International Financial Reporting Standards

**Highlights**

- **IFRS will be one of the most significant enterprise-wide change initiatives facing finance over the next few years.**

- **IFRS adoption extends beyond accounting and financial reporting functions; it will require changes across people, process and technology.**

- **Key internal and external stakeholders need to be educated early on IFRS impacts.**

- **Your ability to create a robust implementation strategy and roadmap is critical to a successful conversion.**

- **Early alignment of activities and goals across different projects can bring significant efficiencies in the conversion process.**

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International Financial Reporting Standards (IFRS) is becoming the global language of business with over 40% of the world having moved to IFRS in the past few years. By 2016, it is expected that all companies in major markets will be using IFRS.

**IFRS myths: it’s just an accounting exercise; all we have to do is change the numbers. Our new accountant has some time—we will put them to work on this. Or, our auditors will fix it.** The truth is, IFRS adoption has significant impact beyond accounting and financial reporting functions, and presents a key challenge for the CFO. Many organizations are evaluating how a transition to IFRS will affect them and are assessing their readiness. And it’s not just a technical matter—IFRS accounting can change the profitability of products, or even the business itself.

Organizations that will be best prepared to meet this challenge are those:

- Starting early with a robust assessment of accounting, process, systems and organizational impacts
- Establishing a corporate level program and ensuring the involvement of different business entities
- Modeling the financial impact of IFRS choices to develop a conversion strategy
- Establishing an education and communication program for internal and external stakeholders
- Identifying existing initiatives that have potential dependencies with IFRS, and exploiting any synergies
IFRS key business drivers

IFRS has already been adopted by many countries in Asia and Europe, and is rapidly gaining acceptance in the remaining key markets. Countries such as Canada, Brazil, India, Korea and Japan will be adopting IFRS by 2011, while the majority of the U.S. companies are expected to adopt in the 2014-2016 timeframe. The key business drivers for conversion to IFRS are one set of consistent accounting standards and disclosure requirements—a compliance requirement to eliminate different standards (e.g., FASB, FSA, CICA etc.); a uniform measurement system enabling comparability among subsidiaries, harmonized risk measurement, easier capital allocation and decision-making; additional capacity to grow and expand through greater access to capital markets; and market recognition for providing more transparent information, potential for lower cost of capital and improved credit ratings.

IFRS adoption impact

Based on the experience of companies that adopted IFRS, there was a direct impact on the financial position, profitability and EPS. Understanding the scale of the change in the numbers is essential in planning an organization’s future strategy. The accounting numbers are a form of communication that not only impact valuation metrics used by analysts, but also the basis of contractual arrangements and regulatory controls.

IFRS adoption has significant internal impact beyond accounting and financial reporting functions; it requires changes across people, process and technology that will need to be factored into the conversion plan. IFRS will, in particular, have significant cross-dependencies with ERP implementation, financial reporting, consolidation, and performance management projects. In addition, it will have an impact on annual SOX Compliance sign-off related to internal controls changes for SEC registrants.

Given the wide ranging impacts of IFRS, a timely start is essential to execute conversion successfully. IFRS represents the key opportunity to make your finance organization more effective with the transformation to an integrated finance organization (IFO) supporting the need for innovative change and an increasingly competitive landscape. This is an opportunity to rationalize and optimize your finance organization, process, people, data and technology to decrease costs.

Implementation considerations

Following are the top five implementation issues observed by companies in their IFRS conversions:

1. Gaining commitment and involvement at all levels, functions and entities across the enterprise
2. Planning and coordinating the effort to continuously educate internal and external stakeholders
3. Understanding the impact on the financial performance and estimating the effort involved in managing this through the parallel reporting period
4. Acquiring skilled resources and undertaking the required training and knowledge transfer
5. Managing interdependencies with other process and system enhancement projects, including areas where additional data may be required

Implementation is likely to involve or precipitate fundamental changes for many companies, which can involve data availability, process redesign, systems scalability, architecture, organization design, product design, pricing, profitability and solvency. Consider the following questions for a better understanding of how IFRS can impact your enterprise:

- How do you structure and govern the conversion program for different business entities and at the corporate level?
- What one-time and ongoing impact will the implementation have on the P&L and the balance sheet? Will profitability be sustained under the new regulations?
- What impact will IFRS have on regulatory requirements and risk appetite?
How will your choice of certain IFRS adoption options maximize the financial returns and minimize additional expenses/liabilities?

What options do you have for implementing multi-GAAP accounting and eventually switching over to IFRS in your financial (ERP) systems? Is an upgrade necessary?

Do ledgers and business systems contain the necessary data, and, if not, which processes must be enhanced to capture and report new data?

What contingency options are in place if the target IFRS compliant processes and systems cannot be implemented in time for the change over?

How will you deal with ongoing evolution of IFRS standards?

Have IFRS principles been incorporated into strategic planning, forecasting and management reporting processes?

IBM’s IFRS Transition Approach

IBM’s proven solution helps companies manage this journey using a four-phased approach from the high level diagnostic assessment, to conception/initial conversion, to system build and implementation, and, finally, optimization to support ongoing improvements.

Our approach leverages lessons learned from supporting clients in their IFRS adoption projects and IBM’s own internal transition to IFRS. It is designed to help you understand the big picture, plan to evolve the new solution, and manage the program for a successful outcome.

IBM’s approach is supported by a number of industry-leading tools and points of view specific to different vendor solutions, which encompass the full lifecycle of IFRS initiatives.

Why IBM

We support the full lifecycle of the IFRS conversion process through a strong blend of skills in business process redesign, ERP implementations, systems integration, program management and governance. In addition, IBM has the unique ability and scale to support IFRS programs across different geographies, flexible resourcing models and offshore support. We bring expertise from IBM’s own IFRS conversion and can effectively collaborate with your accounting advisors.

With more than 4,100 financial management resources located across the globe, IBM has a strong record of serving as a trusted advisor to CFOs and finance leaders. Our dedicated teams of research and thought leadership professionals provide insights into the issues facing finance professionals, enabling us to offer deep finance function expertise coupled with effective technology implementation and integration capability.

We bring experienced IBM finance executives with strategic knowledge and direct IFRS adoption experience to meet with clients. We have consultants with practical hands-on experience of IFRS conversions and similar compliance programs across all major geographies. Our consultants have worked with 75% of the global Fortune 50 and 80% of the FT 50.

IBM is the number one SAP Consulting Provider and a leading integrator of Oracle/Hyperion applications. Our acquisition of Cognos® has added over 200 experienced practitioners to our Financial Management practice and experience from a number of IFRS conversion projects.