Introduction

International Financial Reporting Standards (IFRS) are the principles-based financial reporting requirements adhered to by more and more countries worldwide, with conversion to these standards well under way in many nations, including Canada and Japan. We believe that IFRS will come to the United States, although the timing is uncertain. It may occur more through convergence than conversion. In February 2010, the U.S. Securities and Exchange Commission (SEC) approved a timeline that envisions 2015 as the earliest possible date for the required use of IFRS by U.S. public companies. The SEC action calls for more study of IFRS and a 2011 vote on whether to move ahead with a mandate to use IFRS. Meanwhile, convergence of U.S. GAAP and IFRS continues on an aggressive schedule, with a number of significant changes expected in the next 12 to 18 months.

International Financial Reporting Standards are international accounting standards and interpretations adopted by the International Accounting Standards Board (IASB). IFRS reflects a predominantly principles-based approach to developing accounting standards, rather than the predominantly rules-based approach commonly noted in other generally accepted accounting principles (GAAP). Regulatory agencies and investors in different countries increasingly have sought out a consistent worldwide standard for financial reporting due to the continued globalization of capital markets, cross-border investing, capital flows and the need to assess the financial health and condition of organizations under one dependable and understandable approach.

Without question, the transition under consideration by the SEC will have far-reaching ramifications for companies, affecting not just external financial reporting, but business strategies and policies, business processes, people and resources, internal reporting, methodologies and financial reporting systems and underlying data. Since this transition will be a significant change event for most organizations, now is the time for companies to begin formulating the steps they will need to take to ensure that a conversion to IFRS is as seamless, effective and cost-efficient as possible.

Protiviti has published Guide to International Financial Reporting Standards to assist organizations with this pending transition and provide answers and guidance to some of the many questions about the conversion to IFRS. We have used the “frequently asked questions” format, which has been well received in our previous publications, including Guide to Internal Audit and our Guide to the Sarbanes-Oxley Act series. Our IFRS guide includes an overview of the standards and the many conversion-related challenges that must be addressed; a specific look at IFRS in the United States; and reviews of IFRS in Canada and Japan, where the adoption of IFRS is well under way.

On our website, www.protiviti.com, we will regularly publish our insights on new issues that emerge as the formal transition and conversion period progresses, as well as answers to IFRS-related questions we receive from our clients and the business community.

We are confident this information will be of interest to IFRS conversion project leaders, as well as chief financial officers, chief information officers and chief audit executives, along with executives and professionals throughout organizations who will be undertaking this challenging transition in the months and years to come.

Please note that this publication is not intended to be a legal analysis. Companies should seek both legal counsel and appropriate advisors for advice on specific questions as they relate to their unique circumstances.

Protiviti
June 2010
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Overview of IFRS and Conversion

1. What are International Financial Reporting Standards (IFRS)?

International Financial Reporting Standards (IFRS) are accounting standards and interpretations adopted by the International Accounting Standards Board (IASB). They include IFRS issued by the IASB since its formation on July 1, 2000, and International Accounting Standards (IAS) previously issued by the International Accounting Standards Committee (IASC) and adopted by the IASB upon its formation.

IFRS reflects a predominantly principles-based – rather than a predominantly prescriptive and rules-based – approach to developing accounting standards. These standards focus on establishing general principles derived from the IASB conceptual framework reflecting the recognition, measurement and reporting requirements for the transactions covered by the standards. IFRS tends to limit additional guidance for applying the general principles to typical transactions, thus encouraging management to use professional judgment in applying the general principles to specific transactions of an entity or industry.

2. Why are countries converting to IFRS, and when are they scheduled to formally convert?

IFRS offers a number of purported benefits that are driving more and more countries to convert to these standards. Some of the advantages include:

- Use of a single set of quality accounting principles versus multiple local versions of generally accepted accounting principles (GAAP)
- Consistent and comparable financial reporting among peers already using IFRS
- Use of common reporting systems
- Efficient access to capital for global operations
- Time and cost savings
Below is a list of selected countries and their anticipated year of convergence to IFRS.

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>IFRS Required Prior to Convergence Year?</th>
<th>Convergence Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Union</td>
<td>Yes</td>
<td>N/A</td>
</tr>
<tr>
<td>Australia</td>
<td>Yes (national IFRS equivalent)</td>
<td>N/A</td>
</tr>
<tr>
<td>Brazil</td>
<td>No (optional)</td>
<td>2010</td>
</tr>
<tr>
<td>Canada</td>
<td>No (allowed with approval)</td>
<td>2011</td>
</tr>
<tr>
<td>China</td>
<td>No (permitted to use IFRS in Hong Kong)</td>
<td>None</td>
</tr>
<tr>
<td>India</td>
<td>No</td>
<td>2011</td>
</tr>
<tr>
<td>Indonesia</td>
<td>No</td>
<td>None</td>
</tr>
<tr>
<td>Japan</td>
<td>No (permitted for fiscal years ending March 31, 2010)</td>
<td>2011</td>
</tr>
<tr>
<td>Mexico</td>
<td>No (permitted for some entities)</td>
<td>2012</td>
</tr>
<tr>
<td>Russia</td>
<td>No (convergence of local standards since 1998)</td>
<td>2011</td>
</tr>
<tr>
<td>Singapore</td>
<td>Yes (Singapore FRS modeled to IFRS)</td>
<td>N/A</td>
</tr>
<tr>
<td>South Korea</td>
<td>No (optional after 2009)</td>
<td>2011</td>
</tr>
<tr>
<td>United States</td>
<td>No (in process of convergence)</td>
<td>2014</td>
</tr>
</tbody>
</table>

3. Which organizations are responsible for developing and issuing new IFRS pronouncements?

From 1973 to 2001, the International Accounting Standards Committee (IASC) issued IAS 1 through IAS 41. The IASC was a part-time volunteer board with 13 country members. The IASB replaced the IASC on July 1, 2000.

The IASB is an independent, private-sector group solely responsible for developing and issuing IFRS and exposure drafts and approving interpretations. The IASB is supported by an external advisory council, the Standards Advisory Council (SAC), and an interpretations committee, the International Financial Reporting Interpretations Committee (IFRIC). Both offer guidance in the form of published draft interpretations for public comment and report to the board for approval of final interpretations.

The IASB is overseen by the International Accounting Standards Committee Foundation (IASC Foundation or Foundation). The IASC Foundation is an independent not-for-profit group comprising trustees from diverse backgrounds, both geographically and professionally. The Foundation’s mission is to protect the public’s interest and enhance the IASB’s accountability by ensuring parties interested in and affected by accounting standards are represented in the standard-setting process. Effective February 1, 2009, the trustees of the Foundation are accountable to a Monitoring Board of public authorities. The Monitoring Board is composed of leaders from the Emerging Markets and Technical Committees of the International Organization of Securities Commissions (IOSCO), the European Commission, the Japan Financial Services Agency (FSA) and the SEC. The IASC Foundation also appoints members to the SAC and IFRIC.

4. How often are new IFRS pronouncements issued?

International Financial Reporting Standards and pronouncements are issued as needed to reflect emerging accounting issues and changing business practices to ensure financial reporting accurately reflects the substance of business transactions. The last new standard was established in 2009, and every year the IASB publishes revisions to existing
standards and interpretations. The IASB also is presently engaged in working through a number of issues, which may lead to changes in the following areas (in priority order):

- Consolidations
- De-recognition
- Fair value measurements
- Liability and equity distinctions
- Financial statement presentation
- Post-retirement benefits
- Revenue recognition
- Leases
- Financial instruments
- Intangible assets

5. Do public companies worldwide have the ability to comment and provide input on proposed IFRS pronouncements?

The input of the public is strongly considered by the IASB in developing standards and is thoroughly reviewed and considered at each stage of the standard development process.

When developing a new standard, the IASB normally publishes a discussion paper as its first publication on any major new topic to explain the issue, provide its preliminary views on the issue and solicit early comment from constituents. Discussion papers are posted on the IASB’s website (www.iasb.org). Comments on discussion papers can be provided to the IASB by any interested party from any country or company, as well as from investors and other users of financial statements. The length of time the comment period is open on IASB discussion papers and drafts varies, but normally is 120 days. The comment period on draft IFRIC Interpretations is usually 60 days. To give the public timely access to the comment letters sent to the IASB, the letters are posted on the IASB’s website. Once the views expressed in comment letters have been reviewed and considered by the IASB, a summary of the IASB’s position on the major points raised in the letters and the basis for its conclusions are posted on the IASB’s website.

If the IASB does not issue a discussion paper for a particular topic, the first publication on the issue would be an exposure draft. An exposure draft differs from a discussion paper in that it sets out a specific proposal in the form of a proposed standard or amendment to an existing standard. If a discussion paper is issued prior to an exposure draft, comments received from the public on the discussion paper are considered strongly in the development of the exposure draft. In addition to comments on the discussion paper, the IASB will consider input from any meetings with working groups, accounting standard-setters and public education sessions in developing the exposure draft. The exposure draft is posted to the IASB’s website and is open for comment by any interested party, similar to the process for discussion papers. Comments received by the IASB on the exposure draft are also posted on its website.

Before drafting the final IFRS standard or amendment, the IASB considers comments received on the exposure draft. After resolving issues arising from the exposure draft, the IASB considers whether it should expose its revised proposals for public comment. For example, the IASB may publish a second exposure draft. In considering the need for re-exposure, the IASB assesses significant issues that emerged during the comment period on the exposure draft that it had not considered previously, evaluates whether it has sufficiently understood the issues and actively sought the views of constituents, and considers whether various viewpoints were aired in the exposure draft and adequately discussed and reviewed as part of the basis for conclusions. If the IASB decides that re-exposure is necessary, the process followed for the re-exposure draft is the same as that for the first exposure draft. When the IASB is satisfied that it has reached a conclusion on the issues arising from the exposure draft, it instructs the staff to draft the IFRS. No standards are issued by the IASB without obtaining extensive feedback and input from the public.
6. Where can I find the pronouncements regulating IFRS?

On its website (www.iasb.org), the IASB publishes news, reviews and work plans related to current projects, a calendar of upcoming meetings and an IFRS summary, among other information.

Additionally, the IASB offers eIFRS, a subscription service that distributes electronic or printed copies of all IASB and IASC Foundation publications.

7. What if IFRS does not provide guidance pertaining to my accounting issue?

If the standards that comprise IFRS do not contain a standard or interpretation that specifically applies to a transaction, IAS 8, “Accounting Policies, Changes in Accounting Estimates and Errors,” requires management to use its judgment in developing and applying an accounting policy that results in information that is relevant to users of the financial statements and reliably reflects the substance of the transaction. In applying judgment, management may consider other guidance found in IFRS and must also consider the definitions, criteria and concepts in the IFRS conceptual framework. IAS 8 also allows management to consider pronouncements of other standard-setting bodies, as long as those pronouncements are derived from a conceptual framework similar to the IFRS framework and to the extent the pronouncements of other standard-setting bodies do not conflict with IFRS. Consequently, although accounting standards observed by companies prior to their adoption of IFRS may be a source of guidance, they are not an automatic default source for guidance in the absence of an IFRS standard.

8. Is IFRS, as issued by the IASB, the same for all companies and industries, in all countries?

IFRS, as issued by the IASB, provides a common set of accounting principles to be used by all companies in all industries and in all countries. It specifically refers to the body of authoritative literature issued by the IASB, which has not been changed or customized to incorporate local GAAP practices of any individual country. It also contains some specific standards that apply only to certain industries, such as mining or real estate. However, in some countries that have adopted IFRS, local accounting standards have been commingled with IFRS, thus creating deviations from IFRS as issued by the IASB. Accordingly, even though a country has adopted IFRS, there may be differences in the application of IFRS to certain topics, which can vary by country. Deviations from IFRS as issued by the IASB can impact the comparability of financial statements of companies that are in the same industry, but prepare their financial statements under International Financial Reporting Standards as uniquely adopted by their country. Thus, while IFRS as issued by the IASB is the same for all companies and industries in all countries, in practice, IFRS around the world can vary by country and industry.

9. What are the benefits of IFRS?

The global shift toward IFRS is intended to facilitate the movement of capital worldwide and provide more clarity and consistency to financial reporting in the global marketplace. IFRS is a more universally accepted, principles-based set of standards that should allow companies to better reflect the economic substance of transactions. It also provides for increased disclosure in footnotes, allowing analysts to “level set” companies in benchmark groups for improved comparability. Because IFRS enables companies to align their consolidated reporting frameworks with local and statutory reporting frameworks, it ultimately should be more efficient and cost-effective in the long term.

10. What are the drawbacks of IFRS?

One of the most significant drawbacks to IFRS is that a lack of comparability may arise as companies in the same industry apply different judgments to the same or similar facts and circumstances. In addition, companies utilizing certain accounting and reporting methods may be affected – such as those for which “last in, first out” (LIFO) inventory costing or the shortcut method for derivatives may no longer be available, those with significant fixed assets requiring component depreciation, or those requiring secondary segment disclosure. These companies may face additional logistical and reporting drawbacks due to the magnitude of changes required.
IFRS can also produce increased earnings volatility from the application of fair value mark-to-market adjustments to financial instruments and pension liability adjustments that are recognized in the income statement.

In the short term, the significant costs related to the conversion and sustenance of IFRS reporting standards may make IFRS less efficient and cost-effective as compared to retaining local GAAP. In addition, the conversion process is a time-consuming project that requires the involvement of management at all levels of the organization. Because of the level of effort required, the conversion project itself may distract management’s focus from the organization’s primary goals and objectives.

11. What countries are using IFRS?

Currently, more than 110 countries either require or permit the use of IFRS in preparing financial statements for listed companies, including Australia and the countries of the European Union. As shown in the table included in Question 2, several other countries are set to require or permit the use of IFRS by listed companies beginning in 2011, including Canada, India, Japan, Russia and South Korea.

12. What lessons can be learned from the conversion experiences of other countries? What issues have created the biggest challenges?

Countries and companies that have recently converted or are in the process of converting to IFRS have shared a wealth of experience with those considering conversion. Perhaps their most common and consistently offered piece of advice is to start early and allow plenty of time for conversion. Conversion to IFRS can take several forms: It can be “top down” or “bottom up” as it relates to the development of policies and procedures; it can also approach accounting policy with a “clean slate” approach – to change everything when viewing financial reporting through a new prism; or it can be an approach that changes only those items that require change. For many companies, the conversion project has averaged two to three years. Some companies with multiple enterprise resource planning (ERP) systems and highly decentralized operations needed even more time. So, based on experience, the message is clear: Start early and allow sufficient time.

As is the case with any significant enterprise project, change management and proper project management protocols are critical to a successful conversion. The effort required in an IFRS conversion will depend on multiple criteria, including:

- Gaps between current accounting practices and targeted areas for complying with IFRS rules
- The number of information technology (IT) applications subject to change
- The number of shared services
- The level of homogenous and centralized practices between local reporting units
- How deeply and pervasively the identified gaps impact the underlying business processes and accounting policies

Companies that have converted to IFRS also warn that checklists have their limits. The devil, they say, is in the details. For this reason, an exhaustive diagnostic should be completed to identify the critical accounting differences and their impact throughout the entire organization.

Systems capabilities are a significant consideration in determining the complexity of the conversion process. They should be assessed early on in the project. To the extent that systems capabilities can be used to implement or enable change, this will make the conversion easier. If systems capabilities cannot support the necessary changes or will need significant work to support the conversion, it is better to discover these needs up front and as soon as possible rather than to be surprised later on in the project when it is too late.

At the C-suite level, executives must understand that the conversion project cannot be successfully completed by involving only accounting and financial reporting personnel. Board and executive sponsorship, buy-in and input are required from all operational areas of the organization. Companies that have converted to IFRS also stress the importance of ensuring that the external auditors are involved in each step of the project. Companies should be sure to get their input and buy-in on critical project decisions to prevent disagreements, delays and potential rework later.
Another important area that can demand a significant level of management attention is the need to anticipate and plan for the required changes related to employee performance plans and metrics, especially those linked to revenue, earnings or earnings per share. This aspect of the project necessitates the involvement of the human resources group early in the process.

Management needs to understand that, under IFRS, the quantity of financial statement disclosures increases dramatically. Organizations should prepare a draft template of the required disclosures early in the conversion process to confirm that their systems can provide the information needed or that the information can easily be compiled manually, if required. This point is yet another illustration that companies electing to wait until the last minute are putting their conversion effort at risk.

Also of note, in the initial year of conversion to IFRS, companies in countries that have already converted to IFRS experienced an increase in restatements. The conversion process is complicated. For many organizations, the first filing under IFRS will be similar to an initial public filing. Companies should expect questions from regulators, external auditors and other stakeholders that will result in changes, no matter how well-planned the project.

Furthermore, companies in countries that converted to IFRS tend to continue the widespread use of alternative, non-IFRS measures in results announcements. This suggests management believes a significant gap remains between IFRS and adequate market communications and is likely to lead to further enhancements to IFRS on a dynamic basis. To help address this gap and have meaningful comparisons of actual financial results to budgeted financial results, companies should incorporate IFRS into the assumptions used in their budgeting processes. Otherwise, it will be difficult, if not impossible, to determine the root causes of variances in a cost-effective manner.

The message is that a thoughtful approach to conversion can minimize the high cost of confusion in the execution of critical management processes.

Finally, note that organizations that incorporated several “dry runs” into their project plans reported experiencing the most successful conversions. Once again, this step was only possible because these companies began the conversion process early.

13. What is the principal standard governing conversion to IFRS?

IFRS 1, “First-Time Adoption of International Financial Reporting Standards,” must be used by an organization during its initial conversion from local GAAP to IFRS. IFRS 1 generally requires full retrospective application of IFRS effective at the reporting date of an organization’s first IFRS-compliant financial statements. However, there are certain optional exemptions and mandatory exceptions to the requirement for retrospective application.

These exemptions and exceptions cover standards that, in practice, have proven to be too difficult to apply retroactively or would likely result in a cost exceeding any benefits to users. As the exemptions in IFRS 1 are optional, companies can elect to retroactively apply relevant International Financial Reporting Standards to these areas at the time of conversion, provided they can accurately calculate their effect. An organization may take advantage of optional exemptions in any or all of the following areas:

- Business combinations
- Fair value or revaluation as deemed cost for property, plant and equipment, and other assets
- Employee benefits
- Cumulative translation differences
- Compound financial instruments
- Assets and liabilities of subsidiaries
- Associates and joint ventures
- Share-based payment transactions
- Insurance contracts
Changes in existing decommissioning, restoration or similar liabilities
Arrangements containing leases
Fair value measurement of financial assets and liabilities at initial recognition
Service concession arrangements
Borrowing costs
Investments in subsidiaries, jointly controlled entities and associates

The following exemptions to retroactive application of International Financial Reporting Standards are mandatory and cannot be presented retrospectively by an organization at the reporting date of its first IFRS-compliant financial statements:

De-recognizing of financial assets and financial liabilities
Hedge accounting
Estimates
Noncontrolling interests
Assets classified as “held for sale” and discontinued operations

Organizations implementing IFRS should refer to IFRS 1 often during the conversion process for guidance on specific conversion exemptions, exceptions, and required disclosures and reconciliations.

