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IFRS Solutions Center

IFRS Insights

Achieving a global standard

In this issue:

Volume 1, May 2008

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Welcome to the Launch Edition

A newsletter on IFRS for U.S. companies

Welcome to the inaugural edition of *IFRS Insights*, a publication developed by the IFRS Solutions Center in response to the growing need among U.S. companies for current information on IFRS developments, and the increasing demand for insights regarding IFRS implementation. Today, there is a heightened sense of urgency around the use of IFRS in the United States. As companies await further action from the Securities & Exchange Commission (SEC), including an anticipated announcement about when public companies will have the option of using IFRS for SEC reporting purposes, financial executives in the U.S. are now asking more questions about IFRS and its far-reaching effects on their companies. What do I need to know about IFRS? How will it impact my company? What actions should I take and when? When do I really need to gear up for a transition to IFRS?

We recognize the importance of thinking through the implications and practical realities associated with IFRS, as well as considering applicable responses, approaches, and solutions. Deloitte's IFRS Solutions Center is pleased to introduce this monthly publication to provide essential information on many aspects of IFRS.

Each issue of *IFRS Insights* will draw on news and perspectives from our network of experienced IFRS professionals to cover relevant topics for CFOs and senior financial executives. In this launch edition, we will discuss the accelerating global shift toward IFRS, how U.S. companies can develop a roadmap for adoption, and examine some of the issues around the first-time adoption of IFRS.

We hope you find *IFRS Insights* a useful source of information and practical suggestions in addressing your questions related to IFRS. We welcome and invite your feedback.

A Global Trend Accelerates

What U.S. companies need to know

With the continued globalization of markets for products, services and capital, there has been a clear movement away from local standards and benchmarks to global ones. Perhaps one of the more recognized examples of this trend is the rapid emergence of IFRS. The growing need for increased transparency and comparability of financial information across countries has only heightened the desirability of adopting a single set of global accounting and financial reporting standards. Long considered a distant goal, IFRS has been adopted (or in the process of adoption) as the basis of accounting and financial reporting in more than 100 countries. The SEC announcements in late 2007 served as a wake up call for many in the United States. The SEC has not only adopted a new rule allowing foreign private issuers to file IFRS financial statements without reconciling to U.S. GAAP, but has also issued a concept release on whether it should consider allowing U.S. companies the option to use IFRS.

Here's the current reality: IFRS use will accelerate in the U.S., and it is expected that the SEC will provide at least some U.S. companies an option to use IFRS by 2011. This is likely to set the stage for an eventual mandate to use IFRS for public company reporting in the United States.

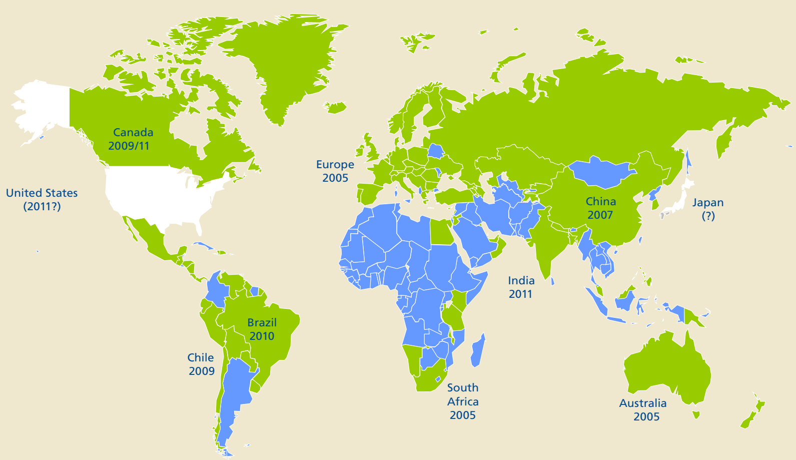
U.S. global companies are now beginning to discover some of the tangible benefits of using a single reporting standard worldwide. Companies may be able to use IFRS to drive efficiency in their internal and external financial accounting and reporting functions. Today, multinational companies have to comply with multiple local or statutory reporting requirements that typically involve different standards. As IFRS becomes allowed—or in some cases required—for local or statutory reporting purposes, it provides an opportunity to reduce the number of financial reporting standards used. The ultimate outcome is that a single set of standards is used throughout the organization, which allows companies to improve controls around financial reporting and to potentially achieve significant cost savings by consolidating people, systems, and processes.

