IFRS readiness series

Mapping the change*

IFRS implementation guide

*connectedthinking

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The heart of the matter

IFRS: A reality for US business

Conversion is coming

Most of the world already talks to investors and stakeholders about corporate financial performance in the language of International Financial Reporting Standards (IFRS). All signs suggest that the United States (US) will soon follow.

By acting now, well in advance of IFRS conversion deadlines, US companies have a rare opportunity to make time work for them. Early action will allow companies to control costs, understand and manage the challenging scope of implementation, and ensure a smooth transition plan.

Conversion experience in Europe, as well as Asia and Australia, shows that conversion projects often take more time and resources than anticipated. Historically, that has led some companies to rush and risk mistakes or outsource more work than necessary, driving up costs and hindering the embedding of IFRS knowledge within the company.

At the same time, conversion brings a one-time opportunity to comprehensively reassess financial reporting and take “a clean sheet of paper” approach to financial policies and processes. Such an approach recognizes that major accounting and reporting changes may have a ripple effect impacting many aspects of a company’s organization.

Adopting IFRS will likely impact key performance metrics, requiring thoughtful communications plans for the Board of Directors, shareholders and other key stakeholders. Internally, IFRS could have a broad impact on a company's infrastructure, including underlying processes, systems, controls, and even customer contracts and interactions.

Many of these business effects will require attention; others can be addressed at the discretion of the company. In both cases, companies that identify these impacts early will be in a better position to take appropriate action. No company will want to embrace every available change in connection with adopting IFRS, but insightful companies will want to understand their options so that they know what the possible changes are, which options are most appealing, and how best to pursue them.

The process of conversion demands robust change management, initiated and championed by a company's leadership. PricewaterhouseCoopers (PwC), drawing on its broad experience with conversion projects in dozens of countries, has a full spectrum of publications aimed at providing insight for top executives as they confront IFRS conversion. Moving forward, PwC will continue to stand at the vanguard of IFRS conversion developments, providing guidance and assistance.

This implementation guide is intended to jumpstart strategic thinking about an IFRS conversion. It provides an outline for a suggested IFRS conversion approach, highlighting objectives, timelines, key considerations, and insights. It is not a comprehensive "how-to" manual, because each company will proceed according to its own unique needs. Rather, its intent is to provide a framework for understanding the scope of the conversion process, encourage strategic thinking, and help companies identify where they may need more information, resources or expertise.

An in-depth discussion

A strategic conversation

Mapping the conversion

Successful conversion efforts are characterized by a thorough strategic assessment, creation of a robust step-by-step plan, alignment of resources to the efficient execution of the plan, and smooth integration of the change into normal business operations. In a business-wide conversion, all departments that contribute to the creation of financial information, or that use financial information in their daily activities, should be involved to ensure a complete assessment and to gain buy-in. The bottom line: An IFRS conversion should establish sustainable processes the company can repeat and should produce meaningful information long after the conversion takes place.

PwC has deep experience helping companies to convert from one accounting framework to another. Our involvement in large-scale accounting conversions for global companies began more than a decade ago, building a global practice with hundreds of full-time conversion specialists. Members train together, use a common methodology, and regularly collaborate on projects all over the world, sharing experiences and best practices learned from work with thousands of companies.

The phased approach to conversions described in this guide is based on the experiences of these conversion experts—a proven approach to performing a high-quality, well-controlled implementation of IFRS. It is flexible and scalable, enabling it to work effectively in organizations of any size. Although each company's timeline will vary, a well-planned IFRS conversion project may take as long as two or three years from start to finish. But the first phase, a preliminary study, can take less than a few months, can be done at any time, and allows a company to assess the scope of IFRS impact and gather necessary information to decide next steps.

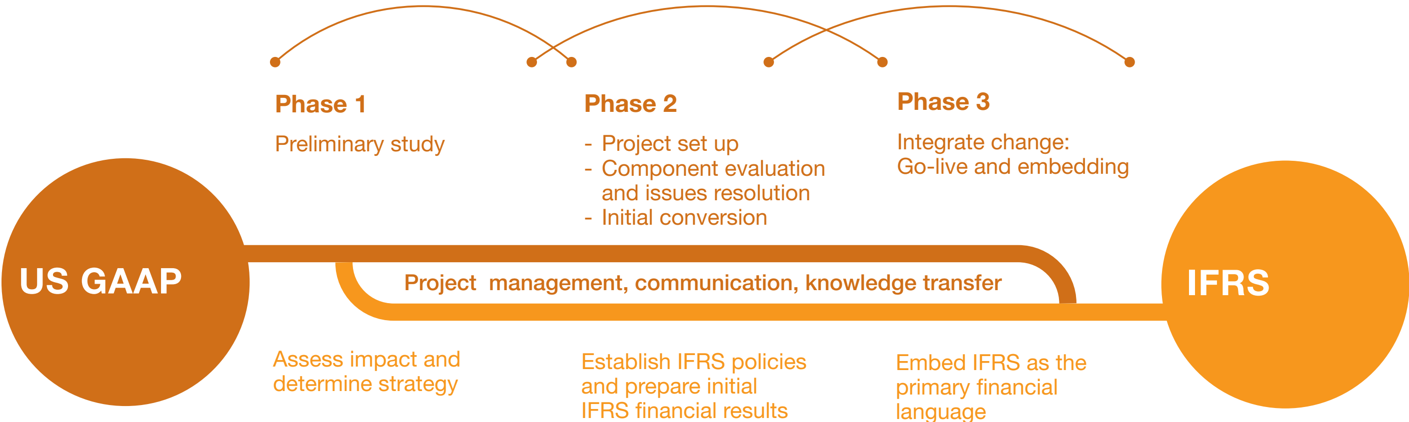
Although this implementation guide is organized around the phases of a conversion, it is important to recognize that the phases tend to overlap one another—companies do not need to wait for one phase to end before beginning another.

Phase 1: Preliminary study—During this phase, companies perform a broad-based assessment of the impact of IFRS on financial reporting, long-term contracts, supporting business processes, systems and controls, and income tax compliance, planning and reporting. They also determine a strategy for the road ahead.

Phase 2: Initial conversion—This phase includes much of the legwork of a conversion effort—setting up and launching the project, thoroughly evaluating the IFRS and US GAAP differences for specific financial statement line items, evaluating accounting policy alternatives, selecting IFRS accounting policies, performing the initial conversion, and creating IFRS financial statements during the dual reporting period. In-depth assessments of operational issues, such as the IFRS impact on significant business contracts (e.g., financing, leasing, joint venture agreements), and income tax compliance and reporting issues also take place during initial conversion. Stakeholder communication should be a constant consideration throughout this phase.

Phase 3: Integrate change—Critical to the conversion process is incorporating IFRS changes into the day-to-day operations, processes, and systems of the business (known as "embedding"). This phase helps to ensure a smooth transition to the new reporting framework so the company can use its new IFRS language on a sustainable basis in a well-controlled environment as of the IFRS adoption date.

Figure 1. Transition to IFRS methodology



Timeline for conversion to IFRS

Overview of a possible timeline for US public companies

PwC estimates that mandatory adoption of IFRS will begin in 2014, with voluntary adoption available to certain companies in advance of that date. Though the timing is still uncertain, understanding which fiscal periods could be impacted allows companies to judge how best to proceed with their conversion projects. SEC rules currently require US 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. Additionally, IFRS requires a company 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 in Figure 2.

Though it doesn't appear likely, it's still possible the SEC may provide relief to companies in their first IFRS filing by requiring only two years of comparative financial statements, similar to the accommodation granted to certain foreign private issuers when they first adopted IFRS. Companies will need to monitor the situation to determine the appropriate starting date for the IFRS transition work. Remember that historical comparative interim periods will also need to be converted to IFRS to meet SEC quarterly reporting requirements.

Figure 2. Required financial statements in the first annual IFRS financial statements filed[1]

Balance sheets[2]	January 1, 2012 December 31, 2013 December 31, 2014
Income statements Statements of shareholders' equity Statements of cash flows	December 31, 2012 December 31, 2013 December 31, 2014

[1] Assuming the first set of IFRS financial statements are filed for the year ended December 31, 2014.