14. What is the first step to getting started with the conversion to IFRS?

The first step in the conversion process is to determine the differences between your organization’s current accounting and reporting policies and those required by IFRS. This assessment should take into account not only the differences between what the “debits and credits” are under current GAAP requirements and what they would be under IFRS, but also the broader impact of the differences across the organization in areas supporting management reporting and accounting. These include policies and procedures, business processes, people and resources, internal management reporting, methodologies and information systems.

Key considerations for each of these areas are further discussed in Questions 36 through 41.

15. Is there a way to estimate the cost, effort and time required for my company to convert to IFRS?

The cost, effort and length of time required to convert to IFRS depend on several important factors and will vary for each organization. In evaluating these variables, the following should be considered:

Does your organization have multiple reporting entities?
Is your company a global organization? Do your international subsidiaries have existing institutional knowledge of IFRS?
Does your organization engage in extremely complex or sophisticated financial transactions?
What resources, both internal and external, are available to assist with the conversion?
Are resources available from all affected areas of the organization, including IT and operations, to participate in the project?
Is your organization highly centralized or decentralized?
Does your organization use a common ERP system or multiple reporting systems?
Does your ERP provider have IFRS upgrades available?
Are the ERP system reports used by the organization “canned” or custom reports?
• How resilient is your organization (i.e., how well does it embrace and adapt to change)?
• Will your organization view the conversion to IFRS as an opportunity to take a fresh look at everything or just change what it is required to change?
• Will your organization effect a change to IFRS from the “top-down” or the “bottom-up”?
• How well has your organization handled special long-term projects, such as Sarbanes-Oxley Act compliance? Were these projects easy to implement or met with resistance?
• How familiar are your company’s external auditors, and specifically your audit team, with IFRS? Have they audited other companies using IFRS?

These considerations, as well as others unique to your organization, will impact the cost, effort and length of time your organization will need to convert to IFRS. In the European Union and elsewhere, the conversion project has averaged two to three years. As discussed in Question 12, some companies with multiple ERP systems and highly decentralized operations have taken significantly longer. While it is generally agreed that the onetime cost to convert to IFRS has been high for some organizations, accurate data on the actual cost of the conversion – measured in internal and external terms – has not been disclosed by organizations that have already converted. A report issued by the Institute of Chartered Accountants of England and Wales (www.icaew.com) estimated that the typical cost incurred by a publicly traded company in the European Union to prepare its first IFRS consolidated financial statement was approximately 0.05 percent of the company’s revenues.

In its November 2008 Roadmap, the U.S. Securities and Exchange Commission (SEC) estimates that for roughly 110 companies potentially eligible to be early adopters of IFRS, the cost for conversion and filing Form 10-K for the first three years under IFRS will be $3.5 billion, or an average of $32 million per company. Through analysis, the SEC estimates the cost of IFRS conversion would be between 0.125 percent and 0.13 percent of an organization’s revenue. Other organizations, including investment analysts, have made different estimates, and of course, strict “percentage of anything” benchmarks are not applied universally to every company and industry.

In summary, we know two things. First, the costs of implementing IFRS will vary by company according to the facts and circumstances in each case. Second, it is clear that the conversion to IFRS will be a significant investment in both time and money for any organization, regardless of whether it uses internal or external resources.

16. What role should management take during the process of converting to IFRS?

To be successful, the project needs a sponsor who is responsible for explaining the project and its importance to other members of the senior management team, as well as operating and functional unit managers. These managers should be aware and knowledgeable of the project so they can support the IFRS activities that must be undertaken and make quality resources available when necessary. Below, we review the roles of three separate and distinct bodies – the project sponsor and project team leader, the project steering committee, and the disclosure committee.

Project sponsor and project team leader

Management should assign the project sponsor. This individual should be a senior officer who can emphasize the importance of the project to the organization with authority and bring credibility to the overall effort. The sponsor should be the CEO, CFO or another certifying officer for the company. Additional sponsors may be needed at major operating units and in key geographies. If there is a project steering committee, the project sponsor may chair that committee.

The project sponsor should assume responsibility for providing overall direction to the project team on the major issues affecting the company and for communicating the project to the organization. In addition to the project sponsor, management should identify the project team members, their roles and responsibilities, the resources required and the source and funding of those resources, both internal and external. A project team leader, such as the chief accounting officer or corporate controller, should be appointed to drive the day-to-day project decision-making and execution.
Project steering committee

The steering committee should assist the project sponsor and project team leader by performing the following:

- First, the committee evaluates and approves the project plan, approves major scoping decisions and reviews major project findings.
- Second, it provides overall project oversight and serves as a sounding board for the project team to discuss, and if necessary, resolve major issues when they arise.
- Third, it assists the project team in gaining access to the internal or external resources needed to successfully complete the project.

The steering committee’s sole purpose is to position the project team to succeed. It may meet periodically as scheduled to provide a checkpoint for key decisions and, when necessary, address significant issues. It assists the project sponsor in ensuring the project remains on track. The committee also engages appropriate senior executives and other management personnel in the resolution of policy, process, personnel, reporting and technology issues.

Disclosure committee

Many companies have a disclosure committee. The role of the disclosure committee is to consider the materiality of information, determine disclosure requirements, identify relevant disclosure issues and coordinate the development of the appropriate infrastructure to ensure reliable material information is available in a timely manner to management for potential action and disclosure. For example, the SEC has recommended that a disclosure committee report to and sometimes include senior management, specifically the certifying officers. Because the IFRS conversion affects financial reporting, the disclosure committee should work directly with the project leader and steering committee in understanding potential issues and assisting the project leader with making decisions that may impact the financial statements.

Where the steering committee is primarily concerned with the success of the project, the disclosure committee is focused on the fairness, accuracy, completeness and timeliness of the company’s public reports. The disclosure committee is an integral component of the company’s disclosure controls and procedures. It should be a key player in assisting the project team with determining whether the company’s disclosure controls under IFRS are designed and implemented effectively.

17. What is the role of the audit committee in implementing IFRS?

The audit committee oversees the company’s external financial reporting and internal control over financial reporting. The SEC has stated that ordinarily it would expect a board of directors, or audit committee, as part of its oversight responsibilities for the company’s financial reporting, to be knowledgeable and informed about the evaluation process and the factors influencing management’s assessment of internal controls. It would be expected that the scope of these oversight responsibilities over financial reporting would include oversight of the IFRS conversion process and a thorough understanding of the company’s activities related to the implementation of IFRS. Audit committees should receive periodic updates and ensure the company has developed a project plan that will allow them to implement IFRS effectively. In addition, audit committees will want to weigh in on significant policy decisions throughout the project where the application of judgment provided by IFRS could lead to a range of possible outcomes. In other words, the audit committee will want to be a part of setting the overall tone and direction for the company’s IFRS adoption efforts.

18. What is the role of operating and functional unit areas in implementing IFRS?

The project team should include operating, accounting and audit representation from the company’s major business units and foreign operations. Operating and functional unit managers should support the involvement and participation of resources needed from their respective units to complete the project.
19. What role should our external auditor play in the conversion project?

Management must determine the accounting pronouncements with which the company must comply related to IFRS. The external auditor attests to and substantiates management’s compliance with those pronouncements. Therefore, management should not rely on the work of the external auditor when implementing IFRS.

Regulatory agencies in most countries have established independence requirements with respect to services provided by the external audit firms. While these standards do vary by country, in general, external auditors: (1) cannot function in the role of management; (2) cannot audit their own work; and (3) cannot serve in an advocacy role for the audit client. Thus, the external auditor cannot perform management’s decision-making roles, such as determining how the company should implement accounting pronouncements effectively and what controls should be in place to assist management in determining if the pronouncement has been implemented effectively, although the external auditor may provide recommendations. For example, the external auditor can recommend improvements in internal controls. Ultimately, the responsibility rests with management to make decisions regarding any recommendations, including the decisions to implement those recommendations.

However, as a company converts to IFRS, frequent checkpoints with its external auditors to vet assumptions and other important decisions are wholly appropriate and recommended as part of any successful project plan. This approach was applied successfully by many companies during their compliance efforts with internal control certification requirements and can be replicated in the conversion to IFRS.

20. Do we need a third-party advisor independent from our auditor?

To assist with the implementation of IFRS, management may look to a third party to assist with an initial diagnostic or, depending on internal resource capacity, may utilize a third party to assist with the implementation of all or parts of the project. These activities may include providing subject-matter experts to assist with technical accounting issues or to provide the necessary resources in order to meet the timeline established in the project plan. Early in the project, management should identify internal resources and capacity for completing the project in accordance with the plan. If internal capacity is insufficient, management should identify external resources and define clear expectations of their contributions to the success of the project and beyond.

21. What major activities and steps should be considered when developing a conversion project plan?

The process for preparing for IFRS compliance is a significant undertaking for many companies and should be managed as a formal project. Because the project will require management moving from a rules-based approach to a principles-based approach, it is imperative for management to plan the project properly and allow adequate time for a successful conversion. Following are important areas for management to consider when setting the foundation:

**Organize the project**: As discussed in Question 16, management should consider the appropriate project sponsor and project team leader. The sponsor should be a senior executive who can assume responsibility for providing overall direction to the project team and communicating the project to the organization with credibility. In addition to the project sponsor, management should identify the project team members, their roles and responsibilities, the resources required and the source and funding of those resources, both internal and external. The project team leader may be the chief accounting officer or corporate controller, or someone who works closely with that person and is able to perform the role of managing a complex project.

**Define objectives**: Start by understanding the objectives of key constituencies, such as the project sponsor, executive management and the audit committee. Determine the extent of policies documentation, updated procedures documentation and so on. Translate this input into specific project objectives that will resonate within the organization.

**Develop the project plan**: The project plan results from defining objectives, establishing a critical path, setting key success factors, defining milestones and checkpoints, and identifying external advisors. In addition to implementing the new standards as required under IFRS, the project plan also will need to allow time for the company to demonstrate that the newly implemented processes supporting IFRS also comply with the requirements of internal control certification regulations. This means that sufficient time must be allowed for both management and the external auditors to evaluate the design effectiveness and test the operating effectiveness of the company’s internal control...
Conversion Process

Each conversion project is a change management process that runs through three phases. Each phase can be addressed in a structured way using the Protiviti Six Elements of Infrastructure Model:

1. **Step 1 – Preliminary Scoping**
2. **Step 2 – Develop Project Management**
3. **Step 3 – Detailed Project Setup**
4. **Step 4 – Detailed Gap Analysis**
5. **Step 5 – Year 1 IFRS Reporting**
6. **Step 6 – Integrate Change and Ongoing Compliance**

Business Strategies and Policies
- Business Processes
- Organization and People
- Management Reports
- Methodologies
- Systems and Data

Deliverables

- Phase 1 – Preliminary Scoping and Planning
- Phase 2 – Project Implementation
- Phase 3 – Embedding

over financial reporting. The project timeline should be considered carefully to ensure there is adequate time for team members to complete all project tasks, for process owners to implement the new standards and demonstrate effective controls, and for external auditors to execute their work. The more complex the organization and the more judgmental its issues, the more time the external auditors will need to complete their work. Management should work closely with the external auditors to define the amount of time necessary to complete their work. Based on that understanding, management must back up from that date for planning purposes and allow for sufficient time and resources to complete the project in preparation for the attestation process. Due to the anticipated scarcity of resources, management will want to do everything possible to avoid missing the established deadline because their external auditor may also have limited capacity to access and organize resources to accommodate significant delays. The project plan must allow for tasks such as assessing the current state, completing an initial diagnostic, undertaking project design and planning, developing and implementing solutions, and reporting.

**Agree on project management approach and reporting requirements:** Obtaining agreement up front from management and the external auditors on the approach and project requirements is critical to the project’s success. For example, project management should:

- Set criteria for making important scope decisions, such as accounting processes requiring changes in order to comply with IFRS, required policies, documentation standards, and requirements needed to demonstrate ongoing compliance with internal control certification regulations.
- Agree on the diagnostic performed by management that identifies the areas requiring changes in order to comply with IFRS.
- Establish a communication strategy between the project team and management.
- Establish a protocol for involving the external auditors and a strategy for communicating with them.
For many large companies, IFRS may require a project management organization (PMO). The required coordination of multiple tasks by multiple people and teams in multiple locations can become too difficult for even the most seasoned project manager. For that reason, it is recommended that management view IFRS as it would any major project and dedicate sufficient resources and project management discipline to hold the appropriate personnel accountable and bring the project to successful completion on time and on budget.

In the initial stages, consideration should be given to forming a steering committee consisting of the certifying officers, operating unit heads or representatives, and leaders of appropriate functions, including general counsel, IT, human resources and internal audit. This committee would evaluate and approve the project plan, approve scoping decisions, review major findings and provide general guidance to the project team and others in their organizations of responsibility. The project leader would report to this committee.

**Set key success factors:** Define key performance indicators (KPIs) and critical success factors and incorporate them into the project plan. Obtain agreement from the project sponsor and executive management. Examples of KPIs include fulfillment of specific executive management expectations, completion of designated milestones, completion of work at designated locations, participation of unit managers, participation of process owners, minimal rework of key activities, and completion of the project by the date agreed upon with the external auditors.

**Define milestones and checkpoints:** Define critical project milestones and assign appropriate checkpoints along the project timeline by which to periodically gauge project progress. Identify the responsible parties with whom to conduct predetermined checkpoints, such as the project sponsor, executive management, audit committee and external auditors. Use the checkpoints for obtaining review and sign-off, and for obtaining concurrence with the responsible parties.

**22. What are the most significant risks associated with converting to IFRS, and how can they be managed?**

The most significant risks inherent in the IFRS conversion process include, but are not limited to:

- Ineffective project plan
- Insufficient time to complete the project
- Inaccurate diagnostic results, leading to an inadequate foundation for preparing a focused project plan
- Limited or lack of audit committee involvement and support
- Lack of or limited management support
- Limited internal/external resources
- Improperly trained internal staff and/or internal staff lacking in IFRS accounting knowledge
- Limited or no involvement from departments outside the accounting function (e.g., IT, legal, HR)
- Last-minute surprises, related delays and significant rework because the external auditors are not fully engaged in the project
- Unanticipated issues

In order to manage these risks during a conversion project, management should review the project planning guidance discussed in Question 21 above.

**23. What tools and technology are available to assist with the conversion to IFRS?**

There are a wide variety of technology tools in the marketplace that can assist companies with a conversion to IFRS. Many more certainly will be developed and introduced to the market in the coming months and years as the conversion deadline nears. Currently, many accounting and consulting firms, including Protiviti, offer their own tools and methodologies.
Protiviti’s proprietary diagnostic tool assists companies with the challenges of gap analysis and IFRS conversion planning. This tool helps organizations understand their current state of IFRS adoption readiness and provides input to the development of an IFRS conversion project roadmap.

24. Will additional internal or external resources be needed to implement IFRS?

Implementing IFRS is much more than a technical accounting project. A conversion to IFRS may significantly affect a company’s day-to-day operations and may even impact the reported profitability of the business itself. Thus, the conversion effort requires experienced personnel who are knowledgeable about the business and relevant issues and possess strong problem-solving capabilities. These are among the key reasons why dedicating additional internal or external resources is of critical importance.

In 2008, Protiviti conducted a survey of 75 executives to ascertain their organizations’ preparations for the possible transition from their current reporting standards to IFRS and what they foresee in terms of the overall cost impact. Executives were also asked to identify the one individual or group in charge of overseeing the effort (if this person had been appointed) to indicate if the organization would choose voluntarily to make the transition in the event of a choice and to name the greatest single barrier to this transition.

Among the key findings from the survey is that most companies did not have a PMO assigned to lead the transition. This suggests organizations will benefit from dedicating a balanced team of internal and external resources to manage what almost assuredly will be a highly complex and time-intensive conversion to IFRS.

25. Will parallel accounting systems need to be maintained?

Most often, before a company implements a new accounting system, it maintains its current systems in parallel to the new system to validate the accuracy of data and results in the new system as compared to the existing accounting system. A company that implements a new accounting system or upgrades its current accounting system to convert to IFRS as its primary financial reporting standard must go through a period of dual-reporting/parallel-reporting when the company is in the conversion process and has yet to file its first IFRS financial statements, but must still submit the required filings under local GAAP. In addition, maintaining financial records under local GAAP allows an organization to facilitate the required reconciliations under IAS 1 upon adoption of IFRS, provides a company the option of reverting to local GAAP should management desire, and also enables management to continue reporting against certain in-process, ongoing contractual requirements that may require reporting in local GAAP for a period of time.

26. When is it relevant to schedule change management initiatives, such as a system upgrade, during the conversion process?

To minimize costs and realize the upside of change, organizations will benefit from implementing and completing the conversion to IFRS sooner rather than later. This means, among other key steps:

- Establishing a realistic roadmap and timeline
- Conducting a proactive review to understand all the implications related to information systems
- Recognizing and planning for the complex layers of interdependency between an IFRS conversion and other companywide projects, regulatory initiatives and reporting requirements

27. Can the conversion to IFRS be completed manually outside the general ledger reporting package?

When the European Union converted to IFRS, many companies approached the conversion by maintaining their general ledgers using their local GAAP, and then using spreadsheets and “topside” entries or manual adjustments outside their ERP system to convert their local GAAP to IFRS. Some organizations used this approach due to
budgetary restraints or deliberate decisions by key management, while other organizations were forced into such an approach due to inadequate planning and limited time to fully implement their integrated conversion projects.

While this approach is one possible option, especially in the initial year of adoption, it is not recommended as a long-term solution due to the significant increase in risk it introduces to the financial reporting process. Such risks include, but are not limited to:

- Financial reporting and related processes becoming manual and more time-consuming
- Increased risk of misstated financial statements results due to missed adjustments or incorrectly calculated manual adjustments
- The conversion becoming concentrated on a few key accounting and reporting personnel
- Difficulty in tracking and maintaining topside adjustments over time
- Inability of the accounting system to meet changing demands and requirements over time
- Increased risk of restatement of financial statements

Many European companies that undertook the conversion to IFRS using a manual approach outside of their general ledger ultimately embarked on fully integrated conversion projects due to risks cited above, as well as the increased time and effort resulting from the manual approach. The conversion experiences of Europe clearly show that, ultimately, most organizations need to fully integrate the conversion to IFRS into their ongoing core processes and internal control structure to fully benefit from the conversion.

