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Oracle’s Financial Management Solutions: Transition to IFRS with Oracle E-Business Suite
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EXECUTIVE OVERVIEW

This white paper explores how Oracle’s Financial Management Solutions can help companies transition to IFRS. It identifies the challenges that organizations face as US GAAP converges with International Financial Reporting Standards (IFRS) and public companies adopt IFRS. This white paper provides a detailed view of how Oracle E-Business Suite supports IFRS.

Introduction

Current Activity

In the fall of 2008, the SEC published a discussion road map for the adoption of IFRS by US public companies in which early IFRS adopters could file as soon as 2011, and regular filing under IFRS would begin in 2014. In March 2010, the SEC announced that in 2011 they would consider accepting IFRS into the US Financial Reporting system if certain readiness conditions were met and IFRS and US GAAP had reached convergence by mid 2011. This would mean that 2015 might be the earliest possible date for IFRS reporting.

The SEC’s March announcement brought focus on “convergence” that would now need to happen before the SEC finalized their decision to adopt IFRS. This means that US filers would adopt the revised standard under US GAAP in advance of IFRS adoption. Simultaneously, IFRS filers would adopt the same standard under IFRS.

For several years, FASB and IASB (the Boards) have been working on the convergence project with the objective of completing the urgent convergence projects by mid 2011, and they now intensified their efforts. As both Boards have to negotiate general acceptance for the standards, it is difficult to forecast the actual completion date.

The convergence project includes many sub projects. The following lists the four most important projects from a system viewpoint:

- Financial Statements
- Revenue Recognition
• Lease Accounting
• Financial Instruments

In May 2010, the Boards published “Comprehensive Income,” a proposed modification to both the US GAAP Codification topic 220 and to IAS 1. This was the first major proposal from the Convergence project.

In the area of financial reporting, the Boards published a series of proposals that require more disclosure, in particular distinguishing operating and investment assets and requiring the use of direct cash flow reporting. The proposal is partially definitive – a draft standard was published May 26, 2010 - and the Boards have not yet agreed on a final proposal for public review.

Regarding Revenue Recognition, there are proposals to replace US GAAP revenue recognition (e.g., VSOE) and IFRS revenue recognition (IAS 18) with a Performance Obligation model. The proposal is not yet definitive, and the Boards have not yet agreed on a final proposal for public review.

In the area of Lease Accounting, the proposals clarify the difference between long-term financing of assets and short-term rental of assets. While neither Board is keen on the current standards, the existing standards in US GAAP and IFRS are quite similar. It is anticipated that a proposal will be published in the summer of 2010.

Regarding financial instruments, the Boards are deep in consultation with the financial industry, regulators, and authorities around the world to determine the best way to value and report on complex financial instruments and transactions. Both Boards have published standards and proposals covering elements of this topic, but the overall position is not definitive, and the community is not in agreement on what is generally acceptable.

Background
Over 12,000 companies in a hundred countries have successfully adopted IFRS. They include countries in the European Union (EU), China, Australia, Russia, South Africa, Brazil and Chile. India, Canada, and Japan will adopt IFRS starting in 2011. The US joins Mexico in adopting IFRS within the next few years, thereby completing the
worldwide adoption. The diagram in Figure 1 below illustrates the momentum towards global IFRS adoption.

THE MOMENTUM TOWARDS GLOBAL IFRS ADOPTION

More than 150 countries require or permit the use of International Financial Reporting Standards (IFRSs), or are converging with the IASB’s standards.

Figure 1: The Momentum towards Global IFRS Adoption (Source: The Journal of the IASB and the IASC Foundation, Insight Newsletter, Q3, 2007)

As the US enters this period of historic debate over global accounting and financial reporting standards, companies should be preparing for change. US companies that plan ahead will be able to adopt leading practices designed to help them achieve a smooth, efficient and effective transition and actively deploy technologies to facilitate the process. Whether your organization is currently adopting IFRS or plan to do so in the next few years, this white paper will help explain how Oracle’s Financial Management Solutions address the challenges of global accounting and financial reporting. The following describes how companies outside the US have successfully transitioned to IFRS with Oracle’s Financial Management Solutions.
IMPACT OF THE CONVERGED STANDARDS

Both US and non-US companies will be required to adopt the converged standards when they become effective. American filers will adopt them as part of US GAAP; IFRS filers will adopt them as part of IFRS.

