

IFRS: The Road to Conversion

Agenda

- What is IFRS?
- Users of IFRS
- Benefits and Challenges
- Potential Implementation Timelines
- The Impact from Conversion
- Lessons from Early Adopters
- Getting Outside Help

What Is IFRS?

- An accounting framework similar in character and scope to U.S. GAAP
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- A suite of globally accepted, high quality financial reporting standards promulgated by the IASB and its predecessor, the IASC
- Principles-based rather than rules-based
- The future of world-wide financial reporting

Goals of the IASB

- To increase financial reporting transparency and comparability
- To encourage worldwide convergence to one global set of standards
- To facilitate lower costs of capital due to improved world-wide capital allocations

History of International Standard Setting

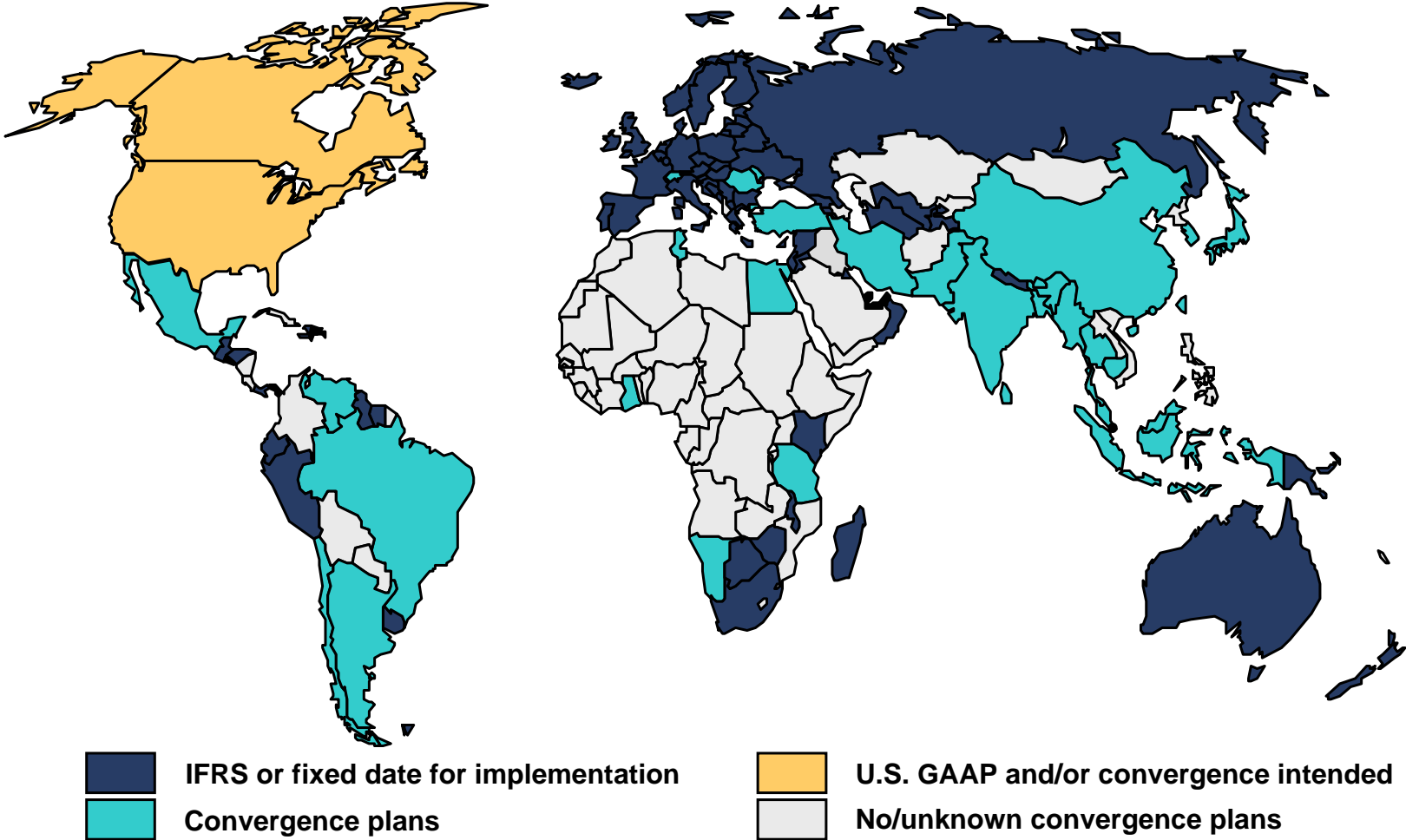
- 1973 IASC formed
- 1998 Core standards completed
- 2000 SEC review of core standards: concept release published Feb 2000
IASC approves new constitution
IOSCO review finalized
EC proposes that all EU listed companies (some 6,700) should apply IAS by 2005
- 2001 IASB assumes accounting standard-setting responsibilities from IASC
- 2002 EU's decision to adopt IFRS from Jan 1, 2005
- 2007 SEC Rule-making and Concept Release on use of IFRS in the U.S.
- 2008 SEC Proposed Roadmap for Potential Mandatory Use of IFRS in the U.S.



