



Are You Really Ready for IFRS? The Impending Challenge of IFRS Financial Systems Convergence

Presented in partnership with:



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Agenda

- **IFRS Compliance: Challenges and Opportunities for the CFO**
- Manage Evolution of Finance Systems: Maximize Value and Lower Risks in your IFRS Journey
- IBM Lessons Learned
- Q&A

IFRS Compliance: Challenges and Opportunities for the CFO

IFRS Readiness in Canada: 2009 (CFERF Executive Research Report – Oct 2009)

- **Data:** Survey of more than 250 finance executives in the spring of 2009
- 86% were Canadian companies
- 57% public companies; 20% private; remainder Crown corporations, government, not-for-profit and others

CFERF 2009 IFRS Study: Does IFRS Matter?

- **Information Technology:** Nearly all agreed IFRS will have an impact on their financial IT systems

IMPACT OF IFRS ON FINANCE IT	TOTAL	PUBLIC	PRIVATE
Low	38%	35%	45%
Medium	35%	36%	28%
High	25%	25%	20%
Don't know	<u>2%</u>	<u>4%</u>	<u>7%</u>
	100%	100%	100%

CFERF 2009 IFRS Study

Parallel Accounting Systems in 2010: What are you going to do?

PLAN TO RUN PARALLEL SYSTEMS IN 2010?	ALL	PUBLIC	PRIVATE
Yes	72%	76%	67%
No	14%	12%	19%
Don't know	<u>14%</u>	<u>12%</u>	<u>14%</u>
	100%	100%	100%

Are those plans realistic?

- 43% of all respondents had not **addressed** systems implications
- 15% of all respondents had not done any **assessment** of systems implications

IFRS Readiness

Companies fall into one of three groups:

1. Have not (or will not start)
2. Started IFRS transition
3. Starting to report in IFRS (early adoption)

Survey Question

Public Companies: Please indicate the most applicable option from the list below that applies to the IFRS conversion process for your company

- 1. IFRS Conversion – Initial Comparatives:** You have completed your assessment of the differences between IFRS and Canadian GAAP
- 2. Assessment of Systems Implications:** You have evaluated the requirements of IFRS conversion for your financial IT systems
- 3. Budget Allocations for Conversion:** You have established an overall budget for IFRS conversion.
- 4. IT Conversion Roadmap:** You have developed an IT conversion roadmap
- 5. Interim Solutions:** You have evaluated target interim IT solutions
- 6. Prior Year Comparatives:** You have implemented interim IT solutions to support prior year comparatives
- 7. Long Term Solutions:** You have implemented a long term IT solution that embeds IFRS requirements into day to day operations
- 8. White Flag Solutions:** You have decided to de-list and move your company to another country

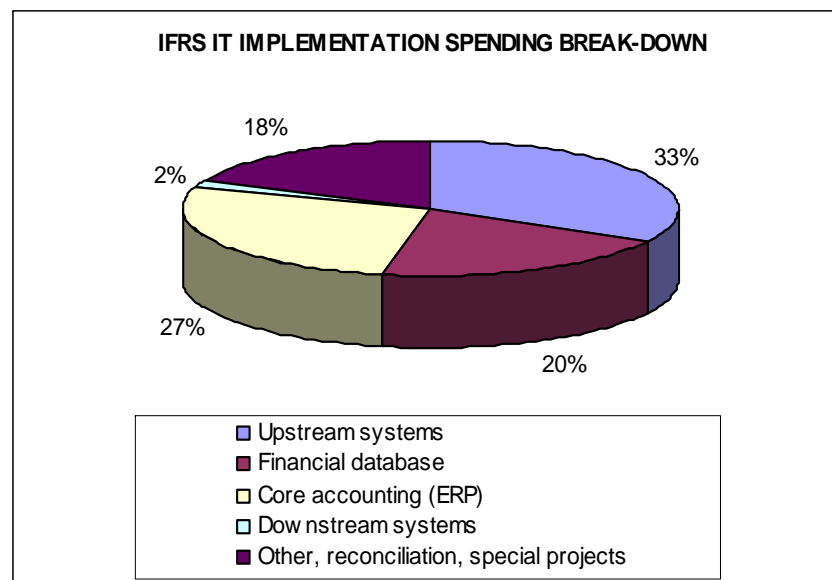
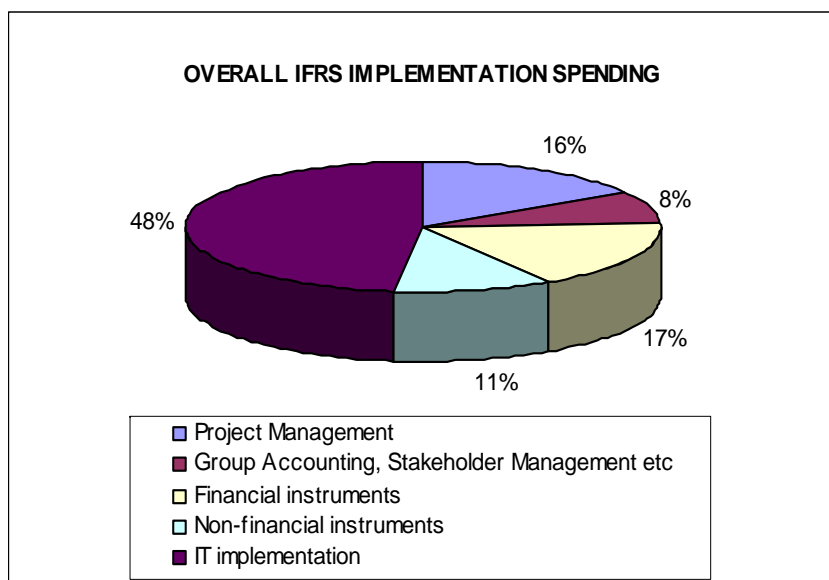
Survey Question