Of course, there are challenges associated with IFRS adoption too. Here are two significant challenges for companies to consider in planning for IFRS:

- **Change in mindset** – from rules-based to principle-based accounting. Although IFRS is not without its rules, it is clear that finance professionals will have less interpretive guidance to use under IFRS. This will require more professional judgment in the determination of accounting outcomes, which poses an organizational challenge – especially for large multinational companies that need to make sure that professional judgment is applied consistently throughout the organization. In response, companies may need to focus on creating a framework for making these judgments.

- **IFRS education** – The need for IFRS education and training for current and future financial professionals will require companies to consider cost efficient ways to develop qualified staff. Some global companies are evaluating current financial reporting capabilities and determining the best way to develop proficiency in IFRS.

The Global Move Towards IFRS



Current or anticipated requirement or option to use IFRS (or equivalent)

What some leading U.S. companies are discovering:

1. Opportunities to streamline global financial reporting may be identified as companies examine their current IFRS reporting obligations at the statutory level. This may involve consolidating statutory reporting into fewer locations.

2. IFRS adoption may take longer than anticipated (three years or more is the norm). Waiting for an SEC mandate before getting started might be too late.

3. IFRS is not only about technical accounting. Preparation not only includes providing several years of comparative financial statements, but also may involve the necessary technology infrastructure and system changes. In addition, downstream implications and organizational issues are more pervasive than many think.

Making It Happen: Developing an IFRS Implementation Roadmap

Key components to prepare for the future of accounting and financial reporting

IFRS can have wide-ranging effects on the organization and therefore may require a comprehensive and strategic approach to adoption. A smooth transition to IFRS typically involves the development of an IFRS implementation roadmap. The goal of the roadmap is to develop an implementation plan that is cost effective and controlled. For a large multinational company, the transition to IFRS generally takes at least three years, depending on the complexity of the entity.

Key Impacts of IFRS

Technical Accounting	Process and Statutory Reporting	Technology Infrastructure	Organizational Issues
• Overall approach to IFRS implementation • First time adoption policy considerations, including reporting dates and use of exemptions • Ongoing policy considerations, including alternatives and approach to "principles "	• Internal controls and processes, including documentation and testing • Management and internal reporting packages • Global reporting packages • Statutory reporting, including "opportunities" around IFRS adoption	• General ledger and chart of account structure, including performance metrics • Global consolidation • Sub -system issues related to configuration and data capture • Capabilities to manage multiple GAAP accounting during transition	• Tax structures • Treasury and cash management • Legal and debt covenants • People issues, including education and training, compensation structures • Internal communications • External shareholder communications

As companies begin their IFRS planning, they should consider a suitable approach (and timeline) for the company in organizing the technical accounting changes and broader implications of IFRS. Here is a brief overview of key areas to factor into roadmap planning:

Minimal or "fresh start" approach – The needs and situation of the company will likely dictate the best approach for the organization. For example, a company may wish to stay as close as possible to U.S. GAAP, thereby minimizing differences. Or, a company may choose to take a "fresh start" approach, which involves preparing the balance sheet as if the company had always applied IFRS.

Technical accounting changes - Companies should assess the expected technical accounting changes connected to a transition to IFRS. These changes may drive the company's approach in implementing IFRS.

