

G32 - IFRS Conversion: More than an Accounting Change

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September 21, 2009 – September 23, 2009

IFRS Conversion:

More Than an Accounting Change



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Agenda

- IFRS Overview and Impact on Capital Markets
- IFRS v. US GAAP
- Current Status and SEC Proposed Roadmap
- IFRS Impact on Information Systems
- Conclusion



IFRS Overview and Impact on Capital Markets

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What is IFRS

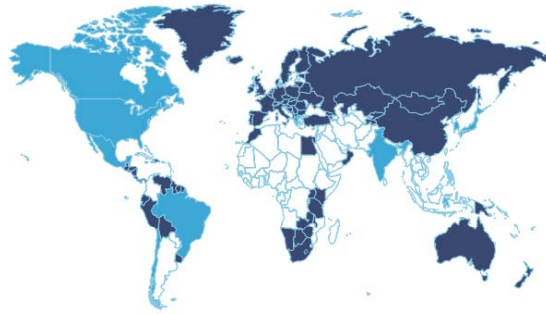
- **What?**
 - International Financial Reporting Standards (IFRS)
- **Who?**
 - The standard setter is International Accounting Standards Board (IASB) based in London
- **Why?**
 - Create a global accounting language
 - Allow companies easier access to global capital markets
 - Serve information needs of investors
 - Convergence with US GAAP and elimination of US GAAP reconciliation requirement by Foreign Private Issuers is driving the move to IFRS acceptance in the US

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The world has chosen IFRS

More than 100 countries require, permit or are converting to IFRS

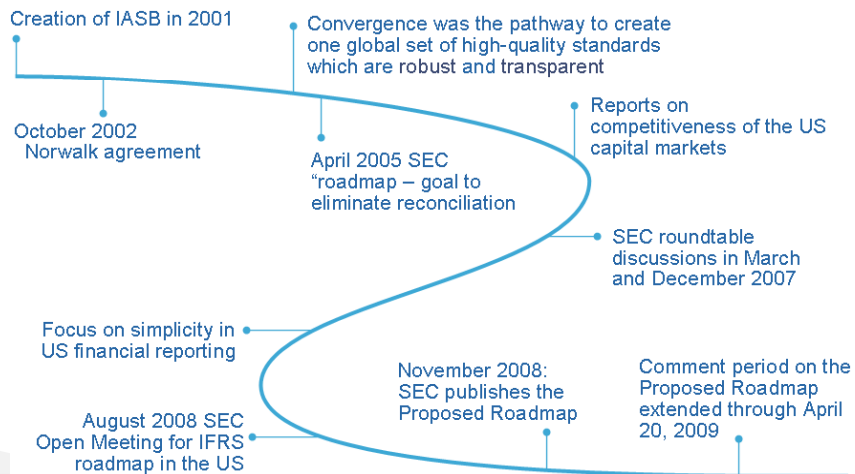


■ Countries seeking convergence with the IASB or pursuing adoption of IFRSs
 ■ Countries that require or permit IFRSs

Top 10 global capital markets	
US	IFRS roadmap proposed
Japan	Converting to IFRS
UK	IFRS
France	IFRS
Canada	Converting to IFRS
Germany	IFRS
Hong Kong	IFRS
Spain	IFRS
Switzerland	IFRS or US GAAP
Australia	IFRS