Private Companies: Please indicate the most applicable option from the list below that applies to the IFRS Conversion process for your company

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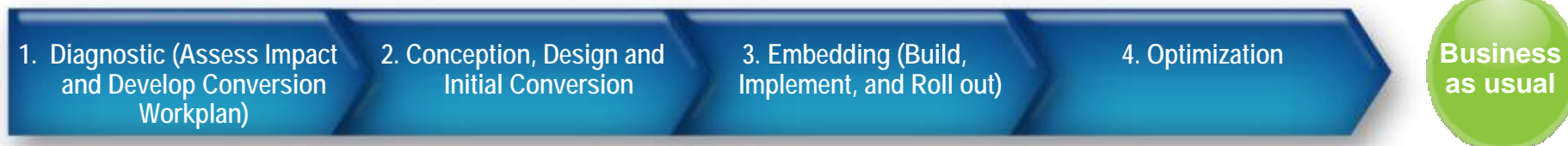
What effort is required to implement IFRS?

Based on the experience of IBM clients in Europe, the overall IFRS effort and spending break-down was as follows.

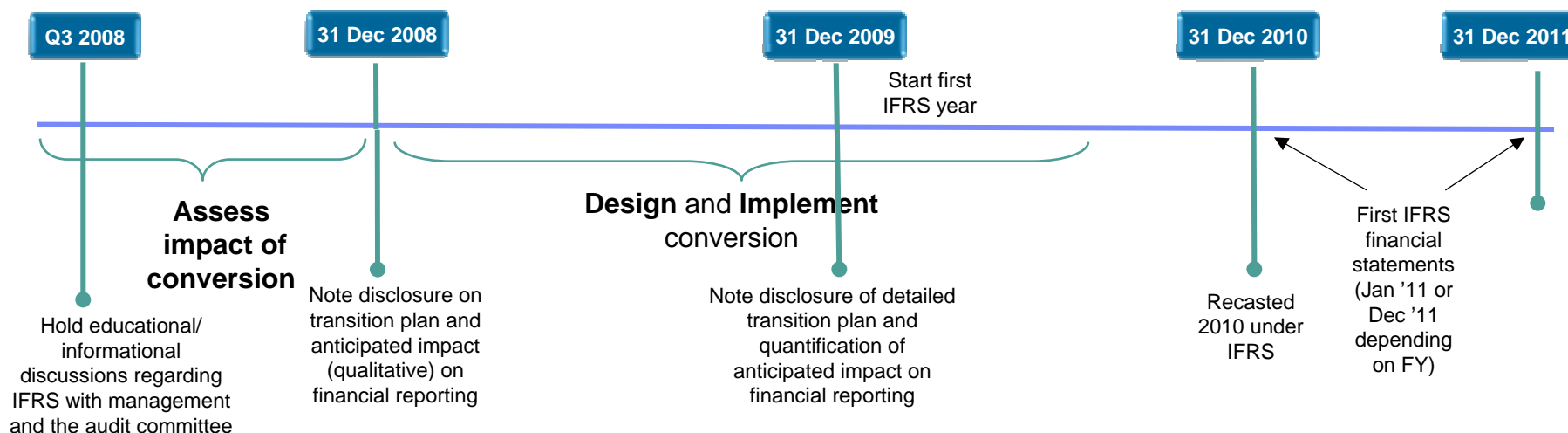


In general, significant part of the IT effort was related to upstream source systems and core accounting systems

IFRS timeline for Canadian enterprises: it's time for implementing the changes!



