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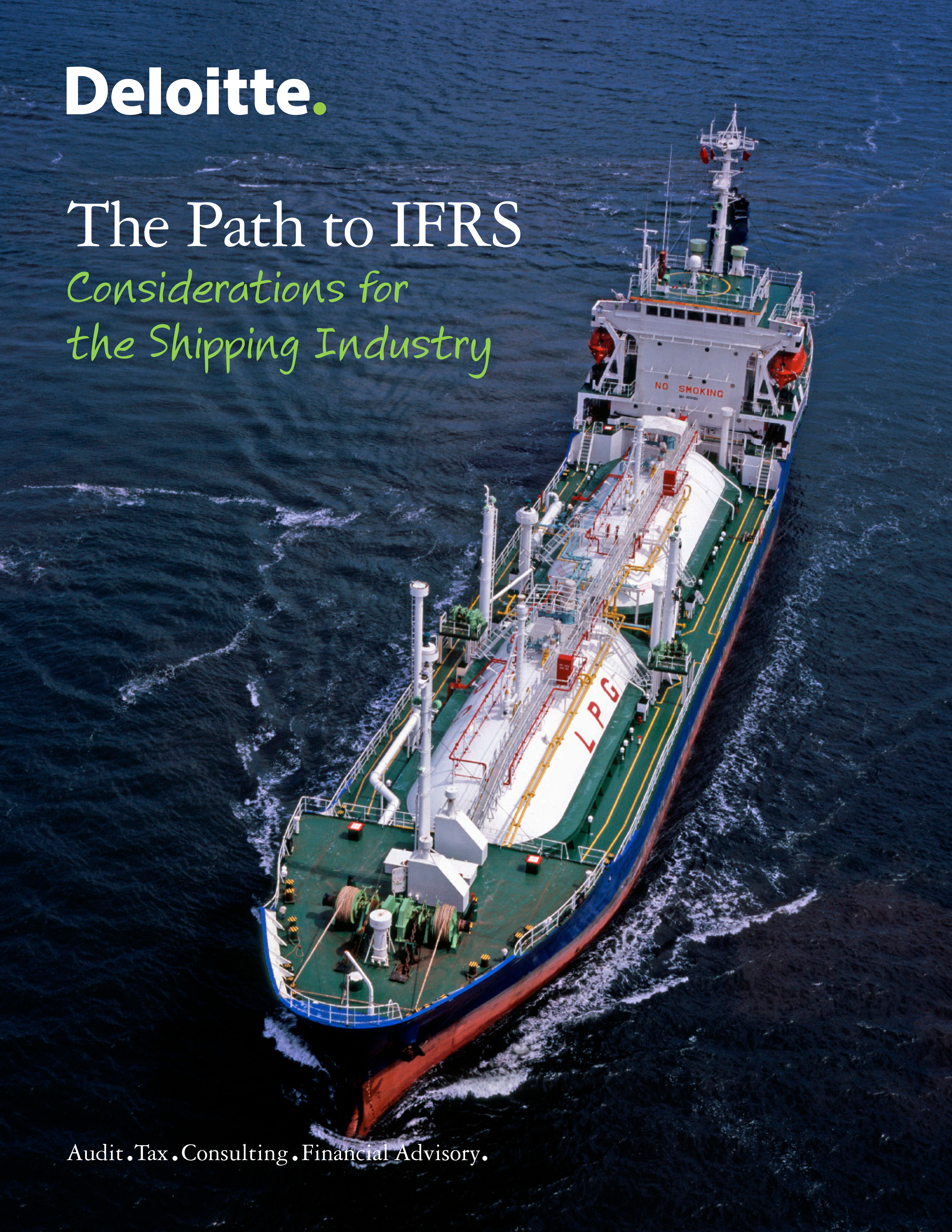
The Path to IFRS

Considerations for the Shipping Industry



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The Path to IFRS

Considerations for the Shipping Industry

The movement toward International Financial Reporting Standards (IFRS) as a single set of globally accepted accounting standards has quickly gathered momentum. IFRS is rapidly gaining acceptance around the world, spurring Securities and Exchange Commission (SEC) registrants, both domestic and foreign, to assess the potential implications of adopting the standards.

As IFRS appears with increasing frequency in print, on the Web, and in conversation, you may find yourself asking: How will IFRS impact my company? What triggering events would compel us to move more quickly to adopt IFRS? What obstacles might stand in our way?