[2] Although neither current IFRS standards nor SEC regulations technically require a company to present a year-end balance sheet in the year of initial conversion (December 31, 2012, balance sheet in this example), some companies will include one to correspond with the income statement periods presented.

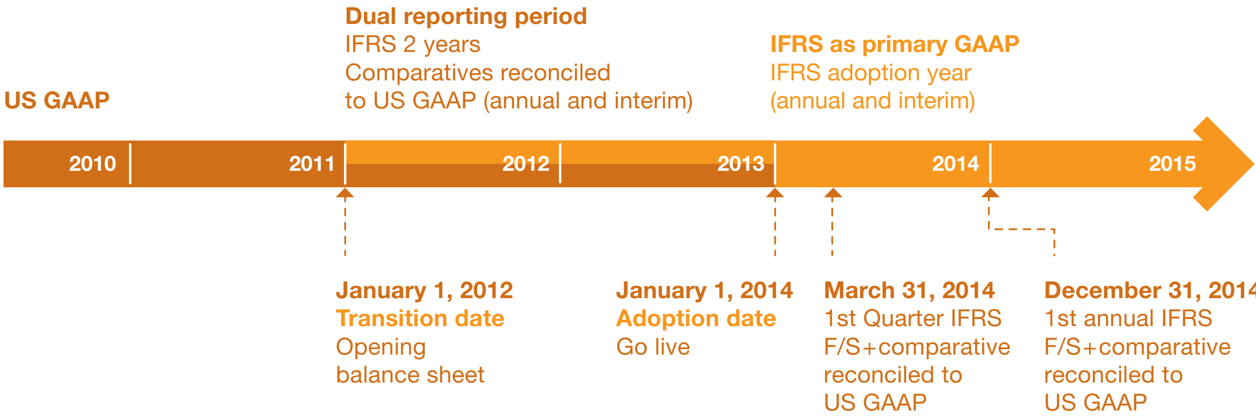
A sample timeline for a calendar year-end company can clarify the picture. The timeline in Figure 3 assumes issuance of the first set of IFRS financial statements for the 2014 year (in this example, the "go-live" date of January 1, 2014, is the first day that the company will operate using IFRS as its primary basis of accounting). Notice that the first *filed* IFRS financial information will likely be the March 31, 2014 interim period, not the full-year annual financial statements. The "dual reporting" period covers the period prior to the "go-live" IFRS adoption date when the company will still file US GAAP financial statements with the SEC, but will also need to reconcile certain US GAAP statements to IFRS for inclusion in the first set of published IFRS financial statements. In some instances, the dual reporting period may extend past the "go-live" date in order to meet regulatory or legal/contractual requirements (e.g., if those requirements are not modified to fully accept IFRS reporting).

Companies filing their first IFRS financial information on March 31, 2014, for example, would be required to include reconciliations from US GAAP to IFRS for:

- Stockholders' equity at January 1, 2012 (the transition date)
- Stockholders' equity at March 31, 2013
- Profit or loss for the period ended March 31, 2013
- Stockholders' equity at December 31, 2013
- Profit or loss for the year ended December 31, 2013

Companies that include five years of historic financial information in the Selected Financial Data Table are not required to convert financial information to IFRS for periods prior to the transition date. However, the information should be clearly labeled as to its basis of accounting, and the nature of the main adjustments needed for the information to comply with IFRS must be disclosed.

Figure 3. Sample timeline for converting to IFRS



Variables in the conversion timeline

Accounting changes that impact more than financial reporting

Although driven by accounting changes, some of the IFRS requirements will impact areas other than accounting and could cause management to change business practices. Accounting for consolidations and revenue recognition are two important examples. Identifying the implications of required or elected accounting changes takes time, as the impact can be broad and vary in significance. The interrelationship of accounting changes with IT systems, business processes, taxes, and general operations extends the time required to address all identified issues. It also essentially means that companies should be sizing up the potential impact of IFRS today, or in the near future.

Tax considerations

The conversion to IFRS will have a direct impact on income tax reporting and cash taxes payable for many companies. For example, IFRS doesn’t permit the use of the Last-In-First-Out (LIFO) method of inventory accounting. In the US, companies can use this method for tax purposes as long as it is also used in their financial statements (the LIFO book/tax conformity rule). Under the current tax code, US companies using LIFO for tax purposes may face an increased cash tax cost for a period of time when they change to IFRS for financial reporting purposes.

International tax strategies may also be impacted. For example, changes in the classification of financial instruments and greater use of fair value measurements for balance sheet items could have a significant impact on debt-to-equity and other balance sheet ratios. This may negate the benefits of existing tax structures, causing companies to revisit their tax planning efforts.

Impact on key agreements

Accounting differences generated by IFRS policy elections may require a redesign of internal and external contract terms and conditions, as illustrated in the revenue recognition discussion in Insight one. The move to IFRS will impact a variety of contracts for most companies. When negotiating contracts now, it is important to consider both the current US GAAP implications and the IFRS implications that may arise a few years down the road. Consolidating additional entities under IFRS (discussed in Insight two) is a prime example of how other contracts may need to be modified to maintain financial reporting objectives under IFRS. Treasury contracts, such as derivative contracts and financing agreements, are another area where terms may need to be revisited. Financial instruments that qualify for hedge accounting under US GAAP may not qualify for the same accounting under IFRS, while IFRS may offer alternative hedging strategies not available under US GAAP. Treasury groups will need to review contracts and ensure that hedging strategies will continue to be effective under IFRS.

Revenue recognition— As companies are evaluating their IFRS accounting policy options, consideration of the broader picture is critical. For example, many companies will take the opportunity to reassess their revenue-recognition policies, considering where the prescriptive, industry-focused US GAAP accounting can be modified under IFRS to better reflect the economic reality of their revenue-producing transactions. This could result in revenue being recognized earlier than it was under US GAAP. Though the decision to change revenue recognition policies may seem like a no-brainer, there are follow-on impacts companies should consider before making a final decision:

- **Sales strategy—** What is the impact of this decision on the sales strategy? Do we need to revise our sales contracts? Retrain sales staff? Does the change provide incentive for sales staff to manipulate their sales performance? Do we have internal controls in place to detect such activity if it happened?

- **Compensation—** What is the impact on how we compensate our people? What revisions to the sales commission or sales bonus targets are necessary? How does it impact other management or staff who are compensated based on financial performance? Do we need to revise bonus metrics for all staff? Do executive management compensation agreements need revision? Do we have stock options that vest based on performance? If so, what changes need to be made to those metrics, and does that have a financial impact?

- **Treasury/cash management—** How will the change in accounting policies impact our debt covenants? How will it impact our cash flow? Will we be paying more in compensation? Will there be an impact on our cash taxes payable? What is the cost to make any strategic or compensatory changes that result from our accounting policy decisions?

- **Communication—** How do we effectively communicate this change to investors? What will the impact be on earnings per share or other key performance indicators? How will our decision to change accounting policies compare to the decisions of our competitors, and what impact does that have on our communications to investors and analysts?

Consolidations—Determining which entities require consolidation under IFRS is more qualitative than under US GAAP. Entities that were reported on the cost or equity method under US GAAP may require consolidation under IFRS, resulting in a broader range of financial information being subject to financial statement and internal control audits. If additional entities fall under the consolidation umbrella, companies may want to consider changes in other related areas, including:

- **Legal agreements—**Joint venture or shareholder agreements may have been negotiated specifically to achieve non-consolidation by a specific entity under US GAAP. If the structure of those agreements does not achieve the same accounting under IFRS, companies may want to substantively revise those agreements. These revisions can become complicated, particularly if, for example, the joint venture partner continues to use US GAAP and is therefore governed by different consolidation rules.

- **Financing agreements—**Existing debt covenants may no longer be relevant or appropriate if additional entities are scoped under the consolidation umbrella. Renegotiation of the covenants may be needed and may take longer than usual depending on the availability and quality of financial information from the newly consolidated entities. Companies that are highly leveraged or are performing at a suboptimal level may have difficulty renegotiating, or may pay heavily in fees or basis points.