Year of adoption – parallel run with quarterly IFRS filing



So by now most organizations have an IFRS program in place, a detailed gap assessment completed and should be focused on the process and IT impacts including ERP upgrades

Opportunities and Challenges

Are you really ready for IFRS?

- With the clock ticking on the IFRS conversion dates in 2011, fiscal year-ends will drive the urgency of completing preparation of core financial systems and processes

Company Year End	Months Remaining to Prepare Systems and Policies	Parallel Reporting Period (CDN GAAP & IFRS)
October 31 st	9 months	Nov 1 st , 2010 – Oct 31 st , 2011
June 30 th	5 months	July 1 st , 2010 – June 30 th , 2011
March 31 st	2 months	April 1 st , 2010 – March 31 st , 2011
December 31 st	Too late.....?	Jan 1 st , 2010 – Dec 31 st , 2010

IFRS represents the key opportunity for strategic CFOs to make their Finance organizations more effective with the transformation to an Integrated Finance Organizations (IFOs)

- In IBM's 2008 Global CFO Survey IFOs have been proven to be more effective at executing on the Finance agenda as well as financially outperforming non-IFO peers significantly
- The four key components of an IFO are:
 - ▶ Globally mandated standards
 - ▶ Standard chart of accounts enterprise wide
 - ▶ Common data definitions enterprise wide
 - ▶ Standard common processes enterprise wide
- IFRS also provides CFOs with additional capabilities to transform finance:
 - ▶ Centralize and optimize the Finance organization, process, people, data and technology
 - ▶ Leverage offshore skills – remember financial reporting will be nearly identical!
 - ▶ Drive significant costs out of the Finance organization
- Note: the IBM 2010 CFO survey will be released in 2 months



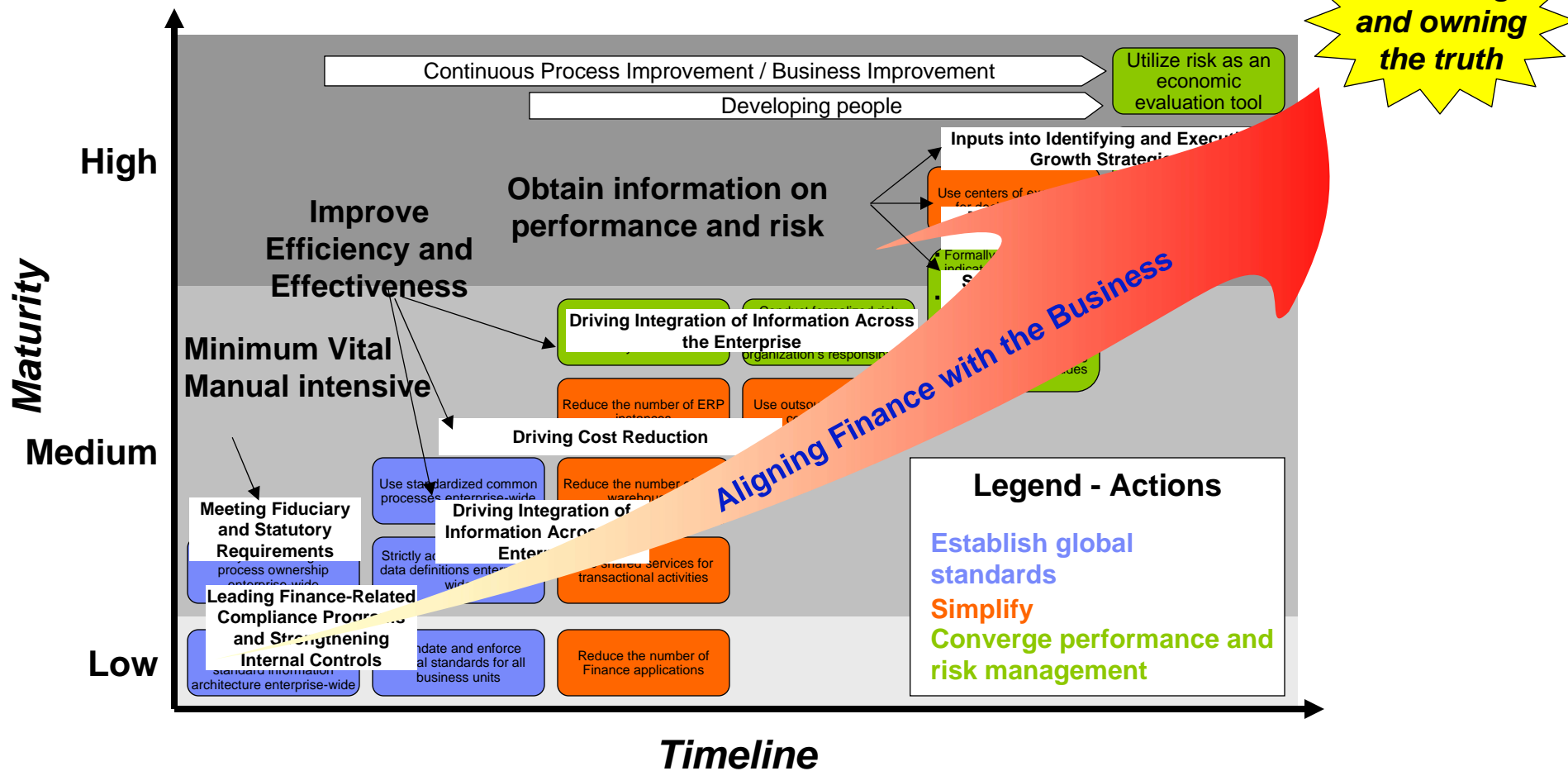
Strategic CFOs view IFRS as an opportunity to transform the finance organization. The transformation initiative can extend beyond the regulatory compliance timeframe (e.g. less than 9 months left for Canadian organizations)