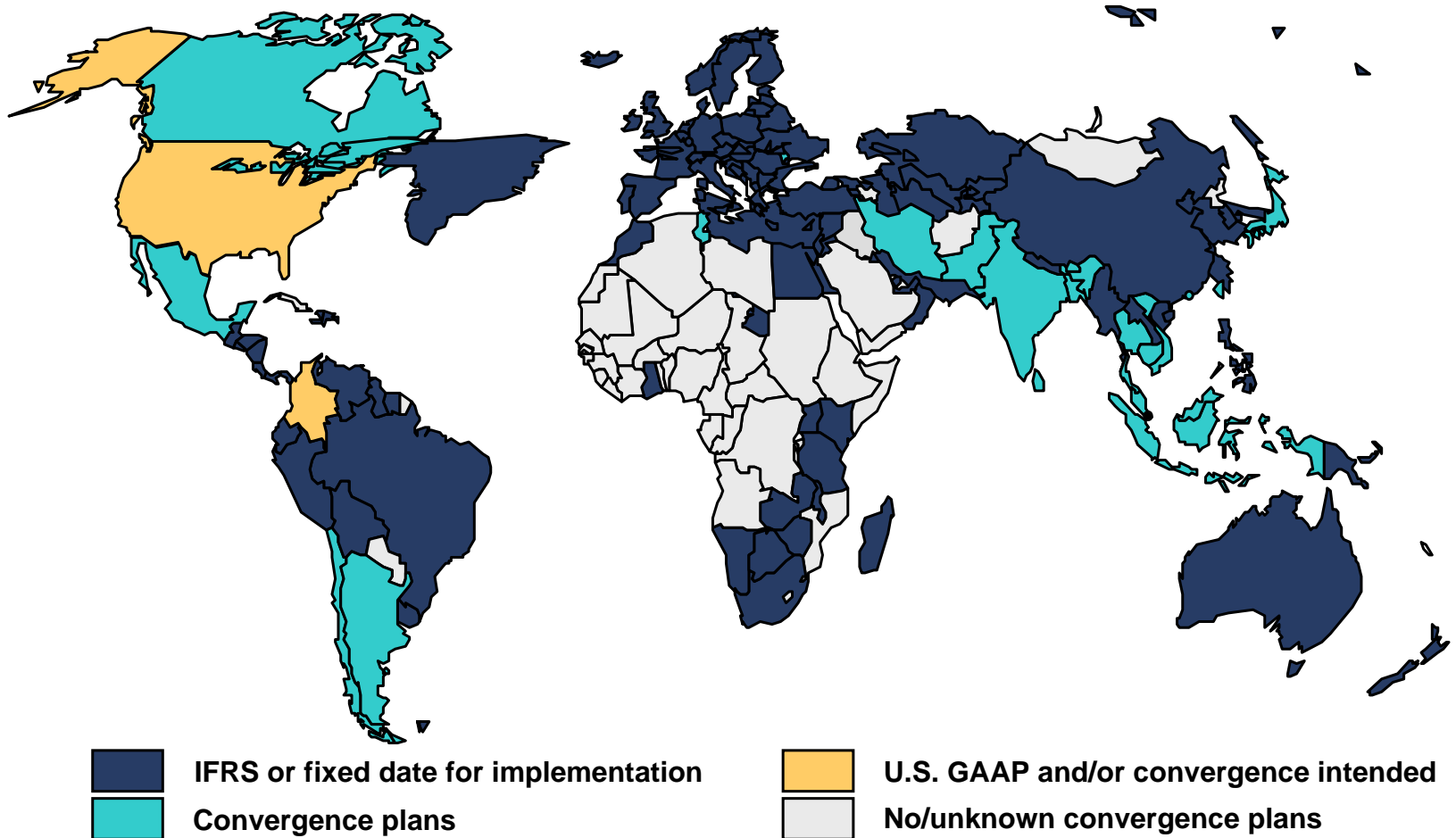
Who Uses IFRS?