Catalysts of the US transformation



Potential benefits of moving to IFRS

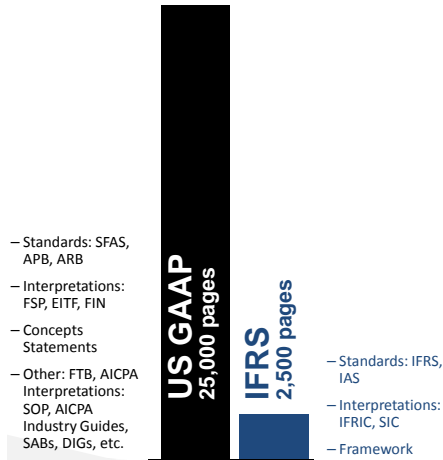
- Sufficient time to adequately debate strategic first time adoption – in particular with “look back” provision
- Ability to secure scarce IFRS knowledge resources and optimize human capital deployment decisions
- Improved transparency and comparability for investors and rating agencies
- More efficient access to capital for global corporations
- Industry perception of market leadership
- Streamlined M&A activity
- Ability to analyze impact on tax-related issues
- Reduced cost of financial reporting for global companies
- More effective procurement with vendors and customers reporting under IFRS
- Ability to understand interaction with strategic initiatives to generate value from synergies
- More room for management’s judgment and truer reflection of economic reality with principles-based GAAP



IFRS v. US GAAP



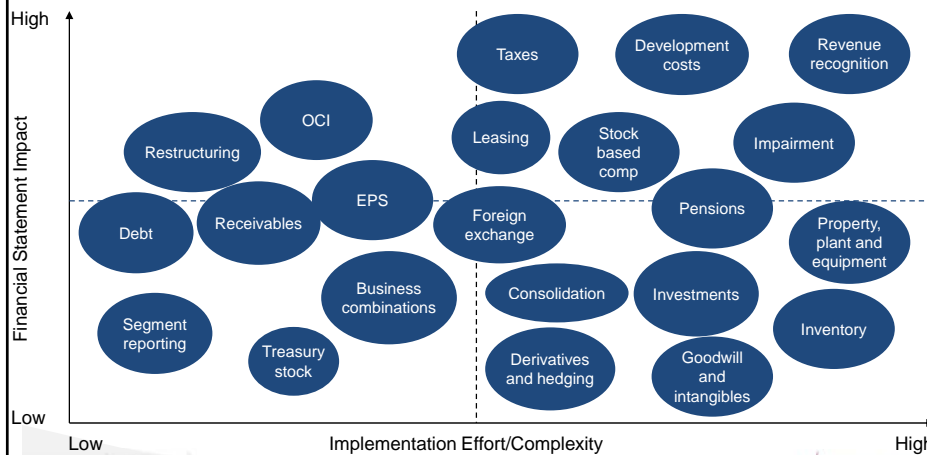
Principles vs. rules: Key differences between IFRS and US GAAP



- IFRS standards are set by the International Accounting Standards Board
- Both frameworks built under a similar principles-based methodology
- IFRS differs from US GAAP in many different ways from an accounting and disclosure standpoint
- US GAAP is more prescriptive and rules-based, addressing specific industries and types of transactions in many areas



Illustrative effort and impact of selected IFRS to US GAAP differences



Obstacles between US GAAP and IFRS



- Differences in institutional, regulatory, and cultural environments
- Getting boards to agree / resolve differences
- US culture for detailed guidance and special industry standards
- Inconsistent application of IFRS
- Financial crisis
- Funding
- Politics
- Other SEC priorities

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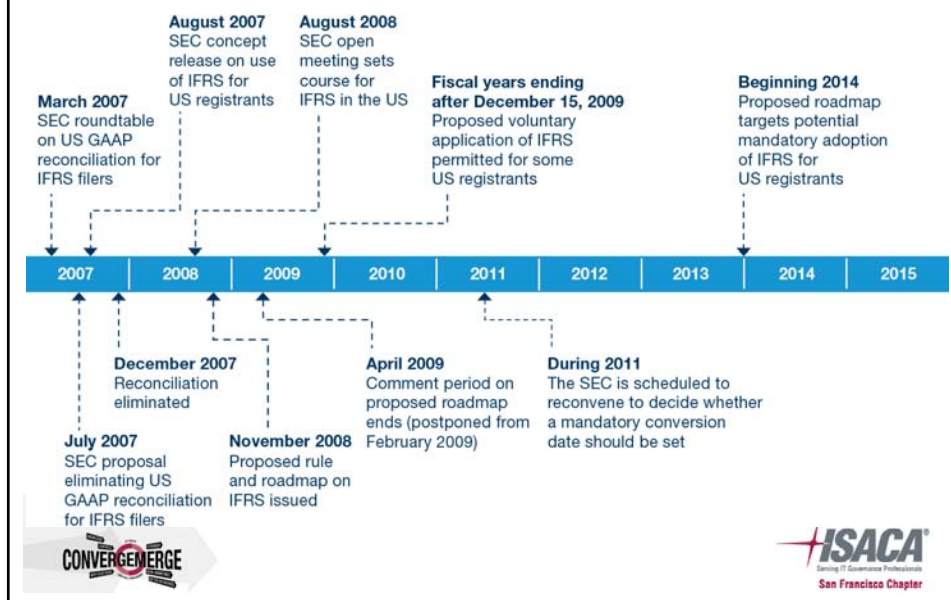
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Current Status and SEC Proposed Roadmap

