

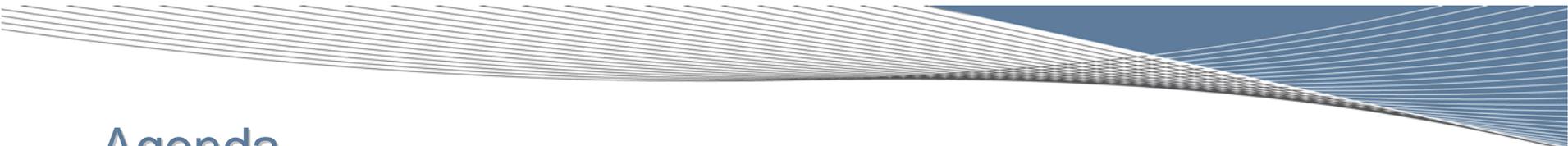
International Financial Reporting Standards – Convergence Issues

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Agenda

International Financial Reporting Standards – Convergence Issues

- Global IFRS Trends / Latest Developments in the US, Japan, Canada
- SEC Roadmap Update
- Transition to IFRS – The Challenges
- Governance: Relevant Level and Relevant Stakeholders
- Project Management – Sample
- Conversion Process / Role of Internal Audit
- The Six Elements of Infrastructure – Managing Financial Reporting Risk
- Conversion Considerations

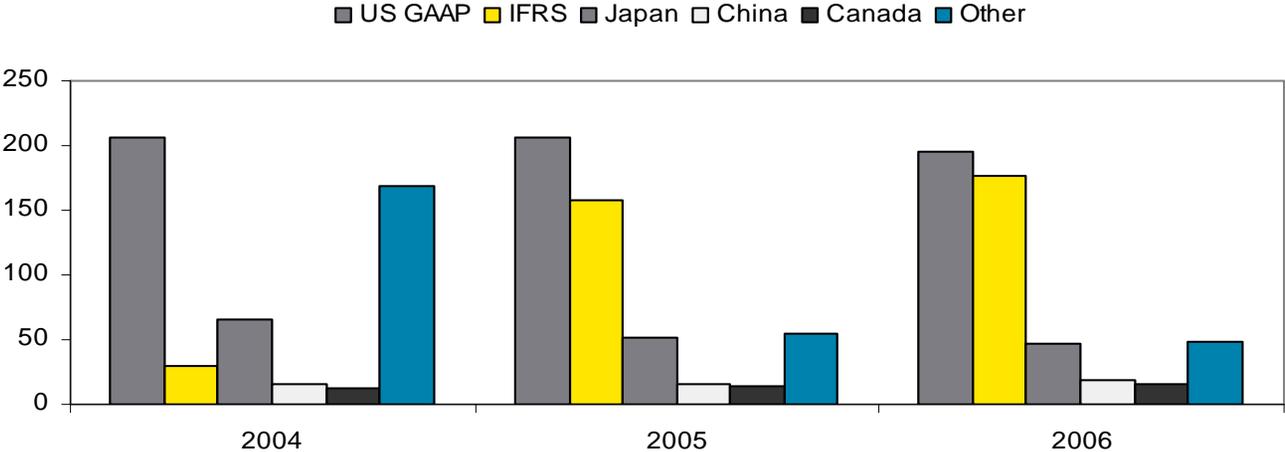
Appendix: Sample Deliverables

Global IFRS Trends

Benefits of IFRS:

- Greater comparability for investors across industries and geographies
- Increase flow of capital globally → Lower cost of capital globally
- Cost savings for multi-national companies
- Facilitates accounting and reporting

Global Fortune 500 companies are moving towards IFRS



Global IFRS Trends

- Every major non-US capital market is moving to IFRS
- Over 100 countries around the world require or permit IFRS

Top 10 Global Capital Markets	
Canada	Conversion to IFRS by 2011
US	US GAAP – moving towards IFRS
Japan	Convergence to IFRS by 2011
UK	IFRS
France	IFRS
Germany	IFRS
Hong Kong	HKFRS (equivalent to IFRS)
Spain	IFRS
Switzerland	IFRS or US GAAP
Australia	AIFRS (equivalent to IFRS)

Other Markets	
Israel	IFRS
India	Planned IFRS adoption in 2011
South Korea	Planned IFRS adoption in 2011 (early adoption permitted in 2009)
Brazil	Planned IFRS adoption in 2010
Mexico	Planned IFRS adoption in 2011 (early adoption permitted in 2008)



Current IFRS Trends in the US

- Potential early adopters – not much incentive in today's economy
 - ✓ Competitive landscape
 - ✓ Anticipated cost savings and other reporting efficiencies
- Large accelerated filers – most in process of some sort of diagnostic
- Skepticism that SEC will "pull the plug" in 2011
- Concern over the immaturity of IFRS and use of judgment
- Best practice – perform assessment of impact on financial statements, key infrastructure considerations and strategic initiatives

Current IFRS Trends in Japan Recent Survey Results among Japanese Public Companies

1. Is your company considering early adoption of IFRS?

1	Already adopted	0%
2	Started transition process	11.10%
3	Considering	55.60%
4	Not considering	22.20%
5	I don't know	11.10%

