



NABA National Convention

Impact of IFRS on IT

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Agenda

- ▶ Welcome and introductions
- ▶ Overview of IFRS
- ▶ The effect of IFRS on IT
- ▶ Recommended next steps
- ▶ Appendix - Software vendor updates (SAP & Oracle)



Overview of IFRS

Momentum for a global GAAP



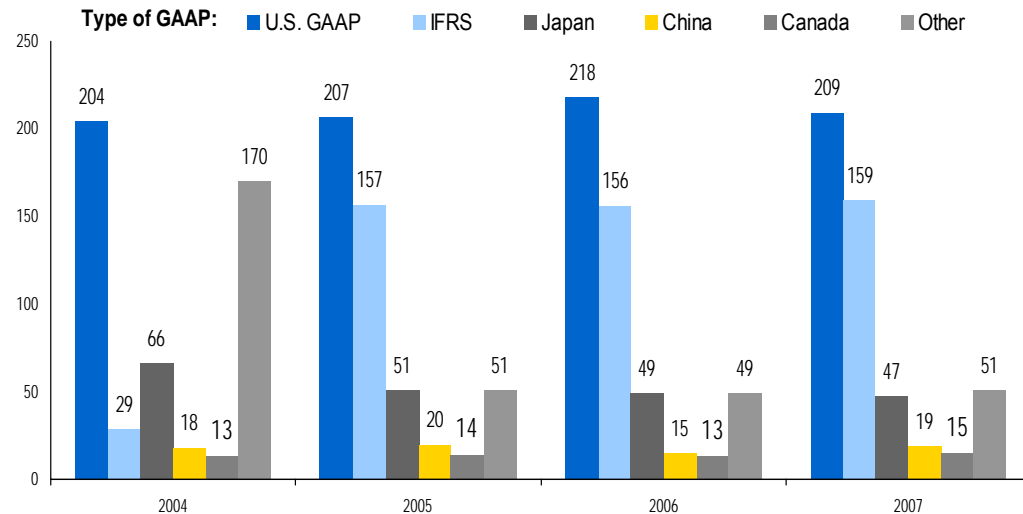
What is IFRS?

- ▶ International Financial Reporting Standards (IFRS) are a global set of standards for financial accounting and reporting
- ▶ May be one of the most significant fundamental changes to global financial reporting
- ▶ More than 100 countries across the world have already adopted IFRS
 - ▶ Mandatory adoption by all countries in the European Union
 - ▶ Voluntary adoption in Australia
 - ▶ Mandatory adoption underway in Canada
 - ▶ Other major markets, such as Korea and Japan will adopt IFRS by 2011

Global IFRS reporting trends

- ▶ IFRS quickly picking up share of Global F500 companies
- ▶ IFRS will become the predominant GAAP in the near future

