Managing the Transition to International Financial Reporting Standards

An Oracle White Paper
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EXECUTIVE OVERVIEW

The world's capital markets ebb and flow continuously, and participants in that marketplace must have access to financial information that faithfully reflects their economic performance.

This white paper identifies the many challenges companies face when implementing International Financial Reporting Standards (IFRS) in corporate reporting. It also explores how Oracle's IFRS-enabled enterprise performance management system can ease this transition. The Oracle solution provides the high level of analysis and transparency that companies need in today's demanding and uncertain global financial reporting environment.

INTRODUCTION

Since the early 1970s, the International Accounting Standards Board (IASB) and its predecessor, the International Accounting Standards Committee, have worked to develop a single set of international standards, the IFRS. The world's capital markets ebb and flow continuously, and participants in that marketplace must have access to financial information that faithfully reflects their economic performance, is consistent among companies around the globe, and is governed by a trusted and respected authority of corporate compliance.

This massive international endeavor is one of unprecedented scale and complexity—one that is now bearing fruit, despite some minor setbacks. These setbacks have included, for example, the well-publicized amendments to International Accounting Standards (IAS) 39: Financial Instruments: Recognition and Measurement. Nevertheless, IFRS have gained acceptance and traction in all major regions of the world.

Europe

The most-notable progress has been in Europe. In June 2000, the European Commission published the document, *EU Financial Reporting Strategy: The Way Forward,* which proposed that all publicly listed companies prepare their consolidated accounts in accordance with IAS by 2005. Remarkably, given the scale of the undertaking, more than 9,000 listed companies are now using IFRS when generating their consolidated financial statements.

In addition, member states of the European Union (EU) allow companies to use IFRS for corporate income tax statements. Today, most EU countries require companies to generate reports that are in compliance with local Generally Accepted

Accounting Principles (GAAP) for tax purposes, but those reports don't have to be in compliance with IFRS. In practice, companies may be implementing IFRS anyway, as local GAAP guidelines increasingly converge with IFRS.

United States

Following Europe's success in implementing IFRS, there is renewed focus in the U.S. to merge U.S. and international accounting standards. Presently, there are approximately 11,000 companies whose securities are registered with the U.S. Securities and Exchange Commission (SEC), of which about 1,100 are non-U.S. companies. Since 2005, non-U.S. companies have been allowed to submit their financial statements to the U.S. SEC in compliance with either U.S. GAAP or IFRS, as long as they reconcile discrepancies in the results between the two. But in November 2007, the U.S. SEC voted to drop the reconciliation requirement for financial statements for the year 2007. This represents a major step forward in a long process as U.S. GAAP and IFRS converge. IASB Chair Sir David Tweedie has said that the two sets of standards could be completely merged by 2012. According to SEC Chair Christopher Cox, "The SEC's decision could put a shine on the image of the United States in the global capital markets system, improve capital-raising opportunities for companies, and provide better comparability of financial statements for investors."

The shift from the rules-based U.S. GAAP to the principles-based IFRS will improve transparency rather than simply enforce compliance.

The shift from the rules-based U.S. GAAP to the principles-based IFRS is intended to improve transparency rather than simply enforce compliance, as it allows for some judgment by implementers. However, there are many challenges ahead for the Financial Accounting Standards Board (FASB) and for the finance executives of U.S. public companies who will be making the transition. For example, fair value accounting, a key practice in IFRS, should be familiar to U.S. finance executives because current FASB accounting rules require fair value accounting for such items as derivatives, securitizations, intangibles, and employee stock option grants. However, assessing the value of other assets and liabilities in the absence of active markets could be very subjective, which could make financial statements less reliable. Nevertheless, the FASB is moving forward to enforce fair value accounting in specific areas—pension and lease accounting proposals are currently up for discussion. IFRS even eliminate long-standing practices, such as "last-in-first-out" accounting for inventory valuation, which will be replaced with the newer "first-in-first-out" method.

Canada

In 2005, the Canadian Accounting Standards Board announced a directional change, favoring the use of IFRS over the use of U.S. GAAP. In 2007, the board established a fixed deadline of 2011 for Canadian companies to adopt IFRS for financial reporting. For publicly listed companies, IFRS will be required for interim and annual financial statements relating to the fiscal years beginning January 1, 2011. Canadian private companies and nonprofit organizations are not required to use IFRS, but are permitted to adopt IFRS after 2011.

> **"A significant challenge lies ahead but it will be made far more manageable if business leaders prepare early."**
>
> **—Paul Cherry, chair**
> **Canadian Accounting Standards Board**

"With the date firmly established, enterprises can plan for the changeover with certainty about the timetable," said Paul Cherry, chair of the board. "A significant challenge lies ahead but it will be made far more manageable if business leaders prepare early."