2. What do you think is the largest benefit of adopting IFRS?

1	Global comparability	77.80%
2	Reality over form	0%
3	Low cost	5.60%
4	Other	11.10%
5	I don't know	5.60%

3. What do you think is the biggest concern of adopting IFRS?

1	Lack of standards / rules	22.20%
2	Lack of knowledge / resource	72.20%
3	High cost	5.60%
4	Other	0%
5	I don't know	0%

4. Do you think there would be an impact on your company's business strategy if IFRS is adopted?

1	Significant	22.20%
2	Large	16.70%
3	Somewhat	44.40%
4	No impact	0%
5	I don't know	16.70%

5. In which area will adoption of IFRS trigger a significant change in your company?

1	Business strategy	0%
2	Operation	61.10%
3	Both	38.90%
4	No impact	0%
5	I don't know	0%

6. Have you already carried out a preliminary impact analysis of an IFRS implementation?

1	Already completed	5.60%
2	Currently performing analysis	22.20%
3	Considering to do so	38.90%
4	Not considering	22.20%
5	I don't know	11.10%

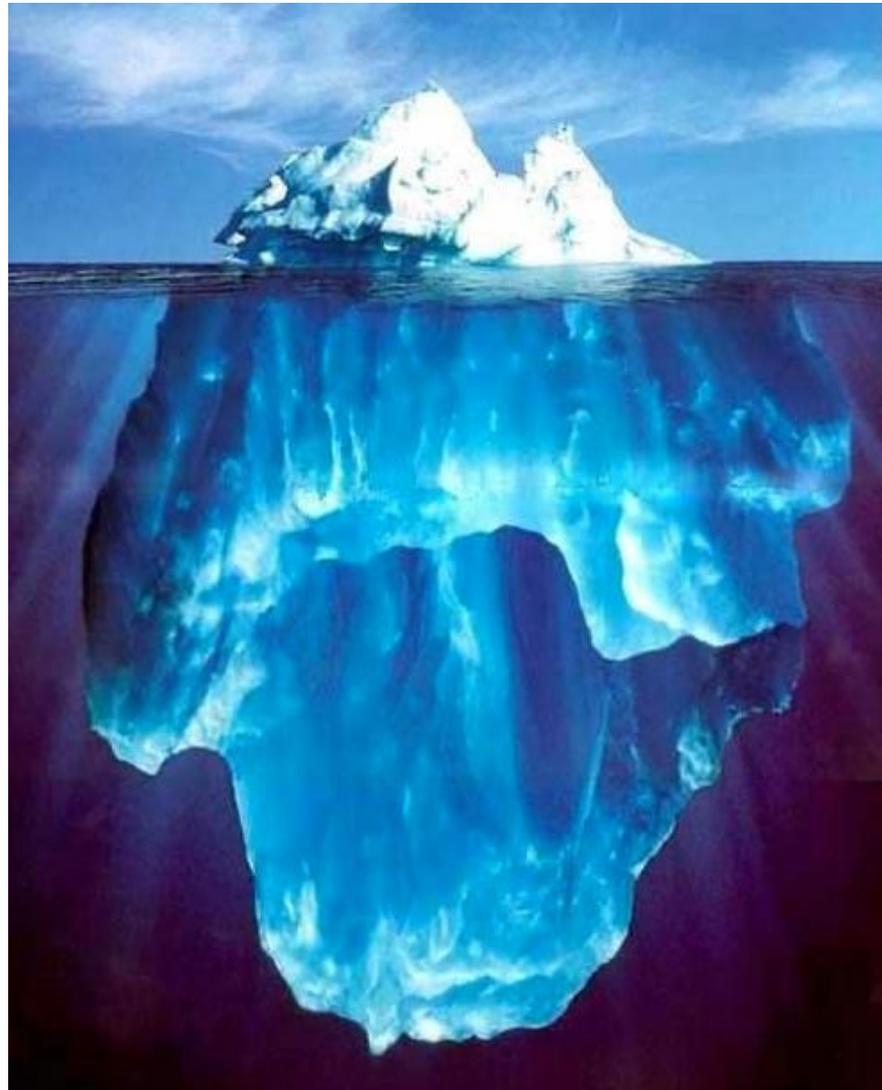


Current IFRS Trends in Canada

- Canadian publicly accountable enterprises (PAEs) are required to adopt IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011
- Companies are well aware of their IFRS requirement date, but still believe they have a lot of time
 - ✓ Some have performed diagnostic
 - ✓ We expect to see more activities after they complete their annual reporting
- Conversion efforts may be easier for Canada because their standards are more principles-based than rules-based
- Likely to be a lot of "last minute" push efforts

IFRS is ...

***... bigger and
more effort
than you think***



IFRS is ...

