

IFRS is on the horizon— are your systems ready?

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The heart of the matter

Getting your Oracle EBS IFRS-ready

IFRS—Still very relevant in the market today

There continues to be uncertainty around the timeframe for the move to IFRS in the US, but we believe the ultimate adoption of IFRS in this country is inevitable. Even though no exact conversion date has been set, IFRS will affect the majority of organizations in the short term. In light of upcoming unprecedented accounting changes stemming from joint convergence projects between the FASB and the IASB and ongoing global adoption of IFRS, it's vital that US companies gain an understanding of the differences between US GAAP and IFRS, and how the converging standards and adoption by non-US subsidiaries may impact their people, processes and technology.

Meeting the multi-GAAP reporting challenge

Since technology is a key enabler in the transition to IFRS, companies should focus on systems readiness. Most organizations will undergo a phased embedding process. Therefore, the ability to produce reports in both US GAAP and IFRS will be necessary until there is a complete global shift to IFRS for statutory and tax reporting purposes. Recognizing that changes to technology cannot be avoided, forward-looking companies are taking steps now to gain an understanding of how well their existing systems can support IFRS compliance—or not! This paper addresses the impact of IFRS on Oracle EBS, drilling down into available approaches and options.

Once you have selected the option that best fits your situation, it is critical to integrate any IFRS-related changes into your technology road map. If you fail to do this up front, you will likely have to go back and reconfigure or re-implement your systems later on, at an even greater investment of time and resources than if you had done it at the beginning. But such coordination can be challenging, and management should not underestimate the time and resources that a successful conversion project requires. Companies in Europe, Asia, and Australia learned this the hard way! Historically, underestimating the challenge led some companies to rush this complex process—giving rise to errors and/or the need to outsource more work than necessary. In turn, this drove up costs, presented challenges to their control environment and hindered their efforts to embed IFRS knowledge in the company.

Reaping the benefits

Conversion provides a one-time opportunity to comprehensively reassess financial reporting, taking a clean-sheet-of-paper approach to financial policies and processes and to the technology that supports them. Companies that act early to assess and plan for the impacts of ongoing convergence and ultimate IFRS conversion will be better able to control costs, manage the challenging scope of implementation, achieve a smooth transition, and actively deploy technology to facilitate the process. We present some key considerations around the financial consolidation and reporting aspects of an IFRS transition—not just for assessing your technology, but also your organization's overall readiness for adoption of converged standards, IFRS adoption by subsidiaries and ultimate adoption of IFRS by the entire organization.

An in-depth discussion

Considerations— effecting a smooth transition to IFRS

Considerations—Effecting a smooth transition to IFRS

Large parts of the world already talk to investors and stakeholders about corporate financial performance in the language of International Financial Reporting Standards. We believe that the US will ultimately adopt IFRS and that, in the meantime, ongoing convergence between US GAAP and IFRS will continue. By starting to think about IFRS now in a thoughtful and measured way, US companies have an opportunity to make time work for them—positioning themselves to gain control over costs, understand and manage the challenges.

The November 2008 publication of an IFRS road map by the SEC proposes that 2014 could be the first year that the SEC would potentially allow US-registered companies to file under IFRS in the US (with early adoption in 2009 for companies that qualify). Under the current requirement for companies subject to SEC regulations in the US to prepare opening balances plus two years of comparative financial statements, the first year that comparable IFRS statements would need to be produced is 2012. However, the comment letter period on the proposed roadmap ended in April of 2009. Having received numerous comments from a wide range of constituents, the SEC is currently analyzing these comments, and we expect that they will address the roadmap again later this year or early next year. We believe that the SEC will continue to approach change with a thoughtful and measured process, and will ultimately propose a revised roadmap, although it may contain a somewhat slower timetable for change.

While there may be some uncertainty around when the US will ultimately move to IFRS, all US businesses will face an unprecedented wave of US GAAP changes, influenced by—and, in many instances, conforming to—IFRS over the next several years regardless of the exact conversion date. For example, it is expected that joint convergence projects between the FASB and the IASB will be completed in several critical areas, among them revenue recognition, leasing, consolidation, financial instruments, and debt and equity.

“There’s much more disclosure in the year-end reports and accounts, and it took a lot of time to get the data.”

Source: “Our survey says: FDs deliver their judgment on IFRS,” by Sarah Perrin, published by Financial Director, May 2006

“The new financial reporting model is more complex and less understandable. Narrative reporting is needed by shareholders because it provides important information that is not in financial reports.”

Source: *ibid*

The effects of these accounting changes reach far beyond just financial reporting. Further, the ongoing global adoption of IFRS will increasingly drive the behavior of non-US subsidiaries, vendors, and counterparties. Global adoption may accelerate as a result of the recent release of IFRS for small and medium-sized entities.

To assess how best to time the internal adoption of IFRS accounting standards, organizations must understand the differences between US GAAP and IFRS, and how converging standards and adoption by non-US subsidiaries will impact their business. Given the length of time required to successfully change an organization's people, processes and technology, as well as the complexities inherent in the global adoption governance issues, now is the time to begin assessing the impacts of IFRS.

Multi-GAAP reporting—more than just an accounting exercise!

The need to produce financial statements in compliance with IFRS for the capital markets does not eliminate the need to continue to have other financial statement formats on an ongoing basis for tax and other purposes. Thus, the concept of multi-GAAP reporting is not only a transition issue but also an ongoing part of doing business. History bears this out. In 2002, when organizations in the European Union embarked on the process of moving from local GAAP to IFRS reporting for an effective date of 2005, many companies did not immediately recognize that this was more than an accounting exercise. As a result, there was a very late response to understanding and effectively managing the impact to an organization's people, processes and technology.

A transition to IFRS can impact more than just the traditional accounting systems. Take revenue recognition for example: IFRS and US GAAP can differ in the accounting for recognizing costs and revenues associated during the lifecycle of a project. The differences might require changes in supplemental systems such as project management systems, or change cost price calculations, and lead to adjustments in sales performance metrics. As a result, systems and people outside the traditional finance domain are impacted too!