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Manage Evolution of Finance Systems: Maximize Value and Lower Risks in your Journey up the Maturity Curve

The journey to an Integrated Finance Organization



A Business Component View of IFRS Impacts

Examples of IFRS impacts on IT systems

Highlighted CBM Process Examples

	Accounting Change	Business Process Impact	IT Systems Impact
1 2 3 4 5	IFRS transition requires parallel reporting in CDN GAAP and IFRS for 1 year	There will be a need for separate ledger accounts where IFRS treatment is different. Dual reporting will need to work with different set of accounts.	Multi-GAAP accounting functionality required (RAAP, IFRS, Tax GAAP)
	Regulatory accounting (RAAP) not recognized under IFRS	Regulated rate changes may not flow to the B/S in the form of deferred assets or liabilities	Ability to auto generate IFRS vs RAAP entries & recon reports
6 7	PP&E: IFRS accounting requires more granular asset information & allows use of revaluation mode. Detailed disclosure required.	Define asset components, useful lives, CGU's, valuation v/s cost model method. Ensure that the data required for additional disclosure is captured and made available for reporting.	Different depreciation tables, new data fields, calculation for residual value. Additional data to be passed to reporting, new reports to be developed.
	PP&E accounting does not allow capitalization of administration and overhead expenses.	Processes related to identification of capital expenses will change. The determination of burdened rates (using overheads) will be impacted.	New data fields, new calculations, setting schedules for impairment tests, linkages to GLs, impairment reversal option