Principles-based

vs

Rules-based



It's a BIG change

Comparing IFRS and U.S. GAAP

IFRS



US GAAP



Conversion of US GAAP to IFRS

A sample of differences between US GAAP and IFRS

Area	Differences
Segments	Inclusion of intangibles, basis for selection, levels of disclosure
Discontinued Operations	Definition, presentation
Revenue Recognition	Specificity of guidance
Inventory	No LIFO, reversals of write-downs, reserves – no specific guidance
Fixed & LT Assets	Valuation, overhaul costs, leases, sale-leasebacks, investment property, impairment
Research and Development	Certain development costs capitalized
Consolidated	Criteria to consolidate
Debt vs. Equity	Classification of obligations
Income Taxes	Classification of current/deferred, measurement, stock comp impact, intercompany profits, rates, uncertain positions
Disclosures	More detailed disclosure required in several areas, including impairment, business combinations, PP&E, employee benefits, segments

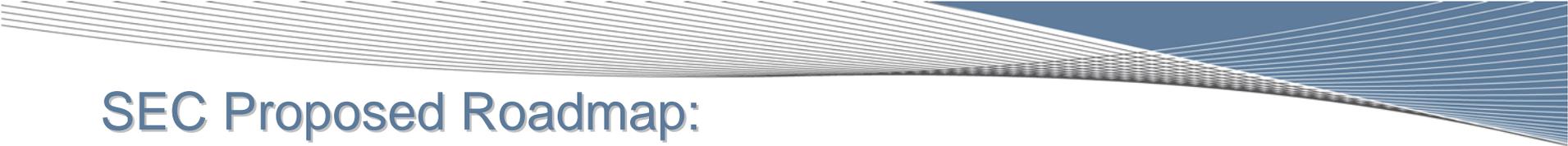
SEC Proposed Roadmap

On November 14, 2008, SEC proposed a roadmap for the potential use of financial statements prepared in accordance with IFRS – as issued by the IASB – by US issues for purposes of their filings with the Commission.

The proposed roadmap was issued in the form of a proposed rule. It is subject to public comment, which should be received on or before April 20, 2009.

Three years of audited annual comparative periods will be required in the year of first-time adoption of IFRS (i.e., IFRS financial statements for the years ending December 31, 2007, 2008, and 2009 in Form 10-K for an early adopter).



