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IFRS compass : IT systems implication

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Executive Overview

The purpose of this book is to provide some initial background about International Financial Reporting Standards (IFRS) and to raise awareness of the potential impact to an organization's financial systems when undertaking an IFRS conversion project or similar accounting standard conversion project. Although the content materials include U.S. and non-U.S. considerations, the intent is to address the impact from an U.S. organization's perspective of converting from U.S. generally accepted accounting principles to IFRS. The information provided assumes the reader has general knowledge about IFRS. The following information is discussed throughout this book:

- Background of IFRS and IT impact when converting to IFRS
- IT system and project management considerations
- Example case studies from various companies and organizations and lessons learned

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SECTION I

Background of International Financial Reporting Standards and Its Impact

Background and System Effects of IFRS Conversion 1

When considering a change to International Financial Reporting Standards (IFRS), an organization should take into account the potential impact the switch will have on its financial systems. In order to plan the implementation, the organization should understand the accounting standards landscape, which principles or standards will impact its business processes and IT systems, and the project's purpose or background. Chapter 1 will provide some background to the accounting standards landscape and initial considerations of how IT systems may be affected by IFRS implementation.

Background of IFRS

Today, approximately 120 countries either require or permit the use of IFRS or are converging with International Financial Accounting Board (IASB) standards. On February 24, 2010, Securities and Exchange Commission (SEC) Chairman Mary L. Schapiro released a public statement regarding convergence between IASB international and Financial Accounting Standards Board (FASB) standards:

> For nearly 30 years, the Commission has promoted a single set of high-quality globally accepted accounting standards, which would advance the dual goals of improving financial reporting within the U.S. and reducing country-by-country disparities in financial reporting, but supporting this goal is only the beginning of the discussion, not the end.

In the *AICPA IFRS Preparedness Survey*, conducted in September 2010, a majority of CPAs (55 percent) indicated that they thought SEC should ultimately require adoption of IFRS for U.S. public companies. Furthermore, more than 50 percent of respondents expressed a need to know some level of IFRS (beyond the basic knowledge) over the next three years. However, with these split opinions among U.S. CPAs and the uncertainty surrounding the SEC's decision to mandate IFRS for U.S.

public companies, some organizations question the need to convert to IFRS. According to the *IFRS Primer for Audit Committees*, considerations for filing of IFRS financial statements include the following:

- Multinational companies can benefit from the use of common financial reporting systems.
- IFRS can improve financial statement comparability among companies.
- IFRS is intended to facilitate cross-border investments and access to global capital markets.

Other key benefits include opportunities to improve or streamline business functions and processes, globally integrate the financial IT systems, and achieve consolidation and reporting efficiency. On the other hand, some risks are associated when a company decides to convert to IFRS. Some of these risks include excessive resource spending, improper data management or migration, incomplete revisions of policies and procedures, and future changes that standard setters may issue.

Although many potential benefits and risks to converting to IFRS exist, one key factor should be taken into consideration during project planning or prior to implementation. During 2002, IASB and FASB recognized that many differences existed between international standards and U.S. generally accepted accounting principles (GAAP) and, as a result, agreed to work together to reduce those differences, in consultation with other national and regional bodies. This decision was embodied in a memorandum of understanding (MoU) between the boards, often referred to as the Norwalk Agreement. In June 2010, IASB and FASB announced a modification to their convergence strategy in order to maintain their target MoU project completion dates in 2011. Although the IASB and FASB are working toward convergence, many differences still exist between the two sets of standards (see chapter 2 "Key Differences Between International Financial Reporting Standards and Generally Accepted Accounting Principles"). It will be important to monitor the changes as the two boards complete their joint work plan as outlined in their MoU work plan.

Table 1-1: FASB and IASB Joint Work Plan

Project	Exposure Draft	Comments Due	Round-Table Meeting	Final Standard
Round 1				
Financial Instruments	5/26/10	9/30/10	Oct. TBA	Q2 2011
Presentation of Other Comprehensive Income	5/26/10	9/30/10		Q2 2011
Revenue Recognition	6/24/10	10/22/10	Q4 2010	Q2 2011
Fair Value Measurement	6/29/10	9/7/10		Q2 2011
Round 2				
Insurance Contracts	Q3 2010	Four-month comment period		Q2 2011
Leases	Q3 2010	Four-month comment period		Q2 2011
Consolidations	Q3 2010			Q2 2011
*Derecognition**				Q2 2011
Round 3				
Financial Instruments With Characteristics of Equity	Early 2011			Q4 2011
Financial Statement Presentation				Q4 2011

* Improved disclosure requirements to be finalized Q3 2011.

This is an illustrative example of the MoU projects planned as of July 2010. For the most up-to-date listing of joint projects, visit www.ifrs.org and look for "Work plan for IFRSs" under *Standards Development* for further details. (Adapted and compiled from FASB/IASB joint progress report, June 24, 2010.)

Other than understanding the accounting standards landscape, companies should first assess which principles or standards will affect their organizations directly, conduct research, and have a strong understanding of those assessment results, prior to implementation. A detailed discussion regarding project planning is then further explored in chapters 4 and 5.

Potential System Effects of an IFRS Conversion

As a company prepares to convert to IFRS, the impact to IT and financial systems should be taken into consideration during the planning phase. Representatives from the company's IT department should be involved throughout the planning process to evaluate how the proposed accounting changes will affect the financial systems (transactional or reporting).

The impact to IT and financial systems can vary depending on a company's existing structure, environment, and management's decisions. This may include the company's

1. IT and financial systems capability or integration,
2. industry complexity,
3. company size,
4. mergers and acquisitions process,
5. implementation plan chosen (such as the consolidation method),
6. relevance of business process or transaction,
7. internal control structure, and
8. other attributes.

If a company's IT and financial systems are substantially integrated globally, the degree of impact or modifications needed may be lower (although this is not always the case). The extent of changes may involve primarily some subledger configuration changes and more extensively in the general ledger and consolidation system. However, if a company has frequently acquired entities (each with unique financial systems) and has not yet integrated the acquired companies' systems within its infrastructure, then the degree of system impact may be quite large at the subledger

level as well as at the internal reporting level. Further complexity can also pertain to the industry or business in which the acquired entities operate, and conglomerate organizations tend to encounter these complexities more frequently.

The extent of changes may also vary depending on the consolidation method that management chooses to implement for the conversion project. Consolidations may be implemented at the corporate level or within each individual country or entity. However, companies that implement at the corporate level may potentially run the risk of error and potentially the restatement of their financial statements as well as other situations if the numerous journal entry adjustments are not tracked or controlled properly. Furthermore, if a dual-reporting system is in place during the transition period, the reconciliation process needs to be taken into consideration. Reconciling between two different "views" of the financial statements poses different problems than singularly supporting one version. Therefore, having an effective reconciliation reporting system is an important aspect to the learning curve of the IFRS transition. This topic is also explored further in chapter 4, "Project Management Considerations."

Although system changes will have costs associated with them, a company or a management team may view the IFRS conversion project as an opportunity to reassess and improve its internal business processes. It will be up to the organization to determine which business processes are relevant to changes and the outcome associated with those decisions or changes. Table 1-2 highlights some examples of the conversion's impact on IT and financial systems.

Table 1-2: Potential System Impacts During IFRS Implementation

Type of System	Subledger System	General Ledger System	Consolidation System	Internal Reporting System
Typical Impact	• Configuration in existing system • New or upgrade of subledger system • Alternative reporting solution	• Revision of chart of accounts • Multiple set of general ledger accounts (or "books")	• Extract, transform, and load tools • Data quality management	• Data warehousing system or metadata repositories • Business intelligence system • Reporting queries or programs
Examples	• Conversion from last-in-first-out reporting • Tracking of research and development expenditures	• Generally accepted accounting principles, International Financial Reporting Standards, and local statutory reporting • Tax reporting • Segment reporting • Disclosure requirements	• External reporting requirements (examples listed to the left) • Role of Extensible Business Reporting Language in facilitating • Possible change in entities to be consolidated	• Budget and forecasting models • Revenue analysis reports

If a company is ready to convert to IFRS, it is important to ensure that it has good change management policies and procedures structured in place within its IT department as well as in the accounting or finance department. A strong IT policy ensures that a financial system change follows the proper approval by the appropriate business owner (finance or accounting in cases associated with accounting standard changes), approval by an appropriate IT representative, and protocol for user testing and implementation or rollout. This example pertains to having an effective systems development life cycle policy. A similar example associated with a strong accounting policy is ensuring that any accounting policy change funnels through the appropriate approval channels (or

determined business owners) and is properly communicated in a documented manner to the relevant audiences (such as the IT representative). Having strong policies and procedures will be beneficial if further system revisions are required, traceable for internal control purposes, and provide structure to the project management team. Refer to chapter 4, "Project Management Considerations," for more details about the implementation's impact to internal controls and project risk factors. To learn more about ensuring strong IT policies and procedures in general, refer to the resources available on the AICPA's IT Resource Center under "IT Governance."

To reiterate, the impact of an IFRS conversion project to an organization's IT and financial systems can vary depending on the organization's existing structure and environment and on its management's decisions. Although some factors, such as a company's industry complexity or size or changes in our accounting standards (U.S. GAAP or IFRS), are less controllable factors and part of operating in a competitive marketplace, other factors are more controllable and are driven by management's decisions (such as a company's implementation plan or internal control structure). Converting to international accounting standards is not a simple task, so it is important that management is involved and understands the implications of the key decisions made during a conversion project.

2 *Key Differences Between International Financial Reporting Standards and Generally Accepted Accounting Principles*

In addition to understanding the background to the accounting standards landscape and initial considerations of how IT systems may be affected by International Financial Reporting Standards (IFRS) implementation, companies should also understand which principles or standards could affect their organization's business processes and IT systems. The objective of this chapter is to provide some initial background of accounting standards-related differences. The differences highlighted in this chapter are accounting transition specific and financial- or business reporting-specific. Because the main purpose of this book is to address IT system implications, other specific accounting standard or principle differences not discussed within this chapter may still exist. To fully grasp and assess all the possible differences between IFRS and U.S. generally accepted accounting principles (GAAP), it is best for the reader to consult the print and online references provided at the end of this book.

Transaction Differences

A number of differences between U.S. GAAP and IFRS exist. However, the International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) are working jointly on several memorandum of understanding (MoU) projects targeted for completion in 2011 to reduce the gap between U.S. GAAP and IFRS. Major convergence projects include the following:

- Revenue Recognition
- Leases
- Financial Instruments
- Consolidations
- Derecognition (when an entity removes a financial instrument from its financial statements)
- Fair Value Measurement
- Financial Statement Presentation
- Financial Instruments With Characteristics of Equity

As these major MoU projects are completed and new standards are released by FASB, these MoU changes will affect how the transactions are recorded, processed, reported, or a combination of these within a financial system (most likely prior to converting to IFRS depending on the time of completion). It is important to monitor both FASB and IASB's websites for project updates on when the standards are under exposure draft (review) and when they are ready for release (final). The Joint MoU Work Plan (associated with MoU projects) is forecasted to be complete and final by Quarter 4 of 2011 (see table 1-1 for the work plan timeline).

In terms of existing differences between U.S. GAAP and IFRS, certain differences may be adjusted through general ledger (GL) journal entries or chart of account structuring and may not require system changes at the subledger level. However, the approach will vary depending on the organization's structure and environment described in the section "Potential System Effects of an IFRS Conversion" in chapter 1. Table 2-1 highlights a few of these key differences (compiled as of April 2010). Additionally, this list of examples will continue to change as FASB and IASB continue their efforts to converge standards. As suggested in table 1-1, it is important to monitor the standard changes by visiting www.ifrs.org and clicking on "Work plan for IFRSs" on the *Standards development* drop-down list for the most up-to-date listing of joint MoU projects. Furthermore, implementers should continue to refer to IFRS reference materials noted in the references for specific accounting guidance on IFRS and other standard related changes.

Table 2-1: Transaction Differences

Accounting Transaction	Primary Difference(s)	Impact to IT systems	Examples or Applicability
Inventory	International Financial Reporting Standards (IFRS) does not permit last in, first out method Method of measuring inventory Reversal of write-down	Process and unit cost calculation changes may be required in inventory subledger system	Manufacturers, retailers, and distributors
Property, Plant, and Equipment (PPE)	IFRS requires certain assets and depreciation be recorded at component level	PPE assets may be required to account separately by significant component pieces	Manufacturers
Intangible Assets (such as Research and Development [R&D] and Impairment)	Development costs may be capitalized when certain conditions are met and require more detailed reporting Impairment testing	System changes may be required to capture R&D projects costs in more detail	Manufacturers or high-tech (for example, software development)
Share-Based Payments	Timing of recognition Valuation of liability-classified transactions	Changes may be required in the payroll, human resources, or alternative subledger system	Companies exchanging stock or other equity instruments for goods or services

Note: The chart was developed in April 2010. Updates will be provided in future versions of this book.

Impact to Financial or Business Reporting

In addition to specific transactional differences, converting from U.S. GAAP to IFRS will affect a company's external and internal reporting requirements (see table 2-2 for examples). Although some transactional differences require only journal entry adjustments within the GL (or minimal financial system changes), other changes may affect an organization's current reporting infrastructure. Examples of the latter include changes to the data warehousing environment, associated reporting program, or both. Furthermore, journal entry adjustments for multiple

countries and parallel reporting in IFRS and GAAP may become cumbersome without additional tools to assist in the reporting process (such as a consolidation tool). Table 2-2 highlights some of these external and internal reporting examples.

Table 2-2: External and Internal Reporting Differences

Reporting or Presentation	Example of Difference(s)	Impact to IT systems	Examples or Scenarios
Segment reporting	Basis of segmentation Segment reporting disclosures required may differ	Additional categorization may be required in the general ledger (GL) Secondary segment may need to be defined within the reporting system	Segmentation defined may differ due to internal reporting structure and business risks associated
Interim Reporting	International Financial Reporting Standards requires a discrete period approach	Data capture may need to be revised to capture the information properly	Costs that do not meet definition of an asset cannot be deferred
Financial Statement Presentation and Disclosures	Presentation of comprehensive income Consolidation of subsidiaries	GL chart of accounts may need to be remapped to present dual reporting Data capture may need to be revised for a reporting or consolidation system	Dual chart of accounts or GL Adjustment of financial statements: balance sheet, income statement, and cash flow
Internal Business Reporting	Potentially affects an organization's current reporting infrastructure	Data structure may need to be revised within a data warehousing environment Data capture may need to be revised within a business intelligence or reporting software	Supply chain dashboard or key performance indicator that reports from inventory subledger system Calculation to determine operational budget or product or segment analysis

Note: The chart was developed in April 2010. Updates will be provided in future versions of this book.

