

# IFRS and Systems Webcast

The PhRMA Accounting and Reporting Sub-Committee

December 15, 2008



# Agenda

Introduction and regulatory update

Significant process implications

Significant systems implications

Pharmaceutical industry implications

What companies should do today

Summary and Q&A

## Section one

Introduction and regulatory update

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## Speaker introductions

### Karen Young

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### Sara DeSmith

Transaction Services Partner  
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### Patrick Higgins

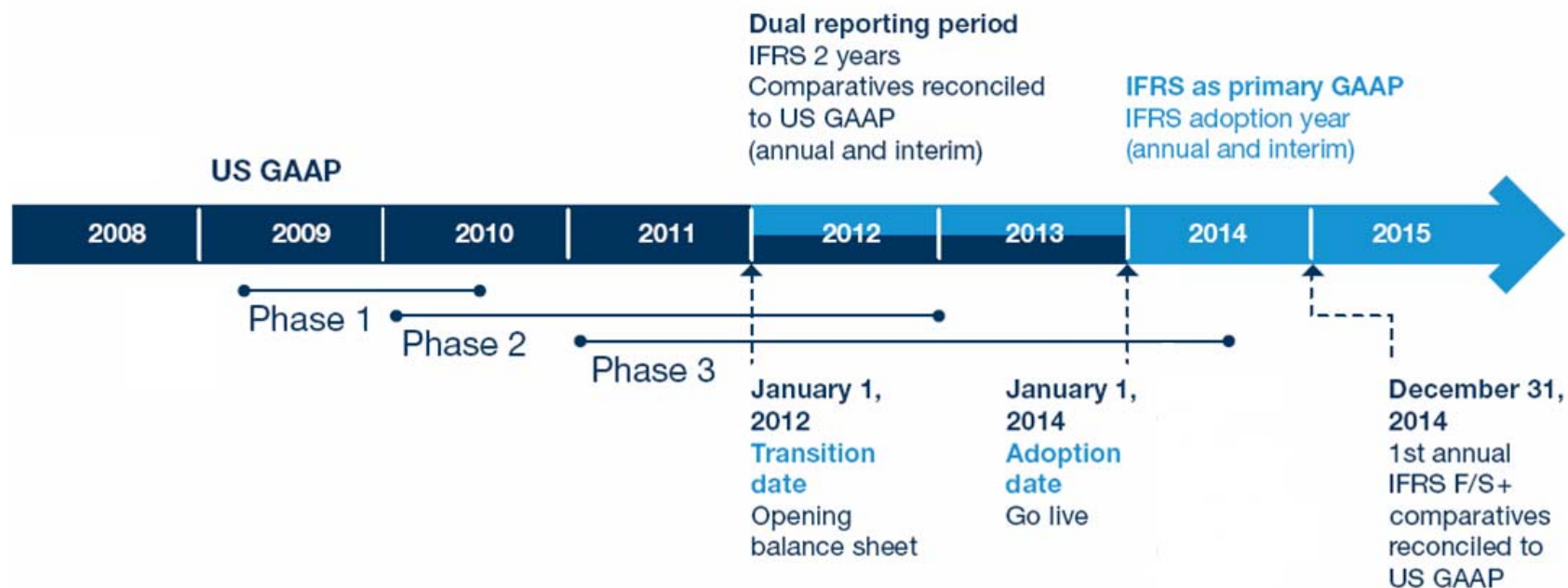
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### Richard Cebula

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## Timeline for the transition to IFRS

As a result of the requirement to publish IFRS financials as of December 31, 2014, with 2 years of comparative information to comply with current SEC requirements (5-year data not required) the following is the most probable timeline for implementation for most large, accelerated filers:



# What does a conversion impact

## Changing Numbers

Addition of another GAAP and/or change in primary GAAP – Accounting policies determination; Chart of Accounts review, Opening Balance Sheet,....