28. How are the major ERP software providers preparing for IFRS needs?

Both SAP and Oracle, two of the world’s leading ERP platforms, have strong financial management capabilities and are highly configurable to meet a variety of accounting principles. In addition, the financial reporting capabilities in each of these platforms are sufficiently flexible to address IFRS. Specifically:

- SAP ERP 6.0 offers new general ledger functionality to support parallel accounting.
- Oracle E-Business Suite Financials supports IFRS reporting.
- PeopleSoft Enterprise Financial Management 9.0 offers compliance assistance and expanded support for IFRS and enhanced reporting capabilities, including extensive reports, financial statement certification and external auditor assessment.
- Oracle offers Subledger Accounting, which centralizes and standardizes accounting rules so they are consistent across the company. Oracle also features “flexfields” on the chart of accounts to allow for different accounting methods. In addition, Oracle has incorporated industry-specific compliance and data handling features constructed with IFRS in mind.
- Hyperion and Oracle work together to eliminate data integrity risks associated with collecting, mapping, verifying and moving critical financial data from multiple source systems.
- Hyperion Financial Management supports complex entity relationships and consolidation structures across heterogeneous environments.
- Hyperion and SAP OutlookSoft support standardized consolidation and reporting processes in compliance with various statutory requirements.

SAP and Oracle already are used by many companies that prepare their financial statements using IFRS.
29. What information systems areas are likely to require changes as a result of a conversion to IFRS?

There are many areas within a company’s information systems that impact the financial reporting capabilities needed to accommodate the transition to IFRS. To name a few:

- Accurate configuration and knowledge of IFRS reporting requirements is absolutely critical to configure and validate automated controls effectively, train information systems group resources, and perform other activities, such as system upgrades.

- Financial analysis will change radically, as the fundamental differences between IFRS and GAAP assumptions will affect operations and planning.

- New data may be required, existing data will need to be converted and system interfaces may need to be redesigned. In some cases, more granular data will be needed – for example, to prepare component depreciation calculations.

- The chart of accounts, material master, cost element and cost center structures may need to be redesigned, or an additional structure may need to be defined and implemented.

- All balance sheet validation procedures will change. During transition, companies will be required to document a reconciliation of old reporting standards to new reporting standards. They must also provide a valid audit trail to support the reconciliation.

- Consolidation systems also will be impacted, as organizations will need to decide where and at what level to prepare IFRS reporting.

- The IFRS transition process will require additional and changed information and disclosures for financial reporting purposes.

- The transition process must also accommodate multiple accounting treatments during the conversion/dual-reporting period.

Companies have three options to incorporate the needed changes to their ERP systems: Make the changes at the detail/transaction level, make them at the consolidation/reporting level, or use a hybrid approach.

Regardless of the ERP platform, planning and forecasting will require separate, additional consideration beyond those identified for financial reporting needs. Even if ERP systems can handle the accounting and the transition of current accounts, the modeling and judgment inherent in forward-looking activities, such as budgets and capital planning, will require manual redesign and evaluation.

30. Will IFRS guidelines be published for software providers?

It is unlikely that any such guidelines will be published specifically for software providers. Companies will need to work closely with their software providers and other vendors to ensure ERP systems are adequately addressing IFRS requirements.

31. Will there be an official certification process to verify a software package complies with IFRS?

Previous experience suggests such a process is unlikely. For example, ERP vendors never certified that their software was Sarbanes-Oxley compliant. IFRS is not a technical requirement; it is a statutory/reporting requirement. Therefore, it should be viewed as a significant compliance issue, not as a “tech fix” for ERP purposes. The ERP platform should assist with and enable the transition process, which needs a detailed audit trail (including, for example, reconciliation for every relevant general ledger account).
Impact and Implications of IFRS Conversion

32. Will IFRS reduce the current level of complexity that exists in financial reporting?

Given that it is a principles-based reporting system, IFRS lacks the extensive rules and detailed guidance for handling exceptions that are commonly found in many countries’ local GAAP standards. The reduction in the number of accounting rules and exceptions should clearly lead to a reduction in the complexity of financial reporting, as well as in the risk of errors. However, fewer rules and exceptions will require companies to establish more robust policies and procedures internally to ensure that judgments are made consistently throughout the organization.

For companies currently operating in multi-GAAP environments worldwide, the transition to IFRS as one set of comprehensive global accounting standards will further reduce duplication of efforts and complexity in financial reporting. IFRS will enable these companies to streamline their accounting and reporting processes and develop common policies and reporting systems across the organization, and will provide greater flexibility in the use and location of finance resources.

33. Will IFRS improve the transparency of financial reporting?

A principles-based reporting system such as IFRS that requires consistent application across an organization has long been considered a way to increase the clarity of financial reporting and minimize accounting-motivated structuring of transactions. Under IFRS, transactions are reported based on the substance of the transaction instead of the need to follow complex reporting rules. IFRS also requires consistency within a given company in how it applies judgment to facts, as well as consistency in the reporting of data.

IFRS generally requires more disclosures than most countries’ local GAAP requirements. It requires companies to disclose accounting policies, judgments and estimates, as well as additional qualitative and quantitative information related to significant accounting transactions. It is expected that the increased disclosures will provide additional clarity and guidance to the users of financial statements.

34. How will converting to IFRS affect my company’s external audit procedures and related audit fees?

IFRS is predominantly more principles-based, whereas U.S. GAAP is considered more rules-based. IFRS provides less guidance with regard to the specific interpretation and application of the standards. This distinct difference from current practice requires management to use more judgment in interpreting certain standards and their application to the company’s business activities. Moreover, in certain situations, management will be required to exercise a significant amount of judgment in applying the standards, resulting in the need to document the company’s rationale for the conclusions reached. Because of this new dynamic of management exercising more judgment with less reliance on a check-the-box prescriptive approach, the external auditors likely will spend more time reviewing, understanding and
evaluating management’s application of the standards to support a conclusion that the standards were applied properly – particularly in the initial year of adoption. Even if the amount of time incurred by the external auditors remains constant, more experienced senior personnel may be required to evaluate management’s application of judgment. Therefore, this new dynamic will affect the staffing mix and leverage of audit engagements. For these reasons, our view is that there will be an increase in the external auditor’s fees when performing an audit of the company’s financial statements during the first year of conversion to IFRS. Over time, as external auditors gain more experience with IFRS, not to mention confidence in management’s exercise of judgment in interpreting and applying the new standards, we expect audit fees to decline and return to amounts relatively comparable to pre-conversion fee levels.

In addition to fees incurred relative to the financial statements audit, the conversion to IFRS will require updates to accounting policies, procedures and processes. In countries where management and external auditors are required to complete an assessment of internal control over financial reporting (e.g., in the United States, there is an integrated audit of the financial statements and internal control over financial reporting), conversion to IFRS also will require both management and the auditors to spend additional time in the initial year of conversion ensuring the conversion to IFRS is integrated into the compliance requirements for this assessment. These additional activities also will result in higher external auditor fees in the initial year of IFRS conversion, which subsequently would be expected to decline and return to amounts comparable to pre-conversion fee levels.

35. How will converting to IFRS impact external financial reporting in our organization?

First and foremost, IFRS will impact external financial reports through increased disclosure requirements. IFRS is predominantly principles-based in nature. For certain transactions, IFRS requires management to use more judgment in making assertions supporting the measurement and recording of transactions. To provide transparency into these transactions and allow users of financial statements to understand clearly the assumptions and estimates used by management in the decision-making process, IFRS requires more qualitative and quantitative disclosures than most country-specific GAAP requirements.

From an operational perspective, the conversion to IFRS companywide provides an opportunity for multinational companies compelled to use multiple variations of GAAP for their recordkeeping and financial reporting in different countries – a challenge that is further complicated by the need to prepare various reconciliations between these different GAAP applications. IFRS enables these multinationals to improve the efficiency and flexibility of the financial reporting process. Converting to IFRS will allow them to streamline the close process by using a common set of accounting policies and procedures throughout the organization.

36. How will IFRS affect my organization’s business policies and procedures?

The far-reaching effects of IFRS fall into three general categories – accounting policies and procedures, contractual agreements and covenants, and management incentives and compensation linked to financial reporting. Each of these categories is discussed further below.

Accounting policies and procedures will need to be subjected to a diagnostic review to determine the extent, if any, to which changes need to be made to account for differences between current practice and IFRS. For example, a company’s entire inventory of white papers (such as position papers, policy memoranda and policy manuals) will need to be reviewed to ensure they do not contain outdated references to prior standards and that they properly reflect any new requirements and citations. To the extent accounting policies and procedures do not require changes in specific areas, a company will want to ensure it can support and document the rationale for not making changes.

Some accounting policies and procedures may need to be revamped, taking on an entirely different “look and feel” in terms of how they are articulated. Historically, accounting policies and procedures contain a description of the applicable transaction or financial statement caption, a reference to a citation in U.S. or other GAAP and perhaps an example. Given the latitude allowed by IFRS in a number of areas, many companies will need to reformat – and likely expand significantly – their accounting policies and procedures beyond their current parameters to add coverage of the following five areas, as well as to include citations, descriptions of the issue(s) and examples:

- Judgment: The company’s view on how it will apply a given standard to a given set of facts and circumstances.
- Rationale: The company’s rationale for how it arrived at its judgment.
• Authority: The parties within the company – management and the board of directors – who authorized or approved the rationale and judgment, and to whom inquiries should be directed from within the organization so common issues are properly vetted and decided on a consistent basis.

• Applicability: The company’s consideration and judgment on the applicability of this accounting and reporting framework. Will or should it be universally applied at all locations and business units, or should it be discretionary for subsets of the organization (and, if so, the vetting process or approvals to which it is subject)?

• Process: The process by which subsets of the company must vet, document and test their adherence to the established policies and procedures.

Going forward, accounting policies and procedures will need to be subject to dynamic review, with proper revisions made for potential changes emanating from new facts and circumstances, new interpretations, and specific issues affecting the geographic, segment or business-unit subsets of a company.

Contractual agreements and covenants are the second major category of policies and procedures affected by IFRS. They pose a unique set of issues in the year of conversion and in the years immediately before and after conversion. Many contractual agreements contain references to, and provisions based on, current accounting and reporting practices (U.S. or other GAAP), and even contain specific “books and records” requirements.

Naturally, companies must be able to comply with contracts in order to meet their obligations and protect their rights. To the extent companies have historical contracts, or are in the process of entering into new contracts with financially tagged provisions, there are a number of considerations and possibilities.

The first possibility is maintaining two separate sets of books. Should a company convert to IFRS and be unable or unwilling to renegotiate its contracts, it will need to maintain its ability to track the requisite information (often only elements or subsets of full financial statements) for the remainder of the contract. This is not necessarily the most efficient choice, but may be viewed as the best choice for contracts that are due to expire within a short period of time, are difficult to renegotiate or are expensive to renegotiate.

Renegotiating contracts will entail different degrees of difficulty for different contracts and counterparties. Renegotiation of the provisions of contracts, even if its sole ostensible purpose is to conform language to contain reference to IFRS and remove references to past standards, may also open the door to more meaningful renegotiation of contract provisions. Perhaps more important, in order to renegotiate a contract and to revise its provisions and targets, a company must have a clear understanding of how its results of operations and financial position will be reflected under IFRS, such that its new provisions and covenants will be appropriate and consistent with its current provisions and covenants.

With an understanding that financial accounting standards will likely change in the future – and be in flux to some extent in the meantime – companies may want to consider building flexibility into the terms and provisions of contracts currently being created. Provisions that allow for “GAAP or its successor, subject to adjustment for the impact of any changes in successor standards” may, if legally acceptable and viable, pave the way for companies to execute contracts and other agreements without building in the need to renegotiate terms upon a future change.

Alternatively, a company may want to build in time limits on references to historical GAAP in their contracts such that the provisions expire with GAAP and require changes solely to those provisions upon that occurrence. Legal counsel will need to be involved in the contractual process, as there likely will be significant nuances and technicalities by jurisdiction to be considered.

The third major category of policies and procedures affected by IFRS is management incentives and compensation linked to financial reporting. The following are examples of the types of agreements that reference GAAP and will need to be addressed, as with contracts, by maintaining two sets of books, renegotiating or building flexibility into new arrangements upon their expiration:

• Bank agreements

• Employee and executive compensation, deferred compensation and profit-sharing plans (which will require the involvement of the compensation committee, as well as the audit committee as it relates to this aspect of IFRS convergence)
• Mergers and acquisitions (M&A) “earn out” agreements (the renegotiation of which may trigger adverse purchase accounting implications for prior acquisitions)
• Certain regulatory agreements and consents

37. How will IFRS affect my organization’s business processes?

Any significant change to accounting standards, especially one as expansive as the adoption of or convergence with IFRS, will necessitate changes to internal control over financial reporting. A company will have to determine the extent to which the audit committee and senior management will want or need to weigh in on decisions about policy, choosing among options, the application of judgment and so on. These considerations may require the company to revisit its entity-level control framework.

To place this environment into perspective, IFRS, as opposed to U.S. or other GAAP, will likely require a smaller number of senior personnel to make judgment calls, as opposed to more personnel in ministerial roles who follow the rules. Consequently, the possibility of segregation-of-duties issues, and the need to either remediate those issues or identify compensating controls, will be significant.

When policy changes drive procedural changes at either the operational or financial reporting group level, process documentation must also be updated. Companies will need to modify narratives, process maps and workflows; reconsider the nature and extent of key controls and scoping; redesign test plans; and test both the change management process (such as modifications to systems and spreadsheets) and the operation of the controls. To the extent a company’s IFRS conversion project plan builds dynamic amendment of documentation into the workflow, the company can avoid having to then embark on a second project to update process documentation for Sarbanes-Oxley compliance once the IFRS conversion project is completed.

A conversion to IFRS also will likely affect the financial close process, as well as the nature, timing and extent of the performance of key closing activities, due to changes in policies and procedures, changes in underlying and supporting reports for critical estimations and cutoffs, and changing roles and responsibilities for preparation and review. Especially in the early years and interim periods, companies will want their financial reporting functions to be actively engaged in analytical reviews to verify consistent application of judgment and identify instances where practices may be incorrectly divergent from the new corporate policies, resulting in errors or inconsistencies.

In addition, internal auditors will see a fundamental change in their required approach under IFRS. In particular, their approach to developing an audit plan will need to address several considerations. These include:

• Training for the internal audit group on what has and has not changed
• The development of revised approaches for testing entity-level controls
• The revision of scoping and planning to take new and different risks into account when deciding where to visit and what to test
• The development and execution of test plans that not only take the new rules into account, but also enable the auditor to look beyond “check the box” rule verification and dig into testing consistency in the application of the company’s accounting policies, methods and decision criteria to similar sets of facts and circumstances throughout the organization

The impact of IFRS will extend beyond accounting and financial reporting. To the extent that policy changes result in the need for new and different data flows and sources of supporting information, all areas of the company will need to reconsider their activities with an eye toward providing meaningful data to the finance group to support critical data points and estimations, even when “old information” will still be needed by operations. To the extent possible, reporting should flow through the system without requiring rework or offline spreadsheet machinations to achieve proper form and content.

As accounting processes often cut across multiple functions, depending on the nature of the affected accounting area, several departments may be required to change their policies, procedures or internal reporting. These departments might include logistics, shipping, billing (revenue recognition and inventory valuation), treasury,
human resources, corporate development (M&A modeling) and investor relations (earnings-per-share modeling). Additional functional groups may also be involved, depending on the industry.

38. How will IFRS affect my organization’s people and resources?

Companies embarking on a conversion to or convergence with IFRS will need to acquire or repurpose personnel who are conversant with IFRS in order to provide background to existing personnel for whom IFRS is a new phenomenon. Such personnel may come from any of several sources, both internal and external.

Many companies operating in international markets may have subsidiaries that already prepare local/statutory reports in accordance with IFRS. Finance directors (local CFOs) with such experience could be useful team members or leaders in managing a corporatewide conversion project, as they likely have either operated under IFRS for a while, participated in converting from local GAAP to IFRS when their country converted, or both. Other companies will need to consider providing training to internal personnel. Still others may need to hire new personnel with the requisite skills. If the latter need exists, companies should recognize that the longer they wait to acquire such personnel, the harder it will be to find them.

**Impact of IFRS Conversion on the Six Elements of Infrastructure**

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<td>• Accounting policies will need to be reviewed to identify differences between IFRS and current accounting policies and updated to reflect changes to IFRS.</td>
<td>• Processes in affected areas must be redesigned to support accounting policies, valuation of assets and liabilities and reporting needs under IFRS.</td>
<td>• Competition for resources such as accounting and IT personnel, consulting and external resources may increase as these resources will be in high demand.</td>
<td>• Management will need to identify reports (system-generated and manually created) that are impacted by the conversion to IFRS and changes needed to the reports.</td>
<td>• Management will need to determine which financial reporting methodologies to use under IFRS when alternatives are allowed.</td>
<td>• Evaluate whether current financial reporting and other applications can accommodate valuations, accounting and reporting under IFRS.</td>
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<td>• Management must determine the impact of IFRS on business strategies, loan covenants, KPIs and other contractual agreements.</td>
<td>• Internal controls will need to be reviewed and redesigned for new processes.</td>
<td>• Internal capabilities and resources to handle and manage the conversion should be evaluated.</td>
<td>• Periods for which reports must be updated (i.e., if used in financial reporting, are three years of IFRS adjusted reports available) will need to be determined.</td>
<td>• Management will need to determine which financial reporting methodologies to use under IFRS when alternatives are allowed.</td>
<td>• Can software applications be converted or will new applications be needed?</td>
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<td>• Communications with investors, analysts and others will need to be updated to reflect conversion to IFRS.</td>
<td>• Sarbanes-Oxley documentation will need to be reviewed and updated to avoid gaps.</td>
<td>• Education and training for employees, including those outside of the accounting and financial reporting areas will be required.</td>
<td>• Users will need to be educated on changes to reports and how to understand and interpret the new presentation.</td>
<td>• Are vendors providing support and upgrades?</td>
<td>• What is the cost and timeframe needed to convert software applications?</td>
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<td>• Management compensation agreements and plans linked to financial metrics will need to be updated.</td>
<td>• The impact on income tax liabilities and reporting must be assessed and quantified.</td>
<td>• Employee performance measures linked to financial reporting will need to be reviewed and updated.</td>
<td>• The cost of the conversion, both internal and external, will need to be quantified, both in hard dollars and opportunity costs.</td>
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Organizations may also look to a variety of outside sources: their external auditor (to the extent allowed by the more stringent of either regulatory-enacted independence rules or the audit committee’s restrictions), another accounting firm, or third-party consultants with IFRS and/or project management capabilities. Note that competition for IFRS talent will result in higher compensation costs in the initial years.

As with any new or currently applicable accounting policy, a company will need to have ongoing access to a variety of sources of information to achieve and maintain capability. For example, a company should have access to IFRS-enabled online research tools, external IFRS-related training/CPE-type events, and formal and effective communication protocols with external auditors. The person(s) to whom questions should be directed, especially those relating to ensuring consistency of application of judgment to similar sets of facts and circumstances, should be clearly identified within the company.

Companies will also need to consider changes to their KPIs and other internally and externally reported metrics. Doing so will require them to recompute new metrics for older periods or use old metrics for new periods to bridge comparability for a sufficient period of overlap time. Models, spreadsheets, data feeds and other functionality must be reset so that the computation of either new metrics or old metrics with new data can be accomplished with minimal offline activity.

