

## IFRS Insights

### *Achieving a global standard*



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Volume 10, April 2009

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### Determining the Path Forward

Leading a cost-effective IFRS transition

As company leaders face the challenges posed by a struggling economy and concentrate on driving efficiencies and containing costs in their organizations, IFRS remains part of the discussion. While focusing on managing through the economic downturn, some CFOs are seeking cost-effective ways to prepare their companies for IFRS. Careful planning that successfully positions the company to handle the changes associated with adopting global standards can help keep costs down, avoid potential missteps, and realize benefits sooner. In many cases, companies are factoring in lessons learned from implementing the requirements of the Sarbanes-Oxley Act to construct a more efficient, long-term project plan. Yet, with the timing around the Securities and Exchange Commission's roadmap still to be determined, many are asking: when and how should we start preparing for IFRS?

Knowing what's involved — whether a company starts now or later — can help determine the path forward.

The benefit of planning in advance and starting now is that companies can structure a transition strategy that works for the company — one that is paced, resourced, budgeted, and implemented on their own terms. Even with small investments of time and energy today, companies can avoid unexpected surprises, such as not anticipating key systems changes to capture the necessary data to comply with IFRS. And the risk of over-investing later in a last-minute effort to corral qualified IFRS resources could be avoided. Starting now may be a prudent way to steer the organization toward IFRS changes, while keeping spending down.

With IFRS already widely accepted around the world and continuing to gain ground in additional jurisdictions, it's important for global companies to be aware of where IFRS is presently in use and whether there's an opportunity to simplify enterprise-wide financial reporting operations pertaining to subsidiaries. Knowing where IFRS is currently required or permitted could mitigate differences in reporting and save time and money today.

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# Determining the Path Forward (continued)

Despite existing uncertainty around the SEC's timeline for IFRS adoption in the U.S., many companies are taking steps to size up the IFRS effort. They're looking for approaches they can use to modulate their investment over time, keep costs under control, and capture the benefits of IFRS before their competitors do.

Delaying action might seem appealing, but hesitation comes with its own costs. Delays can lead to fire drills, shortcuts or manual fixes, which may leave little room for meaningful change that facilitates sustainable improvements.

The months ahead could be used to identify issues surrounding IFRS, with a sharp focus on understanding decisions with long lead times. Consider decisions that may involve large systems implementations, as well as any ongoing finance transformation activities. The last thing a company may want is a new financial management system that has to be reworked in three years because it can't fully accommodate IFRS.

Also, thinking ahead about the relationship between IFRS and international tax strategy is important. A successful strategy that maximizes jurisdictional tax advantages could even free up enough cash to pay for your entire conversion. That may be reason enough to make sure IFRS stays in focus and part of the strategic agenda.

## Technical Corner: IFRS in Practice — Benefit Plans

### Selection of Exemption on First-time Adoption

Companies that have a defined benefit plan will need to assess the pros and cons of electing to apply the exemption in IFRS 1 *First-time Application of International Financial Reporting Standards* that allows accumulated unrealized actuarial gains and losses to be eliminated by recording them through opening retained earnings at the date of transition. In making this assessment, companies also should consider the impact of any future changes in this area that could affect their selection.

#### Considerations for the defined benefit plan exemption

- If the defined benefit plan exemption is elected it must be applied to all defined benefit plans.
- Election of the exemption will result in the immediate recognition through opening retained earnings of all previously unrealized accumulated actuarial gains and losses to date.
- If there are accumulated actuarial losses, the election will have a negative equity impact. Compensation expense will be lower in future years due to the absence of the amortization of the losses that would otherwise have been required, until such period as the amortization would have normally ceased. The opposite applies in an accumulated actuarial gains position (positive equity impact, but higher compensation expense in future).
- An independent actuary, with the requisite level of IAS 19 *Employee Benefits* expertise will generally need to be engaged to provide a full assessment of the impact of the exemption.
- This election is one of the more common exemptions applied by entities who have already adopted IFRS.

Defined benefit plans accounting under IFRS is an area that is subject to change. An Exposure Draft ("ED") is expected to be issued in the second half of this year with a final standard planned for 2011. There are various changes contemplated in the standard. One proposal is to eliminate the ability to defer and amortize gains and losses relating to defined benefit plans. Companies should consider the exposure draft when assessing both the current elective exemption as well as future policy choices under IAS 19 because their decisions and future regulatory action in this area could have a significant impact to their financial statements. A summary of the discussions relating to IAS 19 can be located on [iasplus.com](http://iasplus.com).



## IFRS Today

### Managing the move toward global accounting standards

To explore the many aspects of IFRS, access a collection of Deloitte materials and resources in our IFRS library at [www.deloitte.com/us/ifrs/library](http://www.deloitte.com/us/ifrs/library).

# Making It Happen: Addressing High-Impact Areas with Solutions

How IFRS solutions and tools can help an assessment

For any company embarking on an IFRS transition, one goal is to run a cost effective and efficient effort that avoids common pitfalls and achieves an implementation that ultimately delivers benefits, such as standardizing accounting and reporting across the enterprise. So, how might companies make this objective a reality when a transition may involve a wide-range of changes across the enterprise?