While the SEC already allows foreign private issuers (FPIs) to use IFRS in preparing their financial statements without reconciling them to U.S. GAAP, recent SEC announcements suggest that use of IFRS in the U.S. is likely and will be the final destination for U.S issuers (i.e., domestic registrants). (See "Timing is everything" below.) Still unsettled, however, is the pace of the trip. Some companies will perceive benefits in embarking immediately. Others may adopt a more measured approach. Still others may choose to closely examine the roadmap before they take any steps.

Domestic and foreign shipping companies may discover compelling reasons to choose IFRS before it is mandated. Of course, like any significant business decision, determining the timing and pace of an IFRS conversion requires an understanding of the potential costs and benefits. Regardless of your ultimate conversion plan, it is crucial to make an informed decision based on a thorough analysis.

Timing is everything

In December 2007, the SEC approved Securities Act Release No. 33-8879 which allows FPIs to use IFRS in preparing their financial statements without reconciling them to U.S. GAAP. The rule is effective for fiscal years ending after December 15, 2007, which means foreign private issuers can elect to file IFRS financial statements today.

Recent events suggest that reporting under IFRS will also be allowed or required for most U.S. issuers and around the globe within the next few years.

On November 14, 2008, the SEC issued its long-awaited proposed IFRS "roadmap" outlining milestones that, if achieved, could lead to mandatory transition to IFRS starting in fiscal years ending on or after December 15, 2014. The roadmap also contains proposed rule changes that would give certain U.S. issuers the option to early-adopt IFRS in financial statements for fiscal years ending on or after December 15, 2009. The SEC believes that "the use of a single, widely accepted set of high-quality accounting standards would benefit both the global capital markets and U.S. investors by providing a common basis for investors, issuers, and others to evaluate investment opportunities and prospects in different jurisdictions." The roadmap also notes that IFRS has the potential "to best provide the common platform on which companies can report and investors can compare financial information." The SEC is seeking comments on numerous questions raised in the proposed roadmap. The comment period is expected to run until mid-to-late February 2009.

The proposed roadmap outlines seven milestones. Milestones 1–4 discuss issues that need to be addressed before mandatory adoption of IFRS:

1. Improvements in accounting standards.
2. Accountability and funding of the International Accounting Standards Committee Foundation.
3. Improvement in the ability to use interactive data for IFRS reporting.
4. Education and training on IFRS in the United States.

Milestones 5–7 discuss the transition plan for the mandatory use of IFRS:

5. Limited early use by eligible entities: This milestone would give certain U.S. issuers the option of using IFRS for fiscal years ending on or after December 15, 2009.
6. Anticipated timing of future rule making by the SEC: On the basis of the progress made on milestones 1–4 and experience gained from milestone 5, the SEC will determine in 2011 whether to require mandatory adoption of IFRS for all U.S. issuers. Potentially, the option to use IFRS could also be expanded to other issuers before 2014.

Two actions for shipping CEOs

1. Determine how your standing in the industry will be impacted by a conversion to IFRS. Would reporting under IFRS enhance the presentation of your financial performance and balance sheet to your investors and capital providers?
2. Conduct a competitive analysis. Which of your first- and second-tier competitors are, or are going to be, reporting under IFRS? Would it be advantageous to be a leader into this new world of financial reporting? Do you need to adopt IFRS to facilitate comparisons to and benchmarking with your peers?

7. Implementation of mandatory use: The roadmap raises many questions, including whether the transition to IFRS should be phased in. According to the roadmap, large accelerated filers would be required to file IFRS financial statements for fiscal years ending on or after December 15, 2014, then accelerated filers in 2015, and non-accelerated filers in 2016.

Under the proposed roadmap, U.S. issuers that meet both of the following criteria would be eligible to use IFRS earlier in financial statements for fiscal years ending on or after December 15, 2009:

- The U.S. issuer is among the 20 largest listed companies worldwide in its industry, as measured by market capitalization.
- IFRS, as issued by the International Accounting Standards Board (IASB), is used as the basis for financial reporting more often than any other basis of accounting by the 20 largest listed companies worldwide in the U.S. issuer's industry, as measured by market capitalization.

An issuer that meets these criteria and chooses to use IFRS (an "IFRS issuer") must prepare its financial statements in accordance with IFRS as issued by the IASB. Issuers electing to file IFRS financial statements with the SEC would be required first to do so in an annual report and would not be able to file IFRS financial statements with the SEC for the first time in a quarterly report, registration statement, or proxy or information statement.