Companies may have to incur significant costs in an IFRS conversion, and will need to establish an appropriate framework, within the context of competing budget priorities, for at least some of the following areas: IT; Sarbanes-Oxley and other documentation related to internal control over financial reporting (ICFR); legal (such as contracts and agreements); internal audit; and finance and financial reporting (both internal personnel and third-party costs). Depending on the industry, other operating units may also be affected.

### 39. How will IFRS affect my organization’s internal management reporting?

As noted above with regard to KPIs, companies will need to revisit virtually every financial model they utilize in order to verify their assumptions are correct – or have been modified to be correct – under IFRS. Changes in reported financial results may result in the need to remodel budgets and forecasts. In mergers and acquisitions, the impact of the expected purchase price will need to be revisited, as well as the calculation of when or if M&A activity will be accretive to reported results post-acquisition. In the event of planned divestitures, the reverse effect should be examined.

To support management’s conclusions and judgments under IFRS, reporting will need to be revised in many cases, including reporting from operating (nonfinancial) groups in the organization. Since IFRS likely will be viewed as an exercise in supporting the application of judgment, rather than verifying the adherence to a rule, reporting will need to be more specific. In other words, the purpose of a report will need to be clear, and everything from its name to the data it provides will need to be clearly linked to the financial reporting judgment or objective it aims to support.

To the largest extent possible, reporting should be integrated so it comes from and through systems with reliable source data, rather than relying on offline spreadsheet and work-around activity. To the extent specific internal reporting ties directly to the amounts being used for financial reporting, the absence of complex reconciliations will add to the post-adoption efficiency of IFRS. This may be complicated by a continued need at the operations level for “old reporting” in support of operational and other business objectives.

Operating users and creators of reports will need to be sensitized and kept current on the end use of reporting and the corporate policies and objectives driving their activities. Users and creators of reports will need to understand not only what data must be included in reporting, but also why the data is required, where it comes from, where it is going and what its use accomplishes. These users and creators will also need to understand the impact any changes in what they do will have on upstream or downstream accounting determinations based on their work.

### 40. How will IFRS affect my organization’s methodologies?

Companies will need and want to reach out to, and achieve consensus with, a variety of sources in coming to conclusions about how to finalize judgment, authority and rationale in implementing and operationalizing IFRS.
Sources of information and arbiters of judgment will include the audit committee, disclosure committee, regulators and standard-setters, external auditors, and other third-party advisors.

One of the more difficult aspects of operationalizing IFRS is ensuring consistency of the application of judgment to a given set of facts and circumstances within a company. Once a corporate policy is properly vetted and the judgment and rationale have been approved by the designated authorities, it will be necessary to establish specific accounting policies, procedures, methods and consultation protocols (both within the company and with external auditors and appropriate outside stakeholders and influencers) to ensure consistency. Operational policies and desktop procedures also must be established, along with analytical review processes as part of the close and reporting cycle. Finally, internal audit methodologies and scoping should be implemented to enable the testing of consistency in the application of judgment to similar sets of facts and circumstances.

41. How will IFRS affect my organization’s financial reporting systems and underlying data?

A number of IT supporting programs and interfaces will need to be changed or improved, depending on a company’s industry and geographic diversity. IT resources, as with operating personnel, will need to be able to understand what needs to be achieved – and why – in order to support the infrastructure needs of both the accounting team and the operating teams that provide supporting data. Specific examples of IT program and support changes that might be necessary include consolidation programs and protocols; inventory costing systems; fixed asset sub-ledgers, including enabling component depreciation; earnings per share (EPS) spreadsheets and programs; M&A and forecasting tools; sales and accounts receivable registers; and project management tools to separately track research and development. In addition to the programs and interfaces required to facilitate external and internal financial reporting, those that support KPI metrics and financial ratios must also be addressed.

As with any major change, integration of activities must align with IT considerations. Companies adopting IFRS may want to either delay or accelerate IT conversions, depending on whether there is any functionality they need to preserve or create. Resources are also a consideration. People with technical knowledge of both ERP systems and IFRS will be in high demand. One key question: “Can IT handle the workload of new systems conversions and an IFRS convergence exercise simultaneously, or in the proper sequence?” Companies will also want to explore whether there are sufficient IT budget resources and headcount allocated to allow for all systems projects along with the systems modification required to implement IFRS. If not, priority-setting will be required.

Additionally, certain ERP systems purport to support IFRS or both IFRS and local GAAP. A company may want to advance the selection of a new ERP system or rethink a prior decision in light of IFRS needs. Many companies have expended significant resources ensuring configurable controls are properly enabled and documented within their ERP and operating system frameworks. A conversion to IFRS will require them to consider enabling new controls, continuing other controls or even disabling certain features of their ERP platform to accommodate the newly required controls resulting from, for example, differences in segregation of duties.

Lastly, the impact of maintaining dual-accounting records on data storage capacity and access must be considered, as legacy data may be required to be maintained for future income tax reporting. Concerns about that data’s storage, integrity and retrieval could be significant.

42. Who in the company needs training and education on IFRS?

The experience of countries that have converted to IFRS suggests addressing the organization’s skill requirements should be a priority for management. Training should focus both on complying with IFRS and on how IFRS will affect decision-making and value-creation strategies. Key personnel who will require training include those in finance, accounting, internal audit and financial planning. Also requiring training will be personnel in IT, treasury, investor relations and tax. Even human resources requires IFRS-related training and education as it pertains to recruiting and retaining qualified IFRS personnel and training all affected employees, in addition to areas such as equity-based compensation, where human resources has a direct role in the accounting and reporting process.

The board of directors and audit committee will require training so they can fulfill their duties and discharge their responsibilities, such as being able to understand and provide oversight with respect to management’s analysis of the accounting alternatives and the selection of accounting policies. While audit committee members will need to ensure
they remain financially literate – able to read and understand a set of financial statements – the audit committee’s financial expert may need to be re-evaluated to ensure he or she is still qualified to serve in this capacity.

43. What education should be given to external users of our financial statements?

Although key issues will vary by industry, IFRS will influence the way management runs the business and assesses performance. One of the significant trends reported in Europe, according to Ernst & Young’s 2006 “Observations on the Implementation of IFRS,” was the increased use by management of “non-IFRS” measures – performance indicators not defined under IFRS when communicating business performance to the market. Indeed, the relevance of IFRS to the needs of external users is commonly raised as one of the main weaknesses of IFRS.

Clear, continuous and consistent communication with stakeholders will reduce the risk of misunderstandings and aid a smooth transition. Guidance should be developed providing both a high-level overview explaining the effects of IFRS adoption, as well as organization-specific, detailed descriptions of the most significant accounting issues involved. Stakeholders should be made aware of the nature of and reasons for changes in financial statements as a result of the IFRS conversion.

Communication may occur through periodic annual reports and disclosures, press releases, earnings calls, and proxy statements, among other means. Providing transparency regarding the logic for adopting IFRS, as well as potential effects of this decision, can help reduce the level of uncertainty inherent in the process and enable a more effective transition.

44. How will IFRS affect analysts’ valuations of our company?

Under IFRS, income and balance sheet values likely will be more volatile, and earnings growth and trends will be harder to predict. While more disclosure should allow the market to better understand a company’s financial results and risk profile, the increased volatility may actually make it much more difficult to assess the underlying profitability and future prospects of the company.

Under IFRS, the extensive disclosure of information about inputs and assumptions, particularly in respect to financial instruments and impairment, will be critical in allowing meaningful year-on-year performance analysis and comparison between companies. IFRS will give much more information on market risk exposures and asset quality. It will also provide details of performance by business segments and returns on risk-adjusted capital, which are critical measures for the market.

The additional disclosure likely will lead to more probing questions from analysts and investors because the differences between companies will become more obvious. Management will need well-considered explanations for significant variations between their company’s results and those of industry peers. Insufficient or confusing disclosures, or ineffective communications with external users, will inevitably have a negative effect on share valuations.

Companies should be prepared to address key areas and their impact on the company, including budgeting and forecasting, KPIs, volatility, dividends, compensation, impairment, M&A strategy, capital strategy and impact, and communication strategy.

45. Will IFRS impact our organization’s stock price?

The European experience in adopting IFRS was that the conversion from the various versions of local GAAP to IFRS did not impact market ratings. However, the experience did show that companies needed to do a good deal of explaining to the market about the change and the potential implications, and the market needed to do a significant amount of internal IFRS education to understand how and where the differences should impact the financial results.

Clear and early communication about the impact of IFRS on financial results can provide a competitive advantage and will, at the very least, minimize the potential negative impact on stock price. Communication also will demonstrate to the market that management is firmly in control of the IFRS conversion process. This will be welcomed and rewarded by analysts and shareholders alike. For senior executives, the key implication is that they will be under much greater scrutiny.
IFRS in the United States

46. When is the adoption of IFRS required in the United States?

On November 14, 2008, the SEC proposed a roadmap for the potential use of financial statements prepared in accordance with IFRS for U.S. public companies. On February 24, 2010, the SEC reaffirmed its support for the convergence of U.S. GAAP and IFRS in its “Commission Statement in Support of Convergence and Global Accounting Standards.” The SEC will continue to evaluate through 2011 whether to incorporate IFRS into the financial reporting system for U.S. issuers. If the SEC does proceed, the first time U.S. firms would report using IFRS would be no earlier than 2015. The SEC is not currently pursuing the consideration of early adoption. However, it could reconsider this position at a later date.

47. Is it possible the conversion to IFRS in the United States will not occur?

Due to the aggressive convergence process under way and the SEC momentum, the conversion to IFRS in the United States is now widely regarded as a question of “when” and “how” rather than “if.” Because of the current economic slowdown, the pace and timing for a switch to IFRS has become a frequent topic of conversation for both the SEC and public companies. The SEC has not yet made any final decisions regarding whether and when all public companies should be required to adopt IFRS. The SEC has indicated that several questions and issues related to the conversion to IFRS must be addressed before it makes a decision in 2011 requiring U.S. public companies to adopt IFRS:

- **Sufficient Development and Application of IFRS.** The SEC stated that in further considering IFRS, it would “consider whether those accounting standards are of high quality and sufficiently comprehensive.” Accordingly, the staff believes that an evaluation of whether IFRS is sufficiently developed and applied to be the single set of globally accepted accounting standards for U.S. issuers requires consideration of the following areas:
  - The comprehensiveness of IFRS
  - The auditability and enforceability of IFRS
  - The comparability of IFRS financial statements within and across jurisdictions

- **The Independence of Standard-Setting for the Benefit of Investors.** Another important element for a set of high-quality global accounting standards is whether the accounting standard-setter’s funding and governance structure support the independent development of accounting standards for the ultimate benefit of investors. This is an area of significant concern to the investors and investor groups that commented on the Proposed Roadmap. The Work Plan includes an ongoing review of the functioning of the
IASB’s governance structure and developments to secure a stable, broad-based source of funding. This review will help the staff assess whether these factors promote standard-setting that is accountable, independent and free from undue influence that could affect the ability of U.S. investors to receive full, fair and reliable disclosure. Full, fair and reliable disclosure is essential to facilitate the meaningful comparison of financial information across national borders.

• **Investor Understanding and Education Regarding IFRS.** The Commission stated that a single set of global accounting standards could enhance the ability of investors to compare financial information of U.S. companies with that of non-U.S. companies. Improved comparability was the most commonly cited reason commenters believed that U.S. capital markets would benefit from the use of a single set of global accounting standards. Because the benefits of adopting these accounting standards would be realized only if investors understood and had confidence in the financial reporting system, the Commission believes that in order to assess incorporation of IFRS into the U.S. financial reporting system, further work is necessary to assess investor understanding and education regarding IFRS. The staff’s performance of the steps in the Work Plan should provide the staff with insight into investors’ understanding of IFRS and actions that need to be taken to increase investors’ understanding.

• **Examination of the U.S. Regulatory Environment that Would Be Affected by a Change in Accounting Standards.** The Commission acknowledges that the incorporation of IFRS into the financial reporting system for U.S. issuers could have far-reaching effects on financial reporting by U.S. issuers for other purposes. In addition to filing financial statements with the Commission, U.S. issuers commonly provide financial information to a wide variety of other parties for different purposes. While the federal securities laws provide the Commission with the authority to prescribe accounting principles and standards to be followed by public companies and other entities that provide financial information to the Commission and investors, the Commission does not directly prescribe the provision and content of information that U.S. issuers provide to parties other than itself and investors. However, changes to the Commission’s accounting
standards could affect issuers and the information they provide to regulatory authorities and others that rely on U.S. GAAP as a basis for their reporting regimes. In accordance with the Work Plan, the staff will study and consider other regulatory effects of mandating IFRS for U.S. issuers.

- **The Impact on Issuers, Both Large and Small, Including Changes to Accounting Systems, Changes to Contractual Arrangements, Corporate Governance Considerations and Litigation Contingencies.**

  In considering incorporation of IFRS into the U.S. financial reporting system, the Commission must assess the significant effects that such changes would have on the preparers of financial statements. In addition to the significant effects that a transition would have on investors, the issuers of financial statements would incur costs, effort and time as a result of a transition. Smaller companies and those without international operations will bear those costs and efforts differently than larger companies and those that compete globally. As part of the Work Plan, the staff will consider the impact of the logistical changes involved in incorporating IFRS into the U.S. financial reporting system. The extent of that impact may be decreased by ongoing convergence efforts between the IASB and the FASB.

- **Human Capital Readiness.** Incorporation of IFRS would require consideration of the readiness of all parties involved in the financial reporting process, including investors, preparers, auditors, regulators and educators. As a result, any change involving the incorporation of IFRS into the financial reporting system for U.S. issuers would require greater familiarity of IFRS for investors, preparers, auditors, regulators, academics and many others. Under the Work Plan, the staff will review the effect of the incorporation of IFRS on the education and training of professionals involved in the financial reporting process, as well as any impact on auditor capacity.

In addition to evaluating the progress toward this Work Plan, the SEC, when deciding if it will require U.S. public companies to adopt IFRS, will also require successful completion of the FASB-IASB convergence projects.

### 48. Will the adoption of IFRS be required for nonpublic companies?

Under the current Roadmap, the SEC has only addressed the adoption of IFRS by U.S. public companies. The FASB and IASB have been working on convergence between U.S. GAAP and IFRS in many areas to continue to reduce the number of differences between the two reporting standards. As the convergence between the two sets of standards continues, financial reporting by nonpublic companies using U.S. GAAP will more closely align with IFRS. However, differences will likely still exist between the reporting standards used by public companies under IFRS and nonpublic companies if they continue to use U.S. GAAP before full convergence is achieved.

In countries that have already undergone the conversion to IFRS, many nonpublic companies have not converted to IFRS, instead opting to continue to use their country’s local GAAP and progress toward adopting IFRS via the convergence process in their country.

The complexities involved with maintaining two distinct sets of financial reporting standards in the country are generally viewed as undesirable from many perspectives. For example, two sets of standards would require accountants, auditors and third-party users of financial statements (such as banks) to be knowledgeable about both sets of standards, and would require colleges and universities to educate students on both.

Although it may take many years, the practical implication of the convergence of U.S. GAAP with IFRS is that all U.S. companies, public or nonpublic, will eventually use IFRS, assuming the two standards fully converge.

Because the full standards contained in IFRS are designed to meet the needs of investors in companies in public capital markets, they cover a wide range of issues, contain substantial implementation guidance and include significant disclosure requirements. Users of the financial statements of private entities do not have the same needs as users of public company financial statements, and generally are more focused on assessing cash flows, liquidity and solvency. Many private entities have complained that IFRS imposes a burden on small private-entity financial statement preparers, a burden that has been growing as the standards have become more detailed and more countries have begun to use them. In response to this, the IASB embarked in 2007 on a project to develop IFRS for small- and medium-sized private companies (SMEs). In July 2009, the IASB issued its statement, which represents an alternative to the full set of IASB standards. Designed to be less complex, it excludes topics that
generally do not apply to SMEs, and has fewer disclosure requirements than the full set of IASB standards or even U.S. GAAP. According to the AICPA, “with the AICPA governing Council’s May 2008 decision to recognize the IASB as an international accounting standard setter, AICPA members have the option to use IFRS for SMEs as an alternative to U.S. GAAP.”

49. Assuming my company is planning an initial public offering (IPO), when are we required to adopt IFRS?

According to the Commission Statement in Support of Convergence and Global Accounting Standards issued by the SEC in February 2010, the first time U.S. firms would report using IFRS would be 2015, provided the SEC decides to proceed with the conversion. However, its statement did not address the staged transition by size of market capitalization, which was discussed in the original proposed Roadmap. Thus, it is unclear whether all public companies, including IPOs, are required to adopt IFRS at the same time or if the requirement will be staged.

In addition to preparing for convergence of U.S. GAAP and IFRS for all companies, entities planning an IPO should begin evaluating the impact of adopting IFRS on their organization in the same manner as companies already required to file their financial statements with the SEC. Given the feedback from other countries regarding the length, cost and effort of the conversion process, procrastination with respect to IFRS could result in delaying an IPO.

50. As a private company looking to be acquired by a public company, should we consider converting to IFRS?

As discussed in Question 48, the adoption of IFRS by nonpublic companies in the United States has not yet been addressed. However, to enhance their attractiveness as a potential acquisition, private companies with a business plan that includes being acquired by a public company should consider evaluating the impact of IFRS on their organization in the same manner as companies already required to file their financial statements with the SEC. While a private company may decide not to actually make the conversion to IFRS, a diagnostic project that identifies the key areas impacted by IFRS would facilitate the integration process upon acquisition.

51. Is early adoption of IFRS allowed?

The SEC’s Roadmap for conversion to IFRS, issued in November 2008, originally provided criteria to establish a limited group of U.S. public companies that are eligible to be early adopters of IFRS and could elect to adopt IFRS beginning with the fiscal year ending after December 15, 2009. However, the SEC announced in February 2010 that it is no longer pursuing the consideration of early adoption. It could reconsider this position at a later date.

52. If early adoption of IFRS is allowed, what are the benefits and drawbacks?

The early adoption of IFRS by eligible organizations can provide several competitive benefits. First, early adopters will achieve comparability of financial information with competitors already using IFRS.

For companies with global operations and foreign reporting requirements, the streamlining of accounting and reporting processes may result in potential cost reductions through the development of common reporting systems and accounting policies across the organization, improved flexibility of use and location for finance resources, and greater consistency in statutory reporting across the organization. Early adopters may also gain easier access to foreign capital markets and investments, and be able to facilitate cross-border acquisitions, ventures and spin-offs.

Drawbacks of early adoption of IFRS include uncertainty stemming from several factors, such as unresolved differences between U.S. tax law and IFRS, and the expectation that the Roadmap outlined by the SEC is subject to change. There also is the remote possibility the SEC will decide not to move forward with mandating the use of IFRS. In the current economic environment, the significant costs associated with a conversion project may deter some organizations from proceeding with early adoption, as they focus on controlling discretionary spending. Continued convergence by the FASB and IASB may make future conversion easier, further discouraging early adoption.
53. What options currently exist for converting to IFRS?

