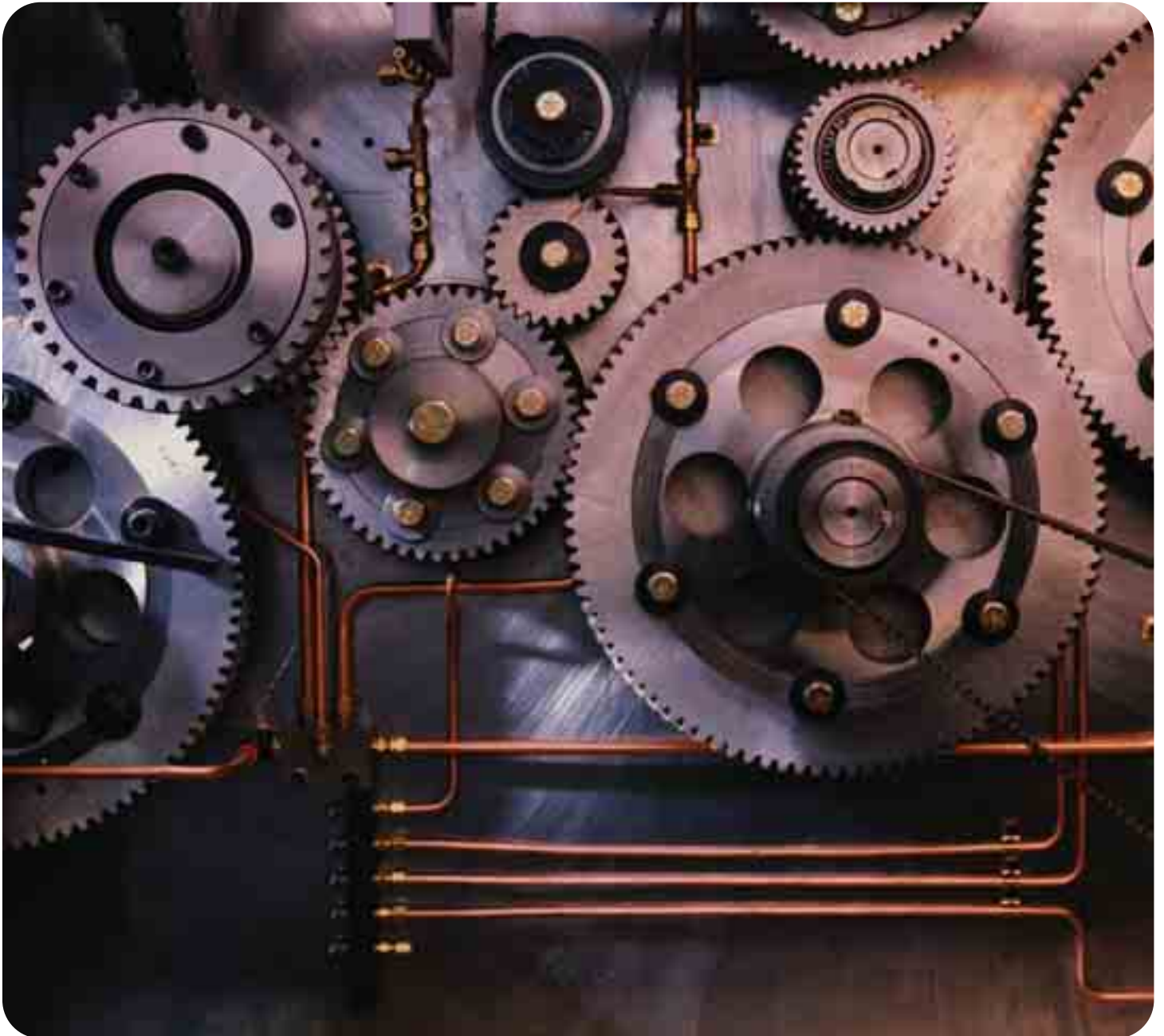


Getting to Grips with IFRS

Making sense of IFRS for the Investment Management industry*



IFRS – Global Reporting Revolution
January 2006

*connectedthinking

International Financial Reporting Standards (IFRS) involve far more than just the implementation of technical book-keeping changes. From investment strategies to fund design, marketing and investor relations, IFRS will have significant implications for the way the Investment Management sector does business and is judged by its customers and shareholders.

IFRS is designed to provide a more transparent and compatible basis for financial disclosure, making it easier for investors to compare companies across different countries and commercial sectors. At a time when competition for investment is intensifying and becoming more global, the potential benefits include strengthened market confidence and the ability to attract new sources of funding and, potentially, a lower cost of capital.