- Over 130 countries currently require the use of or have a policy of convergence with IFRS
- Increased globalization of capital and trade markets have led to increased pressures to harmonize
- Companies with an international footprint are finding IFRS to be preferable or necessary in many instances
- Most public U.S. companies are beginning to think about IFRS, and the impact it will have on their organizations in the coming years

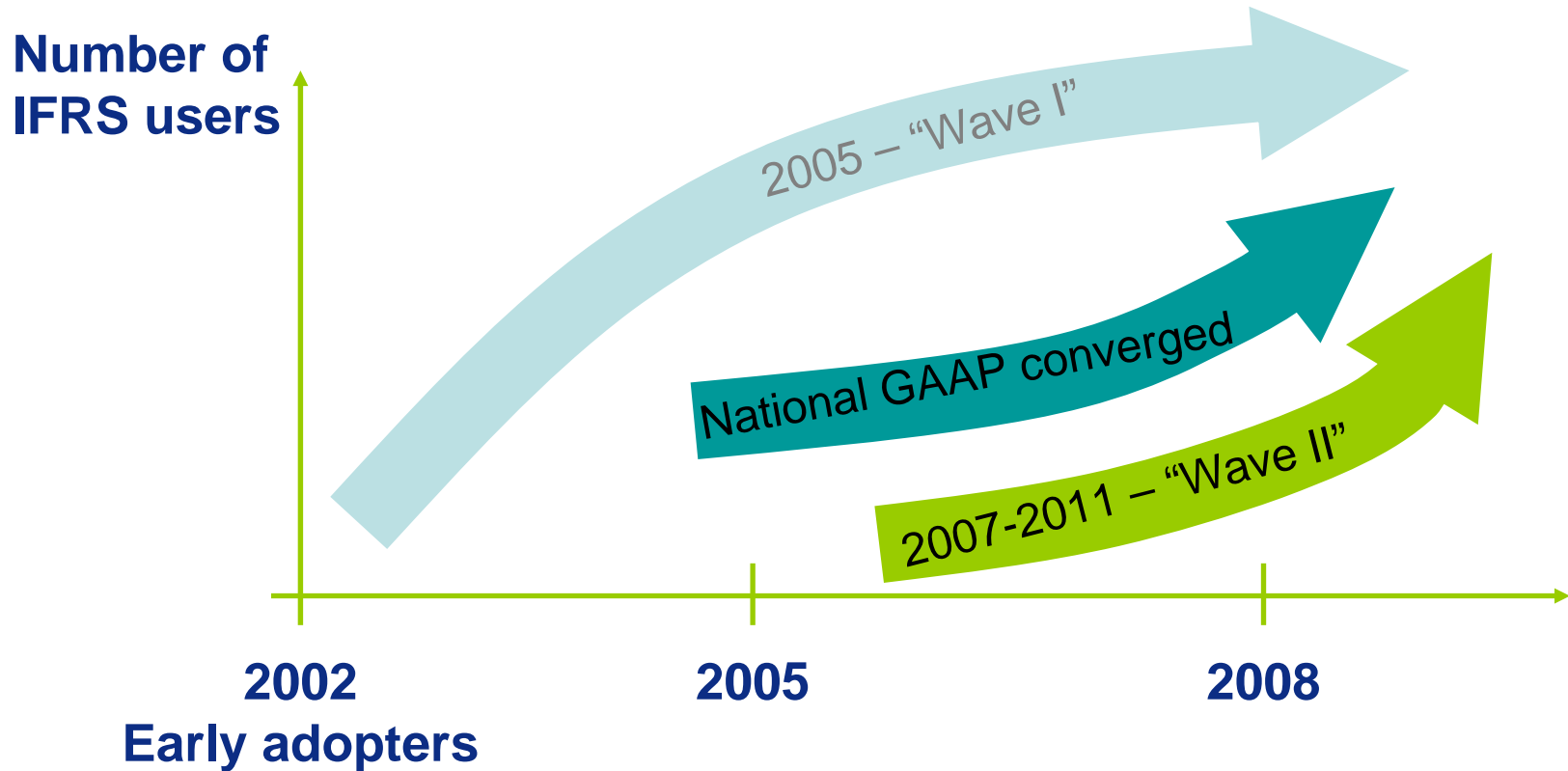
IFRS Implementation Around the World (2004)