Investment companies; employee stock purchase, savings, and similar plans; and smaller reporting companies, as defined by the SEC, are excluded from the definition of an "IFRS issuer" in the proposed roadmap and therefore would not be eligible to early adopt IFRS.

For more information on the SEC's action,
visit www.deloitte.com/us/ifrs.

A business case for IFRS

The primary question now is whether SEC registrants reporting under U.S. GAAP should start moving in the direction of IFRS, or wait until the SEC mandate takes effect. There are points and counterpoints to each, and therefore the decision of when to start moving requires a careful assessment.

IFRS is more principles-based than U.S. GAAP, which means it depends more on judgment and less on rules. For an SEC registrant reporting under U.S. GAAP, this represents a fundamental shift that will force CFO's to play a larger role in setting standards for their organizations. Many CFO's are concerned that this will expose their companies to greater risk. An early start can give you more time to develop your own IFRS framework–and drive the cultural change that may be needed throughout your company.

Conventional wisdom notwithstanding, an IFRS conversion is not simply an exercise in reshuffling the chart of accounts, nor is it principally a technical accounting or financial reporting matter. Clearly, there is some work ahead, but despite this, you may find the benefits of reporting under IFRS outweigh the costs.

In building a business case for IFRS, consider these points:

IFRS offers an opportunity to use principles-based accounting. Many shipping companies have become increasingly frustrated with U.S. GAAP and its voluminous rules for dealing with accounting issues. For a decade or more, CFOs and other finance executives have openly pined for principles-based accounting to help standardize and improve the reliability of financial reporting. IFRS answers that wish.

IFRS may help open the doors of the global marketplace. Capital is migrating away from the U.S. for a number of reasons, including the weakness of the dollar, the credit crisis, and the growth of foreign financial centers in Europe and Asia. Regardless of the cause, when it comes to raising capital, trends are clearly global. IFRS can potentially improve liquidity and access to capital by offering greater transparency, in the form of full and better disclosure, to investors. Access to capital may also be enhanced by virtue of aligning with a common standard. Markets and investors have been demanding a common standard for years, and IFRS has increasingly served that need. Many shipping companies listed outside the U.S. have already transitioned to IFRS or will be transitioning to IFRS in the next few years (See the table titled "Status of the use of IFRS in major shipping jurisdictions"). U.S. listed shipping companies may be competing with these companies for access to capital and customers. As such, companies reporting under IFRS may have an improved ability to access other capital markets that have adopted the standard. Companies themselves may also benefit from improved ability to benchmark with peers and competitors.

Inevitability. IFRS is coming. If you start soon, you can implement a phased, efficient, and orderly process and avoid the chaos that has typified other major projects.

Refresh your policies. Conversion to IFRS drives a need to revisit fixed asset componentization, long-lived asset impairment, leases, financial instruments, and other accounting policies (as discussed on page 4). In other words, IFRS provides a refresh exercise for accounting policy implementation, with the aim of more accurate and timely financial reporting.

Status of the use of IFRS in major shipping jurisdictions

IFRS has been adopted	Transitioning to IFRS		Working toward a transition plan	No transition plan
Denmark	Canada	2011	Japan	China*
Greece	Korea	2011	United States	
Hong Kong				
United Kingdom				
Norway				

*China has converged some of their accounting standards with IFRS.

Tailor your own roadmap

Whether you plan to charge ahead full steam or take small, measured steps, development of an IFRS implementation roadmap is an important first step. In fact, if you take only one action after reading this document, we suggest it be this: Develop an IFRS implementation roadmap.

To start, ask yourself and your team a few preliminary questions to gauge the potential impact of IFRS on your company:

- Have we inventoried our current IFRS reporting requirements, if any?
- How might our access to capital be impacted by an IFRS conversion?
- Have we assessed the potential impact of IFRS on our existing contracts?
- How will IFRS affect our ratios and performance measures, including those used in debt covenants?
- How many of our competitors have converted to IFRS? Is there an expectation that they would switch to IFRS?
- Are we involved in or considering a major acquisition?
- What is the level of IFRS knowledge within the company?
- Have we assessed the costs and benefits of adopting IFRS?

Of course, your IFRS implementation roadmap will likely contain significantly more detail than shown above. Given the far-reaching scope of IFRS, your map-making process may assess the potential impact on other functions in your organization, including investor relations, information technology, finance, human resources, and legal. Other stakeholders may also be involved, including the board, audit committee, shareholders, and your external auditor.