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Development of proposed SEC timeline for US transition



SEC IFRS Proposed Roadmap comment letter key themes

- Overwhelming support (84%) for the goal of moving towards a single set of global accounting standards
- Views varied on how to achieve that goal;
 - Full convergence (43%) – Eliminate differences between US GAAP and IFRS through joint standard setting by the IASB and the FASB
 - Partial convergence (24%) – Convergence in certain key areas coupled with establishing a mandatory date to change to IFRS
 - Mandatory adoption date (27%) – Establish a mandatory date to change to IFRS as soon as possible
- The importance of the independence, accountability and funding of the IASB
- Concern over whether the US regulatory and legal structure will subject companies to greater scrutiny and litigation risk when using a principles based standard
- Respondents were concerned by the uncertainty in the proposed Roadmap; a clearer direction is desired

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Our view on IFRS in the US

- The adoption of IFRS in the US remains inevitable
- The SEC will ultimately propose a new roadmap – the timing may change
- IFRS is the only viable choice due its growing global acceptance
- The US should establish a mandatory adoption date as soon as possible, but continue with convergence in the interim
- Full convergence will be too slow, costly – has not fully eliminated differences
- More progress on independence of the IASB is needed
- Re: legal concerns, companies will be better able to defend their judgments if they're well-reasoned, documented and appropriately disclosed
- The next several years will bring near-constant accounting change:
 - Convergence
 - Continued adoption of IFRS by non-US subsidiaries
 - IFRS-influenced behavior of non-US customers and vendors