Canadian companies will have to provide comparative data based on IFRS for the previous fiscal year. That is, enterprises must start using IFRS by 2010, and should begin preparing for the transition in 2008 and 2009.

The World

Regulating bodies in countries as diverse as Armenia, Costa Rica, Kuwait, Peru, Australia, and South Africa require reporting from all publicly listed companies to be based on IFRS. In addition, the International Organization of Securities Commissions has recommended that the world's regulators permit companies to prepare financial statements based on IFRS for cross-border offerings and listings. The IASB has also begun a project to merge the Japanese GAAP with IFRS.

CHALLENGES OF IMPLEMENTING INTERNATIONAL FINANCIAL REPORTING STANDARDS

Financial reporting systems have to be nimble and amenable to change so that finance professionals can respond to investor and analyst inquiries with confidence. Most companies are able to adopt a new accounting standard, but a truly successful transition depends on a company's ability to provide full audit trails, variance analyses, and reconciliations of prior standards to satisfy internal and external inquiries.

Evolving International Standards

Despite the adoption of IFRS internationally, the world's biggest companies on the Forbes Global 2000 list have not yet reached true standardization and comparability. International accounting standards have simplified the compliance landscape in Europe, but in many countries exceptions and rules modify these standards. In large measure, regulators and accounting bodies worldwide let individual companies measure their business performance against constantly shifting accounting benchmarks. Therefore, it is likely that the reporting environment will continue to change as the market and investors react to changes in how financial results are delivered, and as best practices emerge.

Similarly, international standards will change as governing bodies amend policy, set new standards, and adjust regulation processes—and as the accounting profession grapples with an evolving collective understanding of IFRS in practice. In addition, the International Financial Reporting Interpretations Committee is providing guidance on financial reporting issues not specifically addressed in IFRS, so it will influence how IFRS are implemented.

New Standards Introduce Discrepancies

Although governments, regulators, and representatives of the accounting profession have given the corporate world significant advance notice that these new standards must be implemented, IFRS have nevertheless created surprising challenges for those who prepare and require financial statements. Executives at large corporations are concerned with learning how the new accounting rules will affect their companies' reported earnings, tax liabilities, and the shape of the balance sheet.

Discrepancies can occur between reports based on IFRS and those based on local GAAP simply because of a change in accounting policy or in the method of measurement.

Discrepancies can occur between reports based on IFRS and those based on local GAAP simply due to a change in accounting policy or in the method of measurement. Companies have sought to manage this so-called volatility in order to distinguish real changes in performance from discrepancies that arise because new accounting rules were applied. The implementation of IFRS can significantly improve or worsen reported results, depending on the number of individual reporting changes required by each new standard. In addition, the impact of each new standard varies significantly from industry to industry. For example, IAS 39: Financial Instruments: Recognition and Measurement significantly changes reporting in the financial services industry, whereas IAS 16: Property, Plant and Equipment significantly changes reporting in capital intensive industries, such as manufacturing and utilities.

Therefore, as companies attempt to implement IFRS, they are constantly calculating and recalculating management and statutory accounts to quantify the potential impact of the new standards. In addition, companies are spending considerable effort attempting to reconcile results achieved with different standards, and to tease out the reasons for the differences so that they can explain the effect the standards have on reported results.

Multi-GAAP Reporting

Not only must a company's management comply with the specific accounting policies and procedures required by IFRS, but they may also need to simultaneously continue reporting based on GAAP requirements. This multi-GAAP reporting requirement makes implementing IFRS particularly challenging.

Many companies in the EU and elsewhere will not only need to continue using local GAAP in their reporting for tax purposes, but they will also need to prepare financial statements based on IFRS. Those companies that have U.S. parentage or that are listed on U.S. stock exchanges could be burdened with additional required reporting based on U.S. GAAP. And as the U.S. and Canada transition to IFRS, companies run a significant risk of material misstatement. Additional complexity arises when local governments have their own requirements for the transition, or when slight differences exist between local GAAP and IFRS.

So how does management adjust its reporting from one set of standards to the next—from multiple, and sometimes local, sets of GAAP to IFRS—without losing control? How can they be certain that results reported one way are consistent and can be reconciled with the numbers reported another way? Do management systems exist that allow complete mastery of performance, or will companies continue to weather unexpected volatility in results?

Management Reporting

Statutory reporting must be aligned with management reporting, and executives have to understand the impact that IFRS have on performance management and key performance indicators.

These challenges also present obstacles to accurate and effective management reporting. Statutory reporting must be aligned with management reporting, and executives have to understand the impact that IFRS have on performance management and key performance indicators (KPIs). Forward-looking statements of performance based on IFRS have to be consistent with budgets based on the operational GAAP. Reporting tools and dashboards must be versatile enough to allow management to monitor, understand, and report performance based on whatever GAAP or other set of standards they choose. In a compliance culture, in which good governance equals superior management capability, nothing short of complete oversight of performance and risk is acceptable.