A carefully designed roadmap may empower your company to convert on its own terms. By taking a measured and informed approach, you increase the likelihood of identifying value in an exercise that otherwise may be reactive and solely compliance driven. Through your roadmap, you can independently validate perceptions and dispel misconceptions. And you can justify your decisions before the board, shareholders, other stakeholder groups, and the financial analyst community.

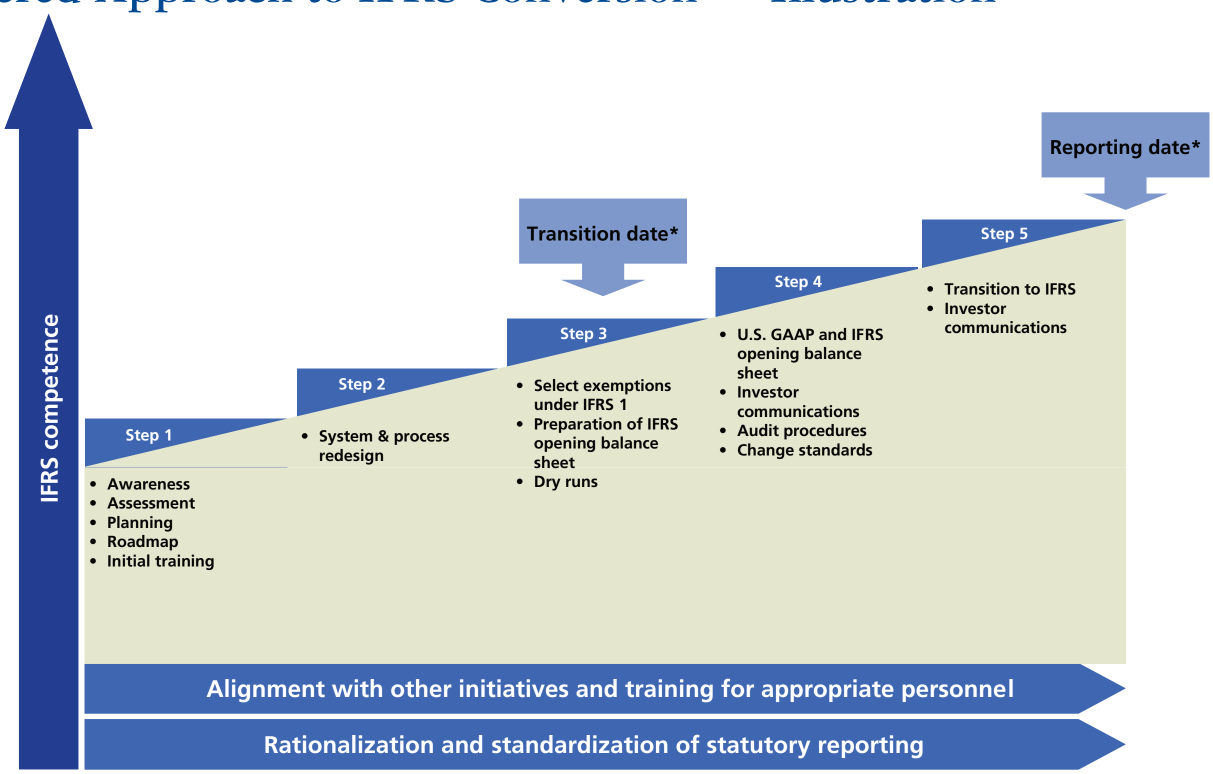
Generally speaking, two approaches to IFRS conversion predominate: all-in or tiered. All-in is characterized by a relatively short timeframe, the simultaneous conversion of all subsidiaries, dedicated project managers, and the commitment of resources. Tiered is conducted over a more extended period, with a phased conversion of subsidiaries and with a spreading out of project costs.

When the European Union converted to IFRS in 2005, it was, for most companies, an all-in effort driven by the tight timelines imposed by the European regulators. As a result, most companies were forced to rush through the process, leading inevitably to some inefficiencies and ineffectiveness (see "The European experience" discussed on page 6).

A tiered approach–staged, rational, and measured–to IFRS conversion likely provides better results. This comes with a seemingly self-contradictory caveat: You'll have to act fast if you want to go slow. That is, if you want to reap the potential benefits of phasing in your conversion, you'll need to start planning soon.

Below is an illustration of a tiered approach to IFRS conversion.

