IFRS: Challenges in Implementation and European Experiences in Overcoming Them
### IFRS reporting requirements in Poland from 2005

#### Can report
- Consolidated and separate financial statements if the entity is a subsidiary (direct or indirect) of a parent preparing its consolidated financial statements in accordance with IFRS as adopted by the European Union (“IFRS EU”).
- A branch of a foreign enterprise preparing its financial statements in accordance with IFRS EU.
- Consolidated and separate financial statements of entities intending to or being in the process of admitting their securities to trading on one of the regulated markets of the European Economic Area.

#### Must report
- Consolidated financial statements of banks and listed companies have to be prepared in accordance with IFRS EU.
As at 30 November 2009 based on Committee of Accounting Standards report from April 2010

• 275 of companies listed on WSE i.e. 82% of separate FS prepared in accordance with IFRS

• As at 5 January 2010 based on Polish Statistical Office – 1198 of all entities obliged to prepare financial statements, prepared their financial statements in accordance with IFRS (i.e. 2.25%)
Conversion Impact

**Accounting, Tax & Reporting**
- Accounting differences
- Reporting differences
- Tax differences
- Effect on statutory reporting
- Effect on regulatory reporting

**Systems & Processes**
- General ledger and subledgers
- Data collection
- Reporting package and consolidation

**Business**
- Contracts and Agreements
- Management compensation
- Communication to financial markets
- Customer and supplier relationships
- Budget and management reporting

**People & Change**
- Skills of individuals
- Training strategy
- Change to roles and responsibilities
- Additional workload during conversion
- Project interdependencies
Accounting, Tax & Reporting – challenges and response

Accounting and Reporting is the backbone of an IFRS conversion

- Identify differences between local GAAP and IFRS
- Identify disclosure requirements under IFRS
- Assess and plan for impact on any local tax and regulatory reporting
- Develop new accounting policies under IFRS
- Prepare IFRS compliant financial statements
Accounting differences and disclosures

Identify differences between local GAAP and IFRS

Identify disclosure requirements under IFRS

Differences between local GAAP and IFRS and disclosure requirements:

• Currently existing and potential differences:
  o Share based payments
  o IBNR
  o Amortised cost/EIR

• Disclosures:
  o IFRS 7 Financial Instruments: Disclosures
  o IFRS 8 Operating Segments

RESPONSE

✓ experienced consultants
✓ training
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Accounting vs. other law

Assess and plan for impact on any local tax and regulatory reporting

Substantial inconsistencies between accounting and other law:

- Tax law
- Polish Commercial Code
- Regulatory requirements

**RESPONSE**

- Assessment of impact on regulatory requirements and development and implementation of systems and process in order to meet multiple statutory requirements.
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- Prepare IFRS compliant financial statements
Accounting policies and financial statements

Develop new accounting policies under IFRS

Prepare IFRS compliant financial statements

Develop new accounting policies:
• Uniform within the group
• Comparable across sectors

Prepare first IFRS compliant financial statements

RESPONSE

✓ Commitment of accounting department resources
✓ KPMG tools – IFRS Illustrative Financial Statements, IFRS Disclosure checklist
✓ Implementation of new or enhanced IT tools and applications
In many conversions, Systems and Processes account for **more than 50% of the effort** of converting to IFRS.

- Identify information and data „gaps” for conversion
- Evaluate and revise policies and reporting procedures for IFRS
- Evaluate changes needed to internal controls over financial reporting
- Transition plan

**RESPONSE**

- Providing appropriate information
- Circulation of documents
- Changes of process of preparing financial statements
Numerous contracts and agreements are impacted by an IFRS conversion.

- Develop communication plans and minimize surprises for all stakeholders
- Reassess internal management reporting and business measurement metrics
- Evaluate impact on management compensation metrics
- Modify third-party contracts to coincide with new reporting metrics

**RESPONSE**

- Regular meetings and communication
- Reconsider the accounting impact
- Examples from other countries
Numerous employees affected by the conversion to IFRS

Develop and execute training plans for employees across functions and locations

Revise performance evaluations targets and measures and communicate to affected personnel

Consider need for change of management’s mindset

Assign dedicated project management team

RESPONSE

✓ Getting knowledge
✓ Learning new framework
✓ Training
✓ Experienced consultants
✓ Interdisciplinary teams
Future challenges

... a conversion does not end with the publishing of the first set of IFRS financial statements...

Future pronouncements:

- IFRS 9 Financial Instruments
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- Impairment of financial assets (Q3 2011)
- Leases (Q4 2011)
- Revenue recognition (Q4 2011)
Greater Transparency

**Improved Comparability** – across sectors, countries in region and companies. An entity can present its financial statements on the same basis as its foreign competitors, making comparisons easier.

**Access to capital markets** – better opportunities to raise capital abroad and faster IPO process, eliminates barriers to cross-border listings, mergers & acquisitions and investments.

**Level of confidence** – common accounting system, better relationship with investors and stakeholders, an accounting framework that addresses changing commercial practice and global markets as well as investors needs (IAS 24, IFRS 7, IAS 32).
Integration of IFRS and internal reporting - internal reporting used as a basis for reporting under IFRS (IFRS 8)

Cost efficiency – One accounting language group-wide – no need for reconciliation and restatement for consolidation purposes, streamlined reporting

Change of management’s focus – as IFRSs are focused on risk and uncertainty – preparation of IFRS financial statements should have a positive impact on proactive risk management and focus on maximising shareholder value
Thank you

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