

Global Accounting Standards – IFRS

International Financial Reporting Standards (IFRS) are closer to becoming a reality in the United States. A universal accounting language around the world is expected to provide investors with comparable information and greater transparency of financial reporting. The SEC demonstrated its intentions to move away from U.S. Generally Accepted Accounting Principles (GAAP) recently when it proposed a “roadmap” toward adopting International Financial Reporting Standards (IFRS). The agency had already ruled that foreign companies required to make filings to the SEC could prepare their financial statements under IFRS without reconciling to U.S. GAAP.

Under the SEC’s proposal, some U.S. companies will soon be able to convert to IFRS - assuming they are big enough. Market capitalization within specific industries will determine which companies can convert and when. Organizations ranking in the 20 largest worldwide in their sector will be able to shift to IFRS for periods ending after December 15, 2009.

In 2011, the securities agency will take stock and decide whether to mandate the international standards starting in 2014, with full convergence planned for 2016. Although IFRS will be mandatory only for publicly traded organizations, many accountants are urging privately held companies to also adopt the standards. The shift to IFRS will significantly affect the global business environment and at some point, companies that aren’t using international standards may be at a disadvantage.

Today, more than 100 countries around the world, including all of Europe, currently require or permit IFRS reporting.

The Benefits of a Single Standard

Certain issues need to be worked out, particularly when it comes to tax accounting, but most accountants generally agree that adopting a single standard has several advantages. It will:

- **Cut costs.** Companies that prepare and file financial statements in multiple jurisdictions will save money by using one set of globally accepted standards. Companies with global operations and foreign reporting requirements could develop regional financial centers, relocate financial resources (depending on where they are needed) and centralize training and development efforts.
- **Ease international investing.** By improving the quality and comparability of financial information, it will be easier for analysts and investors to assess companies across borders. Similarly, it will be less complicated for companies to compare their financial reports to those of their international competitors.
- **Create greater access** to foreign capital markets and investments.
- **Facilitate cross-border** mergers and acquisitions, ventures, and spin-offs.

Prepare for Convergence: Five Steps

Given that it takes an estimated two to five years to fully adopt IFRS, your business should start preparing sooner rather than later. Here are five steps that can help your organization:

1. Assess the extent of IFRS-related knowledge, experience and skill within your business. Set up a team that includes individuals from accounting, finance, information technology (IT) support, and human resources. Your company already may have some experience in IFRS if it has:

- Considered foreign acquisitions or cross-border joint venture partners,
- Tried raising capital overseas, or
- Reviewed and analyzed the financial statements of foreign competitors.



In any case, knowing how much IFRS knowledge your staff has helps gauge the amount of training that will be required to comply with the convergence deadlines.

2. Analyze your financials. IFRS financial information can look very different from those on GAAP statements. For example, under IFRS, some equity-type instruments can be reclassified as debt and accounting for pensions and share options may result in significant changes. The list of areas that may be affected includes fair valuations, capital allocation, leasing, segment reporting, revenue recognition, impairment reviews, deferred taxation, cash flows, borrowing arrangements and banking covenants. A difference of just a couple of percentage points in financial line items could seriously affect key relationships with business colleagues, customers, vendors, banks, analysts and investors.

3. Review IT systems. Your company’s current technology systems may need to be modified, upgraded or even replaced to support IFRS. It depends on your industry and the complexity of your organization’s accounting methods. Systems that work well for GAAP may not be able to provide all the information needed for IFRS. Differences in the accounting methods may create a need for:

- New input data.
- A redesign of books and ledgers to account for financial information that is currently not standard.
- Some modification or expansion of data storage methods and capacity.

4. Assess your options. First-time adoption of International Financial Reporting Standards allows one-time options. Consider them early in the process so you can return to the options when assessing which accounting policies to choose.

5. Draft a plan. With all the information gathered in the first four steps, lay out a formal, written plan that outlines responsibilities. Regularly update the plan and make it readily available to everyone affected by the change. Your accountant can help you come up with this plan and keep it current throughout the process.



Scott A. Walters, CPA is a Partner in the Audit & Accounting Services Department. He provides expert guidance on matters related to GAAP and SEC rules and regulations. With a particular focus on the interpretation and practical application of new accounting pronouncements, implementation of Sarbanes-Oxley compliance and SEC reporting requirements, Scott guides public companies to ensure a comprehensive understanding of corporate governance policies and the need for transparent financial reporting. Contact him directly via email at swalters@daszkalbolton.com or by phone at 954.691.4567.