Due to the lack of long-term planning, many companies only had enough time to address ways of posting journal entries into their consolidation and financial reporting system.

They were unable to address embedding those into the General Ledger transaction system and the Sub-ledger and Sub-systems until much later. However, US companies that plan ahead will be able to adopt leading practices designed to help them to achieve a smooth, efficient and effective transition, and actively deploy technology to facilitate the process.

A well-crafted IT strategy incorporates IFRS impacts

Since large IT systems changes typically take from two to four years to go live, a well-crafted, forward looking IT strategy requires significant forethought around the impact of IFRS. That means investing sufficient time upfront to consider your company's current needs and circumstances, and tailoring a technology road map around Oracle accordingly. Depending on your road map, consider the various options available to you as you maintain, upgrade, make significant investments, or transform your systems. As you evaluate your options, it is essential to integrate IFRS into your overall IT strategy, thereby building in the necessary flexibility to "go with the flow" as the final conversion requirements are set, and that you have positioned the company to achieve a smoother transition to IFRS.

Multi-GAAP reporting with Oracle

In the transition to IFRS, technology is a key enabler. Companies can look at the technology impacts of an IFRS transition in three layers: 1) Financial Consolidation and Reporting, 2) General Ledger, and 3) Sub-ledgers or Sub-systems.

Figure 1. IFRS transition impacts in three layers

Consolidation/ reporting	<ul style="list-style-type: none">• Manual IFRS conforming adjustments• Detailed disclosure requirements• Restatement of prior periods for comparative disclosures
General ledger	<ul style="list-style-type: none">• Multi-GAAP G/L may be considered for transition period• New chart of accounts to address detailed accounting requirements• Manual IFRS conforming adjustments
Sub-ledgers	<ul style="list-style-type: none">• New systems to track/enable new accounting requirements<ul style="list-style-type: none">—Capitalization of development costs• Enhancements to existing system to reflect new requirements<ul style="list-style-type: none">—Inventory, fixed assets, etc.

To address multi-GAAP requirements, Oracle provides several solutions in each of the three layers. These solutions are driven by business requirements, technology environment and leading practices. The solution that fits your organization best will depend on the company's unique circumstances and preferences.

In the Consolidation/Reporting layer, the full range of the Oracle Hyperion Enterprise Performance Management (EPM) applications offers multiple products that provide flexible financial consolidation and reporting capabilities to support multiple accounting frameworks.

Beginning with Oracle EBS Release 12 or 12.1, EBS provides functionality that—with sufficient planning—enables companies to support IFRS requirements in their General Ledger and Sub-ledgers by using Oracle Subledger Accounting (SLA)¹, thereby significantly reducing the need for manual adjustment to their consolidation and reporting system and reducing compliance risk. While previous versions of EBS do not have the SLA functionality, other available options are detailed below:

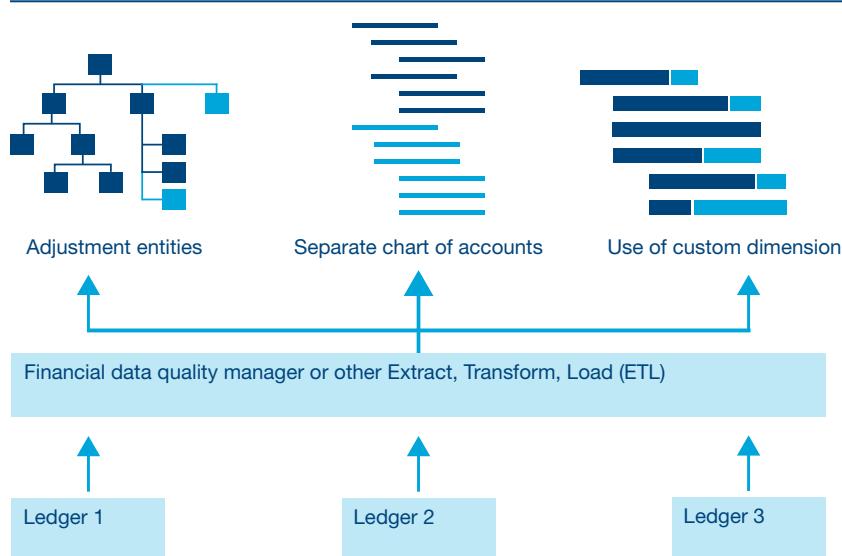
Consolidation/reporting



Option 1a—Oracle Hyperion Financial Management (HFM)

HFM offers three different routes to IFRS and multi-GAAP compliance. The alternatives can be best described as utilizing adjustment entities, implementing a separate Chart of Accounts and the use of a custom dimension. Each of these three alternatives has its own strengths and weaknesses and is discussed in more detail below.

Figure 2. Consolidation/reporting—Oracle Hyperion Financial Management (HFM)



¹ "Subledger Accounting" refers to Oracle's Subledger Accounting module available in EBS release 12

The first alternative is to add additional entities to the entity structure in HFM. This usually entails incorporating special, dedicated adjustment entities in the normal entity hierarchy. For multi-GAAP reporting, two separate hierarchies can be used within a single HFM application. By entering accounting differences as entries in the adjustment entities, the transition from one accounting standard to the next can be achieved. This alternative is the most intuitive for many IFRS adopters, and is fairly easy to explain to persons outside the accounting realm.

As a second alternative, separate Charts of Accounts can be created to capture and report on IFRS. Compared to the first alternative, it is often somewhat more of an effort to implement. However, this is offset by some other benefits. In some instances, the accounting definition in IFRS may differ from the definition under US GAAP. By using different accounts for different standards, ambiguity is removed. If the underlying source systems do not support multiple account definitions, Oracle Financial Data Quality Manager (FDM) or a comparable mapping tool can be used to correctly map data to each chart.