A Tiered Approach to IFRS Conversion — Illustration



*As discussed above, the timing of each step can be planned based on your selected transition and reporting dates. Please note that if the SEC's proposed IFRS roadmap is approved in its current form, the mandatory reporting date for large accelerated filers is December 15, 2014, then accelerated filers in 2015 and non-accelerated filers in 2016.

Technical accounting issues for shipping companies

U.S. GAAP and IFRS differ in key ways, including their fundamental premise. At the highest level, U.S. GAAP is more of a rules-based system, whereas IFRS is more principles-based. Under U.S. GAAP, voluminous guidance attempts to address nearly every conceivable accounting problem that might arise. And if that guidance doesn't exist, it generally is created. On the other hand, IFRS is a far shorter volume of principles-based standards, and consequently requires more judgment.

Beyond the issue of rules versus principles, IFRS also can pose particular technical accounting challenges to companies in the shipping industry. Some of the more significant differences between U.S. GAAP and IFRS of particular interest to shipping companies are discussed below, along with their associated impact on processes and systems.

The table below and detailed discussions contained herein highlight some of the U.S. GAAP and IFRS differences that are particularly important to shipping companies. For a more comprehensive list of U.S. GAAP and IFRS differences, refer to Deloitte's IFRS and U.S. GAAP comparison publication, which can be found at www.deloitte.com/us/ifrs.

Potential differences	Potential implications		
	Financial statements	Process/Systems	Other issues
Property plant & equipment revaluation	Historical costs or revalued amounts may be used under IFRS unlike U.S. GAAP where only historical costs are used.	Current systems might require modifications to perform fair value calculations.	May be difficult to determine the fair value of individual class of assets.
Property, plant & equipment	IFRS requires componentization approach for significant parts of PP&E; major maintenance expense treatments may differ.	Systems modifications may be necessary to track components and separate depreciation amounts.	May cause potential difficulty in initial componentization exercise depending on age of assets, previous acquisitions.
Asset impairment	IFRS has a one-step impairment test based on recoverable amount. IFRS impairment losses may be reversed if recovery occurs.	Will require changes in impairment analysis and system modifications to measure and track impairment amounts.	Will lead to increased focus on periodic assessments and possibility of more frequent triggers for reassessment.
Leases	IFRS classification criteria contains no bright lines; broader than just land and PP&E.	Changes to classification analysis including new data considered.	Pre-EITF 01-8 contracts (not previously evaluated as containing leases under U.S. GAAP) will require evaluation as potential leases under IFRS.
Sale-leaseback	Under IFRS, gain recognition for sale-leasebacks that are classified as operating leases is based on whether the transaction is established at, below, or above fair value.	Changes to evaluation of sale-leaseback transactions and gain recognition.	More sale-leaseback transactions may qualify for removal of the asset from the balance sheet under IFRS.
Financial instruments	IFRS derivative accounting guidance is less prescriptive.	May lead to potential policy changes and related changes to the current systems/processes.	Differing definitions may also necessitate an extensive contact "re-review."
Provisions–general	Criteria under IFRS prescribes recognition of liability when it is "more likely than not" versus probable as higher threshold for US GAAP.	Current systems might require modifications to perform calculations.	More focused approach would be required in determining the probability of outflow of resources.

Property, plant and equipment (PP&E)

For many shipping companies, vessels and property, plant and equipment (PP&E) is the most significant part of the balance sheet. The main differences between U.S. GAAP and IFRS relating to the accounting for vessels are:

Cost or revaluation model: Under IFRS, and unlike U.S. GAAP, an entity may elect to value PP&E using either the cost or revaluation model. Although the revaluation model is not widely used under IFRS, an entire class of PP&E is revalued at fair value regularly and revaluation increases are recognized in other comprehensive income and accumulated in equity (revaluation surplus) or profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss. Revaluation losses are charged first against any revaluation surplus in equity related to the same asset, and any excess charged to profit or loss.

Component approach: Unlike U.S. GAAP, where component accounting is permitted, but not required, IFRS requires a component approach for depreciation where assets must be separated into significant individual components and depreciated over their useful lives. Identifying the significant components of vessels represents a major challenge.

Estimates of useful life and residual value and the method of depreciation are reviewed at least annually. The residual value may be adjusted upwards or downwards, where under U.S. GAAP, residual value may only be adjusted downwards. Further, under IFRS, residual value represents the current net selling price assuming the assets were already of the age and in the condition expected at the end of its useful life, whereas under U.S. GAAP, residual value is generally the discounted present value of expected proceeds on future disposal.