A Business Component View of IFRS Impacts

IFRS can impact many areas within the Finance organization

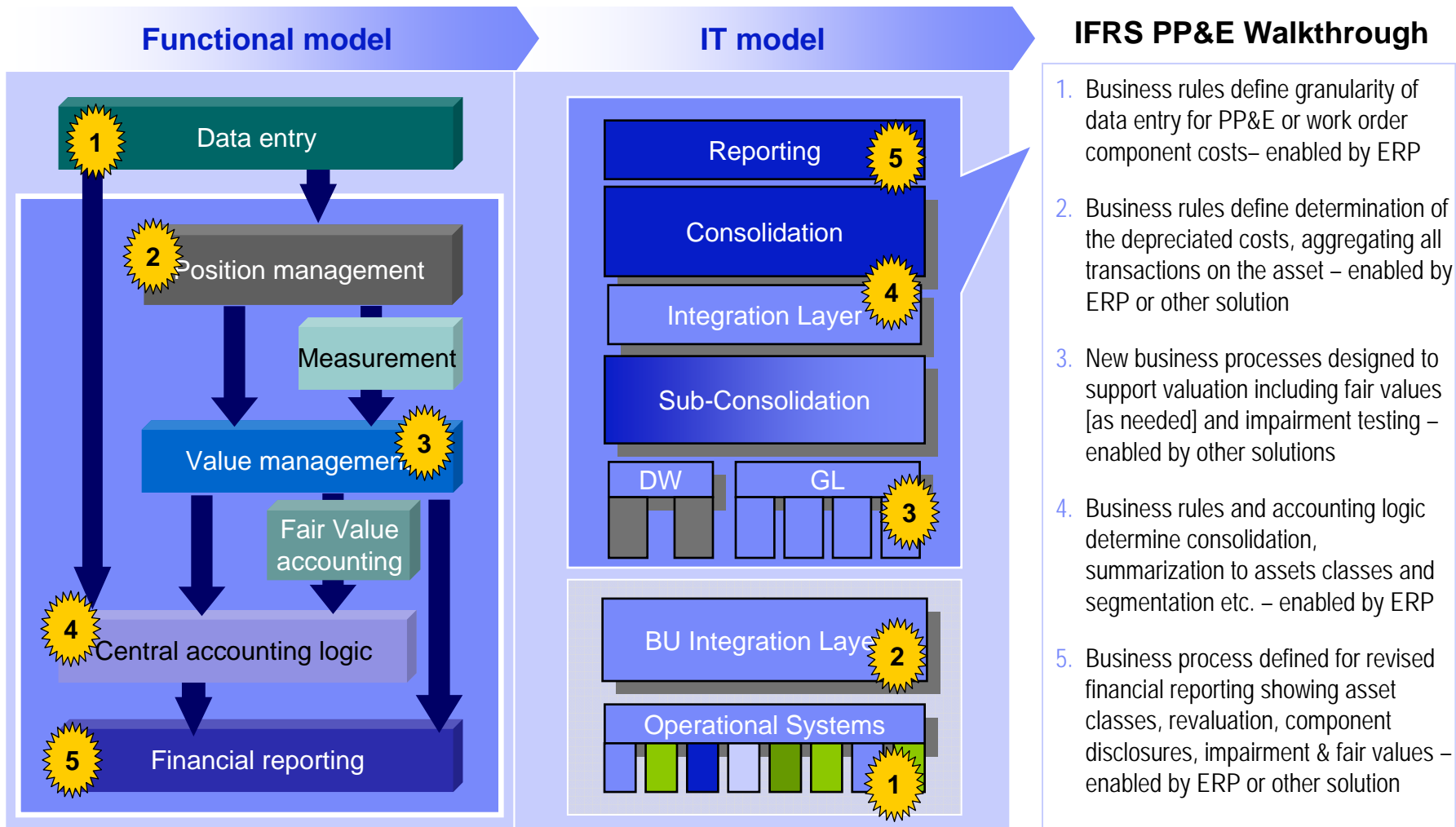
	Financial Operations	Accounting Close and Consolidation	External Financial Reporting	Business Performance Management	Planning, Budgeting, Forecasting	Risk and Compliance Management	Treasury and Investments	Tax Management	Specialty Services	Financial Administration
Direct	Financial Procedures and Business Rules	Close Coordination and Scheduling	Investor Relations Management	Management Reporting Framework	Budget Procedures and Guidelines	Internal Controls Framework	Liquidity Planning	Tax Strategies and Planning	External Financial Audit Requirements	Financial Policies and Procedures
		Accounting Policies and Procedures	Financial Disclosure Requirements 1	Management Reporting Procedures and Rules	Strategic Planning and Target Setting	Enterprise Risk Framework	Treasury Procedures and Rules	Tax Compliance Policies and Procedures	Internal Audit Objectives and Planning	Financial Systems Architecture Pkg.
				KPI Definition	Operational Planning		Investment Portfolio Planning		MandA Strategy	Staff Planning
Control	Authority and Limits Delegation	Financial Reconciliation 2	Reporting Compliance Monitoring	KPI Monitoring	Budget / Forecast Model Design	Risk and Compliance Monitoring	Bank Account Reconciliation	Tax Compliance Monitoring	Audit Recommendations Monitoring	Policy Monitoring
	Operational Reconciliation	Journal Entry Review and Approval	Detective Self-Audit	Business Performance Review / Impact Assessment	Budget Policy Monitoring	Controls Monitoring	FX Exposure Management		MandA Board Approval	Staff Performance and Reviews
	Finance Policy Monitoring		Financial Statements Approval 3	Incentive Comp Integration	Plan Approval	Fraud Management	Portfolio Performance Monitoring		MandA Synergy Monitoring	Master Data Management
Execute	Payroll Accounting	Pre-close Execution	Financial Statements Preparation 4	Management Reporting	Budget Preparation	Risk Scoring and Evaluation	Cash Forecasting	Tax Return Preparation	Internal Audits Execution	Master Data Maintenance
	Travel and Expense Processing	Tax Accounting	Board Reporting Preparation	Business Analysis and Modeling	Forecast Preparation	Risk Reporting	Cash Management Operations	Tax Inquiries Handling	Audit Findings Reporting	Staff Development and Retention
	Dispute / Deduction Accounting	Periodic Close Performance	Regulatory Reporting Production	Cost Accounting Management		Compliance and Controls Reporting	FX Transactions Execution	Transaction-based Tax Advice	MandA Candidate Identification	Financial Systems Maintenance
	Fixed Assets Accounting 6	Consolidations 5	Investor Relations Support	Scorecard / Dashboards Creation			Portfolio Management	Tax Research	MandA Due Diligence	Service Provider Management
	Project Accounting 7	Intra-company Transfer Pricing	Regulatory Inquiries Handling	Business Case Preparation			Investment Modeling		MandA Deals Execution	
	Accounts Receivable Processing						Equity / Debt Management		Special Projects and Internal Consulting	
	Accounts Payable Processing						Capital Acquisition and Securitization			
Procurement						Trading and Settlement				