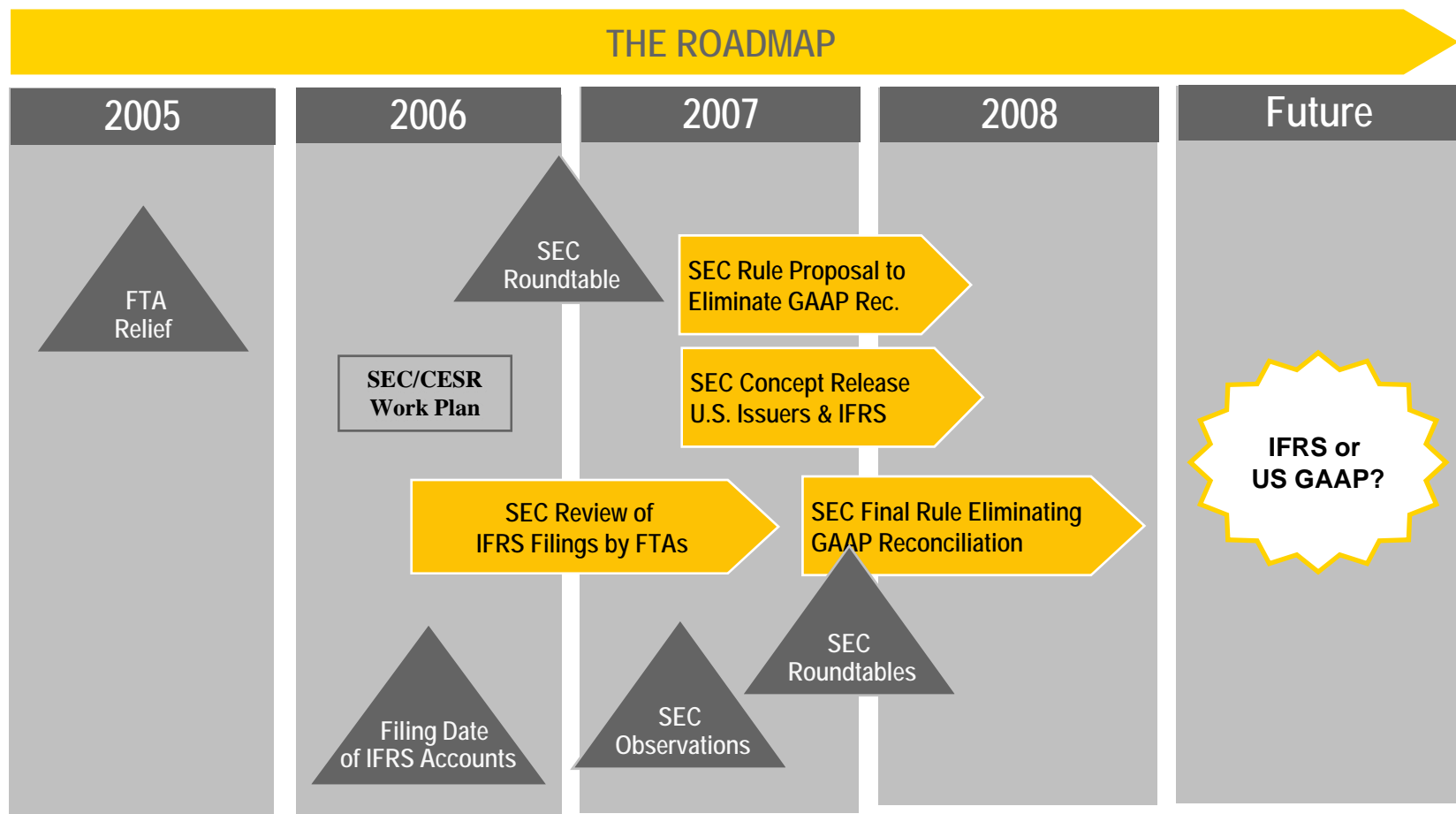
Global Fortune 500 Companies



IFRS Drivers

- Enhances transparency/comparability
- Eases flow of capital globally, thus possible reduction in cost of capital
- Facilitates accounting and reporting