IFRS Implementation Around the World (2008)



Converging on a bilingual world



Today, over 100 countries either require or allow the use of IFRS

“Wave II” is coming

- Korea 2011: IFRS mandatory for listed businesses – 2009: IFRS permitted
- Japan Goal of full convergence by 2011
- China Align Chinese GAAP with IFRS by 2011
- Israel Required for public companies from 2008
- India Convergence with IFRS for public companies for 2011
- Brazil Banks to be required to use IFRS starting from 2010
- Canada Timeframe set – 2011: Reporting under IFRS for publicly accountable entities

How Does IFRS Differ From U.S. GAAP?

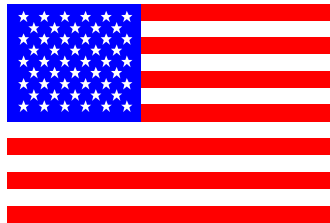
- **IFRS is a less extensive body of literature than is U.S. GAAP**
 - In many instances, IFRS contains similar concepts but does not contain the same amount of detailed implementation guidance as U.S. GAAP
- **Because of less-detailed guidance, there are more circumstances where application of IFRS will require exercise of judgment**
 - Judgment will need to be supported by contemporaneous analysis
 - Clear, transparent disclosures of critical accounting policies and estimates

Some Key Differences

- Inventories
- Share-base Payment
- Impairment
- Revenue Recognition
- Consolidation
- Investment
- Provisions
- Income Taxes
- Pensions
- R&D
- Disclosure Content and Extent

U.S. GAAP – IFRS Convergence

- The FASB and IASB have objective of convergence of U.S. GAAP and IFRS
- To be achieved through:
 - Formal liaison relationships between FASB and IASB
 - Monitoring FASB and IASB's major projects
 - Short-term convergence projects
 - Joint projects (e.g., revenue recognition, leasing, liabilities & equity, consolidation, conceptual framework, financial statement presentation)



IASB and FASB Convergence: Where Are We Now?

- **Boards have achieved “high-level” convergence in some areas**
 - Examples include income taxes, business combinations, share-based payments, fair value option, EPS, statement of cash flows, and pensions
- **Other areas, models are very different**
 - Examples include debt/equity classification, derecognition, consolidation, and impairment of long-lived assets

Proposed Roadmap for Potential Adoption of IFRS by All U.S. Public Companies

- Progress toward certain “milestones” would be part of the Commission’s consideration of whether to require adoption of IFRS by all U.S. public companies
- Milestones include:
 - Continued improvement in IFRS. In line with the objective of improved IFRS, continuing overall progress on convergence between IFRS and U.S. GAAP
 - IASB accountability and funding stability
 - Development of an IFRS XBRL taxonomy that allows companies to file XBRL-formatted financial statements as effectively as does the U.S. GAAP XBRL taxonomy
 - Education and training of investors, preparers, auditors

Proposed Roadmap for Potential Adoption of IFRS by All U.S. Public Companies (cont.)