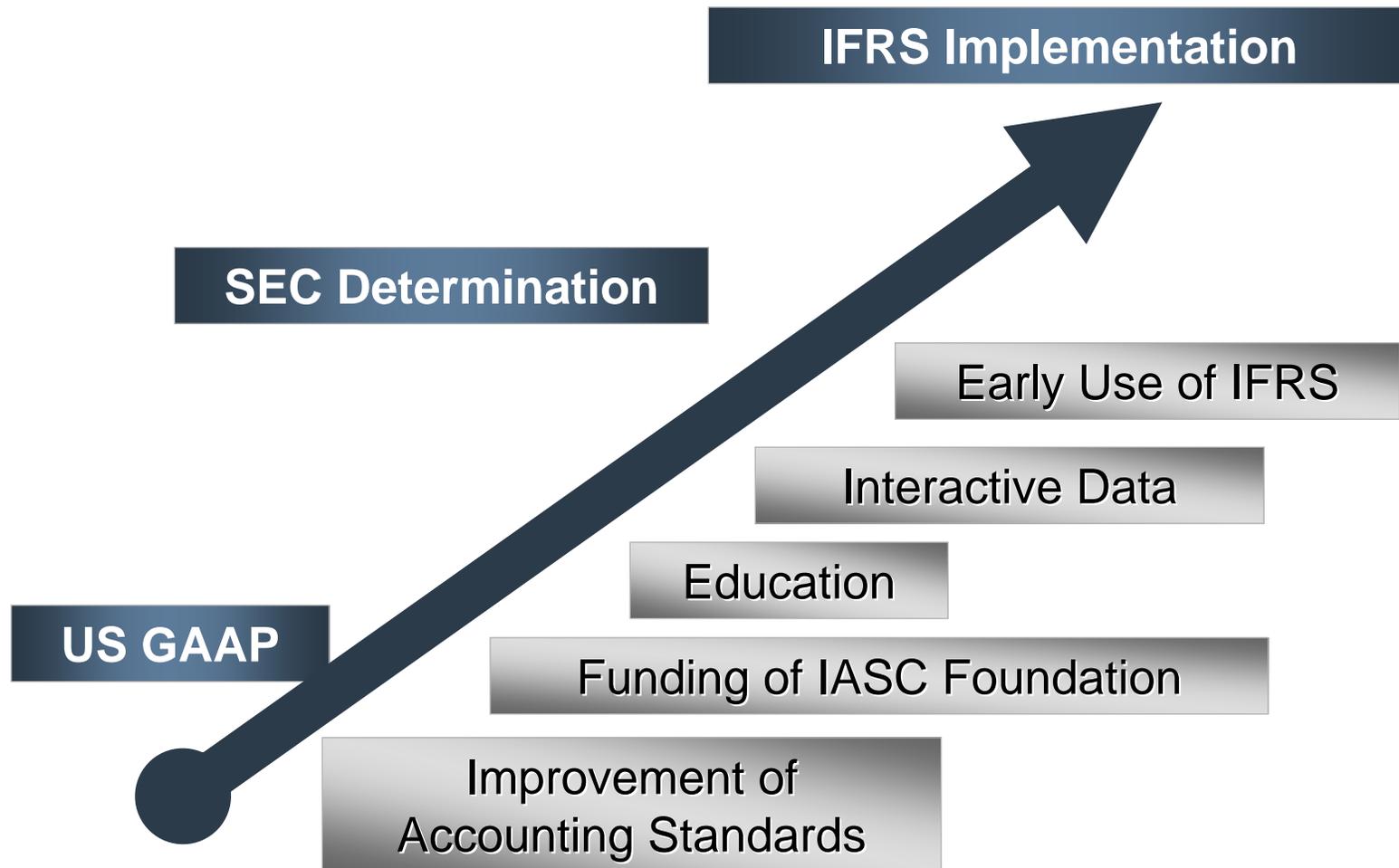


SEC Proposed Roadmap: IFRS Adoption Timeline

Date	SEC Action
2009	Limited group of large companies given the option to use IFRS. SEC estimates 110 US companies will take advantage of the offer.
2011	SEC evaluates the progress and makes a decision about whether to mandate adoption of IFRS.
2014	Large accelerated filers could be required to adopt IFRS.
2015	Accelerated filers could be required to adopt IFRS.
2016	All remaining public companies could be required to adopt IFRS.

Source: *The Securities and Exchange Commission*

SEC Proposed Roadmap: Milestones



SEC's Roadmap

Common Themes from Comment Letters

A total of **240** comment letters were filed and focused on the following themes:

- Effects of IFRS on Reporting

- Pro

- Enable investors to compare companies across national boundaries
- Enhances the efficiency of capital markets worldwide
- Reduces the burden and cost of compliance with multiple reporting frameworks

- Con

- Will not reduce the concern of financial statement “engineering” by management
- Weakens regulation and enforcement of standards
- IASB is not sufficiently mature, independent and self-sustaining

- Cost of Adopting IFRS

- Some believe IFRS will reduce cost due to simplicity of financial statements

- **Most** stated that IFRS will be costly to adopt and maintain and that the costs outweigh the benefits – increased external audit fees, costly systems upgrades or implementations, determination of fair value, etc.

- Due to cost implications, smaller companies will object, similar to SOX 404

SEC's Roadmap

Common Themes from Comment Letters (cont)

- Timing of Implementation
 - A 2011 Decision does not provide companies with sufficient time to adopt IFRS. SEC should pick one date (2016) for ALL companies to adopt IFRS
 - There are too many disincentives for companies to early adopt. Many encouraged the SEC to specifically state that early adopters would not have to “change back” should they not mandate IFRS in 2011.
- Convergence of US GAAP and IFRS
 - Rather than focus on adoption, the SEC should focus on supporting convergence efforts of the FASB and IASB
 - If convergence will achieve the same net result of adoption, why do it?
- Funding and Independence of IASB
 - IFRS cannot be claimed as the global gold standard until the IASB has the credibility, independence and appropriate oversight over the standard setting process that is at least equal to the US
- Education Requirements and Impact
 - The resources and personnel required (systems programming, internal and external audit, reworking of internal controls, regulatory review, etc.) pose a significant hurdle for the adoption of IFRS, particularly in light of current economic conditions.

Transition to IFRS – The Challenges

As you prepare for the conversion to IFRS, you will likely face many challenges. Executives must ask themselves:

- Have we obtained the proper education to understand the principal differences between GAAP and IFRS?
- Do we understand the implications of a change to IFRS on our internal and external financial reports?
- Have we developed a point of view around the perceived benefits and costs of implementing IFRS, if given the choice to adopt it?



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Transition to IFRS – The Challenges

- Have we gauged the extent of the company's readiness for whatever transpires over the 18 to 24 months during an IFRS transition?
- Have we considered:
 - ✓ The impact on key reporting areas?
 - ✓ Changes required in reporting methodologies and systems and data?
 - ✓ The impact on internal management reporting?
 - ✓ The impact on contractual agreements with provisions tied to financial performance?
 - ✓ Changes required in the finance function organization?
 - ✓ Organization of a PMO structure to drive the change process?
 - ✓ Development of an effective communications plan?