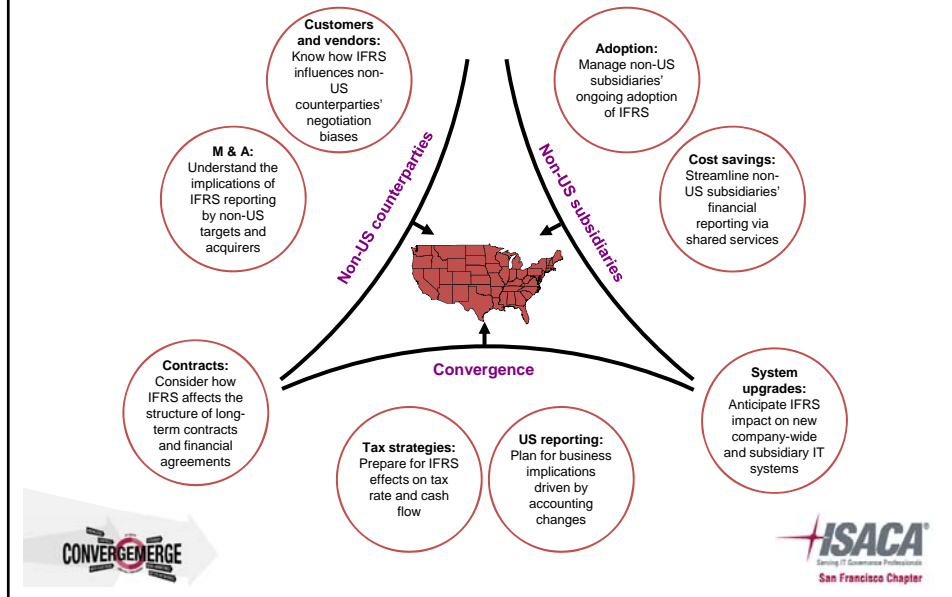


Expected SEC next steps

- Near term, the SEC will appropriately focus on the financial crisis and regulatory oversight matters, significant public Commissioner-level commentary is unlikely
- The SEC staff will be doing IFRS-related analysis in the background out of the public view. We anticipate beginning to see more public SEC activity on IFRS later in 2009 and into 2010, as the next G20 meeting occurs and progress is made on their other priority matters.
- SEC will assess what convergence and other preparations are needed, before setting a mandatory IFRS adoption date
- Although the IFRS path seems unclear, we remain confident that:
 - The SEC continues to be interested in moving toward international standards
 - The SEC will continue to take a thoughtful, measured approach
 - The SEC will propose a revised roadmap, timing may change
 - Adoption of IFRS in the US remains inevitable



How IFRS is affecting US companies now



Near-term considerations

Near-term change drivers

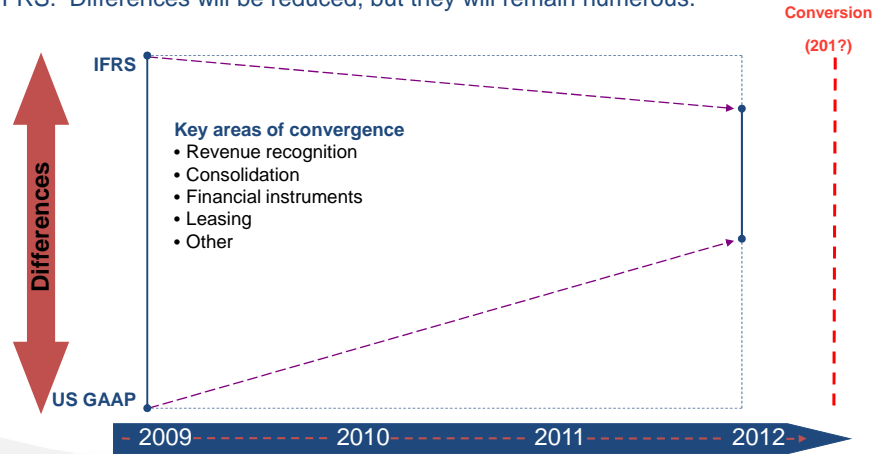
- The US path to IFRS will likely be one of convergence, ultimately followed by conversion
- Companies face four near-term change drivers:
 - Unprecedented accounting transformation driven by continued convergence of standards
 - Non-US subsidiaries moving to IFRS as other countries continue to adopt
 - Customers/suppliers increasing interest in IFRS accounting outcomes
 - Continued focus on differences between IFRS and US GAAP, as full convergence will not be achieved
- Over the next few years, US GAAP will be significantly influenced by IFRS
- Key areas of convergence are
 - Revenue recognition
 - Leasing
 - Consolidation
 - Financial instruments

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US GAAP – IFRS convergence

Over the next few years, the pace of US GAAP change will be significantly influenced by IFRS. Differences will be reduced, but they will remain numerous.



IFRS Impact on Information Systems



Common Myths Surrounding Conversion to IFRS

- “IFRS is only about accounting”
- “IFRS changes have no impact on my systems”
- “European companies were able to implement IFRS in a few months, so it must not be that complex”



More than just an accounting change

Changing numbers

— Addition of another GAAP and/or change in primary GAAP – accounting policies determination; chart of accounts review, opening balance sheet, comparative financial statements, quarterly financial statements

Changing people: a new business language

- Communication
 - Internal
 - External
- Training
 - At different levels
 - Not only Finance people