- **SEC staff to monitor progress in achieving milestones**
 - If sufficient progress is made, the staff could recommend that the Commission adopt final rules requiring use of IFRS by all U.S. public companies
 - Roadmap to propose Commission consideration in 2011
- **Possible dates for required adoption and phase-in period:**
 - Large accelerated filers, calendar 2014 financial statements
 - Accelerated filers, calendar 2015 financial statements
 - Remaining filers, calendar 2016 financial statements
- **When Commission considers whether to make use of IFRS mandatory, it will consider permitting early adoption**

Proposal to Grant Permission to Adopt IFRS to Limited Number of Companies

- Proposal would allow a small number of U.S. public companies to begin preparing financial statements in accordance with IFRS as early as for years ending on or after December 15, 2009
- Criteria (or “screens”) to qualify:
 - A majority of peer-group companies, as determined by SIC code or another common industry-classification scheme, report financial information using IFRS as issued by IASB. Peer-group defined as 20 largest companies in the industry based on market capitalization
 - U.S. company is one of the 20 largest companies
- The SEC staff estimates that at least 110 U.S. public companies would meet these requirements
 - These companies represent approximately 14% of U.S. market capitalization

What Happens in the Meantime?

- Companies must:
 - Continue to respond to changes in U.S. GAAP in response to the FASB/IASB convergence initiative
 - Start making impact assessments and readiness assessments, and engaging in scoping exercises
 - Begin developing preliminary project management plans, and identifying key leaders with respect to the Company's conversion effort
 - Determine the degree and timing of required education for current personnel.
 - Start identifying what additional outside resources may be required.