Before the new set of standards can be published, the Standards Board will publish a draft and then obtain “general acceptance” with a comment period of several months. If issues are raised during the comment period, the standard may be substantially revised. When the proposal reaches general acceptance, it is published as an accounting standard with an effective date of approximately one year thereafter. In some cases, the Boards will work with the stock markets, regulators and other interested parties to coordinate effective dates.

It is anticipated that the Boards will publish the urgently required Convergence standards as final proposals by mid 2011 with general acceptance by the end of 2011; however, the date of general acceptance has not been confirmed. If they coordinate the effective dates of the standards, one might think that 2013 would be the year in which they would be applied, but this has not been determined or announced.

Oracle’s functional experts and product planners are closely monitoring the process. We have draft designs that are constantly amended as the proposals change. As the proposals are finalized, we will work with our Customer Strategy Councils and Advisory Boards to understand our customers’ response to the revised standards to ensure compliance.

CHALLENGES OF TRANSITIONING TO IFRS

Although there will be significant challenges along the way, the transition to IFRS will bring considerable benefits to worldwide businesses. A single set of global accounting and financial reporting standards applied consistently will not only increase comparability for investment purposes and reduce accounting complexity, but it will also increase the competitiveness of companies and capital markets. As with any significant change, companies will need to plan for it to address challenges and obstacles. The following section takes into consideration the top challenges US companies will face.

Impact of the Differences between US GAAP and IFRS

From an operational point of view, the post-Convergence differences between IFRS and US GAAP remain substantial. IFRS are statements of principles and do not include the detailed guidance that is a hallmark of US GAAP.
A company reporting under IFRS is likely to recognize a different amount of revenue, expense and income than it did under US GAAP. Certain assets and liabilities have different recognition and measurement criteria. Disclosure rules are different and there are more disclosure data points. In some cases, a business model implicitly based on US GAAP will produce different results under IFRS and will need to be changed.

It is anticipated that many companies will initially create the IFRS view of the business by using financial modeling techniques. As these companies identify the requirements they need to comply with, they will later seek to capture the corresponding data in subsystems.

Implications of the Timeline

It appears that American companies will have a two-step transition to IFRS. Around 2013 or 2014, US GAAP will implement the Convergence standards ("Convergence"), and around 2015 and 2016, adoption of IFRS ("Adoption") will occur.

In June 2010, the FASB and IASB wrote to the SEC, G20 and others suggesting the establishment and discussion of the timing implications of Convergence. Nothing has been decided at this time.

In respect to Adoption, the SEC’s 2008 proposal suggested that for the first filing under IFRS a filing entity will report the current year and two years of history using the IFRS conventions, and this proposal is likely to endure. To create this history, public companies will need to value their assets and liabilities and recognize their revenue and expenses under both US GAAP and IFRS for the two years prior to the IFRS adoption date. This implies that they will need to be able to create their IFRS opening position three years before actually reporting under IFRS.

The data used in these valuations will be managed both in high level analytic products and, as detail becomes necessary, in transaction level subsystems.

Geographic Variances in Accounting Compliance

IFRS are standards that define shareholder reporting for a complete enterprise, both domestic and overseas. While the standards have been adopted worldwide for public company shareholder reporting, not all countries have adopted them for private company reporting. In fact, some 30 countries actually disallow the use of IFRS for subsidiary statutory reporting.

During the migration period, many companies may have to simultaneously comply with three regulations: local statutory, US GAAP and IFRS. There will likely be three channels of transaction data:
• In the US, where no statutory reporting is required, certain IFRS data will be captured in the subsystems.
• In countries where IFRS is permitted for statutory filing, local general ledgers will be IFRS compliant. However, consolidation adjustments and currency conversion will still be necessary.
• In countries where IFRS is not permitted for statutory filing, local compliance might be the daily operational routine and the accounts from such subsidiaries may need substantial conforming adjustments – as companies do today with their non-GAAP subsidiaries.

Internal Control and the Migration to IFRS

Many companies use the framework from the Committee of Sponsoring Organizations of the Treadway Commission (COSO) to assess their processes and controls over financial reporting. The framework presents a definition of internal control and a common standard through which organizations evaluate and improve their controls. With the advent of IFRS and a complete change in the rules that define financial reporting, maintenance of the internal control system becomes critical. Processes and associated controls will be revised to align to IFRS, and organizations will need the ability to easily compare GAAP and IFRS policies and processes during the dual accounting years.