Major maintenance/Overhaul costs (including Drydocking and Special Survey Costs): Under IFRS, major maintenance/overhaul costs are generally capitalized as part of the asset and depreciated until the next overhaul. Under U.S. GAAP, major maintenance/overhaul costs are either expensed as incurred, deferred and amortized until the next overhaul, or accounted for as a part of the cost of the asset.

Impairment of long-lived and indefinite-lived assets

Two major differences exist between U.S. GAAP and IFRS relating to impairment of long-lived assets held and used:

Assessment: When assessing for impairment of long-lived assets held and used under U.S. GAAP, a two-step approach is applied to determine whether an impairment loss should be recognized. First the carrying value of the asset or asset group is compared with the undiscounted value of the future cash flows. If the carrying value is higher, then the second step is performed and the asset or asset group is written down to fair value.

Under IFRS, a one-step test is applied such that the carrying value is compared with the asset's recoverable amount (defined as the higher of the asset's value in use, which is based on discounted future cash flows or the asset's fair value less costs to sell), and if higher, the asset is written down to the recoverable amount. The ultimate effect is often that impairment losses are recognized sooner and possibly more frequently under IFRS. For example, assume a vessel's undiscounted cash flow exceeds the asset carrying amount but value in use is less than the asset's carrying amount. No impairment charge would be recorded under U.S. GAAP as the step 2 test would not be performed. An impairment charge would be recorded under IFRS.

Three actions for shipping controllers

1. Create a timeline for IFRS conversion. Highlight the key milestones.
2. Determine your resource requirements — internal and external — for a conversion project. Consider the impact of redeploying internal resources.
3. Collaborate with your Information Technology (IT) department to assess system requirements for reporting under IFRS.

Reversal of impairment charge: Under U.S. GAAP, reversals of previous impairment losses are not permitted. However, under IFRS, where evidence of the event that led to the impairment charge no longer exists or where the impairment has decreased, and there has been a change in the estimates used to determine the asset's recoverable amount, a previously-recognized impairment loss is reversed by increasing the asset to its newly determined recoverable amount. However, the newly determined recoverable amount may not be greater than the carrying amount of the asset that would have existed if no impairment loss had been recognized (i.e., the otherwise net carrying amount after regular depreciation and amortization expense is deducted). Impaired assets must be tracked at original value in order to calculate the amount of impairment reversal. After the reversal of an impairment loss, the amortization amount for the asset should be adjusted on the basis of the new value of the asset, its residual value, and its remaining useful life.

Goodwill impairment is an exception and may not be reversed.

Leases

Under both U.S. GAAP and IFRS, many charter agreements, including most time and bareboat charters, fall within the scope of lease accounting. There are several key differences between IFRS and U.S. GAAP in the area of lease accounting, including:

Scope: IFRS covers a wider range of leasing transactions than under U.S. GAAP. While only property, plant, and equipment (land and/or depreciable assets) can be subject to a lease under U.S. GAAP, IFRS covers lease arrangements for all assets, with the exception of certain intangibles.

Classification: Although many of the lease classification criteria are similar under IFRS and U.S. GAAP, IFRS does not have the bright lines and specific criteria as found in U.S. GAAP lease standards. For example, IAS 17 states that the lease term is for the "major part" of the economic life (not a strict 75 percent), or the present value of the minimum lease payments at lease inception is for "substantially all" of the fair value (not 90 percent). Rather, IFRS focuses on the transfer of risks and rewards concept for lease classification, with only limited indicators and examples provided. Additionally, the nomenclature of leases under IFRS and U.S. GAAP differs: IFRS has only operating and finance leases whereas U.S. GAAP has operating, capital, sales-type, direct-financing, and leveraged leases.

Sale-leaseback transactions

Under IFRS, the profit recognition on a sale-leaseback transaction is based on the classification of the leaseback and whether the sale transaction was entered at fair value. If the leaseback is an operating lease and the sale is at fair value, the profit is generally recognized immediately. If the leaseback is a finance lease, the profit is deferred and amortized over the lease term. The profit might also be required to be deferred and amortized based on the relationship between the sale price, fair value, and the carrying amount of the asset sold and leased back.

Under U.S. GAAP, profit recognition on sale-leaseback transactions is based on the seller's retained interest in the asset (i.e., minor, more than but less than substantially all, or substantially all).