The third alternative, unique to HFM, is the use of what is called a custom dimension. By using a custom dimension, multiple ‘buckets’ are created in each account. The different members in a custom dimension will allow users to see their financial data with different sets of glasses.

For example, if the *International Accounting Standards (IAS)* member in the custom dimension and the revenue account in the account dimension are selected, we can see the revenue as defined by IFRS. If we were to select the *USGAAP* member, we would see a different amount *in the same account*. For instance, the difference could be referenced using an *IFRSAdjust* member.

Using the custom dimensions in a proper manner will allow your organization to switch easily from one accounting standard to the next in consolidation, analysis and reporting.

Figure 3. Oracle HFM options

Adjustment entities	Separate Chart of Accounts	Custom dimension
Involves incorporating additional members in the entity dimension, either additional to an existing hierarchy, or as an alternate hierarchy	Segregates the IFRS Chart of Accounts from the US GAAP Chart of Accounts	Takes advantage of HFM's ability to couple custom dimensions to natural accounts
	Single Organizational Structure	Single Organizational Structure
Single Chart of Accounts	Multiple Charts of Account	Single Chart of Accounts
Heightens maintenance obligation with duplicate organizational hierarchies and user security profiles	Heightens maintenance obligation with duplicate organizational hierarchies and user security profiles	Easy to maintain
Significant limitation is ability to report across hierarchies in terms of performance under US GAAP vs. IFRS	Significant limitation is ability to report across hierarchies in terms of performance under US GAAP vs. IFRS	Supports ability to navigate among results in different GAAP's and report them side by side with reconciliations
Requires comingling of IFRS and US GAAP accounts	Single and uniform definition for each account provides ability to systematically map reclassifications with the Financial Data Management tool	Requires comingling of IFRS and US GAAP accounts
Easy to understand and explain	Easy to understand and explain	Requires training to understand the concept of dimensionality

■ Advantage of each HFM option compared to the others.
 ■ Disadvantage of each HFM option compared to the others.

Benefits of Option 1a—Consolidation/reporting alternatives:

- Consolidation and reporting within dedicated Oracle Hyperion EPM applications, such as HFM, enables a company to use a flexible and transparent consolidation system on top of divergent data sources
- Depending on the exact route chosen, implementation is relatively easy due to the limited systems impact
- IFRS adjustments can be facilitated or simplified by using in-build functionality such as recurring journals, customized business rules, systematic mapping

Risks of Option 1a—Consolidation/reporting alternatives:

- Over time, misalignment between source systems and downstream consolidation applications can occur, such as differences in account definitions, master data discrepancies, etc.
- If the IFRS implementation scope is too small, necessary changes in source systems or operational processes can be missed

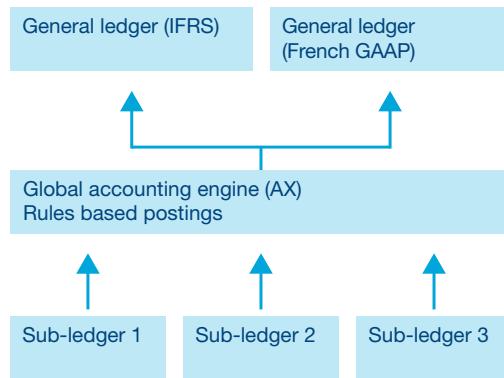


Option 1b

Option 1b—Oracle Global Accounting Engine (AX)

AX in Oracle 11i provides an accounting system for Oracle Sub-ledgers, such as Payables, Receivables and Inventory. AX is designed to help satisfy IFRS or other local reporting requirements. Currently available for five countries (France, Italy, Portugal, Greece and Spain), AX allows companies to account for transactions from a Sub-ledger system using two different accounting methods—French GAAP and IFRS for example. Entries made in the Sub-ledgers are subject to certain rules that dictate the treatment of accounting transactions differently to satisfy differing accounting legislations.

Figure 4. Consolidation/reporting—Oracle Global Accounting Engine (AX)



Benefits of Option 1b—Global Accounting Engine (AX):

- Enables the treatment of transactions differently for each accounting convention (IFRS vs. local GAAP). Single point of transaction entry results in multiple representations
- Replaced by Oracle's SLA in Release 12 (described in Option 3 below), which performs the same functions through the definition of accounting rules

Risks of Option 1b—Global Accounting Engine (AX):

- Limited availability to Release 11i, only for the five countries mentioned above

Consolidation/
reporting

Option 2

General
ledger

Sub-ledgers

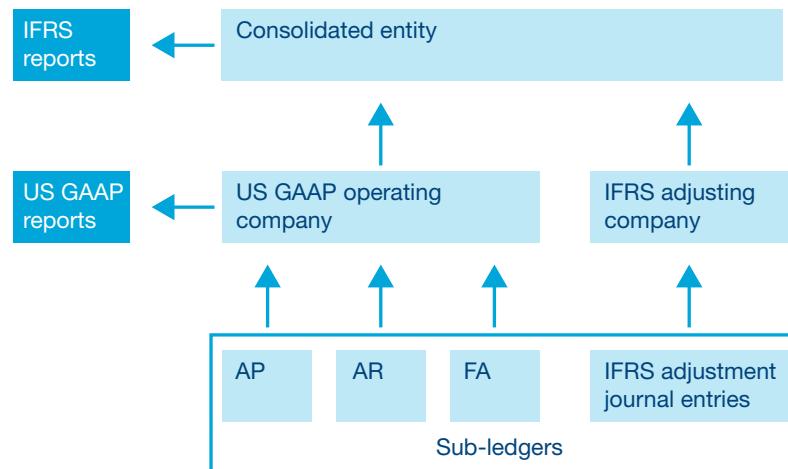
General Ledger

Option 2—Adjusting company method

Reporting on US GAAP and IFRS simultaneously requires different results to be displayed from the same accounting base. Using this option, IFRS adjustment journals are created and posted in a separate adjusting company or balancing segment that shares the same Chart of Accounts, calendar and currency as the main operating company.