The first option is to simply wait. In 2011, the SEC will decide if it will require the use of IFRS by U.S. companies for financial reporting or retain the use of U.S. GAAP. Although it is considered a remote possibility, if the SEC decides not to move forward with requiring the use of IFRS, doing nothing will ensure your organization does not expend valuable financial and other resources on a convergence project. However, if the SEC decides to require the use of IFRS in 2011, delaying action is likely to increase the eventual cost of converting to IFRS, due to anticipated resource constraints and an accelerated conversion timeline.

Another option is to assess the impact of conversion to IFRS on the organization. By undergoing a diagnostic to determine which areas of your organization will be impacted and estimating the extent of that impact, an organization can begin to prioritize these areas and create a preliminary project plan. Even if the plan is not acted upon immediately, your company will have a head start on a future conversion project.

The third option is to begin the conversion process. Many companies view conversion to IFRS as an inevitability, or they are concerned about the length of time the conversion will take and are moving forward with completing a diagnostic and preparing their project plans for conversion. Since the current belief is that the SEC will ultimately require the use of IFRS, these organizations have decided the costs incurred in getting started on the conversion project and allowing for adequate time is money well spent.

Which approach is best for your organization? Ultimately, each company’s management, audit committee and board of directors will need to weigh these options and the risks associated with each to decide how the organization should proceed.

54. Have other companies already started or completed conversion to IFRS?

Internationally, many companies have converted or are in the process of converting to IFRS. Companies in the United States can learn from their international counterparts in an effort to avoid their mistakes and incorporate lessons learned from the conversion process. Question 12 addresses many of the lessons learned and provides practical advice from those who have already completed the process.

In the United States, larger companies, assuming that they are going to be eligible for early adoption, have initiated conversion projects beginning with diagnostic work.

Whether or not they are viewed as candidates for early adoption, many companies have taken the first step toward conversion to IFRS by initiating a diagnostic project to assess the cost and effort that would be involved. This diagnostic will allow them to hit the ground running on a conversion project when they decide to proceed.

55. Is there an IFRS hierarchy similar to the U.S. GAAP hierarchy?

Several different sources of accounting literature are commonly referred to under the umbrella of “U.S. GAAP.” The American Institute of Certified Public Accountants (AICPA), FASB and the Emerging Issues Task Force (EITF) all issue pronouncements and guidance that can be used to determine the accounting treatment for transactions. FASB 162, The Hierarchy of Generally Accepted Accounting Principles, which became effective November 15, 2008, dictates the order in which various types of authoritative literature are to be prioritized in the determination of the appropriate treatment of a transaction.

By contrast, IFRS, as issued by the IASB, are issued by only one authoritative body and are composed of the following:

- *International Accounting Standards (IAS)* – standards issued before 2001
- *Interpretations originated from the International Financial Reporting Interpretations Committee (IFRIC)* – interpretations issued after 2001
- *Standing Interpretations Committee (SIC)* – interpretations issued before 2001
If the standards that comprise IFRS do not contain a standard or an interpretation that specifically applies to a transaction, IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” requires management to use its judgment in developing and applying an accounting policy that results in information relevant to the users of the financial statements and reliably reflects the substance of the transaction. In applying judgment, management may consider other guidance found in IFRS and must also consider the definitions, criteria and concepts in the IFRS conceptual framework. IAS 8 also allows management to consider pronouncements of other standard-setting bodies, as long as those pronouncements are derived from a conceptual framework similar to the IFRS framework and to the extent that the pronouncements of other standard-setting bodies do not conflict with IFRS.

In its Roadmap, the SEC states that U.S. companies that prepare their financial statements in accordance with IFRS, as issued by the IASB, would continue to be required to follow any guidance issued by the Commission related to accounting issues. A company that issues financial statements under IFRS, as issued by the IASB, is not required to follow U.S. GAAP, but it should use resources issued by the SEC, such as Accounting Series Releases, Financial Reporting Releases, Staff Accounting Bulletins and Industry Guides, when applying IAS 8.

56. Are International Financial Reporting Standards as detailed and complete as current U.S. GAAP?

Current U.S. GAAP standards are viewed as highly rules-based and prescriptive due to the addition and existence of significant clarifying standards over time. The current standard-setting culture in the United States provides specific rules, “bright-lines” and detailed guidance for contingencies and exceptions for accountants to follow, minimizing the ability of management to incorporate judgment into the application of U.S. GAAP. It also contains a significant amount of industry-specific guidance.

By contrast, IFRS is more principles-based and provides less specific guidance, allowing for more professional judgment by management. Also, IFRS does not offer as much industry-specific guidance as U.S. GAAP.

However, both U.S. GAAP and IFRS require the same core financial statements: balance sheets, income statements, statements of cash flows and statements of changes in equity. In many areas, IFRS requires significantly enhanced disclosures from both a qualitative and quantitative perspective than U.S. GAAP. IFRS also requires management to thoroughly disclose accounting policies, judgments and estimates.

Adoption of IFRS will necessitate a new way of thinking for both management and auditors. A deeper examination of the true substance of transactions will have to be considered in determining the appropriate accounting treatment for a transaction in lieu of referring to a specific rule.

57. Where can I find information on the differences between current U.S. GAAP and IFRS?

The IASB and FASB have continued to work toward eliminating differences between U.S. GAAP and IFRS, as detailed in their 2006 Memorandum of Understanding. The boards recently issued an update on their progress since 2006 and set forth their agenda to complete a number of major joint projects by 2011. Projects currently under way include financial statement presentation, joint ventures, income taxes, and accounting and reporting for subsequent events. As these projects continue to evolve and standards are issued, the differences between U.S. GAAP and IFRS are constantly changing.

The AICPA’s website (www.aicpa.org), the FASB’s website (www.fasb.org) and the SEC’s website (www.sec.gov) are sources of information on current applicable U.S. GAAP, current projects in process with the FASB and IASB, as well as recent and upcoming changes to those standards.
58. Which differences between U.S. GAAP and IFRS are being addressed through the convergence process?

Even though conversion to IFRS is an upcoming event, the convergence of U.S. GAAP and IFRS has been under way for many years. In 2002, the FASB and IASB signed the “Norwalk Agreement,” which expressed the two boards’ intent to work jointly to align the conceptual frameworks of the two standards and remove the differences between U.S. GAAP and IFRS. Since then, convergence of the two standards has progressed via the issuance of standards to align accounting for business combinations, accounting changes, and accounting for minority interests.

Other significant convergence projects under way between the FASB and IASB address differences in earnings per share, income taxes, revenue recognition (see Question 4) and financial statement presentation (see Question 66). Continued progress on the convergence of the standards will be monitored by the SEC as one of the factors that will be considered in 2011 when it considers rule-making that would require U.S. public companies to adopt IFRS (see Question 47).

59. Will all differences between U.S. GAAP and IFRS be addressed by convergence?

Current convergence efforts by the FASB and IASB will have an effect on the U.S. adoption of IFRS. The progress toward convergence is a key metric the SEC is monitoring to make its pivotal decision in 2011 on whether to require the use of IFRS. In October 2009, the Boards (FASB and IASB) reaffirmed their commitment to improving IFRS and U.S. GAAP and achieving their convergence. They also agreed to intensify their efforts to complete the major joint projects described in the 2006 Memorandum of Understanding (MoU), as updated in 2008. They took into account the fact that several major countries are adopting IFRS in 2011, and that for some other countries, including the United States, continued improvement and convergence is an important consideration in deciding the role of IFRS in their capital markets.

Successful completion of a project means improving financial reporting in jurisdictions that use IFRS and in those using U.S. GAAP and enhancing global comparability by eliminating differences between IFRS and U.S. GAAP to the fullest extent possible.

At their October 2009 joint meeting, the FASB and the IASB reviewed the status of joint projects described in the MoU, agreed upon in February 2006 and updated in September 2008. The Boards assessed the timelines and developed strategies to ensure timely completion of:

- Financial Instruments
- Consolidations
- De-recognition
- Fair Value Measurement
- Revenue Recognition
- Leases
- Financial Instruments with the Characteristics of Equity
- Financial Statement Presentation
- Other MoU Projects
- Other Joint Projects
60. What is the SEC’s role as it relates to IFRS?

Under U.S. GAAP, the SEC has served as an interpreter to provide guidance on accounting pronouncements from the current official standard-setting body, the FASB. The Commission also monitors U.S. public companies for compliance with its interpretations. In addition, through the Public Company Accounting Oversight Board (PCAOB), the SEC reviews the external auditors who audit the financial statements of public companies. With its power of enforcement, the SEC is the final checkpoint for the reliable financial information so essential to investor confidence. The Commission expects to have the same oversight roles under IFRS. Furthermore, it is taking a leadership role in determining how U.S. GAAP and IFRS will converge, as well as setting the timetable for U.S. public companies to adopt the new International Financial Reporting Standards.

Worldwide, more than 110 countries currently permit or require the use of IFRS, including most developed nations and major developing nations, and the list grows every year. As more U.S. public companies conduct business abroad, the benefits of adopting IFRS in the United States are substantial. The SEC’s support for this transition is crucial to its success.

Regardless of the SEC’s final determination in 2011 whether to require U.S. public companies to file financial statements using IFRS or retain use of U.S. GAAP, the Commission plans to maintain and oversee the same processes it is using today. Companies listed on a U.S. stock exchange currently must file registration statements for newly offered securities, quarterly and annual filings detailing the business operations and financial performance for the period, proxy materials sent to shareholders prior to annual meetings, documents concerning tender offers, and all documents related to M&A. The SEC’s current review process for these filings is as follows:

- The SEC staff inspects a registrant’s filings for inconsistencies and inappropriate applications of U.S. GAAP.
- The registrant receives a comment letter requesting clarifications and explanations on all the issues brought up during the staff’s review that also provides guidance to the registrant regarding the application of U.S. GAAP.
- The registrant responds to the comment letter with information, and where guidance has been given on accounting, chooses to follow that guidance or attempt to persuade the Commission that its application of U.S. GAAP would not mislead financial statement users.
- The SEC decides whether to require the registrant to make corrections, pursue civil enforcement actions for noncompliance or accept another resolution.

The key difference we see after the SEC announces its final ruling on the adoption of IFRS is the change in accounting standards. IFRS is predominantly principles-based, whereas U.S. GAAP is regarded by some as being rules-based, meaning more professional judgment is bestowed upon management (and their auditors) to ensure financial statements are fairly presented. At this time, it is unclear how this shift will impact the quantity and nature of the comments generated by the SEC’s review process. However, it could mean that the SEC staff will raise more comments than in the past about management’s supporting rationale for the company’s conclusions in significant areas requiring the exercise of judgment.

In recent years, the Commission has expanded its responsibilities with regard to IFRS. The SEC’s staff, along with the FASB, have been working with the IASB to reduce differences between U.S. GAAP and IFRS, per the 2002 Norwalk Agreement. A conversion to IFRS will ultimately reduce the SEC’s influence in the global standard-setting process, as the IASB is comprised of representatives from multiple constituencies across the world.

As the proposed transition year to IFRS approaches, we foresee changes not only to the SEC, but also to other U.S. accounting-related parties, including the PCAOB, FASB and AICPA. The PCAOB will retain the same monitoring and review processes it currently uses to keep an eye on registered accounting firms and the external auditor process, and most likely will increase the number and depth of its audits during the IFRS transitional period. Because IFRS relies upon increased professional judgment, the board likely will place more scrutiny during its inspection process on the auditors’ evaluations of the conclusions reached by their audit clients in significant judgmental areas. On this note, an international version of the PCAOB may be a possibility. Meanwhile, the FASB may take on a less prominent role in the accounting world as it cedes its position as the official body to
set accounting standards for U.S. public companies. Instead, it may become a standard-setter for private companies and nonprofits or a central educational and advisory center for IFRS. The AICPA, which administers the certified public accountant exam, does not plan to take any action in its certification process until the SEC makes a decision on the extent of IFRS adoption in the United States.

61. What is the SEC’s guidance on IFRS?

The SEC released its proposed Roadmap for IFRS conversion for U.S. public filers on November 14, 2008, which has been published in the Federal Register, triggering a comment period during which public companies, accounting firms and other interested parties can respond with feedback requested by the SEC regarding the Roadmap.

The comment period on the Roadmap was originally set to close on February 19, 2009. Later it was extended to April 20, 2009, to allow companies more time to develop “thorough and thoughtful” responses to the Roadmap. After more than two years of silence, on February 24, 2010, the SEC reaffirmed its support for the convergence of U.S. GAAP and IFRS in its Commission Statement in Support of Convergence and Global Accounting Standards. The SEC will continue to evaluate through 2011 whether to incorporate IFRS into the financial reporting system for U.S. issuers. If it does proceed, the first time U.S. firms would report using IFRS would be no earlier than 2015. The SEC will provide public progress reports on the Work Plan beginning no later than October 2010 and frequently thereafter until the work is completed. The Work Plan is designed to provide the Commission with the information it needs to evaluate the implications of incorporating IFRS into the U.S. domestic reporting system. Following successful completion of the Work Plan and the FASB-IASB convergence projects according to their current work plan, the Commission will be in a position in 2011 to determine whether to incorporate IFRS into the U.S. domestic reporting system.

Additionally, the SEC decided in November 2007 to eliminate the requirement for foreign issuers filing with the Commission using IFRS to reconcile their financial reports with U.S. GAAP, effective in March 2008.

62. How will a change to IFRS impact current SEC reporting requirements for public companies?

In the SEC’s Roadmap, a conversion to IFRS will result in no additional forms or filings with the SEC beyond those currently required to be filed using U.S. GAAP. The SEC will still require Form 10-Q, Form 10-K, proxy statements, Form 8-K and other forms to be filed with the Commission by their currently established due dates. Events that require the filing of Form 8-K will not change if there is a conversion to IFRS. Of course, the financial statements and related financial disclosures included in these filings would be based on IFRS.

63. How will a change to IFRS impact annual reports filed by public companies in the United States?

The SEC has included in its Roadmap proposed changes to Regulation S-X, Regulation S-K and Regulation G that would be needed to accommodate a change to IFRS, as issued by the IASB, as the basis for financial reporting by U.S. public companies. Many of these proposed changes are to allow current regulations to be superseded by rules provided by IFRS, as issued by the IASB, while others are to clarify the incorporation of IFRS into the existing regulations. As the proposed changes to the regulations will impact a registrant’s financial statements in a variety of ways, companies should review these changes and incorporate them into their conversion project planning.

One of the more significant changes pertains to disclosures by first-time filers under IFRS. Specifically, the SEC would limit companies’ first-time filings under IFRS to annual reports on Form 10-K. This first Form 10-K filing under IFRS must also include disclosures related to the company’s decision to convert to IFRS, including the reasons for the change, the corporate governance process followed in electing to make the change, the date the issuer submitted its request to the SEC for a “no objection” letter and the date the SEC issued that letter.

To simplify updating Regulation S-X for the use of IFRS, the SEC has proposed the addition of Article 13 to Regulation S-X to set forth the requirements, rules and forms for issuers of financial statements under IFRS as issued by the IASB. The most significant changes under Article 13 are found in Proposed Rule 13-01(b). First, this rule would require a note from the issuer of the financial statements that explicitly states the financial statements are in compliance with IFRS, as issued by the IASB. Second, the accountant’s report on the financial
statements must include an opinion on whether the financial statements comply with IFRS, as issued by the IASB. Finally, the rule will presume that any financial statements not prepared in accordance with IFRS, as issued by the IASB, are misleading or inaccurate, despite footnotes or other disclosures.

Lastly, the Commission will require a Form 10-K filed using IFRS to provide disclosures reconciling certain U.S. GAAP information to IFRS. These disclosures are also required under IFRS 1. These reconciliations explain how the transition from U.S. GAAP to IFRS affects a company’s equity, profit and loss, and cash flows. The SEC has proposed two alternatives for the required reconciliations. The first proposal would require reconciliations under IFRS 1 in a footnote to the audited financial statements, and after providing the initial reconciliations, issuers would not be required to provide any reconciliation in future SEC filings. The second proposal would require the same reconciliations of U.S. GAAP to IFRS discussed above under the first proposal, as well as the disclosure of certain unaudited supplemental U.S. GAAP information for the three-year period presented in the financial statements. The supplemental unaudited information would be a reconciliation of IFRS to U.S. GAAP for all annual periods presented. The SEC indicates the second proposal would facilitate returning to U.S. GAAP by filers should the SEC determine in 2011 not to mandate the use of IFRS by U.S. public companies.

While the content and extent of financial statements and related disclosures included in annual reports will change under IFRS, the primary change in annual reporting will be in the application of International Financial Reporting Standards in the preparation of those financial statements and related disclosures.

64. How will a change to IFRS impact interim reporting by public companies in the United States?

Under IFRS, as issued by the IASB, there currently is no requirement for interim reporting by public companies. However, should a company file an interim report, IAS 34 provides guidance with regard to the financial statements and disclosures that should be presented in the interim report, as well as the periods that should be covered by those statements and disclosures.

The SEC’s proposed Roadmap has not eliminated the requirement for U.S. companies to submit interim reports. The Roadmap would still leave intact many of the current quarterly interim reporting requirements under Regulation S-X, Article 10 “Interim Financial Statements,” as well as incorporate IAS 34. The SEC will require public companies using IFRS to publish unaudited quarterly reports utilizing International Financial Reporting Standards. The financial statements, schedules and periods presented in interim quarterly reports under IAS 34 are the same as those currently required in Form 10-Q; however, IAS 34 also requires the inclusion of a statement of equity for the reporting period. IAS 34 provides guidance related to disclosures in interim periods, which are made based on materiality levels. Reconciliations of U.S. GAAP to IFRS would not be required in quarterly reports. A company’s independent auditors still would be required to review the quarterly reports, and file a preferability letter regarding material accounting changes made in interim reports.

In summary, the primary change in quarterly reporting would be in the application of International Financial Reporting Standards in the preparation of the interim financial statements and related disclosures.

65. How will IFRS impact financial statement disclosures for public companies filing financial statements in the United States?

In addition to the changes in disclosures required by the SEC discussed in Question 63, under IFRS, the quantity, content and format of many financial statement disclosures will change. While IFRS specifies minimum disclosures, it does not prescribe specific formats. Under IFRS, comparative information is required for the preceding period only, but additional periods and information may be presented.