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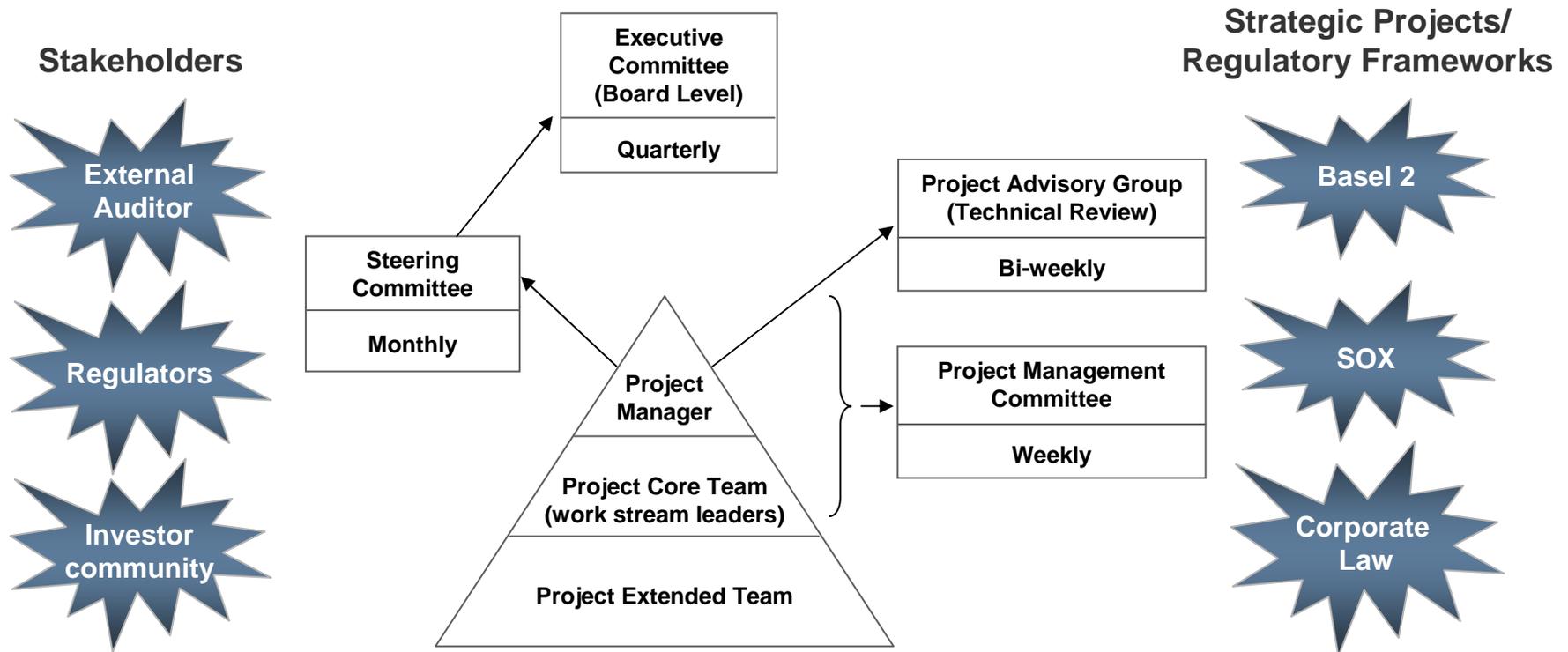
Transition to IFRS – The Challenges

- Have we evaluated the impact of a change to IFRS on people, processes and technology?
- Have we considered:
 - ✓ The change readiness and resiliency of your financial staff?
 - ✓ The impact on internal controls?
 - ✓ The PMO leadership structure that would plan, organize and manage the transition process?
 - ✓ The implications of the transition on:
 - Accounting policies and procedures
 - Documented support
 - Internal management reporting
 - Contractual agreements
 - International location reporting
 - Transition reporting
 - ✓ The systems changes that may be needed to provide the required information and make the calculations necessary to prepare IFRS financial reports?



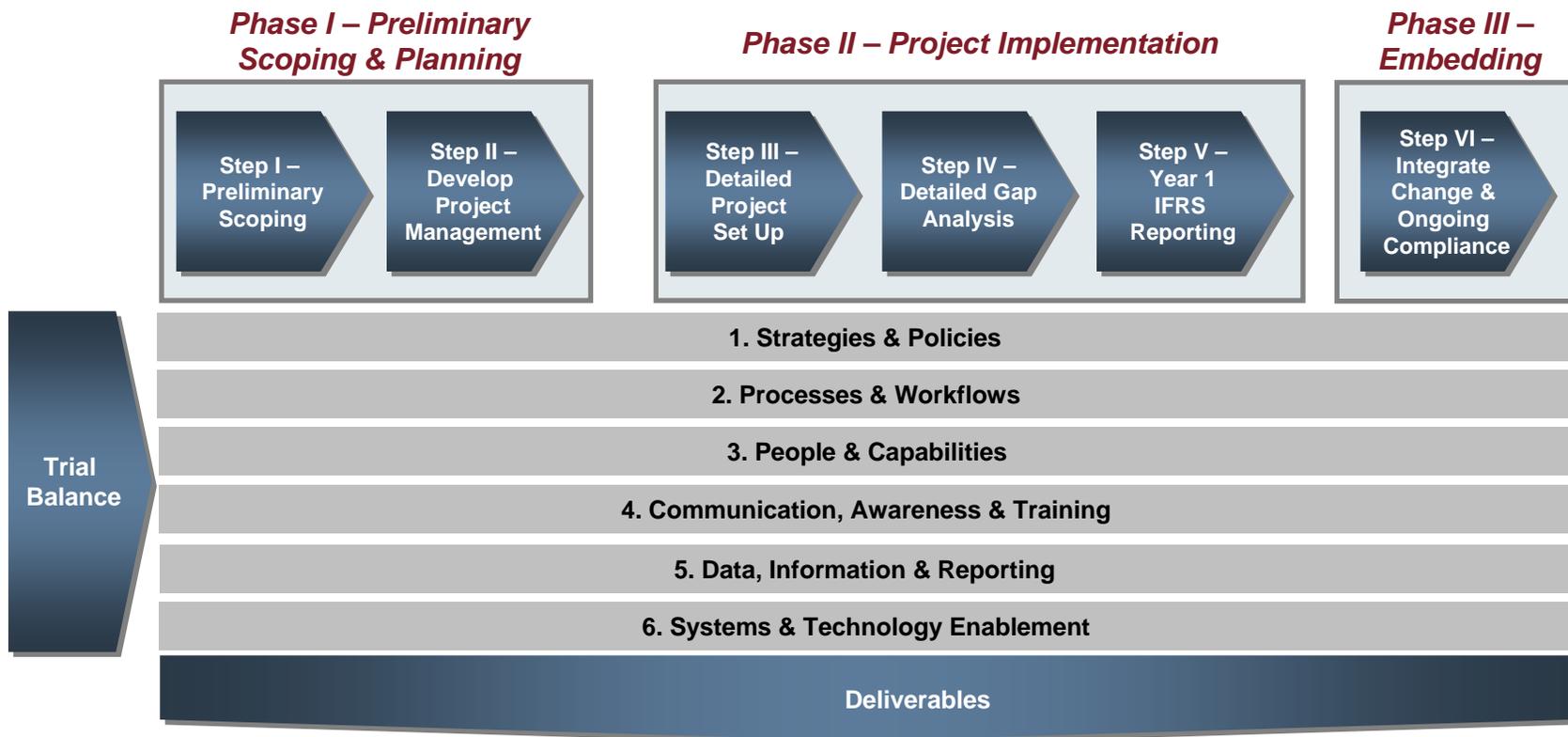
Governance: Relevant Level and Relevant Stakeholders