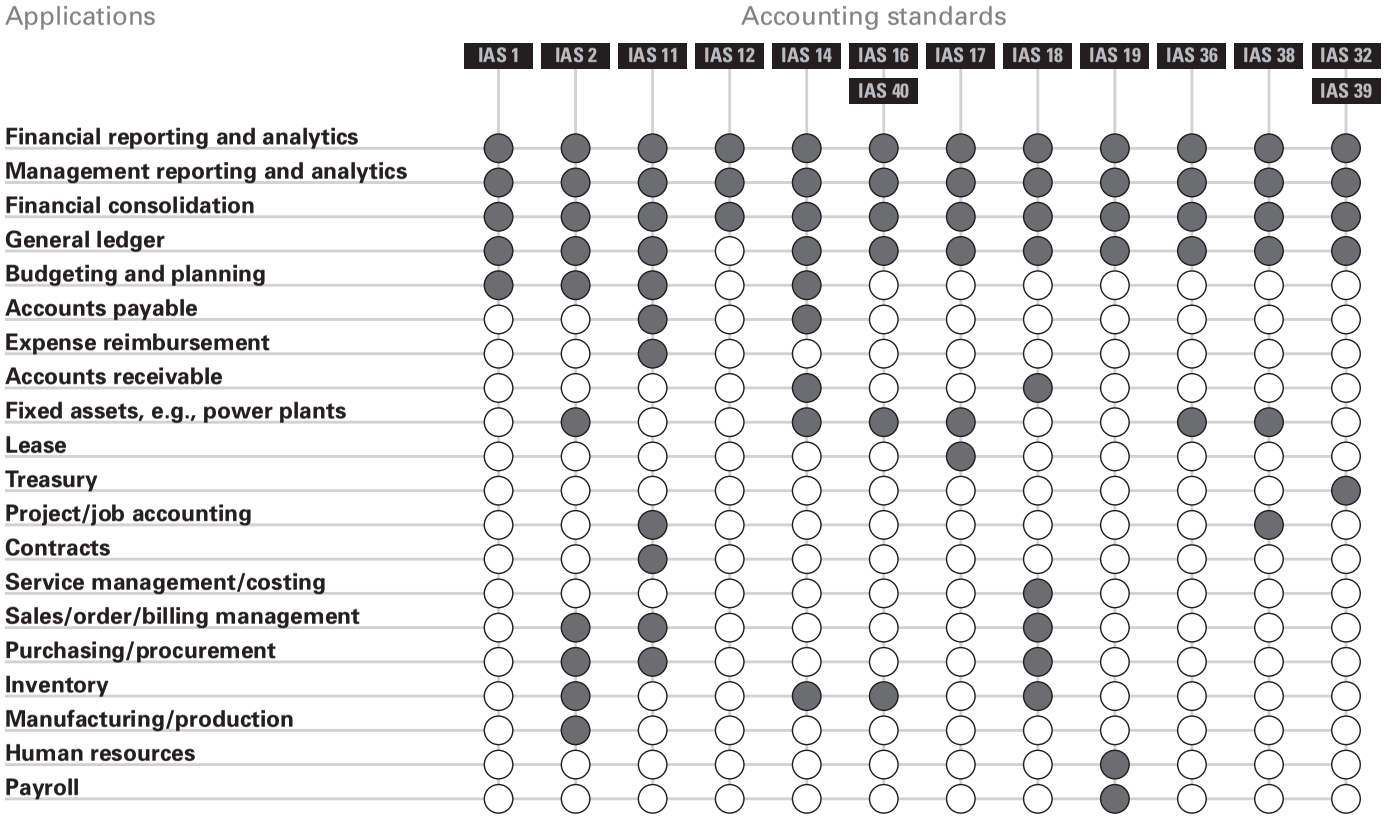
Similar to the transaction differences, it is important to monitor both FASB and IASB's websites for MoU related project updates because several of these projects also relate to financial reporting requirements listed in table 2-2. As mentioned previously, the challenge to implementing these transactional or reporting changes is that organizations will still have to consider dual reporting once they decide to convert to IFRS. Companies will have to either (1) maintain both processes for statutory reporting until the three-year requirement is complete or (2) maintain one process and make topside adjustments to the other statutory reporting requirement. Although both alternatives are achievable, option 2 can become cumbersome, difficult to track, and not ideal or feasible if not managed properly. Explanation of the dual-reporting timeline is further discussed in the section "Project Management Considerations" in chapter 4 (see figure 4-1). The reporting options are explored in more detail throughout chapters 3-8.

The AICPA's *IFRS Primer for Audit Committees* addressed two relevant IT-related questions that management should consider during the implementation process:

- How will this affect the company's way of doing business (for example, changes to IT and other internal systems, risk monitoring and controls, inventory accounting, budgeting and forecasting, key performance indicators, joint ventures and alliances, and subsidiaries)?
- How is management making system changes or implementing new systems today, in recognition of possible changes in the future?

To provide further summary view of how accounting standard changes may affect an organization's IT system, figure 2-1 provides an illustrative example of how an International Accounting Standard (IAS) may potentially affect multiple financial systems or supporting applications. For a full listing of the IASs, please refer to www.ifrs.org.

Figure 2-1: Representative Effects of IFRS on an IT Application(s)



As the previous examples and illustrations point out, transactional and reporting differences between IFRS and U.S. GAAP do affect a company's way of doing business. Companies need to understand which accounting principles or standards may potentially affect their organization's business processes and IT systems. If an organization is determined to proceed forward and is ready to form a project team, it must then consider project and IT system implementation issues, which are addressed in section II, "IT Systems and Project Management Considerations."

SECTION II

IT Systems and Project Management Considerations

Any organization considering implementing International Financial Reporting Standards (IFRS) should consider the potential impact to an organization's financial systems when planning the project. Prior to implementation, companies should understand which accounting principles or standards will affect their organization's business processes and IT systems and how they will do so. It is also important to have a strong understanding of project purpose in order to plan the implementation effort.

This section offers insight on how an organization's business processes and IT systems be affected due to accounting changes. It discusses system factors (or dimensions) to consider before taking on an IFRS implementation and offers considerations from actual implementations and real-life lessons learned. Section II also provides some of the key project management components required to plan and conduct the implementation. This includes project cost considerations, the "extent" of the IFRS conversion project, project governance, and regulatory requirements. To provide additional in-depth guidance, chapter 5 introduces a comprehensive project task lists that outline key business process activities and milestones to support the development of an overall project plan. Lastly, this section addresses how the maturity of an organization's current systems environment will affect an IFRS IT conversion strategy (or a company's technology investment plan).

System Design and Implementation Considerations

3

This chapter provides a description of five areas, identified as system dimensions, to consider before taking on an International Financial Reporting Standards (IFRS) implementation and some of the potential effects of each. The specific dimensions described include the (1) source systems, the financial and nonfinancial subledgers that post financial transactions; (2) general ledger (GL), the chart of accounts of the organization; (3) reporting data repositories, including consolidation and allocation tools; (4) reporting system generated outputs, such as budgeting, planning, forecasting; and (5) infrastructure, such as rules and allocation engines, middleware, and data stores. The chapter concludes with summaries of actual implementations and real-life lessons learned.

System Implementation Impact

Information systems play an integral role in the IFRS conversion exercise. Starting early with an IFRS assessment allows organizations to uncover the scope of conversion gaps. Although some changes to information and enterprise resource planning (ERP) systems are easy to implement, some areas of IFRS conversion may require changes that have broad system and process effects that require advanced planning and longer implementation time frames. A long-term roadmap incorporating key implementation considerations will facilitate a smoother transition and allow organizations to embrace the benefits of IFRS. The extent to which systems will need to change depends upon multiple factors and choices, including the quantity and nature of accounting changes driven by IFRS, size and complexity of the business, strategy for responding to IFRS, characteristics of the current infrastructure, and capabilities and number of applications that are involved in the collection of financial data and the generation of financial statements.

In general, companies can view IFRS conversion as an opportunity to consider the long-term vision or plan for an overall information platform. A long-term solution will help organizations optimize their future financial reporting infrastructure and processes, evaluate and mitigate potential internal control issues in the transition, and provide a driver to improve the transparency of systems. Planning to "go live" at the beginning of the transition year is preferable because it enables management to provide full disclosure and comparability in the most effective manner. Organizations should also seek to maximize systems synergies by looking for overlap between IFRS and other legislated regulatory requirements. By seeking the support of IFRS- and systems-experienced personnel, organizations will help to mitigate implementation risks and ensure deployment of a properly scaled and configured system.

To identify which IFRS requirements could potentially drive changes in an organization's IT platform, management should consider the impact across five dimensions as depicted in figure 3-1.

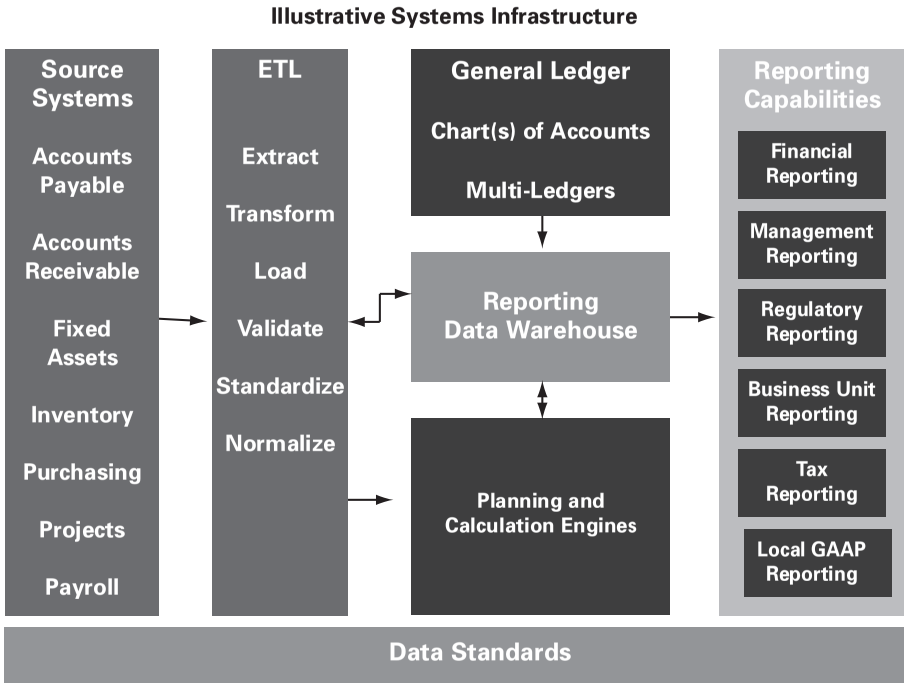
1. Source systems

Source systems consist of financial and nonfinancial subledgers and interfaces that post financial transactions. In evaluating which source systems may be affected, an organization should identify and document all internal and external data sources that must be updated and develop an understanding of the existing system landscape for all affected business units and subsidiaries. This exercise will result in the identification of missing data due to differences in accounting treatment and allow for the assessment of required enhancements to subledgers for affected accounting fundamentals, such as fixed assets, inventory, payroll, valuation, or projects applications. Source systems may also require changes to support dual reporting.

Potential effects include:

- Differences in the accounting treatment between current accounting standards and IFRS will likely create a need for some new input data and processing capabilities.
- Data and transactions that are captured, stored, and ultimately sent to or used to support financial systems may not have all the needed attributes or qualities, and they may require configuration changes to accommodate these attributes.

Figure 3-1: System Impact Across Five Dimensions



Key Considerations

- Regardless of company size and scope, IFRS will have an impact on systems
- Even if you have an integrated platform, there are still important considerations for IFRS
- Although major software vendors support IFRS, conversion is much more than just "flipping a switch." An upgrade or adjustments to an existing implementation plan to accommodate the migration may be required
- In any case, changes to systems do not occur overnight and will require coordinated efforts from IT and Finance
- A roadmap exercise is critical and should be done ASARP (As Soon As Reasonably Possible)

- Subledgers within the ERP may have additional functionality to support IFRS that is currently not being utilized but could be implemented.
- Transformation layers, which may currently be in use to translate and feed source system data into the GL, data repositories, or both are not likely to have been designed with IFRS in mind; data sender or receiver structures may need to be modified.

Example: In asset intensive industries, IFRS may require a new "asset book" with new rules, componentization of assets, or both at a much deeper level than is currently maintained.

2. General Ledger

GL relates to the chart of accounts and its associated policies and procedures. An additional IFRS ledger may be required to support dual reporting. To determine what specific changes may be required, an organization should first evaluate the differences between IFRS and local GAAP to assess the potential impact on the chart of accounts roll-ups and additional IFRS accounts. This evaluation should also include an analysis of the reconciliation, integration process, or both between subledgers and the GL and of the existing accounting, reporting, close consolidation, and reconciliation processes. Depending on the existing general ledger system functionality, system changes or enhancements may be required to handle the dual-reporting requirements, and modifications may be needed to the configurations of the settings of various financial subapplications, such as fixed assets (depreciation or useful lives) and inventory valuation calculation and master data.

Potential effects include:

- Differences in the accounting treatment between current accounting standards and IFRS will likely drive changes to GL design and the chart of accounts.
- Multinational companies may ultimately realize a need to modify their book or ledger structure to ensure compliance with multiple financial reporting formats.
- Multiledger accounting functionality within newer releases of ERPs should be considered for long-term solutions.

- Changes to IFRS will likely necessitate adjusting various processes, which may affect configuration of the financial applications.

Example: Under IFRS, expenses are classified by nature or by function, so new expense allocations and other calculations may need to be created.

3. Reporting data warehouses or data marts

Data warehouses or data marts include consolidation and allocation tools and engines. To assess potential changes due to IFRS requirements, an organization should identify changes in financial information requirements and the impact of these requirements on existing management information systems, such as valuation systems and actuarial models. The organization should also assess the readiness of data governance functions and metadata repositories (used to describe the structure, administration, and definition of data files, for example, a website's metadata may define the size, date, and author of an attached document) that may need to be updated to reflect new data definitions.

Potential impacts:

- More extensive disclosure requirements in IFRS will likely require consistent reporting and usage of financial data that may not be standardized in current data models.
- An increased need for documented assumptions, sensitivity analyses, potential factors may exist that could affect future development and may expand the scope of information managed by financial systems.
- Data governance functions and metadata repositories may need to be created or adjusted to reflect revised data models.
- Data warehouses may need to support consolidated financial information from multiple financial systems and ledgers.

Example: IFRS calls for new disclosure requirements, such as in market valuation of assets, employee compensation plans, and derivatives.

4. Reporting capabilities

Reporting covers system generated outputs and consists of budgeting, planning, forecasting, performance reporting, and other third-party reporting requirements. When going through a conversion, an organization should first identify all the changes in financial and nonfinancial information requirements due to IFRS and assess the current financial reporting capabilities. Once required changes have been identified, the organization will have to assess the impact of these requirements on existing information management systems and the capabilities of the reporting systems to accommodate these changes. The closing and consolidation process may need to be modified to support dual reporting, a global reconciliation template may be required for conversion from U.S. GAAP to IFRS, and potential changes may prompt foreign currency revaluations. Additionally, financial reports may need to be created or enhanced to support IFRS reporting; local GAAP or statutory reporting packages may need to be modified; and geographic, business unit, and internal management reporting may also need to be updated.

Potential impacts:

- The differences that arise in the accounting treatment between current accounting standards and IFRS will create a need to align reporting.
- External reporting templates will likely require revisions to reflect IFRS requirements.
- Increased disclosures, such as sensitivity tests and roll-forwards, may require additional ad-hoc query capabilities.
- Budget and forecasting systems will ultimately need to be adjusted to accommodate IFRS reporting standards.
- Decision support systems comparing U.S. GAAP to IFRS with reconciliations that may need to be created.

5. Infrastructure

Infrastructure includes support applications, such as rules engines, allocation engines, *middleware* (defined as software that provides the integration between the system software components and the application), and operational data stores, that affect or transact financial information. The assessment of infrastructure should include an evaluation of all

potentially affected functions and should also include an evaluation of the requirements or capacity to maintain additional transaction detail. If technology outsourcing is in place, the organization should also develop an understanding of how the existing arrangements and systems will be affected.

Potential impacts:

- Middleware carrying IFRS-related transactions may need to be updated with additional detail by adding transactions or data attributes.
- Rules engines affecting financial transactions may need to be updated or implemented.
- Operational data stores may require modification and expansion to accept the greater level of detail required.

Summaries of Implementation Results and IT Lessons Learned Based on Case Studies

Case Study A: Japanese Automotive Company

The organization improved global financial transparency and management control, implemented IFRS and a standard chart of accounts, implemented a global consolidation tool and process, developed an integrated planning or budgeting process, and created a finance and accounting shared service center.

IT lessons learned:

- An organization can benefit from holistic reform of the business model, operating model, master data, and systems while implementing IFRS.
- It is important to have a strong central program management and control functions to minimize miscommunications within a large project team, share lessons learned across multiple work streams, and manage issues effectively.
- When shared services are mandated, implementation efforts can be reduced

Case Study B: Japanese Consumer Electronics Company

The organization increased regional and global control, implemented a faster close and a daily soft close, and implemented Oracle.

IT lessons learned:

- An IFRS conversion can result in a common global design with statutory localizations by country.
- To prevent implementation problems, anticipate statutory requirements, for example Latin American countries, such as Brazil.

Case Study C: Multinational Company

The company implemented multiple Oracle R12 Modules, including GL, accounts payable, payroll, fixed assets, cash management, iExpense, and financial accounting hub (FAH). It also designed Oracle GL primary and secondary ledgers and utilized the FAH to generate business event-based accounting and utilize business events to generate multi-GAAP and IFRS accounting.

IT lessons learned:

- The Oracle EBS R12 release has features that can be used to facilitate finance transformation and IFRS adoption.
- Oracle R12 includes FAH and Subledger Accounting (SLA), which facilitates the creation of GAAP and statutory accounting entries.

Case Study D: Global Steel Company

The organization designed Oracle EBS R12 global financial architecture to support U.S. GAAP, IFRS, Canada GAAP, European statutory and management reporting. It implemented multiple R12 modules, integrated Hyperion Financial Management to perform global consolidation of multiple separate entities, developed R12 SLA rules to generate business event-based accounting and utilize business events to generate multi-GAAP and IFRS accounting, and used Oracle Fusion Middleware for reports, interfaces, conversions, and extensions development.

