

Industry Viewpoints

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ABOUT THIS DOCUMENT

This CGI Industry Viewpoint provides advice on what IT leaders should do to prepare for the upcoming International Financial Reporting Standards (IFRS) deadline.

This document is a complementary transcript to a podcast on the topic with John Hodges, an executive consultant within CGI's finance practice.

We invite listeners of the podcast and readers of this transcript to contact us at info@cgi.com to discuss how we can help you.

Planning for the International Financial Reporting Standards (IFRS)

The use of IFRS will be required in 2011 for Canada's publicly listed companies. To get us started, can you provide a brief explanation of what these standards entail?

The change from the Canadian GAAPs to the IFRS standards entails the review of many accounting processes related to subjects such as:

- The valuation of assets, their amortization and impairment;
- The valuation of financial instruments;
- The recognition of revenues;
- The remuneration of executives and staff; and, of course;
- The reporting of financial results.

The degree to which the standards will affect an organization's processes will depend upon its size and the industry in which it operates.

This is why Canada has elected to implement a one year dual reporting of the Canadian GAAPs versus the IFRS standards prior to the final, single IFRS standards disclosure of financial statements. This dual reporting provides a side-by-side comparison for the results of both standards. As a result, organizations will be able to appreciate the financial impacts of the new accounting standards.

Other impacts of the implementation of the new IFRS standards will come from the necessity to gather new data and to modify IT systems.

In addition to the Canada deadline—and in thinking of the other geographies in which CGI operates—all listed EU companies have been required to use IFRS since 2005; and the U.S. Securities and Exchange Commission has proposed a timetable that would potentially require companies to report under IFRS by 2014. Can you summarize the outcomes that these standards have provided for European companies and will achieve for North American ones?

As we have seen recently in the financial markets, the globalization of trade between enterprises and investors needed to find a common base to evaluate the financial statements of corporations. Indeed, rules and standards were, and some are still, different from one country to another.

Before the IFRS implementation, the treatment of some accounting transactions such as the amortization or the recognition of revenue was so different that it was difficult to properly assess a corporation since they were not using the same basis to evaluate their financial elements. It was like comparing apples and oranges.

With the standardization of accounting treatments, it will now be easier to compare the financial reports of various enterprises operating within the same industry or different countries.

Let's talk about how the IFRS affects IT departments. Why should the planning take place now and what sort of technology planning is required?

IFRS affects many parts of a company's daily operations, and technology is what powers these operations. Advanced planning and testing is required. The timetable for publicly traded Canadian companies has already begun. The first milestone is scheduled to take effect in the organizations' fiscal 2010 when the dual reporting showing the Canadian GAPPS and the IFRS standards will have to be disclosed.

Certain decisions need to be taken prior to the dual reporting. Take, for example, the treatment of accounting activities. One standard concerns the status of investment instruments on the books of enterprises whose year ends December 31, 2009, which must be defined and applied by January 1, 2010.

The decisions of how enterprise accounting transactions will be treated have an impact on technology planning. For instance, depending on the number of changes required, what type of ERP system, if any, an organization has, and the number of subsidiaries that must be assessed and consolidated, the treatments may impact several IT systems.

To mitigate possible delays, it is a good practice to take the following actions early in the process:

- Assign an IT lead to develop an IT project roadmap,
- Assess the gaps between the current systems and the new system functionalities needed to support the accounting changes,
- Scope the efforts and timelines required to upgrade the IT systems,
- Find a solution to perform the dual reporting to meet the 2010 deadline,
- Ensure the systems are modified and tested to support the new calculations for valuation purposes, and, finally,
- Document the changes to the IT processes and internal controls.

It's also important to note that IFRS doesn't affect IT only. As with all IT initiatives, [IFRS compliance] also requires efforts related to managing people and business processes.

For example, management reports and key indicators of business performance may need to be adjusted and contracts, risk management and Treasury procedures may need to be amended and, as such, be communicated to clients and employees. Processes and internal controls may need to be amended; for instance, IFRS changes also need to be reflected in the SOX, 198 and Basel II documentation and related disclosures.

Finally, training—onsite or e-learning—is required to familiarize employees across the enterprise about the new procedures.

TECHNOLOGY ACTIONS

From an IT perspective, to mitigate possible delays in complying with the Canadian IFRS deadlines, it is good practice to take the following actions early in the process:

- Assign an IT lead to develop an IT project roadmap
- Assess the gaps between the current systems and the new system functionalities needed to support the accounting changes
- Scope the efforts and timelines required to upgrade the IT systems
- Find a solution to perform the dual reporting to meet the 2010 deadline
- Ensure the systems are modified and tested to support the new calculations for valuation purposes
- Document the changes to the IT processes and internal controls

And, of course, we have this unique situation where we can learn from what has happened in Europe. The experience in the European Union demonstrated that IFRS projects need to be managed as an enterprise project.

[We learned] that most enterprises underestimate the efforts required in IT modifications and data searches and that an early start provides sufficient time to find efficient technical solutions.

And probably one of the most important lessons [learned] was that the use of spreadsheets for work-around and consolidation is cumbersome. This approach proved hard to replace after they had been implemented, adding up to 25% in costs to the process in delays and reconciliation on a medium term.

Can you share examples of how we've helped clients in this area?

CGI assists companies in aligning financial processes with their technology solutions, providing the bridge between the IFRS financial requirements and the IT solution.

For example, we are providing IT project management and IT advisory services to the transportation, aerospace, telecom and energy sectors. We also have business analysts and architects working around the financial services and communications sectors.

To help our clients prepare for IFRS, we have a transition methodology that includes business and IT process review and documentation as well as project and organizational change management services.

COMPANY PROFILE

At CGI, we're in the business of satisfying clients. For 30 years, we've operated upon the principles of sharing in our clients' challenges and delivering quality services to address them. As a leading IT and business process services provider, CGI has approximately 25,500 professionals operating in 100+ offices worldwide, giving us the competitive advantage of close proximity to our clients.

Through these offices, CGI offers local partnerships and a balanced blend of global delivery options—including onshore, nearshore and offshore expertise—to ensure clients receive the combination of value and expertise they require.

CGI defines success by exceeding expectations and helping clients achieve superior performance.