Changing processes

- Existing processes to be enhanced:
 - Not adequate with volume
 - As alternative to system change
- New processes created
 - Budgeting & forecasting
 - Internal controls revisited

Changing systems

- Data availability and system requirements
- New systems components: data warehouse, calculation engine
- Re-alignment of management information systems
- Multi-GAAP solutions
- Primary GAAP changeover

Changing business

— Performance management to be embedded across:

- Performance measure/KPIs
- Management accounts
- Remunerations/bonuses
- Budgeting/forecasting
- Financial and Business impact analysis: debt covenants
- Different valuations



More than just an accounting policy change

Some Example Areas to Consider	Potential ERP Impact
<p>Consolidation Model IFRS entities are consolidated based on new "control" determination procedures that differ from the US GAAP.</p>	<p>Consolidation Tool Consolidation software might require amendment to include entities that fall within the new definition of control.</p> <p>ERP: Configuration</p> <p>Might require configuration change to recognize revenue based on risk and rewards associated with ownership. Might also require configuration change to percentage of completion methods.</p> <p>ERP should differ with different account assignment for the investment property asset class.</p> <p>Possible restructuring the Fixed Asset Register to group assets in logical CGUs to facilitate and streamline the impairment process and evaluation of Goodwill.</p>
<p>Revenue Recognition In IFRS, it is more "principle-based" (recognition of revenue when risks and rewards and control have been transferred and the revenue can be measured reliably). In US GAAP, there are extensive detailed guidance for specific types of transaction.</p>	
<p>Investment Property In IFRS, it is measured at depreciated cost or fair value, with changes in fair value recognized in the income statement. In US GAAP, it is treated at depreciated cost.</p>	
<p>Intangible Assets (with indefinite useful lives) and Goodwill In IFRS, they are tested for impairment at least annually at either the cash-generating unit (CGU) level or groups of CGUs, as applicable. In US GAAP, the level of impairment testing and the impairment test itself are different.</p>	



Key challenges to IFRS conversion

- Underestimation of time and resources required
 - Strong, experienced project management is essential
 - Dedicated internal resources may not be available when needed

- Not enough focus on non-accounting business impacts
 - Investor relations and market communications
 - Contracts and agreements
 - Tax-related issues
 - Bonus and compensation plans
 - Impacts to process, controls, people and IT systems

- Lost opportunities
 - Too many workarounds
 - Lacking in the incorporation of accounting change into IT roadmap, including timing of upgrades, systems consolidations and new implementations