## Changing People (A new business language)

- Communication
  - Internal
  - External
- Training
  - At different levels
  - Not only Finance people

## Changing Processes

- Existing processes to be enhanced:
  - Not adequate with volume
  - As alternative to system change
- New processes created
- Budgeting & forecasting
- Internal controls revisited

## Changing Systems

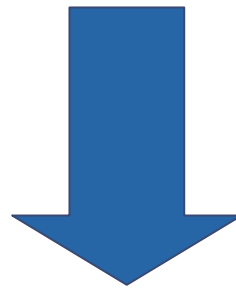
- Data availability and system requirements
- New systems components: data warehouse, calculation engine
- Re-alignment of management information systems
- Multi-GAAP solutions
- Primary GAAP changeover

## Changing Business

- Performance management to be embedded across :
  - Performance measure/KPIs
  - Management accounts
  - Remunerations/bonuses
  - Budgeting/forecasting
  - Financial and Business impact analysis: debt covenants
  - Different valuations

## Strategic conversion considerations

- How much do you want to change your existing accounting?
- How quickly do you want to make the change?
- How comprehensively do you want to make the change?



### IFRS Conversion – Alternative Approaches

**“Big Bang”**

**“Staged  
Phases”**

**“Wait &  
See”**

## Section two

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## Areas for discussion

- Metrics
- Significant agreements

## Metrics

- Examples of key metrics impacted
  - EBIT
  - EBITDA
  - EPS
  - Net income
  - ROI
  - ROA
  - Cash flow from operations

*Recommendation:* *Start determining impact on key metrics*

## Key agreements

- Sales contracts
- Compensation agreements
- Leases
- Collaboration agreements (in / out licensing)
- Debt and financing agreements
- Acquisitions and dispositions
- Tax structured deals

**Recommendation: Assess IFRS impact on agreements that will be in place into the transition period**

## Section three

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## Areas for discussion

- Multi-GAAP reporting
- IFRS 1 – First time adoption
- Long-lived assets
  - Componentization
  - Impairment
- Chart of accounts
- Disclosures

# Multi-GAAP reporting

IFRS	US GAAP	Implications
<ul style="list-style-type: none"><li>• Dual-reporting</li><li>• Multiple statutory GAAP accounting principles</li><li>• Tax reporting</li><li>• Budget / management reporting</li></ul>		<p><b>Business Process:</b></p> <ul style="list-style-type: none"><li>• Maintenance of multi-GAAP details</li><li>• Manual vs. automated</li></ul> <p><b>Systems:</b></p> <ul style="list-style-type: none"><li>• Multi-GAAP can be addressed in various ways within the ERP or the Consolidation system:<ul style="list-style-type: none"><li>• GL accounts method</li><li>• Organizational method</li><li>• Special/ parallel ledger methods</li></ul></li><li>• Sustainability will require automation, diving multi-GAAP deeper into the systems</li><li>• System upgrades may need to be considered<ul style="list-style-type: none"><li>• Segment Reporting</li></ul></li></ul>

# IFRS 1 – First time adoption

IFRS	US GAAP	Implications
<ul style="list-style-type: none"> <li>• Underlying principle of IFRS 1 is full retrospective application of all IFRS standards in effect at the closing balance sheet or reporting date of the first IFRS financial statements</li> <li>• IFRS 1 requires companies to:                             <ul style="list-style-type: none"> <li>• Identify the first IFRS financial statements</li> <li>• Prepare an opening balance sheet at the date of transition to IFRS</li> <li>• Select accounting policies that comply with IFRS and to apply those policies retrospectively to all of the periods presented in the first IFRS financial statements</li> <li>• Consider whether to apply any of the 15 optional exemptions from retrospective application</li> <li>• Apply the five mandatory exceptions from retrospective application; and</li> <li>• Make extensive disclosures to explain the transition to IFRS</li> </ul> </li> </ul>		<p><b>Business Process:</b></p> <ul style="list-style-type: none"> <li>• Selections made will impact overall accounting guidelines, policies and procedures for various areas</li> </ul> <p><b>Systems:</b></p> <ul style="list-style-type: none"> <li>• Reassess system reporting capabilities for multi-GAAP</li> <li>• Assess availability of data / define data requirements</li> <li>• Reassess capabilities of systems behind the ERP, as well as interfaces</li> <li>• Impacts on SOX following process and systems changes</li> <li>• Prospective application of system impacts better facilitates multi-GAAP reporting; retrospective application may add more complexity</li> </ul>