- **Timely reporting—**If consolidation of previously unconsolidated entities is required by an IFRS conversion, there may be a longer lead time for obtaining the information from the consolidated entity, particularly if it is not accustomed to meeting regulatory reporting requirements, and if it will continue to report prospectively using US GAAP. This may impede timely SEC reporting for the parent company.

- **Systems implications—**Companies that utilize consolidation software to prepare consolidated financial statements would likely consider whether to modify their systems to accomplish the consolidation automatically. In addition, depending on the relationship between the parent's and consolidated entity's systems, new electronic interfaces or processes may need to be established.

Keys to success

Several common themes consistently appear in successful IFRS conversion projects. These themes are an integral part of each phase of the conversion and can serve as checks for ensuring the value and sound design of each task.

Project management

Strong project management skills are critical to the success of an IFRS conversion project. Throughout the project, people from different departments with varying skill sets will engage in multiple work streams concurrently over an extended period working toward many different deliverables and with many interdependencies. The project management function brings a sense of focus and uniformity to the process, while acting as a driver to push the process forward. Project managers and advisors with IFRS conversion expertise will be helpful because of their understanding of the interdependencies—the critical relational and sequencing aspects of the tasks in an IFRS conversion—an important aspect of effective execution. Finally, clarity drives effective project execution. This means clarity in objectives, roles and responsibilities; clarity in the milestones to be achieved and their timing; and clarity in the structure of the project plan and the process for issues resolution.

Communication to key stakeholders

An effective strategy for communicating with key stakeholders generates necessary familiarity with and acceptance of the conversion. Delivering key messages in an appropriate style is important to gain buy-in from both internal and external stakeholders for upcoming changes. Take lenders, for example. Many companies may need to renegotiate debt covenants with lenders when converting to IFRS if existing US GAAP-based

measures in debt agreements become irrelevant. To ensure balanced negotiations, companies should begin discussions with lenders early. Lenders will want to understand the financial impact of conversion and any resulting change in risk profile. Likewise, management should be proactive in communicating with shareholders, analysts, ratings agencies, and other key external stakeholders on the IFRS-related changes to effectively manage those parties' expectations.

Insight three

Ideally, moving to IFRS should be invisible in a company's stock price. The underlying fundamentals of the business have not changed; what has changed is the way that financial performance and position are reported. Allow sufficient time to educate analysts and investors early on the financial reporting changes created by IFRS conversion, and be prepared to frame those changes in the context of similar IFRS-driven changes among competitors.

Knowledge transfer

Whether you handle a conversion project on your own or use external advisors, facilitating knowledge transfer throughout the conversion process is critical. Effective knowledge transfer is achieved primarily through two avenues:

- **Training—**Individuals both inside and outside the financial reporting function, across multiple levels of the company, will require some degree of training on IFRS. IFRS knowledge will be necessary for some to perform their jobs, while for others the understanding will bring clarity around how IFRS may be impacting them (e.g., through new IFRS-based performance metrics or a change in stock-based compensation structure). The level of detail and the timing of the training will impact the quality and volume of the IFRS learning retained.

- **Teaming—**Companies that hire external advisors to help them with their IFRS conversions need to ensure they are working collaboratively with their advisors, rather than simply outsourcing. In order for company staff to retain the benefits of going through the conversion, they need to work side-by-side with advisors, learning by doing. This will minimize the learning curve and help ensure that IFRS reporting is repeatable once the conversion is completed.

Embedding

Though an IFRS conversion is a one-time event, its effects are long-lasting and may prove difficult to change in the future. A company should embed IFRS reporting into the fabric of its operations, rather than "patching over" existing US GAAP processes. Doing so allows personnel to make IFRS concepts part of their daily routine, rather than an addition to their normal workload. Embedding changes and implementing appropriate internal controls will help minimize the risk of errors and make sure IFRS reporting is sustainable going forward. Embedding will also more closely align IFRS conversion with the long-term operational and process goals of the company.

What this means for your business

Making the change

The phased conversion approach described in the following sections is designed to be flexible and scalable, and it can conform to each company's unique circumstances. Each phase contains a number of suggested tasks. Some are essential; others can be modified, accelerated, or delayed to fit each company's conversion timeline.

Phase 1: Preliminary study

Objective

The objective of this phase is to gather sufficient information about the potential impact of IFRS on the business and establish an informed path forward for the conversion project. The focus of this phase is wide, but not necessarily deep. A quality preliminary assessment should provide:

- An overview of the financial statement areas, as well as the functional areas outside of financial reporting, that will be most impacted by an IFRS conversion and require the greatest level of effort
- A summary of long-term business agreements requiring consideration in the near-term because the change to IFRS could affect how the economics of the agreements are reported in the company's financial statements
- Information on how IFRS may already be impacting the company if foreign subsidiaries have previously adopted IFRS for statutory or other reporting purposes
- A plan of attack for the IFRS conversion

Even if a company does not anticipate a move to IFRS for a few years, completing this study early helps management and the board of directors to understand the scope of the impact and prepares them to act efficiently once conversion decisions are made.

Key considerations
Assess the impact of IFRS on the financial statements

Companies can start the process of identifying differences between US GAAP and IFRS by reviewing their most recent US GAAP financial statements to inventory where differences between the two accounting frameworks exist. Current and contemplated transactions should also be considered throughout this process. These evaluations help identify the complex areas that will likely demand a significant amount of the company's time and effort as it moves through the conversion process. It is not uncommon for companies to wait until the next phase to thoroughly analyze and document the accounting differences in detail.

Keeping the analysis of differences at a level that can be appropriately summarized for senior management and the board of directors is important. They will want to understand the key implications—such as the potential significance of the changes, volatility, impact on key performance indicators such as revenue and net profits, and the level of cost and effort expected to adjust and embed financial reporting to an IFRS basis.

Companies will likely want to understand the accounting policy decisions of competitors that are already applying IFRS and research common US GAAP to IFRS differences applicable to their industry. PwC has several publications, tools and other resources, available at **www.pwc.com/usifrs** that companies can use for this purpose, according to their specific needs.

The initial scoping and identification of key differences will begin to highlight areas likely to require additional information and significant work to execute the conversion. Companies may also need to collect additional data in order to analyze the potential differences. During this phase, companies should assess the magnitude of additional data needs and the hurdles they may face in accessing the data (e.g., system restrictions, involvement of specialists, etc.). One of the most common areas where data gaps arise is in the information required to be disclosed in the notes to the IFRS financial statements. Some IFRS disclosures may require information that is not gathered currently and not readily available (e.g., sensitivity analyses). Other information may be accessible but not currently subject to the same internal control processes (e.g., information currently included in Management's Discussion and Analysis in the Form 10-K).

Tax reporting considerations

The conversion to IFRS will have a direct impact on income tax reporting. Though most differences between the international standard on income taxes (IAS 12, *Income Taxes*), and the US standard on income taxes (FAS 109, *Accounting for Income Taxes*) are expected to be eliminated through the IASB's and FASB's income tax convergence project, some key differences will likely remain and may increase the volatility of income tax expense (e.g., accounting for uncertain tax positions and deferred taxes related to stock-based compensation). Beyond any remaining post-convergence differences, companies should consider a number of other income tax reporting issues in this phase.

- As discussed earlier, IFRS doesn't permit the use of LIFO for inventory costing, which may result in a significant cash tax cost when certain companies change to IFRS for financial reporting purposes.

- Similar to the LIFO issue, other IFRS book accounting changes may trigger tax accounting method changes in both US and foreign tax jurisdictions. Such tax method changes may require the filing of formal change requests and could impact companies' cash tax costs.

Insight four

The cash tax implications of converting to IFRS go well beyond differences in accounting for items of revenue and expense. The move to IFRS may have an impact on international tax planning considerations as well.

- The move to IFRS may impact international tax planning. For example, changes in the classification of financial instruments and greater use of fair value measurements for balance sheet items could impact debt-to-equity and other balance sheet ratios. This may result in limitations on interest deductibility, causing companies to revisit their tax planning efforts. Conversion to IFRS for local statutory purposes may also impact the ability to repatriate cash into the US from foreign jurisdictions, and changes in a foreign entity's cash tax liability may impact the amount of income recognized that is generated by US-controlled foreign corporations.