ORACLE'S ENTERPRISE PERFORMANCE MANAGEMENT SYSTEM

Oracle's enterprise performance management system helps finance professionals confidently meet and exceed the levels of versatility in analysis and transparency in reporting that are now required globally. This application suite offers three modules that enable companies to generate reports that comply with current requirements, as well as respond quickly and accurately to new requirements as global standards and policies evolve. These modules are Oracle Hyperion Financial Management, Oracle Hyperion Financial Data Quality Management, and Oracle Hyperion Strategic Finance.

Oracle Hyperion Financial Management

Oracle Hyperion Financial Management is an IFRS-compliant, Web-based financial systems application that consolidates global reporting and analysis in a single, highly scalable solution.

Multidimensionality

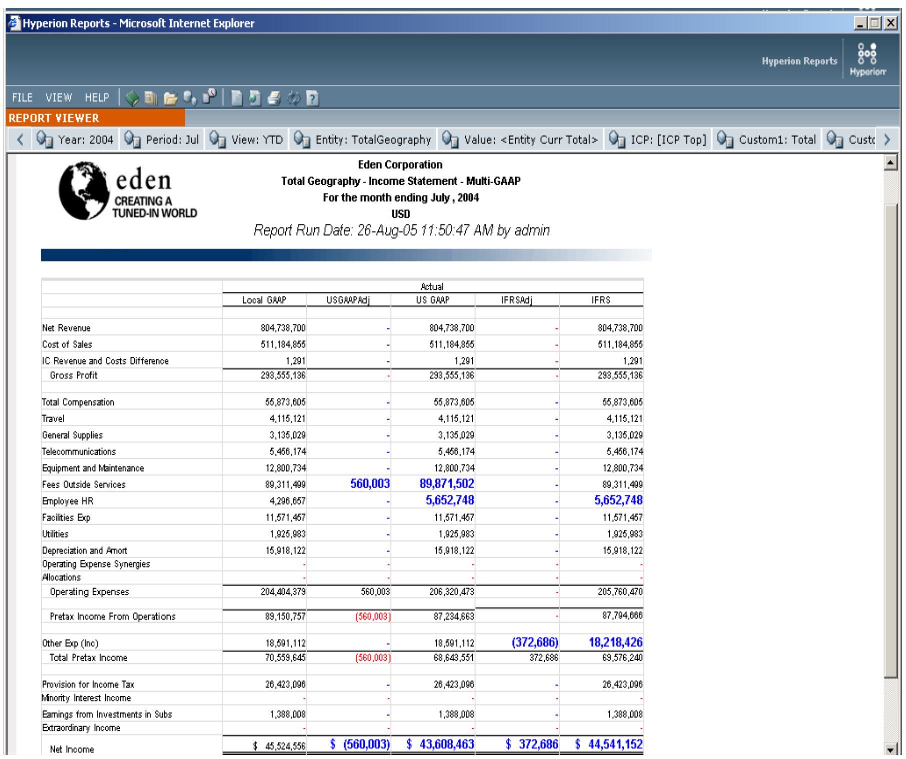
Early versions of IFRS-compliant consolidation models lacked a multidimensional capability. In these versions, IFRS was used as the basis for new account hierarchies, an expanded entity structure, or both. With the first approach, the added hierarchies meant that multiple instances of the chart of accounts had to be maintained, and it was impractical to report across hierarchies to compare performance under different sets of GAAP. The second approach also entailed a maintenance burden, and the expanded entity structure severely limited reporting flexibility.

Oracle Hyperion Financial Management has embedded multidimensionality that enables IFRS-based reporting as well as multi-GAAP reporting. This flexibility is the cornerstone of a complete performance management capability.

Oracle Hyperion Financial Management's more innovative architecture embeds IFRS data within the entity structures, which define the group structure. The entity structures include hierarchies such as the management and statutory hierarchies of reporting units, and the chart of accounts hierarchy. As entity structures, these hierarchies maintain the relationship—also called the "roll-up"—among the group structures, such as account lines used in both management and statutory reporting. Oracle Hyperion Financial Management can accomplish this without creating multiple instances of data or requiring significant maintenance. The application has embedded multidimensionality that enables IFRS-based reporting as well as multi-GAAP reporting. This flexibility is the cornerstone of a complete performance management capability.

Customization

An IFRS-compliant consolidation model must be able to analyze results from different sets of GAAP, and report those results side by side with their quantified differences. Figure 1 is a multi-GAAP statement that shows the differences in the reported results.