SEC activities relative to IFRS



SEC concept release & roundtable discussions

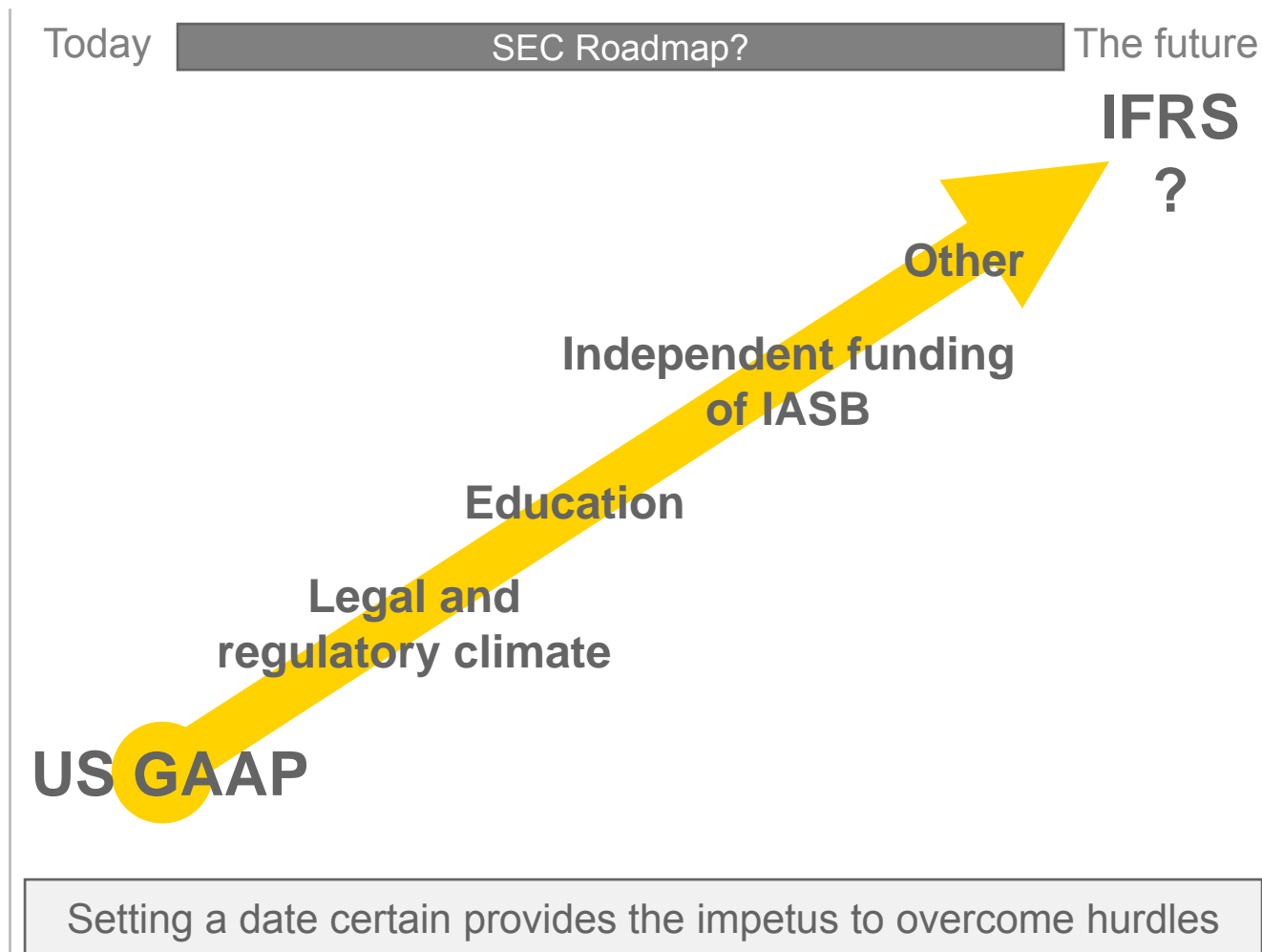
- ▶ On August 7, 2007 the SEC published a Concept release seeking public comment on possible use of IFRS by domestic registrants, which highlighted the following:
 - ▶ A critical mass of non - U.S. companies using IFRS
 - ▶ As more jurisdictions accept IFRS for regulatory filings, subsidiaries of U.S. multinational companies might be permitted or required to prepare their statutory financial statements using IFRS
 - ▶ It might become cost efficient for a U.S issuer with a large number of foreign subsidiaries to prepare financial statements using IFRS rather than US GAAP
 - ▶ A widely used single set of high quality globally accepted accounting standards might benefit both the global capital markets and investors
- ▶ More than 80 public comment letters on SEC Concept Release were received and the majority of respondents support the possible use of IFRS by US registrants
- ▶ SEC held Roundtables to discuss the Concept Release on December 13 and 17, 2007
 - ▶ Overwhelming support for move to IFRS and generally a 3-5 year period was discussed
 - ▶ An option should not be granted for an extended period
- ▶ Next steps are SEC Rulemaking and / or a Roadmap - Chairman Cox has said that IFRS remains firmly on the Commission's agenda for 2008