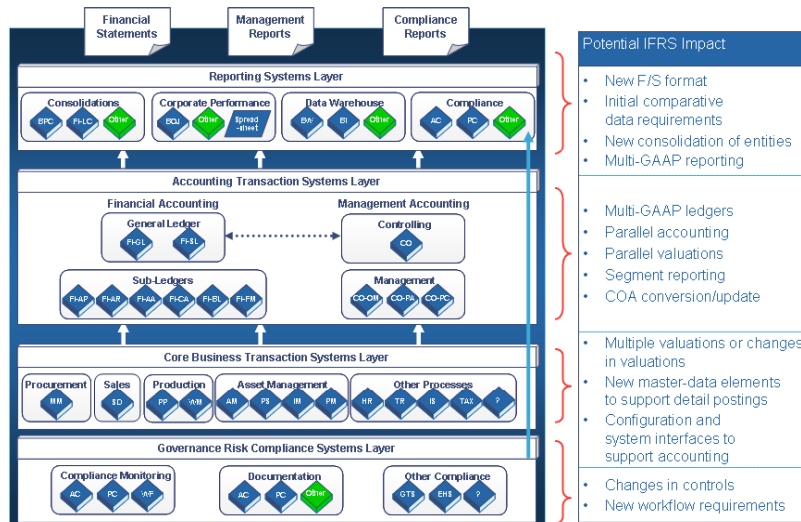


IFRS conversion – Alternative approaches

"Big Bang"	Description	Large scale, simultaneous/sequential conversion effort for the entire Company. One time effort with company-wide assessment of implications
	Effort	Substantial effort across organization, maximum disruption to business
	Resources	Large number of IFRS skilled staff required (incremental hiring/outsourced). Typical resource mix of 65/35% (internal/external)
	Comments	Too robust given existing workload; significant upfront costs; least efficient; does not take advantage of anticipated SEC timeline; increased risk of error on adoption; minimizes knowledge transfer & staff development
"Wait & See"	Description	Increases top side adjustments to US GAAP consolidated F/S at reporting periods
	Effort	Low effort at start up; significant, ad hoc effort and disruption to business at reporting dates
	Resources	Additional resources required at critical stages. Typical resource mix of 55/45% (internal/external) at critical stages
	Comments	Higher risk scenario; manually intensive; minimizes differences; centralized effort to comply; reactive to peers; substantial future effort to realign organization to realize benefits
"Staged Phases"	Description	Implemented in stages at management discretion (i.e. pilot basis)
	Effort	High effort in phase; low effort out of phase. Effort level and business disruption dictated by management's schedule and alignment with other Company initiatives
	Resources	Resources to be added at management discretion; Typical resource mix of 80/20% (internal/external)
	Comments	Effective, efficient implementation method; affords time to properly embed IFRS and make judgments; maximizes knowledge transfer and staff development



Finance Systems Landscape – SAP example

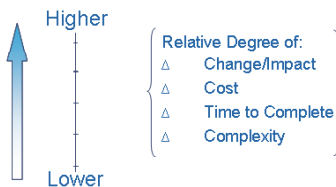


Illustrative relative impact of IFRS on the ERP processing environment

Key Accounting Topics	ERP Related Business Processing	ERP Related Technical Environment
Financial Consolidation & Reporting	Lower Moderate Higher	Lower Moderate Higher
Development Costs, including IPR&D	Lower Moderate Higher	Lower Moderate Higher
Revenue Recognition	Lower Moderate Higher	Lower Moderate Higher
Expense Recognition	Lower Moderate Higher	Lower Moderate Higher
Inventories	Lower Moderate Higher	Lower Moderate Higher
Property, Plant & Equipment	Lower Moderate Higher	Lower Moderate Higher
Intangible Assets	Lower Moderate Higher	Lower Moderate Higher
Provisions & Contingencies	Lower Moderate Higher	Lower Moderate Higher

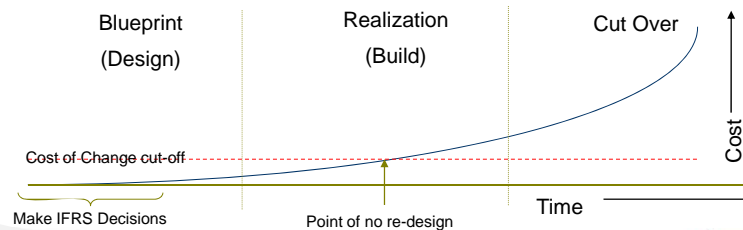
Rule of Thumb:

- Δ Transactional Process Related Change
- Δ Analytical / Valuation Change
- Δ Presentation / Disclosure Change
- Δ Policy Change

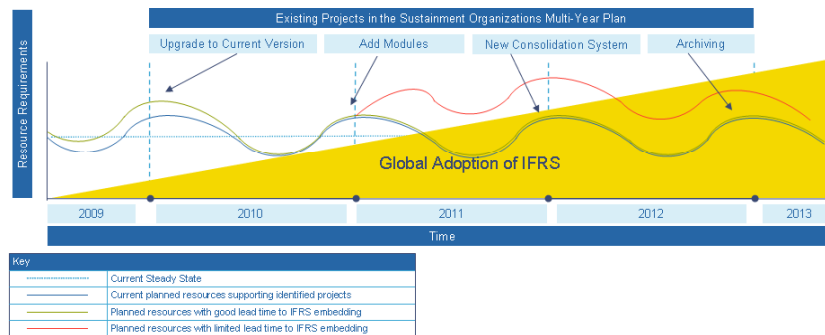


ERP Projects and Transformation Initiatives

- Where an organization has an in flight major technology program, the decision must be made as to whether the IFRS requirements can be establish in time to be incorporated into the Blueprint, or not.
- The run rates of major ERP projects can run into hundreds of thousands of dollars per day, delaying projects to wait for the IFRS requirements, may not be affordable. Trying to incorporate them too late into the design could put the entire project at risk.