Eden Corporation
Total Geography - Income Statement - Multi-GAAP
For the month ending July , 2004
USD
Report Run Date: 26-Aug-05 11:50:47 AM by admin

	Actual				
	Local GAAP	USGAAPAdj	US GAAP	IFRSAdj	IFRS
Net Revenue	804,738,700	-	804,738,700	-	804,738,700
Cost of Sales	511,184,855	-	511,184,855	-	511,184,855
IC Revenue and Costs Difference	1,291	-	1,291	-	1,291
Gross Profit	293,555,136	-	293,555,136	-	293,555,136
Total Compensation	55,873,605	-	55,873,605	-	55,873,605
Travel	4,115,121	-	4,115,121	-	4,115,121
General Supplies	3,135,029	-	3,135,029	-	3,135,029
Telecommunications	5,456,174	-	5,456,174	-	5,456,174
Equipment and Maintenance	12,800,734	-	12,800,734	-	12,800,734
Fees Outside Services	89,311,499	560,003	89,871,502	-	89,311,499
Employee HR	4,296,657	-	5,652,748	-	5,652,748
Facilities Exp	11,571,457	-	11,571,457	-	11,571,457
Utilities	1,925,983	-	1,925,983	-	1,925,983
Depreciation and Amort	15,918,122	-	15,918,122	-	15,918,122
Operating Expense Synergies	-	-	-	-	-
Allocations	-	-	-	-	-
Operating Expenses	204,404,379	560,003	206,320,473	-	205,760,470
Pretax Income From Operations	89,150,757	(560,003)	87,234,663	-	87,794,666
Other Exp (Inc)	18,591,112	-	18,591,112	(372,686)	18,218,426
Total Pretax Income	70,559,645	(560,003)	68,643,551	372,686	69,576,240
Provision for Income Tax	26,423,096	-	26,423,096	-	26,423,096
Minority Interest Income	-	-	-	-	-
Earnings from Investments in Subs	1,388,008	-	1,388,008	-	1,388,008
Extraordinary Income	-	-	-	-	-
Net Income	$ 45,524,556	$ (560,003)	$ 43,608,463	$ 372,686	$ 44,541,152

Figure 1. Multi-GAAP reporting compares results and quantifies the differences.

Such reports represent the customizable multidimensionality of Oracle Hyperion Financial Management, which can readily generate such reports on demand. The system stores a single instance of the chart of accounts, but can display both management and statutory views in a single chart. In addition, a completely separate instance of the chart of accounts hierarchy is available for any of the relevant GAAP, and the display can be customized (Figure 2).

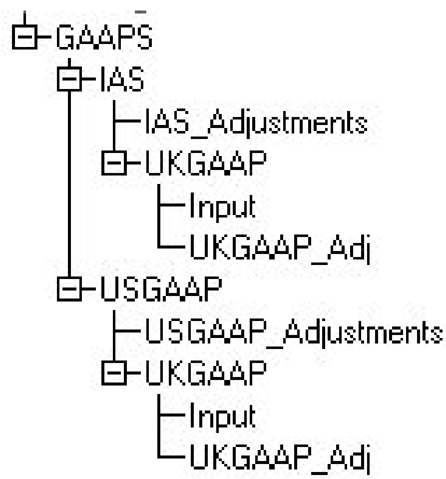


Figure 2. A customizable display of the chart of accounts hierarchy is available for any of the GAAP.

In practical terms, this means that management can analyze any of the charts of account lines within the context of any of the applicable GAAP. Data entry and production reporting can expand dynamically to reflect changes to the chart of accounts, IFRS requirements, or group structure. This ideal consolidation model is completely amenable to change, and can implement those changes dynamically and rapidly.

Segment Reporting

The increase in segment reporting means that reporting agents are more concerned with how to capture multidimensional data, such as multi-GAAP data, from reporting entities.

Multidimensionality becomes particularly vital when navigating the complexities of segment reporting, as required by IAS 14: Segment Reporting. In theory, segment reporting is used to identify appropriate business or geographic segments. The reality is that evolving standards are increasing the level of detail required for the "primary" segment, making the use of separate "secondary" segment reporting necessary. The increase in segment reporting means that reporting agents are more concerned with how to capture multidimensional data, such as multi-GAAP data, from reporting entities. And they want to do this without encumbering end users with unmanageable schedules and forms that seem to scroll forever.

Fortunately, Oracle Hyperion Financial Management has smart data capture. End users choose a “point of view” that is relevant to them in the underlying database, and enter data in Web-based schedules that capture multi-GAAP data in a column format. Segmented reporting schedules, where required, can be populated using subforms in a separate window (Figure 3), thus scrolling pages is minimal.