US GAAP reports are generated in the main operating company. Oracle's capability of consolidating multiple sets of books can be leveraged to obtain IFRS reports from the consolidated entity as illustrated below.

Figure 5. General ledger—adjusting company method



Benefits of Option 2—adjusting company method

- Low to moderate complexity in setting up. Since this is a Chart of Account-driven option, there is no requirement to create another ledger. Using the existing ledger or set of books, adjustment journals are booked to a new value in the company/entity segment of the Chart of Accounts. Adjustments can also be automated in EBS through General Ledger features such as Recurring Journals and Reversing Journals
- Simple generation of reports. Using Oracle's consolidation functionality, US GAAP or IFRS reports are generated by simply including or excluding relevant company/entity segment values
- Facilitates easy reconciliation between multi-GAAP financial statements. Adjusting entries are readily available for audit and reconciliation purposes

Risks of Option 2—adjusting company method

- Difficulty in quantifying and preparing journals required to adjust to IFRS
- Requires manual IFRS adjustments that can be prone to error

Sub-ledgers

Option 3—Sub-ledger

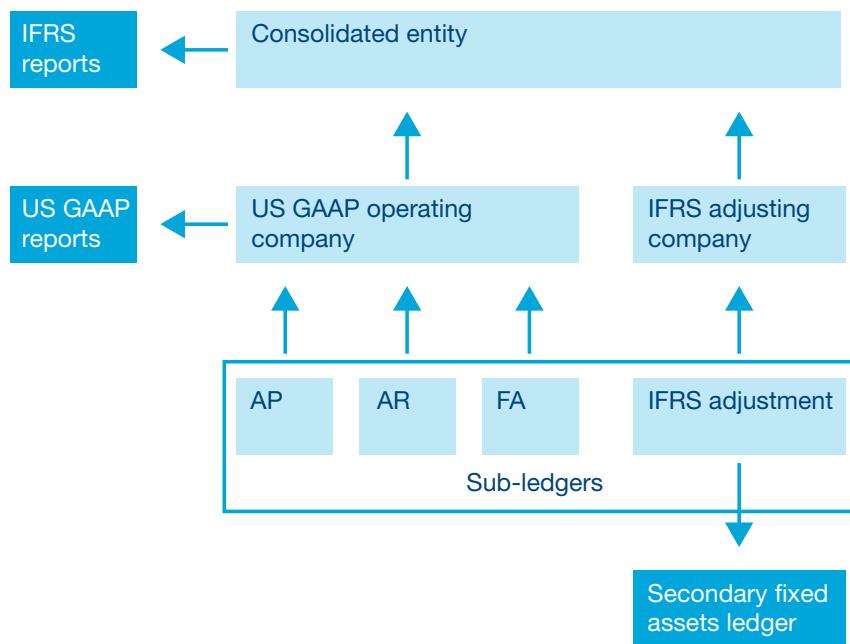
At the Oracle Sub-ledger level, functionality exists that can be used to address multi-GAAP reporting requirements. Oracle Assets lends itself to leveraging this option. Further, Option 3 may be used with either Option 1 or Option 2 above to produce IFRS financial statements.

For example, the requirement for componentized fixed assets per IFRS can be addressed in Oracle Assets by setting up a secondary Fixed Asset Ledger where the componentized child assets can be separately depreciated per IFRS, while the parent asset remains in the primary Fixed Asset Ledger to be depreciated as usual per US GAAP. One can then use the secondary Fixed Asset Ledger to quantify the IFRS adjustments required in Options 1 and 2 above.

The following diagram illustrates where IFRS adjustments can be prepared based on the suggested approaches above.



Figure 6. Sub-ledgers



Benefits of Option 3—Sub-ledgers

- Avoids labor-intensive manual computations required to quantify and prepare IFRS adjustments

Risks of Option 3—Sub-ledgers

- Limited to very specific business scenarios and may not be applicable to all Oracle Sub-ledgers

And a Fourth “hybrid” option...

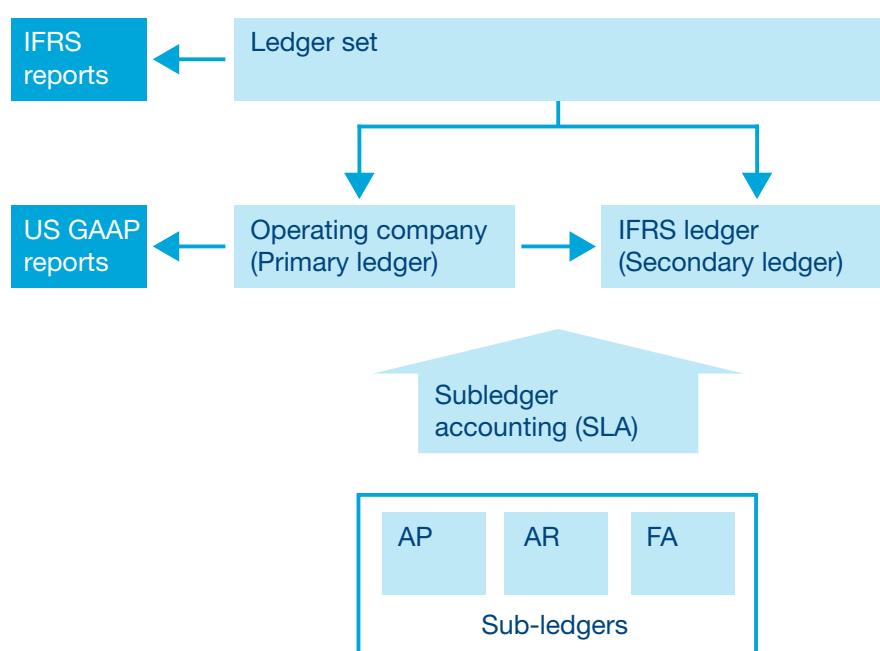
Option 4, sitting between the Sub-ledger and the General Ledger, is actually the most viable tool for multi-GAAP reporting in that—based on the rules that have been configured in Subledger Accounting—it takes a single transaction in the Sub-ledger and creates multiple postings for US GAAP, IFRS and other applicable standards.