IT lessons learned:

- Global data management is critical.
- Using offshore development resources can reduce cost and risk.

- Key roles, responsibilities, and organizational constructs are needed for the global and country teams.
- Utilizing resources across the globe can optimize build, development, testing, training, and deployment activities.

Conclusion

An organization that will go through a systems implementation to address IFRS should first evaluate the impact on its current environment and plan appropriately prior to moving forward. Each organization will most likely have a unique environment and specific set of circumstances to address, but this chapter used five system dimensions that generally would encompass all affected areas and provided specific guidance on appropriate considerations and potential effects. The concluding summaries of actual implementations (case studies A-D in chapter 8) provide the reader with examples of real-life lessons learned.

Project Management Considerations

4

As with any major corporate initiative, planning ahead is critically important. Sizing up the task allows for prudent assignment of resources within the company and for the opportunity to engage external assistance. This chapter summarizes some of the prominent project management components required to plan and conduct the implementation, including the following:

- Project cost considerations
- The "extent" of the International Financial Reporting Standards (IFRS) conversion
- Project governance, risks, and internal control considerations
- Alignment with regulatory requirements

Sound project management skills, awareness of broad organizational considerations, and sponsorship by top management will help ensure the success of an IFRS implementation.

Project Cost Considerations

The cost of an IFRS implementation will be determined largely by the size and complexity of the respective company. The Securities and Exchange Commission (SEC) predicted that U.S. companies will spend between 0.125 percent and 0.13 percent of their revenue on making the transition to IFRS from U.S. generally accepted accounting principles (GAAP) in the first year of filing. This includes both internal and external costs. Because the costs to convert can be substantial, the upfront planning and project sizing are very important. The estimates by the SEC are clearly averages and may not correlate closely with individual company experiences.

It is evident that the time leading up to the conversion will absorb the vast majority of budgeted dollars. If managed strategically, the

implementation could be leveraged to accomplish other needed reporting enhancements previously delayed. When viewed over a longer horizon, an IFRS project could accelerate system improvements that were only on "wish lists" for possible future consideration.

The Extent of IFRS Conversion

In evaluating and planning for an IFRS conversion, it is not always clear at the outset *where* that conversion will take place. This is not so much of a geographic question as one of systems landscape. In other words, the changes required to implement IFRS could fall along the entire financial reporting continuum. One of the first primary tasks in an IFRS implementation is called a "gap" analysis. This compares the current GAAP reporting requirements to IFRS reporting requirements. The differences will likely require changes in both the face of financial statements as well as footnote disclosures. Depending on the outcome of this gap analysis, companies must determine which systems are affected (or which systems need to be created) to capture the information required to resolve the differences between GAAP and IFRS.

In a static world, such a gap exercise could be a one-time task. However, accounting standards are fluid, so a company would be wise to frequently refresh or confirm its gap analyses when moving through an IFRS implementation. As previously suggested, the "extent" of an IFRS conversion could fall at multiple places along the financial reporting continuum. The following list summarizes some options and implications for IT.

1. *Consolidated financial statements*. In some companies, top-level-only adjustments may be required to convert to IFRS. This may be accomplished in existing consolidation tools, may require supporting calculations for the adjustments, or both. Although this may suggest that the impact on IT would be minimal, it could nevertheless be necessary for underlying systems to generate the data or information to make the top-level adjustments. Various software tools currently on the market may be of help as companies make adjustments to convert to IFRS.
2. *Separate financial statements (for example, subsidiary level)*. In an international company operating under various jurisdictional

requirements, it may be appropriate for changes connected with IFRS to be made at a subsidiary level. This means that the underlying transactional detail must be compiled at the subsidiary level. The subsidiary systems may or may not be able to capture such detailed information, which means that system enhancements must be made at that level.

3. *In parallel within the enterprise resource planning system.* Some enterprise resource planning (ERP) systems have the capability for running parallel "sets of accounts," for example, under U.S. GAAP and IFRS. This may assist companies having such systems to plan for and successfully convert to IFRS. IT challenges can still remain under such systems. Decisions must be made as to the appropriate treatment of transactions so that information feeding into the parallel accounts is appropriate. Further, depending on the accounting issue, information may need to be generated or understood at a deeper level such as in the payable or receivable systems. In other words, the underlying systems of record may need to be altered to accommodate a "new way of looking at things." (IFRS) This process is contemplated previously in the examples located in chapter 3 and is addressed again in chapter 6.
4. *Various other "versions" of IFRS.* Although great efforts are being made to arrive at a singular IFRS that cuts across all global jurisdictions, the distinct possibility exists that companies may face different versions of IFRS. For example, there could be IFRS issued by International Accounting Standards Board, adjustments under European Union regulations, localized versions of IFRS, and so on. IT systems can play an important role in facilitating reporting under such varied scenarios if the systems can render data and information at a granular enough level to be rolled up in different ways. In other words, multi-GAAP information may need to be captured at trial balance or transactional levels. Unless a company's IT systems allow for such fluidity, additional systems or workarounds may need to be developed. As noted previously, some companies opt for running parallel general ledgers to facilitate the GAAP and IFRS reporting requirements. Another approach to meeting some of the reporting expectations could be the expanded use of eXtensible Business Reporting Language (XBRL). Also refer to the section

"IFRS Conversion in Canada" in chapter 7 and the section "Case Study Example 4: *How XBRL is Helping*" in chapter 8.

As companies begin to plan for the conversion project, the project team should be aware that the conversion project will involve multiple years of planning, design, and implementation. This is assuming that two years of dual reporting will be mandated or required before the set adoption date. A sample project line summary is presented in figure 4-1.

Project Governance

Governance of the IFRS conversion project should follow established governance processes within each company. This may include, for example, the creation of an IFRS Steering Committee with executive sponsorship. A formal project (or "program") management office (PMO) may be created to manage all of the subprojects associated with the conversion.

What should the project team look like? The following are some general recommendations:

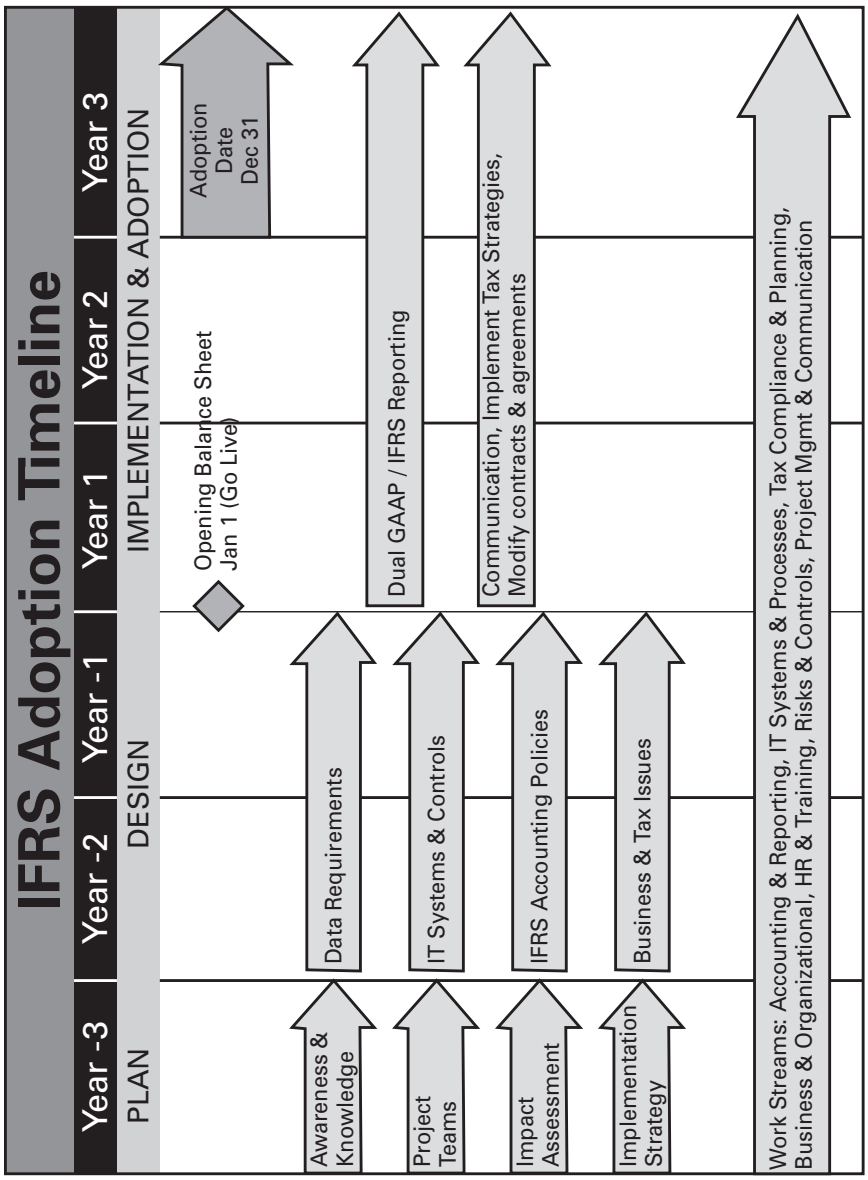
- A diverse group covering various departments, geographic locations, and representatives from both corporate and subsidiary teams will produce a more complete and effective conversion.
- Consider both internal and external stakeholders. The conversion to IFRS may affect, for example, vendors who support key data processing or reporting functions.
- Ensure that there is regular attendance or reporting to executive sponsors and the audit committee. All CFO, chief operating officer, and CIO organizations will need to be coordinated around IFRS.
- Representatives from the internal audit department can add valuable expertise to the project. See an expanded discussion in the subsequent section "Internal Control Considerations."

Although any list of specific roles and responsibilities would need to be tailored to a company's situation, the following are examples of responsibilities that could be considered when forming and managing the IFRS conversion project team:

IT and Data Systems

- Evaluating capabilities of existing systems to produce dual financial statements

Figure 4-1: AICPA's Suggested International Financial Reporting Standards Timeline



- Ascertaining whether expanded disclosure requirements can be captured from existing systems or whether new solutions need to be proposed
- Determining whether measurement requirements under IFRS can be supported by existing systems

Finance

- Evaluating the impact of IFRS on key performance indicators and ratios
- Organizing the review of financial covenants arising from changes in balance sheet and income statements arising from IFRS conversion
- Judging impact on certification process related to the Sarbanes-Oxley Act of 2002 (SOX)
- Determining how IFRS-related changes will affect long-term strategic planning, budgeting, and forecasting

Accounting and Reporting

- Documenting changes to financial reporting including the financial close process and policies or procedures around key areas such as property, plant, and equipment
- Maintaining regular review of emerging standards and the impact on reporting
- Preparing skeleton financial statements to reflect potential changes arising IFRS conversion
- Developing strategy to communicate with industry-specific regulators on the impact of IFRS

Treasury

- Analyzing impact of IFRS conversion on foreign exchange and hedging activities
- Providing support for possible new financial reporting requirements related to cash-flows

Investor Relations

- Evaluating and building a process to communicate the impact of IFRS conversion to investors and analysts
- Preparing explanations of why certain IFRS policy options such as first time adoption options were selected

Human Resources
- Evaluating and preparing for effect of IFRS on performance-based compensation
- Working with the IFRS PMO on employee IFRS training
- Developing strategy in conjunction with departments, such as finance and accounting, for hiring and retention of individuals with IFRS knowledge and experience

Tax
- Analyzing impact of new asset bases and the impact on deferred tax calculations
- Analyzing overall impact on tax calculations of other IFRS-related changes
- Assisting in evaluating whether system modifications may be required to support tax reporting requirements after the IFRS conversion is completed

A company should be aware that finding, nurturing, and retaining IFRS conversion talent is of prime importance to a successful conversion and continuance of the changes made as a result of the project. Project and business managers should give regular attention to these considerations and involve their human resource department's expertise.

Training Considerations

Although the system design and infrastructure are significant parts of managing an IFRS conversion project, training is also relevant to achieve a successful implementation. As previously suggested by the first arrow in figure 4-1, awareness and knowledge must be gained early in the process. Such training can be obtained either outside the company or through courses available on the internal learning management system. Note that the need for training extends beyond the accounting department. Anyone who is moderately involved in the IFRS conversion should have some basic understanding of what is driving the need and system upgrades.

Following the initial burst of training, companies will need to develop an ongoing program that keeps staff current on IFRS developments and fast-tracks new hires into this new knowledge arena. Most

accountants in the United States will have had little or no previous educational background with IFRS. Organizations such as the AICPA have committed to being an excellent resource to the entire financial community on IFRS subjects.

Project Risk Factors

IFRS risks and burdens are high and need to be carefully managed. Seeking the support of IFRS-and systems-experienced personnel will help to mitigate implementation risks and ensure deployment of a properly scaled and configured system.

Risks to core systems in a current state environment may include:

- System performance declines due to increased amounts of data, information, and reports (for example, slow to function or slow to report).
- Fields may not be available to support new or increased data requirements.
- Functionality may not exist to support new accounting processes. If functionality does exist, it may have been configured irreversibly (for example, "Flexfields" in Oracle).
- Potential limited capacity of databases, hardware, or both may exist.
- Risk of misstatement may exist.
- Reporting risks may arise, such as
  - — version control (naming and numbering structures),
  - — formatting (underlying configurations may not support new or increased reporting), and
  - — meeting the reporting sequence and timing to supply necessary data using current configuration.

Overall IFRS conversion project risks may include:

- Project delays, cost escalation, and rework. These may occur as a result of a lack of understanding by IT and finance department resources and by not starting conversion early enough to allow for design, configuration, testing, training and to meet deadlines.
- Unreasonable work levels on IT and finance departments.

- Ending up with an overly complex, incomplete, or manual workaround solution.
- A risk of performance and capacity issues arising when the solution is not scaled properly.

As the list of risk concerns may imply, the risks and burdens to an IFRS conversion project are high, and the project needs to be carefully managed. Seeking the support of IFRS and systems experienced personnel will help to mitigate the implementation risks. How a project is planned and managed can determine the success or failure of the project. With multiple risk factors to consider, a company should also have the internal control department and resources engaged throughout the various phases of an IFRS conversion project.

Internal Control Considerations

Compliance with SOX requirements and meeting external auditor expectations requires a company to have a documented process of how financial reports are completed. Depending on the extent to which processes will change, be created, or run in parallel in an IFRS implementation, internal controls will need to keep pace.

The process of creating financial reports under IFRS not only includes different ways of compiling data but also involves judgments as to what that data means. In other words, internal control systems or documentation may need to be expanded to reflect the increased use of judgments and textual descriptions associated with IFRS. As an example, IFRS requires certain property, plant, and equipment and related depreciation be recorded at component levels. Consequently, processes will need to be upgraded to capture this more granular data, and judgments must be documented related to identifying components and determining depreciation lives.

Internal audit departments can add significant value to companies engaged in an IFRS conversion project. Internal audit employees should be involved from the beginning of the conversion project and may focus on various components of the project, including the following:

- *Monitoring*—Monitor milestones and program efficiencies and effectiveness. Companies can ill afford to miss key conversion

target dates or other deliverables that may have been communicated to corporate executives or investors.

- *Risk assessments*—Evaluate inherent risks in the conversion project and serve as the communications conduit to the audit committee and the board. As alluded to previously, SOX compliance may be affected by the conversion.
- *Controls effectiveness*—Once risks have been identified, institute (or modify) effective controls with the IFRS reporting process.
- *Education and training*—Require IFRS training across a wide spectrum of the company, including, perhaps, the audit committee. Internal audit teams will themselves be required to add competence in IFRS requirements.

Alignment to Regulatory Requirements

In addition to SOX requirements, an IFRS implementation may also affect a company's other regulatory requirements depending on the company's industry category. Figure 4-2 groups the IFRS sections by their general system effects, and figure 4-3 summarizes how the standards may affect different industries.

Each IFRS standard and International Accounting Standard will affect industries differently. Figure 4-3 is designed to provide guidance regarding the potential impact of each standard on several industries. The various shades are meant to represent the overall impact (people, process, and technology) that each standard will have on the industry with black being "high" impact, light grey being "medium" impact, and dark grey being "low" impact. The actual impact on any entity will depend on the nature of transactions and also by policy choices selected by management.