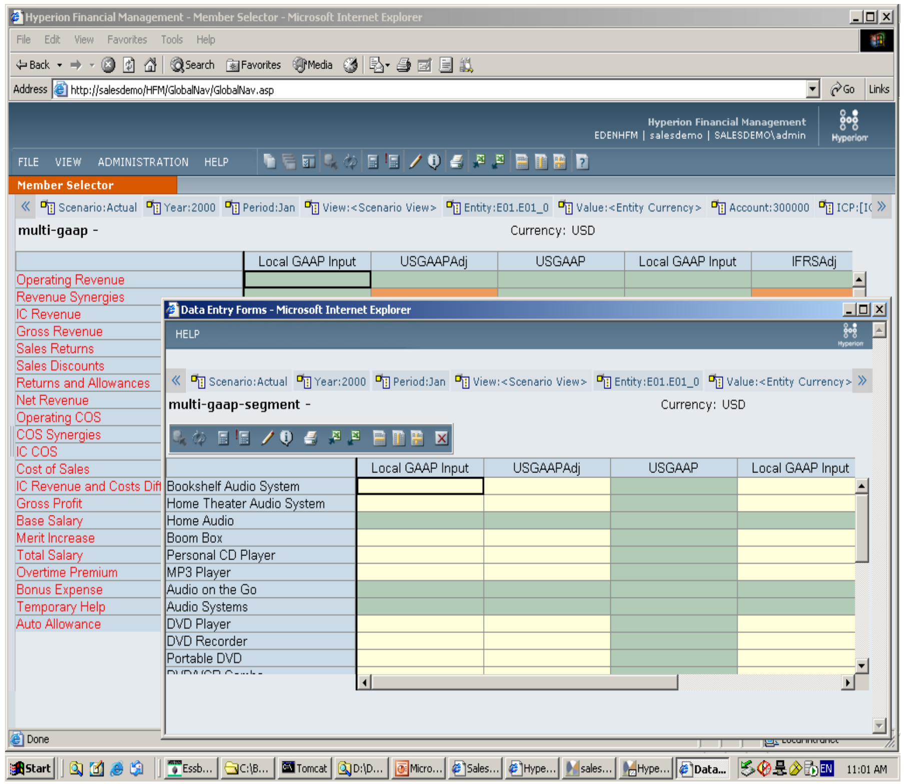


Figure 3. Satisfy IAS 14: Segmented reporting with Oracle Hyperion Financial Management’s subforms.

Qualified administrators can guide end users with written instructions in an online form, or include comments at the cell level that explain an IFRS adjustment. These features support end users, help safeguard the reliability of the information, and increase confidence in the integrity of the system (Figure 4).

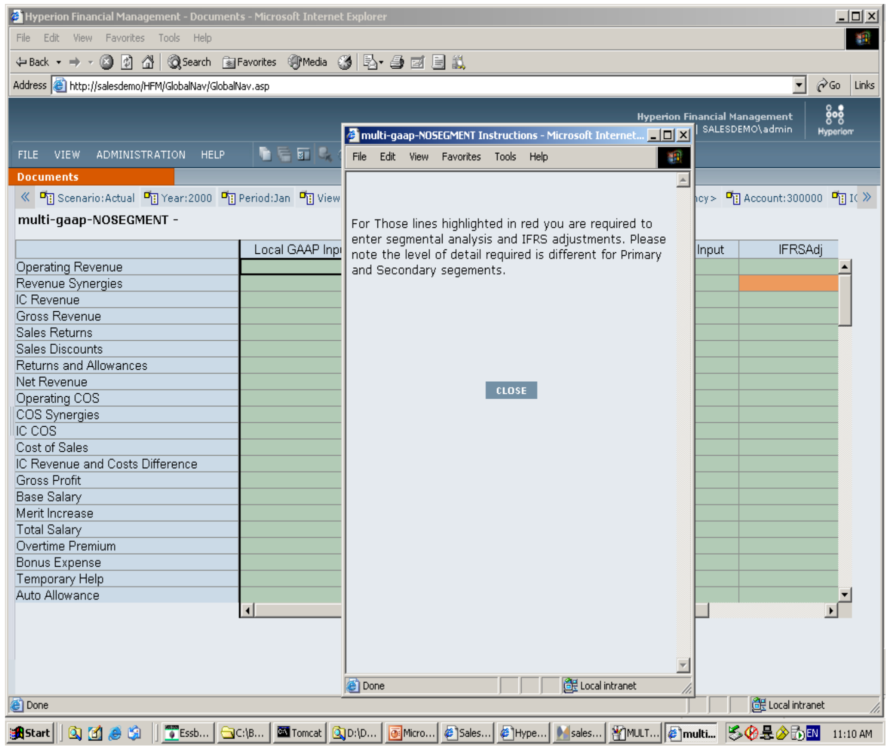


Figure 4. Written instructions in online forms guide end users and explain adjustments.