Point of view

US regulatory landscape

Key actions to date

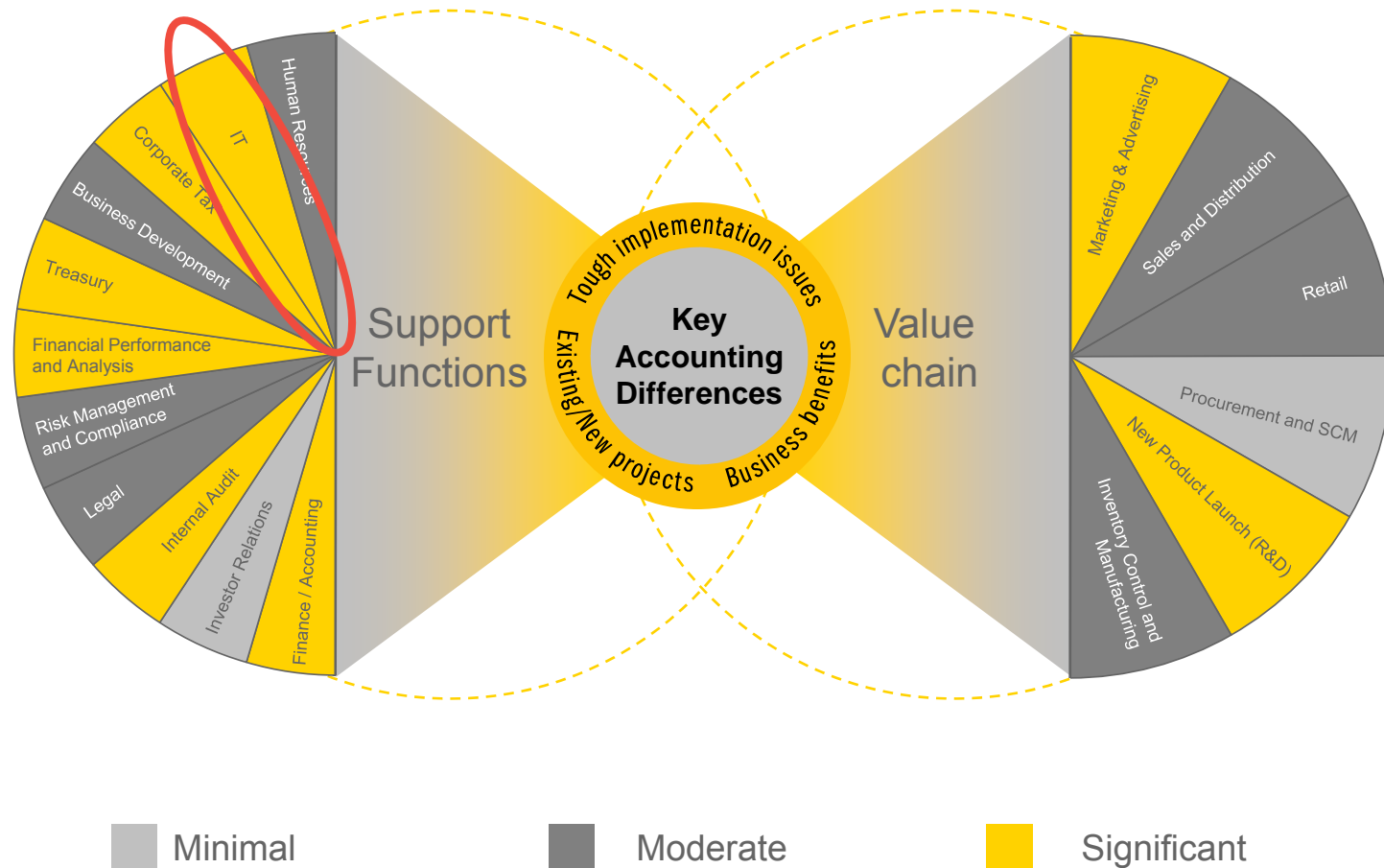
- ▶ IASB and FASB convergence efforts
- ▶ FTA relief for FPI's
- ▶ SEC roundtable
- ▶ SEC rule to eliminate GAAP reconciliation
- ▶ SEC concept release
- ▶ SEC roundtable II





The effect of IFRS on IT

First, assess the business effect of IFRS



Business effect

Support functions breakout

Human Resources

- Share based payments
- Pension arrangements and funding
- Retirement benefit costs
- Alignment of remuneration and bonuses

Information Technology

- Fragmented processes /systems resulting from IFRS tactical solutions
- Data concerns
- Financial statements presentation
- Effect of IFRS on existing or planned initiatives
- End User Computing tools