This chapter summarized the broad effort that is required to manage a successful IFRS implementation. It requires the establishment of a strong project management office that addresses cost considerations, the "extent" of IFRS conversion, governance, risks, controls, and alignment with general regulatory requirements. It was noted that accounting standards are fluid, and, as such, IFRS implementation teams need to regularly review or confirm underlying gap analyses. A benefit from IFRS

Figure 4-2: International Financial Reporting Standards Groupings by General System Impacts

Statement Presentation	IAS 1: Presentation of Financial Statements IAS 7: Cash Flow Statements IAS 24: Related Party Disclosures IAS 27: Consolidated and Separate Financial Statements IAS 28: Investment in Associates IAS 31: Interest in Joint Ventures IAS 32: Financial Instruments – Presentation IAS 33: Earnings Per Share IAS 34: Interim Financial Reporting IFRS 3: Business Combinations IFRS 7: Financial Instruments – Disclosures
Data Collection and Aggregation Standards	IAS 2: Inventories IAS 11: Construction Costs IAS 16: Property, Plant and Equipment IAS 17: Leases IAS 18: Revenue IAS 19: Employee Benefits IAS 23: Borrowing Costs
Industry Specific	IAS 41: Agriculture IFRS 4: Insurance Contracts IFRS 6: Exploration for and Evaluation of Mineral Resources
Consolidation and Corporate Accounting	IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors IAS 10: Events after Balance Sheet Date IAS 12: Income Taxes IAS 20: Accounting for Government Grants and Disclosure of Government Assistance IAS 21: The Effects of Changes in Foreign Currency IAS 29: Financial Reporting in Hyperinflationary Economies IAS 36: Impairment of Assets IAS 37: Provisions, Contingent Liabilities and Contingent Assets IAS 38: Intangibles IAS 39: Financial Instruments – Recognition and Measurement IAS 40: Investment Property IFRS 1: First-Time Adoption of International Financial Reporting Standards IFRS 2: Share-Based Payments IFRS 5: Non-Current Assets Held for Sale and Discontinued Operations IFRS 8: Operating Segments

Figure 4-3: International Financial Reporting Standards by Industry Impact

IFRS by industry impacts

LEGEND
■ - High Impact ■ - Medium Impact ■ - Low Impact

Each IFRS and IAS standard will affect industries differently. This chart is designed to provide guidance regarding the potential impact of each standard on several industries. The various shades are meant to represent the overall impact (people, process and technology) that each standard will have on the industry with black being **"high"** impact, light grey being **"medium"** impact and dark grey being **"low"** impact. The actual impact on any entity will depend on the nature of transactions and also by policy choices selected by management.

	Consumer Business	Energy & Resources	Financial Services	Life Sciences & Health Services	Manufacturing	Real Estate	Technology, Media & Telecom
IFRS 1: First-Time Adoption of IFRS	■	■	■	■	■	■	■
IFRS 2: Share-based Payment	■	■	■	■	■	■	■
IFRS 3: Business Combinations	■	■	■	■	■	■	■
IFRS 4: Insurance Contracts	■	■	■	■	■	■	■
IFRS 5: Non-current Assets Held for Sale and Discontinued Operations	■	■	■	■	■	■	■
IFRS 6: Exploration for and Evaluation of Mineral Resources	■	■	■	■	■	■	■
IFRS 7: Financial Instruments – Disclosures	■	■	■	■	■	■	■
IFRS 8: Operating Segments	■	■	■	■	■	■	■
IAS 1: Presentation of Financial Statements	■	■	■	■	■	■	■
IAS 2: Inventories – Canadian	■	■	■	■	■	■	■
IAS 2: Inventories – US	■	■	■	■	■	■	■
IAS 7: Cash Flow Statements	■	■	■	■	■	■	■
IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors	■	■	■	■	■	■	■
IAS 10: Events after Balance Sheet Date	■	■	■	■	■	■	■
IAS 11: Construction Contracts	■	■	■	■	■	■	■
IAS 12: Income Taxes	■	■	■	■	■	■	■
IAS 16: Property, Plant and Equipment	■	■	■	■	■	■	■
IAS 17: Leases	■	■	■	■	■	■	■
IAS 18: Revenue	■	■	■	■	■	■	■
IAS 19: Employee Benefits	■	■	■	■	■	■	■
IAS 20: Accounting for Government Grants and Disclosure of Government Assistance	■	■	■	■	■	■	■
IAS 21: The Effects of Changes in Foreign Exchange Rates	■	■	■	■	■	■	■
IAS 23: Borrowing Costs	■	■	■	■	■	■	■
IAS 24: Related Party Disclosures	■	■	■	■	■	■	■
IAS 27: Consolidated and Separate Financial Statements	■	■	■	■	■	■	■
IAS 28: Investment in Associates	■	■	■	■	■	■	■
IAS 29: Financial Reporting in Hyperinflationary Economies	■	■	■	■	■	■	■
IAS 31: Interests in Joint Ventures	■	■	■	■	■	■	■
IAS 32: Financial Instruments – Presentation	■	■	■	■	■	■	■
IAS 33: Earnings Per Share	■	■	■	■	■	■	■
IAS 34: Interim Financial Reporting	■	■	■	■	■	■	■
IAS 36: Impairment of Assets	■	■	■	■	■	■	■
IAS 37: Provisions, Contingent Liabilities and Contingent Assets	■	■	■	■	■	■	■
IAS 38: Intangibles	■	■	■	■	■	■	■
IAS 39: Financial Instruments – Recognition and Measurement	■	■	■	■	■	■	■
IAS 40: Investment Property	■	■	■	■	■	■	■
IAS 41: Agriculture	■	■	■	■	■	■	■

conversion is that the discipline and processes from the project management effort can be leveraged on a go-forward basis because accounting standards will inevitably continue to change and systems will be a key factor in meeting those changes. Chapter 5 provides tips for how to begin to outline a project plan for an IFRS conversion project when there are multiple project management attributes to consider and offers a suggested activity checklist and high-level examples associated with each of the suggested activities.

Project Planning and Implementation—Suggested Activity Checklist

5

As noted in chapter 4, a series of project management considerations need to be addressed to provide the underlying foundation for success. Developing a comprehensive project task list that outlines key business process activities and milestones is a critical component of the development of an overall project plan. It allows the project team to visualize and plan for project phases, activities, and tasks; develop the level of effort needed to complete each task; identify interdependencies between tasks; and ultimately use these inputs in the development of a formal project plan.

To guide these efforts, figures 5-1 through 5-4 are provided as detailed project task lists that segment the overall International Financial Reporting Standards (IFRS) project into four standard phases. Most companies' should be able to easily integrate these phases into their systems development life cycles (SDLCs). Included in each phase is the "Management Activity" column, which outlines the overall IFRS project plan step, as well as the "Detailed Activity" column, which demonstrates the intersection of the IT process enhancement in supporting the overall IFRS project.

The four phases of the detailed project task list, to be integrated management's overall project management methodology, are as follows:

- *Phase I, Diagnostic*—This phase allows for the initial understanding of the current business processes and a macro-level understanding of business and technology areas that may be affected by an IFRS conversion. The resultant output will allow management to develop a preliminary understanding of key IFRS issues, which in turn can facilitate the development of an initial estimate for the timing and level of effort required, resource plan requirements, and associated cost analysis.

- *Phase II, Design and Planning*—This phase allows management to flush out the details that were initially touched upon during the diagnostic phase in the manner necessary to develop a formal project management office (PMO) and project plan to execute the rest of the project phases in accordance with management's project management methodology and SDLC.
- *Phase III, Solution Development*—Based upon the results of the design and planning phase, management can develop formal policies, procedures, and processes to address IFRS, as well as identify, develop, and implement formal technical solutions to support the enhanced policies procedures and processes.
- *Phase IV, Implementation*—This phase brings management through the initial dry run of the IFRS-basis reporting process using the processes and systems that have been enhanced in phases I–III.

A high-level example for each phase is provided in this chapter to demonstrate key concepts, based upon the real-life experiences of the authors on many different methodology and system implementations. Throughout this chapter ConsumeCo, a multibillion dollar global consumer-products company headquartered in Tokyo, with U.S. headquarters in New York City, will serve as an example of a company that is undergoing an implementation effort in support of its global IFRS roll out. The high-level example will include key actions and decisions made in each phase, as well as any lessons learned that may help the reader avoid pitfalls that other teams that have undergone this process experienced. These lessons learned are focused predominantly on the system components of the IFRS conversion, consistent with the thesis of this book.

A word of caution from the authors: Making this project appeal to the broadest possible audience required the sanitizing of many of the inherent issues that a company may experience in an IFRS implementation project, including regulatory requirements, legacy process idiosyncrasies, legacy system and data limitations, and funding or resource constraints. Accordingly, this exercise should be undertaken by a team with the experience to manage the people, processes, and technologies necessary to enact major operational changes.

Phase I—Diagnostic

Figure 5-1 outlines and illustrates the key activities involved in phase I (diagnostic) of the suggested activity list. This process allows the IT department liaison to define key integration points into the overall IFRS project plan, such that the technology scope of the IFRS adoption process may be ascertained. The goal of this phase is the definition of the initial rationale for and scope of the project. The diagnostic phase is often a standalone project.

Figure 5-1: International Financial Reporting Standards Suggested Activity Checklist: Phase I (Diagnostic)

Phase I—Diagnostic		
	Management Activity	**Detailed Activity, Including IT Impact**
1.1	Gain an understanding of the differences in accounting treatment for company-specific transactions between current financial reporting standard and International Financial Reporting Standards (IFRS).	Complete analysis identifying differences between current financial reporting standard and IFRS and identifying areas in which those differences affect company-specific transactions. Map areas of difference to underlying applications.
1.2	Identify the areas of the business operations that may be affected by a conversion to IFRS reporting standards.	Identify areas of the business that may be affected by a conversion to IFRS reporting standards, including tax and statutory reporting considerations. Identify core business applications and related data that support business operations.
1.3	Gain an initial understanding of the changes that will be required for financial reporting purposes.	Complete an IFRS disclosure checklist on current generally accepted accounting principles (GAAP) financial statements to identify disclosure gaps. Preliminarily identify underlying systems and data that will need to be addressed.
1.4	Summarize results of procedures to disseminate to appropriate company personnel.	Report the result of the impact assessment to management and the audit committee, if applicable, including an estimate of the level of effort required to change.
1.5	Identify overall preparedness for IFRS conversion.	Provide observations on the company's preparedness for IFRS, including areas in which additional resources may be required. Consider technology department current and required future resources.
1.6	Prepare an interpretation of results from impact assessment and quantify the effect of the GAAP conversion on all business functions.	Interpret the results and quantify the effect of the GAAP conversion. Map initial results to underlying process changes and related technology that supports "as is" and "to be" processes and data.

(continued)

(continued)

Phase I—Diagnostic		
	Management Activity	**Detailed Activity, Including IT Impact**
1.7	Engage in general discussions of the alternative accounting treatments allowable under IFRS, including information on the selections used by peer group companies.	Determine alternative accounting treatments, including soliciting information on accounting selections used by peer group companies. Map anticipated treatments to underlying processes, systems, and data.
1.8	Complete business function change plans to identify and address those business functions that are affected by revised accounting under IFRS.	Develop initial change plans, considering changes to people, processes, and technology.
1.9	Identify industry issues, including their potential effect, and benchmarks as they pertain to IFRS.	Obtain applicable industry information and benchmarks, including surveys and research documents, to support initial determinations. Identify and summarize the applicable industry issues and benchmarks, as well as their potential effect (for example, the inability to use last in, first out in inventory accounting). Map issues to underlying processes, systems, and data that support processes to identify potential change candidates.
1.10	Provide training for internal personnel (both general and specific technical training on the requirements of IFRS).	Provide training for personnel on the requirements of IFRS.

As noted previously, ConsumeCo is a multibillion dollar global consumer-products company headquartered in Tokyo and is implementing IFRS globally. Based upon a mandate from its headquarters, the U.S. subsidiary is exploring the move to IFRS. ConsumeCo has been undertaking an enterprise resource planning (ERP) implementation for its core business systems, which is intended to culminate in the implementation of the ERP Business Suite.

In phase I of this process, management developed the leadership team and project charter, defined the key roles for the project, integrated the local U.S. project team with the Tokyo-based leadership team, and performed an initial analysis of where potential IFRS design gaps may exist against the current environment. Given its industry, key areas of concern initially include the ability to perform financial or parallel reporting, as well as the ability to value impairments, fixed assets, research and development, and intangibles.

Lessons learned include the following:

1. *Do not drive too far into the details of processes during the diagnostic.*
   Given the concurrent ERP Business Suite rollout, management noted functional areas in which ERP Business Suite would be affected, but it chose not to consider the ERP Business Suite solution alternatives until the design phase. This was not initially the course of action, but management quickly realized that bringing in the technology changes in any meaningful way almost immediately derailed the diagnostic process. ERP Business Suite business process focused implementation team members "unintentionally hijacked" meetings in an effort to refine functional specifications, while end users who were not part of the ERP Business Suite implementation team used the presence of ERP Business Suite resources to ask questions about processes that were not relevant to IFRS. Acknowledging system changes that may need to occur is probably adequate for the diagnostic phase.
2. *Management needs to dedicate appropriate time and resources to this process.*
   Members who were initially defined as 10 percent available on the IFRS project were regularly unavailable for key meetings, disengaged during facilitation sessions, or both due to their attending to their other job responsibilities while in the IFRS sessions. Adequate advanced notice to determine dates and times for key sessions and meetings was required to get a quorum for any meeting. As this project progressed, the PMO took to sending out meeting notices and following up on nonresponses weeks in advance of key sessions, which materially increased participation.
3. *Adequate advanced training is required to develop a consistent base of knowledge, which leads to more productive meetings.*
   The training of the applicable business, accounting, and IT resources during the diagnostic phase, plus reinforcement and enhancement of this knowledge during the design and implementation phases, was key to ensuring that all session members had a similar base of knowledge at the start of the sessions. This was critical in keeping the duration of the facilitation sessions to a reasonable timeframe, which in turn increased attendance for the full sessions. Team members noted that it was easier to dedicate full attention to the

facilitation session if they knew it would be limited to the originally scheduled 90 minutes, when compared to trying to keep full attendance within four-hour mega-sessions that attempted to combine training and facilitation.

Phase II—Design and Planning

Figure 5-2 outlines and illustrates the key activities involved in phase II (design and planning) of the suggested activity list. In this phase, the initial areas of focus that would have been identified during the diagnostic are enhanced. The project charter and project team are formalized, along with the other components normally associated in the design and planning phase of the company's SDLC. Given that many companies choose to use a single IT department liaison during the diagnostic phase, this phase is often the first phase during which technology resources are fully integrated into the IFRS project. The key deliverable at the end of this phase is the finalization of the detailed project plan and associated milestones, which include technical integration points, as appropriate.

Figure 5-2: International Financial Reporting Standards Suggested Activity Checklist: Phase II (Design and Planning)

Phase II—Design and Planning		
	Management Activity	**Detailed Activity, Including IT Impact**
2.1	Formalize overall project management for the design and planning phase.	Utilize corporate project management resources to develop formal project plan in accordance with project management office (PMO) methodology. Identify key resources (for example, people, process, and technology) and enablers required (for example, templates and technology support). Develop regular touch points with management, key stakeholders, external auditors, and consultants, as appropriate.
2.2	Prepare a project charter mapping out the critical path from current state to full International Financial Reporting Standards (IFRS) conversion, including project timetable, structure, and work programs.	Develop a formal project charter, including documentation of timeline, structure, and work programs.
2.3	Determine documentation format (charters, work plans, and so on) for the conversion project.	Formalize documentation format and protocols for the project.