Financial Instruments

Under U.S. GAAP, 100% effectiveness of hedging instruments can be assumed if the critical terms of the instrument and the underlying hedged item are the same or if certain conditions are met. This approach is prohibited under IFRS; rather, effectiveness must be continuously assessed and measured, requiring significantly more monitoring and documentation of derivative instruments.

The European experience

In July 2002, the European Parliament passed legislation requiring listed companies to convert to IFRS by 2005. The short time frame and extensive reach of the directive had many companies scrambling to comply. Anecdotal reports suggest that the conversion placed significant resource pressure–human and financial–on finance teams and their companies at large.

A more tangible measurement of the effort can be found by comparing the length of European companies' 2004 (local GAAP) and 2005 (IFRS) financial statements. The latter averaged more than 50 percent longer than the former; in some instances, reports doubled in length. Much of the increase can be attributed to an increased level of disclosure in the financial statements in areas such as judgments made and assumptions used.

Certain accounting issues proved especially vexing during the transition, including asset impairments, financial instruments, lease accounting, and emission rights.

Among the lessons learned from the European experience were the following:

The effort was often underestimated. The original misconception that conversion was solely an accounting issue was replaced with a growing realization that the initiative was larger and more complex.

Projects often lacked a holistic approach. Because of the limited view cited above, companies frequently did not take the collateral effects into consideration, such as the impacts on IT, HR, and tax.

A late start often resulted in escalation of costs. Those few companies that anticipated conversion and took steps to prepare for it were in much better shape than those that did not. Companies that delayed their response paid a price for it, in terms of higher costs and greater diversion of resources.

Many companies did not achieve "business as usual" state for IFRS reporting. The highest quality financial data is obtained when companies fully integrate IFRS into their systems and processes. The compressed time frames often precluded this possibility; instead, first-year financials were often produced using extraordinary, labor-intensive, and unsustainable measures.

Several companies are only now starting to explore benefits from IFRS implementation. Due to multiple constraints, the first-year effort in the EU was focused more on "getting it done." Potential benefits in terms of reducing complexity, increasing efficiency, decreasing costs, and improving transparency had to be deferred.

Three actions for shipping CFOs

1. Assess the potential benefits of presenting your company's financial data on an IFRS basis.
2. Assess the impact of reporting under IFRS. Consider factors such as volatility of earnings, appropriate IFRS-based performance measures, and access to global capital markets. Examine the potential impact on financing, particularly covenant tests and measures, as well as remuneration and other key performance indicators in the business and accounts.
3. Assign a project manager for planning, coordination, and oversight.

More than accounting and financial reporting

Without question, a conversion to IFRS will directly impact the general ledger and the financials. But in a relative sense, the accounting is only part of the conversion process. Among the areas also warranting your attention are contract management, valuation, M&A, human resources, treasury, and information technology.

Contract management: An IFRS conversion will potentially impact your existing contracts. Consider involving your legal team as part of the remedy.

Many contracts, including time charters, bareboat charters, pool agreements, profit sharing arrangements, interest rate swap agreements, and other derivative agreements, may need to be reviewed to make sure the proper accounting treatment is followed under IFRS. To improve the efficiency of this process, a contract database could be created (if not already in place) to better monitor the IFRS conversion and tracking of effects.

The IFRS conversion may trigger the need to amend contracts with financial institutions and joint venture partners in regards to financial accounting information to be supplied and/or received by your company. You may have to reword certain sections of the agreements to replace U.S. GAAP information with IFRS information. Debt covenants may also need to be renegotiated if the IFRS financial results will yield ratios and other measures that are not comparable to the U.S. GAAP based covenants.

The investors' perspective

Naturally, the impact of IFRS extends well beyond the finance department. One group that can expect a significant impact is investors.

IFRS is more principles-based and is less prescriptive than U.S. GAAP, and thus requires additional judgment. Accordingly, the disclosures accompanying financial statements become even more important to investors, as they provide information about the decisions made regarding various accounting alternatives and the judgments made by management in preparing the financial statements.

When considering the impact of IFRS, investors may want to consider these questions:

- What are the differences between the GAAP standard I am familiar with and IFRS?
- How do these differences impact my evaluation of the financial performance and position of my investments?

Valuation: Measurements of fair value weave their way through many sections of IFRS, transcending many functional areas of a shipping company, including mergers and acquisitions via purchase accounting or the reporting of fair value. Estimating, supporting, documenting, and reporting fair value requires a thoughtful process and the allocation of appropriate resources to manage this important aspect of IFRS.

