

Accounting for New Rules

The conversion to new international standards can be a catalyst to strengthen financial reporting infrastructures and to correct enterprisewide data deficiencies, according to **Ron Giammarco**, partner and **Neil Bromberg**, principal in the Financial Services Office of Ernst & Young LLP.



IN LATE NOVEMBER 2008 the SEC released its proposed road map for conversion from U.S. Generally Accepted Accounting Principles (U.S. GAAP) to International Financial Reporting Standards (IFRS), taking us closer to a single set of globally accepted accounting standards. But implementation of IFRS will require significant changes in business processes and systems in order to amend accounting treatment and satisfy reporting requirements.

Given the complexity and inflexibility of legacy accounting and technology infrastructures, coupled with the challenges of managing product and accounting data, modifications to accounting standards, policies and procedures are rarely simple for financial services firms. But organizations with forward-thinking CIOs realize that the change to IFRS will provide an opportunity to strategically enhance systems and processes, and execute on mandates to reduce costs and drive out inefficiency and redundancy. These firms are already exploring how the proposed conversion requirements can be used as a catalyst to strengthen financial reporting

tively support the new requirements.

Another potentially significant stumbling block concerns the core of the financial reporting process: the general ledger systems. Outdated chart-of-accounts design, disparate global ledgers and legacy technology will all complicate the conversion process and limit reporting capability. As ledger replacements and upgrades are expensive, time-consuming and disruptive, IT leadership will need to discuss the merits of making these capital investments now versus the potentially higher long-term costs of tactical solutions.

IFRS conversion issues will not be limited to the general ledger and financial reporting systems. IT application groups likely will have to enhance or modify front- and middle-office product systems as well. The physical act of generating accounting entries often is performed by sub-ledgers via embedded

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infrastructures by accelerating transformation initiatives, to correct enterprisewide deficiencies in data flow and data quality, and to create new, centralized accounting-rules repositories.

The Transparency Challenge

However, they are also discovering that there are formidable obstacles in the way of technology and process improvements. In converting to the new accounting standards, many institutions will struggle with the necessary changes to their financial reporting infrastructure. IFRS disclosures require more detail and transparency than financial disclosures under U.S. GAAP. Specifically, risk and transaction details that once resided in front- or middle-office systems will need to flow through the financial reporting process. To further complicate matters, this detailed data will need to be of the highest quality because it forms the basis of audited financial statements. IT must play a role in deciding how an institution should handle U.S. GAAP and IFRS data flows in order to determine if its current infrastructure can effec-

tively support the new requirements. Thus it will be necessary to capture and configure an additional set of processing and posting requirements in order to meet the new accounting needs effectively.

IT must also factor in the IFRS conversion hurdles related to reporting within statutory locations and the consolidation of this information. Local tax and regulatory rules may include different accounting interpretations and reporting requirements. Simply developing a global policy or layering on additional logic to meet local needs may not be feasible based on existing system capabilities.

An IFRS conversion should spur an institution to examine IT strategy holistically. With advanced planning and scoping, some phases of an implementation can leverage projects already in progress or be sequenced within scheduled initiatives. A good early step is to identify the difficulties in conversion and align the changes to planned or "in-flight" programs, such as the creation of shared-services centers, development and deployment of global policies and procedures, execution of performance management solutions, and upgrades to enterprise resource planning systems. ■