CFO insights:
Cut costs and drive value with an IFRS Center of Excellence

CFOs the world over are preparing for the shift from local Generally Accepted Accounting Principles (GAAP) to International Financial Reporting Standards (IFRS) reporting. But while this move will certainly have its challenges, it also presents CFOs with an opportunity to improve the efficiency of preparation, consistency, and reliability of their company's financial reports. That's because the adoption of IFRS across countries with formerly different local GAAPs can ultimately eliminate the need for global companies to maintain local-country GAAP reporting capabilities – and, over time, allow them to consolidate IFRS reporting processes into a "Center of Excellence."

A Center of Excellence (CoE) is a shared internal organization that performs knowledge-based activities on behalf of multiple divisions, subsidiaries, or locations. Like a traditional transactional shared services organization (SSO), the purpose of a CoE is to reduce costs and improve the quality of output by consolidating, standardizing, and automating processes and tasks.

An IFRS CoE can help improve the consistency of a company's financial reporting practices by employing the same group of people to apply a consistent set of accounting principles to the company's financial data. This can help improve comparability and increase the usefulness of financial reports to internal stakeholders. It's also likely that the staff members of an IFRS CoE, who are focused on preparing reports according to IFRS standards, will soon become more skilled at the reporting process than local resources who juggle various other responsibilities, which should allow the CoE to further improve the consistency of a company's financial reports.

Placing IFRS reporting in a CoE can not only help improve the quality and consistency of financial reporting, but also cost much less than maintaining separate local financial reporting capabilities for each country's subsidiaries. Much of the potential savings typically come from the lower labor costs that a shared environment can enable through means such as headcount reduction, labor arbitrage, and better alignment of pay with responsibilities. An IFRS CoE can also help reduce the IT costs associated with financial reporting by establishing a single platform for storage and retrieval of financial reporting data. And it may help lower training costs by allowing companies to deliver IFRS-related training in a single location rather than in several different countries.

What would an IFRS CoE do?

An IFRS CoE would be responsible for preparing and distributing or filing all of a company's IFRS reports. This activity would mirror or replace some of the activities that a company may currently perform in a reporting function within its international subsidiaries.

To be effective in this role, an IFRS CoE could have various areas of responsibility, examples of which could include:

- **Maintaining corporate accounting policies and procedures.** As a more principles-based approach than many local GAAPs, IFRS should force many organizations to assess the IFRS guidelines' impact on current reporting practices and procedures. The IFRS CoE, therefore, would need to be responsible not only for developing and maintaining IFRS-consistent corporate accounting policies and procedures, but also for maintaining current knowledge of IFRS standards and proposals, assessing compliance with company accounting policies and procedures, and evaluating the impact of any changes from a procedural, systems, and reporting perspective.

- **Maintaining the Chart of Accounts.** The Chart of Accounts forms the linkage between accounting policies/procedures and financial reports. While the actual Chart of Accounts may reside in a General Ledger Application CoE (an SAP CoE, for example), companies might consider having the decision-making around the Chart of Accounts reside with the IFRS CoE, since aligning IFRS guidance with a company's standard financial reports can significantly reduce efforts and errors associated with converting results from the company's internal books and records to those suitable for external reports. The IFRS CoE may also need to ensure consistency between the IFRS Chart of Accounts and any local tax requirements.

- **Preparing and disseminating IFRS statements.** While IFRS may make reporting standards more consistent across countries, the filing procedures for each country are likely to remain varied (e.g., hand-signed paper vs. electronic filing). The IFRS CoE, in its role of IFRS statement preparer and disseminator, could coordinate preparation, dissemination, and filing, which could occur either directly from the CoE or via an in-country finance function.

Caveats and considerations

CFOs should be aware of two considerations specific to setting up a shared environment for IFRS reporting. The first consideration is that not every country yet allows subsidiaries of foreign companies to file statutory financial reports using IFRS standards. Because of this, a company considering setting up an IFRS CoE should take care to determine whether it currently has – or expects to have in the future – enough of a "critical mass" of IFRS reporting activities to make an IFRS CoE worthwhile. (Generally speaking, the more work can be moved into a shared environment, the greater the potential savings and other benefits.)

We believe that a CFO should generally base the decision of whether the organization has enough IFRS reporting activity to warrant a CoE not only on the number of entities the organization has in countries that currently permit IFRS reporting, but also on where IFRS is an option today or where local standards are converging to IFRS, as countries continue to trend in this direction. Many observers believe that most major markets will likely eventually adopt IFRS, and an IFRS CoE may be able to efficiently handle reporting even for non-IFRS countries whose GAAPs require only small adjustments to conform to IFRS. It's quite possible that setting up an IFRS CoE may deliver a solid long-term return on investment for companies with only a modest presence in countries permitting IFRS at the time of implementation. The time that it may take for additional countries to migrate to IFRS would also permit a CoE to increase its volume of reporting naturally over time as its personnel gain experience and proficiency.

The second consideration is that local-country records and data requirements may complicate the process of preparing financial reports outside that country. Possible ways to accommodate such regulations vary from country to country and from situation to situation. In practice, companies are likely to be able to address them in the same way as such issues are handled when migrating transactional financial processes into an SSO – for instance, by keeping hard copies of records in-country while sending electronic records outside the country for processing..

How can companies create an IFRS CoE?

A company that already has a finance SSO is likely to be able to leverage its existing shared services governance and infrastructure to manage an IFRS CoE. IFRS reporting can be a natural step "up the value chain" for finance SSOs seeking to expand their value proposition beyond transactional processing. But even companies that do not already have an SSO – in finance or otherwise – can benefit from placing IFRS reporting in a CoE. In fact, establishing an IFRS CoE can be a useful way for such a company to test the waters of shared services, as IFRS reporting is well suited for placement in a shared environment.

Setting up an IFRS CoE relatively early in the IFRS adoption process can offer companies the benefit of establishing a core group of knowledgeable specialists who can facilitate future conversions to IFRS at individual legal entities as well as on a consolidated basis. This is especially true if the CoE includes people who have participated in prior GAAP-to-IFRS conversions, as is likely to happen if a company initially locates its CoE at an entity that has already adopted IFRS. Professionals with such experience can help the company identify where and how IFRS is likely to diverge from local GAAPs more quickly than if each reporting entity had to work out these differences independently. Also, especially for U.S. filers, establishing an IFRS CoE sooner rather than later gives a company more time to build up IFRS knowledge and experience before it needs to file its first IFRS consolidated reports.

A company that already has an SSO for transactional finance processes may be able to identify individuals with IFRS reporting skills in the SSO who can form the nucleus of the IFRS CoE. Companies that do not have a finance SSO, or whose finance SSO does not currently include IFRS capabilities, may wish to explore where they might have excess capacity in a local-country finance organization and consider establishing the IFRS CoE there.

The global movement toward IFRS can offer CFOs the chance to improve efficiency and reduce financial reporting costs. By consolidating their IFRS reporting activities into a CoE, companies can take advantage of what many CFOs see as an inevitable global shift to IFRS to potentially do financial reporting better, faster, and cheaper – a welcome benefit that can not only help offset IFRS implementation costs but improve the quality of financial reporting and yield ongoing operational savings.

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