Option 4—Sub-ledger transaction-driven dual accounting

The concept of “Ledger Sets” enables transactions to be recorded with dual views, and reports to be generated based on dual accounting standards for the comparative year(s).

This option requires the configuration of accounting rules in SLA to reflect the duality of accounting treatments for certain classes of transactions. With SLA, adjustment entries for IFRS need not be created separately. SLA allows organizations to define two sets of business rules for certain transactions. Thus, at the transaction level, two SLA records are maintained, thereby minimizing the back-end work to adjust US GAAP to IFRS and allowing drill-down to the source of the transaction.

Figure 7. Sub-ledger transaction-driven dual accounting



SLA enables the standardization and automation of accounting policies. Policies can be established in the form of user-defined accounting rules and distributed across the entire enterprise, thereby allowing the same set of rules to be applied consistently. Organizations can configure accounting rules based on any attribute of a transaction, so that decisions can be made on how accounts should be derived and the type of information to be captured in journal entries for management and financial reporting purposes. They can elect to populate a full US GAAP and a full IFRS Ledger, each with a complete accounting representation of the base transactions. Conversely, they can also elect to use a US GAAP base Ledger with an SLA-populated adjustment Ledger, and use a Ledger Set to portray the IFRS position. A Ledger Set behaves just as a Ledger does with regard to reporting, journals, translations and calendar, and the trial balance is used as if it were a Ledger.

The advantage of the first method is that both the IFRS and US GAAP Ledgers are distinct. The organization performs independent accounting adjustments in either Ledger, at the risk of making reconciliation difficult.

Since the Adjustment Ledger concept has SLA calculate the delta between the US GAAP entry and the IFRS entry (by reversing the base entry against the IFRS entry), this method tracks the GAAP to IFRS reconciliation for the organization.

Benefits of Option 4—Sub-ledger transaction-driven dual accounting

- Avoids manual computation of adjusting journal entries
- Accounting rules are centrally maintained, managed and secured
- Clear distinction of ledgers representing US GAAP and IFRS
- Since ledgers are separate, differing fiscal years are possible for statutory reporting purposes

Risks of Option 4—Sub-ledger transaction-driven dual accounting

- Increased level of transaction testing to ensure that the rules are operating as intended to produce multi-GAAP financial statements
- Implementation of a Secondary Ledger introduces an element of medium-to-high complexity in design and configuration
- At this time, definition of rules is limited to certain classes of transactions. For example, SLA cannot be used to produce two sets of inventory cost accounting transactions

Figure 8. Applicability of options to Oracle releases

The table below summarizes the applicability of the options discussed above to either Oracle 11i or Release 12 (R12).

	Option 1a Hyperion Financial Management (HFM)	Option 1b Global Accounting Engine (AX)	Option 2 Adjusting company method	Option 3 Sub-ledger	Option 4 Sub-ledger transaction- driven dual accounting
Oracle 11i	• ¹	•	•	•	n/a
Oracle R12	• ²	n/a	•	•	• ³

1 Consolidation feature in Oracle 11i is referred to as Global Consolidation System (GCS).

2 Consolidations are supported by HFM.

3 Option 4 is limited to very specific business scenarios and may not be applicable to all Oracle Sub-ledgers.

Choosing the right option for you

First, take a look at the big picture

Technology employed for financial reporting differs widely between organizations, ranging from commercially available consolidation and financial reporting applications to homegrown solutions typically based on Excel. We've presented these four options for your consideration, but before you take any action, we recommend that you invest the time to assess your existing financial reporting systems in the context of IFRS. Are they ready and able to absorb the changes demanded by the adoption of new reporting standards? If not, you will need to gain some insights before you can determine which option best fits your company's specific needs and circumstances.

To support smart decision-making, you'll need a handle on how and where the existing US GAAP rules have been configured in your existing systems. Have they been hard-coded? Is there sufficient scope to allow the addition of new IFRS rules in parallel without breaking or risking the accuracy of the current reporting environment? Are the rules easy to change? Can they even be changed? How easy would it be to handle two different consolidation scopes—one IFRS and one US GAAP—should additional entities need to be consolidated under IFRS?

Flexibility is key

Legacy commercial consolidation applications have limited scope for supporting this kind of change. Typically implemented many years ago, they were often significantly customized through scripting. While these solutions will still do the job for US GAAP reporting, adapting such legacy applications to a dual-reporting scenario, encompassing both US GAAP and IFRS, may prove extremely challenging. In our experience, the conversion process is much harder wherever there is significant need for manual intervention, data enrichment (for example, adding additional coding detail to transactions after the fact) or Sub-ledger reconciliation.

Modern consolidation and reporting applications, which were explicitly designed with multiple reporting scenarios in mind, offer out-of-the-box infrastructure to manage the dual-reporting process where US GAAP and IFRS rules can be configured in parallel and with ease. Such flexible applications may be easily adapted, leading to a streamlined reporting process and agile reporting, including reconciliation reporting between US GAAP and IFRS (and other reporting requirements as necessary). Applications such as Hyperion Financial Management are already well suited to support the transition to IFRS.

Also consider the way in which legacy consolidation applications have been implemented. Are the people who performed the design and configuration still with the organization? Is the intellectual property (IP) still in the business?

In short, is your existing system capable of taking on the challenge of IFRS reporting in parallel to the US GAAP based reporting performed today—and of doing so without adding unnecessary risk or introducing compliance issues? How much does this cost, and could it be addressed more efficiently through a dedicated, single-reporting solution?