Considering the impact on the organization, IFRS conversions typically have been treated as strategic projects with a wider impact than just the finance function. This has led to governance structures that are sponsored at top level with many parties involved and links to other strategic projects



Conversion Process

Each conversion project is a change management process that runs through three phases. Each phase can be addressed in a structured way using the Protiviti Six Elements of Infrastructure model:



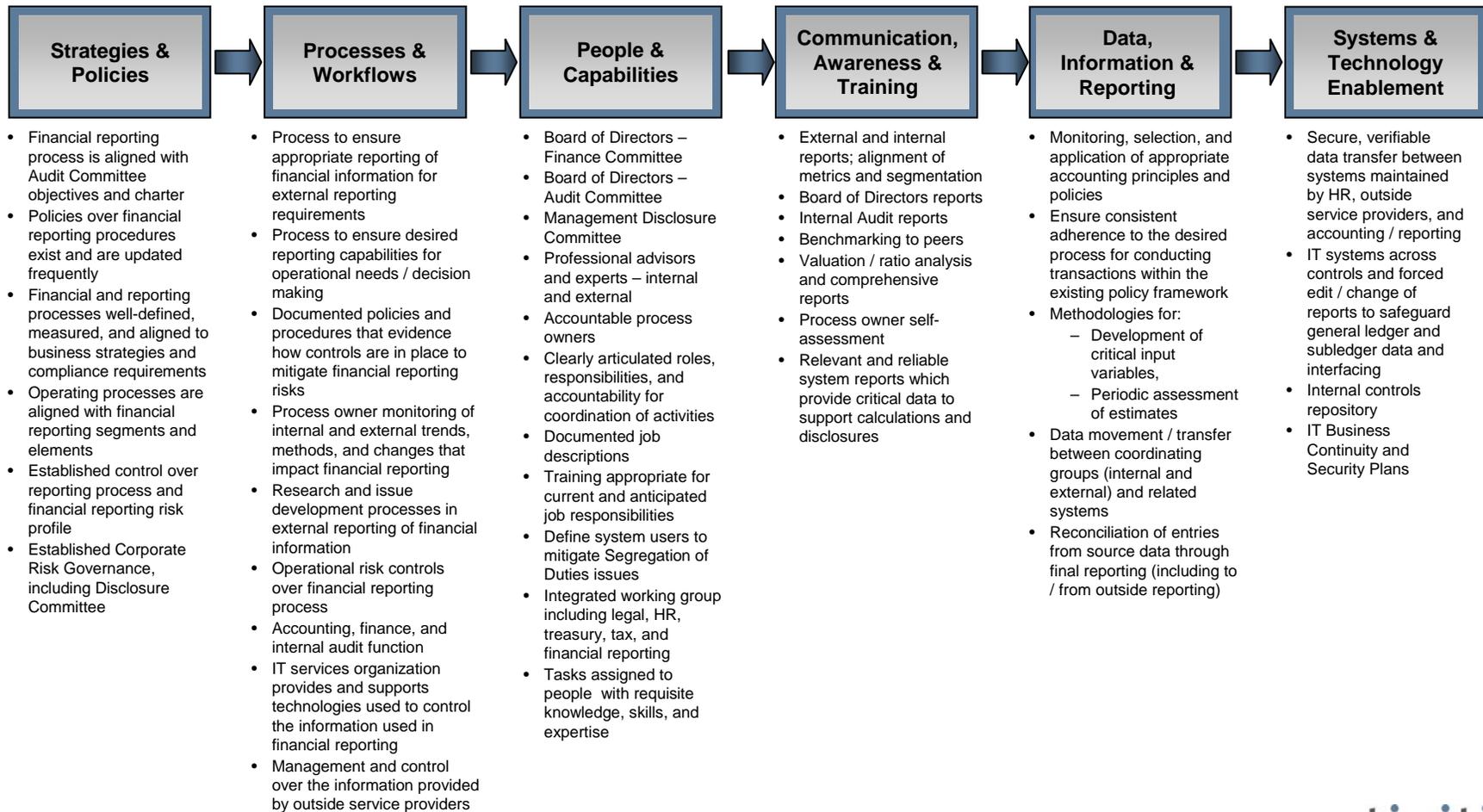
The Role of Internal Audit in IFRS Conversion