Corporate Tax

- Effect of accounting on taxation considered irrelevant by IASB
- IAS 12 vs. SFAS 109
- Data collection
- Structured products

Business Development

- New IFRS considerations
- Accounting basis of target acquisitions

Treasury

- Debt/Equity Classification and Split accounting
- Insurance Loss Reserves
- Debt covenants
- Funding structures

Financial Performance & Analysis

- Key performance indicators
- Management reporting
- Budget / forecasting
- Profitability measurement
- Rewards

Risk Management & Compliance

- Policies and Procedures
- Regulatory reporting considerations
- Capital Calculations
- Reconciliations

Legal

- Debt, equity and lease financing arrangements

Internal Audit

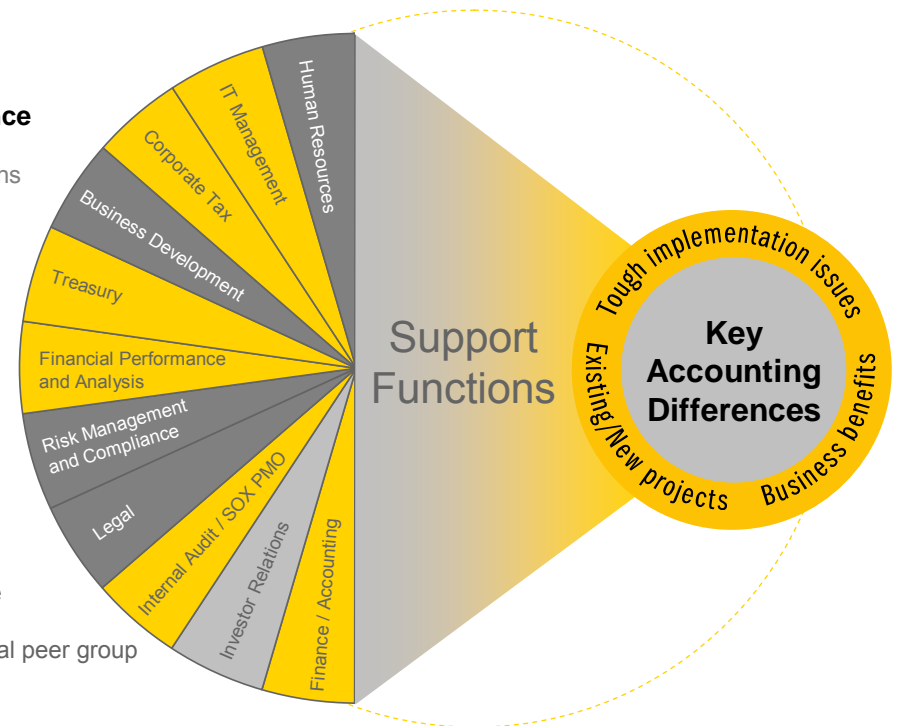
- Internal control documentation
- Key control considerations

Investor Relations

- Early education
- Underlying business performance
- Volatility of earnings and equity
- Re-benchmarking relative to global peer group

Finance / Accounting

- Fair Value
- Debt vs. Equity Classification
- Financial Statement Close Process
- Disclosures



Minimal

Moderate

Significant

General IFRS IT effect drivers

- ▶ How may this affect your company from IT perspective?

IT effect drivers	Low	Medium	High
US GAAP to IFRS Differences	Minimal	Moderate	Significant
IT Organization Structure	Centralized	Multi Location	Decentralized
Strategic System Plans	None	Planned Upgrades	Major System Implementations
Architecture	Single ERP	Multiple ERP	Customized

How to evaluate IT effect of IFRS

Business Process Assessment

1. First, identify the IFRS differences (US GAAP to IFRS) →
2. Then, understand the effect of those differences on the various business process →
3. Finally, determine if the difference may also affect IT?