Enterprises will not be able to simply switch off US GAAP reporting one day and turn on IFRS the next. There will be a period of transition. Tax and other reporting needs, such as debt covenants, may continue to be in US GAAP for a period of time, as well as in other statutory reporting GAAP formats.

Coping with multiple frameworks through the transition process

Enterprises will not be able to simply switch off US GAAP reporting one day and turn on IFRS the next. There will be a period of transition. Tax and other reporting needs, such as debt covenants, may continue to be in US GAAP for a period of time, as well as in other statutory reporting GAAP formats.

- Under the current proposal, companies subject to SEC regulations in the US will require opening balances, plus two years of comparative financial statements. That means organizations must consider not only how to adopt the new IFRS regulations, but also how to navigate through the transition phase (i.e., the period in which the entity is still reporting US GAAP financial statements while developing IFRS financial statements)—and to do so well in advance of the expected mandatory timetable so as to be able to provide the required comparatives.
- If this were not enough, some international entities will find themselves further challenged by ongoing requirements to produce local GAAP-based reporting in different countries, along with an increasing use of IFRS-based reporting.
- Finally, individual industry groups (e.g., Utilities, Aerospace/Defense, and Financial Services) have specific additional reporting requirements that must continue to be satisfied through the transition process.

Examples of IFRS potential impacts

Under **IAS 16**, differences in asset componentization guidance may result in the need to track and account for property, plant and equipment at a more disaggregated level. Greater disaggregation may, in turn, trigger earlier disposal or retirement activity when portions of a larger asset group are replaced.

The **IAS 39** model does not permit many securitizations to qualify for de-recognition. Most securitization transactions include some ongoing involvement by the transferor that causes the transferor to retain some of the risks and rewards related to the transferred assets—a situation that may preclude full de-recognition under IFRS, but not under US GAAP.

Because the use of LIFO inventory costing is precluded under **IAS 2**, companies that utilize the LIFO-costing methodology under US GAAP may experience significantly different operating results, as well as cash flows, under IFRS.

More instruments will qualify as derivatives under IFRS. Some instruments, such as options and forward agreements to buy unlisted equity investments, are accounted for as derivatives under IFRS, but not under US GAAP.

Historically, the challenges have been many

Experience in Europe (where IFRS was mandated for publicly listed companies in the EU in 2005) indicates that the transition process is likely to introduce additional challenges beyond mere multi-GAAP reporting.

For example, there will be a need to produce reconciliation reports that explain differences between the reporting frameworks to stakeholders, additional disclosures and commentary will be required, and the volume of data collected from subsidiaries will increase, which could introduce delays in closing and reporting cycles if left unchecked.

So how can companies ready their financial consolidation and reporting system to handle these challenges?

One viable approach will be such that the consolidation and reporting application will take the strain off of multiple frameworks. Given the scope of transactional and GL systems in day-to-day operations, as well as the significant differences between US GAAP and IFRS (for some companies), this option will be far easier to implement than some of the other alternatives. That said, consolidation applications are unable to conjure up accounts from thin air. You must examine your GL and Enterprise Resource Planning (ERP) systems to ensure that they are analyzing transactions in such a way that all of the base information needed by the consolidation and reporting application is available, not only to report in US GAAP but also to perform the necessary IFRS reporting.

In cases where all of the IFRS changes have not been embedded, the financial consolidation and reporting system must be able to hold the data in US GAAP format, as well as to hold a number of sets of manual journal entries that can be applied to the base data in order to produce the required reports for IFRS. With Oracle Hyperion, this goal can be achieved in more than one way. Many companies turn to advisors with specialized knowledge and experience in this area for help in determining which way is best suited to their individual company's needs.

To save time when producing reports in multiple frameworks, the system should be able to automate the calculation and storage of as many of the adjustments as possible. This data should all be held in a single database. The longer-term objective would be to embed the IFRS needs into transaction systems and the General Ledger and to reduce/eliminate the need for manual journal entries. Coping with multiple frameworks in this way requires a system that has sufficient dimensions to store the information, the ability to perform complex calculations, the ability to perform and store multiple consolidations, and to report in different formats. Applications such as EBS and HFM are well suited to the task, as they inherently support multiple reporting frameworks and the associated challenges and are also able to work with any of the underlying GL and ERP systems.

Data collection and consistency

Since IFRS will change the accounting language of the organization, it is important that the accounting function and others—legal, IT, HR, and the like—are aware of the new IFRS language. As financial information is aggregated within the organization, additional descriptive information may be required along with the financial values.

In systems terms, you should see that the GL and other source systems are amended to include the necessary account lines. Where complex Sub-systems are already in place and difficult to change—such as those in manufacturing—consider a “loose coupling” strategy during the transition process. Rather than modifying these systems up front, we recommend that you make the necessary changes in the corporate consolidation and reporting application instead via manual journal entries. Then put a longer-term plan in place for the embedding of IFRS into the GL and subsystems. This allows the organization to adopt IFRS today without any short-term impact on the transactional systems.

In our experience, achieving and maintaining ongoing consistency is easiest when all of the information is in a single application. When using the consolidation approach, it is important to avoid storing some of the IFRS adjustments in Excel spreadsheets while the consolidation data is in a specialist application, as this generates additional work. Further, because it increases the risk of errors and the danger that inconsistencies will creep into published financial statements, it makes compliance more challenging.

Systems issues around providing different reporting formats

There are a number of issues around the need to produce reports in more than one format during the transition phase—especially since the changeover may require running IFRS parallel with US GAAP for several years, which may be the case when non-US subsidiaries adopt IFRS.

The prescribed formats for IFRS reporting are different from those in US GAAP (and, for that matter, other statutory reporting). In some cases, the same number can be described in different ways in IFRS as compared to US GAAP. For example, IAS 7 (Cash Flow Statements) does not require a reconciliation of net cash flow to movement in net debt.