An Organization’s Response

Initially, management might consider top-side IFRS modeling and adjustments as the transaction system continues to process US GAAP data. Gradually, the company will reconfigure transaction systems to produce IFRS data directly both at home and in subsidiaries to facilitate IFRS for statutory reporting. The controller shop will document and attest to the opening position and the beginning history in this mode.

Later, subsystems will process IFRS data in anticipation of the switch and adjust back to GAAP. Management might make decisions about how the subsidiaries will comply, e.g., corporate IFRS first or local statutes first, and implement the changes while tracking both to IFRS and GAAP. The internal control system will need to reflect the changes.

And eventually the company and its subsidiaries will cut over to IFRS on a date agreed upon with the SEC. External reporting accountants will likely continue with topside adjustments for a range of specific issues and foreign subsidiaries, while most of their Enterprise Resource Planning (ERP) system will be configured for IFRS data capture.
IFRS Migration Plan

Oracle customers around the world who have migrated to IFRS have adopted migration plans that follow a common outline, similar to the plan identified in Figure 2.

![Recommended IFRS Migration Plan](image)

**Figure 2: Recommended IFRS Migration Plan**

This plan lays out the logical stages that you should consider in an IFRS project, highlighting some of the impacts on your systems.

1. **Study Impact and Determine Strategy**

   During this beginning stage, customers perform preliminary studies in conjunction with an accounting compliance advisor to assess the impact of IFRS on their business and systems. With this analysis, they will be able to determine their overall IFRS adoption strategy.

2. **Enable Top End Reports**

   In this stage organizations are still reporting based on US GAAP but will need to model their business and future comparatives under the IFRS valuation rules. The objective here is to produce the IFRS reports. With market leading analytic solutions, such as Hyperion Financial Management (HFM), IFRS results can be modeled on the basis of the US GAAP actual accounting values with the ability to perform consolidations and adjustments to both US GAAP and IFRS. More importantly, differences can be analyzed in terms of ongoing business analysis and reporting to
the street as well as potential system changes. Processes and data quality management will document the heuristics.

3. Record Transaction in Both GAAPs.

As companies gain familiarity with the principles and the data needed to reflect them, companies will want to account for routine detail transactions in multiple GAAPs. At this point, organizations will have an understanding of the data needed for IFRS, the impact on their subsystems, revisions to accounting rules, and knowledge of the accounts and ledgers that are required. Dual accounting, multiple ledgers, book codes, and similar features help Oracle ERP users process and report under both GAAPs. The deployment of ERP features together with Enterprise Performance Management (EPM) features will be documented in support of the enhanced accounting.

4. Transform Your Business and Win with IFRS

IFRS values a company's business differently than US GAAP, and the impact could be minimal or significant. The strategies to optimize that value will be different to the degree that the principles are different. As companies understand the impact, they may have to adjust their current business model to one that will resonate with investors evaluating their performance using IFRS.

At all stages, it is paramount to have the proper policy and control management in place, allowing an organization to attest to and file IFRS reports with the SEC and to its shareholders.

ADDRESSING IFRS CHALLENGES WITH ORACLE'S FINANCIAL MANAGEMENT SOLUTIONS

Oracle’s Financial Management Solutions help solve the fundamental information integrity issues, such as how to consistently collect, calculate, analyze, and store data from multiple systems, that are associated with the transition to a new accounting framework. The following section discusses Oracle’s solutions in the context of supporting an IFRS migration plan.
Oracle’s Financial Management Solutions: Transition to IFRS with Oracle E-Business Suite

Oracle Enterprise Performance Management

Oracle Hyperion Financial Management (HFM) helps organizations align the processes for collecting financial results, operating results, and sustainability information in response to investor demands for increased disclosures of both financial and non-financial metrics. HFM streamlines the collection, consolidation, and reporting of financial and non-financial information. The result is more control and consistency over financial and non-financial reporting, improved data integrity and audit trails, as well as savings in time, effort, and costs.

HFM supports standardized consolidation and reporting processes in compliance with US GAAP, IFRS, and local statutory requirements. It provides intercompany eliminations, multicurrency translations, and minority interest calculations, delivering them quickly and cost-effectively out of the box. HFM is comprised of entity structures which define the group structure, i.e., the management or statutory hierarchies of reporting units and a chart of accounts hierarchy, which maintains the relationship or roll-up of account lines used in management and statutory reporting.

