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# Technology implications of IFRS adoption for U.S. companies

## Adopting IFRS is more than a technical accounting change

IFRS is rapidly gaining acceptance around the world, spurring U.S. companies to assess the potential implications of adopting the standard. By 2011, almost every country around the world could be using IFRS to some extent, including the United States.

IFRS adoption will have the most significant impact on accounting and financial reporting functions, but it will also have an extended impact on other areas of an organization. With the type of changes IFRS adoption will require, there are also impacts across people, process and technology that will need to be factored into an organization's conversion to IFRS. In this discussion, we will focus on the impact to technology.

Viewing the adoption of IFRS as simply a reporting change can lead to costly rework at a later date and/or cumbersome and inefficient processes.

As IFRS conversion strategies are developed by an organization, changes required to existing systems and the ability to use technology to support IFRS, are important factors in determining timing and cost of this effort. As adoption rules outside of
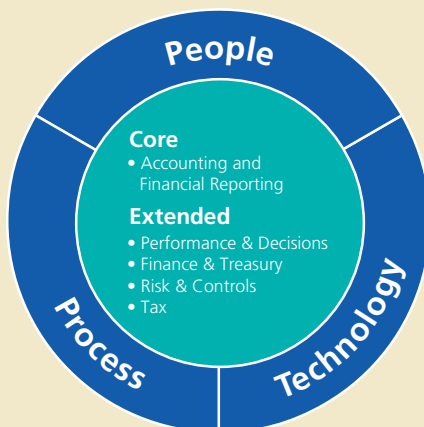
the U.S. are running on various time tables, having a global strategy around adoption can help avoid reimplementation for international sites once the consolidation approach is determined.

## What is IFRS?

International Financial Reporting Standards (IFRS) are a set of accounting principles that is rapidly gaining acceptance on a worldwide basis. These standards are:

- Published by the London-based International Accounting Standards Board (IASB)

- More focused on objectives and principles and less reliant on detailed rules than U.S. GAAP

Later in 2008, the SEC is expected to release a timeline for conversion to IFRS for domestic registrants.



**Core**
- Accounting and Financial Reporting

**Extended**
- Performance & Decisions
- Finance & Treasury
- Risk & Controls
- Tax

**Core Impact**
- Primary organizations impacted by adoption
- Significant changes to existing processes and technology possible

**Extended Impact**
- Secondary areas of change from an IFRS conversion
- Changes may be less extensive and require fewer modifications to existing processes and technology

**Enablers: People, Process, Technology**
- Support effective execution of IFRS changes in both the core and extended areas
- Effective IFRS conversions use all three enablers

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# Evaluating the potential technology impact

The extent that systems will need to change depends upon multiple factors and choices: the size and complexity of the business, the 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.

To explain where potential IFRS requirements could drive changes in your IT platform, consider the impact across five dimensions:

- **Upstream Systems:** Financial subledgers (transactional systems), financial instrument/investment valuation systems, product specific systems and interfaces that post financial transactions.
- **General Ledger:** Chart of accounts and policies and procedures related to these.
- **Reporting Data Warehouses/Data Marts:** Consolidation and/or allocation tools and engines.
- **Downstream:** Reporting solutions outside of IFRS reporting, including compliance solutions and statutory reporting systems.
- **Infrastructure:** Support applications such as rules engines, allocation engines, middleware, and operational data stores that affect or transact financial information.



**Illustrative Systems Architecture**
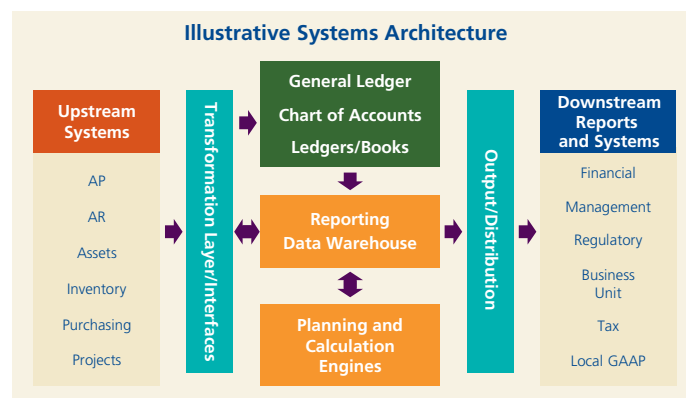
We believe that while an IFRS conversion begins in the finance and accounting functions, to effectively create an integrated conversion strategy, a company should include the technology function. This change presents an opportunity for cost-reduction and addressing improvements in business process and systems reengineering.