Financial reporting process enhancements (including streamlining statutory reporting) – For global companies, it is important to consider the impact and opportunities that IFRS will have on its global reporting processes. Global companies may be able to use a transition to IFRS to align statutory reporting in an increasing number of countries with consolidated reporting. An analysis of countries where IFRS is or can be used for statutory reporting not only provides opportunities to align consolidated IFRS reporting with IFRS statutory reporting, but also provides an opportunity to "pilot" the implementation of IFRS at the statutory reporting level as a vehicle to identify potential snags and develop practical experience.

Broader implications - A transition to IFRS will also affect a company's internal controls and processes and technology infrastructure. For many companies, it may mean that existing multi-year plans to implement or upgrade IT systems will have to be adjusted to consider the effects of IFRS. IFRS implementation also may have legal and tax implications. For example, current debt covenants based on U.S. GAAP information will need to be revisited; in certain country tax returns, taxable income may be based on the accounting standards used for statutory reporting. In addition, compensation plans may be based on U.S. GAAP performance criteria and requirements for pension funding may be impacted by the amount of the pension liability recorded.

These areas can serve as building blocks for constructing the overall roadmap. Given the scope of change connected to an IFRS conversion, it is important to have a comprehensive plan that incorporates a "big picture" view or assessment of the organization. A roadmap can help prioritize and plan an effective transition to IFRS, and can also help reduce the long-term cost of implementation.

Q&A

Q: What is the International Accounting Standards Board ("IASB")?

A: The International Accounting Standards Board (IASB) is the organization that establishes IFRS. The IASB is based in London and operates similar to the Financial Accounting Standards Board (FASB). The IASB conducts open meetings, issues exposure drafts of standards, and meets with constituents. It is made up of 14 members, two of which are considered part-time. Members come from a variety of countries and are selected based on their technical expertise. The IASB has an advisory council, similar to the Financial Accounting Standards Advisory Council (FASAC) in the U.S., and an interpretive body, the International Financial Reporting Interpretations Committee (IFRIC), which is similar to the Emerging Issues Task Force (EITF). The IASB operates under the oversight of the International Accounting Standards Committee Foundation (IASCF).

Q: What is the degree of involvement of US regulators in the standard-setting process?

A: While the SEC does not have direct oversight over the IASB, members of the SEC staff attend IFRIC meetings as observers and participate in the Standards Advisory Council (SAC). Recently the IASCF announced as part of its Constitutional Review that it will consider ways to increase its public accountability, including the formation of a monitoring body, consisting of the world's regulators. The creation of such a body would serve to complement the IASCF Trustees in representing the interests of the global investor community—thereby, enhancing the public confidence in IFRS. The monitoring body would meet regularly with IASC Trustees to: discuss, review, and comment on the IASB's work program; participate in the selection of Trustees; and have responsibility for the final approval of Trustee nominees.

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Technical Corner: First-time Adoption of IFRS

How does an entity actually adopt IFRS and present its first IFRS financial statements? The IASB issued IFRS 1, "First-time Adoption of IFRS" to address the many practical and technical issues companies face in preparing to "flip the switch" to IFRS. IFRS 1 is applied when an entity issues IFRS compliant financial statements for the first time by making an explicit and unreserved statement that those financial statements comply with IFRS.

IFRS 1 requires that the first IFRS financial statements be prepared using the standards in effect as of the reporting date. This can be a challenge since companies that adopt IFRS have to anticipate what standards will be in effect as of the reporting date when they start applying IFRS at the transition date (that is, the beginning balance sheet date for the earliest comparative period presented).

The basic principle is that the opening balance sheet should be prepared as if an entity had always applied the applicable IFRS standards. IFRS 1 provides certain optional exemptions that allow companies to either carry over the balances from their previous GAAP statements or take a "fresh start"; for example, companies can choose not to restate their historical business combinations. The exemptions and options available under IFRS 1 can have a significant effect on the opening balance sheet, as well as on subsequent results of operations.