- Audit universe = steady state + change initiatives
- IFRS should be part of the audit universe since it is a major project
- IFRS (a new project) will most likely be rated as high risk
- The internal audit plan should be risk-based
- Accordingly, it would be expected that IFRS be part of the internal audit plan
- Internal Audit can play a key role in assessing organizational readiness:
 - ✓ Internal Audit can identify project risks (e.g., operational, financial reporting, resources) in planning stages
 - ✓ Internal Audit can focus on control over changeover process and impact on ICFR and DC&P
 - ✓ Internal Audit can inform the Board & Audit Committee on the status and progress of IFRS readiness and implementation



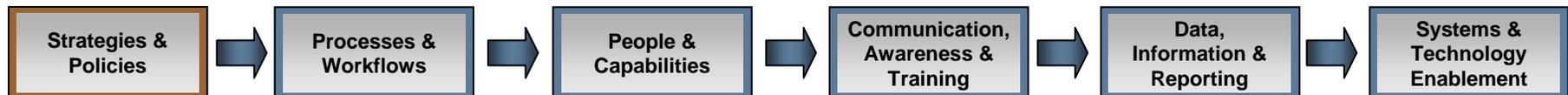
The Six Elements of Infrastructure – Managing Financial Reporting Risk

Protiviti systematically evaluates the critical infrastructure components essential to effective financial reporting. We look to identify opportunities to enhance a company's financial reporting risk management processes by improving aspects of the six elements of infrastructure risk.



Conversion Considerations

Impact of IFRS Conversion on the Six Elements of Infrastructure



Strategies & Policies:

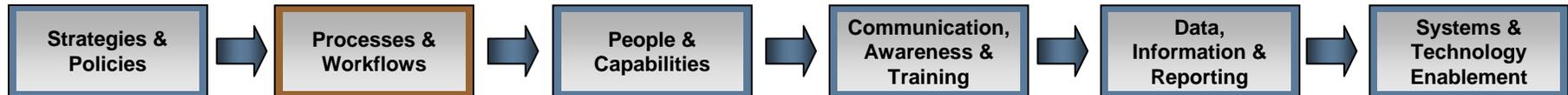
- A critical first step is the determination of accounting policies under IFRS:
 - Understand the new standards
 - Differences between IFRS and current accounting policies will need to be identified ⇒ perform a technical accounting diagnostic
 - IFRS 1 conversion considerations
 - Modeling and pro-forma analysis
 - Decisions and accounting policy determination
- Accounting policies (and other policies) will need to be revised to reflect changes to IFRS
- Consistency of IFRS across all business units in multiple countries is required

Internal Auditors need to acquire and maintain skills in reviewing policies – policies which may have an entirely different "look and feel" under IFRS than they did under US GAAP.

... but conversion impacts more than just accounting policies ...

Conversion Considerations

Impact of IFRS Conversion on the Six Elements of Infrastructure



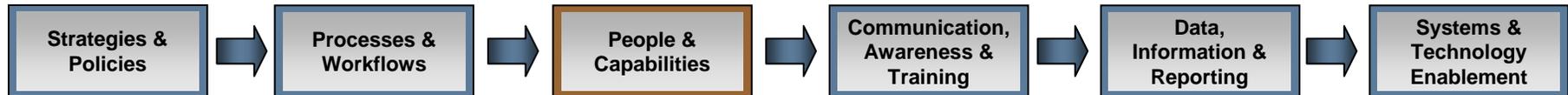
Processes & Workflows:

- Business processes in affected areas will need to be revised to support accounting policies, valuation of assets and liabilities and disclosure / reporting needs under IFRS
- Internal controls will need to be reviewed and redesigned for new processes
- Internal control documentation supporting SOX will need to be reviewed and updated to avoid gaps
- Manage the conversion process and cost ... focus on the change management process, and make changes dynamically

Internal Auditors will need to plan and execute a plan which takes the time and effort for the business units to update documentation into account. Test plans may need to change based on changes to policies and workflows.

Conversion Considerations

Impact of IFRS Conversion on the Six Elements of Infrastructure



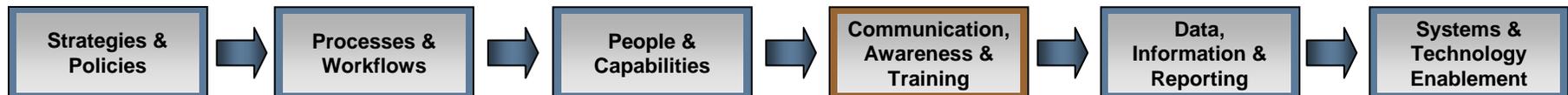
People & Capabilities:

- War for Talent - the company needs to:
 - Hire or retain "qualified" personnel (accounting and IT personnel, consulting and external resources)
 - Appoint a team to champion, handle and manage the conversion
 - Build capabilities, including those outside of the accounting and financial reporting areas
 - Review and update employee performance measures linked to financial reporting

Internal audit groups will need to access or "borrow" people with requisite skills in order to execute their plans.

