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

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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


- **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

<table>
<thead>
<tr>
<th>IMPACT OF IFRS ON FINANCE IT</th>
<th>TOTAL</th>
<th>PUBLIC</th>
<th>PRIVATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>38%</td>
<td>35%</td>
<td>45%</td>
</tr>
<tr>
<td>Medium</td>
<td>35%</td>
<td>36%</td>
<td>28%</td>
</tr>
<tr>
<td>High</td>
<td>25%</td>
<td>25%</td>
<td>20%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>2%</td>
<td>4%</td>
<td>7%</td>
</tr>
<tr>
<td></td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>
**Parallel Accounting Systems in 2010:**

*What are you going to do?*

<table>
<thead>
<tr>
<th>PLAN TO RUN PARALLEL SYSTEMS IN 2010?</th>
<th>ALL</th>
<th>PUBLIC</th>
<th>PRIVATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>72%</td>
<td>76%</td>
<td>67%</td>
</tr>
<tr>
<td>No</td>
<td>14%</td>
<td>12%</td>
<td>19%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>14%</td>
<td>12%</td>
<td>14%</td>
</tr>
<tr>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>
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

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
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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!

1. Diagnostic (Assess Impact and Develop Conversion Workplan)
2. Conception, Design and Initial Conversion
3. Embedding (Build, Implement, and Roll out)
4. Optimization

Business as usual

Q3 2008
31 Dec 2008
31 Dec 2009
31 Dec 2010
31 Dec 2011

Assess impact of conversion
Design and Implement conversion

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

<table>
<thead>
<tr>
<th>Company Year End</th>
<th>Months Remaining to Prepare Systems and Policies</th>
<th>Parallel Reporting Period (CDN GAAP &amp; IFRS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 31&lt;sup&gt;st&lt;/sup&gt;</td>
<td>9 months</td>
<td>Nov 1&lt;sup&gt;st&lt;/sup&gt;, 2010 – Oct 31&lt;sup&gt;st&lt;/sup&gt;, 2011</td>
</tr>
<tr>
<td>June 30&lt;sup&gt;th&lt;/sup&gt;</td>
<td>5 months</td>
<td>July 1&lt;sup&gt;st&lt;/sup&gt;, 2010 – June 30&lt;sup&gt;th&lt;/sup&gt;, 2011</td>
</tr>
<tr>
<td>March 31&lt;sup&gt;st&lt;/sup&gt;</td>
<td>2 months</td>
<td>April 1&lt;sup&gt;st&lt;/sup&gt;, 2010 – March 31&lt;sup&gt;st&lt;/sup&gt;, 2011</td>
</tr>
<tr>
<td>December 31&lt;sup&gt;st&lt;/sup&gt;</td>
<td>Too late…..?</td>
<td>Jan 1&lt;sup&gt;st&lt;/sup&gt;, 2010 – Dec 31&lt;sup&gt;st&lt;/sup&gt;, 2010</td>
</tr>
</tbody>
</table>
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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- IBM Lessons Learned

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

The journey to an Integrated Finance Organization

High

Medium

Low

Continuous Process Improvement / Business Improvement
Developing people

Legend - Actions
- Establish global standards
- Simplify
- Converge performance and risk management

Low
Medium
High

Inputs into Identifying and Executing Growth Strategies
Use centers of excellence
Use outsourcing (for non-core activities)
Use predictive analytics / modeling for measuring and monitoring risk
Use risk as an economic evaluation tool
Use historical comparison of key risk and performance indicators
Conduct routine management monitoring & reporting that includes risk factors

Meet Fiduciary and Statutory Requirements
Leading Finance-Related Compliance Programs and Strengthening Internal Controls

Minimum Vital Manual intensive

Improve Efficiency and Effectiveness

Obtain information on performance and risk

Driving Integration of Information Across the Enterprise
Driving Integration of Information Across the Enterprise

Driving Cost Reduction

Reduce the number of ERP instances
Reduce the number of data warehouses
Reduce the number of ERP instances