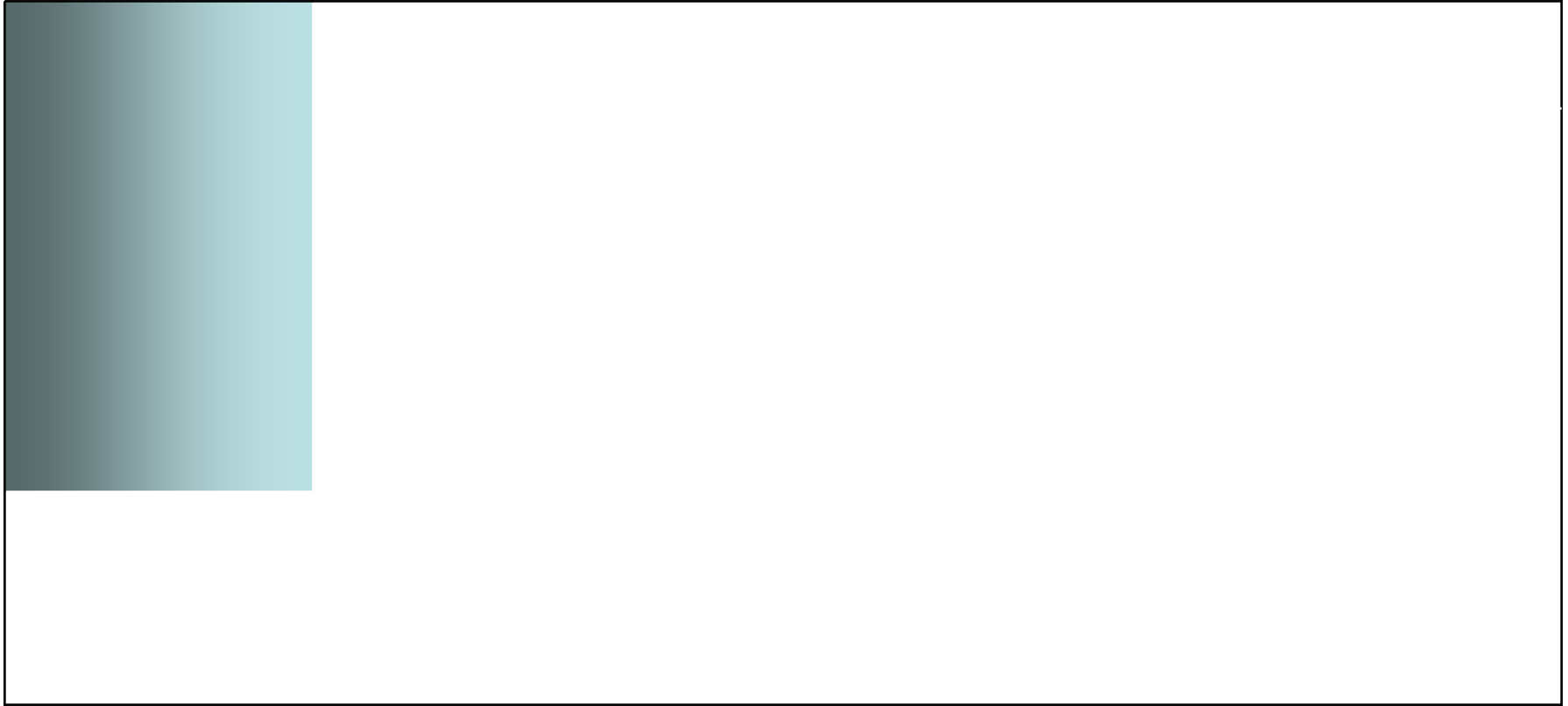
Potential Benefits of Adopting IFRS

- **Potential Benefits to Domestic Issuers**
 - Eliminate dual reporting for foreign subsidiaries using IFRS locally
 - Comparability of financial information with international competitors
 - Easier access to foreign capital markets
 - Potentially lower cost of capital
 - Increased flexibility in choosing accounting policies that match the economic substance of particular transactions

Potential Challenges When Adopting IFRS

- **Training**
- **IT system changes**
- **Changes to policies, procedures and controls**
- **Contractual and legal obligations**
- **Different type of professional judgment**
- **Communications with users**
- **Compensation plans and performance measurement**
- **Accounting policy selection issues**
- **Divergent management, income tax and inter-group reporting bases**
- **Corporate governance issues**
- **Risks of short-term financial reporting quality shortfalls**
- **Increased risk of misstatement, error, omission and fraud**
- **A learning curve**

2006 Summary IFRS to U.S. GAAP Reconciliation ⁽¹⁾



⁽¹⁾ The Analyst's Accounting Observer, Volume 16, No. 11 September 24, 2007

Key Takeaway:

IFRS is not just an Accounting Exercise



Accounting and Reporting

- Identify Differences
 - **Financial Reporting**
 - **Disclosures**
- Develop New Accounting Policies
- Assess Impact on Local Reporting
- Small Differences have Big Impacts



Systems and Processes

- Engage the IT team
- Modify data collection processes
- Embed IFRS in local ledgers
- Minimize manual workarounds
- Parallel System Runs



Business

- Communication plans to minimize surprises
- Internal measurement matrices
- Management compensation metrics
- General business issues
- Third-party contracts
- Budget for conversion



Costs

- Costs will vary considerably among companies who adopt IFRS
- Migration to IFRS will probably result in sizable cash outlays and resource dedication for:
 - IT systems
 - Training
 - Retooling of policies, processes and controls
 - Personnel costs
 - Outside advisory fees
 - Risk mitigation
 - Opportunity costs

People

- Training
- Recruiting Experienced Resources
- Project Team Members
 - Cross Functional
 - All Major Geographies

