between €4,000,000 and €6,000,000 but they cannot set it below €4,000,000 or above €6,000,000 (see Annex I). Under the old Fourth Directive, Member States could set the small company thresholds at whatever level they chose, provided it did not exceed that set out in the Directive.

Under the provisions of Directive 2013/34/EU, Member States cannot impose a legal requirement on small companies to disclose information in their financial statements beyond that prescribed by the

¹ Centre for Strategy and Evaluation Services (CSES) study “4th Company Law Directive and IFRS for SMEs” paragraph 8.4:
http://ec.europa.eu/internal_market/accounting/docs/studies/2010_cses_4th_company_law_directive_en.pdf
drawing on “Study on administrative costs of the EU Company Law Acquis”, Final Report, July 2007, Ramboll Management:
http://ec.europa.eu/internal_market/company/docs/simplification/final_report_company_law_administrative_costs_en.pdf

² Directive 78/660/EEC of 25 July 1978, transposed by means of the Companies (Amendment) Act 1986.

³ Directive 83/349/EEC of 13 June 1983, transposed by means of the European Communities (Companies: Group Accounts) Regulations 1992 (S.I. No. 201 of 1992).

⁴ Companies whose securities are admitted to trading on a “regulated market” for the purposes of Directive 2004/39/EC (MiFID).

Directive, though there is a very limited discretion in a small number of areas (Article 16(2)). What is prescribed by the Directive for small companies is not very extensive. This rigidity does not apply to medium-sized or large companies or to companies that would be classed as small but for their being “public interest entities”. Small companies can choose to disclose additional information and must do so where it is necessary in order to show a true and fair view.

Member States cannot require small groups to prepare consolidated financial statements unless a group company is a “public interest entity”.

A Directive adopted in 2012¹ amending the existing Accounting Directive² introduced a new category of company, “the micro-entity”. The application of the 2012 Directive was at the option of the Member States. Ireland did not apply it. This category is reflected in the new Directive as the “micro-undertaking”³. The micro-undertaking also comes within the definition of “small undertaking”⁴. A micro-undertaking is a company with a balance sheet total of up to €350,000, turnover of up to €700,000 and an average of up to ten employees. All of the provisions relating specifically to micro-undertakings⁵ are Member State options, although conditions are attached to the exercise of some such options. The exemptions are detailed in Article 36. The financial statements of a micro-undertaking drawn up in accordance with these provisions are regarded as giving a true and fair view and the true and fair override does not apply to them.

3. Identification and Description of Options

Option 1: Do nothing.

As Directive 2013/34/EU must be transposed into national law the “Do nothing” option is not a viable option.

Option 2: Transpose Directive 2013/34/EU

The transposition of Directive 2013/34/EU will involve amending Part 6 of the Companies Act 2014 and the Schedules to the Act that relate to Part 6. Schedule 3 to the Companies Act 2014 contains the detailed requirements for the content of Companies Act entity financial statements, including

¹ Directive 2012/6/EU of the European Parliament and of the Council of 14 March 2012 amending Council Directive 78/660/EEC on the annual accounts of certain types of companies as regards micro-entities.

² By the insertion of a new Article 1a into Directive 78/660/EC, together with the replacement of paragraph 1 of Article 5 and all of Article 53a.

³ Article 3(1).

⁴ Article 36(6).

⁵ Article 36.

those relating to the content of the notes to the financial statements. It reflects the requirements of the now repealed Directive 78/660/EEC. Because Directive 2013/34/EU limits the disclosures that Member States can require small companies to make in the notes to the financial statements, certain of the existing requirements of Schedule 3 can no longer be imposed on small companies. Schedule 4 to the Companies Act 2014 contains the detailed requirements for the content of Companies Act group financial statements. It reflects the requirements of the now repealed Directive 83/349/EEC. Because Directive 2013/34/EU limits the disclosures that Member States can require small groups to make in the notes to the group financial statements, certain of the existing requirements of Schedule 4 can no longer be imposed on small groups.

4. Analysis of Costs, Benefits and Impacts of Options

Option 1: Do nothing.

Costs

Failure to transpose Directive 2013/34/EU would inevitably result in the instigation of infringement proceedings against the State by the European Commission, which would almost certainly result in the imposition of significant financial penalties.

This option is not recommended.

Option 2: Transpose Directive 2013/34/EU

Costs

Familiarisation with the new requirements is likely to give rise to small, one-off costs. The amendment of accounting software will give rise to some one-off costs.

Benefits

Savings to small companies as a result of fewer mandatory disclosures in the notes to the financial statements; the amount will vary depending on the size and relative complexity of the business.

The State will not be exposed to the infringement proceedings and penalties that failure to transpose the directive would give rise to.

Impacts

National competitiveness: Savings to small companies are expected to enhance National competitiveness.

The socially excluded and vulnerable groups: No impact.

The environment: No impact.

Significant policy change in an economic market, including consumer and competition impacts: No impact identified.

The rights of citizens: No impact identified.

Compliance Burdens: Represents a burden reduction.

North-South and East-West Relations: No impact.

Enforcement, Compliance and Review

No additional enforcement, compliance or review mechanisms are required.

Significant Member State Options

Consultation

The Department of Jobs, Enterprise and Innovation undertook a public consultation¹ on the use of Member State options in Directive 2013/34/EU, being matters in respect of which Member States can or must make a choice. The consultation did not extend to aspects of the Directive over which Member States have no discretion and which they are bound to apply.

The consultation document was issued on 18 February 2014 with a deadline for submissions of 31 March 2014. Ten submissions, of varying lengths and levels of comprehensiveness, were received; the submissions have informed the content of the General Scheme of the Bill.

¹ http://www.djei.ie/commerce/companylawlegislation/Consultation_Directive_2013-34-EU.pdf

Although Directive 2013/34/EU contains fewer Member State options than the previous Directives, the number of options is still considerable, there being at least a hundred options. Many of these are equivalent to Member State options under the previous Directives, many of which are reflected in the Irish Companies Acts, now in Part 6 of the Companies Act 2014. There is a considerable degree of diversity in the approach to financial reporting in the various Member States of the EU and some options in the Directive are there to facilitate certain Member States but may have little relevance to other Member States. Because of this, where an option is used in one Member State and not in another, it does not necessarily follow that companies in one such Member State are subject to an administrative burden.

