

# An IFRS Fable: The Company That Waited Too Long



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## Chapter 1: January 2010

At Wait-and-See, Inc., Joe and Maria worked together as CFO and CIO. They each knew something about International Financial Reporting Standards (IFRS), but they didn't want to take any action until the US Securities and Exchange Commission (SEC) decided on a firm transition date. Joe jokingly called IFRS "Increasingly Fuzzy Regulatory Standards." Maria called it "I Forgot Reporting Standards."

"There's no reason for us to transition to IFRS right away," they told the CEO. "The SEC hasn't even set a deadline yet!"

Meanwhile, the executives over at Perceptive, Inc., were already planning their IFRS transition. They recognized the project as an opportunity to make their company more globally competitive by streamlining their closing cycles and improving their overall business processes, while gaining better access to foreign capital markets and lowering costs.

Many US companies find themselves acting like Wait-and-See, Inc. They interpret the switch from US Generally Accepted Accounting Principles (GAAP) to IFRS as a matter of compliance rather than an opportunity to become more globally competitive by improving key internal processes. Even with over 100 countries already using IFRS, US companies seem to be waiting for the government to declare a definitive final date for their mandate of IFRS reporting before they even approach the transition.

Transitioning to IFRS offers many benefits beyond compliance. Companies completing the transition have reported greater efficiencies in their financial processes, greater profitability under IFRS reporting rules, easier access to foreign capital markets, and improved empirical analysis capabilities resulting from consolidating multiple global divisions on one reporting standard.

Of course, compliance is still important. While the SEC has not set a firm deadline for the IFRS transition, it is clear that the rest of the world has already moved in that direction. The best-run businesses of the future will report under IFRS, so it is crucial for SAP customers to transition soon – and on their own timetable.

## Chapter 2: January 2011

"I heard that Perceptive, Inc., is already starting to configure its landscape for IFRS," said Maria to Joe. "Why are they doing that so soon?"

"I don't know," said Joe. "Let's wait and see what happens!"

Even before completing the transition to IFRS, Perceptive was already enjoying the benefits of the transition. Perceptive began with a project to improve its financial consolidation processes. During that project, the company discovered that its consolidation activities were bogged down with inefficient manual processes. By re-engineering these processes with the help of top-tier financial consolidation and reporting products, Perceptive was able

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*Chapter 2, continued*

to reduce its quarterly close process by 15 days and also improve the close process at the local level. Perceptive then devoted all their saved time to value-added activities like improving business performance and planning their IFRS transition.

Meanwhile, at Wait-and-See, Inc., Joe and Maria were still procrastinating. They worried that they would have to upgrade to the latest version of their ERP system, or that the transition would upend their entire financial system, or that the process would be long and labor-intensive.

“We have so many concerns!” they cried.

It’s typical for companies to harbor concerns about the IFRS transition. But if you plan correctly and take advantage of the tools, products, and advice at your disposal, the transition can be a smooth one. When you transition in a proactive, planned manner, it will be less expensive, and you’ll have a much better system landscape – now and in the future. In turn, you’ll be able to further optimize your business processes, save costs, and increase finance’s strategic role within the business.

SAP helps its customers by leveraging its experience with the IFRS transition in Europe and building that knowledge into its consolidation and reporting applications through starter kits. For example, both SAP BusinessObjects Planning and Consolidation and SAP BusinessObjects Financial Consolidation include preconfigured content and best practices for the transition, as well as support for other key compliance processes like eXtensible Business Reporting Language (XBRL) and internal controls.

These and other solutions can be combined with SAP service offerings to allow your company to implement an IFRS transition in stages – without upending your financial systems in a massive multi-year project.

The transition to IFRS can also be completed without upgrading your SAP technology. You may consider upgrading as part of a larger business process transformation project, but SAP software is already capable of supporting IFRS compliance. For example, the classic SAP General Ledger allows you to achieve dual reporting by appropriately setting up your chart of accounts. And for customers wanting true parallel ledger capabilities, the SAP General Ledger within SAP Business Suite allows you to produce parallel reports under both US GAAP and IFRS during the transition.

*Chapter 3: January 2013*

One day, Joe and Maria read that their rivals at Perceptive, Inc., had greatly improved their business by completing the IFRS transition. Perceptive had standardized its internal reporting processes, automated hundreds of consolidation entries, reduced consolidation errors, and lowered its cost of compliance. Perceptive was also raising money in overseas markets — something Wait-and-See, Inc., was unable to do because it did not conform to IFRS.

Finally, the CEO of Wait-and-See insisted that Joe and Maria get to work on the transition to IFRS. “OK, boss!” they said.