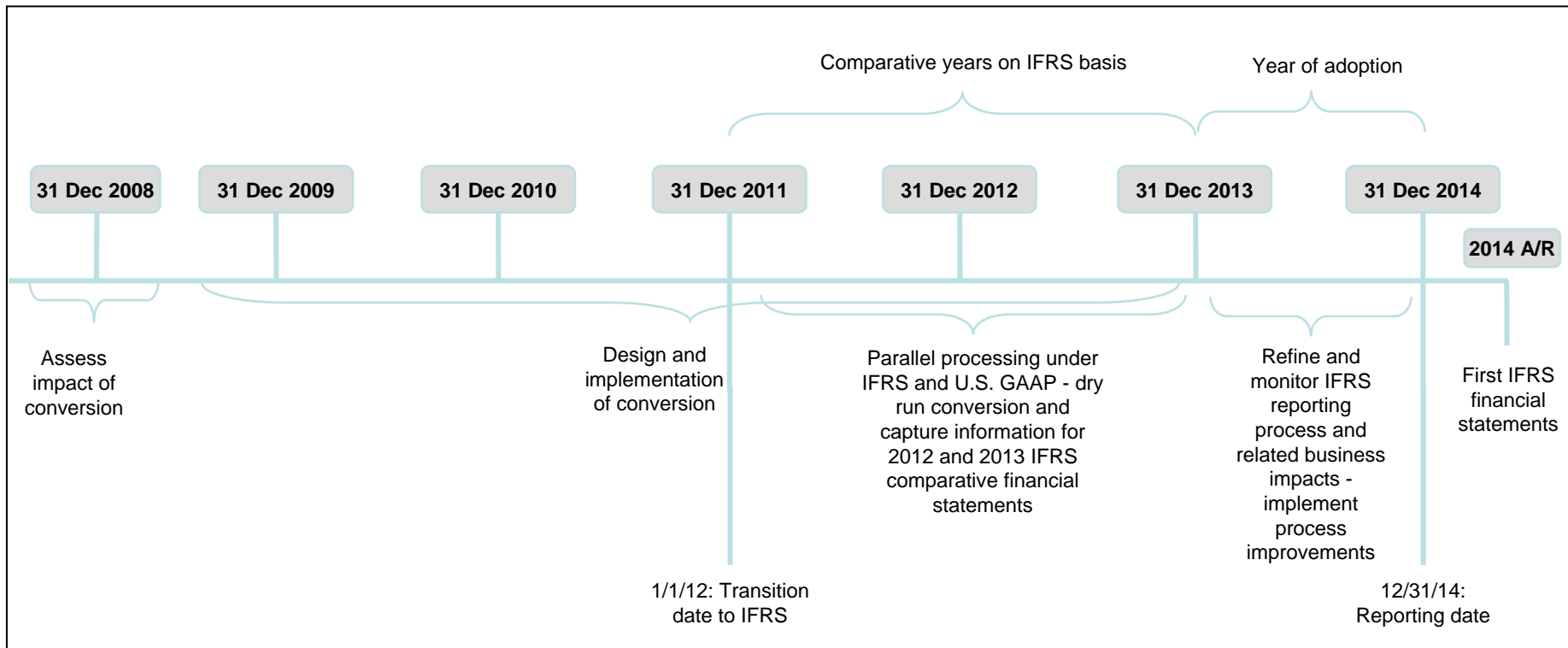


What Have We Learned from the Adopters in EU and Australia?

- **Five Key Lessons**
 - **Underestimated the scale and complexity**
 - **Senior management buy-in and board sponsorship is crucial**
 - **Project teams were unprepared to deal with the technical issues**
 - **Too many top-side “patchwork” solutions**
 - **Underestimated time stakeholder and management teams took a to get comfortable with the “new” numbers**

IFRS Transition Milestones and Timeline

An Example 2014 Adopter



A/R – Annual Report

Elements of a Successful Conversion Project

- Kick-off Project Early
- Dedicated Project Lead Reporting to Senior Management
 - **Form a steering committee with detailed action plan**
- Execute a Robust Assessment Phase
- Synchronize Project with Other Major Initiatives
- Train Senior Management on IFRS Impacts
- Start Project as a Headquarters Initiative
 - **Roll out internationally in a second phase**
- Embed and Automate Data Collection ASAP
- Involve Tax Early in the Process
- Involve External Auditors Throughout the Process
- Identify Performance Improvement Opportunities

How Should We Manage the Expectations of our Stakeholders?

- Impact of IFRS on your company's performance measurements
- The potential for increased volatility of results
- Investor relations personnel will need to understand IFRS
- Costs of IFRS Convergence

Who is Available to Help?

- Many companies will engage a third-party advisor to assist
- Managements responsible for selection of accounting policies
- Auditor Independence Concerns
 - **System modifications**
 - **Accounting and Disclosure Compilation**
 - **Involvement in Project Management**
- No one right answer

Additional Implications for Directors

- Board members may be asked to provide oversight outside of their traditional “comfort zones”
- Audit committees need to become sufficiently educated and knowledgeable about IFRS
- Many risks will need to be reassessed:
 - **Risks of misstatement,**
 - **Inability to report in a timely fashion**
 - **Injudicious accounting policy selections**

Where You Can Get More Information

- The KPMG IFRS Institute is an open forum where board and audit committee members, executives, management, stakeholders and government representatives can share knowledge, gain insight and access thought leadership about the evolving global financial reporting environment. The website includes:
 - Newsfeeds and Events
 - KPMG Briefing Sheets / Defining Issues
 - Regular webcasts and videocasts
 - Conferences and share forums
- www.kpmgifrsinstitute.com