Key Member State options giving rise to significant policy choices with the potential for significant cost savings and burden reductions for small companies include the following:

A.1

Member State Option:

Article 3(2) and (5) – Small Company Thresholds – Financial Reporting

What are the policy objectives being pursued?

The setting of monetary thresholds for determining the size of a small company or group appropriate to the Irish economy, within the constraints imposed by paragraphs 2 and 5 of Article 3 of Directive 2013/34/EU:

	<u>Companies Act 2014</u>	<u>Directive 2013/34/EU</u>	
		<u>Minimum</u>	<u>Maximum</u>
Balance sheet total	€4,400,000	€4,000,000	€ 6,000,000
Net turnover	€8,800,000	€8,000,000	€12,000,000
Employees	50	50	50

What policy options have been considered?

1. Set the thresholds at the minimum levels prescribed by the Directive.
2. Set the thresholds at the level of the Companies Act 2014.
3. Set the thresholds at a level between the minimum and maximum levels prescribed by the Directive (and above the level of the Companies Act 2014).
4. Set the thresholds at the maximum levels permitted by the Directive.

Preferred Option:

The preferred option is to set the thresholds at the maximum levels permitted by the Directive.

POLICY OPTIONS			
	COSTS	BENEFITS	IMPACTS
Policy option 1	<u>Costs to companies</u> Companies falling between the minimum and maximum EU thresholds would incur the cost of making disclosures prescribed for medium companies.	<u>Benefits to users</u> Users of financial statements of companies falling between the minimum and maximum EU thresholds would have more comprehensive information.	<u>Impact on companies</u> Companies falling between the minimum and maximum EU thresholds would be subject to additional administrative burdens.
Policy option 2	<u>Costs to companies</u> Companies falling between the minimum and maximum EU thresholds would incur the cost of making disclosures prescribed for medium companies.	<u>Benefits to users</u> Users of financial statements of companies falling between the minimum and maximum EU thresholds would have more comprehensive information. <u>Other benefits</u> Thresholds would remain as before.	<u>Impact on companies</u> Companies falling between the minimum and maximum EU thresholds would be at a competitive disadvantage.
Policy option 3	<u>Costs to companies</u> Companies falling between the Irish and EU thresholds would incur the cost of making disclosures prescribed for medium companies.	<u>Benefits to users</u> Users of financial statements of companies falling between the Irish and EU thresholds would have more comprehensive information.	<u>Impact on companies</u> Companies falling between the Irish and EU thresholds might be at a competitive disadvantage.
Policy option 4		<u>Benefits to companies</u> Maximisation of the number of Irish companies benefiting from the cost savings from preparing fewer notes to the financial statements.	<u>Impact on companies</u> Maximisation of the number of Irish companies benefiting from the reduced disclosures in the notes to the financial statements.

A.2. Description of Policy context and objectives

Under the Accounting Directives, old and new, financial reporting requirements vary depending on the size of the company, the size being determined by thresholds. The sizes are large, medium,

small and micro. The thresholds are balance sheet total, net turnover and average number of employees; companies that fall below at least two of the three thresholds fall within a particular size. Under the old Directive (Directive 78/660/EEC) Member States could set the thresholds in their domestic law at levels lower than those specified in the Directive. As a general rule, the new Directive (Directive 2013/34/EU) does not allow Member States to deviate from the thresholds prescribed by the Directive; the exception to this is the case of small companies and groups. Paragraphs 2 and 5 of Article 3 of Directive 2013/34/EU set the balance sheet total and net turnover at €4,000,000 and €8,000,000 respectively, these being 10% lower than the corresponding thresholds contained in Article 11 of the old Directive, in existing Irish company law and in section 350 of the Companies Act 2014.

Paragraphs 2 and 5 of Article 3 of Directive 2013/34/EU give Member States the option of increasing the balance sheet total and net turnover to levels up to €6,000,000 and €12,000,000 respectively.

The policy objective is to set the thresholds at a level appropriate to the circumstances of the Irish economy.

A.3. Identification and Description of Policy Options

Option 1: Set the thresholds at the minimum levels prescribed by the Directive

Set the thresholds at the minimum levels prescribed by the Directive. This does not involve the use of a Member State option but would require reducing the monetary thresholds to a level 10% below those currently provided for by Irish company law and by section 350 of the Companies Act 2014.

Option 2: Leave the thresholds at the level of the Companies Act 2014

Leave the thresholds at the level of section 350 of the Companies Act 2014, balance sheet total €4,400,000 and net turnover €8,800,000. These were the maxima under the old Directive, last increased in 2006¹, and applied in Ireland since 2012². This is a “Do nothing” option.

Option 3: Set the thresholds at an intermediate level

Set the monetary thresholds at a level between those of section 350 of the Companies Act 2014 and the maximum levels permitted by Article 3, paragraphs 2 and 5, of Directive 2013/34/EU. This would result in a balance sheet total of between €4,400,000 and €6,000,000 and net turnover of between €8,800,000 and €12,000,000.

Option 4: Set the thresholds at the maximum

Set the thresholds at the maximum levels permitted by Article 3, paragraphs 2 and 5, of Directive 2013/34/EU; balance sheet total €6,000,000 and net turnover €12,000,000.

Option 4 is the preferred option.

¹ Directive 2006/46/EC, Article 1(1).

² European Union (Accounts) Regulations 2012 (S.I. No. 304 of 2012), Regulation 2.

A.4. Analysis of Costs, Benefits and Impacts of Policy Options

Option 1: Set the thresholds at the minimum levels prescribed by the Directive

Costs

If the monetary thresholds for small companies are set at the minimum levels permitted by Article 3, paragraphs 2 and 5, of Directive 2013/34/EU, companies falling between the minimum and maximum EU thresholds will fall to be treated as medium companies and will incur the cost of making disclosures prescribed for medium companies.