## Fixed assets - Componentization

IFRS	US GAAP	Implications
<ul style="list-style-type: none"><li>• Material components of PP&amp;E need to be recorded and depreciated separately.</li></ul>	<ul style="list-style-type: none"><li>• Although some US companies may already capture their PP&amp;E at this level and depreciate accordingly, many capitalize PP&amp;E in aggregate (e.g., capitalizing an entire building rather than segregating the major components such as HVAC system, elevators, etc.).</li></ul>	<p><b>Business Process:</b></p> <ul style="list-style-type: none"><li>• Additional PP&amp;E evaluations required for componentization</li></ul> <p><b>Systems:</b></p> <ul style="list-style-type: none"><li>• PP&amp;E data conversion of Fixed Assets sub-ledger:<ul style="list-style-type: none"><li>• itemizing PP&amp;E</li><li>• reallocate accumulated depreciation</li><li>• modify useful lives</li></ul></li><li>• Additional configuration/customization of Fixed Assets sub-ledger to support multi-GAAP</li></ul>

# Impairment

IFRS	US GAAP	Implications
<ul style="list-style-type: none"> <li>• Impairments normally occur sooner under IFRS</li> <li>• Impairment test is a one-step approach, which is often a discounted cash flow model in practice</li> <li>• Cash generating unit (CGU) under IFRS may not be the same as US GAAP</li> <li>• Potential reversal of finite-lived asset impairments</li> <li>• Disclose sensitivity analysis of key impairment assumptions</li> </ul>	<ul style="list-style-type: none"> <li>• Under US GAAP, the level of impairment testing and the impairment test itself are different (e.g. two step impairment model)</li> </ul>	<p><b>Business Process:</b></p> <ul style="list-style-type: none"> <li>• Modify intangible assets and goodwill impairment testing procedures</li> </ul> <p><b>Systems:</b></p> <ul style="list-style-type: none"> <li>• Configuration/ customization of intangibles register to group assets to facilitate impairment reporting</li> <li>• Additional configuration/ customization of Fixed Assets sub-ledger to support multi-GAAP</li> <li>• Accumulate sensitivity analysis, whether impairment / reversal of impairment was recorded or not</li> </ul>

# Chart of accounts

IFRS	US GAAP	Implications
<ul style="list-style-type: none"><li>In IFRS, certain changes in accounting treatment and disclosures require additional accounts to be included in the Chart of Accounts (COA) as well as more flexibility in the COA's used for group and local reporting.</li></ul>		<p><b>Business Process:</b></p> <ul style="list-style-type: none"><li>Postings to the COA will need to be modified to reflect the new COA structure and required disclosures.</li></ul> <p><b>Systems:</b></p> <ul style="list-style-type: none"><li>Expand GL accounts to accommodate for additional disclosure requirements</li><li>GL account data conversion to restructure account balances</li><li>Consider capabilities of cost center, profit center and internal orders to indirectly enhance detail of COA</li><li>XBRL Taxonomy</li></ul>

# Disclosures

IFRS	US GAAP	Implications
<ul style="list-style-type: none"><li>• IFRS requires more extensive disclosure</li><li>• A PwC survey of pharmaceutical implementations in Europe, noted the average page length of core financial statements increased from 130 to 185 pages</li><li>• Examples include income statement disclosures, balance sheet account roll-forwards, sensitivity analyses</li><li>• Some information already included in MD&amp;A will move into the financial statements</li></ul>		<p><b>Business Process:</b></p> <ul style="list-style-type: none"><li>• Standard by Standard analysis of the disclosure impacts and gap analysis between IFRS and US GAAP</li><li>• Impacts on ICFR following process and systems changes</li></ul> <p><b>Systems:</b></p> <ul style="list-style-type: none"><li>• Configuration/ customization of data fields required for IFRS financial disclosures, including segment reporting</li><li>• Reassess system reporting capabilities for multi-GAAP</li><li>• Consider capabilities of cost center, profit center and internal orders to indirectly enhance detail of COA</li></ul>

## Section four

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## Areas under discussion

- Capitalization of acquired R&D
- Internal development capitalization
- Collaboration agreements
- Inventory
  - Valuation
  - Pre-launch
- Litigation provisions

