



IFRS: Waiting on the SEC?

What does it matter now for US Public Companies

January 27, 2009

By Denise Sanders

Many companies are waiting on the SEC's timeline for a US GAAP to IFRS adoption to get up to speed on International Financial Reporting Standards and take steps to assess IFRS impact. What about the impact of IFRS now? What impact you say? If the SEC hasn't mandated it for US issuers, then it's a non-issue right? Not necessarily. The impact now for a US issuer which operates internationally is from other countries adopting IFRS. The potential magnitude of this impact seems to have gotten shuffled under the rug.

The impact to a US issuer operating internationally can be broken down into four components:

1. Changes in the local country accounting and systems
2. Maintenance of two or more sets of accounting books (yes, I said MORE)
3. Changes in the US consolidation
4. New risk to internal control over financial reporting (Sarbanes-Oxley implications)

1. CHANGES IN THE LOCAL COUNTRY ACCOUNTING AND SYSTEMS

Local statutory reporting requirements vary by country, the type of legal entity, and operating circumstances. Your specific circumstances will determine whether your company must adopt IFRS locally when the country announces a transition to IFRS. As such, the best way to know your company requirements for reporting is to contact the local regulatory authorities.

As a local entity adopts IFRS, decisions must be made on how items will be accounted for under IFRS on the local books. These changes to accounting result in the following changes and considerations:

- Accounting policies and procedures – Policies and procedures will need to be updated to reflect IFRS policies and procedures.
- Accounting system – The local accounting system needs to reflect changes relevant to international accounting standards, including potentially a new ledger, new calculation methods, new general ledger accounts, and new reports.
- Internal controls – Changes to policies and procedures at the local country level will likely impact the internal controls performed and documented relevant to the company's Sarbanes-Oxley assessment.
- Processes to submit financial data to US Corporate – If the local country submits a standard reporting package to the US corporate office, is that reporting package going to change? Is the local accounting staff responsible for transforming the IFRS books to US GAAP?

2. MAINTENANCE OF TWO OR MORE SETS OF ACCOUNTING BOOKS

As a US public company with an international entity adopting IFRS, at the local country level there will be a set of books for IFRS reporting, and for US consolidation there will need to be a US GAAP version of the books. Why do I mention potentially more? During the year before IFRS is required, a company which reports comparative

financial statements will likely be compiling financial data under both the current local statutory requirements and the IFRS requirements. Also, depending upon the specific country requirements, the company could be required to report under a different set of standards to other entities, such as taxing authorities or banks.

3. CHANGES IN THE US CONSOLIDATION

As the local country accounting changes, the reporting package sent to corporate or system interfaces to the US corporate reporting system may change, unless the transformation from IFRS to US GAAP is to take place in the local country. In either case, the accounting staff responsible for the conversion from IFRS to US GAAP needs training on IFRS and new procedures on this conversion.

4. NEW RISK TO INTERNAL CONTROL OVER FINANCIAL REPORTING

All of the above present new risks to internal control over financial reporting (ICFR) and a new consideration in management's and their auditor's Sarbanes-Oxley assessment. New and updated control procedures should be considered for the changes to processes, systems, and ensuring the adequacy of skills and knowledge of IFRS and the new related procedures.

While the US GAAP transition to IFRS may be the largest potential IFRS impact to US companies, the impact of other countries' transition should not be ignored or minimized. Companies that do not take the necessary steps to manage the change and its related risk may be sorry when their auditor finds errors in the US consolidated financial statements.

About Sanders Consulting, LLC

Sanders Consulting, LLC (SC) is a certified public accounting firm focused on business advisory services to middle-market, international companies. SC provides project management and process, system and internal controls design services to companies impacted by IFRS. We bring together the unique combination of CPA, business and technology skills.

For more information on this article or Sanders Consulting, contact:
Denise Sanders, dsanders@sandersconsult.com, (713) 447-3623

For the IFRS status of countries, visit the SC website, Current Topics page:
<http://www.sandersconsult.com/CurrentTopics.html#ifrs>