Benefits

If the monetary thresholds for small companies are set at the minimum levels permitted by Article 3, paragraphs 2 and 5, of Directive 2013/34/EU, users of financial statements of companies falling between the minimum and maximum EU thresholds will have more comprehensive information than they would have if the thresholds were increased; this may give users increased confidence in the financial statements as a basis for decision making.

Impacts

If the monetary thresholds for small companies are set at the minimum levels permitted by Article 3, paragraphs 2 and 5, of Directive 2013/34/EU, companies falling between the minimum and maximum EU thresholds will be subject to some additional administrative burdens. In addition, companies or groups falling between the minimum level set by the Directive and the level currently prescribed in Irish law will cease to be small companies or groups.

National competitiveness: Companies that could potentially be treated as small would continue to incur the costs of providing more extensive disclosures in the notes to the financial statements and will be subject to some additional administrative burdens.

The socially excluded and vulnerable groups: No impact.

The environment: No impact.

Significant policy change in an economic market, including consumer and competition impacts: No impact identified.

The rights of citizens: No impact identified.

Compliance Burdens: A potential burden reduction would not be availed of and companies that would have qualified as medium companies had the thresholds been raised to the maxima would face an increased compliance burden.

North-South and East-West Relations: No impact.

Option 2: Leave the thresholds at the level of the Companies Act 2014

Costs

If the monetary thresholds for small companies remain at the levels of section 350 of the Companies Act 2014, companies falling between that level and the maximum EU thresholds will fall to be treated as medium companies and will incur the cost of making disclosures prescribed for medium companies.

Benefits

If the monetary thresholds for small companies remain at the levels of section 350 of the Companies Act 2014, users of financial statements of companies falling between that level and the maximum EU thresholds will have more comprehensive information than they would have if the section 350 thresholds were increased.

Impacts

If the monetary thresholds for small companies remain at the levels of section 350 of the Companies Act 2014, companies falling between that level and the maximum EU thresholds will be subject to a compliance burden greater than it need be.

National competitiveness: Companies that could potentially be treated as small would continue to incur the costs of providing more extensive disclosures in the notes to the financial statements and would be at a competitive disadvantage.

The socially excluded and vulnerable groups: No impact.

The environment: No impact.

Significant policy change in an economic market, including consumer and competition impacts: No impact identified.

The rights of citizens: No impact identified.

Compliance Burdens: A potential burden reduction would not be availed of.

North-South and East-West Relations: No impact.

Option 3: Set the thresholds at an intermediate level

Costs

If the monetary thresholds for small companies are set at a level between that of section 350 of the Companies Act 2014 and the maximum permitted by Article 3, paragraphs 2 and 5, of Directive 2013/34/EU, companies falling between the Irish and EU thresholds would incur the cost of making disclosures prescribed for medium companies.

Benefits

If the monetary thresholds for small companies are set at a level between that of section 350 of the Companies Act 2014 and the maximum permitted by Article 3, paragraphs 2 and 5, of Directive 2013/34/EU, users of financial statements of such companies would have more comprehensive information than would be the case if the Irish thresholds were increased further.

Impacts

If the monetary thresholds for small companies are set at a level between that of section 350 of the Companies Act 2014 and the maximum permitted by Article 3, paragraphs 2 and 5, of Directive 2013/34/EU, companies falling between the Irish and EU thresholds will be subject to a regulatory burden greater than it need be.

National competitiveness: Savings to the additional companies qualifying as small companies are expected to enhance national competitiveness. Companies that could potentially be treated as small would continue to incur the costs of providing more extensive disclosures in the notes to the financial statements and would be at a competitive disadvantage.

The socially excluded and vulnerable groups: No impact.

The environment: No impact.

Significant policy change in an economic market, including consumer and competition impacts: No impact identified.

The rights of citizens: No impact identified.

Compliance Burdens: Compliance burden reduction.

North-South and East-West Relations: No impact.

Option 4: Set the thresholds at the maximum levels permitted by the Directive

Benefits

If the monetary thresholds for small companies and groups are set at the maximum level allowed by Article 3, paragraphs 2 and 5, of Directive 2013/34/EU, the number of Irish companies benefiting from the cost savings from, among other things, preparing fewer notes to the financial statements will be maximised.

Impacts

If the monetary thresholds for small companies and groups are set at the maximum level allowed by Article 3, paragraphs 2 and 5, of Directive 2013/34/EU, the number of Irish companies benefiting from the reduced disclosures in the notes to the financial statements will be maximised.

National competitiveness: Savings to small companies are expected to enhance national competitiveness to the fullest extent.

The socially excluded and vulnerable groups: No impact.

The environment: No impact.

Significant policy change in an economic market, including consumer and competition impacts: No impact identified.

The rights of citizens: No impact identified.

Compliance Burdens: Represents a burden reduction on the highest permissible number of companies.

North-South and East-West Relations: No impact.

Consultation

The level of the thresholds for small companies and small groups was the subject of question 4 of the Department's public consultation on the Member State options under Directive 2013/34/EU. Of the ten respondents to the consultation, seven responded to question 4. Of these, two favoured maintaining the status quo, one advocated setting the thresholds at an intermediate point and four favoured setting the thresholds at or near the maxima.

The choice of the preferred policy option was informed by the responses to the public consultation.

B.1

Member State Option:

Article 34(1) - Audit

Article 3(2) and (5) – Small Company Thresholds – Audit Exemption

What are the policy objectives being pursued?

The setting of monetary thresholds for determining the size of a small company or group for the purpose of audit exemption, having regard to the criteria contained in paragraphs 2 and 5 of Article 3 of Directive 2013/34/EU; the test being that companies or groups do not exceed the limits of at least two of the three following criteria:

	<u>Companies Act 2014</u>	<u>Directive 2013/34/EU</u>	
		<u>Minimum</u>	<u>Maximum</u>
Balance sheet total	€4,400,000	€4,000,000	€ 6,000,000
Net turnover	€8,800,000	€8,000,000	€12,000,000
Employees	50	50	50

Directive 2013/34/EU does not require that the financial statements of small companies or groups be audited, leaving it to the Member States to decide whether or not to impose an audit requirement on such companies and groups. In this, Member States are not constrained by the minimum thresholds above.