# Capitalization of acquired R&D

IFRS	US GAAP	Implications
<ul style="list-style-type: none"> <li>Acquired research and development projects, including in-process research and development (IPR&amp;D) projects and acquired development projects, are capitalized if they meet the definition of an intangible asset</li> <li>Probability of success is assumed to be already included in the price paid for the acquired project</li> </ul>	<ul style="list-style-type: none"> <li>Acquired IPR&amp;D is expensed immediately after completion of the transaction unless the asset has alternative future use (will be amended upon adoption of FAS 141R, Business Combinations, and will converge with the IFRS recognition guidance under IFRS 3R)</li> <li>IPR&amp;D acquired in an asset purchase is expensed upon acquisition</li> </ul>	<p><b>Business Process:</b></p> <ul style="list-style-type: none"> <li>Assess IPR&amp;D expenses as to whether they meet the intangible asset definition</li> <li>Historical acquired IPR&amp;D will need to be captured regardless of IFRS 1 exemption (e.g. all assets need to be capitalized in the IFRS 1 opening balance sheet)</li> </ul> <p><b>Systems:</b></p> <ul style="list-style-type: none"> <li>Configuration/ customization of Investment Management and Project Accounting systems to embed multi-GAAP capabilities</li> <li>Data conversion effort to restructure account balances</li> </ul>

# Internal development capitalization

IFRS	US GAAP	Implications
<ul style="list-style-type: none"><li>• Development costs are required to be capitalized when ALL the following conditions are met:<ul style="list-style-type: none"><li>• Technical feasibility</li><li>• Intention to complete</li><li>• Ability to use or sell</li><li>• Probable future economic benefits</li><li>• Available resources</li><li>• Ability to measure</li></ul></li></ul>	<ul style="list-style-type: none"><li>• Expense development costs as incurred</li></ul>	<p><b>Business Process:</b></p> <ul style="list-style-type: none"><li>• Clear policies are established for research and development costs</li></ul> <p><b>Systems:</b></p> <ul style="list-style-type: none"><li>• Configuration/ customization of Investment Management and Project Accounting systems to embed multi-GAAP capabilities</li><li>• Data conversion effort to restructure account balances</li></ul>

# Collaboration agreements

IFRS	US GAAP	Implications
<ul style="list-style-type: none"> <li>• Normally, the price an entity pays to acquire separately an intangible asset reflects expectations about the probability that the expected future economic benefits embodied in the asset will flow to the entity</li> <li>• Up-front and milestone payments are capitalized under IFRS when the criteria for recognition have been met</li> </ul>	<ul style="list-style-type: none"> <li>• Under US GAAP, practice is that all payments made for in-licensed IPR&amp;D, and the related milestone payments, are expensed as incurred under FAS 2.12 (e.g. not addressed as part of FAS 141R as collaboration agreements typically do not constitute business combinations)</li> </ul>	<p><b>Business Process:</b></p> <ul style="list-style-type: none"> <li>• Review significant collaboration agreements to:                             <ul style="list-style-type: none"> <li>• determine whether the contract was for contract R&amp;D, or</li> <li>• if a potential asset was acquired under IFRS</li> </ul> </li> </ul> <p><b>Systems:</b></p> <ul style="list-style-type: none"> <li>• Configuration/ customization of Investment Management and Project Accounting systems to embed multi-GAAP capabilities</li> <li>• Data conversion effort to restructure account balances</li> </ul>

# Inventory valuation and pre-launch inventories

IFRS	US GAAP	Implications
<ul style="list-style-type: none"> <li>LIFO is prohibited</li> <li>Reversals of inventory write-downs (limited to the amount of the original write-down) are required for subsequent recoveries (e.g. pre-launch inventory)</li> </ul>	<ul style="list-style-type: none"> <li>LIFO is permitted</li> <li>Reversals of write-downs are prohibited</li> </ul>	<p><b>Business Process:</b></p> <ul style="list-style-type: none"> <li>US based companies using LIFO inventory valuation will need to modify existing processes and determine tax impacts.</li> </ul> <p><b>Systems:</b></p> <ul style="list-style-type: none"> <li>FIFO, LIFO, or Lower of cost or market (LCM) can be configured for periodic valuation of inventory balances</li> <li>Embed multi-GAAP inventory valuation at the material ledger and integrate with accounting ledgers</li> <li>Configuration/ customization of a restricted inventory locations to segregate pre-launch for reporting</li> <li>Configuration/ customization of additional inventory movements and GL account determinations to better control and report multi-GAAP transactional activity</li> </ul>