Phase II—Design and Planning		
	Management Activity	**Detailed Activity, Including IT Impact**
2.4	Determine roles and responsibilities for the conversion project.	Determine roles and responsibilities for the project, including integration of work streams for financial accounting, management reporting, tax, risk management, IT, and other departmental stakeholders. Determine protocols for integration of IT liaisons into each process work stream.
2.5	Determine project methodology, resourcing, tools, and templates to be used during project.	Identify and obtain leading practice tools and techniques for team to leverage. Sources may include professional and regulatory bodies, external auditors, internal audit, and consultants, as appropriate. Formalize methodology, resourcing, tools, and template decisions based upon information obtained.
2.6	Define the work streams required and their related objectives. Identify work stream teams, establish subproject deadlines, and develop work programs for each subproject. Identify deliverables to be obtained from each work stream.	Defining work streams, related objectives, deadlines, subwork programs, and deliverables. Because IT will most likely support each work stream, in addition to being a standalone work stream, determine integration points between business and IT requirements.
2.7	Determine appropriate project milestone objectives and measurement.	Implement appropriate project management leading practices according to the company's PMO methodology. Identify the appropriate milestone objectives and measurements and related required documentation for each objective. Assess integration of IT support into each process objective.
2.8	Determine appropriate plan for sustainment of plan and prioritization plan for next steps.	In accordance with the company's PMO methodology, create, document, or both sustainment plans and prioritization plans for next steps, including impact of IT on overall plans.
2.9	Develop positions (including technical position papers) and identify necessary communications for others, including auditors and audit committee.	Obtain white papers and technical position papers, as available, to assist in the development of management positions and related communication protocols. Obtain advice, counsel, feedback, or a combination of these from external auditors, IFRS consultants, legal counsel or other applicable bodies, as appropriate. Identify underlying system and data impact of changes in position.
2.10	Review adequacy of current accounting policy manual. Based on developed technical position papers, identify areas that will need to be updated.	Compile key accounting policies through the review of accounting manual, financial statements, and interviews. Assess underlying IT system and data support required to facilitate adherence to policies.

For ConsumeCo, phase II included formalizing the detailed project charter and the detailed project plan and core team, capturing key accounting policies in the United States, rationalizing U.S. policies with Tokyo policy guidance, gathering detailed information as to legacy business processes (including documentation prepared to support Japanese Financial Instruments Law [J-SOX] compliance), conducting walkthroughs to validate the accuracy of the current controls documentation, briefing internal and external audit on their methodology, and developing the "to be" environment initial blueprints. As part of this data gathering, management utilized data analytics to drill down on legacy account subledgers that contained financial information. For example, the fixed asset ledgers were exploded into component parts on a test basis to assess the impact of exploding major assets, such as the new corporate headquarters and financial shared-services facility, which was the single biggest asset on the U.S. ledger.

Additionally, significant effort was expended on the determination of whether a single-ledger or dual-ledger reporting would be beneficial in the "to be" environment, given the company's move to ERP Business Suite. Key assessment criteria included the level of effort necessary to capture financial data in both IFRS and statutory (U.S. generally accepted accounting principles [GAAP], in this instance) rules, the functionality and relative complexity afforded by ERP Business Suite's dual-ledger versus single-ledger solutions, and the degree of automation necessary to drive company mandated return on investment. Based upon this analysis, the company initially determined that it was leaning toward implementing dual-ledger reporting, although further analysis was warranted, including the determination of which ledger would be considered the leading ledger for reporting purposes.

Lessons learned include the following:

1. *Data analysis can be of great benefit to the IFRS team, when used correctly, but a potential hindrance when not.*
   The impact of data analytics on this process, both positive and negative, cannot be overemphasized. From a positive perspective, the generation of custom reports to drill down into the fixed-asset ledgers saved significant time for the team mapping the fixed-asset strategy and laid the groundwork for the development of a solution. Other areas were likewise able to get a better appreciation for what data within the legacy environment was available to them

and what would ultimately need to be converted. This was invaluable in the determination of what legacy data would need to be converted to IFRS for comparative reporting purposes. The downside of having analytics available was twofold: (1) Some members of the team attempted to defer to the IT support team for results, without providing adequate guidance and supervision; and (2) some of the data in the legacy systems was not easily captured, and the intangibles subprocess was slowed by waiting on data processing. The lesson learned is that the PMO needs to partner with, not defer to, analytics resources to obtain the best results.

2. *Do not underallocate resources.*
   Although the U.S. office did not have a choice as to the timing of the implementation, in hindsight, certain members of the team remarked that the rotation of key internal subject matter resources to the ERP Business Suite implementation team reduced their availability to work on IFRS. Combining the efforts for ERP Business Suite blueprinting, IFRS solution design, and daily job responsibilities ended up as a significant cause for fatigue and directly resulted in certain delays.
3. *Project management is critical to the satisfactory conclusion of the project.*
   Because many of the team members were not familiar with working on large special projects, the PMO team needed to carefully overcommunicate each milestone and deliverable to the team. If a company has a formal project management methodology, employees need to zealously adhere to it. However, if a company does not have a formal methodology, as was the case with ConsumeCo, bringing in resources that could define and execute against a formal methodology early in the project would make the design phase operate more effectively.

Phase III—Solution Development

Figure 5-3 outlines and illustrates the key activities involved in phase III (solution development) of the suggested activity list. In this phase, formal IFRS business policies will be created and enhanced, allowing for the development of system solutions to support the business policies. Examples of key system solutions may include, as appropriate,

determination of single or multiple-ledger reporting requirements; system enhancements necessary to allow for reconciliation between local statutory and IFRS accounts or ledgers; enhancements to data warehouses, databases, metadata, key reports; and account details necessary to capture data to support IFRS reporting. At the end of this phase, system solutions to support the IFRS business framework will have been blueprinted, tested, and accepted by financial leadership. From an IT department perspective, the greatest level of effort would be expended within this phase.

Figure 5-3: International Financial Reporting Standards Suggested Activity Checklist: Phase III (Solution Development)

Phase III—Solution Development		
	Management Activity	**Detailed Activity, Including IT Impact**
3.1	Prepare accounting memorandum for each applicable International Financial Reporting Standards (IFRS) standard, including identifying and performing sensitivity analysis on accounting policy elections (when available) and considering effect on business.	Complete accounting memorandum, including identifying and performing sensitivity analysis on accounting policy elections and identifying effects on the business.
3.2	Based on technical position papers and detailed accounting memorandum, develop IFRS accounting policies, including preparing an IFRS compliant accounting policy manual.	Develop IFRS accounting policies and updating the documentation of the accounting policy manual. Link changes to accounting policies to underlying IT systems and data to identify initial candidates for technology enhancement.
3.3	Update or modify internal control policies to reflect revised accounting policies.	Revise internal control policies, including applicable documentation. Capture IT controls within the overall control structures defined in the revised policies.
3.4	Based on IFRS accounting and reporting requirements, identify gaps in management information systems and other processes for adjustments and disclosures, include changing data requirements and changes to general ledger charts of accounts.	Using information gathered through the diagnostic and planning phases, as well as changes in control policies identified previously within this chart, identify and document process and data gaps between necessary end-state management information systems and the current state.

Phase III—Solution Development		
	Management Activity	**Detailed Activity, Including IT Impact**
3.5	Based on the identified changes needed to information systems due to changes in accounting treatment and financial reporting, specify, build, and test information system changes.	Design and plan for the implementation or the enhancement of IT systems to support changes in reporting and business processing. These may include performing the following key process tasks: • Require definition and system design or selection for finance-related or risk-related applications and underlying systems. This may include enhancement of current finance-related or risk-related applications, such as configuration of alternate ledgers, charts of accounts, data elements, or a combination of these necessary to capture data in IFRS and potentially local statutory reporting, as well as the development of key translation and mapping tables, enhancement of data elements at the request of business users, and the development of reports. • Configure design for third-party applications that have the primary purpose of helping manage business risks, such as actuarial systems, management dashboards, and external security products. • Design, implement, or both, as appropriate, key controls within the underlying security and control environment necessary to support the accurate and complete processing of current and future systems and applications. • Develop scripts and modules to extract and analyze current business data, so that this data may be enhanced and converted for use in the new processing environment, as appropriate. • Test, implement, and support approved IFRS enhancements (as defined in the prior bullet points) to core business systems, in accordance with management's defined system development lifecycle and overall project management methodology.
3.6	Prepare skeleton financial statements, including footnotes.	Utilizing enablers and guidance from professional organizations, external auditors, and consultants, prepare skeleton financial statements based on IFRS reporting requirements. For underlying core data being processed, cross-reference changes in processes to underlying changes in technology, to validate that core changes were identified and accounted for.
3.7	Prepare list of necessary accounting adjustments.	Prepare proposed list of necessary accounting adjustments, including draft journal entries.

Within the solution development phase, ConsumeCo expended significant effort in finalizing processes and system solutions. The company developed its "to be" core processes, and it made its final determinations about how the system was going to be configured. The system configuration decisions spawned a series of technology-related subprocesses to allow for the system to be configured in a manner that supported the business decisions that were made to define the "to be" environment.

Using the examples introduced in the prior phase, at ConsumeCo, system processes included the determination of key fields to be captured for the identification and processing of fixed assets under both IFRS and statutory reporting, as well as the selection of a leading ledger for its dual-ledger reporting process. ConsumeCo chose IFRS as the leading ledger, with statutory U.S. GAAP as the alternate ledger, because it felt that the system's useful life would far exceed that of the requirement for U.S. GAAP statutory reporting. If it had chosen U.S. GAAP as the lead ledger, it would need to maintain U.S. GAAP reporting for the life of the system, or until a reasonable process would be developed by the vendor to migrate to a single ledger that was not the prior lead ledger. Management determined that it did not want to rely upon the potential for a future conversion product being available by the vendor as the only alternative to a reimplementation, should it choose not to maintain U.S. GAAP subsequent to the adoption of IFRS by the United States and U.S. taxing authorities.

Lessons learned include the following:

1. *Adhere to a formal SDLC, including the definition and independent validation of adherence to key milestones.*
   ConsumeCo utilized a strong SDLC as a part of this process, which was provided by its ERP Business Suite implementation partner. The linkages between the IFRS team providing input and the ERP Business Suite implementation team formalizing and implementing configuration settings were clearly outlined, and development and all levels of testing were performed in a controlled manner. Accordingly, the IFRS team did not have significant issues with the well-tested system supporting its efforts as intended.

2. *Like any technical implementation, user acceptance testing is critical to the successful implementation of a project.*
   One thing reinforced by ConsumeCo during the solution development phase was that end users need to perform adequate user acceptance testing (UAT). In situations in which UAT was rushed, due to competing responsibilities monopolizing end users' time, issues were occasionally noted in the implementation phase that required additional programming efforts. UAT must be deemed a key milestone, and end users must be given the time to adequately test. In certain instances, UAT provided additional clarity to end users about what information the system was able to provide, which led to further refinement of the business policies and procedures used for IFRS reporting purposes. UAT also is useful in assessing data quality of converted or interfaced data.
3. *Define system security as soon as practical.*
   Utilizing the system to enforce a proper segregation of duties is a suite of controls that users often want to rely upon in the ordinary course of business. Leaving this process to the end of an implementation may have unintended consequences, such as late identification of conflicts between job responsibilities and segregation of duties.

Phase IV—Implementation

Figure 5-4 outlines and illustrates the key activities involved in phase IV (implementation) of the suggested activity list. The IFRS process's implementation is predominantly a business and accounting exercise, with IT taking on a supporting role in keeping the new "IFRS-enabled" systems operating in a consistent and reliable manner.

Figure 5-4: International Financial Reporting Standards Suggested Activity Checklist: Phase IV (Implementation)

Phase IV—Implementation		
	Management Activity	**Detailed Activity, Including IT Impact**
4.1	Calculate specific adjustments needed to convert recorded amounts from local generally accepted accounting principles to International Financial Reporting Standards (IFRS).	Calculating adjustments needed to convert recorded amounts to IFRS. From an IT perspective, IT personnel may be able to provide assistance in data extraction and analysis, based upon rules defined in the "to be" business processes Throughout this phase, IT would be supporting the business end users in processing financial and business data through new or IFRS-enhanced systems. Accordingly, IT must be closely aligned with the financial and business users to address any issues that may arise within the IFRS-enhanced application environment.
4.2	Record journal entries needed to reflect conversion in the books and records of the company, for example, general ledger.	Record journal entries needed to reflect conversion in the books and records of the company. From an IT perspective, extract and validate underlying data necessary to create entries and disclosures. Adjusted amounts would be processed within key reporting applications.
4.3	Complete internal reporting templates (for example, divisional reporting to parent or reports for purposes of management's review) and external reporting templates (for example, data collection templates to complete required footnote disclosures).	In completing internal and external reporting templates, IT can provide data collection or extraction support for templates and underlying schedules.
4.4	Prepare opening balance sheet and comparative financial statements for effective date reporting.	Prepare opening balance sheet, using mapping processes, reports and data supported by IT.
4.5	Prepare "dry run" IFRS financial statements.	Prepare the "dry run" financial statements, using data extracts and reporting from IT. Modify data processing requirements to support revised financial statements, as appropriate.
4.6	Prepare first formal IFRS financial statements for statutory reporting purposes or external use.	Preparing the first formal IFRS financial statements, using technology to extract and map comparable financial data and history, as appropriate.

Within the implementation phase of IFRS, the IT functions are utilized to support the business functions in doing the initial mock conversions, generating comparative financials and initial IFRS statements. At ConsumeCo, IT assisted with helping to acquire data needed to balance the systems, drilling down on balances and mapping rules to assess data completeness and accuracy, and providing support for testing or validation of processing.

Lessons learned include the following:

1. *Significant changes to business processes, including the financial statement close process, require associated changes to standard operating procedures and regulatory reporting.*
   At ConsumeCo, wholesale changes were required to be made to the risk and control matrices that documented their core processes for J-SOX compliance purposes. Likewise, J-SOX testing of the key controls needed to change with the definition of the new controls. These changes included application changes, such as controls over how depreciation was calculated for fixed assets, as well as changes to the system to enforce a proper segregation of duties.
2. *Focus on the entire business work stream, not just reporting.*
   At ConsumeCo, certain nonfinancial management personnel initially believed that the focus of IFRS was limited predominantly to financial reporting. Although financial reporting is critical, it is not the only area of focus. Changes to financial reporting systems at ConsumeCo subsequently led to changes in the planning, forecasting, and analysis systems, as well as to transfer pricing between corporate headquarters in Tokyo and the U.S. entity.

Within the ConsumeCo example, it is important to note the most common issues that companies have faced when attempting an IFRS conversion project. Awareness of these issues should help the reader to develop a plan to avoid these pitfalls, within the course of the development and management of an overall project plan. Chapter 6 will discuss how the maturity of an ERP system may also affect an IFRS conversion project.

Making the Right Decision—Selecting a Technology Solution

6

If you are a project sponsor or the project manager, how do you decide on what technology solution(s) to invest in to achieve a successful conversion to International Financial Reporting Standards (IFRS)? This question is a challenge to answer because no one simple solution exists for all companies. In addition to some of the environmental factors discussed in the section "Potential System Impacts of an IFRS Conversion" in chapter 1 and other considerations discussed in section II (chapters 3–5), the maturity of the enterprise resource planning (ERP) system is another factor to consider.

View from the Top: ERP System Maturity and the IFRS IT Strategy

The maturity of an organization's current systems environment will have an effect on the IFRS IT conversion strategy. For additional insight, see chapter 3 for an introduction and exploration of the five dimensions of an IT system environment.

For an organization that has a legacy ERP system, or a mixed environment, the factors that should be considered include: where each accounting difference is supported, if the strategy is concerning both "breakage" and "drill down," and what will be the real cost of change. The organization should assess support of IT systems to drive multivaluation during the transition period.

Potential impacts include the following:

- Potential business case for ERP implementation
- Need for reengineering or a business process controls tool
- Transformation of data collection templates
- Creation or purchase of additional tools for account reconciliation on automatic integration

For an organization that has a mature ERP system, the factors that should be considered include how many versions, or "instances" of the application exist; how consistent codification and accounting treatment are across the instances, within the instances, or both; how U.S. generally accepted accounting principles (GAAP), IFRS processing, or both are currently being supported; which method for dual reporting is preferred; and how IFRS transaction transparency will be supported in the subledgers.

Potential impacts include the following:

- Necessary ERP upgrades
- Reimplementation of some ERP functionality (for example, inventory costing)
- Instance consolidations (reduce the number of distinct application instances in the environment) or greater use of tools, such as Fusion Middleware

> **Note:** Within the ConsumeCo example from chapter 5, this could be bringing the U.S. installation and the Japanese installation of the "ERP-Business Suite" into a single centralized installation of the application.

- Updated configuration or implementation of consolidation tools
- Implementation of new reporting tools within data warehouse or data marts

For an organization that is just starting an ERP implementation, or for one that currently has one under way, the factors that should be considered include where IFRS fits within the existing implementation plan, whether IFRS should be the "leading ledger" and the primary basis for subledgers, how statutory and tax processing and reporting will be supported, and which method for dual reporting is preferred.

Potential impacts include the following:

- Upfront work to push to the subledger level when IFRS dual reporting period begins will provide benefits
- ERP implementation timing changes may necessitate IFRS contingency plans

- Additional reporting requirements will have to be determined for statutory and tax reporting

While the degree of ERP maturity will impact each company's IT strategy differently, the business function a system supports will also impact a company's IT strategy differently. See figure 6-1 for a detailed illustration.

