



IFRS and SAS® Financial Management

A CFO's planning guide for a smooth transition to International Financial Reporting Standards

The conversion to International Financial Reporting Standards (IFRS) is currently underway across the globe. In the United States, the tentative timeline for conversion to IFRS is 2014 for the largest companies, with the remainder coming on board by 2016. Joint convergence is already underway between the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB), aligning the remaining significant disparities such as revenue recognition, fair value and consolidations.

SAS has prepared this planning guide to help you take advantage of advice from those who have already converted to IFRS and to highlight the key factors in the conversion process. We've also provided a one-page outline (see back page) of the major components of the conversion for quick reference.

*This guide is not meant as a substitute for a detailed project plan or for the advice of your audit firm.

Planning

Timeline. Because of accounting policy and IT system changes that must precede conversion to IFRS, planning should begin 18 months prior.

A planned conversion for IFRS reporting at the end of 2011 will require one income statement and two balance sheets in both IFRS and local generally accepted accounting practices (GAAP) for the year 2011, requiring the closing 2010 balance sheet be converted from local GAAP to IFRS to serve as the opening for 2011.

In the US, the SEC requirement for three years of comparables means three income statements and four balance sheets under both sets of standards, with a conversion of your closing balance sheet for 2011 becoming the starting point for year one in 2012, leading to the final cut-over to IFRS in 2014.

Oversight Board. Led by a project manager who has skills in accounting and IT, the **Leadership Team** should consist of just a few members representing accounting, IT, and internal and external audit, meeting frequently with the oversight board (CFO, CAO and CIO). Depending on the size of your organization, there will also be a larger **Extended Team** that includes other key members such as legal and HR.

Another factor to consider early in the planning process is the long-term business impact of the three- to five-year leases and customer and supplier contracts you are currently negotiating, with a keen eye toward how they might affect other areas of the business, such as debt covenants.

Finally, the required infrastructure for **IAS 39 Fair Value** determination may not be in place in many of the smaller countries in which you operate, necessitating support from regional or central HQ.

Execution

Preliminary Analysis. Before engaging in the comprehensive conversion of policy and systems, conduct a two- to four-month, top-down analysis of the areas of your business most likely to be affected and estimate how large that impact might be. Do not get bogged down in the details during this stage.



Next, consult with your audit partner to understand how the specifics of IFRS might affect your operation. From this “approximation” exercise you can create a set of pro forma financials in IFRS, highlighting the areas requiring tighter monitoring as the project progresses.

Policy and Systems. The bulk of the effort will be deployed here in the actual adjustments that need to be made, as specified in the project plan.

Dual/Parallel Financials. For the changeover itself, you have several options.

1. Run two complete sets of financials throughout the comparable period(s). This choice will make reconciliation difficult, but it needs to be executed only in your consolidation system, not your transaction and feeder systems.
2. Maintain only one primary set of financials during the conversion period and make the required journal entries (JEs) to translate from one to the other in a dedicated reconciliation entity. There are two obvious advantages to this approach: the simplicity and integrity of maintaining only the one level of detail, and the translation journal entries becoming the basis for the reconciling document you will be required to produce for the comparable periods.

Which option you choose is mostly a matter of where your risk concerns lie. Many European companies operating outside of US SEC regulations have preferred to make the transition to IFRS and translate backward to local GAAP. They typically have only one year of comparables to produce, so they want to get the detail transactions right in IFRS from day one, and they find it easier to translate to the “known” (local GAAP).

Most US companies, however, are expected to adopt the reverse approach, maintaining their system of record in US GAAP and restating to IFRS only in their reconciliation entity. The longer three-year period US companies face creates a riskier environment for assuring the integrity of their financial reports of record, not to mention associated **Sarbanes-Oxley (SOX)** concerns, such as segregation of duties, security and data integrity.

IT Concerns

Assign separate sub-teams to address issues arising in each of the following areas:

- **Upstream** (e.g., data requirements)
- **Data Warehouse** (e.g., data definitions)
- **General Ledger** (e.g., chart of accounts)
- **Downstream** (e.g., reporting)

While the conversion does not need to be treated like a full-blown enterprise resource planning implementation, it is still a significant undertaking similar to a major system upgrade, with perhaps 50 percent of the cost occurring within the IT domain.

Focus on the Commonalities

Don't aim for robust implementation teams in each country you do business in. Let the exceptions escalate to the head office, where you will have the specialty staff and audit support to resolve the problems.

Opportunity

Lastly, don't forget to view this as an opportunity to make some long-awaited changes to policy and procedure. That expense policy that neither you nor your predecessor ever understood? Trash it! All those subsidiaries and acquisitions currently on different charts of accounts will be operating on a consistent financial framework, so **INSIST** on the adoption of a single **Global Accounting Policy**.

Explore with your audit partner the **IFRS1 First-Time Adoption Rules**, which give you some flexibility in deciding where you will start and how you will proceed.

And now that you are on a single global chart of accounts with a single global accounting policy, consider whether it makes sense to adopt a **Shared Services** model for financial support and reporting.

How SAS® Financial Management can help

SAS Financial Management

supports IFRS accounting standards, provides dynamic consolidations, flexible budgeting and planning, and complete data management capabilities to help you improve the quality of financial plans, budgets and reports while ensuring compliance with regulatory requirements.

With a proprietary calculation engine and accounting logic, this remarkable solution consolidates planning or historical information on demand, ensuring that the latest information is always available for decision makers and regulatory agencies.