- The book bases of many balance sheet amounts will change under IFRS, impacting deferred tax computations. Pre-tax book income will also change, and the interaction with permanent tax items may impact a company's effective tax rate.

- IFRS conversion may impact state and local taxes. Fair value measurement and other changes to the balance sheet may impact a company's net worth, franchise tax liability, and property tax liability. Changes in revenue recognition policies and fair value measurement may affect how a company allocates revenue across states.

The tax implications of converting to IFRS may strain the resources of corporate tax departments. By assessing their tax compliance and provision processes, their level of reliance on technology and automation, and the skills and availability of their tax department resources, companies can begin preparing for the wave of tax-related work generated by the IFRS conversion.

Assess the processes and systems impact

Phase 1 of the conversion should produce a preliminary assessment of the IFRS impact on the financial reporting and business processes and systems. This assessment should allow companies to begin considering how to efficiently incorporate IFRS accounting principles into the financial reporting processes and systems, for both the dual reporting period and when IFRS becomes the primary GAAP.

It is also important to consider other major projects planned or underway—ERP system upgrades or implementations, business reorganizations, etc. Linkage to other projects will allow companies to plan for synergies between IFRS conversion and other efforts.

Assess how IFRS is currently impacting the company

IFRS is already affecting many US multinational companies through statutory or other reporting by their foreign subsidiaries. Understanding where a company already uses IFRS or could use IFRS in the near future will factor into how the US parent company converts to IFRS. Many companies have used a "pilot" approach to IFRS adoption by converting one or more foreign subsidiaries in territories where IFRS can be used for statutory reporting purposes. This approach can provide valuable practical conversion experience and give the company a realistic view of the

Insight five

Explicit efforts should be made to understand the business implications of both accounting and nonaccounting issues at the business unit level. Involving the business units in collective efforts to identify issues and craft solutions builds commitment and helps ensure that the plan is realistic, comprehensive and weighs all costs and benefits.

types of issues and level of effort needed to convert to IFRS before initiating a "whole company" conversion. On the other hand, a pilot approach may limit a company's flexibility with the initial IFRS transition provisions and should be fully vetted where reporting options exist.

An important benefit of converting to IFRS for many companies is the opportunity to centralize and streamline financial reporting functions through the use of a single set of IFRS accounting policies. Accordingly, this preliminary phase is a good time to inventory which group entities already apply, are adopting, or will be allowed to apply IFRS for statutory, tax, or regulatory purposes. Such an inventory will help determine the next steps for conversion and the level of accounting and process standardization that can be achieved across the entire company.

Phase 2: Initial conversion

Objective

In this phase, the focus shifts to detailed work, such as selecting appropriate IFRS policies and determining the accounting adjustments needed to convert from US GAAP to IFRS. Finalizing accounting policies and quantifying the adjustments will facilitate the creation of shell IFRS financial statements, an IFRS reporting process that supports the financial statements, and preparation of the initial IFRS financial statements and the related reconciliations.

In separate but related work streams, personnel in other functional areas will begin resolving any issues detected during the preliminary study. This effort should be properly sequenced to avoid interference with other changes.

For example, companies will need to change tax accounting methods as a result of new IFRS book accounting policies. A formal filing and approval process with the tax authorities may be required for certain tax method changes requiring sufficient lead time. Companies will want to obtain tax authority approval before changes to the company's financial system are finalized and implemented to avoid rework and ensure that book and tax differences are captured correctly.

Communication with both internal and external stakeholders becomes increasingly important during this phase. A detailed communication plan should be incorporated into the Phase 2 project plan, specifying what should be communicated, to whom it should be relayed, and when.

Key considerations

This phase comprises a number of important tasks. The proper time to initiate and complete particular tasks will vary from company to company.

Launching the project
Establish the formal project management structure

A three-tiered governance structure is generally the most effective for a large-scale IFRS project: (1) an executive sponsor, (2) a cross-functional steering committee[3], and (3) a dedicated project management team. Team members need to have clearly communicated roles and responsibilities. Since all functions may not be represented on each project team, it is especially important that the steering committee—which is responsible for final decision-making—has representation from across the business. As for the executive sponsor, he or she must be committed to the project and able to secure buy-in across the company.

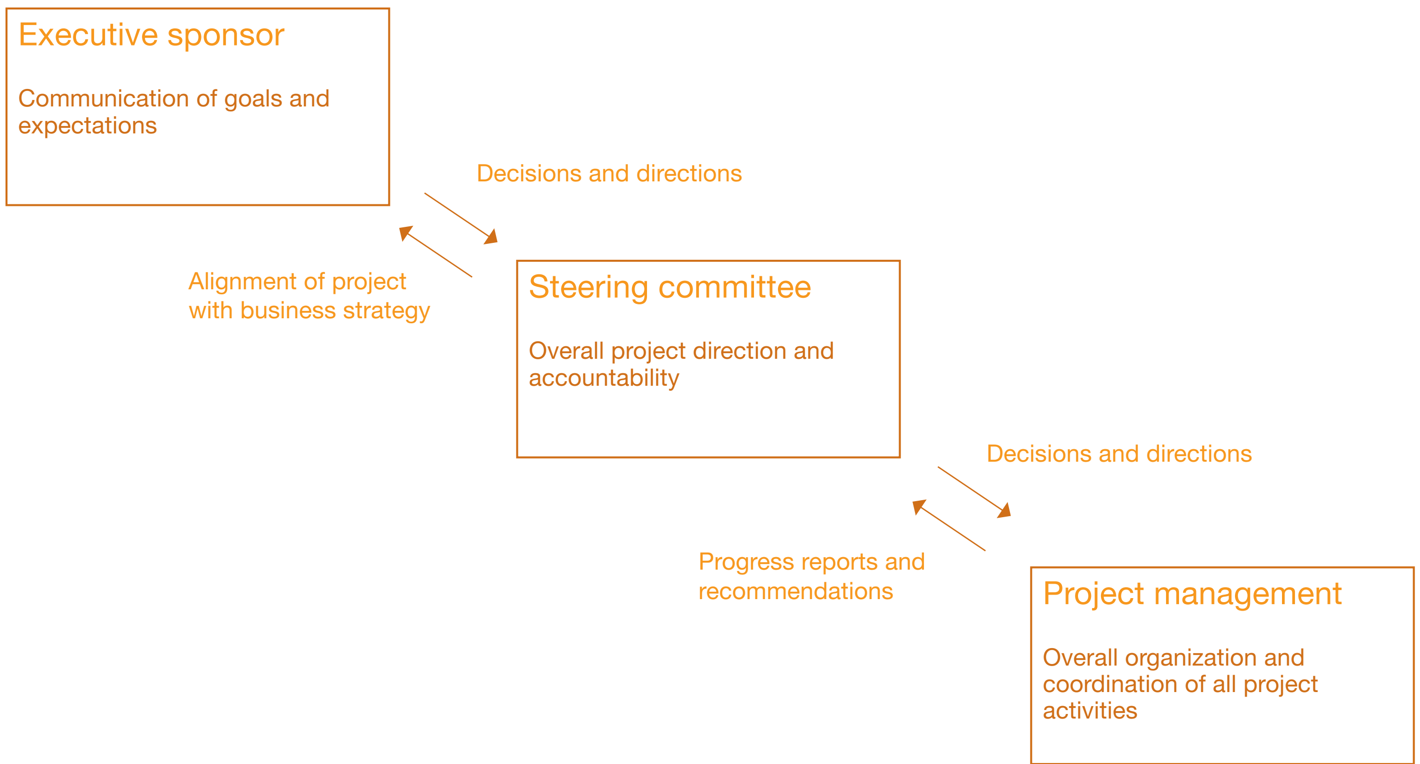
Project management functions typically include:

- **Project planning and monitoring—**How detailed are the project plans, and how will they be monitored

- **Status reporting—**How will the key performance criteria be determined, and how will the content, frequency, responsibilities, recipients, and escalation of reporting be developed

[3] Larger companies may establish a technical review committee in addition to a steering committee. The technical review committee focuses on accounting-specific decision-making (e.g., assessing the accounting pros and cons of certain policy elections across business units), and solicits feedback from the steering committee as necessary.