Selecting a Technology Solution

As discussed in the prior scenarios, technology investment will vary depending on the type of ERP system a company may utilize (either with mature, new, or hybrid or legacy systems). Furthermore, it is relevant for the company to assess the current needs of the business owners, existing system capabilities, and the company's goals (or the IT strategy) to determine the right choice of financial system or supporting software.

While the purpose of this book is not to be a software rating guide, other resources are available to help guide a company to make the right decision or purchase. One organization, Gartner (www.gartner.com), invests in research processes and proprietary methodologies to offer viewpoints and insights related to software applications or other related tools. The types of research include vendor ratings, vendor's current position relative to the market's competitors (also referred to as "Magic Quadrants," as well as the maturity of the product (referred to as "Market Scope"). The content of the research are delivered in various forms of reports and will need to be purchased to access.

Existing or current vendors are also good resources to reach out to and research for additional information. It is important to understand what options or flexibility is available through existing systems, similar to the discussion regarding a mature ERP system earlier in this chapter. Understanding what options a company has with the existing system(s) can help management make a better cost consideration and IT strategy decision.

Although the question of technology investment is not a simple answer for many companies, it is important to make an assessment of a company's current environment as well as research the vendor options available. As a result, technology investment for an IFRS conversion project will vary depending on the type of ERP system a company may utilize (either with mature, new, or hybrid or legacy systems).

Figure 6-1: Impact of International Financial Reporting Standards Accounting Changes to Systems

IFRS accounting changes impact systems differently

	Front Office		Middle Office			Back Office						
	Sales/ CRM Systems	Customer Service Apps	ERP Systems	Inventory Mgmt Systems	Vendor Mgmt/ Supply Chain	HR/ Payroll/ Benefits Systems	Data Warehouse/ Rules Engines	General Ledger & Chart of Accounts	Reporting Systems (Mgmt & Regulatory)	Consolida-tion & Planning Systems	Infrastruc-ture	Data Gover-nance
Inventory Valuation	○	○	◑	●	●	○	●	◑	○	◑	◑	○
Revenue Recognition	◑	○	○	◑	●	○	●	◑	◑	◑	◑	◑
Fixed Assets	○	○	●	○	○	○	●	◑	◑	◑	◑	◑
Compensation Plans	○	○	○	○	○	◑	◑	●	◑	◑	●	◑
Business Combinations	○	○	●	◑	◑	◑	◑	●	●	●	●	●
Impairments	○	○	◑	●	◑	○	◑	●	●	●	●	●
Development Costs	○	○	◑	○	○	●	●	●	●	●	◑	◑

Impact of change: ● High ◑ Medium ○ Low/None

SECTION III

The Current Environment and Lessons Learned

Learning From the European and Canadian Experiences

7

Learning from others can be a wise investment of time and resources. European countries and Canada have gone through the International Financial Reporting Standards (IFRS) conversion process, which provides a set of experiences from which others can learn. This chapter summarizes some of the key learning points from Europe and Canada and also explores how eXtensible Business Reporting Language (XBRL) is supporting and complementing the global movement toward more transparent and comparable business reporting.

IFRS Conversions in Europe

One cannot say that the European IFRS conversion experience was consistent across all involved countries, but it is possible to gain some general insights.

The conversion from national generally accepted accounting principles (GAAP) reporting to IFRS was first mandated by the Council of the European Union in 2002 for all member states. Many of those conversions occurred beginning in 2005, and additional countries later became subject to the same requirement. European companies generally had only about two years to convert to IFRS. Many companies approached the change from an accounting and reporting perspective and dealt with business and operational issues later in the process. While meeting the short-term requirements, companies sometimes experienced longer-term inefficiencies attributable to incomplete planning or insufficient up-front investment in processes and systems. Some lessons learned from the European experience include the following:

- Start the planning process early. Most readers understand that technology projects often require long lead times. The average IFRS

conversion time is likely to be between two-and-one-half and three years.

- Identify difficult accounting or systems issues early in the process. It would be a mistake to leave such items to the tail end of a planning or implementation process. Researching and securing the judgment of professionals on technical issues usually takes time.
- Allow for unforeseen problems when nearing the implementation date.
- Systems should be tested well ahead of the time to "go live."
- When evaluating accounting or reporting issues, give due consideration to long-term effects of the resulting decisions.
- Devote extra attention to the extensive disclosure changes that may be required by the conversion. Such footnote information may need to be gleaned (or created) from various internal sources and systems. Consequently, when planning IT infrastructure needs, envision how required information will roll up to the financial statements.
- Complete training early and often. Though some groups within a company may be "experts" on IFRS, a need exists to extend that understanding beyond a small group. As described previously in this book, changes are often required at transactional or country-specific levels during a conversion to IFRS. Having trained people at different levels and locations will make for a smoother conversion and also will provide a broader talent pool as people transfer or advance within the company.

It should be noted that the costs to convert to IFRS will likely be higher on a per company basis in the United States than they were in Europe. Several factors are at play: (1) the Securities and Exchange Commission (SEC) requires two years of historical comparative financial statements, and (2) moving from a "rules-based" U.S. GAAP to more "principles-based" IFRS may be more onerous compared to some European companies that were operating under national GAAP more akin to principles-based standards.

The astute reader will notice that the lessons learned from the European experience are consistent with key factors that would be highlighted in a textbook systems development life cycle for a significant project implementation. Accordingly, the project management experience that may be able to be provided by either a corporate project

management office (PMO) function or an IT PMO function to the IFRS team should be considered a critical component within the development of an overall IFRS project team. Please refer to the section "Project Governance" in chapter 4.

IFRS Conversion in Canada

In addition to the European experience previously described, a current national conversion effort is occurring in Canada. Publically traded companies in Canada, with a few exceptions, are required to adopt IFRS starting January 1, 2011. For companies that are also listed in the United States, a need will no longer exist to reconcile to U.S. GAAP because the SEC will accept IFRS (without modification) from foreign filers. A majority of the Canadian companies going through the conversion process in 2010 elected to run parallel IFRS/Canadian GAAP accounting systems.

The need for IT involvement in IFRS conversions has been widely recognized in Canada, especially in highly capitalized industries, such as utilities, telecommunications, and mining, for which IFRS may require substantial changes in accounting for depreciation of property, plant, and equipment. This has resulted in some companies needing to run two sets of fixed-asset subledgers.

The vast majority of Canadian companies have recognized the need for detailed planning for IFRS conversion. Such plans not only increase the effectiveness and efficiency of the conversion but also support the requirement that Canadian companies disclose to investors details about their planning. For example, the disclosure expectations for the 2009 annual management discussion and analysis direct issuers to provide investors with the following information:[1]

- A status update on their IFRS changeover plan, including a detailed discussion of each of the key elements of the plan
- A discussion of the significant differences between the issuer's current accounting policies and those the issuer is required or expects to apply in preparing IFRS financial statements

[1] Canadian Securities Administrators—CSA STAFF NOTICE 52-326 IFRS TRANSITION DISCLOSURE REVIEW.

- A description of the impact that the previously noted differences may have on the issuer's reported financial statements and results
- Whether the transition to IFRS has, or will, result in a change to the issuer's business functions and activities

Note that the expectations listed require disclosing the impact on IT systems associated with the conversion.

A study was published by The Canadian Financial Executives Research Foundation (the nonprofit research institute of Financial Executives International) of Canadian companies going through IFRS conversion. The study, *IFRS Readiness in Canada: 2010*, which was sponsored by PricewaterhouseCoopers LLP and published in August 2010, is available at www.feicanada.org/index.html.

Some highlights from the numerous interesting findings of the study include the following:

- Size of company matters. Generally, the larger company tended to start conversion planning and implementation earlier than small or medium-sized companies.
- 43 percent of companies with revenues between $1 billion and $5 billion estimate that their IFRS conversion efforts will cost between $500,000 and $5 million. Smaller companies anticipate lower costs for the conversion.
- Approximately 45 percent of executives surveyed indicated that their companies were "planning technology changes or upgrades that could be streamlined to incorporate IFRS change requirements, or would be planning such changes in the future."
- A majority of companies, nearly two-thirds, will leverage "End-User Computing" solutions (that is, spreadsheets).

The final bullet point implies the need to extend current internal controls or put new controls in place related to new IFRS reporting processes. In addition to the possible use of more spreadsheets, companies may be changing charts of accounts and system calculations. Whether it is complying with Canadian NI 52-109 certifications, controls related to the Sarbanes-Oxley Act of 2002, or other requirements, companies must consider the impact on risk and controls of converting to IFRS. Please refer to the section "Internal Control Considerations" in chapter 4.

Many of the Canadian companies that are converting to IFRS are also facing evolving requirements to report using XBRL. As such, IFRS conversion plans may incorporate how companies can efficiently fold XBRL reporting requirements into their normal processes. XBRL Canada, the local jurisdiction of XBRL International Inc., has worked with Canadian regulators, accounting firms, and the XBRL team of the International Accounting Standards Board in various initiatives designed to support the Canadian business community in the transition. Among these initiatives is the development of the Convergence Assistant™, an XBRL-based, publicly and freely available tool to help support both the transition to IFRS and the implementation of XBRL for regulatory filings. See the section "Case Study Example 4" in chapter 8 for more information.

IFRS and XBRL

The Canadian experience warrants a closer look at XBRL and how it is facilitating IFRS reporting globally. Both IFRS and XBRL are intended to standardize financial reporting in order to promote transparency and to improve the quality and comparability of business information.

The IFRS Foundation XBRL team is responsible for developing and maintaining the XBRL representation of IFRS, known as the IFRS Taxonomy. The IFRS Taxonomy is used around the world to facilitate the electronic use and exchange of financial data prepared in accordance with IFRS.

The IFRS Foundation's XBRL activities and information include:

- *Taxonomy development*—for companies reporting in IFRS, the foundation publishes tags for each IFRS disclosure. These tags are organized and contained within the IFRS Taxonomy, which is consistent with the bound volume of IFRS.
- *Support materials*—the foundation produces support materials to facilitate use and understanding of the IFRS Taxonomy. Both an IFRS Taxonomy Guide and an IFRS Taxonomy Modules Manager are available.
- *Translations*—translations of the IFRS Taxonomy into key languages are provided to support users of IFRS and the IFRS Taxonomy whose primary language is not English.

Many software vendors are incorporating XBRL and multi-GAAP capabilities into their financial reporting tools. XBRL and IFRS are global standards that will continue to develop and complement each other in improving financial reporting.

Time is precious in any business, and learning from others is time well spent. This chapter has shared some of the IFRS conversion experiences from both Europe and Canada. It is important for project managers and others responsible for IFRS conversions to learn from others and not "reinvent the wheel." One key insight from both Europe and Canada was that starting the IFRS conversion process early allowed for proper planning and implementation success. In addition to learning from general IFRS conversion case studies, some companies also collaborate with industry group colleagues to learn how others are addressing IFRS matters. Finally, this chapter noted how XBRL is an important component to improving the quality and comparability of business information, and incorporating it in the IFRS conversion planning process can yield long-term benefits.

Other Examples From Current Implementers

8

From understanding the accounting standards landscape and which principles or standards will affect their organization's IT systems to considering how to manage and implement an International Financial Reporting Standards (IFRS) conversion project, management or key decision makers should be involved throughout the implementation project. Chapter 7 offered some related thoughts and insights provided by some of the decision makers who are either assessing the project or have implemented IFRS already. This chapter highlights an example when a governmental organization, or the Canadian Securities Administration (CSA), is exploring the use of the eXtensible Business Reporting Language (XBRL) to convert to IFRS.

Case Study Example 1

Interviewee: Peter Day, chief financial officer, 2000–07
Company: Amcor Limited

Background Information

As of 2010, Amcor Limited consists of more than 400 sites in more than 40 countries, following approximately $10 billion in acquisitions between 1996 and 2009. Amcor's Corporate Finance Center began its assessment to convert to IFRS in mid-2003 to meet the Australian reporting transition deadline by 2006. After a central team was formed (with CFO Peter Day sponsoring the project), the project team saw opportunities to rewrite the accounting policies and procedures, change the consolidation process, and improve the existing reporting system. At the time of assessment, the company had an underinvested consolidation system, outdated reporting system (Hyperion Financial Management system was purchased five years prior during assessment), dispersed databases (various versions), and a fragmented reporting process. Furthermore, the

company had a decentralized corporate culture and was growing rapidly through acquisitions.

Project Management Considerations

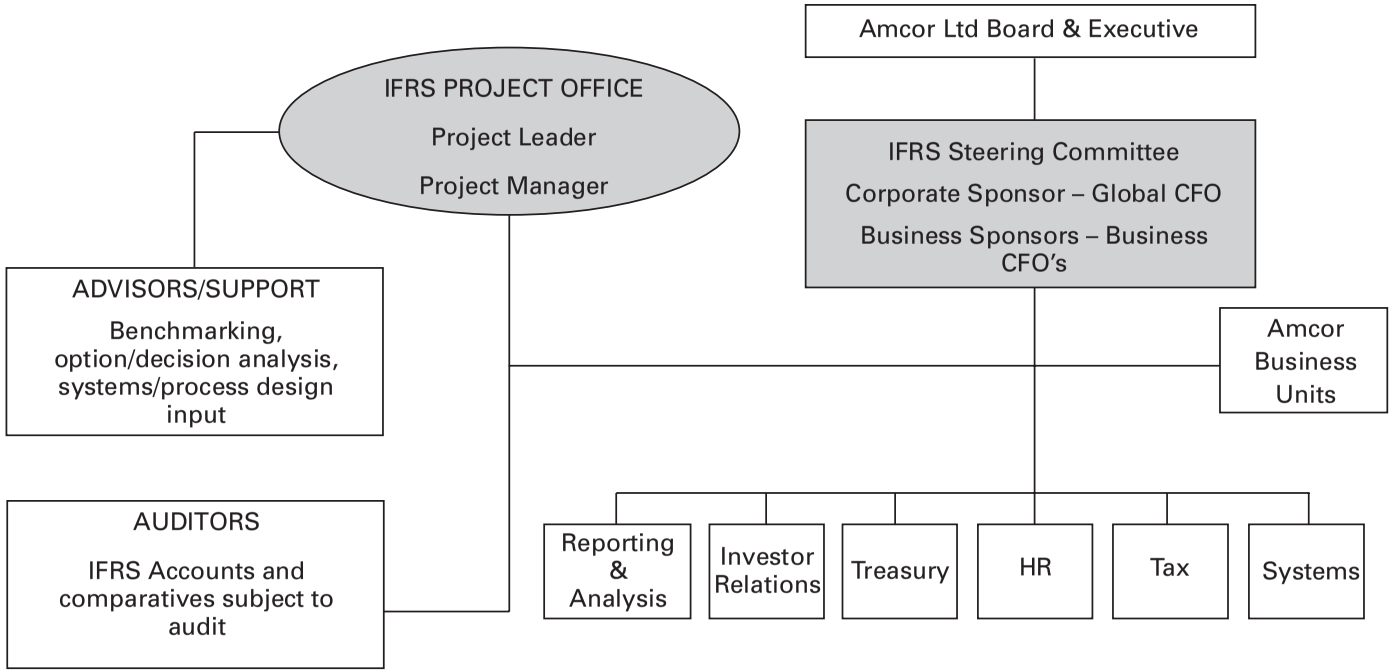
When Amcor realized that the company needed to take action to adopt IFRS, several senior employees with strong reporting or database experience were recruited internally and externally to participate in the project team. Furthermore, Day wanted to have the primary business centers as well as the global IT department engaged in this project. Therefore, he "recruited" approximately 200 people from across the organization into this project (see figure 8-1). Although the company was operating in a decentralized fashion, the project team wanted to leverage this opportunity to centralize some aspects of the reporting function (such as the financial application utilized). Tremendous momentum, motivation, and support surrounded this project because employees were excited about improving the process and the Corporate Finance Center was sponsoring and funding the cost of the project.

Financial System Impact

The goals of the project team were to

- migrate to a new or upgraded reporting system,
- maintain decentralization but provide a consistent overlay (general ledger [GL] recorded at business center level),
- improve the consolidation process (apply a more consistent process across countries), and
- provide transparency and efficiency from an enterprise reporting perspective (see figure 8-2).