Oracle Hyperion Financial Data Quality Management together with Oracle Hyperion Financial Management eliminates the data integrity risks associated with collecting, mapping, verifying, and moving critical financial data from multiple source systems. It allows business analysts to develop standardized financial data management processes and validate data from any source system—all while reducing costs and complexity.

For example, HFM has been used by many organizations in Europe and other regions to support the transition to IFRS. HFM allows customers to load GAAP financial results from transactional systems, make the required adjustments, and then run reports.
comparing the results under different reporting standards. Key capabilities of HFM include:

- Core consolidation features, such as a flexible rules engine and journal adjustments to support multi-GAAP reporting
- Custom dimensions to roll up data under different reporting standards to easily track IFRS vs. GAAP adjustments
- Document attachments feature that allows users to document the details behind adjustments. These then become part of an electronic briefing book which includes the original data, adjustments, and supporting details with full audit trails.
- Flexible reporting tools which allow easy viewing, reporting and reconciling of your financial results under IFRS vs. GAAP

Oracle Hyperion Financial Management integrates directly with Oracle and non-Oracle transactional systems and can be deployed quickly to address your Stage 2 transition requirements.

Oracle Governance, Risk, and Compliance

Oracle Governance, Risk, and Compliance (GRC) Applications provide a central documentation repository that aligns any changes to the business processes and the corresponding control policies to IFRS. Organizations can manage IFRS compliance documentation with the same platform they would use to manage compliance with SOX or environmental compliance regulations.

The GRC Applications streamlines the process of compliance. From initial documentation to risk assessment to scoping, testing, and certification, the GRC Applications automate hand-offs and ensure that the compliance process proceeds in a timely and controlled fashion. With the GRC Applications, companies have the tools to automate steps to audit IFRS compliance.

Oracle GRC Applications monitors the automated controls that function in your enterprise applications, such as Oracle E-Business Suite, PeopleSoft Enterprise, JD Edwards EnterpriseOne or World, or other custom/legacy applications. Organizations can embed controls to prevent transactions that are against IFRS policies from occurring in the first place. By automating the monitoring of controls, organizations can reduce costs and increase effectiveness.

Further, Oracle GRC Applications have pre-delivered, role-based dashboards as well as risk indicators that give organizations enterprise visibility into key metrics for IFRS compliance.
Oracle E-Business Suite and IFRS

Oracle E-Business Suite is an ideal vehicle to assist companies in their IFRS migration. Over 1,000 customers from around the world are using its features to comply with IFRS and have successfully adopted IFRS in place of their previous accounting standards.

Since the focus of this paper is to provide a more detailed look into how specifically Oracle E-Business Suite supports and has been supporting IFRS, the remainder of this paper is dedicated to describing the background and specific capabilities in detail. Specific IFRS features will be examined, such as Componentized Assets. In addition, this paper will discuss the dual accounting and reporting capabilities of EBS.

History of E-Business Suite Support for IFRS

Oracle has participated in the IFRS adoption process along with other software companies as members of an International Accounting Standards Board (IASB) System Company Discussion Group since its founding. Oracle’s accounting domain experts monitor developments in the regulatory environment to ensure our software reflects best practice and compliance.

Oracle E-Business Suite had customers reporting under the IFRS standards in the United Arab Emirates and in Switzerland in the early years of the twenty-first century with many customers doing so in the European Union, Australia, and other IFRS stock markets around the world.

Familiar Features Support IFRS Requirements

Many external reporting features are not specific to IFRS but can be used to support IFRS. For example, Oracle E-Business Suite Release 12 includes Subledger Accounting (SLA), a rules based accounting engine that can be used to ensure consistency with accounting and data gathering across the world, while at the same time recording transactions in compliance with local regulations. SLA allows companies to record the same business transaction under multiple accounting conventions. For example, a supplier invoice to record the purchase of goods can simultaneously be recorded using three conventions: US GAAP, IFRS, and local statutory.

There are many other features Oracle E-Business Suite customers will be familiar with that are currently used to support US GAAP environments. Some reconfiguration may be necessary to comply with IFRS principles. For example, Oracle Inventory supports a variety of inventory valuation methods. However, to comply with IAS 2, inventory cannot be valued using the LIFO method.