Figure 3. Sample governance structure



- **Issue and risk management—**How will issues and risks be identified, registered, escalated, and managed throughout the project within the governance structure

The project start-up provides the team with a common understanding of goals and ensures that messages are communicated consistently. Developing a strategy that plans around each of the key elements of the project at a high level sets the tone and direction for more detailed project development activities. Efficient execution of the project plan also requires clear delineation of project roles and responsibilities.

During project start-up, companies may want to customize and expand their conversion methodology. The nature and breadth of key differences between IFRS and US GAAP applicable to each company will generally drive customization of the conversion methodology and approach. Therefore, it is critical to adapt the project plan as the analysis of differences is completed.

Determine the training strategy

The conversion project team should be sufficiently knowledgeable and skilled to use IFRS. The sooner project team members become familiar with IFRS principles and how they apply to the company's business, the higher the quality of the overall conversion project is likely to be.

Companies will need to determine not only who on the project team requires IFRS training, but also when they should receive it. Given the potentially far-reaching impact of an IFRS conversion project, companies should also consider a comprehensive training strategy for the wider organization. The actual timing and level of the training will vary for different groups of employees. In some

cases, detailed training might happen in stages over a longer period, perhaps once every few months, as deemed appropriate and effective.

Impact of IFRS on financial reporting
Determine an approach for IFRS accounting policy selection

Selecting the IFRS accounting policies that are most appropriate for your company is arguably the most important step in any conversion process. Different strategies can be used for IFRS policy selection:

- Focus on key IFRS differences, and modify existing US GAAP accounting policies only as necessary;
- Use a "clean sheet of paper" approach by reading the IFRS standards and determining how the principles and guidance apply to the company's transactions; or
- A combination of the above

Because IFRS has less bright-line rules and prescriptive guidance than US GAAP, accounting policies under IFRS can more closely reflect the economics of the underlying transactions in many cases. When selecting IFRS accounting policies, many companies may be tempted to take the path of least resistance—that is, select accounting policies that are similar to their existing US GAAP policies. But that path may prove less expedient than it appears, since it may cause a company to bypass one-time opportunities to select new policies that best represent the economics of its business. After first-time adoption, changing accounting policies may be much more difficult and in some cases prohibited. Companies should approach IFRS policy selection with an open mind, understanding there is no one-size-fits-all solution.

Our experience has shown that evaluating accounting policies at a component level (an individual financial statement line item) provides a disciplined method for identifying, analyzing, and documenting differences between US GAAP and IFRS in this critical phase. Leveraging the company's project management structure and reviewing these evaluations at the technical review or steering committee level ensures that policy decisions reflect appropriate consideration of the cross-functional impact of any changes (e.g., a change in tax method or the effect that change may have on employee compensation arrangements).

Insight six

Taking a fresh look at accounting policies can help identify areas where the amount of work required by IFRS may actually outweigh the benefit of the business strategy. A European financial services firm with a relatively minor portion of its investment portfolio in convertible bond holdings found that it was strategically better to sell those holdings than to deal with the IFRS accounting and disclosure implications associated with them.

Identify differences between US GAAP and IFRS

PwC recommends taking a top-down approach to determining the differences between US GAAP and IFRS—one that is supported by a clear framework for identifying IFRS recognition, measurement, presentation and disclosure requirements. By analyzing the components of its balance sheet and income statement, a company can detect differences between the new and old reporting, as well as identify any additional data that it may need to quantify the differences.

The differences between US GAAP and IFRS generally fall into two categories:

1. **Clear differences:** In these cases, the recognition and measurement principles of IFRS are clearly different from those of US GAAP. Such differences must be addressed in a conversion.

2. **Potential differences:** In these cases, IFRS provides policy options or greater flexibility than US GAAP. A company's existing US GAAP policies may or may not differ significantly from those allowed under IFRS, so decisions about how to approach these types of differences typically require careful analysis and management's judgment.

Where IFRS provides specific guidance, companies need to determine if that guidance is different from their historical application of US GAAP. Whether or not a company identifies a clear difference, the process for detecting and evaluating the existence of a difference should be documented, along with the supporting research and the resulting accounting policy election (even if the policy doesn't change).

Stock-based compensation—Though the accounting concepts for stock-based compensation are similar under US GAAP and IFRS, there are several key differences that may result in different measurement and timing of expense recognition as well as increased earnings volatility. Depending on the company and the existing plans, these differences may impact:

- **Plan design—**If the financial impact is significant, the IFRS accounting may cause management or the board of directors to reconsider whether the existing share-based payment plan is the optimal compensation solution.
- **Performance targets—**Plans that grant or vest awards based on achieving performance targets may need retooling since the existing performance targets established using US GAAP may need to be amended once the company is reporting under IFRS.
- **Tax implications—**In most jurisdictions, the deferred tax benefit of stock options under IFRS is tied to the intrinsic value of the options, which fluctuates each period, rather than the fixed amount of compensation expense recognized for book purposes. Paired with other book accounting differences from US GAAP, the IFRS impact injects volatility into the company's effective tax rate over the life of the option, which may necessitate new tax planning strategies.
- **Data capture—**The financial reporting differences caused by a change to IFRS may require capture of additional data previously not required. Internal control processes may need modification to cover the additional data. In addition, the deferred tax accounting for stock-based compensation under IFRS generates a significant increase in recordkeeping for most companies, which is often best tracked using controlled, automated solutions.

Areas where there are potential differences may prove more challenging. In these areas, a “clean sheet of paper” approach may be most beneficial. It is critical that the company document pertinent facts and circumstances, the accounting policy options it considered, its final policy selection, and the supporting rationale for its decision.

We encourage companies to take a fresh look at their accounting policies and evaluate whether alternatives under IFRS better reflect the economics of transactions and improve the relevancy of information for the financial statement users. Companies should consider the different effects that alternatives could have on how previously reported and future results will look. Additionally, companies should understand the requirement to operationalize their selected IFRS policies, weighing the costs and benefits before finalizing policy decisions.

The role of professional judgment

Although many accounting policies will be derived directly from IFRS standards and interpretations, the appropriate way to apply those standards or interpretations might not be obvious in all cases. Because IFRS is less prescriptive than US GAAP, there may be a wider range of acceptability under IFRS in certain areas. Therefore, sound, well-documented professional judgment becomes especially important in an IFRS reporting environment. Management will need to exercise judgment to develop and apply accounting policies that faithfully present the economics of transactions and are decision-useful to the readers of the financial statements.

Selection of the most appropriate accounting policies is a critical step, since that decision will impact the company for the foreseeable future. Continual dialogue with the company's independent accountants will leverage their IFRS expertise and ensure that, in principle, they agree with the company's new financial reporting policies. The independent accountants will also want to understand any related changes to internal controls and ensure that the changes are auditable. Keeping independent accountants involved in a timely manner will avoid potential pitfalls later in the conversion process.

Can US GAAP be used?

US companies are likely to ask this question often once they discover that IFRS does not contain the same level of detailed application guidance and interpretations as US GAAP. Companies could mistakenly infer that IFRS guidance is insufficient on a certain subject. IFRS guidance on applying accounting policies (IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*) states that in the absence of a standard or an interpretation that specifically applies to a transaction, other event, or condition, management should use its judgment in developing and applying an accounting policy that results in information that is:

- Relevant to the economic decision-making needs of users
- Reliable, in that the financial statements:
  - represent faithfully the financial position, financial performance, and cash flows of the entity;
  - reflect the economic substance of transactions, and other events and conditions, not merely the legal form;
  - are neutral, i.e., free from bias;
  - are prudent; and
  - are complete in all material respects.