In the short-term, however, there could be some upheaval and uncertainty as institutions and the users of their accounts strive to make sense of the new regime. Failure to anticipate and carefully explain the impact of potential changes in the timing and trajectory of reported profit and portfolio valuations could lead to earnings surprises/restatements, regulatory penalties and the resulting erosion of market credibility.

Listed groups in the European Union and a number of other leading financial markets including Hong Kong, Singapore, Australia and South Africa formally adopted IFRS in January 2005.

Organisations based in countries that do not yet require IFRS may also be affected, both as users of accounts and by the increasing convergence of their national standards with IFRS.

PricewaterhouseCoopers knows of at least 80 countries worldwide that already require or permit their listed groups or sometimes even companies to report using IFRS.

Even companies that have been publishing IFRS accounts for some time are likely to be affected by new measures coming into force in 2005, including more specific rules on the designation of the 'functional currency' in the maintenance of the books and records. IFRS is also still subject to considerable interpretation and evolution in key areas including tax, consolidation and the valuation of investments.

Pressing IFRS accounting issues for investment funds

- IFRS defines fair value for quoted investments in an active market as the bid-price of the investment in the case of a long position and offer-price in the case of a short position. However, under relevant constitutive documents many continue to value their investments on the last-traded or mid-price.
- IFRS requires that the 'functional currency' be used to record all of the transactions into which an entity enters which therefore means that the Net Asset Value should be calculated

using the functional currency. In many instances the functional currency under IFRS may not be the same as the currency which many funds are currently adopting.

Pressing IFRS accounting issues for investment managers

- The recognition of various fees, such as front end loads, may need to be revisited to take into account the type of service being provided and the duration of such service provision.
- Some trail commissions may fit the definition of financial liability which may require trail commissions to be recognised on the balance sheet upon the sale of the investment product and the associated revenue recognised over the lifetime of the contract.
- Companies need to consider how the above might affect their cost and incentive structures, including the level, timing and breakdown of the fees paid to IFAs.
- Consolidation is required where control exists. Control could exist even if an entity holds less than 50% of the shares in a fund.
- The adoption of IFRS may impact net profit and may therefore affect the starting point for the calculation of taxable income.

Decision time...

'The biggest barrier to conversion is coping with the differences between internal reporting systems, designed for national standards, and the external reporting systems under IFRS.'

CFO response from
PricewaterhouseCoopers IFRS Survey

Companies need to ensure their information and reporting systems are up to speed, especially if they intend to run parallel IFRS and legacy systems. In particular, institutions that are contemplating adopting different valuations for dealing purposes and IFRS financial statements need to ensure that any disparities are reconciled and carefully explained to analysts and investors.

'You need to make a realistic plan for the conversion. It may take more than one accounting year before you get the full effect.'

CFO response from
PricewaterhouseCoopers IFRS Survey

The switch to IFRS is not simply an accounting exercise that can be tackled at relevant financial year ends. In some cases, the adoption of IFRS could be retrospective meaning that companies will need to ensure that the comparable amounts for prior years are also IFRS compliant. Opening balance sheets may sometimes need to be restated. It is easy to underestimate the sheer volume and complexity of the work involved.

'Don't leave it until the last minute – and don't stint on efforts to train professionals properly.'

CFO response from
PricewaterhouseCoopers IFRS Survey

Help is at hand...

The consequences of underestimating what is at stake or not implementing the change across your organisation could be very damaging.

As the world leaders in conversions of this kind, PricewaterhouseCoopers has the experience and proven methodology to accelerate the learning curve for you, reduce the lead time and help bring your IFRS project to a successful conclusion. This includes being uniquely positioned to ensure that there are no surprises and that the benefits of using internationally-accepted standards bring tangible benefits to your business.

Whether you are trying to understand the impact of mandatory IFRS adoption on your business or simply contemplating a feasibility study, PricewaterhouseCoopers can help you in the following areas:

- Understand the key issues and their potential impact
- Plan, assign responsibilities and manage problems
- Train a wide variety of people in the new systems and the practical implications of IFRS for their daily work

- Generate and quality assure new information
- Realign information systems and procedures with IFRS
- Smooth the rough edges in financial operations
- Prepare budgets and forecasts under IFRS requirements
- Develop a communications strategy to prepare the market and stakeholders for the potential impact on key performance measures
- Consider the effect on data for distribution policy or for any local tax filings

The information in this pack looks in more detail at the systems, reporting and business implications of IFRS and the possible solutions for Investment Management companies in your particular market. This includes how to develop sustainable financial reporting capabilities that can turn IFRS from a compliance challenge into an opportunity to convey the strengths and value potential of your business and help give you a critical edge in the battle for capital.

For more information on how PricewaterhouseCoopers can help your company make the change to IFRS, please contact your local PricewaterhouseCoopers office or Marie-Anne Kong (email: marie-anne.kong@hk.pwc.com Tel: (852) 2289 2707)

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