For “development” expenses, expenses that might have been expensed immediately under US GAAP would need to be posted to the balance sheet and later released onto
the P&L according to the IFRS principles. Customers can comply with this IFRS principle by deploying Oracle Projects, creating cost centers on the balance sheet and using allocations to release the expense; they could also track the development costs into bills of material using Oracle Inventory. The appropriate choice will depend on the circumstances of the customer, the products involved, the underlying business process, etc.

Since many European, Asian, and Americas’ customers adopted IFRS during the period of 2004 to date, various setup and other options were updated to include support for IFRS. US customers may need to reconfigure some of these options based on guidance from their accounting advisors.

Unique IFRS Features

IFRS does have some principles that translate into requirements that are not required by other GAAP or regulatory standards. Oracle E-Business Suite includes specific features designed to meet these requirements as well.

An important example of a feature not widely used outside of IFRS compliance is "componentized assets" where an asset is tracked by its components when those components have different useful lives, (e.g., roof, elevator and frame of a building may have different lives). Under IFRS, each component would be depreciated under its own useful life. Oracle Assets within Oracle E-Business Suite facilitates the grouping of child assets (depreciated separately) into parent assets (managed as one) and further into asset groups.

The process of deriving and populating the componentized asset values is quite an issue for many customers. In Europe, many had to use real estate appraisers and other asset valuation experts. Oracle provides spreadsheet integration that facilitates importing and updating the revised valuations of the individual components.

Another example is the IFRS approach to asset impairment. The IFRS valuation method is different from US GAAP, and the impairment can be reversed. Asset impairment in Oracle E-Business Suite accommodates both of these options.

Dual GAAP Reporting

One of the most commonly asked questions about IFRS in regards to ERP systems is “how is dual or multiple GAAP reporting supported?”

Oracle E-Business Suite Release 12 and 12.1 have powerful multiple ledger reporting supported by alternative accounting in subledgers with which an IFRS company can automate dual GAAP reporting. Release 11 also supported dual GAAP capabilities but to
a lesser degree. In addition, Oracle Hyperion Financial Management provides consolidation and reporting capabilities oriented to support dual GAAP reporting.

Which solution to use: Macro-Level in EPM solution, Transaction-Level in E-Business Suite, or a Hybrid Approach?

During the comparative reporting period of the IFRS transition, companies will need to report under dual or multiple GAAPs. Depending on the complexity of the change from GAAP to IFRS compliance, the differences can be managed in a variety of ways. Customers will find themselves on a spectrum from a macro level approach to a detailed transaction approach when it comes to dual GAAP reporting. If a top-down approach is best, they can look to an Enterprise Performance Management (EPM) solution, such as HFM; whereas if a transaction level approach is more appropriate, they can address dual GAAP reporting within their ERP solution. Customers should work with their accounting compliance advisors to identify their circumstances and the appropriate approach.

It is important to note that the decision is not absolute, and will both change over time and differ by accounting area or by regional migration plans. Most customers plan to use ERP dual accounting in conjunction with Hyperion Financial Management (HFM).

The configuration will change as customers move through the migration period. Many customers may initially create IFRS reporting all within HFM and make macro-level adjustments. Others may use dual ledgers at the transaction level while continuing to use HFM for consolidation, reporting, reconciliation, and extended close support.

Other customers may plan to use HFM for adjustments in certain areas and transaction detail in others. For example, a customer might manage revenue recognition for GAAP-IFRS differences on the basis of periodic activity in HFM while handling fixed asset GAAP-IFRS differences at the transaction level in Oracle Assets.

Some of those same customers will also be using multiple ledgers to handle individual subsidiaries’ statutory reporting while sending the IFRS version of those subsidiaries’ numbers to HFM for IFRS consolidation.

For a complete discussion on Hyperion Financial Management’s support of IFRS, the following white paper entitled “Managing the Transition to International Financial Reporting Standards” is available at the Oracle IFRS website (http://www.oracle.com/applications/ifrs/index.html).

To support multiple ledgers in Oracle E-Business Suite, Subledger Accounting will be used to automatically populate the necessary dual accounting entries. Ledgers with similar characteristics can belong to a “Ledger Set” which facilitates treating distinct ledgers as if they were one for reporting and accounting purposes. Together, these features provide powerful dual reporting capabilities.
Assessing the Need and Form of Multiple Ledgers

Customers using their current ERP solution for a transaction detail approach can be classified into three general categories:

Minimal to Low Impact:
For some customers, IFRS will have minimal to low impact, and these customers will be able to configure their subsystems to generate the appropriate accounting. For customers using Oracle E-Business Suite (EBS), they will use existing general ledger features (e.g., balancing segment values or sub accounts) to distinguish between IFRS and GAAP entries.