Insight eight

In interpreting IFRS standards and determining how to apply them to their transactions, US companies may be prone to overlooking differences between IFRS and US GAAP if their current accounting seems compatible overall with IFRS principles. For example, IFRS guidance on distinguishing capital vs. operating leases is more qualitative in nature than the quantitative, bright-line tests prescribed by US GAAP. Though in principle the IFRS and US GAAP leasing standards are similar, the IFRS guidance suggests characteristics that may constitute a capital lease, rather than the bright-line criteria provided by US GAAP. US companies should not assume that the classification of their leases under US GAAP will be the same under IFRS, nor should they default to using the US GAAP criteria if at first glance they deem the IFRS principles to be unclear. Instead, management will need to challenge itself to think outside the US GAAP box, consider the substance of the lease arrangement and which party holds the risks and rewards of ownership, and recognize that the same lease agreement may yield a different accounting answer under IFRS principles.

IFRS has established a hierarchy for developing and applying an accounting policy when none of its standards specifically applies to a particular transaction, event, or condition. In those instances, management should refer to the following sources and consider their applicability in the following order:

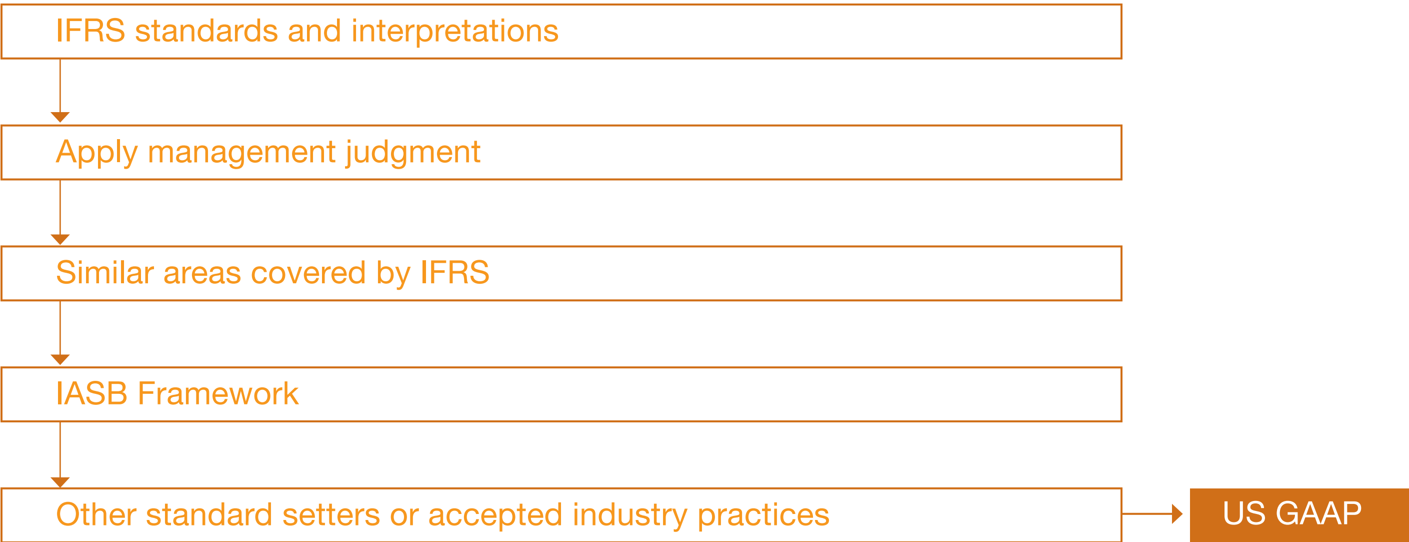
- IFRS standards and interpretations that deal with similar and related issues
- Definitions, recognition criteria, and measurement concepts for assets, liabilities, income, and expenses in the IASB's Framework

IAS 8 also suggests that in considering the above, companies also look to other accounting literature, accepted industry practices, and the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards to the extent they do not conflict with the IASB's standards, interpretations, and framework. However, relying on the guidance of another standard-setter or on industry practice should be a last resort—companies should not automatically default to US GAAP.

First-time adoption

Companies will need to apply IFRS 1, *First-Time Adoption of International Financial Reporting Standards*, the standard that applies when a company first reports under IFRS when another GAAP was previously used. The principle underlying IFRS 1 is full retrospective application of all standards that are in effect as of the closing balance sheet date ("reporting date") of the first IFRS financial statements. In other words, a company's first set of IFRS financial statements should present its financial statements as though the company had always reported under IFRS. However,

Figure 4. Hierarchy for developing and applying IFRS accounting policies



IFRS 1 provides certain voluntary exemptions and mandatory exceptions to full retrospective application to make the process of first-time adoption practical and cost-effective. In some cases, IFRS 1 allows an accounting treatment on the opening balance sheet that may differ from the accounting policy that will be applied prospectively. Applying IFRS 1 can be one of the most challenging aspects of a conversion project. Companies should carefully evaluate the voluntary exemptions available under IFRS 1 and ensure alignment with their accounting policy decisions as necessary. PwC's guide *Preparing your first IFRS financial statement: Adopting IFRS* provides a thorough discussion of exemptions and exceptions, US-specific considerations, and a sample of the required reconciliation disclosures.

Finalize IFRS policy elections

Companies can define and finalize the IFRS accounting policies, based on their detailed analysis. Management should take a holistic view of the policies' impact. Challenges of applying selected policies can come in many forms: book-tax conformity, internal disagreements between corporate headquarters and the business units, lack of in-house expertise for applying complex policies and obtaining necessary data, etc. Ideally, these issues will be raised during the initial assessment phase or in the identification of IFRS and US GAAP accounting differences, and will then be vetted at the technical review and/or steering committee levels. Issues deemed most significant could be aggregated into an "issues inventory" and used to raise awareness of, or to potentially solicit input from, senior management or even the board of directors if necessary.

The detailed IFRS policy analyses completed during this phase will assist management in creating or modifying the company's internal

accounting policy manual. Companies will want to design internal practices, guidelines, and procedures to ensure their selected IFRS accounting policies will be applied properly and consistently throughout the organization.

Quantify necessary adjustments

To create the first set of IFRS financial statements, companies will need to quantify all differences between their existing US GAAP and new IFRS policies, document the differences in detail for all applicable reporting periods, and prepare the adjusting journal entries to be applied to the US GAAP financial statements. Journal entries should also reflect the tax implications of each adjustment. Companies should continue to leverage the IFRS knowledge of their independent accountants by discussing and sharing the impact and quantification analysis. Real time communication with auditors will help to ensure that audit evidence and documentation are sufficient to meet audit requirements.

Create shell IFRS financial statements

Companies should create IFRS financial statement templates for both the annual and interim periods during this phase of conversion. These templates can be used going forward to facilitate IFRS reporting and disclosure, particularly during the dual reporting period. Several tasks can help with the quality and completeness of the shells:

Map required financial statement disclosures

By mapping the required financial statement disclosures to the chart of accounts or subsidiary reporting packages, companies can determine what disclosure information is already available

and what additional information they need to collect. This will help determine whether aspects of the chart of accounts or reporting packages require redesign, as well as ensure completeness of the IFRS financial information.

Identify data gaps

The volume of additional information companies will need to prepare a full set of IFRS financial statements may surprise some companies that think the data collected under US GAAP is sufficient for IFRS reporting purposes. Although this information may be available within the organization, companies should not underestimate the effort involved in accumulating the data on a timely, well-controlled basis.

The degree that existing information systems have to change will vary from company to company. For example, if companies with various subsidiaries operate on different accounting systems and then deliver results from these accounting systems to a single system at the parent company, one company may choose to incorporate IFRS-related changes in the different subsidiaries' accounting systems, while a different company may choose to include the changes in ongoing ERP implementation/upgrade efforts to maximize IFRS or multi-GAAP reporting capabilities. Determining which course to take as early as possible is important, since sufficient time is needed for data conversion, parallel processing, and the establishment, documentation, and testing of internal controls.

Establish an IFRS financial reporting process for the dual reporting period

Once the conversion process is well under way, companies can start designing and testing a financial reporting process to support the creation of IFRS financial statements during the dual reporting period. The process should include generation of IFRS financial statements and the information companies will need when they prepare the US GAAP-to-IFRS reconciliation disclosures required by IFRS 1.

At the same time, companies should be thinking about their internal control over financial reporting, as well as related documentation. Internal controls may need to be adjusted or redesigned to cover new IFRS financial reporting elements and maintain compliance with Sarbanes-Oxley requirements. Additionally, internal control test plans may require updating depending on what, if any, internal controls are changed or added.