In the first year of transition, IFRS financial statements require extensive disclosures to explain the transition to IFRS. While IFRS does provide limited relief for first-time adopters to apply the standards in areas where information needed to apply them retrospectively may be most challenging to obtain (see Question 13), IFRS provides no exemptions from the related disclosure requirements of IFRS. Companies may experience challenges in collecting new information and data for retroactive footnote disclosures.
Annual IFRS financial statements require ongoing disclosures that can be more voluminous, and in some cases, more challenging to prepare than disclosures under U.S. GAAP. The required annual disclosures under IFRS are not necessarily more complex than those currently required under U.S. GAAP; however, principles-based IFRS allows the greater use of management judgment in establishing accounting policies. This increased level of management judgment also extends to the determination of the amount of information and the level of detail disclosed in the financial statements. Annual disclosures under IFRS will likely require companies to expend a considerable amount of time on and attention to their disclosures to verify they are appropriate and sufficiently detailed, which may challenge the comfort level of the management of many organizations. Adequate disclosure of management’s judgment is critical to the transparency and overall quality of IFRS financial reporting.

66. Does IFRS use the same financial statements as those required under U.S. GAAP?

Currently, U.S. GAAP and IFRS use similar statements as part of a complete set of financial statements and require accrual-based accounting. The general content and presentation of the financial statements under IFRS is comparable to U.S. GAAP.

The table below provides a comparison of the required components for a complete set of financial statements under IFRS and U.S. GAAP:

<table>
<thead>
<tr>
<th>IFRS Financial Statements</th>
<th>U.S. GAAP Financial Statements</th>
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</thead>
<tbody>
<tr>
<td>Statement of financial position</td>
<td>Balance sheet</td>
</tr>
<tr>
<td>Statement of income</td>
<td>Income statement</td>
</tr>
<tr>
<td>Statement of comprehensive income</td>
<td>Other comprehensive income and accumulated other comprehensive income*</td>
</tr>
<tr>
<td>Statement of changes in equity</td>
<td>Statement of changes in shareholders’ (stockholders’) equity</td>
</tr>
<tr>
<td>Statement of cash flows</td>
<td>Statement of cash flows</td>
</tr>
<tr>
<td>Notes to financial statements</td>
<td>Notes to financial statements</td>
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</table>

*The component of other comprehensive income and accumulated other comprehensive income is commonly combined with the income statement or the statement of changes in stockholders’ equity, but may be presented as a separate statement.

As part of the convergence effort, the FASB and IASB are currently working on a joint project established under a Memorandum of Understanding that would not only synchronize the financial statements required under U.S. GAAP and IFRS, but would also radically change financial reporting and presentation as it currently exists. In October 2008, both boards published a discussion paper that proposes the use of the following financial statements and presentation format.
After the current comment period, both boards anticipate releasing an exposure draft in 2010 and a final draft for the financial statement presentation project in 2011.

### 67. How many years of financial statements must be presented using IFRS in our initial filing with financial statements presented in accordance with IFRS?

SEC rules currently require U.S. public companies to include an audited balance sheet for the two most recent fiscal year-ends and audited statements of income, cash flows and shareholders’ equity for the three most recent fiscal years. The SEC is proposing to retain these presentation requirements for filers making their first filing under IFRS. Additionally, IFRS currently requires a registrant to prepare and present its opening IFRS balance sheet on the face of the statement of financial position, which increases the total number of balance sheets required to three, as illustrated below.

The SEC has asked for comments on a proposal in the Roadmap that could provide relief to companies in their first IFRS filing by requiring only two years of IFRS comparative financial statements, similar to the accommodation granted to certain foreign private issuers when they first adopted IFRS. If this relief is granted, companies would also be required to provide three years of U.S. GAAP financial statements in the annual report filing. Companies will need to monitor the transition rules to determine the appropriate starting date for IFRS transition work. Remember that historical comparative interim periods also will need to be converted to IFRS to meet SEC quarterly reporting requirements.

The following example shows the financial statements that currently would be required in the first annual IFRS financial statements filed for a company making its first IFRS filing for the fiscal year ending December 31, 2015.

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<td><strong>Business</strong></td>
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<tr>
<td>Operating Assets and Liabilities</td>
<td>Operating Income and Expenses</td>
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<tr>
<td>Investing Assets and Liabilities</td>
<td>Investment Income and Expenses</td>
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<tr>
<td>Financing</td>
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<tr>
<td>Financing Assets and Liabilities</td>
<td>Financing Income and Expenses</td>
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<tr>
<td><strong>Income Taxes</strong></td>
<td>Income Taxes</td>
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<tr>
<td>Income Tax Assets and Liabilities</td>
<td>On Continuing Operations (Business and Financing)</td>
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<tr>
<td><strong>Discontinued Operations</strong></td>
<td>Discontinued Operations</td>
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<tr>
<td><strong>Equity</strong></td>
<td>Other Comprehensive Income</td>
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<td>Net of Tax</td>
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<td></td>
<td><strong>Income</strong></td>
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<td><strong>Operating</strong></td>
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<td>Income and Expenses</td>
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<td><strong>Investing</strong></td>
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<td><strong>Discontinued Operations</strong></td>
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<td>Income and Expenses</td>
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<td><strong>Equity</strong></td>
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<td></td>
<td>Income and Expenses</td>
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*Neither current International Financial Reporting Standards nor SEC regulations require the presentation of a year-end balance sheet in the year of initial conversion (a December 31, 2013, balance sheet in this example). Some companies may opt to include one to correspond with the income statement periods presented.*
68. Will IFRS reduce the number of restatements by public companies in the United States?

Restatements arise for a myriad of reasons. In some instances, a substantial amount of judgment is required when applying standards under IFRS. In contrast, while the FASB also issues standards rooted in sound principles, it provides much more in the way of guidance and specific application of the rules. The result is a set of standards incorporating more bright-line tests that leave less room for interpretation. However, a robust diagnostic effort by an organization can help identify the proper IFRS accounting treatment and related disclosures for transactions and help to reduce the potential for restatements.

Time will tell if the increased transparency of IFRS will offset the fundamental difference of “principles-based” IFRS compared to more “rules-based” U.S. GAAP. In the European Union, restatements increased initially after conversion to IFRS as companies made their initial filings under the new standards. Sufficient time has not passed to determine if the long-term impact of the IFRS conversion will result in fewer restatements for the European Union. Restatement activity in the European Union could be an indicator of the level of restatement activity U.S. companies may experience should the United States convert to IFRS.

69. How will IFRS impact internal control reporting and certification under the Sarbanes-Oxley Act of 2002?

The transition to IFRS will not affect the internal control reporting and executive certifications required of U.S. registrants under the Sarbanes-Oxley Act. However, the change in accounting principles and methods under IFRS, as compared to U.S. GAAP, will require an updated assessment of the effectiveness of internal control over financial reporting. As IFRS is implemented, changes in accounting policies, business processes, accounting methods and information systems will occur. These changes will require an assessment of the underlying risks and controls, just as in the past when complying with Sarbanes-Oxley. The IFRS transition requires an update of the documentation supporting management’s conclusions around ICFR design effectiveness and of the test plans supporting a conclusion on ICFR operating effectiveness. The extent of this update is dependent on the extent of the IFRS transition itself. Because of the involvement of the external auditor(s), management needs to plan for completing the IFRS transition in time to enable completion of the Section 404 compliance and attestation process. This planning requires careful attention by both the IFRS transition team and the Sarbanes-Oxley PMO or compliance group.

70. How will IFRS affect my company’s reported earnings and performance as compared to U.S. GAAP?

The impact on earnings from adopting IFRS will vary for each organization. In November 2008, Moody’s (www.moodys.com) issued a report, “Are We Better Off Under IFRS?” with the results of their review of financial reports of the 30 largest European Union companies (in terms of revenue) rated by the organization. Moody’s found reported net income was generally higher under IFRS than was reported by the companies under GAAP in their local countries, and in the aggregate for all 30 companies, net income increased 25 percent under IFRS. Roughly half the companies reviewed had materially improved results under IFRS, and 30 percent reported higher EBITDA. The improvements in net income, however, were primarily due to the discontinuance of amortization of goodwill. The higher EBITDA amounts resulted primarily from the change in accounting treatment for three types of transactions under IFRS: the capitalization of development costs, the classification of the time-value cost related to cash settlements of long-term liabilities as interest expense, and the recording of pension deficits as a reduction in equity.

U.S. GAAP treatment of the transactions mentioned above currently results in a charge to the income statement for amortization expense and development costs. With a change to IFRS, one would expect to see similar results for U.S. companies. Certain IFRS changes to balance sheet classification may reduce earnings volatility, while other changes, including more frequent impairments and impairment reversals under IFRS, will increase volatility. Lastly, the IFRS classification of a given financial instrument as debt or as equity may affect a company’s capitalization and reported earnings.
71. Will IFRS impact my company’s tax liability and the way income and other taxes are monitored and reported?

Tax reporting in financial statements under IFRS likely will change. Converting to IFRS may impact the deferred taxation accounting of the business, particularly in relation to the value of timing differences and the time frame over which these differences are expected to reverse. Given this different time frame, the corresponding tax rates applicable to these timing differences may significantly impact the effective tax rate borne by the business and, consequently, the net reported earnings available to shareholders.

Additionally, as different countries are moving to IFRS at different times, many tax jurisdictions will still require a local version of GAAP for tax compliance, which will increase the complexity in managing the tax function and tax compliance.

72. Will lenders, contract counterparties and regulators require financial statements prepared under IFRS or continue to require U.S. GAAP standards?

As we are early in the process of a potential IFRS conversion, major creditors and third-party users of financial statements have not yet indicated how they will address compliance with agreements containing covenants and economic and legal provisions tied to financial performance as calculated in accordance with U.S. GAAP. The same is true for federal and state regulators in industries such as banking and utilities, which require financial reports and other data submitted to them to be prepared using U.S. GAAP.

As part of a diagnostic to identify differences between current accounting practices under U.S. GAAP and IFRS, companies should include a complete review of contractual agreements with lenders and counterparties to identify which agreements have compliance criteria linked to U.S. GAAP performance metrics. Since reported net income and EBITDA, as well as balance sheet items such as inventory and the classification of debt and equity, are reported differently under IFRS, the change in accounting standards will impact the calculation of many traditional contractual financial performance measures. Companies should contact their lenders and contract counterparties directly to discuss the covenants and provisions within their contracts to determine if these parties will modify the agreements to reflect accounting changes under IFRS. If the contracts cannot be modified, companies may find themselves in the unpleasant situation of maintaining two sets of books for compliance purposes.

In a similar manner, companies in industries regulated by federal and state authorities should also identify which regulators are being provided financial data prepared using U.S. GAAP to determine the impact of providing financial data prepared under IFRS instead.

73. How will IFRS affect SEC statutory filings for my company’s international reporting units?

If the SEC mandates that U.S. public companies convert to IFRS as the basis for preparing financial reports, statutory filings relating to reconciliations would be eliminated in foreign countries that already have adopted or will adopt IFRS. U.S. companies would not have the option to use U.S. GAAP, so there would be no need for reconciliations.
IFRS in Canada

74. Which entities are subject to IFRS conversion?

The use of IFRS will be mandatory in Canada for all publicly accountable enterprises (PAEs). PAEs are profit-oriented enterprises that have responsibilities to a large or diverse group of stakeholders. They can include publicly listed companies, enterprises with fiduciary responsibilities and certain government corporations. The Canadian Accounting Standards Board (AcSB), the independent body with the authority to develop and establish standards and guidance governing financial accounting and reporting in Canada, defines a PAE as an entity – other than a not-for-profit organization – or a government or other entity in the public sector that has issued, or is in the process of issuing, debt or equity instruments that are, or will be, outstanding and traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or that holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (e.g., banks, insurance companies, credit unions, securities firms, mutual funds and investment banks).

The introduction to the CICA Public Sector Accounting Handbook states that, for purposes of their financial reporting, government business enterprises and government business-type organizations (e.g., Crown corporations) are deemed to be PAEs and should adhere to the standards applicable to PAEs in the CICA Accounting Handbook, unless they are otherwise directed to specific public sector standards. Accordingly, the conversion to IFRS also applies to these two categories of public sector entities. However, this decision is currently being reviewed (see Question 76 for more details). When PAEs adopt IFRS, the primary standard applicable to pension plans will be Section 4100, Pension Plans, instead of IAS 26, Accounting and Reporting by Retirement Benefit Plans. The AcSB will consider whether any changes to Section 4100 are needed.

75. What are the timelines for conversion to IFRS in Canada?

For fiscal years beginning on or after January 1, 2011, PAEs will be required to report financial results using IFRS. Note that the first reporting period under IFRS will actually be the first quarterly report, not the first annual report. In addition, PAEs will need to provide comparative financial statements for the previous fiscal period (e.g., fiscal year 2010 results) under IFRS for that first report. Therefore, companies with December 31 fiscal year-ends would begin providing quarterly comparative information with their March 2011 interim filings. As such, companies may not have as much time as they think to prepare and convert to IFRS.

Over the past few years, new standards have been introduced in Canada that have converged Canadian GAAP with IFRS, so conversion to IFRS is already under way in some respects. See Question 81 for more information on timing and other issues related to conversion.

Companies may be able to adopt IFRS prior to the January 1, 2011, mandatory changeover date. For further information on early adoption, see Question 79.
76. Will the adoption of IFRS be required for organizations that are not publicly accountable enterprises (PAEs)?

Entities that do not meet the definition of a PAE are not required to adopt IFRS. The AcSB is working separately to address accounting standards for these groups of organizations. The current approach and status of these projects is as follows:

**Private Enterprises**

Private enterprises are profit-oriented entities that have not issued (and are not in the process of issuing) debt or equity instruments in a public market and do not hold assets in a fiduciary capacity for a broad group of outsiders. Based on input received from stakeholders on the strategy to develop accounting standards for private enterprises, the AcSB is developing a separate “made in Canada” set of financial reporting standards for private enterprises.

Using the existing CICA Handbook (Accounting) as a starting point, the AcSB plans to reconsider sections that are not relevant to private enterprises, or have caused significant concerns for private enterprises in the past. Disclosure requirements are also being re-evaluated, which is expected to result in considerably fewer disclosure requirements than the existing handbook. Working drafts of new handbook sections, a list of current sections to be retained or excluded, and tentative decisions on some specific issues are now available on the AcSB website.

The AcSB plans to make the new standards available by late 2009 for early application to fiscal years ending December 31, 2009. The AcSB tentatively decided that existing accounting standards for the private enterprise sector will be superseded by 2011.

**Not-for-Profit Organizations**

The AcSB and the Public Sector Accounting Board (PSAB) have jointly issued for comment an exposure draft setting out options for the direction of accounting standards for both private and public sector not-for-profit organizations.

The AcSB is responsible for the standards for private sector not-for-profit organizations, and the PSAB has authority for standards for not-for-profit organizations that are controlled by the government. The PSAB currently directs government not-for-profit organizations to follow the same standards as private sector not-for-profit organizations as contained in the CICA Handbook (Accounting).

Not-for-profit organizations will be given the option to elect to report in accordance with IFRS. Until the appropriate strategy has been determined for not-for-profit organizations, the existing handbook remains in place.

**Public Sector Entities**

The PSAB is consulting with stakeholders to make a decision on the requirement to have government business enterprises (GBE) and government business-type organizations (GBTO) continue to follow GAAP for publicly accountable enterprises, which will be IFRS beginning in January 2011. This is in response to concerns stakeholders expressed about continuing this practice. The PSAB seeks views on the breadth of application of IFRS to GBEs and GBTOs.

Other public sector entities (e.g., governments, government organizations, government partnerships and school boards) will continue to use the standards set out in the Public Sector Accounting Standards.

As noted in Question 74, pension plans continue to prepare their financial statements in accordance with Section 4100 of the CICA Handbook, “Pension Plans,” rather than IAS 26, “Accounting and Reporting by Retirement Benefit Plans.”

77. Assuming my company is planning to become a PAE shortly, when are we required to adopt IFRS?

Companies that are entering into an IPO prior to the fiscal year beginning on or after January 1, 2011, and that are PAEs, may be allowed to adopt IFRS early. They should consult with their regulatory bodies to make this determination. Absent an election to become an early adopter, companies going through the IPO process are subject to the same reporting requirements as any other public company. Thus, if a company is a PAE, it would be required to adopt IFRS for its first quarterly filing for the fiscal year ended on or after January 1, 2011.
Companies that are planning an IPO in the short-term should immediately begin evaluating the impact of adopting IFRS on their organization in the same manner as PAEs that are beginning the conversion process. Given the feedback from other countries regarding the length, cost and effort of the conversion process, procrastination with respect to IFRS could result in delaying an IPO.

78. As a private company looking to be acquired by a public company, should we consider converting to IFRS?

The decision by a private company to convert to IFRS is one that management should not make without considering the impact of the conversion upon the entire organization. First, a cost/benefit analysis of a conversion, including the impact of the conversion on financial results, should be conducted. Second, the impact of an IFRS conversion on contractual requirements should be considered. Many contracts contain measurements and covenants referencing Canadian GAAP, which will now be determined using IFRS. This may force your organization to adhere to these standards or maintain multiple sets of accounting records. Lastly, potential purchasers likely will complete extensive due diligence activities prior to completing a deal. Navigating and reconciling the reporting differences between IFRS and Canadian GAAP, as well as converting the books and records of the acquired entity to IFRS after the acquisition, may be a significant impediment, both financially and in terms of time, to closing the deal.

79. Is early adoption of IFRS allowed?

Staff Notice 52-231, released in June 2008, permits early adoption of IFRS only by issuers that receive exemptive relief. Relief will be considered by the Canadian Securities Administration (CSA) and provided on a case-by-case basis. For example, a domestic issuer may previously have filed financial statements prepared in accordance with Canadian GAAP or U.S. GAAP for interim periods in the first year that the issuer proposes to adopt IFRS. In such cases, the CSA staff will recommend, as a condition of the exemptive relief, that the issuer file revised interim financial statements prepared in accordance with IFRS, revised interim management discussion and analysis, and new interim certificates.

A company contemplating adoption of IFRS before 2011 should carefully assess the readiness of its financial staff, operating personnel, board of directors, audit committee, auditors, investors and others to accept and support the change. Companies also need to consider whether early adoption is feasible, based on available resources, expected implementation costs and the associated risk to reliable financial reporting.

Organizations contemplating early adoption also should consider the implications of converting to IFRS before 2011 on its obligations under securities legislation, including those relating to CEO and CFO certifications, business acquisition reports, offering documents, and previously released material with forward-looking information.

The regulators are supportive of early adoption, if the company is prepared and in a position to effectively adopt early, but only the company itself can make an honest assessment of that readiness. The regulators would like to see some level of early adoption to provide lessons learned for other issuers as they undergo conversion.

80. If early adoption of IFRS is allowed, what are the benefits and drawbacks of early adoption of IFRS?

For companies with global operations and foreign reporting requirements, the streamlining of accounting and reporting processes may result in potential cost reductions by developing common reporting systems and accounting policies across the organization, improving flexibility of use and location for finance resources, and achieving greater consistency in statutory reporting across the organization. Early adopters may also gain easier access to foreign capital markets and investments, and facilitate cross-border acquisitions, ventures and spin-offs. In addition, for companies whose results will improve under IFRS or prove advantageous from a competitive standpoint (for example, by providing better comparability with major international competitors), early conversion may be beneficial.

