



The Road Ahead for Financial Governance: International Financial Reporting Standards

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Background

Financial reporting has been on a very tumultuous ride these last several years and it does not appear that the road is going to get any smoother with the onset of eXtensible Business Reporting Language (XBRL) and foreshadowing of the adoption of International Financial Reporting Standards (IFRS.) Both of these standards are meant to increase the comparability of reported financial information. The XBRL debate is over and will be adopted for SEC reporting starting in 2014. However; the discussion around IFRS in the United States continues to cause consternation. IFRS is a set of accounting standards stating how financial results should be reported. IFRS are issued by the International Accounting Standards Board (IASB). These standards replace the International Account Standards issued previously by the IASB.

The Issues: The move to IFRS presents a dramatic change for US companies. IFRS has been mandated in the EU since 2005. A core difference is that IFRS is principles based and US GAAP is rules based. Principles based standards allows much interpretation and requires extensive documentation of positions taken. Some of the areas that differ under IFRS include complex topics such as fair value accounting, revenue recognition, segment reporting and share based payments. The existing dialogue focuses on the “convergence” of standards as opposed to the “conversion” or “adoption” of IFRS. This subtle difference is important and infers that US standards will begin to be written to be much more like IFRS in nature. The indicators of impending change include continued growth of a global market place, a desire for more comparability in information, and the “IFRSesque” nature of more recent US accounting releases.

Although the required reporting in IFRS in the US is not yet set and the earliest date suggested is 2011, many companies are devoting some time to understanding the impacts. A short list of areas to consider include financial impacts, personnel knowledge gaps, policy and documentation requirements, process changes and technology modifications. Looking at each issue briefly below gives a sense of what is ahead:

Financial impacts: A change in how an economic event is to be reported will impact the reported results of an enterprise and thus influence investors. Changing revenue recognition or purchase account information may cause a bump or dip in financial results that could be disarming to investors. One study showed that US companies reviewed saw an overall positive financial result under IFRS. To understand impacts, companies will need to review contracts and consider current practices and how they will manage these impacts.

Personnel knowledge: Understanding and interpreting IFRS will require expertise and technical knowledge that most current US accountants will not have. Companies will be fighting for talent

and experience in these areas and may very well have to use consultancies or reorganize internally to allow capacity to their existing knowledge base.

Policy and documentation requirements: IFRS is principles based and thus allow for interpretation. The positions taken by companies will need to be carefully considered and documented. Policies regarding how transactions are processed will need to be updated and communicated. Additionally there will be a period of time that comparative financial information between US GAAP and IFRS are required.

Process changes: Companies that currently file on multiple exchanges or with various regulators are familiar with the management of multiple reporting formats, disclosures and compliance requirements. There will inevitably be a transition period where IFRS will increase the needed review, steps in approval and possibly reconciliation if US GAAP is left in play for a period of time.

Technology modifications: Current US GAAP is embedded in the transaction, consolidation, and reporting tools of US companies. Existing technologies may require modification at a minimum, and for some, custom built tools a substantial re-write.

Trintech's Technology and IFRS

The consultancies and experts are gearing up for the onset of IFRS in whatever form it will take. There is much helpful literature on how to begin working through the issues. Trintech's Financial Governance Platform, Unity, offers an opportunity to support the process changes caused by the adoption of IFRS with technology.

Documentation and Policy Management: IFRS will require accountants to understand new policies and carefully document positions. Trintech's platform schedules and delivers personnel the most recent documents, policies and associated templates required to perform tasks in a ubiquitous format called an action plan. Communication will need to be clear and current. Trintech enables a seamless process of keeping personnel across the globe aligned in task execution.

Reporting Process Management: IFRS adds a new layer of expertise, review and work management to the reporting process. Companies that manage multiple reporting streams may need to have an IFRS team emerge to manage the period of convergence to the new standards and allow regulated and statutory managers to remain focused. The reporting process as it exists in most companies already has an unwieldy number of review layers and short tight deadlines. Adding IFRS requirements may cause some reporting processes enough strain to result in errors or late filings. Trintech's platform is a backbone of business process technology that can manage complex and layered work flow and hierarchies to bring reporting managers confidence and efficiency in getting financial documents prepared for release.

Reporting Collaboration: Management will need to have executive level views to IFRS financial statements. The documentation may be much more extensive and management may require more ready access to literature and supporting memos. For some period there may be a transition where management wants to see IFRS compared to existing US GAAP. Management will need confidence that numbers have been through the required set of analysis and verification to ensure they conform to the accounting standards they are prepared under. Trintech's Financial Console lays out the financial information for IFRS, GAAP or any required reporting standards in detailed and if desired comparative views with stoplight reporting to

indicate the status of all required steps. The image below is an example of how Trintech's Disclosure Templates help present parallel reporting for IFRS and GAAP.

The screenshot shows the Trintech Financial Console interface. At the top, there is a navigation bar with options like HOME, RISK MANAGER, COMPLIANCE, FINANCIAL CLOSE, and ADMINISTRATION. Below this, the 'Financial Console' section is active, displaying a search filter for 'Pro-Forma Income Statement' for the period 'December 31, 2005' and entity 'Corporate'. The main content area is titled 'ABC Corporation - Reconciliation of IFRS Statement of Operations to U.S. GAAP Statement of Operations'. It includes metadata such as Owner: Mary Green, Period: December 31, 2005, Due Date: 15-Jan-2006, Last Update: 3-Jan-2006 10:15, and Reviewer: Art Ardizzone. A table below shows the reconciliation details with columns for Item, Close Tasks, Key Controls, IFRS (Dec. 31, 2005), Adjustments, and GAAP (Dec. 31, 2005). The table lists various financial items like Net revenue, Cost of sales, Gross margin, Operating expenses, and Net income, with corresponding values and status indicators (green checkmarks, red X's, or blue circles).

Item (In Millions, Except Per Share Amounts)	Close Tasks	Key Controls	Three Months Ended	
			IFRS Dec. 31, 2005	GAAP Dec. 31, 2005
Net revenue	⊖	✓	\$ 8,731	\$ 8,576
Cost of sales	⊕	✓	4,028	3,913
Gross margin			4,703	4,663
Research and development	✓	⊖	1,425	1,425
Marketing, general and administrative	✓	⊖	1,567	1,567
Amortization of acquisition-related intangibles	✓	✓	36	36
Operating expenses			3,028	3,028
Operating income			1,675	1,635
Gains (losses) on equity securities, net	✓	✓	(42)	(42)
Interest and other, net	✓	✓	127	127
Income before taxes			1,760	1,720
Provision for taxes	⊖	⊖	965	955
Net income			\$ 795	\$ 765
Basic earnings per common share			\$ 0.13	\$ 0.12

Trintech Take:

Unfortunately there is no magic wand or fancy macro that can make the conversion to IFRS a push button exercise. Much work will have to be done by knowledgeable accountants to support the translations and positions taken. Trintech can support the processes by relieving the administrative burdens of managing tasks across the globe, presenting the issues, exceptions and status and bringing confidence and efficiency to managing the complexities of a revised reporting process under IFRS. Trintech enables the production of a high quality, first draft of IFRS statements via templates that increases the quality and confidence in reported results.



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Theresa has BBA in Accounting from Gonzaga University. She is a CPA, a member of the American Institute of Certified Public Accountants