By creating IFRS reporting instructions, management can help ensure consistent understanding and application of IFRS across business units and reinforce the control structure. Training on key IFRS principles, accounting policy elections, and the IFRS financial statement creation and reporting process may also prove beneficial at the business unit level.

Prepare initial IFRS financial statements and reconciliation

At the culmination of the conversion process, when the IFRS financial reporting process is in place and business units know their responsibilities, companies can draft the initial set of IFRS financial statements and the required reconciliations between US GAAP and IFRS. Companies will want to take time to fully assess and analyze

the impact of IFRS on their historical financial performance and position so that they can decide on the extent and timing of any communications to analysts and shareholders about the impact IFRS adoption has on their financial results.

Tax reporting considerations

As companies progress throughout this phase, it is critical to keep tax implications in mind. Involving the tax department in the assessment of policy options is essential to gaining a complete picture of the potential benefits and drawbacks of policy changes. During this stage, companies should be thinking through the steps of execution for income tax compliance and reporting considerations, keeping in mind the tax method of accounting,

Insight nine

There is always more than one change to manage. Best-in-class companies will consider the simultaneous mix of regulatory forces, technology advancements, and company-wide initiatives and overlay IFRS in such a way as to identify and play off interdependencies to gain synergies.

book-tax conformity requirements, and any impact on cash taxes. As the financial reporting changes are being organized, tax accounting and reporting changes should go hand-in-hand.

System and process impact

System considerations

Most companies will experience some need for system changes when converting to IFRS. The breadth and significance of the changes will vary, as will the time, cost, level of testing and global coordination. Some global companies will find they can redesign their chart of accounts to be consistent globally since many locations will be using IFRS. Others may need to modify programs locally to capture additional data or generate new reporting functionality. Some companies with highly automated accounting processes may have to change program triggers for recording journal entries. Still others might need to build or enhance multi-GAAP reporting functionality because of global statutory or tax accounting requirements. The necessary system changes can be instrumental to making IFRS part of the company's daily operations rather than just a "bolt-on" addition to existing processes. Because of the time and complexity associated with system changes and the possibility of creating unintended hurdles for other conversion-critical tasks, addressing system considerations in this phase is highly recommended.

Process considerations

IFRS conversion is likely to affect some financially relevant processes. Companies will have to update budgeting and forecasting processes to reflect the impact of IFRS. Group reporting packages and related financial reporting and consolidation processes may also need updating since the move to IFRS often requires collection

and disclosure of additional information. Statutory tax reporting processes may need to change as well, depending on whether local jurisdictions accept IFRS for income tax reporting purposes. IFRS conversion may motivate companies to review process design and documentation in a variety of other areas, too.

Concurrent documentation of the accounting policy elections, the research supporting them, and their final approval reflects good project management and helps companies maintain compliance with Sarbanes-Oxley requirements. This documentation can also help in the training of staff and move them away from an IFRS "reconciliation" mentality, bringing them to the point where IFRS becomes incorporated into their daily function.

Business/operational considerations

Historically, the design of certain contractual agreements may have been influenced by the expected financial reporting outcome under US GAAP. Prospectively, financial reporting differences generated by IFRS policy elections may compel companies to redesign these contract terms and conditions or may allow a change in how companies sell products or services.

- **Internal agreements:** Companies may wish to revisit stock compensation plans because of the potential for greater earnings volatility under IFRS. Additionally, companies whose bonus plans rely heavily on financial performance metrics may want to revisit the targets in their plans, since the financial results under IFRS are likely to be different from those under US GAAP. These are just two examples of how the new reporting can affect internal agreements. Each company will want to inventory its internal agreements to determine what impact, if any, IFRS will

have, and whether that impact is significant enough to warrant modification.

- **External agreements:** The move to IFRS is likely to impact a variety of external contracts. In assessing these contracts, companies need to consider items that have an immediate impact, as well as issues that may arise a few years down the road. In addition to the external agreements discussed elsewhere in this guide, certain types of contracts such as financial instruments may demand early attention. For example, derivatives that previously qualified for hedge accounting under US GAAP might not qualify for the same accounting under IFRS, or new hedging strategies may become available. Treasury groups should review all contracts to understand how hedging strategies will be reflected in financial reporting under IFRS.

Use of specialists

The extent to which companies use specialists during an IFRS conversion will vary depending on in-house skill sets, resource availability, and cost considerations. The conversion can involve a wide variety of specialists at different times during the project. Specialists may include:

- **IFRS conversion specialists—**can advise on technical accounting issues and related business impacts through all phases of an IFRS conversion, as well as perform detailed work related to the project.

- **Project management specialists—**can assist in advisory or tactical matters, taking on the day-to-day management of the process and developing status reporting to keep the conversion on track.

- **Tax specialists—**can help identify potential IFRS tax issues, suggest solutions, advise with tax planning or compliance matters, and review the company's application of IFRS income tax accounting.

- **Systems specialists—**can consult with the company on potential system changes related to the IFRS conversion, advise on and/or design IT solutions such as multi-GAAP reporting and the ultimate changeover to IFRS within the systems (i.e., data mapping, data integrity, etc.), and assist with testing and documentation.

- **Process specialists—**can advise the company on improving existing processes or creating new processes in order to effectively embed IFRS into the company's everyday operations, including design and documentation of internal controls.

- **Training specialists—**can design and execute a training plan for all levels of company staff and advise on an external communication plan.

- **Actuaries—**can assist with revaluation of pension plans and other long-term employee benefit plans as necessary based on the impact of applying IFRS accounting principles.

- **Valuation specialists—**can assist with valuation of contingent liabilities, other long-term obligations, financial instruments, fixed assets, real estate, and other assets as necessary based on the impact of applying IFRS accounting principles.

- **Legal counsel**—can assist with assessing whether legal or constructive obligations need to be re-evaluated based on the impact of applying IFRS accounting principles. Legal counsel can also help with renegotiation of contracts that are impacted by the move to IFRS as deemed necessary by management.

Depending on the industry and level of in-house expertise, a company may need to use other outside specialists as well. Balancing the use of specialists with internal resources should be considered carefully. A key goal is to make IFRS reporting repeatable and sustainable. To that end, effective knowledge transfer from specialists to company personnel is critical.

Insight ten

A Dutch insurance company curbed costs during its IFRS conversion by seconding to the IFRS conversion team staff who knew the business and/or who would use IFRS heavily post-conversion. Backfilling the "normal" jobs of these staff with temporary hires, where possible, who could ease into a work environment that is already well-structured and has defined roles, was less expensive than hiring increasingly scarce—and costly—IFRS specialists to handle the conversion work. At the end of the project, the seconded staff returned to their original units and used their expertise to train their colleagues and oversee smooth IFRS operations.