# What should companies do?

As companies address IFRS, they should consider the opportunity to make strategic improvements in systems, processes, and controls. IFRS adoption generally cannot be accomplished by finance alone. Involving the technology executives and their related functions early in the preliminary planning stages could help avoid potentially costly rework at a later date.

As you begin assessing your IFRS strategy, here are some recommendations for areas to investigate in the technology arena to contribute to your strategy:

**Upstream Systems:** Identify and document all internal and external data sources that must be updated. Identify missing data due to differences in accounting treatment. Assess required enhancements to legacy systems.

**General Ledger:** Assess high-level changes to charts of accounts based upon differences between IFRS and local GAAP. Analyze the reconciliation process between subledgers and the general ledger. Assess accounting, reporting, close consolidation, and reconciliation processes. Assess journal entry methods and templates. Assess existing expense allocation methods and engines to determine whether rules need to be adjusted.

**Reporting Data Warehouses:** Identify changes in financial information requirements due to IFRS transition and assess current financial reporting capabilities. Assess impacts of these requirements on existing information management systems. Assess readiness of data governance functions and metadata repositories to be updated to reflect new data definitions.

**Downstream Reporting:** Evaluate external reporting templates to identify changes required to support increased/different disclosures. Identify information sets that would be needed to meet IFRS reporting and disclosure requirements. Assess the business intelligence environment's readiness for identified IFRS changes.

**Infrastructure:** Assess impacts to middleware, rules and allocation engines, including capacity to maintain additional transaction detail. Another very important factor in considering change would be to understand how technology outsourcing arrangements and systems will be impacted.

Several other factors to consider include:

- Experience has demonstrated that spreadsheets and other manual activities as a solution to all IFRS reporting can become unmanageable. Accounting and other personnel will be required to learn new approaches and may need to change

many processes to adopt IFRS. Adding manual processes for capturing the data and performing reporting will likely only add complexity to the changes the organization will face.

- Existing multi-year plans to implement or upgrade IT systems will have to be adjusted to consider the effects of IFRS, creating a strategic opportunity to improve the information technologies, financial reporting functions and controls. Changes to financial systems and reports, and conversion of data from old format to IFRS will require an assessment to validate the reliability of these new financial statements and management reports.

### How significant is the technology impact of IFRS?

- Many technology vendors have solutions to support IFRS data capture, calculations and reporting
- Technology can be a significant enabler to IFRS conversion
- People and Process changes should be tied to the technology changes to make the most of adoption