Identifying complex or challenging areas that are common for companies addressing IFRS, and drawing on the right tools can help guide a smooth transition that avoids problems, such as over scoping or excess investment. Solutions — including models, databases, frameworks, and other tools — can play an important role in expediting a quality assessment. Designed to help companies evaluate potential impact and available options, solutions can offer assistance that include evaluating accounting policy elections, assessing potential impact on the financial statements, benchmarking system capabilities, and incorporating tax considerations. Making use of such tools — without reinventing the wheel — can help save time and resources in the assessment — as well as the conversion and sustainment phases.

There are often a common set of accounting and process issues that require increased focus in the overall implementation effort. Acknowledging such high impact areas — as in share-based payments or development costs — in the assessment phase and applying the appropriate set of tools can provide information that supports executive decision making on key accounting and implementation matters.

Understanding these areas, evaluating what it means for the company with time-

saving tools, and then choosing the best way forward can help the organization arrive at the end state in a more seamless and focused manner. But there's no one-size-fits-all approach. Common focus areas — and tools — may be determined depending on the company's industry and size.

Here are some examples of high-impact areas, their issues, and how companies might address them with solutions.<sup>1</sup>

**Share-based payments** — In many cases, there will be increased complexity in compensation expense calculations and tax accounting under IFRS. A solution could focus on benchmarking a company's stock plan administration capabilities, including an analysis of vendor software and record keeper services, or provide recommendations on expense calculation workarounds. There are also tax implications to consider, such as the requirement to periodically remeasure deferred tax assets. Modeling effective tax rate volatility based on fluctuations in the company's stock price will be an important component of analyzing and explaining the total impact of IFRS adoption.

**Development costs** — For companies not accustomed to tracking and differentiating research and development costs because they both are expensed as incurred under U.S. GAAP, the identification and capitalization of development costs under IFRS can be complex. Tools that aggregate or assist in the identification of the total population of relevant project and cost information will likely be a key component of the company's ability to define development type activities and determine when or what costs are able to be capitalized.

**Fixed assets** — With IFRS, capital intensive businesses will need to reevaluate how they record assets, as significant components will generally need to be recorded and depreciated separately. Tools that can facilitate the analysis of fixed asset ledgers and supporting records will likely be instrumental in driving an efficient evaluation of the need to record certain components separately. In addition, as with development costs, benchmarking a company's ability to track these costs can provide an opportunity to explore system enhancements that may provide a more efficient accounting and reporting process going forward.

**Dual reporting** — Under the proposed SEC IFRS Roadmap, two years of comparative financial results would be required to accompany adoption year financial statements. This requirement would create an interim need to track both U.S. GAAP and IFRS results in the comparative and adoption years, commonly referred to as "dual reporting." To determine how to satisfy the need for dual reporting, a company would need to weigh a combination of factors including: current ERP system capabilities, expected level of IFRS adoption complexity, long-term IT/ business strategy, and time to conversion. Using solutions to efficiently compile and categorize key system attributes and other information can facilitate the evaluation of dual reporting options and contribute to the ultimate decision on which dual-reporting approach is optimal for the company.

Addressing such challenges early with appropriate solutions can help facilitate a cost-effective and efficient IFRS conversion.

For more information on IFRS Solutions, contact Deloitte at [ifrs@deloitte.com](mailto:ifrs@deloitte.com).

<sup>1</sup> Solutions referred to herein are Deloitte tools and developed based on deep experience with IFRS conversions.

# Update: The Close of the SEC's Comment Period

The comment period in response to the SEC's proposed IFRS roadmap ended April 20, 2009. Approximately 200 letters were submitted to the SEC from preparers, users, analysts, auditors, academia, professional organizations and other individuals. Views expressed on issues (such as cost of IFRS conversion; the quality of IFRS standards; the compatibility of more principles-based standards in the U.S. litigation environment; convergence versus adoption) ranged across the spectrum, although many recognized the importance of having a single set of high-quality accounting and financial reporting standards for domestic and cross-border reporting.

The proposed roadmap presents milestones that, if achieved, could lead to the required use of IFRS for U.S. issuers beginning in 2014. The SEC would decide in 2011 on whether to move forward with its proposed plan,

based on achievements against the milestones.<sup>2</sup> The IFRS roadmap also contains proposed rule changes that would give certain U.S. issuers the option to use IFRS earlier, beginning in 2009.

Other issues and views raised in the comment letters include:

- Concerns around the proposed SEC timeline — some respondents requested that the SEC set a "date certain" for mandatory adoption of IFRS for the U.S.
- Questions around IFRS education — some respondents highlighted concerns around preparing and training staff on IFRS.
- Industry views — a few respondents expressed concerns over limited industry-specific guidance in IFRS.

- Investor feedback — the need for investor representation and input was recognized by some respondents.
- Questions over the requirement to present two comparative years — some respondents requested a reduction to one year.
- Discussions over early-use — some respondents noted a potential problem with an early-adoption provision in the SEC's IFRS roadmap that would involve reverting to U.S. GAAP reporting..

The SEC is not expected to discuss comment letters and next steps until later in the year — likely around the same time the G20 leaders meet to provide an update on global projects. In the meantime, some companies are seeking to better understand how a switch to global accounting standards will potentially change their organization.

<sup>2</sup> For more detail about the SEC's proposed IFRS Roadmap, see the [November 2008](#) edition of *IFRS Insights*.

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