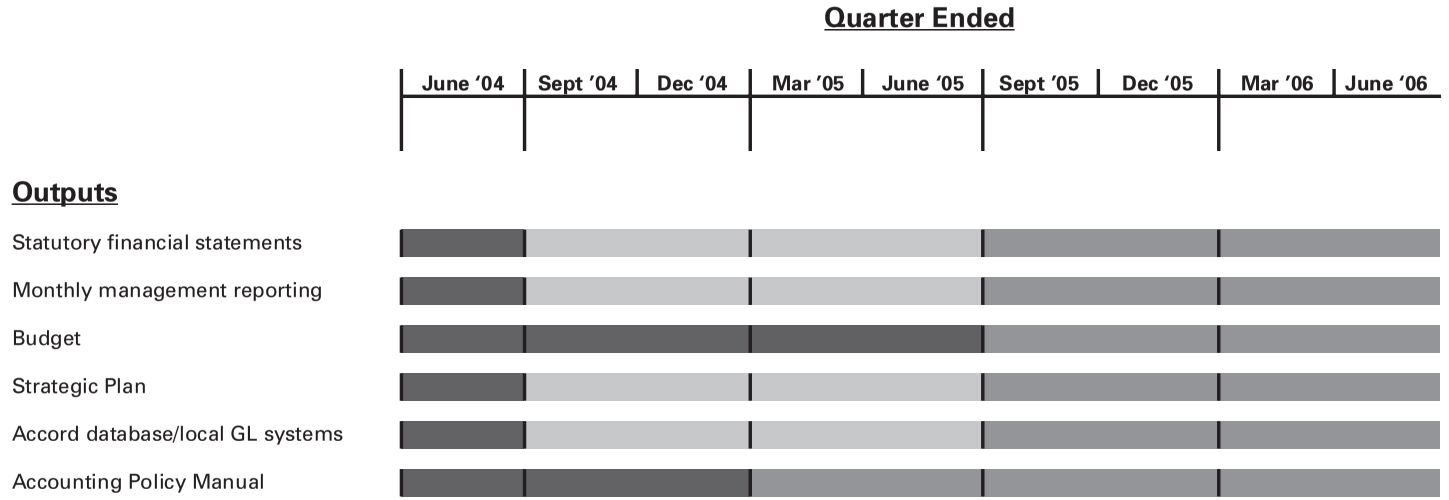
Figure 8-1: A Strong Project Team Structure Is a Critical Foundation



* Critical that each of Amcor's Business Units has high involvement in the IFRS project to enable buyin and acceptance of the outcomes

(Originally presented by W Peter Day at AICPA/IASC Conference in North America, 2009.)

Figure 8-2: International Financial Reporting Standards—Not Just About "External" Reporting



(Originally presented by W Peter Day at AICPA/IASC Conference in North America, 2009.)

As a result, Amcor migrated to a new system (Hyperion Financial Management), and the new application offered a greater amount of features and functionalities. This choice eventually led major business divisions to reconsider how they could integrate the application as part of, or back into, their business intelligence systems. One business division in particular became a champion representative to make the initial efforts to implement new processes and spearhead the changes (lead through example).

Amcor and Day benefited extensively from having key resources and staff that understood technical issues in accounting and knew how the issues affected the financial, or reporting, systems.

Obstacles Encountered During the Process

Three biggest obstacles Amcor encountered were the following:

- One specific business division's resistance to change
- Some business divisions' timing constraints to convert financial systems
- Accounting procedural issues (such as the currency translation method)

While the majority of the project team was supportive, one business division in particular did not support the change due to the lack of resources. As a result, the Corporate Finance Center helped develop the processes and tools and became the supporting arm to this particular business division. Regarding the second obstacle, some divisions were more eager than others to implement the new processes or the application. Consequently, business divisions implemented changes at differing intervals, and this created some data management challenges. The last obstacle related to determining how certain specialist transactions should be processed or calculated (accounting policies and procedures). For example, the project team had multiple debates regarding how the currency translation should be calculated—either calculated from subsidiary to parent or directly. Until the topic reached a conclusion, the project team could not move forward to suggest the financial application changes.

Conclusion

When it was time for Amcor to file its financial statements, and because Australia did not require multiple years of dual reporting, Amcor parallel reported in IFRS and local generally accepted accounting principles (GAAP) for one fiscal year (from July 2004–June 2005). In the following fiscal year, Amcor reported fully in IFRS with no comparative under the "old GAAP."

The adoption to IFRS had multiple impacts to balance sheet and income statement, or profit and loss line items. In the first year of full-time reporting, Amcor also had to restate part of the comparative year balance sheet items on deferred taxes because the organization became aware of additional details. While restating financial statements normally might have brought negative external market reactions, the regulating bodies and the investment community were somewhat tolerant to companies who took on the new reporting regime. Furthermore, Amcor encountered difficulties with reporting on "discontinued operations" because the corporate system had not been fully configured to handle the event.

Day commented: "this was a lesson to prepare for all eventualities and not just those that occur routinely!"

Case Study Example 2

Interviewees: Aaron Anderson, director of IFRS Policy & Implementation, and Ernest Lupinacci, IFRS Systems & Controls
Company: IBM Corporation

Background Information

The IFRS project team at IBM Corporation began its efforts relating to IFRS in late 2004, and it focused on mandatory statutory filings under IFRS for Europe and Australia. To date, the team has conducted a full assessment, collected its resources, and leveraged its current knowledge base in preparation for a possible Securities and Exchange Commission (SEC) requirement. It has also provided company-wide policy guidance and recommendations to 37 countries that have converted or are converting to IFRS. It is currently adopting IFRS where appropriate, and it is

prepared to implement IFRS if the SEC mandates the reporting requirement in the United States.

Project Management Considerations

When IBM decided to take an active approach to adopt IFRS for countries outside of the United States in 2004 and 2005, a steering committee was formed and included the chief accountant, vice president of taxation, vice president of external reporting, and representatives from the treasury and legal departments. IBM's external auditor was also included as an advisor to the planning process. A dedicated project team that reported to the steering committee was also formed in April of 2008, and it focused on a three-part mission. The objectives included: a global assessment, statutory reporting improvements, and a plan to support IBM external businesses with IFRS education. With a project team and a steering committee in place, the group leveraged the support to build and accumulate resources internally within the organization. If an internal staff had implemented IFRS for a particular country, this resource was leveraged in the next country to offer training for or to manage the IFRS conversion. Additionally, the group was able to conduct a global assessment of IFRS's impact to financial and operational functions, as well as document the assessment into a collection of chapters (by accounting topic). As a result, the IFRS team was able to offer company-wide policy guidance and recommendations to countries that converted to IFRS (or IFRS-like) standards so that consistent global accounting policies and procedures were applied throughout the corporation.

Financial System Impact

During the initial assessment, the IFRS team identified functional areas with potential system impacts relating to differences between IFRS and U.S. GAAP. These differences created a need for the following:

1. New source data to be created or processed
2. Changed calculations to existing data or process
3. Changes in reporting or the consolidation process

Because IBM has a fully integrated global financial system, the IFRS team had the benefit of leveraging this feature to prioritize which system

impacts required the most attention. Many of the system impacts are customizable through the current system's design and configurations, thus mitigating the cost of IFRS adoption. One accounting topic that required the most attention was share-based payments. Through the use of data mining techniques, the IFRS team built an automated internal reporting solution to calculate the required information for share-based payment transactions. The tool is now rolled out to many countries for use by the local country's controllers or staff. The second accounting topic that requires significant attention is research and development. Given IFRS's requirement that development spending be capitalized, the information associated is currently not captured and a new or modified system may be required. The IFRS project team is currently exploring solutions to capture the information needed.

Obstacles Encountered During the Process

The biggest obstacle that the IFRS team encountered was a lack of understanding of the laws and mandates required in each country. Although certain countries may have legally adapted to IFRS, the country's stated standards may not be identical with the International Accounting Standards Board's (IASB's) pronounced IFRS standards (or are locally adjusted to the country, such as Malaysia-IFRS).

To a certain extent, the IFRS project team expected some level of interpretation bias toward a unit or department's home country GAAP when applying IFRS. With the help of the audit firm, IBM has been able to mitigate this for most of its statutory reports. However, if a particular country had relied on a rules-based reporting standard, there tended to be more resistance or challenges with fully converting to a principles-based reporting standard (IFRS). As a result, these challenges become obstacles in the implementation process.

To Date (September 2010)

As of this writing, IBM is waiting for the SEC to make an announcement regarding U.S. reporting requirements related to IFRS. In the meantime, the IFRS project team continues to focus on statutory requirements as other countries adopt IFRS, and it is gearing up its educational efforts internally in preparation for potential U.S. reporting requirements.

Case Study Example 3

Interviewee: Suzanne Christensen, vice president of finance
Company: Franklin Templeton Investments

Background Information

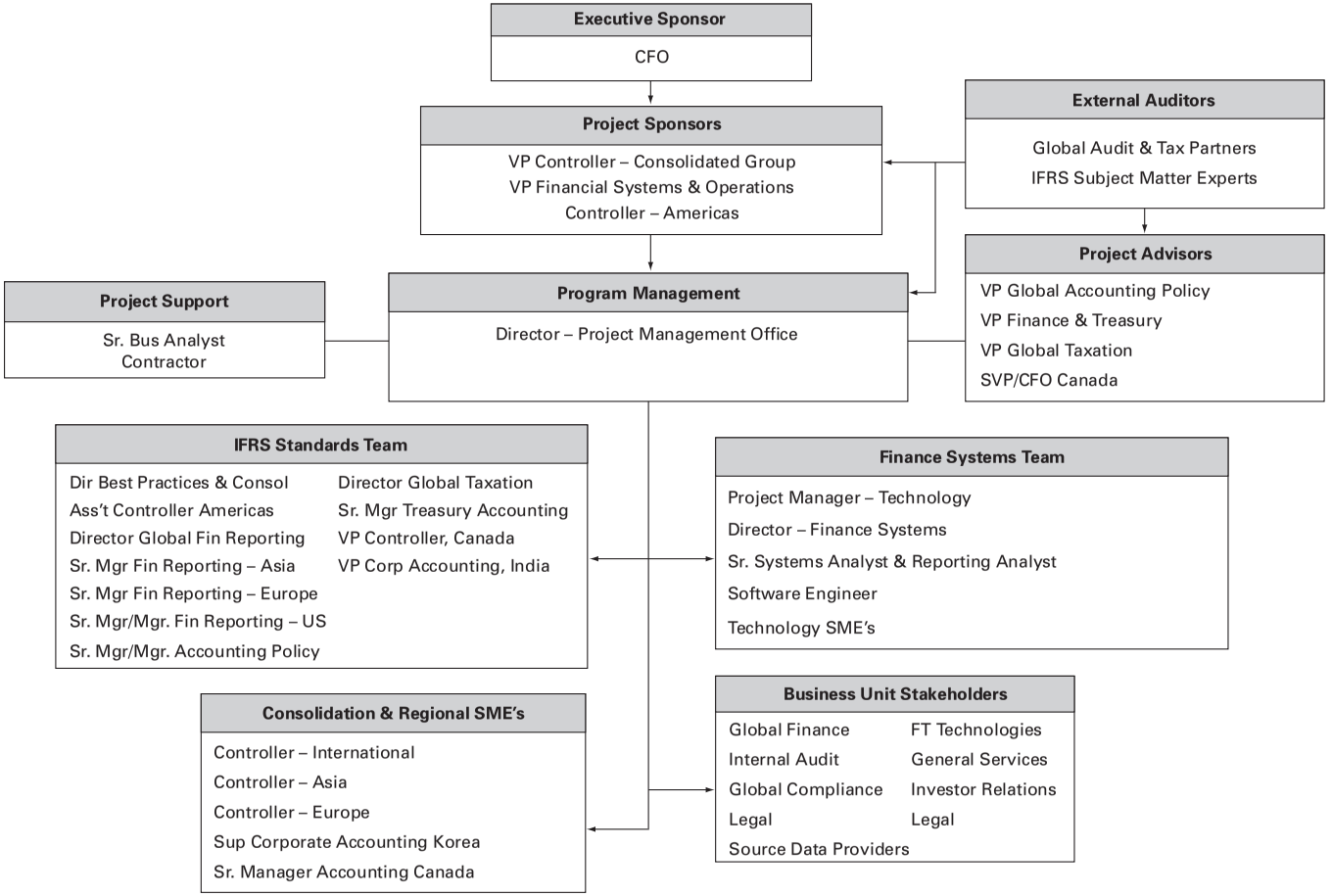
Franklin Resources, Inc., also known as Franklin Templeton Investments (FTI), is a global investment management organization with an extensive global presence, including offices in more than 30 countries. FTI common stock is listed on the New York Stock Exchange under the ticker symbol BEN, and as of June 30, 2010, FTI managed more than $570 billion in investment vehicles for individuals, institutions, pension plans, trusts, partnerships, and other clients.

FTI formerly launched its IFRS conversion project in early fiscal year (FY) 2010. While some smaller subsidiaries had already been reporting based on IFRS standards, several larger subsidiaries in Canada and India were required to begin capturing IFRS transactions in FY 2011 in order to produce two-year comparative statements in FY 2012. FTI also needed to consider the future impacts of IFRS on the parent company's U.S.-based reporting. As such, FTI recognized that a larger scale assessment and full system solution were required to support this more extensive reporting.

Project Management Considerations

To support this large scale initiative, the overall project was broken into two primary groups. One group focused on IFRS standards analysis and impacts, and one was dedicated to systems requirements, design, and implementation (see figure 8-3). The program management team ensured continuity between the two groups (IFRS Standards team and Finance Systems team) and leveraged subject matter experts as needed. The external auditors provided the accounting and industry expertise needed to assist the IFRS Standards team in interpreting and understanding the IFRS standards.

Figure 8-3: Franklin Templeton Investments's Global Project Team



The long-term transition timeline for the project (see figure 8-4) and the changing IFRS standards created additional project management challenges that necessitated a creative and flexible project approach. To address these challenges, the team prioritized the IFRS standard assessments and implementation based on significance of the impact to the transitioning companies (such as the subsidiaries in Canada and India) and, to a lesser extent, whether or not the standard was changing. The project was then further broken down into work streams defined by this prioritization.

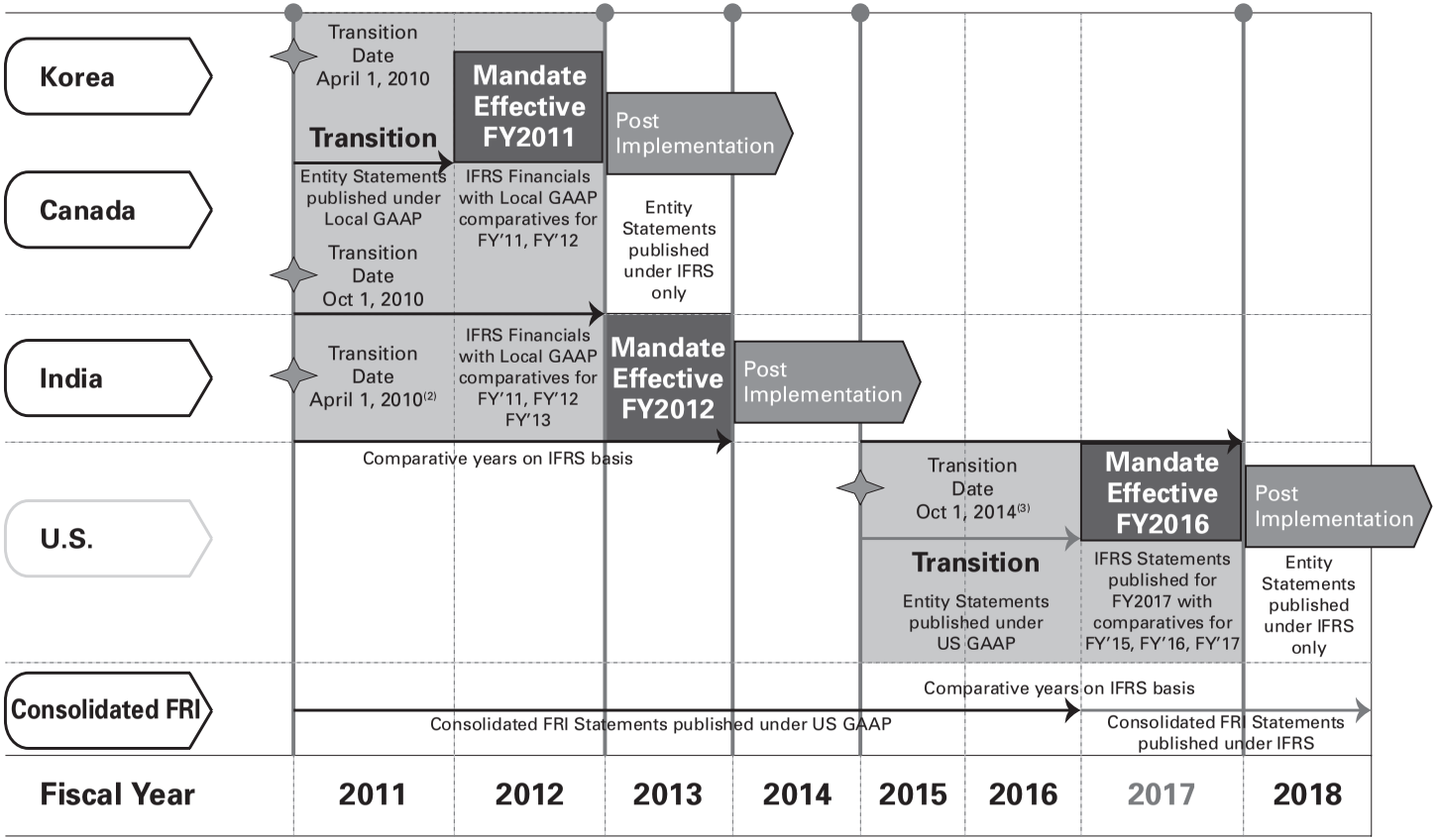
Financial System Impact

Recognizing that the IFRS standards were evolving (such as the projected changes associated with the memorandum of understanding projects between the Financial Accounting Standards Board and IASB), some of the future systems requirements were still unknown, and there was a long transition period for the global consolidated group, the project team needed to find a solution for multi-GAAP accounting and reporting that was flexible, automated, and ensured the appropriate controls. The solution needed to support multiple situations: the ongoing regulatory reporting at the legal entity, regional consolidation, and U.S. parent consolidated levels for companies that were not subject to IFRS, transitioning to IFRS, or already IFRS compliant.