1 In this document, references to the CSA are used to refer collectively to these 13 securities regulators, as all 13 have generally agreed on the same approach with regard to IFRS. The CSA itself has no regulatory or rule-making powers. Differences between the 13 provincial regulators are noted, as appropriate.
The major drawbacks of early adoption of IFRS are the ability of the company to complete the conversion within a compressed project timeline and the increased risk of misstatement in the financial statements due to the lack of familiarity with the reporting requirements under IFRS.

Given the need to present comparative results under IFRS, companies that have not already converted or planned to early adopt IFRS may find it difficult and more time-consuming to do so. For instance, companies wishing to early adopt IFRS in fiscal year 2010 would need to be able to provide IFRS numbers for fiscal year 2009 and potentially fiscal year 2008 as well.

81. Have other companies already started or completed conversion to IFRS?

Some companies have been working on IFRS conversion for months, while others have not even begun the process. Most companies have either completed or are in the process of completing initial technical accounting diagnostics to identify the differences between current accounting practices under Canadian GAAP and IFRS and to assess the impact of these differences on their organization’s processes, systems and reporting. Most companies also are beginning to develop project teams and conversion plans. Canadian subsidiaries of European and other foreign companies that already have adopted IFRS may be further along in this process.

With respect to IFRS conversion, 2009 is an important milestone year for most Canadian companies, as many organizations in the European Union that already have completed the conversion process have indicated the effort to convert can take at least 12 to 24 months, if not longer. Companies that delay starting their conversion projects beyond the beginning of 2009 have an increased risk of incurring time and resource constraints on their projects, which could threaten the success of their conversion.

In addition, since 2010 comparative numbers are required to be included with 2011 reports, companies must soon address how they will initially report 2010 results under Canadian GAAP and how they will subsequently convert and report these results under IFRS. Companies may find that maintaining parallel accounting records in both Canadian GAAP and IFRS will be beneficial to ensure that the new IFRS reporting processes are running smoothly and are error-free before public disclosures are made in 2011. Running parallel systems allows companies to work out problems in a safe environment before “going live” in 2011 and minimize the risk of restatements. Many companies will find education and training to be challenging because of lack of resources, so the earlier that companies have resources in place to begin the conversion, the better off they will be.

82. Is IFRS as detailed and complete as current Canadian GAAP?

IFRS and Canadian GAAP generally are similar, as both are principles-based and use a conceptual framework similar in principle, style and form. In general, both reach similar conclusions. Canadian GAAP is codified in the CICA Handbook, which is similar to the comparable IFRS volume.

Many complex standards, such as those regarding financial instruments, already have been converged with IFRS over the past few years. IFRS will, however, require more disclosure than currently required under Canadian GAAP. Abstracts issued by the Emerging Issues Committee (EIC) and industry-specific guidelines (particularly for oil and gas accounting, which are not well-developed in IFRS) that currently exist under Canadian GAAP will be superseded, so initially there may be less guidance and detail in some areas of accounting under IFRS.

83. Where can I find information on the differences between Canadian GAAP and IFRS?

IFRS, like Canadian GAAP, is principles-based and is derived from similar conceptual frameworks. There are many similarities between IFRS and Canadian GAAP. There are also significant differences that may give rise to major changes in financial reporting for some organizations. In preparing for the transition, Canadian PAEs should, as a first step, inform themselves about the new standards and determine the likely effects on their particular organization.
There are a number of AcSB standards that are substantially the same as IFRS. In issuing standards over the past few years, the AcSB gradually has been converging existing Canadian GAAP with IFRS. Thus, conversion to IFRS is already well under way. Nevertheless, conversion may result in differences in recognition, measurement and disclosures of transactions in the financial statements. The extent and significance of differences will vary by industry and organization, depending on the entity’s specific circumstances. Accordingly, differences should be identified and addressed as soon as possible to ensure an orderly and successful conversion.

The CICA website (www.cica.ca) is a source for information on the current applicable accounting standards for Canada, the current projects in process with the AcSB and IASB, and the differences between Canadian GAAP and IFRS, as well as recent and upcoming changes to those standards.

84. Which IFRSs are expected to apply for changeover in Canada in 2011?

Canada will adopt IFRS as issued by the IASB (i.e., without making any changes). However, accounting standards are not static, and IFRS is no exception. Recognizing that a number of jurisdictions are moving to IFRS in 2011, the IASB took this into consideration in releasing new standards. In the vast majority of cases, IFRS will not change between now and 2011. Those standards that are likely to change will be available in sufficient time to plan for the changeover. In these cases, entities should be able to make solid plans for accounting policy selection and information gathering.

In December 2008, the AcSB of the CICA issued on its website, www.acsbcanada.org, the report “Which IFRSs are Expected to Apply for Canadian Changeover in 2011?” The paper was issued to assist companies with identifying applicable IFRS accounting standards in the first year of adoption, to identify which International Financial Reporting Standards are not anticipated to change during the changeover timeline and to identify which standards are anticipated to change during the changeover period, as well as anticipated release dates of new standards.

85. What is the CSA’s role as it relates to IFRS?

The CSA sets out the reporting requirements for publicly listed companies and has endorsed IFRS. While the CSA does not establish accounting standards, it is issuing disclosure requirements during the IFRS transition process to ensure that PAE stakeholders understand the impact and progress of conversion to IFRS by companies, as there may be significant changes to financial results and methods of reporting financial information.

The CSA has released several notices to provide guidance and disclosure requirements to companies regarding the conversion to IFRS:

- Staff Notice 33-313, “International Financial Reporting Standards and Registrants”

The CSA likely will continue to provide additional guidance and clarification as more companies progress in their conversion projects.

Securities regulators will also, in due course, review regulatory filings based on IFRS to ensure compliance with securities regulations, and are working with other countries’ regulators to share information and ensure they are ready to meet their regulatory obligations. The AcSB has consulted with regulators (and other stakeholders) throughout the IFRS decision-making and transition processes to ensure agreement on the approach and content of changes.
86. How will IFRS impact CSA reporting requirements?

Under IFRS, companies will continue to make the same required filings with the CSA; however, transition disclosures related to the conversion will be required (see Question 87). The difference is that financial disclosures will be made using IFRS instead of Canadian GAAP. There are no additional forms or filings required once the conversion to IFRS takes place. Current CSA and securities reporting and disclosure requirements will still apply and are independent of the conversion to IFRS. However, IFRS may increase the risks to companies with regard to these other reporting requirements, such as CEO and CFO certifications on internal controls under National Instrument (NI) 52-109, “Certification of Disclosure in Issuers’ Annual and Interim Filings,” as application of the new accounting standards and changes to an organization’s accounting, financial reporting and related processes may increase the risk of errors.

87. How will a change to IFRS impact annual reports filed by PAEs in Canada?

Even before converting to financial reporting using IFRS, companies will need to provide disclosures related to their conversion process in their interim and annual reports. In Staff Notice 52-320, released in May 2008, the CSA provided guidance to issuers regarding disclosure of their conversion plan to IFRS to investors and the timing of such disclosures. The guidance emphasizes that, given the potential effect on an issuer’s reported financial position and results of operations and other aspects of its business, investors and other market participants will need timely and meaningful information leading up to the changeover.

In its management discussion and analysis (MD&A), an issuer must discuss and analyze any changes in its accounting policies that it has adopted or expects to adopt after year-end, including changes due to a new accounting standard that the issuer does not have to adopt until a future date. For companies that will change over to IFRS on January 1, 2011, disclosure of the changeover plan began in their 2008 interim and annual filings. The table below outlines the disclosures for the upcoming years for these issuers:

<table>
<thead>
<tr>
<th>Report</th>
<th>Reporting Period</th>
<th>Disclosure Required</th>
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<tbody>
<tr>
<td>Interim MD&amp;A two years before changeover to IFRS</td>
<td>Interim periods of the fiscal year ending December 31, 2009, for an issuer that will change to IFRS for its fiscal year beginning January 1, 2011.</td>
<td>Provide an update of progress on the issuer’s IFRS changeover plan, including any changes in its plan in the issuer’s MD&amp;A for interim periods of the financial year beginning two years before the issuer’s conversion date.</td>
</tr>
<tr>
<td>Annual MD&amp;A two years before changeover to IFRS</td>
<td>Fiscal year ending December 31, 2009, for an issuer that will change to IFRS for its fiscal year beginning January 1, 2011.</td>
<td>Disclose in MD&amp;A the issuer’s preparations for conversion to IFRS. Investors should be able to understand how key areas of the financial statements will be affected by the conversion to IFRS. A company should describe the significant differences between current accounting policies under Canadian GAAP and those policies required or expected to be used in preparing IFRS financial statements. These differences would also include anticipated changes in accounting policies that will be made even though the issuer’s current accounting policies under Canadian GAAP are permissible under IFRS. In identifying the accounting policies an issuer is required to, or expects to, apply under IFRS, an issuer should consider International Financial Reporting Standards as they exist at the date MD&amp;A is prepared, and if appropriate, the potential impact of projects that the IASB currently has in process in identifying the accounting policies the issuer expects to apply on its initial adoption of IFRS. The issuer should also disclose any assumptions made about expected future changes to IFRS.</td>
</tr>
</tbody>
</table>
Note that the issuer’s conversion plan is the process the entity has in place for executing its conversion to IFRS on a timely basis, including allocation of responsibilities, deadlines, progress review and communications of progress, both internally and externally. The plans should include monitoring milestones and metrics that measure an entity’s progress toward conversion to IFRS, not simply the nature of changes in accounting policies that often monopolizes IFRS conversion discussions.

The CSA suggests a number of key elements that an issuer’s plan may address:

- Key milestones and measurement criteria used to evaluate progress toward conversion and the likelihood that an entity will complete the conversion on time, as well as updates on this progress in comparison to prior period updates.
- Decisions about selection of accounting policies when alternatives are available, and implementation decisions, such as whether changes will be applied on a retrospective or a prospective basis.
- An assessment of the resources needed to execute the plan. In particular, the entity should discuss how it will ensure that its workforce has sufficient IFRS competencies to execute the plan.
- The process to be followed by the issuer in determining whether a material change has occurred that requires a Material Change Report to be filed in accordance with securities regulations.
- Changes or updates in information technology and data systems and the timing for the testing of significant system changes.
- Changes in internal control over financial reporting.
- Changes in disclosure controls and procedures, including investor relations and external communications plans.
- The issuer’s financial reporting expertise, including training requirements.
- Business activities, such as foreign currency and hedging activities, as well as other matters that may be affected by changes to traditional GAAP measures, such as debt covenants, capital requirements and compensation arrangements.

Needless to say, there is much to be done. Getting started as soon as possible is an imperative. The above disclosures are intended to make the planning process transparent. Without adequate preparation, the story will be difficult to tell.
In early 2010, the Ontario Securities Commission (OSC) released Staff Notice 52-718, *IFRS Transition Disclosure Review*, outlining the results of the OSC’s review to assess the extent and quality of IFRS transition disclosures made by issuers in light of the disclosure guidance provided in CSA Staff Notice 52-320, *Disclosure of Expected Changes in Accounting Policies Relating to Changeover to International Financial Reporting Standards*. The review focused on reporting issuers’ IFRS transition disclosure provided in the 2008 annual and 2009 interim MD&A.

Overall, the findings suggested that reporting issuers are not adequately disclosing the key elements of their IFRS changeover plan or their progress towards achieving this plan. A summary of the findings is as follows:

- Forty percent of issuers received a letter from the staff questioning whether a changeover plan was in place, as it was not evident from reading their MD&A disclosure. Given the short time remaining before the changeover date, this raises concerns that issuers may not be able to comply with future filing obligations.

- Of the 60 percent of issuers who discussed an IFRS changeover plan in their 2008 annual MD&A, approximately half simply provided a generic description of the plan without any direct application to their own circumstances. The most valuable information for investors is an IFRS transition disclosure that is specific to the issuer.

- Eighty percent of issuers who discussed an IFRS changeover plan failed to describe significant milestones and anticipated timelines associated with each of the key elements of the plan. It is important that issuers discuss the timing associated with key elements so that investors can readily assess whether the project is progressing in accordance with the changeover plan.

- Forty-eight percent of issuers who discussed IFRS transition in the 2008 annual MD&A failed to provide quarterly updates in the 2009 interim MD&A on the progress related to their changeover plan. Investors need progress updates to assist them in assessing the likelihood that the issuer will be able to complete its IFRS conversion on time.

The OSC considers it critical that investors are properly informed during the IFRS transition on whether reported changes in financial performance relate to the adoption of different accounting standards or relate to a change in the issuer’s business. Issuers who provide sufficient information about their conversion process and its effects prior to the changeover will reduce the level of investor uncertainty. Ultimately, this should lead to a more stable and less disruptive transition to IFRS, which will be beneficial to both issuers and their investors.

As discussed here, issuers will need to provide more detailed information about the expected effects of IFRS as the changeover date approaches. Accordingly, the OSC will conduct future targeted reviews of issuers’ IFRS transition disclosures. While the focus of the current review is education and awareness, the OSC cautioned that issuers may be requested to re-file MD&As in the future if disclosure obligations are not met.

Subsequent to adopting IFRS, the primary changes in annual reporting by PAEs will be related to the additional disclosures and reporting format under IFRS, as compared to Canadian GAAP. Currently, no changes have been made to the filing deadlines for annual reports, nor are any additional schedules or attachments required to be filed.

### 88. How will a change to IFRS impact interim reporting for PAEs in Canada?

CICA Handbook Section 1751 and IAS 34, which govern the rules for interim reporting for Canadian GAAP and IFRS, respectively, have already been converged, with the following exceptions:

- IAS 34 contemplates providing a condensed set of financial statements.

- IAS 34 does not require the presentation of a cash flow statement for the current interim period, only for the cumulative period.

- IAS 34 precludes the deferral, in interim periods, of manufacturing cost variances that are expected to be absorbed by year-end.

- IAS 34 treats the initial recognition of a previously unrecognized income tax asset as an adjustment to the estimated average annual effective income tax rate used in determining interim period tax expense, rather than as a separate item of the income tax expense.
No further convergence work in this area is expected. Thus, upon conversion to IFRS, companies will need to apply the reporting requirements of IAS 34 to their interim reports, including those noted above.

89. Does IFRS use the same financial statements as required under Canadian GAAP?

Currently, Canadian GAAP and IFRS use similar statements as part of a complete set of financial statements and require accrual-based accounting. The general content and presentation of the financial statements under IFRS are comparable to Canadian GAAP.

The table below provides a comparison of the required components for a complete set of financial statements under IFRS and Canadian GAAP:

<table>
<thead>
<tr>
<th>IFRS Financial Statements</th>
<th>Canadian GAAP Financial Statements</th>
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</thead>
<tbody>
<tr>
<td>Statement of financial position</td>
<td>Balance sheet</td>
</tr>
<tr>
<td>Statement of income</td>
<td>Statement of income/earnings</td>
</tr>
<tr>
<td>Statement of comprehensive income</td>
<td>Statement of other comprehensive income and accumulated other comprehensive income*</td>
</tr>
<tr>
<td>Statement of changes in equity</td>
<td>Statement of retained earnings/shareholders’ equity</td>
</tr>
<tr>
<td>Statement of cash flows</td>
<td>Statement of cash flows</td>
</tr>
<tr>
<td>Notes to financial statements</td>
<td>Notes to financial statements</td>
</tr>
</tbody>
</table>

*The component of other comprehensive income and accumulated other comprehensive income is commonly combined with the income statement or the statement of changes in stockholders’ equity, but may be presented as a separate statement.

As part of the convergence efforts, the FASB and IASB are currently working on a joint project established under a Memorandum of Understanding (MoU) that would not only synchronize the financial statements required under Canadian GAAP and IFRS, but also would radically change financial reporting and presentation as it currently exists. For additional information on the proposed changes, please refer to Question 66.

90. How will companies address the need for 2010 financial information prepared under both Canadian GAAP and IFRS?

Comparative financial information for fiscal year 2010 will be required when PAEs make their first filing under IFRS for fiscal year 2011. Since most companies will not have time to adopt early, companies generally will have two options: Restate 2010 numbers in 2011; or maintain parallel accounting systems in 2010, allowing the company to prepare financial reports under both Canadian GAAP and IFRS. Electing to restate 2010 financial results may be the best choice for companies that have minimal changes to their accounting systems and processes. For others, the restatement approach may be time-consuming and difficult, as companies will need to make sure they have all the data they need to restate 2010 reported results under IFRS (for example, fair value information).

Running parallel systems may be somewhat costly and cumbersome, but it provides a safer option and has the added benefits of enabling a company to work out any problems or issues in its new processes. It also gives a company a full year to understand how to report under IFRS without the burden of regulatory scrutiny. This approach might reduce the risk of future misstatements, as companies will have more time to prepare and review their IFRS reports before going live in 2011.
91. Will IFRS reduce the number of restatements by public companies in Canada?

Restatements arise from a myriad of causes and can happen regardless of the accounting standards used to prepare financial statements. In some instances, a substantial amount of judgment is required when applying International Financial Reporting Standards. The IFRS conversion actually may increase the number of restatements, at least initially, due to lack of understanding and familiarity with the new standards. However, a robust diagnostic effort by an organization can help identify the proper IFRS accounting treatment and related disclosures for transactions and help to reduce the potential for restatements.

In the European Union, restatements increased initially after conversion to IFRS, as companies made their initial filings under the new standards. Sufficient time has not passed to determine the long-term impact of IFRS conversion on restatements. European Union restatement activity could be an indicator of the level of restatement activity Canadian companies may experience once they begin to submit financial statements prepared under IFRS.

92. How will IFRS impact compliance with National Instrument 52-109?

The impact of converting to IFRS on compliance with NI 52-109 will vary widely by company. Some entities will require numerous and significant changes to their processes and internal controls as a result of the conversion to IFRS, while other entities will experience very few. Changes in processes and systems that result in material changes in internal controls may need to be disclosed, and the risk of material weaknesses may increase. In particular, the knowledge and required skills within reporting functions will be a major concern. Every impact or change that results from IFRS will also need to be assessed from a controls perspective – both in terms of design effectiveness and operating effectiveness.

The AcSB’s proposals could result in major changes for business. The change driven by IFRS will not be restricted to the finance function. Converting to IFRS is not merely a technical accounting exercise, but also a significant change management initiative that will impact many areas of the business. Any business function required to prepare financial information, or affected by financial information, may need to change. For example, given the expected change in earnings and financial position, companies should expect changes to their executive and employee evaluation and compensation plans (human resources), foreign exchange and hedging activities (treasury), corporate income taxes (taxation), ratios and bank covenants (finance and treasury), internal controls and processes (finance), investor relations and communication to capital markets (finance and investor relations), management reporting (finance), contracts and other legal documents (e.g., purchase agreements) that refer to GAAP numbers (legal), planning and budgeting (finance and strategy), and data and financial reporting systems (IT).

93. If our company is interlisted on a U.S. exchange, will IFRS financial statements be accepted, or do we need to provide U.S. GAAP information?