Legend: ■ Significant impact from IFRS ■ Some impact

IFRS Business and IT Solution model

Walk-through an example of IFRS IT impacts

Translating IFRS requirements specifications into a functional model and an IT solution model



1. Business rules define granularity of data entry for PP&E or work order component costs- enabled by ERP
2. Business rules define determination of the depreciated costs, aggregating all transactions on the asset – enabled by ERP or other solution
3. New business processes designed to support valuation including fair values [as needed] and impairment testing – enabled by other solutions
4. Business rules and accounting logic determine consolidation, summarization to assets classes and segmentation etc. – enabled by ERP
5. Business process defined for revised financial reporting showing asset classes, revaluation, component disclosures, impairment & fair values – enabled by ERP or other solution

Three Common Approaches for Conversion to IFRS Reporting

Multi-ledger approach

- ▶ Adopts IFRS as a separate ledger (either replicates in total or just IFRS differences) using specific ERP functionality
- ▶ Embeds IFRS compliant process at a granular level, and is the preferred end state



Consolidation layer

- ▶ Adopts IFRS through IFRS specific inputs to a consolidation application such as Hyperion, Cognos, SAP BI, and so on
- ▶ Decouples IFRS changes from ERP and allows individual entities more flexibility to defer detailed CoA structure and business process changes



Post local GAAP adjustments to IFRS

- ▶ Adopts IFRS through making topside adjustments
- ▶ Involves extensive data compilation outside the ERP to determine journal entries, and hence significant manual processes



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IBM Corporate has a global IFRS conversion program, and has completed IFRS conversion in a number of countries

IBM started addressing IFRS and its impacts on IBM in 2004

- What have we learned?
 - ▶ The broad adoption and acceptance of IFRS and the convergence between US GAAP and IFRS, create significant opportunities for structural efficiencies and economies of scale

