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The Status of IFRS: Where Do You Stand?

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International Financial Reporting Standards (IFRS), which make up the accounting framework used by most companies in the world today, are likely to be adopted soon in the United States. 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.

The following question was posed by IBM Cognos to Kathleen Wilhide, research director of IDC's Compliance and Business Performance Management Solutions practice, on behalf of IBM Cognos customers as part of the company's analyst series *Controllers' Corner: Two-Minute Essays on Financial Management and Control*.

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

A. The U.S. Securities and Exchange Commission (SEC) is moving ever closer to supporting IFRS in the United States. On November 14, 2008, the SEC released its proposed road map for adoption. The SEC proposal sets forth several milestones that, if achieved, could lead to the required use of IFRS by U.S. issuers. These milestones will include, among others, consideration of the state of preparedness of U.S. issuers, auditors, and users.

The SEC is expected to make a final decision in 2011, which could result in a phased approach for mandatory adoption of IFRS for U.S. registrants in 2014. The United States will certainly influence the eventual conformance with IFRS consistently on a global basis.

Adoption of IFRS has significant implications for companies that will affect accounting, financial reporting, and underlying business practices. Organizations will be ill-equipped to meet a 2014 deadline if they wait for the 2011 decision. An important consideration for companies today is recognizing that the technology supporting the business rules and processes for transactional accounting as well as the reporting and delivery of information must change to support this transition.

The extent of this change depends on a number of factors: the overall corporate strategy for responding to IFRS, the number of applications that go into generating financial statements, and the capabilities of the current systems. Accounting differences between IFRS and Generally Accepted Accounting Principles (GAAP) will affect valuation calculations, require new data, and drive changes in reporting.

Systems may need to be remapped or reconfigured to facilitate these changes. It will be tempting for organizations to use spreadsheets to manage the transition from the current general ledger and reporting systems and processes. But using manually intensive,

IDC 778

spreadsheet-driven processes to address the IFRS reporting challenge can become unmanageable and will ultimately add complexity.

A conversion to IFRS may have more of an impact on financial reporting and accounting processes than the internal control reporting requirements of Sarbanes-Oxley and will also be subject to those controls.

Organizations can use technology to support the transition to IFRS and map out the implications for underlying systems. Many organizations that have already addressed IFRS are using financial consolidation solutions to support this transition. These solutions provide a platform to support:

- Mapping out the changes in financial information requirements such as the impact on existing data models and charts of accounts
- Multiple representations of accounting transactions
- Detailed versions of financial information
- Reconciliation processes

Financial consolidation solutions can provide the necessary capabilities to support a structured and auditable approach for IFRS requirements.

While it seems that organizations have time to prepare for IFRS, it makes sense to assess the financial, tax, and operational impact of IFRS now and determine the impact on current financial results and support comparative reporting in the future. Sufficient lead time will enable companies to take advantage of the IFRS transition to achieve more control over statutory reporting and improve the transparency of information.

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