

## Preparing for IFRS

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*IFRS, the accounting framework used by most companies in the world today, is likely to be adopted soon in the U.S. Most companies will require a significant investment of time and resources to address the strategic, business and technology related issues that will arise in a conversion to IFRS.*

### Planning for IFRS

International Financial Reporting Standards (IFRS), as approved by the International Accounting Standards Board (IASB) are destined to become the world's common financial reporting language for investors, analysts and regulators. IFRS has been adopted in many countries and by many global companies. The overriding advantages to the marketplace participants of global IFRS adoption is to permit better comparability of like entities anywhere in the world, and for any entity, better access to a wider capital and liquidity pool and simplified financial infrastructure.

IFRS is fundamentally different from US generally accepted accounting principles (GAAP) in that it is much more principles-based. It requires more judgement by management and more disclosure. The Securities and Exchange Commission (SEC) released a roadmap in November 2008 indicating that IFRS adoption by SEC registrants would occur in 2014-2016, if not earlier. U.S. regulators have been working with the IASB to converge many aspects of U.S. GAAP and IFRS in the past few years, and these efforts are ongoing.

While the current credit and liquidity crisis has been blamed by some on fair value accounting – which in fact forms part of IFRS – the economic reality of the crisis is reported by the accountants and not vice versa.

IBM's clients are looking for strategies and tactics to meet the IFRS requirements effectively and efficiently. Many are re-examining their finance operations and looking to transform into an Integrated Finance Organization (IFO) while the larger organization moves towards a Globally Integrated Enterprise. Those strategic finance leaders are carefully considering the results of the IBM's Global CFO Survey, in which a small proportion of finance organizations were found able to outperform their peers by having four building blocks in place:

- Globally mandated standards
- Standard chart of accounts enterprise wide
- Common data definitions enterprise wide
- Standard common processes enterprise wide

Many global organizations are under pressure to do more with less, and do it more quickly. Typically, financial statements are prepared under multiple GAAPs: reporting (e.g., U.S. GAAP),

local tax (e.g., local GAAP), regulatory (e.g., rate or otherwise regulated industries like utilities, financial services). IFRS offers companies the opportunity to move towards one basis of accounting and reduce the time, cost and complexity of financial reporting, including audit costs. We have seen examples of reductions in required financial reporting of up to 50%.

## **Preparing technology for IFRS**

International Financial Reporting Standards (IFRS) projects typically start at the boardroom table with the CFO. Based on the IBM experience with clients, here are the major IFRS steps and some lessons learned.

The first step is focused on the changes that are needed in an organization's accounting policies, and assessing the impact those changes will have on financial reporting disclosures. This step is usually executed by the CFO's office with support from an external audit firm or other technical accounting reference firm.

### **Lessons learned:**

1. If you already operate in other countries, determine how you apply IFRS in those countries.
2. Make sure that the accounting gap GAAP analysis is detailed. Otherwise, you will have to redo it later.
3. Get financial statements for other companies in your industry that operate elsewhere in the world and compare those for analysis and education.
4. Create "sandbox" financial systems and reporting environments to model the impacts of IFRS choices, impacts and disclosures early, so that the right accounting decisions can be modelled effectively and trade-offs for expediency can be considered.

The second step is the realization by the CFO's office that the transition to IFRS is bigger than a simple GAAP reporting change. Creating journal entries alone will not suffice and there may be a need to engage more resources in the organization.

### **Lessons learned:**

1. Create a formal IFRS program office with a formal governance structure supported by tools and resources to assist in the IFRS journey. Include: reporting, change management, design standards, testing, etc. This structure will help to measure and gauge success and also leverage those scarce internal accounting experts. Also create and maintain a comprehensive project plan.
2. Gain commitment across the organization and realize that this is bigger than Finance. Bring IT, operations, investor relations, HR, and business leads into the governance structure.
3. Establish strategies, plans and processes for internal and external communication and education. If compensation is tied to key financial measures and those measures change under IFRS, early education is essential!

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The third step is the impact analysis and design phase. Experts who understand the data and financial systems will determine the designs that might work and conduct impact analysis.

**Lessons learned:**

1. Adhere to IFRS business and technical architecture design principles established by the program office so that designs and impacts can actually be implemented.
2. Carefully consider the impact of “short cuts” and manual solutions over the longer term.
3. Ruthlessly manage project scope and dependencies on other projects.
4. Always have a contingency option in place—and not just as words on a page.

The fourth step is the build, implement and test phase where the CFO’s office finally starts to see the results of all the work to date as they get involved in testing.

**Lessons learned:**

1. Build or buy as the corporate priorities and IFRS business and technical architecture design principles dictate.
2. Test, test, test—with real data as soon as possible.
3. Ensure that business processes are working effectively, especially those subject to SOX.

The fifth step is the effective go live and sustainment phase. Many projects have go-live milestones and limited post-implementation support. IFRS will require much longer post-implementation support driven by the continuing changes to IFRS.

**Lessons learned:**

1. Practice, practice, practice. The go-live should be rehearsed and run at least twice before the real cutover, and fallback systems should be tested as well.
  2. The program office structure and discipline need to stay in place, albeit reduced in size and scope, for at least 18 months after go live.
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**About John Ingold**

*John Ingold is the Americas lead for IFRS in the Governance, Risk Management & Compliance consulting practice of IBM Global Business Services. John is responsible for end to end IBM solutions for IFRS and has advised clients and engagement teams globally. A certified public accountant and auditor with five years of direct industry experience, John brings strong technical and industry knowledge to providing pragmatic and practical solutions to clients.*