What policy options have been considered?

1. Set the thresholds for audit exemption at a level below whatever levels are set for determining small company size for the purpose of financial reporting (see A.1 above).
2. Set the thresholds for audit exemption at the same levels as whatever levels are set for determining small company size for the purpose of financial reporting (see A.1 above).

Preferred Option:

The preferred option is to set the thresholds at the same level as those set for

determining small company size, these being the maximum levels permitted by the Directive.

POLICY OPTIONS			
	COSTS	BENEFITS	IMPACTS
Policy option 1	<u>Costs to companies</u> Small companies falling between the thresholds for audit exemption and for company size would incur the cost of an audit.	<u>Benefits to users</u> Users of financial statements of small companies falling between the thresholds for audit exemption and for company size would have the assurance of an audit.	<u>Impact on companies</u> Small companies falling between the thresholds for audit exemption and for company size would be at a competitive disadvantage.
Policy option 2		<u>Benefits to companies</u> Maximisation of the number of Irish small companies benefiting from cost savings from not having an audit.	<u>Impact on users</u> Users of financial statements of the small companies concerned would not have the assurance of an audit.

B.2. Description of Policy context and objectives

Under the old Directive, there was a general requirement for an audit, though Member States were given the option of exempting small companies. Directive 2013/34/EU has no audit requirement for small companies, though Member States are free to impose such a requirement; where Member States impose a general audit requirement on small companies they can also provide for audit exemption on the basis of specified criteria. The difference is one of emphasis rather than substance.

Paragraphs 2 and 5 of Article 3 of Directive 2013/34/EU contain the size criteria for determining whether a company is a small company; the balance sheet total and net turnover being €4,000,000 and €8,000,000 respectively. Member States are given the option of increasing these to levels of up to €6,000,000 and €12,000,000 respectively. The number of employees is 50. A company is classed as small if it does not exceed at least two of the three criteria.

The policy objective is to set the thresholds for audit exemption at a level appropriate to the circumstances of the Irish economy. These thresholds cannot exceed those that Ireland applies for the determination of whether a company is a small company but the monetary thresholds can be lower.

B.3. Identification and Description of Policy Options

Option 1:

Set the thresholds for determining whether a small company qualifies for audit exemption at a level lower than those for determining whether a company qualifies as a small company.

Option 2:

Set the thresholds for determining whether a small company qualifies for audit exemption at the same level as those chosen for determining whether a company qualifies as a small company i.e. have the same thresholds for small company size and audit exemption.

Option 2 is the preferred option.

B.4. Analysis of Costs, Benefits and Impacts of Policy Options

Option 1: Use thresholds lower than those for company size

Costs

If the thresholds for determining whether a small company qualifies for audit exemption are set at a level lower than those for determining whether a company qualifies as a small company, those small companies that exceed the audit exemption thresholds will incur the cost of having their financial statements audited.

Benefits

If the thresholds for determining whether a small company qualifies for audit exemption are set at a level lower than those for determining whether a company qualifies as a small company, the users of financial statements of companies that are small companies but are not small enough to qualify for audit exemption will have the assurance that an audit brings.

Impacts

If the thresholds for determining whether a small company qualifies for audit exemption are set at a level lower than those for determining whether a company qualifies as a small company, companies that are small companies but are not small enough to qualify for audit exemption will be at a competitive disadvantage.

National competitiveness: Negative impact on competitiveness.

The socially excluded and vulnerable groups: No impact.

The environment: No impact.

Significant policy change in an economic market, including consumer and competition impacts: No impact identified.

The rights of citizens: No impact identified.

Compliance Burdens: Compliance burden for companies in the affected size range.

North-South and East-West Relations: No impact.

Option 2: Use same thresholds as for company size

Benefits

If the thresholds for determining whether a small company qualifies for audit exemption are set at the same level as those for determining whether a company qualifies as a small company, the number of Irish small companies benefiting from cost savings from not having an audit will be maximised.

Impacts

If the thresholds for determining whether a small company qualifies for audit exemption are set at the same level as those for determining whether a company qualifies as a small company, the users of financial statements of the additional small companies qualifying for audit exemption will not have the assurance of an audit.

National competitiveness: None identified.

The socially excluded and vulnerable groups: No impact.

The environment: No impact.

Significant policy change in an economic market, including consumer and competition impacts: No impact identified.

The rights of citizens: No impact identified.

Compliance Burdens: None.

North-South and East-West Relations: No impact.

Consultation

As the audit of the financial statements is not a requirement of Directive 2013/34/EU and does not involve the use of a Member State option it did not form part of the Department's consultation on the use of Member State options.

C.1

Member State Option:

Article 36 – Micro-undertakings

What are the policy objectives being pursued?

Whether to avail, in whole or in part, of the Member State option provided by Article 36 of Directive 2013/34/EU that allows micro- undertakings to produce very simple financial statements deemed to give a true and fair view. Article 36 comprises a number of components or sub-options. Directive 2013/34/EU defines a micro undertaking as one that does not exceed two of the three criteria:

Balance sheet total	€350,000
Net turnover	€700,000
Average number of employees	10

What policy options have been considered?

1. Do nothing.
2. Avail of the option to a limited extent only.
3. Avail of the option to a considerable extent, but not in its entirety.
4. Avail of the option to the fullest extent.

Preferred Option:

The preferred option is to avail of Article 36 of Directive 2013/34/EU to a considerable extent, but not in its entirety.

Article 36 would be availed of except for:

the exemption, in paragraph 1(a) of Article 36, from the requirement to present prepayments and accrued income and accruals and deferred income or the limited exemption from the requirement to recognise a specified component or subset of those items, and

the designation, pursuant to paragraph 1(d) of Article 36, of a single competent authority for the filing of the balance sheet of a micro-undertaking.