Several areas related to fair value estimates may be considered, including the use of qualified specialists; the determination of proper extent and frequency; careful scoping of the analysis and report; and the development of a detailed policy or standard.

Fair value disclosures in financial statements will likely vary in detail; however, they should include information on valuation methods, assumptions (cost of capital, discount rates, revenue and expense growth rates, etc.), qualification of the valuation specialist, and explanations of fair value conclusions.

Mergers and acquisitions: The transparency resulting from fair value reporting may impact your strategic business decisions around acquisitions and dispositions based on their likely impact on your financial statements under IFRS.

Treasury: Moving to a global financial reporting model may open up access to new sources of capital. Many global lenders, global private equity firms, and international exchanges require or prefer IFRS reporting due, in part, to its increased transparency into fair values and comparability to other investments or companies. Thus, these sources potentially become new avenues for capital funding, particularly in the current U.S. capital markets environment.

Additional impacts of IFRS on the treasury function may include the following:

- Companies that choose to present fair value may consider the need to lower their leverage models to ensure that market fluctuations can be adequately absorbed by equity.
- Companies may need to consider and revise existing debt terms for covenants based on U.S. GAAP metrics or financial results which don't make sense or are no longer attainable under IFRS.
- Transparent presentation of the fair value of collateral (whether presented on the balance sheet or disclosed in the footnotes) may alter lenders' evaluation of creditworthiness and may impact the terms of new debt instruments related to collateral values and covenants.

Human resources: IFRS will likely influence your hiring, training, compensation, and termination practices.

Consider hiring: How many of your finance staff are currently versed in IFRS? (If you don't know, consider adding a personnel inventory to your IFRS work plan.) Assuming a talent shortfall, how will you make up the difference? A conversion project will place increased demands on your personnel, which may come at a time when you are least able to handle it. If you can't recruit in sufficient numbers, can you train existing staff? This issue could be addressed through global training, to help key personnel become proficient in both IFRS and U.S. GAAP. Regardless of the route you take, you'll need a budget and a plan to do so.

Information technology: A change in accounting standards will likely require modifications to your financial reporting systems to accommodate information not currently required under U.S. GAAP. It may also be necessary to modify or rework certain business process IT systems, particularly those that are relied upon to accumulate data and feed into the accounting and financial systems.

Four actions for Boards of Directors and Audit Committees of shipping entities

1. Become informed about IFRS. Gain a general overview of the topic through research and/or presentations from external or internal auditors or other resources.
2. Understand management's assessment of the impact of IFRS on the company, including the benefits and costs of adopting, alignment with strategy and other activities/initiatives, and their plans and proposals related to IFRS.
3. Develop and share with management your perspective on IFRS.
4. Understand how management will deal with financial reporting and control risks associated with IFRS.

Time for leadership

You are in an enviable position, because you possess knowledge that many others in your organization may not: the movement toward IFRS is inexorable, and the initiative involves multiple functions, not solely finance.

So you have a choice: either sit back and wait for it to happen (with all the attendant uncertainty and risk), or mobilize your company to attempt to extract every possible benefit and dodge every avoidable obstacle.

In other words, it's time for leadership. By starting now, you will likely spread out your costs, get the jump on your competition, and reel in scarce talent before it vanishes. You can avoid the fire-drill atmosphere that characterizes most last-minute projects. You can improve your processes and systems. You can integrate with other initiatives, such as a merger or acquisition. Most important, you can do it on your own terms, at a pace that suits your company and its circumstances.

An IFRS project cannot be a distraction from the primary activities of your business. It must be integrated, coordinated, and aligned. It starts now with some preliminary questions and a carefully drawn roadmap. And it ends somewhere in the next decade when you report for the first time under a single unified standard. Whether the journey from here to there is rocky or smooth may be entirely up to you.

Resources & contacts

Deloitte has extensive experience in the shipping industry. 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.

Deloitte offers companies assistance with:

- Evaluating the potential effects 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

Deloitte's shipping practice:

- Deloitte member firms serve 95% of the Fortune Global 500 transportation companies and all 4 of the shipping companies in the list

Deloitte's online resources
For a wealth of online resources related to IFRS, visit www.iasplus.com or www.deloitte.com/us/ifrs. Available materials include model IFRS financial statements, IFRS compliance and disclosure checklists, newsletters, whitepapers, pocket guides, timelines, webcasts, podcasts, and more.

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