Standard Impact:
For many customers, IFRS will impact several areas. For Oracle E-Business Suite customers in this category, a solution involving ledgers and adjusting ledgers that are combined in a Ledger Set might be more appropriate. Adjusting ledgers accommodate many accounting differences and will provide a reconciliation view.

High Impact:
If the impact of IFRS on a customer’s business is such that it changes the business model, the customer might consider using completely separate ledgers, one for GAAP and one for IFRS. Distinct ledgers based on the same transaction data provide a superb vehicle for creating completely different “CPA” level accounting and reporting.

Multiple Ledger Reporting in E-Business Suite

E-Business Suite 11i10 and Earlier
Users on 11i will create a new value for the balancing segment of the chart of accounts to record IFRS adjustments.

- Financial Statement Generator reports on all other balancing segment values (BSVs) will represent the old GAAP; the new value represents the IFRS adjustments, and the report totals for all BSVs represent the IFRS results.
- Adjustments are created in the IFRS BSV by reference to subledgers configured to comply with IFRS. For example, depreciation in compliance with previous GAAP would be reversed here and replaced with depreciation from an asset book populated with componentized assets.
- Other adjustments are posted to existing or additional natural accounts in the regular GAAP BSVs and re-classified to IFRS reporting lines by means of automatic journals, allocations, and reversing entries.
• Trial balance data from all segments are passed through to Hyperion Financial Management or another consolidation solution for further processing and consolidation.

E-Business Suite Release 12

The approach in 11i remains available in Release 12 and has the benefits of simplicity if circumstances allow for it. Additionally, Release 12 includes much more powerful tools. The base for the Release 12 multi-GAAP reporting is Subledger Accounting (SLA). SLA provides a framework of accounting rules that an organization can configure to meet its compliance needs. The rules apply to subsystem events, such as invoice issuance or payment. Based on data about the transaction, it will generate the appropriate accounting for multiple ledgers, each belonging to an accounting method that supports a different convention, such as IFRS or US GAAP.

Example:

• A developer incurs travel expenses.

• In the US GAAP book, the SLA rule specifies that expense reports are posted to a cost center that aggregates the P&L expense “development expense.”

• For the IFRS position, the SLA rule reclassifies the expense to capitalized development on the balance sheet.

The entries generated by SLA under alternate accounting conventions are posted to different ledgers. These ledgers can be completely different and distinct, or they can be associated with each other through a Ledger Set, which requires that they share the same chart of accounts.

Different and distinct ledgers are ideal for an organization where US GAAP and IFRS reporting are very different. Each ledger can be developed by their external reporting accountants so that it reflects the base data under completely different accounting principles and reporting standards.

A base US GAAP ledger with an adjusting ledger that are combined in a Ledger Set for IFRS reporting is an excellent proposition for most organizations. The adjusting ledger provides detailed reconciliation between the IFRS and US GAAP positions.
Detailed Development Expense Example:

- Ledger A is US GAAP, and Ledger B is IFRS
  - In Ledger B, the SLA rule specifies that the expense reports are posted to a cost center that aggregates a current asset, Capitalized Development
- Hyperion Financial Management will contrast the two ledgers and derive reconciliation reports. Reports that detail the separate posting to both ledgers are also available
- Further accounting of Capitalized Development, such as its eventual release to the P&L in Ledger B may be quite different from any further accounting in Ledger A
- All subsystem transactions must be posted to both ledgers even those where the GAAP and IFRS accounting is the same
- The US GAAP values are reported from Ledger A
- The IFRS values are reported from Ledger B

Table 1: Completely Different Ledgers.

- Ledger A is US GAAP and Ledger C is an Adjusting Ledger
  - The IFRS SLA entry, by netting a reversal and re-class in one entry, posts the delta between the US GAAP and IFRS ledgers in the Adjusting Ledger C
  - The Adjusting Ledger C provides detailed support for the reconciliation
  - Only transactions whose accounting is different under IFRS will be posted to Ledger C
- The US GAAP values are reported from Ledger A
- The IFRS values are reported from a Ledger Set combining Ledgers A and C

Table 2: Base and Adjusting Ledger in a Ledger Set.

In all cases as part of the external reporting extended close and as part of the consolidation process, GAAP, adjusting and IFRS positions can be passed to Hyperion Financial Management.