POLICY OPTIONS			
	COSTS	BENEFITS	IMPACTS
Policy option 1	<u>Costs to companies</u> The smallest companies would continue to incur the cost of preparing financial statements to the same standard as less small companies.	<u>Benefits to users</u> Users of financial statements of the smallest companies would continue to have more comprehensive information.	<u>Impacts on companies</u> The cost and effort of preparing financial statements to the same standard as less small companies is disproportionately burdensome for the smallest companies.
Policy option 2	<u>Costs to companies</u> The smallest companies would continue to incur most of the cost of preparing financial statements to the same standard as less small companies.	<u>Benefits to users</u> Users of financial statements of the smallest companies would have reasonably comprehensive information.	<u>Impacts on companies</u> The cost and effort of preparing financial statements would continue to be disproportionately burdensome for the smallest companies.
Policy option 3	<u>Costs to companies</u> The smallest companies would continue to incur the cost associated with the requirement to recognise prepayments and accruals relating to the profit and loss account item "other charges".	<u>Benefits to companies</u> The smallest companies would be relieved of most of the cost of preparing financial statements to the same standard as less small companies.	<u>Impact on companies</u> The smallest companies would see a significant reduction in the level of an obligation that is disproportionately burdensome for them. <u>Impact on users</u> Users of financial statements of the smallest companies would have quite limited information.

Policy option 4	<p><u>Benefits to companies</u> The smallest companies would be relieved of the cost of preparing financial statements to the maximum extent permitted by the Directive.</p>	<p><u>Impact on companies</u> The smallest companies would see a significant reduction in the level of an obligation that is disproportionately burdensome for them.</p>
	<p><u>Other benefits</u> Maximum advantage can be taken of burden reductions while avoiding any problematic aspects of the Member State option.</p>	<p><u>Impact on users</u> Users of financial statements of the smallest companies would have very limited information.</p>

C.2. Description of Policy context and objectives

A Directive adopted in 2012¹ amended the old Accounting Directive by introducing a new category of company, “the micro-entity”, the application of which was a Member State option that Ireland did not avail of. This category is reflected in Articles 3(1) and 36 of Directive 2013/34/EU as the “micro-undertaking” and in the Companies (Accounting) Bill 2015 as the “micro company”. The micro-undertaking also comes within the definition of “small undertaking”. A micro-undertaking is a company with a balance sheet total of up to €350,000, turnover of up to €700,000 and an average of up to ten employees. All of the provisions relating specifically to micro-undertakings are Member State options, although conditions are attached to the exercise of some such options. The exemptions are detailed in Article 36. The financial statements of a micro-undertaking drawn up in accordance with these provisions are regarded as giving a true and fair view and the true and fair override does not apply to them. A company availing of any of the exemptions for micro-undertakings cannot use “fair value” accounting. The policy consideration is whether to avail, in whole or in part, of the Member State option provided by Article 36 of Directive 2013/34/EU

C.3. Identification and Description of Policy Options

Option 1: Do nothing

The “Do nothing” option means maintaining the status quo and not recognising the category of micro-undertaking in Irish company law.

¹ Directive 2012/6/EU of the European Parliament and of the Council of 14 March 2012 amending Council Directive 78/660/EEC on the annual accounts of certain types of companies as regards micro-entities.

Option 2: Avail of the Member State option to a limited extent

Avail of the option to a limited extent only; Article 36, while being totally optional, contains a number of distinct options and it would be possible to avail of a minority of such options.

Option 3: Avail of the Member State option to a considerable extent

Avail of the option to a considerable extent, but not in its entirety; Article 36, while being totally optional, contains a number of distinct options and it would be possible to avail of most of them while excluding a minority.

Option 4: Avail of the Member State option in its entirety

Avail of the option to the fullest extent i.e. Apply all of Article 36.

Option 3 is the preferred option.

4. Analysis of Costs, Benefits and Impacts of Policy Options

Option 1: Do nothing

Costs

If micro-undertakings are not incorporated into Irish company law, the very smallest companies will continue to incur the cost of preparing financial statements to the same standard as less small companies.

Benefits

If micro-undertakings are not incorporated into Irish company law, the users of financial statements of the very smallest companies will continue to have information as comprehensive as that provided by less small companies.

Impacts

If micro-undertakings are not incorporated into Irish company law, the very smallest companies will continue to incur the cost and expend the same effort in preparing financial statements as do less small companies but the burden on the very smallest companies will be disproportionate.

National competitiveness: Very small companies, including start-up companies in the very early stage of development, will be at a competitive disadvantage.

The socially excluded and vulnerable groups: No impact.

The environment: No impact.

Significant policy change in an economic market, including consumer and competition impacts: No impact identified.

The rights of citizens: No impact identified.

Compliance Burdens: Maintains an existing compliance burden.

North-South and East-West Relations: No impact.

Option 2: Avail of the option to a limited extent only

Costs

If the exemptions potentially available to micro-undertakings are incorporated into Irish company law to a limited extent only, the very smallest companies will continue to incur most of the cost of preparing financial statements to the same standard as less small companies.

Benefits

If the exemptions potentially available to micro-undertakings are incorporated into Irish company law to a limited extent only, the users of financial statements of such companies will have reasonably comprehensive information.

Impacts

If the exemptions potentially available to micro-undertakings are incorporated into Irish company law to a limited extent only, the cost and effort of preparing financial statements will continue to be disproportionately burdensome for the very smallest companies. If such exemptions are reflected in Irish law to a very limited extent, the impact might be so marginal as to confer no significant benefit.

National competitiveness: Very small companies, including start-up companies in the very early stage of development, will be at a competitive disadvantage.

The socially excluded and vulnerable groups: No impact.

The environment: No impact.

Significant policy change in an economic market, including consumer and competition impacts: No impact identified.

The rights of citizens: No impact identified.

Compliance Burdens: Limited burden reduction.

North-South and East-West Relations: No impact.

Option 3: Avail of the option to a considerable extent, but not in its entirety

Benefits

If the exemptions potentially available to micro-undertakings are incorporated into Irish company law to a very significant extent, though not in their entirety, the very smallest companies will be relieved of most of the cost of preparing financial statements to the same standard as less small companies. This approach will take advantage of significant burden reductions provided by Article 36 of Directive 2013/34/EU.

