

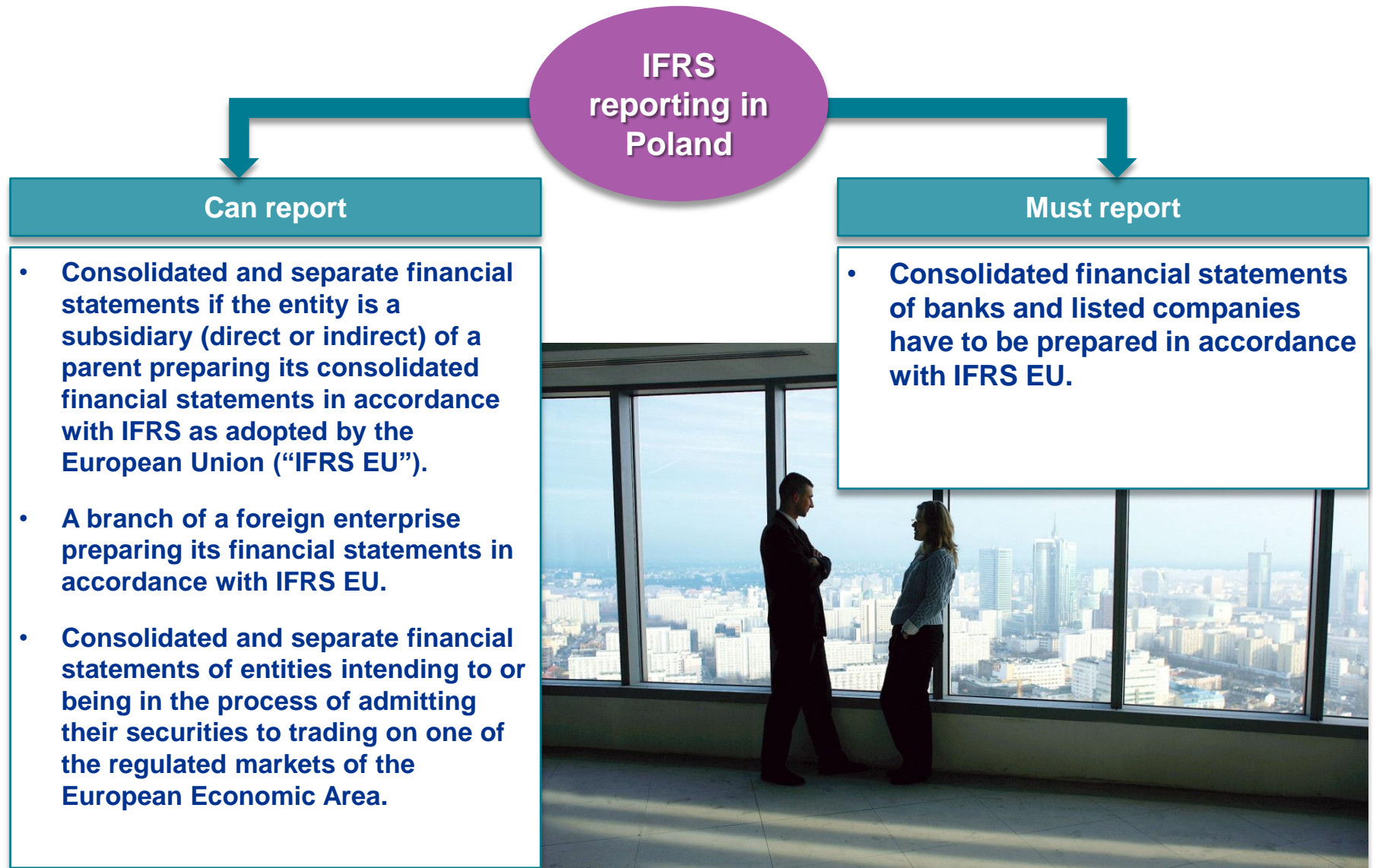


cutting through complexity™

IFRS: Challenges in Implementation and European Experiences in Overcoming Them



IFRS reporting requirements in Poland from 2005



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 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:**
 - Share based payments
 - IBNR
 - Amortised cost/EIR
- **Disclosures:**
 - IFRS 7 *Financial Instruments: Disclosures*
 - IFRS 8 *Operating Segments*

RESPONSE

- ✓ **experienced consultants**
- ✓ **training**

Accounting, Tax & Reporting – challenges and response

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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.**

Accounting, Tax & Reporting – challenges and response

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Develop new accounting policies under IFRS

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**

Systems & Processes– challenges and response

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**



Business– challenges and response

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**



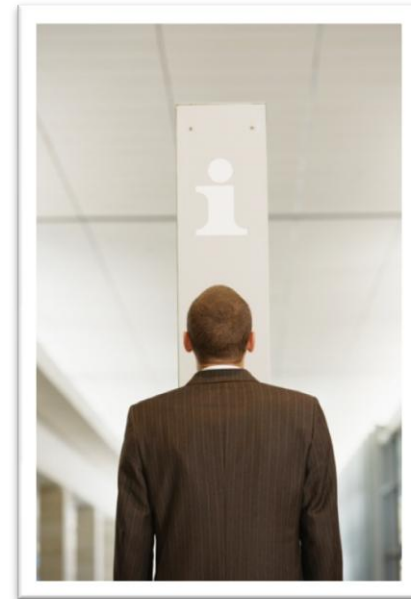
People & change- challenges and response



... 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

Stacy Ligas

Partner, Financial Services Audit

Telephone: 22 528 11 00

Email: stacyligas@kpmg.pl