Issue #	Identified Differences	List locations affected (BU, Corporate, SSC, etc)	List Accounts Affected	Business Process Effect														Business Process Effect	IT Systems Affected?			
				Support Functions								Value Chain Activities										
				Human Resources	Transactions	Information Technology	Tax	Risk Management / Compliance	Finance & Accounting	Performance Management	Legal	Investor Relations	Treasury	Sales / Marketing / Distribution	Ongoing Service & Support	Manufacturing	Supply Chain			Research & Development		
1	Equity and Liability components of convertible bonds must be accounted for separately	Corporate, All BU's	Equity Liabilities Interest Expense Deferred Taxes	H					M	M	M	H					M	M	H			
2	Fixed Asset additions have to be separated in components (if applicable) and depreciated that way.	Corporate	Fixed Assets Accumulated Depr Depr Exp. COGS Deferred Taxes	H					M	M	M	H					M	M	H			
3	Costing Methods - LIFO is prohibited. Same cost formula must be applied to all inventories similar in nature or use to the entity.	Corporate, All BU's	Inventory, COGS, Deferred Taxes			L	H	M									M		H			Y

How to evaluate IT effect of IFRS

Systems Assessment

1. Identify systems affected by the IFRS difference
- ➔
2. Understand data, configuration, or reporting effects of the difference
- ➔
3. Determine effects on current or planned strategic IT initiatives

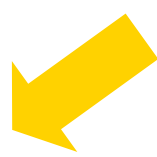
Section 1 - IFRS Differences		Section 3 - Technology Significance Considerations					Section 4 - Potential Solutions / Actions			Comments	Summary	
							Strategic	Tactical				
Difference Reference No.	IFRS Differences Identified	Data	System Config / Routines	Reporting	Specific Data Considerations	Specific Configuration Considerations	Specific Reporting Considerations	Deploy New System / IT Solutions	Modify Existing Systems / IT Solutions	Develop End User Computing Solutions	Provide any additional IT related comments for this IFRS difference.	Process & System Effect (High / Moderate / Low)
3	Costing Methods - LIFO is prohibited. Same cost formula must be applied to all inventories similar in nature or use to the entity.	✓	✓		1. Need to change/add additional accounts to the chart of accounts 2. Need to change/add additional accounts to the chart of accounts	1. & 2. Need to update the inventory costing calculation from LIFO to FIFO at the default layer, which will be applicable to all future inventory items. In addition, need to go back through the item master file to change the inventory costing calculation from LIFO to FIFO for all items currently setup in the system.	1. N/A 2. N/A		✓			H

Specific IFRS IT considerations

- ▶ Data – new and/or additional data elements may be required for financial reporting purposes, including additional disclosures
 - ▶ Master data changes (i.e., fixed assets)
 - ▶ Data mapping changes
- ▶ System configuration / routines – existing systems may need to be re-configured to facilitate the new reporting requirements
 - ▶ New / modified calculations
 - ▶ Changes to key configurations
- ▶ Reporting – financial reporting tools may need to be modified to comply with the new IFRS requirements
 - ▶ Parallel reporting requirements
 - ▶ Changes to report layouts

Example IFRS / US GAAP Differences

IAS #	Difference compared to US GAAP
IAS 2.25	LIFO is prohibited. Same cost formula must be applied to all inventories similar in nature or use to the entity.



Data

- ▶ Minimal

Configuration

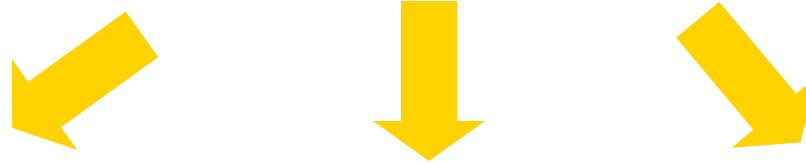
- ▶ Update inventory costing method from LIFO to FIFO or WAC at default and item master file layers

Reporting

- ▶ Update Perpetual Inventory Reports

Example IFRS / US GAAP Differences

IAS #	Difference compared to US GAAP
IAS 16.43	Each part of an item of property, plant, and equipment that has a cost that is significant in relation to the cost of the item shall be depreciated separately.