Impacts

If the exemptions potentially available to micro-undertakings are incorporated into Irish company law to a very significant extent, though not in their entirety, the very smallest companies will see a significant reduction in the level of an obligation that is disproportionately burdensome for them.

Users of financial statements of the smallest companies will have access to quite limited information.

National competitiveness: Savings to very small companies can be expected to enhance national competitiveness.

The socially excluded and vulnerable groups: No impact.

The environment: No impact.

Significant policy change in an economic market, including consumer and competition impacts: No impact identified.

The rights of citizens: No impact identified.

Compliance Burdens: Significant compliance burden reduction.

North-South and East-West Relations: No impact.

Option 4: Avail of the option to the fullest extent.

Benefits

If the exemptions potentially available to micro-undertakings are incorporated into Irish company law to the fullest possible extent the very smallest companies will be relieved of the cost of preparing financial statements to the maximum extent permitted by the Directive.

Impacts

If the exemptions potentially available to micro-undertakings are incorporated into Irish company law to the fullest possible extent, the very smallest companies will see a significant reduction in the level of an obligation that is disproportionately burdensome for them. The users of the financial statements of such companies will have very limited information.

National competitiveness: Savings to very small companies can be expected to enhance national competitiveness.

The socially excluded and vulnerable groups: No impact.

The environment: No impact.

Significant policy change in an economic market, including consumer and competition impacts: No impact identified.

The rights of citizens: No impact identified.

Compliance Burdens: Represents a burden reduction.

North-South and East-West Relations: No impact.

Consultation

Micro undertakings were the subject of questions 91 to 98 of the Department's consultation on the use of Member State options.

The responses to questions 91 and 92 showed there was strong opposition to the adoption of the exemption, in paragraph 1(a) of Article 36, from the requirement to present prepayments and accrued income and accruals and deferred income or the limited exemption from the requirement to recognise a specified component or subset of those items.

The responses to question 96 showed no support for the designation, pursuant to paragraph 1(d) of Article 36, of a single competent authority for the filing of the balance sheet of a micro-undertaking, though four respondents expressed no view.

Among those who responded to questions 93 and 94 a majority favoured exempting micro-undertakings from the requirement to present notes to the financial statements and from the requirement to prepare a directors' report.

Those who responded to questions 95 and 97 were evenly divided on whether micro-undertakings should be allowed to file a balance sheet and nothing more with the Companies Registration Office and to prepare an abridged balance sheet.

Among those who responded to question 98 a majority favoured allowing micro-undertakings to prepare an abridged profit and loss account.

Four of the ten respondents expressed no view on questions 93, 94, 95, 97 and 98.

The choice of the preferred policy option was informed by the responses to the public consultation

D.1

Member State Option:

Article 16(2) – Additional Disclosures for Small Companies

What are the policy objectives being pursued?

Directive 2013/34/EU prevents Member States from requiring small companies to disclose information in the notes to the financial statements beyond that prescribed by the Directive; the Directive allows Member States to prescribe the disclosure of additional information in respect of four matters specified in the Directive. The policy objective is to decide whether to prescribe some or all of the additional disclosures.

The additional disclosures are:

- An analysis of the movements in fixed assets
- The name and registered office of the smallest group which includes the small company in its consolidated financial statements
- Material post balance sheet events
- The nature and business purpose of material off-balance sheet arrangements
- Particulars of related party transactions (limited classes of related parties only)

What policy options have been considered?

1. Do nothing: require none of the additional disclosures.
2. Require some, but not all, of the disclosures (based on ease of production; first two items above).
3. Require some, but not all, of the disclosures (based on importance of information; last three items above)
4. Require all of the disclosures.

Preferred Option:

The preferred option is Option 4, to require all of the disclosures. The first two of the above can be produced with minimal difficulty. The remaining three, while not without costs, are very important for assessing the financial position of a company. Related party transactions may be more significant for a small company than for a large one. All are required, to a greater or lesser extent, by Irish Companies Acts and are required by the Companies Act 2014. At present, material post balance sheet events must be disclosed in the directors' report.

POLICY OPTIONS			
	COSTS	BENEFITS	IMPACTS
Policy option 1	<u>Costs to users</u> Users exposed to potential losses that might be avoidable given fuller information.	<u>Benefits to companies</u> Companies would save the cost of producing the information.	<u>General</u> Post balance sheet events and off-balance sheet arrangements, where material, can be of vital importance; the absence of information on them can have disastrous consequences. Related party transactions may be particularly important in the case of a small company.
Policy option 2	<u>Costs to users</u> Users exposed to potential losses that might be avoidable given fuller information.	<u>Benefits to companies</u> Companies would save the cost of producing the remaining information.	<u>General</u> Post balance sheet events and off-balance sheet arrangements, where material, can be of vital importance; the absence of information on them can have disastrous consequences. Related party transactions may be particularly important in the case of a small company.
Policy option 3	<u>Cost to company</u> Disclosures of post balance sheet events and off-balance sheet arrangements tend to take up senior management time.	<u>Benefits to users</u> Users of financial statements would continue to have access to vital information.	<u>Impact on companies</u> Small companies might be expected not to have extensive off-balance sheet arrangements and the requirement to disclose them is unlikely to be burdensome.
Policy option 4.	<u>Cost to company</u> Companies will incur the costs of the additional disclosures.	<u>Benefits to users</u> Users of financial statements would continue to have access to vital information.	<u>Impact on companies</u> All such disclosures are required, to a greater or lesser extent, by Irish Companies Acts, including the Companies Act 2014.

D.2. Description of Policy context and objectives

Article 16(3) of Directive 2013/34/EU prevents Member States from requiring small companies to disclose information in the notes to the financial statements beyond that prescribed by the Directive. Article 16(3) of the Directive allows Member States to prescribe the disclosure of

additional information in respect of four matters specified in the Directive, these being identified by reference to specific provisions of Article 17(1).