Phase 3: Integrating the change

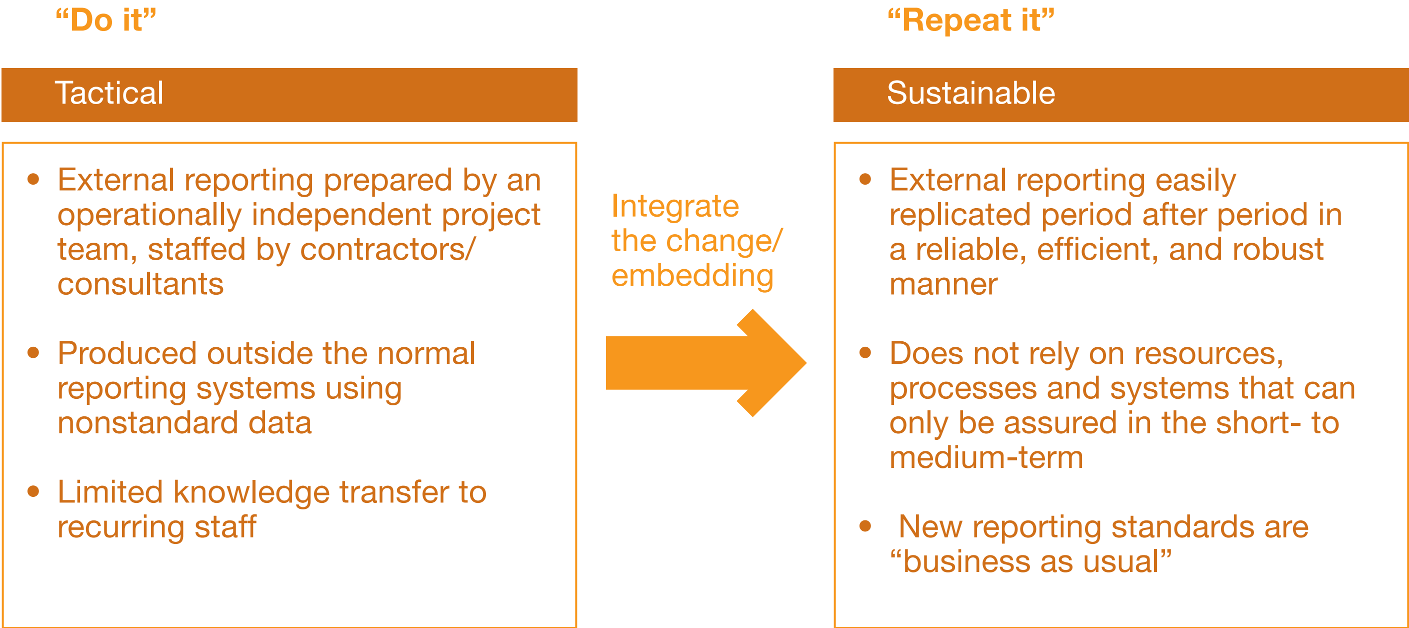
Objective

During this phase, also referred to as the “embedding phase,” elements of the new financial reporting policies and the revised financial reporting processes and systems are “embedded” into the day-to-day activities of the organization at corporate headquarters and at the business unit levels.

In many cases, the IFRS financial statements in the previous phase may have been prepared using short-term solutions and manual processes. However, by the end of the embedding phase, companies should be able to produce IFRS financial statements with a high degree of process and system efficiency and control. As companies enhance the long-term processes and systems that support prospective IFRS reporting, they should be sure their efforts yield processes that are repeatable, auditable, and sustainable and work well within the company’s control environment.

The embedding process will likely overlap with other conversion phases. For example, in Phase 2 companies may test the IT systems by generating sample financial reports to ensure that, once they are being actively used in Phase 3, the system will operate effectively. The timeline to begin and complete each necessary embedding activity will vary depending on the nature and extent of changes. Those factors should be considered when determining the timing for initiation of work in this phase.

Figure 5. Transforming the initial conversion into sustainable reporting



Key considerations

Develop roadmap to embed IFRS as the primary financial language

Embedding IFRS reporting is achieved through use of a cross-functional action plan, covering financial reporting, operations (including IT), and tax, that identifies the priority, timing, and impact of each change—an "embedding roadmap."

While executing Phase 2 of the conversion, companies will continue to refine details related to the long-term embedding process. Developing the detailed embedding roadmap and determining the associated resource estimates are key elements in this phase. The roadmap should consider interdependencies with other company-wide initiatives to achieve synergies where possible.

Embed IFRS as the primary reporting GAAP into financial reporting process and systems

Consider this process in terms of both the corporate headquarters and the business units. For corporate, the roadmap items are centrally maintained as the financial reporting processes, controls, and systems migrate to the desired state. Companies will drill down to the source systems (e.g., billing systems, fixed asset modules, etc.) to make necessary changes, depending on the nature and extent of adjustments identified during the conversion phase. Companies may look to design a global IFRS chart of accounts and other centrally maintained data elements within the consolidation system that are mapped to the financial statements and tagged for Extensible Business Reporting Language (XBRL) reporting (where required for SEC registrants). Information requirements from the business units should also be developed.

During Phase 2, companies made and approved final policy elections and identified the necessary changes to the group accounting manual and group reporting forms. As some existing policies may be consistent, significant changes may not be necessary. For those areas with new accounting policies and procedures, companies will need to disseminate the updated group accounting manual with a description of the new policies adopted by the group and any related guidance. Often, this allows companies to consider innovative ways of "upgrading" the accounting policy manual—for example, developing a web-based tool that helps users find authoritative IFRS guidance as it relates to the policy, or even a roadmap back to US GAAP for a period,

Insight eleven

Link systems and process strategies and solutions to the company's structure and business strategy to benefit from efficiencies across the board. In the end, the financial statements will be sustainable and auditable.

while users become comfortable with IFRS. Rolling out a new IFRS-compliant accounting manual also provides the opportunity to train finance staff on application of new policies and ensure their consistent application. A coordinated roll-out and training approach will ensure new policies are viewed through a common lens, rather than a US lens domestically, a French lens, etc.

At both the corporate headquarters and the business units, companies may need to gather and document the new/enhanced processes, controls and systems. This exercise assists with design-and-build tasks that need to be completed for the new processes (e.g., accruals process, revenue recognition process, financial close, etc.) and systems (e.g., financial instruments modules, sales source systems, ERP, and consolidation systems, etc.), identifying areas where updates to procedural and Sarbanes-Oxley documentation are necessary. The deployment of these changes should follow the company's established process including pre- and post-implementation testing and reviews.

Embed IFRS as the primary reporting GAAP into operational processes and systems

In this area, changes to processes will be developed and implemented for areas such as:

- Management reporting
- Budgeting and forecasting
- Regulatory reporting
- Other operational processes, systems, and controls (e.g., procurement, human resources, etc.)

As with the step of embedding IFRS into the financial reporting processes, controls, and systems, the embedding activities here will include design, implementation, and testing to ensure the changes are sustainable.

Embed IFRS as the primary reporting GAAP into tax reporting process and systems

Embedding IFRS into tax reporting processes should include similar steps to other areas:

- Identifying data requirements for any new or changed book/ tax adjustments
- Building and testing the new/enhanced tax reporting processes and systems, including implementing any new process automation or other technology solutions
- Revising the roles and responsibilities of tax department personnel and providing any needed training
- Updating or creating procedural and Sarbanes-Oxley documentation

Go live and project closure

“Go live” refers to the beginning of the fiscal year that will use IFRS for quarterly and annual reporting. In our chart at the beginning of the guide, “go live” is January 1, 2014. In many cases, the company’s IFRS “project” will run until one full year (possibly longer) of operating under IFRS has been completed (i.e., a full set of IFRS financial results using IFRS as the primary basis of accounting). Throughout the first year of IFRS reporting, changes and/or refinements will continue; continuous improvement should be expected well into the future. As such, companies should collect and communicate lessons learned and further implement improvements through the existing change management process.

Conclusion: Prepare early; be informed

Many companies are, not surprisingly, wary of starting to assess an IFRS conversion, particularly before it is mandated. But the best way to manage the quality, benefits, and overall cost of an IFRS conversion is to actively manage the process starting now.

The ripple effect of change throughout the business will be more significant for some companies than for others. However, the breadth and depth of the impact and the opportunities aren't measurable until companies perform a preliminary assessment. Starting early provides companies with the latitude to choose from a measured, long-range approach to converting; an eleventh-hour, resource-intensive transition that starts a few years from now; or some solution in between.

Many European companies, focused on the mandatory adoption date, ended up paying the opportunity costs of missing some one-time options available only at initial conversion. Several years after conversion, more than a few are revisiting the decisions they made under the stress of a conversion deadline and are going back, for example, to eliminate workarounds and embed IFRS into processes and systems. They are finding these efforts more expensive and often more frustrating than they would have been at initial conversion.

Other companies, which selected IFRS accounting policies that minimized the differences between IFRS and their historical GAAP, regret not taking the opportunity to select accounting policies that best represent the economics of their business.

By gathering the insight of people who have already experienced IFRS conversions and using tested, proven methods, a company can better focus its efforts. And by keeping abreast of the developing IFRS environment and utilizing the most up-to-date information and advisors, a company can avoid many of the pitfalls that plagued others in the past.

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To have a deeper conversation about how this subject may affect your business, please contact:

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