Automation and Control

Oracle E-Business Suite Release 12 facilitates the automation of accounting for US GAAP and for IFRS at the detail transaction level. In some situations dual representations of a given transaction will be available. For example, a company might deploy multiple fixed asset books, one with non-componentized assets in US GAAP and another with componentized assets in IFRS. In others, the data for each of the IFRS and
GAAP accounting will be intrinsic to the transaction and a company can refer to different attributes of the transaction to derive the differing IFRS and GAAP valuations.

**Eventual adoption of IFRS**

In the March 2010 announcement, the SEC committed to providing adequate time for filers to prepare for IFRS following the 2011 decision and reaffirmed their intention of adopting the world-wide standards. Adoption of IFRS is likely to begin occurring in 2016, two years after the convergence standards are introduced under US GAAP.

Oracle E-Business Suite customers will have the following different avenues of response to make IFRS their primary accounting principle:

- **Single Ledger (Minimal to Low Impact):** Customers who did not have to make significant changes for the dual reporting period will likely not have to make significant changes for the eventual cut-over. For example, a company that’s been using the same ledger and modeling IFRS and US GAAP from the same trial balance can continue using that trial balance to produce IFRS results.

- **Base and Adjusting Ledgers in a Ledger Set (Standard Impact):** An entity using a base and adjusting ledger in a Ledger Set will have been reporting IFRS data from the Ledger Set trial balance. At the point of cut-over, they will record the IFRS adjustments from the trial balance of their adjusting ledger as a journal voucher in their base ledger, zeroing out the adjusting ledger and equating the base ledger with the Ledger Set position. The base accounting for any accounting area that was different between US GAAP and IFRS must be amended to reflect the IFRS position for future postings to the base ledger.

- **Distinct and Different Ledgers (High Impact):** For customers who maintained completely separate ledgers, they would begin to use the IFRS ledger for their reporting purposes. Again, it is essential for customers to work with their accounting compliance advisors (e.g. Deloitte, PricewaterhouseCoopers, etc.), to evaluate which dual GAAP reporting method is most appropriate to allow for the most seamless conversion from local GAAP to IFRS.

**Opportunity to Simplify**

The adoption of IFRS at the corporate level in a company presents an interesting opportunity to review their subsidiary and data consolidation practices. IFRS is accepted for private company statutory filing in approximately 60 countries but not allowed in another 30 countries. Nonetheless, having the same reporting standard in some 60 countries is a new circumstance that will facilitate changing and simplifying the external, periodic and management closes. The following are some simplifying questions:
• Is it necessary to maintain separate statutory books in the countries we operate in now?
• Can we eliminate non-standard charts of accounts?
• Can we eliminate areas where conforming adjustments are required by adopting standard IFRS practices and definitions?
• Can we adopt standardized IFRS systems in respect to billing and revenue recognition?
• Can we adopt foreign currency practices that comply with IFRS when recording unrealized gains and losses according to IAS 21? (Until now, it was often forbidden to record unrecognized gains and losses in-country).

Opportunity to Optimize for Shareholder Value

As a company adopts IFRS and orients itself to optimizing shareholder returns using IFRS, it will no longer need to maintain processes designed to optimize US GAAP results that no longer apply. These changes will also impact the company’s deployment of ERP, EPM and GRC systems. Planning for IFRS adoption should include an allowance for a certain amount of business re-engineering.

Conclusion

The shift to a global accounting and reporting standard is underway. IFRS will have implications not just for external reporting but also for internal reporting and performance measurement processes. Companies need to ensure their financial systems can account and report in both IFRS and existing standards by modeling the impact IFRS may have on their financial results and taking action to minimize any negative impacts.

Organizations should start looking into an IFRS migration plans early. This means working with their accounting compliance advisors, such as PricewaterhouseCoopers, Deloitte, Ernst and Young, KPMG, Accenture or our partners at IBM to identify the right migration plan for the individual organization and to ensure they configure their systems to be in compliance with IFRS.

Although the transition to IFRS may seem difficult and overwhelming, Oracle E-Business Suite users currently have the solutions to meet these challenges. Oracle E-Business Suite is flexible, allowing users to configure their systems based on the needs of their industry, geography, or reporting standards.

Oracle E-Business Suite is complementary to Hyperion Financial Management and the Oracle Governance Risk, and Control Applications Suite. All three together provide a comprehensive and powerful IFRS solution.