The additional disclosures are:

1. An analysis of the movements in fixed assets
2. The name and registered office of the smallest group which includes the small company in its consolidated financial statements
3. The nature and financial effect of material post balance sheet events
4. The nature and business purpose of material off-balance sheet arrangements
5. Particulars of related party transactions (limited classes of related parties only)

Items 1 and 2 can be produced with minimal difficulty. Items 3 and 4 are particularly important in assessing the financial standing of a company; many small companies will not have off-balance sheet arrangements in which case compliance will not be difficult. Item 5 may be particularly relevant in the circumstances of a small owner-managed company. The extent of the disclosures by small companies in respect of items 4 and 5 is less than that required of medium and large companies. Existing Irish company law requires small companies to provide this or equivalent information in the financial statements laid before the annual general meeting though it can be omitted from abridged financial statements filed with the Registrar of Companies; under existing Irish law item 4 is disclosed in the directors' report.

The policy objective is to decide whether to prescribe some or all of the additional disclosures.

D.3. Identification and Description of Policy Options

Option 1: Do nothing

Require only those disclosures that Directive 2013/34/EU requires.

Option 2: Require easy disclosures only

Require only those additional disclosures that can be produced with relatively little difficulty, an analysis of the movements in fixed assets and the name and registered office of the smallest group which includes the small company in its consolidated financial statements, respectively items 1 and 2 above.

Option 3: Require important disclosures only

Require only those additional disclosures that are considered to provide information of importance to the users of the financial statements, these being: the nature and financial effect of material events occurring after the date of the balance sheet; the nature and business purpose of material

off-balance sheet arrangements; and particulars transactions with limited classes of related parties. These relate to items 3, 4 and 5 above.

Option 4: Require all of the disclosures

Require all of the five additional disclosures itemised above.

Option 4 is the preferred option.

D.4. Analysis of Costs, Benefits and Impacts of Policy Options

Option 1: Do nothing

Costs

If Irish small companies are not required to make any of the disclosures identified in Article 16(2) of Directive 2013/34/EU, users of their financial statements may be exposed to potential losses that might be avoidable given fuller information.

Benefits

If Irish small companies are not required to make any of the disclosures identified in Article 16(2) of Directive 2013/34/EU, small companies will be able to save the cost of producing the information.

Impacts

If Irish small companies are not required to make any of the disclosures identified in Article 16(2) of Directive 2013/34/EU, small companies will not be under a specific obligation to disclose information that may be of vital importance to the users of their financial statements. Post balance sheet events and off-balance sheet arrangements, if they arise and where they are material, can be of vital importance; the absence of information on them can expose users of financial statements to significant loss. Related party transactions may be particularly important in the case of a small company.

National competitiveness: No significant impact identified.

The socially excluded and vulnerable groups: No impact.

The environment: No impact.

Significant policy change in an economic market, including consumer and competition impacts: No impact identified.

The rights of citizens: No impact identified.

Compliance Burdens: None.

North-South and East-West Relations: No impact.

Option 2: Require easy disclosures only

Costs

If Irish small companies are required to make only those additional disclosures identified in Article 16(2) of Directive 2013/34/EU that are easy to provide, users of their financial statements may be exposed to potential losses that might be avoidable given fuller, more relevant information.

Benefits

If Irish small companies are required to make only those additional disclosures identified in Article 16(2) of Directive 2013/34/EU that are easy to provide, they will be able to save the cost of producing the information that is less easy to provide.

Impacts

If Irish small companies are required to make only those additional disclosures identified in Article 16(2) of Directive 2013/34/EU that are easy to provide, small companies will not be under a specific obligation to disclose information that may be of vital importance to the users of their financial statements. Post balance sheet events and off-balance sheet arrangements, if they arise and where they are material, can be of vital importance; the absence of information on them can expose users of financial statements to significant loss. Related party transactions may be particularly important in the case of a small company.

National competitiveness: Savings to small companies are expected to enhance national competitiveness.

The socially excluded and vulnerable groups: No impact.

The environment: No impact.

Significant policy change in an economic market, including consumer and competition impacts: No impact identified.

The rights of citizens: No impact identified.

Compliance Burdens: Minimal.

North-South and East-West Relations: No impact.

Option 3: Require important disclosures only

Costs

If Irish small companies are required to make only those additional disclosures identified in Article 16(2) of Directive 2013/34/EU that are of particular importance to users of financial statements, any material post balance sheet events and off-balance sheet arrangements will have to be disclosed; these disclosures tend to require particularly careful consideration and take up senior management time.

Benefits

If Irish small companies are required to make only those additional disclosures identified in Article 16(2) of Directive 2013/34/EU that are of particular importance to users of financial statements, those users will continue to have access to vital information.

Impacts

If Irish small companies are required to make only those additional disclosures identified in Article 16(2) of Directive 2013/34/EU that are of particular importance to users of financial statements, the impact on small companies is likely to be mitigated in that such companies might be expected not to have extensive off-balance sheet arrangements.

National competitiveness: No significant impact identified.

The socially excluded and vulnerable groups: No impact.

The environment: No impact.

Significant policy change in an economic market, including consumer and competition impacts: No impact identified.

The rights of citizens: No impact identified.

Compliance Burdens: Administrative cost rather than administrative burden.

North-South and East-West Relations: No impact.

Option 4: Require all of the disclosures

Costs

If Irish small companies are required to make all of the five additional disclosures identified in Article 16(2) of Directive 2013/34/EU they will incur the costs of producing the information.

Benefits

If Irish small companies are required to make all of the five additional disclosures identified in Article 16(2) of Directive 2013/34/EU the users of their financial statements would continue to have access to vital information.

Impacts

If Irish small companies are required to make all of the five additional disclosures identified in Article 16(2) of Directive 2013/34/EU it will not create any new work for them as the existing Irish Companies Acts (as does the Companies Act 2014) require equivalent disclosures in the financial statements and directors' report laid before the annual general meeting.

National competitiveness: No impact identified.

The socially excluded and vulnerable groups: No impact.

The environment: No impact.