ERP steady state IFRS planning (example)



- With early identification of the business requirements, both in the US and Globally of IFRS, the people, process and technology impacts can be quantified
- This will take some additional resources and costs upfront, but will be no where near the cost of an 11th hour attempt to get the systems to support IFRS
- Getting IFRS and an IFRS Blueprint into the governance and change control process will allow the global introduction of IFRS country by country without major system disruption, and will allow the pain points for a particular organization to be managed over time.



Key themes

- **What Can Change:** IFRS should be viewed as a new business requirement, and management should evaluate what could be impacted just like any other transformation project that supports a business initiative
- **Degree of Change:** IFRS requirements that need to be addressed or need to be considered at the business transaction level will most likely have more impact on the ERP environment than those requirements that do not need to consider, address, or tie-out to the transaction level. In addition, management action plans for meeting the IFRS requirements will dictate how much has to be changed.
- **Current Initiatives:** Look at current ERP projects and related transformation initiatives – consider timing in conjunction with both IFRS conversion time requirements and new IFRS conversion / readiness projects



Conclusion



IFRS – Lessons learned from 100 countries

- Establish a clear vision and plan at the start
- Establish the tone at the top and set up the right governance structure and clear decision-making powers.
- Plan and execute appropriately considering impacts across the business.
- Don't "outsource" the conversion process – grow your own resources.
- Develop a conversion plan that takes into account peaks and valleys of activity (e.g. quarterly reporting).
- Consider how IFRS will impact KPIs and your internal and external communication strategy.
- Take steps early to communicate with and influence regulators, tax authorities and other stakeholders around the impact and acceptance of IFRS.
- Become knowledgeable with the standard-setting process, as IFRS will continue to evolve during implementation.
- Make the most of opportunities for other project efficiencies (e.g. faster close process).
- Consider opportunities for reporting rationalization/streamlining (e.g. multi-GAAP reporting, tax balances).
- Implement at the business unit level using a top-down and bottom-up approach, with business units involved earlier rather than later, as the impact can be profound.



Benefits of a preliminary assessment

- Understanding of the effects of changes of convergence, conversion or continued adoption of IFRS by subsidiaries and counterparties
- Flexibility – e.g., consider different options for converged standards or reassess the company's accounting policies upon adoption
- Development of a practical implementation timeline
- Understanding of the many differences between IFRS and US GAAP
- Understand potential effect of IFRS on tax strategies and tax planning
- Increased internal IFRS knowledge
- Potential to reduce cost of compliance and operational risk, while enhancing the quality of financial reporting
- Early understanding of IFRS impact on key performance indicators
- Comparability with peers
- Ability to provide informed answers to audit committees/boards
- Integration of IFRS into finance transformation initiatives and/or systems implementations or upgrades



So what now?

- Approach IFRS in a thoughtful, measured, and strategic manner
- Perform a preliminary study to identify business, accounting, tax, investor, systems, controls, and workforce-related issues
- Consider the most significant conversion activities and make the investment only to the extent that your circumstances warrant it
- Incorporate key IFRS considerations into ongoing business planning to ensure they are considered as changes occur
- Maintain corporate control over transition timing and strategies used by non-US subsidiaries who may be required to adopt IFRS earlier
- Closely monitor and anticipate the effect on your business and financial reporting of the substantial changes that will occur from new US GAAP, IFRS and governmental regulations
- Be mindful of the specific aspects of conversion that will take the longest and consider smaller controlled one-off projects and "easy wins"



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