The SEC allows foreign private issuers to file financial statements prepared in accordance with IFRS as issued by the IASB. In 2007, the SEC discontinued the requirement that foreign private issuers include a reconciliation of IFRS to U.S. GAAP within those statements. The CSA proposes allowing U.S. GAAP financial statement filings for those companies that currently file U.S. GAAP.

94. How will IFRS impact my company’s reported earnings and performance compared to Canadian GAAP?

The impact of converting to IFRS will vary by company and will depend heavily on the specific company and the choices made during the conversion process. A significant part of the transition challenge is determining what the long-term impact of IFRS conversion will be and making strategic choices that are best for the company. For instance, use of fair value accounting may be beneficial in times of rising asset values, but may not be desirable during periods of slowdown or contraction. IFRS will likely increase volatility due to greater use of fair value accounting.
95. Will lenders, contract counterparties and regulators require financial statements prepared under IFRS, or continue to require Canadian GAAP standards?

Most contracts and legal agreements in place today refer to use of Canadian GAAP, which will be replaced with IFRS for fiscal years beginning on or after January 1, 2011. At the time of the transition, Canadian GAAP will be IFRS, so it is likely that post-conversion, these parties will require financial statements prepared using IFRS.

As part of the diagnostic and conversion project planning, a company should assess how the changeover to IFRS will affect its financial covenants. For example, differences in reported results of operations and financial position arising from the changeover, particularly if they are material, could negatively affect the company’s financial ratios and even trigger a default. Alternatively, an organization may find that the changeover will improve its ratios, which may make the prospect of early adoption more attractive. If an organization’s compliance with its covenants is likely to be materially affected by the changeover, it should consult with lenders and contract counterparties to discuss the impact of the change to the new reporting standards on the organization’s obligations under the contract.

An organization also should assess its financial reporting obligations under contractual arrangements. For example, under a loan agreement with a “frozen GAAP” provision, a company would be required, absent a waiver, to maintain records in both Canadian GAAP and IFRS. A frozen GAAP provision requires the borrower to ensure that all financial statements provided to the lender apply the same GAAP standards as were used in the financial statements provided when the loan agreement was originated. If a change in GAAP subsequently occurs, the borrower must provide the lender with a reconciliation of the current financial statements back to the original GAAP standards in place at the time of the agreement. Organizations with frozen GAAP provisions in their loan and other agreements should address reporting requirements with their lenders and counterparties as soon as possible as part of their conversion process.
96. *Is adoption of IFRS required or permitted in Japan?*

Currently, Japanese companies are not required to use IFRS when preparing their securities reports (annual reports). Japanese companies registered with the SEC are permitted to prepare consolidated financial statements in accordance with U.S. GAAP if certain conditions are met, and they may select IFRS in place of U.S. GAAP. Additionally, certain companies are permitted to prepare consolidated financial statements in accordance with IFRS (read Question 97 for more information).

When preparing securities reports in Japan, foreign companies listed on the Tokyo Stock Exchange are permitted to use their own or other countries’ GAAP if certain conditions are met. Thus, most European companies are filing securities reports in Japan with financial statements prepared in accordance with IFRS.

97. *When might IFRS be adopted in Japan, and which companies will be affected?*

The Financial Services Agency (FSA) issued the Roadmap for IFRS in Japan on June 30, 2009. According to the Roadmap, the use of IFRS on a voluntary basis could be permitted for the consolidated financial statements of certain listed companies for the fiscal year ending March 31, 2010. To be permitted to use IFRS, companies need to meet all four of the following conditions:

1. **Prepare and disclose appropriate financial statements on an ongoing basis.** This means that the company needs to be a listed company.

2. **Have established an appropriate internal framework for IFRS-based reporting.** For example, there are directors or employees who have enough knowledge of IFRS.

3. **Have developed in-house accounting procedures based on IFRS and disclosed the relevant information in annual reports.**

4. **Conduct international financial and business activities.** Under the proposed regulation, it is necessary that the company has registered in overseas markets and prepared consolidated financial statements in IFRS or that the company has a consolidated subsidiary overseas whose capital amount is more than 2 billion yen.

While listed companies might be permitted to adopt IFRS in 2010, it is less likely that nonlisted companies, non-profit organizations and government-owned corporations will be required to adopt IFRS. At this point, Japanese GAAP is being systematically converged with IFRS. Under the convergence process, significant differences between Japanese GAAP and IFRS were dissolved in 2008 based on the “Tokyo Agreement” released on August 8, 2007, between the Accounting Standards Board of Japan (ASBJ) and the IASB. The remaining differences are planned
to be dissolved by June 30, 2011. In Japan, annual reports disclose the nonconsolidated and consolidated financial statements, so there is discussion about whether to adopt IFRS for consolidated financial statements only or to also adopt IFRS for nonconsolidated financial statements. At least during the voluntary use period, FSA concluded that it is appropriate to permit the application of IFRS only to consolidated financial statements.

98. Which organization is responsible for determining whether IFRS will be adopted or if Japan will continue to focus on the convergence of IFRS and Japanese GAAP?

In Japan, the FSA is the equivalent organization to the SEC in the United States. The FSA’s responsibilities include inspection and supervision of private sector financial institutions (banks, securities companies and insurance companies) and market participants, establishment of rules for trading in securities markets, reviewing documents such as annual reports, imposition of disciplinary actions, and supervision of CPAs and auditing firms.

The ASBJ, which is the equivalent organization to the FASB in the United States, is the standard-setting body for accounting in Japan. The Business Accounting Council of the FSA (formerly the Ministry of Finance) had long been the standard-setting body for accounting, but ASBJ has been setting the accounting standards since it was established as a private sector standard-setting body for accounting in July 2001.

The FSA has the authority to decide whether to adopt IFRS. The ASBJ, the Japanese Institute of Certified Public Accountants (JICPA) and Nippon Keidanren, which is the Japan Business Federation, will be consulted during the decision-making process. The JICPA and Nippon Keidanren speak for their respective associated organizations regarding adoption of IFRS.

99. What is the timeline for the convergence process in Japan? Is there a process equivalent to a roadmap or memorandum of understanding (MoU)?

The convergence of Japanese GAAP is in progress. The various organizations and entities involved in the convergence are assessing current convergence efforts, similar to the approach in the European Union, in solving the differences for 26 major issues to be remedied. These issues were identified in “Technical Advice on Equivalence to IFRS,” issued by the Committee of European Securities Regulators (CESR) in July 2005. Below is a timeline of the major activities taken to date toward convergence in Japan to illustrate the progress and momentum for making IFRS a reality:

<p>| January 2006 | ASBJ releases the current developments on the 26 major issues to be remedied and their future prospects for 2008, and clarifies recent progress toward the convergence of Japanese GAAP and IFRS based on the “Technical Advice on Equivalence to IFRS” issued by CESR in July 2005. |
| June 2006 | Nippon Keidanren reports that it “supports [efforts] to accelerate the convergence of accounting standards and to seek mutual recognition of standards in Japan, the United States and Europe.” |
| July 2006 | FSA releases “Toward the International Convergence of Accounting Standards.” It suggests inviting “a more proactive approach toward the convergence of accounting standards in search of a higher quality” and states that “it is expected that all involved parties engage themselves into the convergence with a heightened cooperative spirit.” In addition, it emphasizes the necessity to establish a schedule in order to prepare for a European Union equivalence assessment. |
| October 2006 | ASBJ releases its project plan* for the development of accounting standards to address convergence for the 26 items scheduled to be remedied by the end of 2007, as well as an update on the prospect of accomplishing convergence by the beginning of 2008, based on the original proposal for establishing the project plan in the FSA’s “Toward the International Convergence of Accounting Standards.” |
| August 2007 | ASBJ and IASB release the “Tokyo Agreement,” announcing the planned accomplishment of converging accounting standards by 2011. The agreement includes due dates for accomplishing the short-term convergence project by 2008 and for other convergence-related activities by June 30, 2011. |</p>
<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
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<tbody>
<tr>
<td>December 2007</td>
<td>ASBJ releases the updated project plan based on the “Tokyo Agreement.” The plan presents the schedule based on the following three categories of convergence issues: (1) Issues recommended by CESR for European Union equivalence assessment purposes (short-term) (2) Issues related to remaining differences between Japanese GAAP and IFRS, except for those referenced in the first category (medium-term) (3) Issues related to the MoU between the IASB and the FASB (medium- and long-term)</td>
</tr>
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<td>April 2008</td>
<td>The European Commission releases the progress report on the equivalence assessment of accounting standards. For Japanese GAAP, it states that “the Commission should consider Japanese GAAP equivalent unless there is no adequate evidence of the ASBJ achieving to timetable the objectives set out in the Tokyo Agreement.”</td>
</tr>
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<td>May 2008</td>
<td>Nippon Keidanren releases “Summary results of survey on the future Japanese corporate accounting framework.” In the summary, it states that “although there are many opinions on the incorporation of IFRS, many companies are positive for permitting the use of IFRS in Japan.”</td>
</tr>
<tr>
<td>July 2008</td>
<td>FSA hosts “The first meeting for discussion on the future Japanese corporate accounting framework.” Nippon Keidanren, JICPA, ASBJ and other organizations participate in this forum. From the perspective of convergence, the discussion concludes that the accounting standards on consolidated financial statements should first be developed flexibly before being applied to nonconsolidated financial statements.</td>
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<tr>
<td>September 2008</td>
<td>JICPA releases the “Report on our visit to the EU and our position on IFRS in Japan.” It reports on its visit to various organizations in Europe, where application of IFRS went into effect three years earlier, in order to exemplify practical experiences of transition and current issues. In the section “Issues to be addressed in Japan,” JICPA suggests giving options as to the application of IFRS in Japan, and that application to the consolidated financial statements of the listed companies should be prioritized in considering such options. ASBJ updates the project plan after IASB and FASB revise the MoU.</td>
</tr>
<tr>
<td>October 2008</td>
<td>Nippon Keidanren releases “Future Directions of Accounting Standards in Japan – The Next Step Towards a Single Set of Accounting Standards.” In the summary, it states, “For the near term, it is appropriate to permit the use of IFRS for listed companies as an option ... We think that IFRS is much more focused on disclosure, and therefore, the adoption of IFRS should be limited to consolidated financial statements.” The Planning and Coordination Committee of the FSA’s Business Accounting Council has its first meeting to discuss adoption of IFRS. The purpose of this first meeting is not to reach a conclusion, but to gather several opinions from CEOs, CPAs, securities analysts, professors, the ASBJ and others.</td>
</tr>
<tr>
<td>February 2009</td>
<td>The FSA issues a proposed Roadmap.</td>
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<tr>
<td>June 2009</td>
<td>The FSA issues the Roadmap.</td>
</tr>
<tr>
<td>December 2009</td>
<td>The FSA issues a revised Cabinet Office Ordinance, “Forms and Preparation of Consolidated Financial Statements.” This Ordinance provides an operational framework for the voluntary application of IFRS in Japan, following the Roadmap.</td>
</tr>
</tbody>
</table>

*The project plan issued by the ASBJ is equivalent to the MoU.*
100. Is it likely Japan will fully adopt IFRS in the near future?

In the Japanese Roadmap for IFRS issued by the FSA, the decision regarding the mandatory use of IFRS could be made around 2012. However, this timing could be either accelerated or pushed back, depending on the status of IFRS application during the voluntary use period and the assessment of the following factors:

- **Improvement in IFRS accounting standards.** IFRS must accurately reflect the economic substance of businesses and trade practices in Japan. In addition, IFRS must continue to be a set of appropriate standards that reflects the conditions of today’s global financial and capital markets.

- **IFRS availability in Japanese.** IFRS must be understood by Japanese financial report preparers, investors and other users of financial statements. The IFRS text must be translated into Japanese so that an authentic Japanese version can be made available.

- **Improvements in the IFRS standard-setting process.** The standard-setting process and improvements in governance of the International Accounting Standards Committee Foundation (IASCF) should enhance accountability to regulators, market participants and other stakeholders. In this respect, reform is currently under way at the IASCF. The recent amendment of its constitution regarding the establishment of the Monitoring Board, consisting of financial regulators representing Japan, the United States and Europe, along with the International Organization of Securities Commissions (IOSCO), is very significant in the progress toward optional application. Furthermore, the IASCF must continue to work diligently toward the realization of other governance reforms, such as securing stable and independent funding.

- **Strengthening Japan’s involvement with the IFRS standard-setting process.** It is essential to enhance the ASBJ’s functions of gathering human and other resources and to secure a broad-based, stable source of funding to the ASBJ and the IASCF. When setting standards at the IASB, it is critical that a wide range of relevant parties express their opinions in partnership with those in other countries.

- **Education and training needed.** Knowledge and understanding of IFRS, U.S. GAAP and other international accounting standards are believed to have spread steadily among investors, financial report preparers, auditors and other stakeholders through past discussions on convergence. However, it is essential that involved parties in Japan gain a greater understanding of IFRS and develop the ability to easily apply the standards for IFRS to be employed by Japanese companies in financial reporting.

- **Integration of XBRL by IFRS.** In Japan, financial statements are already being prepared based on the XBRL unified data format. For this reason, it is necessary to ensure that IFRS application includes preparations of financial statements in the XBRL format. Although the IASCF has developed XBRL data taxonomy for IFRS, the number of data items in the taxonomy is far smaller compared to the Japanese GAAP taxonomy. In addition, the IFRS taxonomy does not comply with Japan’s electronic reporting system, the Electronic Disclosure for Investors’ NETwork, due to a lack of compatibility with the Japanese language and other reasons. International alignment of XBRL data items in IFRS-based taxonomies is needed to prevent a decline in the level of information to Japanese investors under IFRS.

- **International developments.** When determining mandatory application of IFRS in Japan, the FSA will consider whether the United States requires U.S. companies to comply with IFRS, as well as the status of IFRS use in the European Union and other countries.

According to the Roadmap, if the decision regarding the mandatory use of IFRS is made in 2012, mandatory application will be introduced in 2015 or 2016. As a method of mandatory application, the Roadmap indicates two approaches: phased-in approach and simultaneous introduction approach. When deciding on the mandatory application during 2012, these two approaches will be discussed, and a decision will be made as to which should be taken for the mandatory use of IFRS in 2015 or 2016.
101. How will IFRS affect the statutory filings and consolidation reporting package for my company’s international reporting units, including its subsidiaries and affiliates?

Under Japanese GAAP, companies, along with their subsidiaries and affiliates, are required to apply uniform accounting policies. However, if financial statements (including statutory financial statements and consolidation reporting packages) for foreign subsidiaries and foreign affiliates are prepared in accordance with IFRS or U.S. GAAP, it is acceptable to use them for consolidated accounting and reporting at the present time. However, it is not clear how long this approach will be permitted. In other words, when foreign subsidiaries and foreign affiliates prepare the consolidation reporting package for a parent company, they currently are not required to convert the financial statements to Japanese GAAP. They also can use the statutory financial statements as a basis for the consolidation reporting package if the statutory financial statements are prepared in accordance with IFRS or U.S. GAAP. Therefore, it is currently not a problem for Japanese parent companies to prepare consolidated financial statements, even though U.S. subsidiaries and/or affiliates will be required to prepare their financial statements under IFRS rather than U.S. GAAP.

However, financial statements (including the statutory financial statements and consolidation reporting package) for foreign subsidiaries and foreign affiliates prepared in accordance with a country’s local GAAP need to be converted into IFRS or Japanese GAAP to be used for consolidated accounting and reporting. Certain items, such as amortization of goodwill or expensing the difference of actuarial calculation for a retirement benefit plan – except when immaterial – are still required to be adjusted for foreign subsidiaries and foreign affiliates for consolidated financial closing procedures.

102. Where can I find information on the differences between current Japanese GAAP and IFRS?

Japanese GAAP is currently being converged to IFRS. Under the convergence process, significant differences between Japanese GAAP and IFRS were dissolved in 2008 based on the “Tokyo Agreement” released on August 8, 2007, between the Accounting Standards Board of Japan (ASBJ) and the IASB. The remaining differences are planned to be dissolved by June 30, 2011. This means that standards will continue to change between now and 2011. The JICPA’s website (www.hp.jicpa.or.jp/english) and the ASBJ’s website (www.asb.or.jp/asb/top_e.do) are sources for information on the current applicable accounting standards in Japan, current projects in process with the ASBJ and the IASB, as well as recent and upcoming changes to Japanese GAAP and IFRS.

103. Which differences between current Japanese GAAP and IFRS are being addressed by convergence?

While the ASBJ and IASB work toward the convergence of Japanese GAAP to IFRS based on the Tokyo Agreement, modification to the impairment of fixed assets and intangible assets (development cost) will be determined as a result of deliberation by the IASB and FASB. In addition, conversion issues related to the MoU between the IASB and FASB (such as scope of consolidation, presentation of financial statements, revenue recognition, classification of liability and equity, financial instruments, fair value measurement, de-recognition, employee retirement benefits, and leases) will impact the direction of deliberation by the IASB and FASB on such issues. Once the IASB and FASB issue converging standards for these areas, the ASBJ and IASB will work together closely to ensure acceptance of the new standards in Japan.

104. Will there likely be any remaining differences between Japanese GAAP and IFRS, and if so, will they matter?

Other than the project items related to the MoU between the IASB and FASB, all current differences between Japanese GAAP and IFRS are expected to be remedied through convergence. Many items identified in the MoU between the IASB and FASB are expected to be completed in 2011. However, it is expected that Japan will require additional time to complete convergence in some areas, especially revenue recognition. Currently, there is very little guidance regarding revenue recognition in Japan. Thus, the implementation of any new guidance or standards in this area may take companies longer to complete.
About Protiviti Inc.

Protiviti (www.protiviti.com) is a global consulting firm that helps companies solve problems in finance, technology, operations, governance, risk and internal audit. Through our network of more than 70 offices in over 20 countries, we have served more than 35 percent of FORTUNE® 1000 and Global 500 companies. We also work with smaller, growing companies, including those looking to go public, as well as with government agencies.

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About Our IFRS Capabilities

Conversion to IFRS raises numerous issues for companies, which must identify resource needs, assess system capabilities, and consider the impact on their business processes and internal control structure, among many other challenges. Need assistance evaluating what the transition to IFRS means to your organization? Protiviti can help you assess the impact by using diagnostics and other tools to identify and prioritize the infrastructure issues that require attention. Whether you need help with policy and procedure development or modification, accounting and reporting process redesign, IT/ERP system controls updates or improvements, or IFRS-related project management, we can assist you in addressing your infrastructure issues and in transforming people, processes and technology.

In our work assisting clients all over the world with their internal controls, we have developed solutions that help chief audit executives, chief financial officers, chief information officers and chief legal officers to manage change. Our approach is based on the early establishment of a sound foundation with tone-at-the-top support and rigorous project management involving representatives from all affected parts of the organization.

To learn more about the potential ramifications of a transition to IFRS and how others are approaching this initiative, please refer to Protiviti IFRS Experts – Contact Information on the next page.
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