The high-level solution was to leverage FTI's enterprise resource planning (ERP) system's multibook capabilities, which provided for additional chart fields attached to each trial balance level account code (hereafter referred to as book codes) to capture the transactional amounts when IFRS treatment differed from local GAAP or U.S. GAAP. This system provided solution ensured that the company could report in local GAAP, IFRS, and U.S. GAAP as required without having to implement, maintain, and reconcile fully separate ledgers.

Fortunately, the company had one instance of the GL and a single chart of accounts supporting all of its global entities. As a result, initial set up of these book codes was fairly straightforward, and controls over which book codes applied to a particular account were enforced (via designating default book codes for each GL account) and then further defined system restrictions on which additional book codes could be used for which GL accounts. Moreover, the system required that the books

Figure 8-4: Franklin Templeton Investments' Estimated Project Timeline



(1) Entities with known implementation dates
(2) The company will prepare opening balance sheet per early adoption option in India
(3) Earliest possible date. Still TBD.

codes (for IFRS, local GAAP, or U.S. GAAP) balance across a single transaction (for example, debit records = credit records for a single book code) so that the resulting IFRS, local GAAP, or U.S. GAAP financial statements would always balance.

Obstacles Encountered During the Process

Although identifying the overall system solution for enabling multi-GAAP accounting and reporting (that is, multibook codes) was easy and intuitive, the actual system configuration in support of the detailed transactions was more complex. Complexities included:

- Ensuring that appropriate system configuration and set-up was available to support the more than 125 legal entities in the various stages of IFRS transition or local GAAP reporting.
- Finding external consulting resources with multi-GAAP systems knowledge.
- Supporting significant intercompany transactions by automated generation of the payables or receivables side of the intercompany entries, cash settlement netting centers and related journal entries, and automated eliminations upon consolidation.
- Managing the impact to subledger processes that were not fully supported by the subledger without customization.
- Consolidating regulatory reporting in local GAAP, IFRS, and U.S. GAAP.
- Managing the impact to the profitability and management reporting system because the book codes carried over to this system as well.
- Implementing system changes to allow for the new book codes in the new year after the year-end close process so as to not impose the future coding on the year-end close.

Ensuring that the system could fully support all requirements through the considerable transition period required that the team spend a great deal of time working through all known scenarios and variations of journal entries. The process was very detailed but beneficial because it resulted in several alterations to the system set-up.

To Date (October 2010)

While this is still very much an active project for FTI, there have already been some noteworthy lessons learned. In addition to the usual lessons of starting early, involving all affected parties and communicating frequently, meeting some of the reporting and transaction complexities, particularly related to automated flows, and supporting intercompany transactions were actions taken that provided some unique guidance.

FTI's lessons learned include the following:

- Ensure that a truly cross functional business and systems team participates in reaching a solution. The critical success of the outcome was that everyone contributed.
- Test everything across all modules and submodules. The project team found some unexpected outcomes.
- Begin with the end in mind. The project team found some interesting impacts when the team worked through report design.
- Don't overengineer the solution. Things can get too complicated quickly; keep the end users in mind.

Suzanne Christensen commented: "FTI is committed to being proactive in responding to the IFRS changes ahead no matter where or when they arise but obtaining such flexibility has required significant effort. Thus, my advice for other companies is that it is best to start early!"

Case Study Example 4

Author: Gianluca Garbellotto

Requirements

In Canada, publicly accountable profit-oriented enterprises will be required to use IFRS in interim and annual financial statements on or after January 1, 2011. The same Canadian entities that are facing the IFRS switchover in 2011 are currently exploring the use of the XBRL within a voluntary filing program (VFP) launched by CSA. The VFP is based on the local GAAP taxonomy (Canadian-GAAP, or CA-GAAP) and IFRS.

This situation suggests that, on one hand, the Canadian business community is facing a transition similar to the one that the U.S. business community experienced with the SEC XBRL VFP, now a mandate. On the other hand, they are also facing the certainty of a relatively near switch-over to a different set of accounting principles. This creates two requirements to which the business community must adhere: (1) adoption of a new reporting-oriented technology (XBRL) and (2) transition to a new set of accounting principles in regulatory reporting (IFRS).

While the transition to IFRS may affect a magnitude of systems as described in table 1-2 (chapter 1), this particular case study example will primarily focus on the consolidation and reporting aspects of the IFRS conversion project at the trial balance level and during the phase of meeting dual-reporting requirements (or parallel reporting in IFRS and CA-GAAP).

Why XBRL?

XBRL provides two key features to support the transition to IFRS:

- Financial reporting XBRL taxonomies provide an existing authoritative, standardized, and freely available framework to support both CA-GAAP and IFRS.
- The XBRL global ledger taxonomy (XBRL GL) enables a distinctive standard-based approach that captures differences in accounting principles at trial balance or transactional level and reflects them in the resulting financial statements.

The Convergence Assistant

XBRL Canada, the local jurisdiction of XBRL International Inc., has worked with Canadian regulators, accounting firms, and IASB's XBRL team in various initiatives designed to support the Canadian business community in the transition. Among these initiatives is the development of the Convergence Assistant (CA)—www.convergenceassistant.com—an XBRL-based, publicly and freely available tool to help support both the transition to IFRS and the implementation of XBRL for regulatory filings.

The CA allows the user to upload a trial balance and to map its chart of accounts to a standard chart of accounts to generate the "views" of

the resulting financial statements under both the IFRS and the CA-GAAP principles, leveraging predefined mappings—also expressed in a standardized XBRL format—to the IFRS and CA-GAAP XBRL taxonomies.

It is important to note that the CA is meant to help companies understand how standards-based tools—and XBRL in particular—can support the process of IFRS transition; it is not intended to provide a complete solution. In this example, only trial balance information is considered; this means that differences between the two sets of accounting principles that are not captured at trial balance level are not supported.

This example can help users understand the concept of standardizing metadata and use it as a foundation to implement within their own corporate environment to provide the level of completeness required. However, it is possible to apply the same standardized approach to information "below" the trial balance level, specifically at the transactional level, where many of the differences that are not immediately available in a simple account to account mapping are captured. It is also possible to standardize and incorporate in the same way that nontransactional information is also required for a complete set of financial statements. The more the user broadens the scope of standardization and inclusion of different types of data, the more the end result will be complete and final.

On the other end, value also exists in not going all the way. Standardize only a part of the process when the benefits of standardization of data from different data sources, business units, or processes are particularly significant, and integrate the additional information required in other ways in a separate step. The value of a standards-based approach is that it does not replace (necessarily) existing processes and applications; it helps integrate data and make retrieving or reporting the data more efficient.

Process Overview

- Reporting structural differences between local GAAPs and IFRS are often, even though not exclusively, reflected at trial balance level. See figure 8-5 for an example.
- A standard chart of accounts with predefined mappings to IFRS and local GAAP financial reporting concepts can distinguish these differences and make them available in an application independent

environment—meaning that they can be applied to corporate data no matter in what accounting software or ERP system that data was created or is stored—and immediately applicable to the business' specific data with a simple account-to-account mapping
- Other differences can be reflected at more granular level—journals and transactions—that can also be standardized and linked in a similar way
- A relevant part of the IFRS/Local GAAP gap analysis can be captured using XBRL GL, the Canadian GAAP, and IFRS XBRL taxonomies

Software applications based on standards, such as XBRL, help companies transition from local standards to IFRS more easily. Although all the functionalities that the CA does can easily be achieved by a proprietary-based application developed for the purpose, utilizing a standards-based application has additional benefits; the CA and the artifacts that it generates can tailor to the user's specific requirements, integrate in their existing processes and IT infrastructure without the need to modify them in any way, and cross-support other key internal reporting and auditing processes.

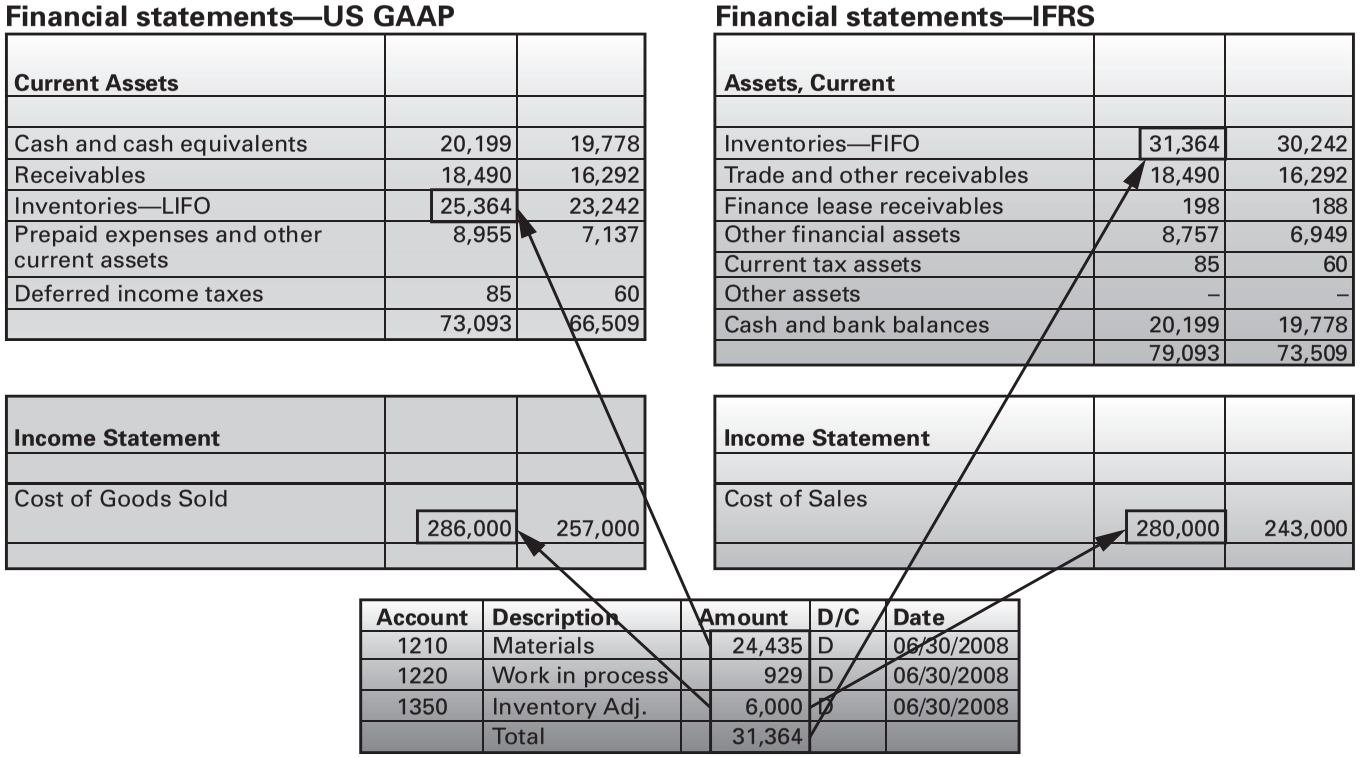
Figure 8-5 is an example of reconciliation between different financial reporting standards at trial balance level.

Conclusion

The Canadian experience shows how a standards-based IT approach can not only provide an effective solution for the immediate need of transitioning to IFRS, but it can also perform in an application-independent environment. The fact that corporate data are seldom, if ever, available in a single data repository or software package—even when a consolidation or reporting application is in place—is a major issue that makes the reporting and transition process even more challenging.

A standards-based approach successfully addresses this process issue by providing a single, standardized "view" on the relevant data no matter where they were created or are currently stored, via mapping. Once the data is standardized, a single, consistent set of conversion rules supported by an open standard and centrally maintained can be applied to it. This enables or supports the transition process; compliance with an XBRL regulatory mandate—if existing—is also achieved along the way.

Figure 8-5: Reconciliation Example Between Different Financial Reporting Standards at Trial Balance Level



Current Assets		
Cash and cash equivalents	20,199	19,778
Receivables	18,490	16,292
Inventories—LIFO	25,364	23,242
Prepaid expenses and other current assets	8,955	7,137
Deferred income taxes	85	60
	73,093	66,509

Assets, Current		
Inventories—FIFO	31,364	30,242
Trade and other receivables	18,490	16,292
Finance lease receivables	198	188
Other financial assets	8,757	6,949
Current tax assets	85	60
Other assets	–	–
Cash and bank balances	20,199	19,778
	79,093	73,509

Income Statement		
Cost of Goods Sold	286,000	257,000

Income Statement		
Cost of Sales	280,000	243,000

Account	Description	Amount	D/C	Date
1210	Materials	24,435	D	06/30/2008
1220	Work in process	929	D	06/30/2008
1350	Inventory Adj.	6,000	D	06/30/2008
	Total	31,364		

This figure is limited to differences that are captured at trial balance level, but it demonstrates how the availability of a sufficient level of detail underlying the financial statements (or metadata attributes) enables the representation of relationship between reporting concepts in the two formats that cannot be expressed in a direct mapping between the concepts themselves. The same approach can be applied to information that is captured below the trial balance level, for example at the transactional level, or in separate data sources, which can also be standardized and linked using eXtensible Business Reporting Language general ledger.

(This example was an illustration provided during April 2010 in "Financial System Considerations in IFRS Conversion Projects" whitepaper.)

Such a solution becomes a sort of standardized browser that allows leveraging the intellectual property on the internal knowledge of local GAAP/IFRS convergence or transition and makes the knowledge transparently available through the mappings to enable the automated comparison and reconciliation between the financial statements expressed under the two sets of accounting principles.

In a broader perspective, this approach enables a more sustainable processing environment that can effectively automate current compliance processes that are largely manual, decentralized, and redundant, especially in global entities that have to comply with different jurisdictional requirements.

Even though not in the scope of the Canadian application, the extensibility of XBRL taxonomies and the possibility to support additional reports that share the same underlying data are represented by XBRL taxonomies, either publicly available or developed internally. This provides opportunities for businesses to build on this standards-based data integration, reconciliation, and convergence approach to support other key processes like internal reporting—business intelligence, tax compliance, and management reporting—or internal auditing and controls. Another key consideration in this respect is that the implementation of this approach does not require the replacement of the existing systems; rather, it complements them by providing incremental functionalities that would otherwise require a substantial investment in the corporate IT environment.

Conclusion

To reiterate from previous chapters, management or key decision makers should be involved throughout an IFRS conversion project. This chapter provided some related thoughts and insights offered by some of the decision makers within an organization and some of the complexities involved in implementing or potentially implementing IFRS to an organization. As Christensen, suggested, it is best to start planning these projects early to be prepared.

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