Data

- ▶ Define components within the asset master data

Configuration

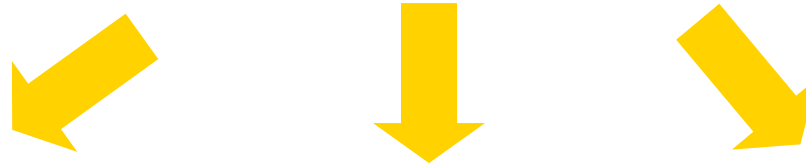
- ▶ Configure the new asset component categories
- ▶ Apply depreciation methods

Reporting

- ▶ Update depreciation reports
- ▶ Modify Fixed Assets reports used in reconciliations

Example IFRS / US GAAP Differences

IAS #	Difference compared to US GAAP
IAS 27.13	Special Purpose Entities (entities created to accomplish a narrow and well-defined objective) are consolidated when the substance of the relationship indicates that an entity controls the SPE.



Data

- ▶ Create new company codes and potentially new accounts

Configuration

- ▶ Adjust the consolidation mapping and configuration

Reporting

- ▶ Update consolidation reports
- ▶ Adjust for changes in financial disclosures

Other IFRS IT considerations

- ▶ IFRS may affect current and future strategic IT initiatives / projects
 - ▶ An IFRS conversion will likely effect the timing, priority and resources assigned to the current portfolio of initiatives / projects
 - ▶ An IFRS conversion could require additional data, configuration, or reporting considerations not previously considered as part of the current or future initiatives / projects
 - ▶ Example types of initiatives / projects affected by an IFRS conversion:
 - ▶ Shared service center deployment
 - ▶ Global ERP upgrades and implementations
 - ▶ Trial balance/chart of account redesign
 - ▶ Global finance transformation (process standardization)
 - ▶ Global policy and procedure development/deployment
 - ▶ Tax strategies
- ▶ New sizing analysis and performance analysis based upon IFRS volumes



Appendix

Software vendor updates (SAP & Oracle)

Example SAP IFRS compatibility

- ▶ SAP has equipped its latest version with functionality that can be enabled on-demand in order to accommodate the reporting requirements of IFRS:
 - ▶ Parallel Ledgers in the New GL
 - ▶ IFRS requires comparative financial statements to be shown for initial periods. Parallel Ledgers are a solution for running multiple accounting principles (U.S. GAAP, IFRS, Tax, etc.) in one system.
 - ▶ Segment Reporting
 - ▶ In order to carry out reporting by segments (geographic or business area divisions as defined in IFRS 8 / IAS 14) a new organizational unit has been introduced – Segment.
 - ▶ Enhanced Profit Center Accounting
 - ▶ Online document splitting has made PCA a viable option not only for Internal (Management) Accounting but also for the purposes of segment reporting.

Example SAP IFRS compatibility (cont'd)

- ▶ **New Dimensions in the Totals Table**
 - ▶ Functional Area, Cost Element, Profit Center, Segments are all included in the Totals Table. Segments can be manually input or automatically derived by the system.
- ▶ **Custom Fields in Accounting Documents**
 - ▶ Based on the industry-specific IFRS requirements, new fields can be added to Accounting Documents.
- ▶ **Parallel Valuation in Asset Accounting (AA)**
 - ▶ AA is ready to accommodate IFRS as another valuation and depreciation principle.
- ▶ **Investment Management**
 - ▶ Contains functionality to support capturing costs of internally generated intangible assets (such as developing a company Web Site) and parallel accounting treatment (i.e. expense immediately or capitalize) for each principle – U.S. GAAP or IFRS.

Example SAP IFRS compatibility (cont'd)

- ▶ **Corporate Finance Management (CFM)**
 - ▶ Provides valuation methods required for a wide range of financial instruments (stocks, bonds, derivatives) including hedge accounting.
- ▶ **SEM Business Consolidation (BCS)**
 - ▶ BCS provides capability of consolidating under multiple accounting principles.

Example Oracle IFRS compatibility

▶ Multiple Ledgers

- ▶ Define multiple accounting rules (US GAAP and IFRS rules) for single legal entity and apply them in different ledgers.

▶ Configurable accounting rules

- ▶ Create multiple journal entries from a single business transaction event (i.e., transaction is accounted for on the primary ledger per IFRS accounting rules, and on secondary ledger per US GAAP).

▶ Subledger Accounting (SLA)

- ▶ Segregate accounting rule maintenance so the corporate accounting office controls and maintains the US GAAP accounting rules, while IFRS accounting office controls and maintains the IFRS fiscal accounting rules.