Significant policy change in an economic market, including consumer and competition impacts: No impact identified.

The rights of citizens: No impact identified.

Compliance Burdens: Administrative cost rather than administrative burden.

North-South and East-West Relations: No impact.

Consultation

Whether small companies should be required to make the additional disclosures was the subject of questions 44 to 48 of the Department's consultation on the use of Member State options.

Of the ten respondents to the consultation, the four respondents who addressed question 44 were evenly divided on whether small companies should be required to include an analysis of movements in fixed assets in the notes to the financial statements.

Of the ten respondents to the consultation, a majority of the four respondents who addressed question 45 were in favour of requiring small companies to disclose the name and registered office of the holding undertaking of the smallest group for which consolidated financial statements are drawn up and of which the small company is a member.

Of the ten respondents to the consultation, a clear majority of the six respondents who addressed question 46 favoured requiring small companies to disclose the nature and business purpose of material off-balance sheet arrangements.

Of the ten respondents to the consultation, a clear majority of the six respondents who addressed question 47 favoured requiring small companies to disclose the nature and financial effects of material post-balance sheet events.

Of the ten respondents to the consultation, a majority of the four respondents who addressed question 48 were in favour of requiring small companies to disclose particulars of transactions with holders of a participating interest in the company, with undertakings in which the company itself holds a participating interest and with directors.

The choice of the preferred policy option was informed by the responses to the public consultation.

E.1

Member State Option:

Article 53 – Option regarding the first application of the provisions of Directive 2013/34/EU to financial statements.

What are the policy objectives being pursued?

Directive 2013/34/EU must be transposed by 20 July 2015. Member States have the option of allowing companies to first apply its transposed provisions to financial statements commencing in the calendar year 2016. The policy objective is to decide whether or not to allow companies to take this course.

What policy options have been considered?

1. Require companies to apply the transposed provisions of Directive 2013/34/EU with immediate effect.
2. Allow companies to first apply the transposed provisions of Directive 2013/34/EU to financial statements commencing in the calendar year 2016.

Preferred Option:

The preferred option is Option 2, to allow companies to first apply the transposed provisions of Directive 2013/34/EU to financial statements commencing in the calendar year 2016. Companies need time to adapt and to prepare for the change; standard setters such as the International Accounting Standards Board generally take this approach. This does not prevent companies from applying the provisions earlier if considered advantageous and practicable.

POLICY OPTIONS			
	COSTS	BENEFITS	IMPACTS
Policy option 1	<p><u>Costs to companies</u> The immediate implementation of the Directive might require companies to divert resources from more productive activities to cope with the new regime.</p>		<p><u>Impact on companies</u> Many companies might struggle to comply with their statutory obligations to prepare and file financial statements. Companies are implementing the new Financial Reporting Standard, FRS 102, which applies to financial years commencing in 2015 and which represents a major change for them. Immediate application would entail an element of retrospection.</p>
Policy option 2		<p><u>Benefits to companies</u> Companies would have adequate time to adapt to the changed requirements.</p>	

D.2. Description of Policy context and objectives

Article 53 of Directive 2013/34/EU requires that the Directive be transposed by 20 July 2015 but gives Member States the option of allowing companies to apply the provisions of the Directive for the first time to financial statements for periods commencing in the calendar year 2016. This option does not prevent companies from applying the provisions earlier. The policy choice is to decide whether or not to utilise the Member State option.

D.3. Identification and Description of Policy Options

Option 1: Do nothing

Require companies to apply the transposed provisions of Directive 2013/34/EU with immediate effect as from 20 July 2015.

Option 2: Transpose Directive 2013/34/EU

Allow companies to first apply the transposed provisions of Directive 2013/34/EU to financial statements commencing in the calendar year 2016.

Option 2 is the preferred option.

D.4. Analysis of Costs, Benefits and Impacts of Policy Options

Option 1: Require immediate implementation

Costs

If the provisions of Directive 2013/34/EU are required to be applied to financial statements from the date of the transposition of the Directive, which can be no later than 20 July 2015, those provisions will apply to financial statements approved after the date of transposition, which will include financial statements for financial years that wholly or partially precede the date of transposition. At best, this will be very burdensome for companies. Taking this course might require companies to divert resources from more productive activities to cope with the new regime, giving rise to an opportunity cost. Companies might also have to incur additional costs through having to engage consultants to assist with early implementation.

Impacts

If the provisions of Directive 2013/34/EU are required to be applied to financial statements from the date of the transposition of the Directive, which can be no later than 20 July 2015, it is likely that many companies will struggle to comply with their statutory obligations to prepare and file financial statements. Already, companies are faced with implementing the new Financial Reporting Standard,

FRS 102, which applies to financial years commencing in 2015 and which represents a major change. Immediate application will cause significant disruption and entail an element of retrospection.

National competitiveness: The disruptive consequences of immediate implementation is likely to have a negative impact on national competitiveness, at least in the short term.

The socially excluded and vulnerable groups: No impact.

The environment: No impact.

Significant policy change in an economic market, including consumer and competition impacts: No impact identified.

The rights of citizens: No impact identified.

Compliance Burdens: Immediate implementation would constitute a significant compliance burden.

North-South and East-West Relations: No impact.

Option 2: Defer implementation

Benefits

If the provisions of Directive 2013/34/EU are required to be applied to financial statements for financial years commencing in the calendar year 2016, companies will have adequate time to adapt to the changed requirements.

National competitiveness: No impact.

The socially excluded and vulnerable groups: No impact.

The environment: No impact.

Significant policy change in an economic market, including consumer and competition impacts: No impact identified.

The rights of citizens: No impact identified.

Compliance Burdens: None.

North-South and East-West Relations: No impact.

Consultation

This was the subject of question 104 of the Department's consultation on the use of Member State options. Of the ten respondents to the consultation, three of those that expressed a view were in favour of allowing companies to first apply the provisions of Directive 2013/34/EU to financial statements commencing in the calendar year 2016, the remaining response was ambiguous but might be interpreted as being in favour.

The choice of the preferred policy option was informed by the responses to the public consultation.