How easy is your report writer to use?

Some systems require Visual Basic programs to be written to create reports, which in turn requires specialist skills for changing existing reports and creating new ones. However, other applications—such as HFM’s production report writer tool, Oracle Hyperion Reporting Studio; Oracle’s graphical dashboard tool, Hyperion Web Analysis; and Oracle Financial Statement Generator (FSG)—have flexible end-user reporting functionality that enables the head office consolidation team to create and change its own reports.

How easy is it to create eXtensible Business Reporting Language (XBRL) instance documents?

XBRL is supported by HFM, Oracle's recommended product for the extended external reporting close.

In recent years, creating XBRL documents from the consolidation and reporting application, for the purpose of supporting the electronic communication of business and financial data to regulators, has become an increasingly important aspect of the financial consolidation and reporting process worldwide. But it is particularly relevant here in the US—given the SEC's mandate that, under a three-year phase-in period, the largest public companies have begun submitting XBRL-formatted financial information for periods ending on or after June 15, 2009. For Oracle users, Oracle Hyperion Reporting Studio offers XBRL Manager. This feature uses XBRL to convert data into a standard format that can be read and processed automatically by a wide range of financial software.

Does your system support multiple reporting presentations for the same account?

Some tools, such as Oracle FSG and Hyperion's reporting tools, can do this. If you have that capability, you will be able to use the accounts in the database for reporting in the different formats. If not, then you must hard-code descriptions in your reports, making them more difficult and time consuming to maintain.

IAS 1 (Presentation of Financial Statements) requires balance sheet headings different from those currently used under US GAAP for some items such as Stock being recorded as Inventories and Fixed Assets being classed as Property, Plant, and Equipment. This is simple to do using Oracle FSG or Hyperion's reporting tools.

Building a framework for moving forward

The pace of transitioning from US GAAP to IFRS in an organization's technology—particularly the degree of embedding into the GL and below to the Sub-ledgers—will determine how robust your reporting system must be during transition. Therefore, it is important to calibrate the organizational situation and your company's appetite for change. The first step is to ask, and answer, the right questions.

Assessing your technology:

- Can the current technology support the transition?
- Does it offer the flexibility needed to support the various accounting standards and external reporting requirements?
- Does it integrate planning, budgeting, consolidation, external financial reporting and internal management reporting?
- Can it be loosely coupled to the transaction systems through middleware, so that changes elsewhere in the systems environment do not disrupt financial reporting?
- Does it make sense to keep supporting disparate legacy systems, or can a business case be made for replacing or combining in some instances?
- Does it offer an accelerated approach to building IFRS financial statements?

But don't stop there. Looking only at your technology will not give you the big picture of your organization and its overall readiness for transition to IFRS and ultimate adoption. It is important to look beyond the technology itself to some other considerations. Gain additional insights by finding some real-world answers to these questions:

What is your organization's degree of change agility?

Different organizations respond to change differently and have varying appetites and capacity for change. Do you know what your company's appetite for change is? Consider the cultural aspects of the organization. Does the enterprise have sufficient agility and a desire to be proactive in effecting a rapid technology change in the immediate term, before mandatory IFRS reporting becomes necessary? For example, would management consider replacing an existing legacy consolidation application with a combined US GAAP and IFRS dual-reporting system all in one go? This may make sense for organizations with relatively straightforward reporting structures and a single ERP, whereas less nimble organizations may prefer to adopt a more progressive approach—perhaps maintaining existing legacy systems for US GAAP and, in parallel, implementing a new and separate

IFRS-only environment alongside it. In this case, you may want to consider leveraging Business Intelligence reporting tools to perform reconciliation reporting between the two systems, such as OBIEE or Hyperion Financial Data Quality Manager. Clearly the former approach involves higher risk but has the advantage of addressing the challenge rapidly, whereas the latter approach, being more measured, represents less project risk and allows the organization to take one step at a time. However, this approach is prone to creating additional reconciliation issues.

Does the enterprise have sufficiently skilled resources to implement the new technology?

Are end-users aware of the upcoming change and equipped with the appropriate knowledge and skills to use the new systems? For example, is there a dedicated team in the organization that fully understands the requirements of IFRS and is charged with systems implementation, or is there a need to source this talent externally? Have you communicated to end-users about the technology change, and have they received adequate training to effectively perform their roles using the new systems? What additional support and resources are available to help end-users make the transition and embed the technology change, e.g., help desk, job aids, super user network? Ideally, all of these elements should be considered as part of your overall change strategy and plan.

What is your company's history in terms of structural development?

Another aspect that may impact how and when it is best to approach the adoption of IFRS is the volume and frequency of change in the organizational structure, and therefore the reporting scope. IFRS can bring additional entities within the consolidation scope. Enterprises that are experiencing rapid growth, with a significant emphasis on business development via acquisition, face particular challenges when it comes to financial reporting. For example, as new subsidiaries are acquired, it is necessary to rapidly integrate those into the existing financial reporting framework.

It is equally challenging to ensure that dispositions are dealt with appropriately. The key requirement for such organizations is flexibility—the ability to evolve reporting scope on a continual basis, and to easily perform simulations during the planning phase. In fact, such organizations are constantly in the planning phase, so there is a major benefit in integrating the financial planning and financial reporting processes, ideally using a single application. Mature enterprises that are relatively static in nature may find it easier to transition to new reporting standards, simply because there is less development “noise” going on.

How well does your organization cope with the complexities of technology?

The complexity and diversity of source GL and ERP systems across the enterprise can impact the ease of transition to IFRS. Depending on the size and scope of the enterprise, source systems can range from a single-instance GL that has been implemented consistently throughout the enterprise to an organization with a myriad of different GLs.