# Litigation provisions

IFRS	US GAAP	Implications
<ul style="list-style-type: none"> <li>• Attorney's fees</li> <li>• Range of estimate (mid-point)</li> <li>• Threshold for recognition</li> </ul>	<ul style="list-style-type: none"> <li>• FAS 5 approach</li> <li>• Use low end of range when no best estimate exists</li> <li>• Probability threshold is higher in practice under US GAAP</li> </ul>	<p><b>Business Process:</b></p> <ul style="list-style-type: none"> <li>• Establish clear IFRS policy elections</li> <li>• Potential adjustment to calculation models used to compute liability</li> </ul> <p><b>Systems:</b></p> <ul style="list-style-type: none"> <li>• Configuration/ customization of Internal Order master records to embed multi-GAAP capabilities</li> </ul>

## Section five

Introduction and regulatory update

Significant process implications

Significant systems implications

Pharmaceutical industry implications

What companies should do today

Summary and Q&A

## Where to start? - Top 5 items

- To the extent systems are changing or being upgraded, ensure that IFRS impacts are considered as part of the project
- Respond to SEC comment letter / Participate in Regulatory Developments (e.g. Draft IFRS exposure drafts)
- Perform preliminary studies to determine:
  - Potential impacts to key metrics
  - Potential impacts to ongoing system decisions
  - Potential tax impacts
  - Potential impacts to subsidiaries either already transitioned to IFRS or transitioning before the US parent company
- Assess impacts to key contracts and ongoing transactions
- Appoint an IFRS champion

# IFRS Video Learning Center



PwC is pleased to announce the launch of our IFRS Video Learning Center—an online site containing a series of video technical sessions focusing on the differences between IFRS and US GAAP.

The transition to IFRS in the US will have a significant impact on many areas of a company's business. Our online technical sessions are intended to guide companies through the critical process of identifying and assessing areas of their business most affected by the transition to IFRS.

Featuring PwC IFRS specialists, each technical session contains three to four discussion topics lasting approximately 30 minutes. New technical sessions will be released periodically and made available for on-demand viewing.

## Current and upcoming sessions

IFRS Session 1—**First-time adoption, revenue and provisions** *(currently available)*

IFRS Session 2—**Impairments and non-current assets** *(currently available)*

IFRS Session 3—**Employee benefits**

IFRS Session 4—**Business transactions**

IFRS Session 5—**Financial instruments**

Click here  
to access the  
IFRS Video  
Learning Center

If you're having problems with the registration button link, please type the following web address into your web browser: [www.pwc.com/usifrs/vlc](http://www.pwc.com/usifrs/vlc)

Please note, no CPE credit is offered for the sessions.

We hope you find these sessions helpful and look forward to your feedback on how we can make them more valuable to you.

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## Section six

- Introduction and regulatory update
- Significant process implications
- Significant systems implications
- Pharmaceutical industry implications
- What companies should do today
- Summary and Q&A

## Summary

- IFRS conversion is complex
- Changes more than accounting:
  - People,
  - Process,
  - Systems and
  - Business
- The time to start evaluating the impacts to systems and processes is now
- Remember the top 5 things to do today

## Additional IFRS / Pharmaceuticals Resources:

- Mark Simon, Pharmaceutical & Life Sciences Industry Leader  
PricewaterhouseCoopers  
973-236-5410
- Woodrow Anderson, Pharmaceutical & Life Sciences US IFRS Leader  
PricewaterhouseCoopers  
213-356-6685
- Vasudevan Changalath, Oracle/Process Excellence Director  
PricewaterhouseCoopers  
973-236-4632
- PricewaterhouseCoopers IFRS and Industry Links:  
[www.pwc.com/usifrs](http://www.pwc.com/usifrs)  
[www.pwc.com/pharma](http://www.pwc.com/pharma)

*While you're visiting our website, check out our new **IFRS Video Learning Center**.*

# Questions