Conversion Considerations

Impact of IFRS Conversion on the Six Elements of Infrastructure



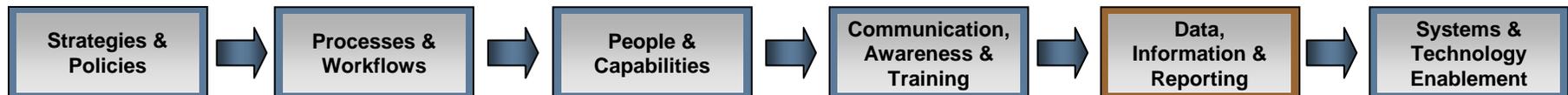
Communication, Awareness & Training:

- Communicate and manage the change internally and externally
- Internal:
 - Education and training, including those outside the accounting and financial reporting areas
 - Prepare senior management and the Board of Directors for the new basis of accounting; educate users on changes to reports and how to understand and interpret information and reports
- External:
 - External communications to manage expectations
 - Prepare external stakeholders and the marketplace (including analysts) for the new basis of accounting and reporting

Internal Auditors will need to plan and execute in a way that enables timely communication of issues with an IFRS conversion for internal and external timelines.

Conversion Considerations

Impact of IFRS Conversion on the Six Elements of Infrastructure



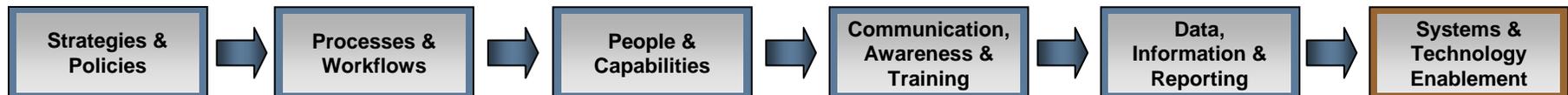
Data, Information & Reporting:

- Identify data sources to meet requirements and accommodate valuations, accounting, reporting and disclosures under IFRS
- Assess impact of IFRS on KPIs and internal management reporting and analysis
- Identify reports (system generated and manually created) which are impacted by the conversion to IFRS and the changes needed to the reports
- Educate users on changes to reports and how to understand and interpret the new presentations

Internal Auditors will need to build plans which respond to changes in the design and testing needs which come from changing sources of data and information flows.

Conversion Considerations

Impact of IFRS Conversion on the Six Elements of Infrastructure



Systems & Technology Enablement:

- Evaluate if current financial reporting and other applications can accommodate valuations, accounting and reporting under IFRS
- Can software applications be converted or will new applications be needed
- Are vendors providing support and upgrades
- What is the cost and timeframe needed to convert software applications
- Will the use of spreadsheets be required and how will they be controlled to ensure the integrity of financial reporting

Internal Audit groups will need to be able to react to changes in the extent to which data passes through systems or human hands, and pay special attention to IT change management protocols in the year(s) of conversion.



Conversion Considerations

Lessons Learned from Europe

- Top level sponsorship is a must
- It is not just finance nor just financial reporting
- Thorough and complete scoping and planning is half the work
- Be prepared for changes along the way
- Be prepared for management decision making along the way
- General GAAP comparison won't do; the devil is in the detail
- Data quality is key
- Documentation discipline is a must have
- Distribute and share knowledge to avoid key man exposure
- Post implementation check and hand-over to the business-as-usual organization is important to secure embedding



Conversion Considerations

IT Governance and Project Management

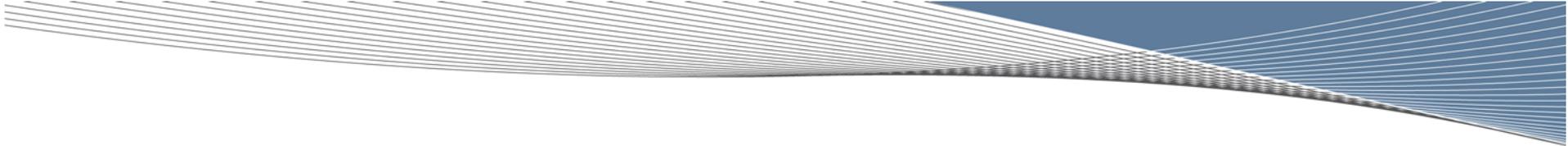
- IFRS effort may compete for scarce IT and accounting resources
- Postpone or accelerate ERP upgrade?
- Treat IFRS like the major enterprise risk management project it is
 - ✓ Significant number of moving parts
 - ✓ Pervasive impact on Six Elements of Infrastructure
 - ✓ Start early is major lesson learned from Y2K and SOX compliance efforts
 - Anticipated 2 - 3 year conversion process for average company
 - Anticipated average cost of \$32 million per company among 110 US early adopters over the first three years
- Major IT projects ought to have strong IT governance oversight and project management, yet IFRS is much bigger than a technical accounting or IT change



Conversion Considerations

SOX and Other Regulatory Impacts of IFRS

- Changes to business process internal controls and processes
 - ✓ Data
 - ✓ Data elements
 - ✓ Configurable controls
 - ✓ Access privileges / segregation of duties
 - ✓ Analytics
- Risk control matrices, narratives, process flows and test scripts will change
- Significant volumes of transactions / changes impacting IT general controls



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