Certain global organizations—for example, those in certain European territories—may already have subsidiaries that report locally according to current IFRS standards. In such cases, the transition process may need to be coordinated. It is important to have corporate oversight of subsidiary adoption of IFRS to ensure efficiencies of one global reporting language are maximized. The ability to leverage this local information often depends on whether or not corporate financial consolidation and reporting systems can easily be adapted to new, different and (during the transition phase) parallel data sources. Determine if appropriate financial information management applications are already in place. Applications such as Oracle EBS permit flexible finance business-user mapping (and subsequent re-mapping) of accounts, yet are also fully compliant—offering a complete, automated audit trail. The Hyperion System also offers opportunities to customize financial consolidation and reporting functionalities to fit your company's specific processes, including multi-ledger support, the ability to integrate data from multiple sources, and the ability to report based upon your needs—thereby enabling process control and compliance with regulatory standards at the same time.

If such systems are not already present, consider whether the addition could provide extra flexibility during the transition phase, especially for those reporting units that are able to provide source data in dual US GAAP and IFRS formats.

Given the need for a smooth and reliable transition from US GAAP to IFRS over the coming years, it may be necessary to adopt the IFRS changes into the consolidation and reporting system faster than they can be embedded into the General Ledger and Sub-systems. If that is the case, you can leverage financial information management and consolidation applications during the transition phase to map and adjust information at the corporate level, then progressively change the source applications as time and resources permit.

Long story short; there's a lot to think about and resolve. The sooner you begin assessing your company's systems readiness—and, indeed, your company's overall readiness for IFRS—the better you'll be positioned to deal with the changes that come with convergence and ultimate adoption of IFRS.

What this means for your business

Reaping the benefits of early action

IFRS is already affecting many US multinational companies through statutory or other reporting by their foreign subsidiaries and, from where we stand, it is only a matter of time before it has a major impact on most US companies—on their people, on their processes and on their technology. Indeed, one of the most important—and unavoidable—technology challenges facing today's executives centers on how best to support the IFRS financial consolidation and reporting requirements.

Key considerations around the financial consolidation and reporting aspects of an IFRS transition:

- Technology change around the IFRS transition is unavoidable. In addition, you may need to make additional technology changes within the GL and Sub-systems to support IFRS.
- With sufficient planning, the detailed IFRS requirements can be embedded into the General Ledger and Sub-systems, thus avoiding the need for IFRS to be achieved only through manual adjustment in the consolidation and reporting system. However, for most organizations, embedding will be phased.
- Systems must support the ongoing need for reporting in US GAAP, IFRS and other reporting standards (if applicable).
- Accounting standards, along with tax and other financial reporting needs, will evolve over time, and will do so at an unprecedented rate in the next several years. A system that is capable of dealing with that evolution will minimize the ongoing need for technology changes.
- IFRS does not change the fact that a company will still need internal control over financial reporting. Relying on large volumes of manual adjustments, established in desktop tools, may create new compliance/controls issues.
- The good news: an important benefit of ultimately converting to IFRS is the opportunity to centralize and streamline financial reporting functions through the use of a single set of IFRS accounting policies.

Integrating IFRS changes into your technology roadmap

Today's companies face unprecedented accounting changes driven by convergence, by the adoption of IFRS by non-US subsidiaries, and by the ultimate adoption of IFRS in the US. In light of all these challenges, systems readiness is key to a successful transition. It is critical to integrate any IFRS-related changes into your technology road map. If you fail to do this upfront, you will only have to go back and reconfigure or re-implement your systems later on; at an even greater investment of time and resources than if you had done it at the get-go.

First things first

Getting your systems ready to meet financial consolidation and reporting requirements takes time and forethought. The first step is to determine how convergence, and ultimately conversion, will specifically impact your particular organization's people, processes, technology, and the business as a whole. Do you have the flexibility to comply with the final IFRS requirements? Are your systems ready to support multi-GAAP reporting during a transition period that could span several years? What Oracle options are available to you?

Taking Action—Meeting the Near-Term Challenges

- **Focus on the challenge.** Stay focused on the unprecedented US financial reporting changes and the impact they will have on your company.
- **Perform an assessment.** Identify business, accounting, tax, investor, systems, controls, and workforce-related issues.
- **Be ready to adapt to ongoing change.** Consider using scenario planning to incorporate likely convergence and IFRS adoption expectations into your strategic thinking and business planning.
- **Monitor actual changes.** Consider how the actual accounting changes will influence your customers and vendors and affect your reporting, long-term contractual commitments, tax structures, financing, systems and controls.
- **Maintain corporate oversight.** Stay close to your non-US subsidiaries as they adopt IFRS; influence transition timing, strategies and policy elections of your subsidiaries.
- **Identify what you can do now.** Stay focused on those aspects of convergence and conversion that have a long lead-time and consider small one-off projects and “easy wins” where desirable.

Which makes the most sense given your current needs and circumstances? In any case, it is imperative to integrate your overall IFRS strategy into your IT roadmap. Recognizing the complexities involved, many companies are turning for guidance to deeply experienced advisors with specialized knowledge around all the aspects of IFRS readiness.

The bottom line

Companies will need to face four near-term challenges: 1) unprecedented accounting transformation driven by continued convergence of standards; 2) non-US subsidiaries moving to IFRS as other countries continue to adopt; 3) customers' and suppliers' increasing interest in IFRS accounting outcomes, and; 4) continued focus on longer lead-time differences between IFRS and US GAAP, as the convergence projects will not address all differences. Now is the time to take action, but where do you start?

Although the final timeline to transition has not yet been set, forward-looking companies understand the importance of getting the jump on IFRS. They are already planning their IFRS strategy. They are taking steps to implement an effective methodology—backed-up by the people, processes and tools to help them understand and tackle the transition impact on their organization. And they are acting now to assess their systems needs to meet the multi-GAAP reporting challenge.

Early action will allow these proactive companies to control costs, understand and manage the challenging scope of implementation, and achieve a smooth transition. Are your systems ready to carry you through convergence, conversion, and beyond?

Next Steps

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