Accounting logic

This solution supports multiple accounting standards, including IFRS and US GAAP, and provides rules for manual journal adjustments, intercompany balancing, reporting entity balancing, allocations and partial ownership to help you maintain flexibility in the face of any new standards. You can also manage a variety of time aggregations for balance and flow account types.

With robust, flexible currency handling, SAS Financial Management ideally suits the global enterprise. The solution includes multiple exchange rate sets and performs automatic simple and complex currency conversion.

Regulatory compliance

Documentation such as charts of accounts, accounting policy manuals, financial commentaries and key economic assumptions can be attached to the objects that are used for importing data, financial reporting, and budgeting and planning. These objects can be secured using object-level security. In the event that history needs to be preserved, they can also be locked to prevent further changes. These capabilities all help you comply with Sarbanes-Oxley Sections 404 and 409.

Automatic tracking of changes to source data

SAS Financial Management classifies and tracks data when it enters from source data systems or data entry forms. This classification provides complete transparency between source data and the final consolidated results published for managers, auditors, regulatory authorities and stakeholders.

Dynamic consolidation

This powerful solution features a bidirectional, dynamic, secure link to a common data repository. As a result, users operate in a dynamic environment and no longer need to run consolidations to see the results of data or rule changes.

Data management

SAS' prebuilt data model creates a reliable, consistent view of your financial information, with the data loaded into a common, secure data repository, compliant with regulatory requirements.

Subsidiary submissions can automatically be loaded into the data repository using SAS Data Integration Studio, which allows you to extract, transform and load data from virtually any source. Data validation procedures ensure data quality. Alerts can be set to notify users when data submissions succeed or fail.

Budgeting and planning

SAS Financial Management provides the flexibility you need to create confident plans and accurate budgets. The solution supports rolling forecasts, top-down and bottom-up budgeting and budget-cycle seeding. Capabilities for workflow control and enterprise collaboration ease communication and speed planning cycles. SAS forecasting technology produces accurate and flexible forecasts and the ability to model what-if scenarios.

Key Benefits for IFRS

- Use of multiple hierarchies, charts of accounts, and closing cycles in SAS Financial Management allows simultaneous reporting in both local GAAP and IFRS.
- No need to run parallel processes in the detailed transaction systems – SAS Financial Management handles all the requirements during the consolidation process.
- The stored JEs translating between local GAAP and IFRS become the secure reconciliation audit trail.
- A pro forma IFRS income statement and balance sheet can easily be created following the preliminary analysis and can be updated as the transition progresses so that there are no surprises on day one.
- SAS Risk Dimensions® provides a proven tool for IAS 39 valuations.

For more information about SAS Financial Management, including features and system requirements, please visit <http://www.sas.com/solutions/financial/fms/index.html>.

About SAS

SAS is the leader in business analytics software and services, and the largest independent vendor in the business intelligence market. Through innovative solutions delivered within an integrated framework, SAS helps customers at 45,000 sites improve performance and deliver value by making better decisions faster. Since 1976, SAS has been giving customers around the world THE POWER TO KNOW.®

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CFO's IFRS Planning Guide

Planning

■ **Timeline:** Start planning 18 months prior to conversion

- Canada, China, etc. (2011)
 - 1 year of comparables
 - 1 income statement, 2 balance sheets
- United States (2014)
 - 3 years of comparables (2012-2014)
 - 3 income statements, 4 balance sheets (1st in 2011)

■ **Oversight Board:** CFO, CAO, CIO

- Small Leadership Team: Project Mgr, IT, Accounting, Int. Audit, Ext. Audit
- Extended Team: Acct., Tax, IT, HR, IR, Treas., Risk, Legal/Regulatory, Comp./Commissions

■ **Business:**

- Long-Term Contracts/Covenants

Execution Stages

■ **Prelim. Analysis** (2- to 4-month effort)

- Initial Top-Down Approximation
- Major Impacts – Where & How Much?

■ **Policy and System Adjustments**

- Accounting, Chart of Accounts, IT, Reporting

■ **Changeover** – 3 Options

- 1) Dual/Parallel (Not in Trans. Sys., Recon?)
- 2) Local GAAP to IFRS (SEC, SOX concerns)
- 3) IFRS to Local GAAP (Unknown to Known)

IT Concerns

■ **Upstream:** Data Requirements, Existing Sources, New Data, New Calculations, Capture, Store, Transmit, Sub-Systems/Feeder Systems

■ **Data Warehouse:** Capacity, Data Definitions, Documentation, XBRL

■ **General Ledger:** Chart of Accounts, JEs, Allocations, Rules, Reconciliations

■ **Downstream:** Reporting, Budgeting, Forecasting, Ad Hoc Query, Tax, Disclosures

Focus on the Commonalities

■ Deal with escalated exceptions at head office

- More Audit/Specialist Support available

■ Many adjustments required only at HQ

- Options, Equity, M&A, Pensions, Joint Ventures

Opportunity

■ Global Accounting Policy/Chart of Accounts

- Rid yourself of long-forgotten policies

■ Take advantage of IFRS1 Adoption Rules

■ Time for a shared services model?

Other

• **SOX:** Segregation, Security, Data Integrity

• 50% of Cost in IT; Treat like a major upgrade

• Infrastructure for Valuation (IAS 39)



THE
POWER
TO KNOW.

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