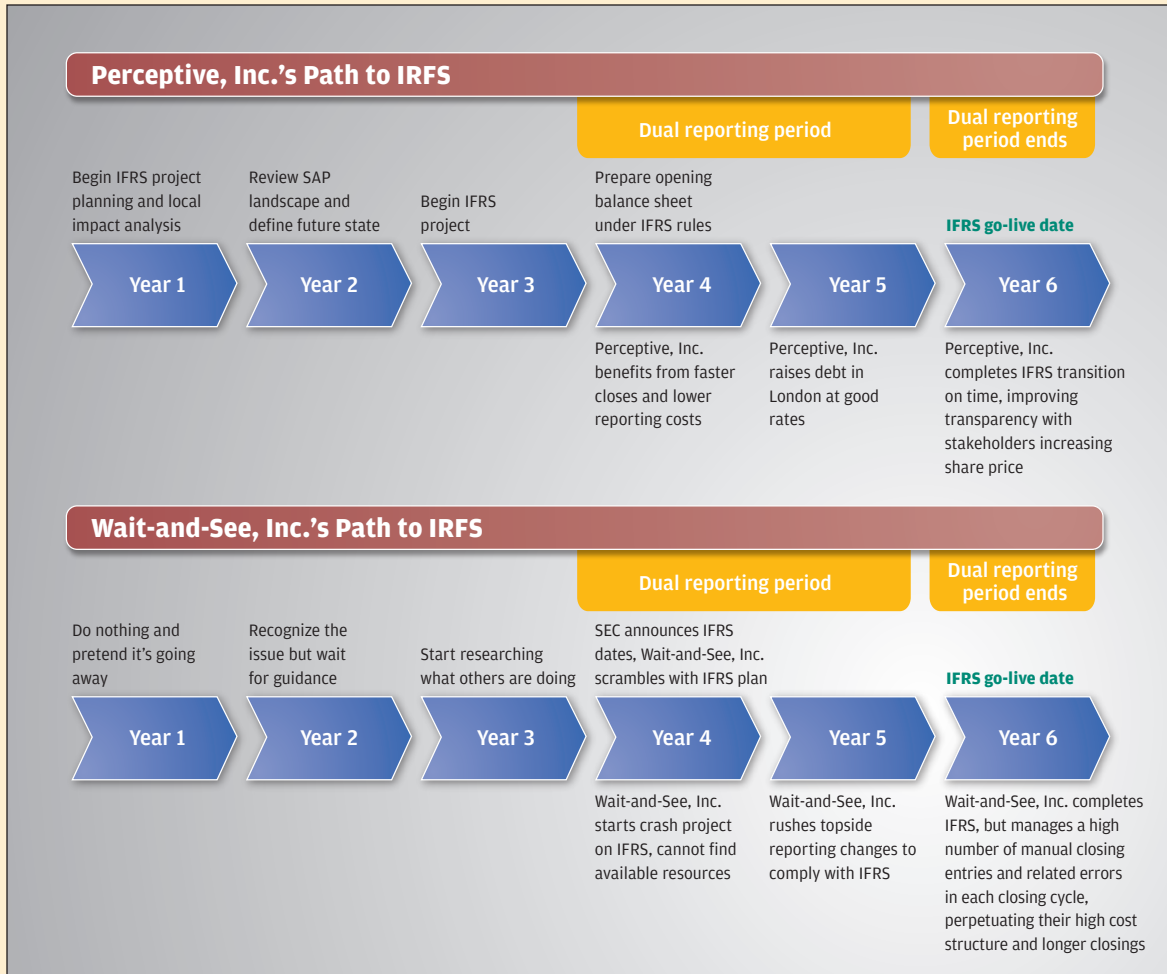
But Wait-and-See had waited too long. With a deadline for transition looming, the Wait-and-See team was forced to rush into its IFRS project with too few resources and too little planning. They spent long nights in the office and made many mistakes along the way. Every month, they ran into last-minute emergencies that delayed their close processes.

“I wish we had started earlier,” Joe and Maria said. “We’d be in much better shape!”

There is no one-size-fits-all approach to the IFRS transition – everyone’s journey will be unique. For companies in the US, that journey will likely be one of convergence, in which they commit to a parallel reporting scheme that meets the requirements of US GAAP and IFRS simultaneously until IFRS becomes the legal requirement.

To reach your IFRS goals, you will need an experienced partner to guide you through an end-to-end transition. As the leading provider of business software globally, SAP has already helped more than 5,000 customers worldwide with IFRS. We are uniquely positioned to offer the right technology, people, and process solutions for your transition.

In the meantime, you’ve got to get started on your own. Your first steps should be to carefully assess your situation, do some advanced planning, and assemble cross-functional teams from accounting, IT, and your auditing partner. You will need to understand the impact that IFRS reporting will likely have on your organization, your financial reporting procedures, and your staff. With the right planning and the right people, you will be able to choose a path that fits your needs – and the process will be straightforward. It may seem like a fairytale ending, but it’s all within reach. For more information, visit [www.sdn.sap.com/irj/bpx/ifrs](http://www.sdn.sap.com/irj/bpx/ifrs). ■



**FIGURE 1** ◀ The tale of two approaches to the IFRS transition: Project timelines for Perceptive, Inc., and Wait-and-See, Inc.