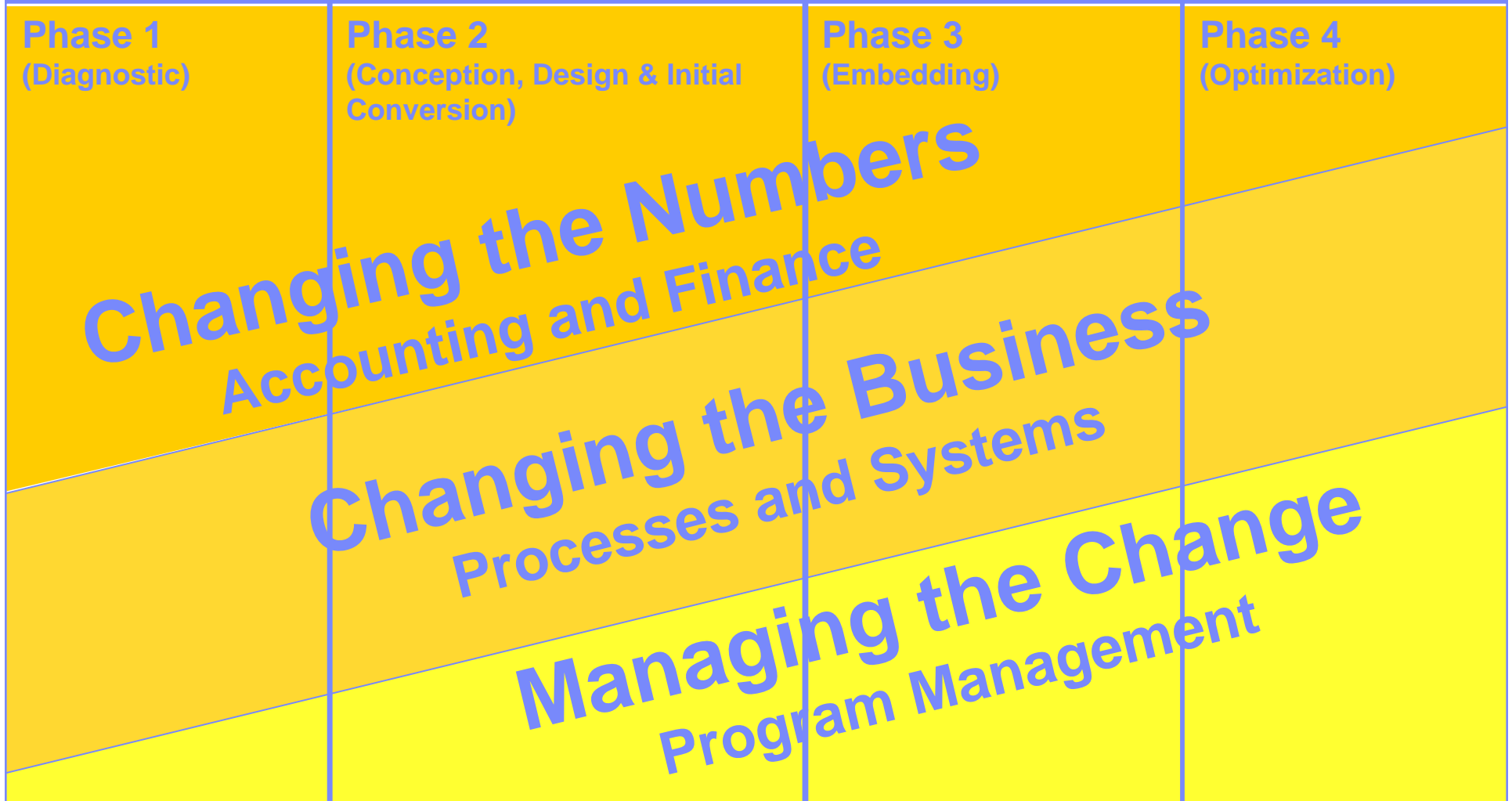
- What have we done?
 - ▶ Developed solutions / accelerators to handle our most difficult IFRS reporting issues
 - ▶ Organized our IFRS response centrally to drive consistency, efficiency and quality
 - ▶ Responded to the impacts of IFRS on statutory, legal, tax and treasury functions
 - ▶ Converted/converting nearly 100 entities from local GAAP to IFRS in 38 countries
 - ▶ Actively engaged in IFRS discussions within our industry and at the EC, SEC, AICPA, IASB levels

Top 15 Implementation Issues

1. Shareholder and analyst understanding
2. Understanding and analysing impact on financial performance
3. Commitment and involvement at all levels of the organisation
4. Significant resources required
5. Underestimation of the amount of work involved
6. Costly and time consuming to embed into the organisation
7. Data availability and system requirements
8. Re-alignment of management information system
9. Co-ordination with regulatory reporting requirements
10. Training (“knowledge transfer”) of management as well as finance functions in all locations
11. Regulatory environment continues to change
12. Risk management
13. Earnings management
14. IFRS continues to evolve
15. Minimal expertise