## Potential systems impacts of U.S. GAAP/IFRS differences

| Upstream Systems | General Ledger | Reporting Data Warehouse | Downstream Reports and Systems | Infrastructure |
|---|---|---|---|---|
| Differences in the accounting treatment between current accounting standards and IFRS will likely create a need for some new input data | Differences in the accounting treatment between current accounting standards and IFRS will likely drive changes to General Ledger design, and Chart of Accounts | More extensive disclosure requirements in IFRS, likely require consistent reporting and usage of financial data that may not be standardized in current data models | The differences that arise in the accounting treatment between current accounting standards and IFRS will create a need for changes in reporting | Middleware carrying IFRS-related transactions may be updated with additional detail by adding transactions or data attributes |
| Data and transactions that are captured, stored and ultimately sent to / or used to support financial systems may not have all needed attributes or qualities, and may require configuration changes to accommodate these attributes | Multinational companies may ultimately realize a need to modify their book/ledger structure to ensure compliance with multiple financial reporting formats | Increased need for documented assumptions, sensitivity analyses, potential factors that could affect future development and may expand the scope of information managed by financial systems | Assumption changes from period to period can introduce significant volatility and require detailed support for changes, requiring design of additional reports | Rules engines affecting financial transactions may need to be updated or implemented |
| Sub ledgers within the ERP may have additional functionality to support IFRS which is currently not being utilized, which could be implemented | Multi-ledger accounting functionality within newer releases of ERP's should be considered for long-term solutions | Data governance functions and meta data repositories may need to be created or adjusted to reflect revised data models | External reporting templates will likely require revisions to reflect IFRS requirements | Operational data stores may require modification and expansion to accept the greater level of detail required |
| Transformation layers (if used) are not likely to have been designed with IFRS in mind; data sender/receiver structures may need to be modified | Differences that arise in accounting treatment between current accounting standards and IFRS may create a need for new expense allocations and other calculations | Current valuation systems may not have functionality to handle IFRS requirements | Increased disclosures such as sensitivity tests and roll-forwards may require additional ad-hoc query capabilities | |
| Over time the potential for acquisitions of companies using IFRS will increase; altering source systems and extract, transform and load (ETL) tools to provide all needed data elements will make integrations significantly more efficient | Changes to IFRS will likely necessitate adjusting various processes, which may impact configuration of the financial applications | Data warehouses may need to support consolidated financial information from multiple financial systems and ledgers | Budget and forecasting systems will ultimately need to be adjusted to accommodate IFRS reporting standards | |
| | | | Decision support systems comparing US GAAP to IFRS, with reconciliations that may need to be created | |

## Benefits of adoption

IFRS may represent a significant cost savings opportunity, since it affords the following advantages:

- Standardized, improved, and consistent set of accounting and financial reporting policies for both local statutory and consolidated reporting, which can improve the comparability of financial information and tax planning.

- Improved communication among subsidiaries — IFRS provides a universal accounting language, which can improve management reporting and decision making.

- More efficient use and availability of resources — IFRS provides an opportunity for developing centralized accounting processes through a shared-services approach, facilitating the efficient use of resources, standardizing training programs, elimination of divergent accounting systems, and reduced third-party fees related to local statutory reporting.

- Improved controls — IFRS allows for more control over statutory reporting to help reduce the risk related to penalties and compliance problems at the local level.

- Better cash management — Dividends that can be paid from subsidiaries are based on local financial statements. A change from local GAAP to IFRS can have significant effects on cash dividends, facilitating a consistent standard across countries that can help improve cash flow planning.

## What some global companies are discovering about IFRS

Here's what some companies have learned about IFRS conversion:

- It is a long-term journey. The program should be designed to integrate consecutive deliverables toward achieving the overall business objective.

- It is important to understand the volume and complexity of the IFRS transformation.

- IFRS conversions should not be underestimated from the technology point of view.

- It is critical to understand and address the technology implications at the early stages of the project.

- Changes in information systems and technologies must be sustained by a detailed understanding of the new accounting language.

- Some of the more challenging IFRS requirements to implement from a systems perspective involve modifying subledger systems.

- IFRS should also be considered as a opportunity to sharpen processes, controls, and systems.

- Spreadsheets and other manual processes to manage IFRS reporting and reconciliation can create a great amount of workload. Systems should be ready to help the organization in the transition.

- System design should include an adequate level of flexibility to incorporate additional accounting and regulatory changes in the future.

- The program should include a strategic knowledge transfer plan to convert the new processes into the "business-as-usual" state.

## Resources and Contacts

Deloitte Consulting LLP and Deloitte & Touche LLP have extensive experience in IFRS. With thousands of IFRS-experienced professionals in our global network, we provide a comprehensive array of services related to IFRS. As a multidisciplinary organization, we can help companies address a wide range of IFRS issues. We offer companies assistance with:

- Evaluating the potential impacts of IFRS

- Assessing readiness for IFRS conversions

- Implementing IFRS conversions, providing support with technical research, project management, and training

- Addressing the implications of IFRS in such areas as tax, finance operations, technology, and valuation

- Developing implementation road maps and business cases that anticipate key issues early in the process of adoption

- Assisting in the evaluation and documentation of system changes and options

- Focusing on implementation challenges, not simply technology changes

In addition, Deloitte Consulting LLP has deep experience in helping companies implement software packages from Oracle, SAP and other vendors, and can leverage this experience to help companies in their efforts to develop IFRS solutions.

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