Use centers of excellence
Use outsourcing (for non-core activities)
Use predictive analytics / modeling for measuring and monitoring risk
Use risk as an economic evaluation tool
Use historical comparison of key risk and performance indicators
Conduct routine management monitoring & reporting that includes risk factors

Aligning Finance with the Business

Providing and owning the truth

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### A Business Component View of IFRS Impacts

#### Examples of IFRS impacts on IT systems

<table>
<thead>
<tr>
<th>Accounting Change</th>
<th>Business Process Impact</th>
<th>IT Systems Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. IFRS transition requires <strong>parallel reporting</strong> in CDN GAAP and IFRS for 1 year</td>
<td>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.</td>
<td>Multi-GAAP accounting functionality required (RAAP, IFRS, Tax GAAP)</td>
</tr>
<tr>
<td>2. <strong>Regulatory accounting</strong> (RAAP) not recognized under IFRS</td>
<td>Regulated rate changes may not flow to the B/S in the form of deferred assets or liabilities</td>
<td>Ability to auto generate IFRS vs RAAP entries &amp; recon reports</td>
</tr>
<tr>
<td>3. <strong>PP&amp;E</strong> accounting does not allow capitalization of administration and overhead expenses.</td>
<td>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.</td>
<td>Different depreciation tables, new data fields, calculation for residual value. Additional data to be passed to reporting, new reports to be developed.</td>
</tr>
<tr>
<td>4. PP&amp;E: IFRS accounting requires more granular asset information &amp; allows use of revaluation mode. Detailed disclosure required.</td>
<td>Processes related to identification of capital expenses will change. The determination of burdened rates (using overheads) will be impacted.</td>
<td>New data fields, new calculations, setting schedules for impairment tests, linkages to GLs, impairment reversal option</td>
</tr>
</tbody>
</table>

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1. **Highlighted CBM Process Examples**
A Business Component View of IFRS Impacts

IFRS can impact many areas within the Finance organization.
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

**Functional model**
1. Data entry
2. Position management
3. Value management
4. Fair Value accounting
5. Central accounting logic
6. Financial reporting

**IT model**
1. Operational Systems
2. BU Integration Layer
3. Sub-Consolidation
4. Integration Layer
5. Reporting

**IFRS PP&E Walkthrough**

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

Phase 1 (Diagnostic)
Phase 2 (Conception, Design & Initial Conversion)
Phase 3 (Embedding)
Phase 4 (Optimization)

Changing the Numbers
Accounting and Finance

Changing the Business
Processes and Systems

Managing the Change
Program Management
IBM’s IFRS Transition Approach

Transition IFRS: Step-By-Step

Phase 1
- Identify Key Differences
- Adequacy of Disclosures
- Identify Key Accounting Issues
- Business & Operations Issues
- Resource Issues: Quantity / Quality
- Data Gaps
- System Deficiencies

Phase 2
- Identify Component Evaluations
- Prepare Component Evaluations
- Executive Knowledge Transfer
- Decision To Proceed
- Identify MIS requirements
- Systems schematic

Phase 3
- Adjustments & Disclosures
- Year 1 IFRS Financial Statement
- Accounting Policies
- Resolve all Accounting Issues
- Conversion instructions
- Consequential Product & Business Decisions
- Capital Investment Decision
- Operational & Procedural Knowledge Transfer
- Implement new Systems
- New Operations (including “Fast Close”)

Phase 4
- Accounting Manual
- Chart of Accounts
- Accounting & Reporting Procedures
- Reorganisation or Restructuring
- Change Management
- Ongoing IFRS Financial Statements
- Post-Impl Review
- Continuous Improvement (Business)
- Continuous Improvement (Technology)
- Ongoing Training and Change Management
- Post-Impl Review
- Continuous Improvement (Business)
- Continuous Improvement (Technology)
- Ongoing Training and Change Management

Continuous Improvement (Business)
- Continuous Improvement (Technology)
- Ongoing Training and Change Management

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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