Versatility

There are significant differences in how reports must be presented, depending on which set of GAAP is being applied. For example, IAS 1: Presentation of Financial Statements describes which line items must be on the front pages of the balance sheet, statements of income, and statements of changes in equity—which can be different from those required by local GAAP. Oracle Hyperion Financial Management's versatility in report design is crucial to complying with various local GAAP around the world and with IFRS. Management can take comfort that, once designed, these reports will dynamically reflect the latest changes in IFRS or the chart of accounts. In addition, data in the reports, drawn from the same database, remain consistent.

Complete Audit Trails

Oracle Hyperion Financial Management isolates data from its original capture to the final result, creating a complete and reliable audit trail.

Reporting based on multiple sets of GAAP can generate unexpected results, and management must be confident in its ability to satisfy internal and external inquiries. Oracle Hyperion Financial Management isolates data from its original capture to the final result, creating a complete and reliable audit trail. The solution also enables management to drill down to investigate data when necessary, to assist in reconciling or adjusting entries.

Similarly, management can compare and contrast data for KPIs among any GAAP or IFRS reports. Management can easily generate the performance reports they need, thus engendering a high level of confidence that the company can meet changing regulatory or business requirements.

Case Studies

Many large international companies have attested that their IFRS implementations were successful in large part due to enterprise performance management solutions from Oracle.

Wella AG

Wella AG is one of the world's leading suppliers of cosmetics and toiletries. As Head of Corporate Financial Analysis, Dr. Dietmar Scheja faced significant challenges after the group implemented IFRS.

Support for Management and Statutory Reporting

"We had separate consolidation models for management and statutory reporting. They were never completely in step, and we had the added burden of making sure that what we reported externally to shareholders in IFRS agreed with what we were saying to management," Dr. Scheja says.

The team quickly discovered that this powerful solution allows them to complete management and statutory reporting in one application. This immediately removed one level of complexity.

When Dr. Scheja and his colleagues replaced their old business consolidation system with Oracle Hyperion Financial Management, the team quickly discovered that this powerful solution allows them to complete management and statutory reporting in one application. This immediately removed one level of complexity. For example, reporting on the group's brand and product hierarchy could be completed with the same application that was used for statutory reporting. Further, the application allowed Dr. Scheja's team to reflect the group's management structure in the hierarchy. This allowed users to, for example, readily distinguish sales units from research and development units.

"We could ensure that the detail of our brand's hierarchy fed into summary levels and that our internal reporting was consistent with our external segment reporting," Dr. Scheja says.

Support for IFRS Reporting

Oracle Hyperion Financial Management's statutory reporting capability allows Wella to accommodate IFRS reporting. At first, it took end users some time to acclimate to the challenges of IFRS reporting; however, they quickly appreciated the benefits of having just one application for management and statutory reporting, including IFRS. The larger subsidiaries were able to automate the upload of data from their operational systems directly to the group.

The true flexibility of Oracle Hyperion Financial Management became apparent when Wella was acquired by Proctor & Gamble and was required to generate reports based on U.S. GAAP, local GAAP, and IFRS. "At first we simply added

U.S. GAAP to the existing custom dimensions and put through the larger adjustments at a consolidated level. But later we were able to push responsibility for U.S. GAAP adjustments down to the reporting," says Dr. Scheja. "Oracle Hyperion Financial Management was also vital in allowing us to reconcile results between reports based on U.S. GAAP and IFRS so that we could explain the differences."

"The most outstanding benefit of Oracle Hyperion Financial Management is its flexibility. We were able to accommodate U.S. GAAP when it was suddenly sprung on us and prepare profit forecasts in the application very quickly and relatively easily—without incurring big consulting costs."

—Dr. Dietmar Scheja, Head of Corporate Financial Analysis
Wella AG

"The most outstanding benefit of Oracle Hyperion Financial Management is its flexibility. We were able to accommodate U.S. GAAP when it was suddenly sprung on us and prepare profit forecasts in the application very quickly and relatively easily—without incurring big consulting costs. This really was a key benefit," says Dr. Scheja.

Pearson

Pearson, the publishing giant that owns the *Financial Times,* has dual listings in the U.K. and in the U.S. Andrew Midgley, head of financial reporting at Pearson, had to cope with complex multi-GAAP reporting requirements when the group transitioned from using U.K. GAAP to using IFRS. A parallel move to the centralized, Web-based Oracle Hyperion Financial Management proved vital in allowing the group to understand and communicate the business impact of IFRS. The solution was also critical in enabling the company to confidently reconcile U.K. GAAP–based results with those based on U.S. GAAP.

Pearson started its transition, for U.S. stock exchange listing purposes, on January 1, 2003, and therefore had to provide two years' worth of comparisons between reports based on IFRS and U.K. GAAP. "It was difficult at first because there was considerable uncertainty around the application of standards, which were still subject to change," says Midgley.

