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Managing the Transition to IFRS

Gary Simon, Group Publisher, FSN Publishing Limited

This essay is part of a series, *Controllers' Corner: Two-Minute Essays on Financial Management and Control*, which asks industry thought leaders for their opinions on critical issues facing today's finance organizations.

IFRS, the accounting framework used by most companies in the world today, is likely to be adopted soon in the U.S. Most companies will require a significant investment of time and resources to address the strategic, business and technology related issues that will arise in a conversion to IFRS.

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Q. What advice can you offer companies that need to plan and prepare for IFRS?

Moving from any local GAAP to IFRS is a significant challenge, but not always for the reasons that people expect. A natural response is to suppose that IFRS causes systems and process upheaval but, while it is true that these impacts are important, there are far more fundamental and earthy matters to be considered first.

The biggest issue by far is that migrating to another accounting rule book is game-changing. The implementation of new methods of measurement can have a material impact on the way that profits are reported (up or down) and have profound consequences for the balance sheet. The exact impacts and their magnitude can be highly dependent on your industry segment. In Europe, for example, IFRS 39 caused consternation and debate in the financial services industry, while capital intensive industries struggled more with permitted methods of depreciation.

Back in 2005, when IFRS was first implemented, many of the concepts and standards were still fluid and businesses had to contend with constantly shifting sands. Thankfully, IFRS is now more established but the onus is still on individual companies (rather than regulators or standard setters) to understand the impact of the proposed changes on the business and take ownership of communicating this in a meaningful way to analysts and investors. So, before you go anywhere near systems and processes, the first priority is to understand what you are letting yourself in for.

Education and training for the finance function should be your first port of call. The major accounting firms play an important role in explaining the application of IFRS and helping companies navigate their way through

the transition, distinguishing the important changes that hit pension funds, bank covenants and profits, from the minor changes that do not have a material impact. Most of these big issues become obvious at an early stage of the migration to IFRS, but the sooner you start, the more manageable the change becomes. In a group finance environment everyone with responsibility for financial (statutory) accounting needs to be on the same page as early as possible.

Armed with this knowledge, it is advantageous to take an objective look at earlier years and examine what the impact would have been under IFRS. How would you have explained away the differences between US-GAAP (or other local GAAP) and IFRS and what items could have caused embarrassment if reported in the public domain?

Once these matters are resolved, the more detailed work of specifying changes to data capture, charts of accounts and group reporting packs can commence. In the meantime, assemble a dedicated IFRS project team, liaise carefully with your external auditors, and ensure plenty of high-quality training for the finance function. But above all – start early!

About Gary Simon

Gary Simon, is Group Publisher of FSN Publishing (www.fsn.co.uk) and Managing Editor of FSN Newswire. He is a graduate of London University, a Chartered Accountant and a Fellow of the British Computer Society with more than 23 years of experience implementing management and financial reporting systems. He is the author of many product reviews and white papers. Simon was a partner in Deloitte for more than 16 years and has led some of the most complex information management assignments for global enterprises in the private and public sector. Contact Gary Simon at gary.simon@fsn.co.uk.

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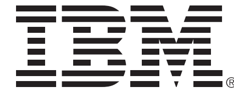

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3755 Riverside Drive
Ottawa, ON, Canada K1G 4K9

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