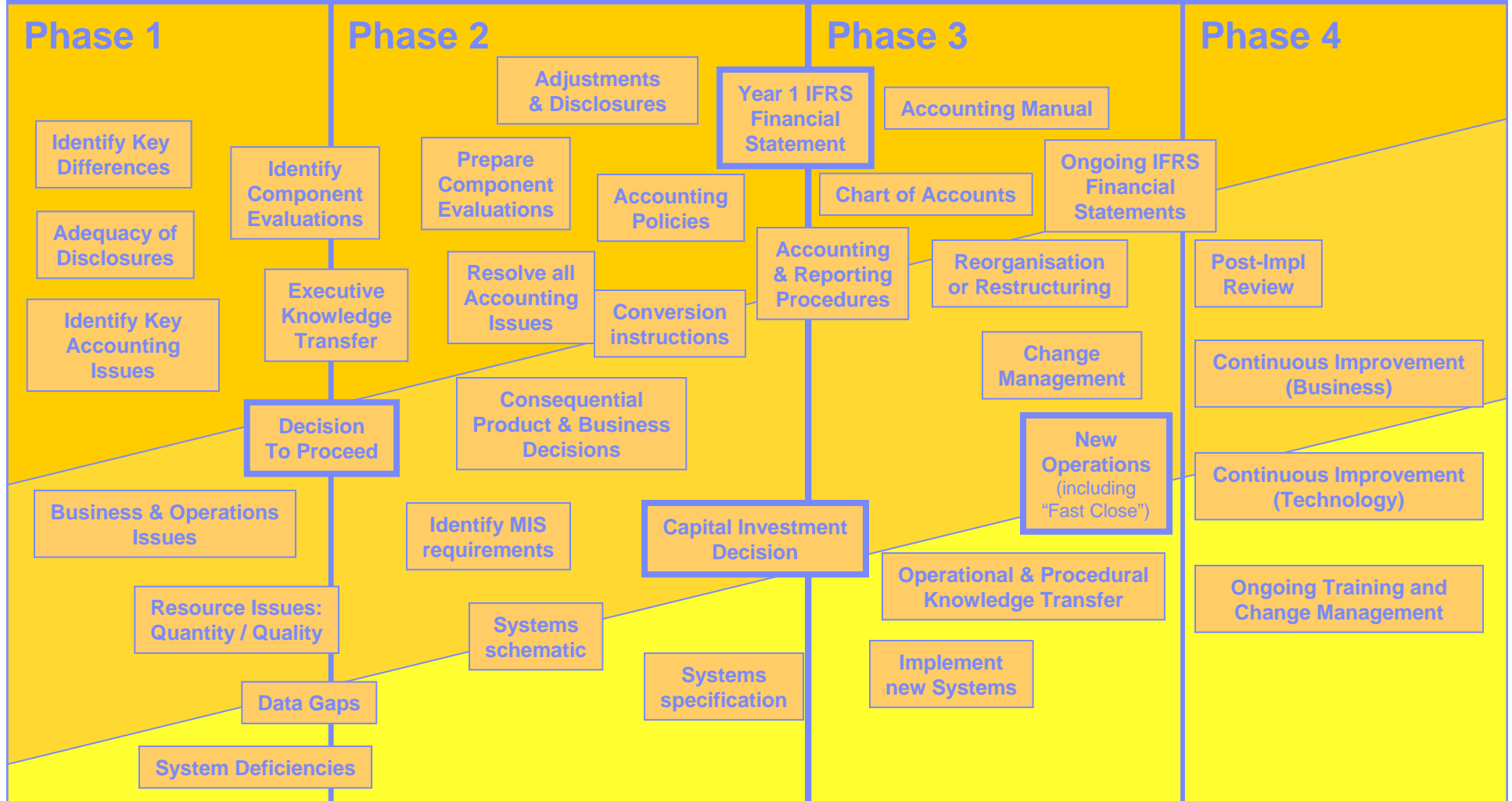
IBM's IFRS Transition Approach

Think in three streams spanning across 4 distinct phases



IBM's IFRS Transition Approach

Transition IFRS : Step-By-Step



IBM Lessons Learned from IFRS Experiences

Key Success Factors

- Start early and conduct a robust assessment / planning phase
- Ensure corporate level sponsorship and strong governance
 - ▶ Many changes would require cross-functional or cross-unit collaboration (e.g. Tax, Treasury, Controls, Accounting)
- Engage key stakeholders (e.g., Management Reporting, Budgeting & Forecasting, Industry Analysts)
- Qualified and competent resources globally, including strong support from external auditor and advisors
- Develop solution design through close linkages between business and IT
 - Manage the data model definition process
 - Decide target IT structure and solution at an early stage
- Centralized complex IFRS accounting adjustments at centers of competency
- Utilize synergies with other projects
- Get real data for testing and validation at the earliest
 - ▶ Data Quality issues can be significant
- Invest in education at all levels, including shareholders

Top 5 IBM Lessons Learned from IFRS Experiences

IT focus

1. Pick an estimated landing place for IFRS accounting and make accounting decisions quickly and then parse the accounting decisions into system impact decisions
2. Develop the parallel reporting system design including the upstream and downstream system impacts...you may require system upgrades
3. For any policy, process, data and system changes work through the periodic accounting close cycle calendar to determine challenges
4. Ensure active external audit involvement – to deal with materiality issues...what does componentization mean to you
5. Remember that design/build, test, implement represent 1/3 of project timing

Questions and Answers