IFRS Adjustments Made Simple

An initial, paper-based exercise quickly distinguished the types of IFRS adjustments that headquarters needed to implement from those that reporting units could handle. "There were fewer adjustments at the reporting unit level than we had expected and they tended to be relatively minor. They mainly related to acquisitions, intangibles, leases, and joint ventures," says Midgley. "Adjustments at headquarters were more significant and more complex and related to pensions, share option expenses, deferred tax, and financial instruments." Given this relatively straightforward framework, the group was able to quickly establish a unified chart of accounts in Oracle Hyperion Financial Management covering U.K. GAAP, U.S. GAAP, and IFRS. Then they simply posted the adjustments against the accounts as required.

Enabling Segment Reporting

Segment reporting was a challenge, but Pearson was already familiar with the concept under U.K. GAAP reporting, even though the same level of detail is not required in the U.S. Oracle Hyperion Financial Management's entity structure readily accommodated the segment reporting requirements, and Pearson used this custom dimension for more-detailed segment reporting of internal management accounts.

Flexibility and Transparency

"We had total visibility of the process and could instantly see the effect of changes posted anywhere in the group."

—Andrew Midgley, Head of Financial Reporting
Pearson

Oracle Hyperion Financial Management supported communication within the group and enabled them to respond to change. There were major advantages to the centralized, Web-based application for Midgley and the finance team. "We had total visibility of the process and could instantly see the effect of changes posted anywhere in the group. Also, if we needed to maintain the central model—for example, to collect more data—we could make the change, and it was immediately available throughout the group. We could not have managed this so easily using our old business consolidation system."

The Excel add-on for Oracle Hyperion Financial Management also smoothed the transition to IFRS. Standard production reporting was easy, reconciliation processes were flexible, and the system was transparent. "Not only could we easily reconcile between U.K. GAAP and IFRS, but we could also take the board through the changes and help everyone understand the impact on our published results," says Midgley.

Although the decision to move to Oracle Hyperion Financial Management was not motivated initially by the introduction of IFRS, changing to a centralized, Web-based system has been a major advantage. "It's difficult to imagine how we would have coped just relying on our old system," says Midgley.

Oracle Hyperion Financial Data Quality Management

Oracle Hyperion Financial Data Quality Management offers a Web-based workflow that finance teams use to develop standardized financial data management processes, and integrate and validate financial data from any of their source systems.

Challenges of Integrating Transaction Systems

The primary difficulty in transitioning to IFRS is choosing and implementing accounting and reporting systems that best support the new standards. However, another major issue in the transition is that companies must integrate transaction systems and financial consolidation systems smoothly and seamlessly.

It is vital to achieve transparency between transaction systems—such as general ledgers, enterprise resource planning, and data warehousing systems—and consolidation systems, such as Oracle Hyperion Financial Management. The linking technology between these systems must allow companies to collect, map, and transform source system data with a high level of control to enable a fast close and ensure consistency between corporate and local systems.

In many cases, local accounting systems may not be applying IFRS in tax reporting. So during the consolidation process, a company must map and reconcile the individual general ledger charts of accounts—based on local GAAP—with reported data.

In many cases, local accounting systems may not be applying IFRS in tax reporting. So during the consolidation process, a company must map and reconcile the individual general ledger charts of accounts—based on local GAAP—with reported data in the consolidation system, which is based on IFRS. A company may have to reclassify certain line items by applying account definitions that are different from those required under local GAAP.

Optimal Integration and Transparency

Oracle Hyperion Financial Data Quality Management is a unique data integration application that allows users to integrate data from any local source system. Local end users are responsible for reporting quality data for corporate consolidation because these users are closest to the accounting sources and can react easily and quickly to errors or inconsistencies. Oracle Hyperion Financial Data Quality Management then validates that reported data has been correctly mapped and ensures accurate communication and consistency among local and corporate systems, no matter which standards are used.

Finance teams benefits from the total transparency of data, and they can trace data from source to report. Process management dashboards provide visibility into the cycle of collecting and consolidating data. These tools ensure that companies achieve success in adhering to IFRS and ultimately increase the quality of final information.

Oracle Hyperion Strategic Finance

Oracle Hyperion Strategic Finance is a financial modeling application that lets executives identify and understand the full financial impact of corporate strategies.

Challenges in Strategic Planning

Since the introduction of IFRS, proliferating standards in global reporting have affected more than how companies integrate and report data. From a strategic standpoint, management must continue to plan for different business scenarios, carry out business sensitivity analysis, and adjust inputs and assumptions based on strategic goals.

With the need to comply with IFRS as well as multiple GAAP guidelines, company strategists must determine how different standards will affect the reported results of business decisions. Strategic decisions about how to allocate capital, how to structure debt, and whether to acquire or divest assets could be all complicated by differing reported results. For example, when a company considers acquiring or divesting assets, management must determine if using different standards will generate significantly different reported results on cash flow statements, profit and loss statements, and the balance sheet. Other strategic decisions that could be affected by differing reporting results include those related to pensions, share option schemes, directors' remuneration packages, bank covenants, and credit ratings, to name just a few.

A Complete Economic Business Model

Oracle Hyperion Strategic Finance's prepackaged modeling and forecasting capabilities enable management to develop a suitable economic model of the business as a critical context for developing strategy. Within the context of this comprehensive model, the finance team can test alternative strategies, build contingency plans, and learn what the impact of those strategies and plans would be on the company's long-term performance.

The company's key decision-makers can determine the effects of applying different IFRS and multi-GAAP guidelines—while also determining the implications of certain alternative planning scenarios—on key balance sheet ratios and other critical results.

For example, Oracle Hyperion Strategic Finance helps companies satisfy IAS 36: Impairment of Assets, improving their asset impairment tests by enabling rigorous analysis, improving transparency of results, and retaining strategic context. The standard requires companies to run tests to demonstrate that no assets are impaired—that is, listed in the balance sheet at above the asset's recoverable amount. All too often, an asset's recoverable amount is calculated in a spreadsheet by discounting future cash flows. While the spreadsheet approach might give an arithmetically correct result, this method separates the calculated recoverable amount from the business's complete economic model—making it difficult to determine how that amount might positively or negatively affect other results that reflect business performance. Oracle Hyperion Strategic Finance makes it possible to create a complete economic model of the business and allows management to run asset impairment tests within this context. In doing so, the company's key decision-makers can determine the effects of applying different IFRS and multi-GAAP guidelines—while also determining the implications of certain alternative planning scenarios—on key balance sheet ratios and other critical results.

Then managers can use Oracle Hyperion Financial Data Quality Management to load the results of these reporting and planning scenarios into Oracle Hyperion Financial Management. This application can then use additional IFRS account lines to determine the changes in amortization in different scenarios.

Assured Data Integrity

Unlike with spreadsheet-based modeling, management can be confident in the results generated by this model. The integrity of the data is guaranteed because the model is based on auditable business rules. In addition, the module's financial intelligence features synchronize and automatically update balance sheets, profit and loss accounts, and cash flows when any changes are made to the model. Management can have confidence that they completely understand the broad implications of multiple decisions—including the impact of multiple accounting policies that might otherwise introduce unwelcome volatility.

Sound Strategy

Modeling the business in this way builds confidence that the company will be resilient when strategy is affected by foreseeable business events, including the implementation of international accounting standards.

Modeling the business in this way builds confidence that the company will be resilient when strategy is affected by foreseeable business events, including the implementation of international accounting standards. This model also provides a valuable audit trail that supports the assumptions that management used to develop their plans.

Subsequently, companies can share this information with other internal applications to improve long-term and operational plans, as well as budgets, as part of a complete enterprise performance management capability. With Oracle's enterprise performance management system, management can be sure that every business unit in the organization is using data based on IFRS—and sound company strategy is always based on quality and consistent information.

CONCLUSION

Inevitably, corporate financial reporting will be in a state of flux for the foreseeable future. The IASB has ambitious plans to facilitate the convergence of local and country standards with IFRS. Unexpected issues are certain to arise during this worldwide implementation, and unforeseen circumstances will require that the standards be adjusted and refined.

Companies face many challenges when implementing IFRS-compliant reporting. Discrepancies among reports based on different standards must be accounted for and explained, reporting must satisfy multiple sets of local and country GAAP, and statutory reporting must remain consistent with accurate management reporting.

Oracle's enterprise performance management system is a comprehensive, integrated solution with three modules that are especially suited to easing the transition to IFRS. Oracle Hyperion Financial Management is a highly flexible module with multidimensional capability. It allows companies to comply with IFRS as well as with multiple GAAP, to support segment reporting as well as management and statutory reporting, to reconcile differences in results, and to create an audit trail of reporting activity.

Oracle Hyperion Financial Data Quality Management provides a powerful Web-based workflow that maps and reconciles reporting data to the reporting consolidation system, integrating and validating data regardless of which standards were used for the initial reports.

Finally, Oracle Hyperion Strategic Finance allows finance managers to evaluate changes in accounting policies required by IFRS, model their impact on internal or external KPIs, and adjust operational strategies to produce favorable results.

These modules do more than enable compliance—they can be the first step in implementing a complete performance management solution.

As companies worldwide face the challenges of implementing IFRS, they can take advantage of these tightly integrated software solutions from Oracle that together centrally manage data and metadata on a unified platform. Further, these modules do more than enable compliance—they can be the first step in implementing a complete performance management solution.

Managing the Transition to International Financial Reporting Standards
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