



Singapore, 4 June 2009

IFRS Conversion: Start the journey early, and take a clear map

KPMG Asia-Pacific IFRS Conference: Restoring confidence in the capital markets

Organizations planning for conversion to International Financial Reporting Standards (IFRS) should start the process early, and have a clear roadmap to their objective. The conversion process also offers unique opportunities for companies to transform their finance function for long-term efficiencies and savings.

These were the key messages to delegates attending the recently concluded KPMG Asia-Pacific IFRS Conference held in Singapore over two days on 27 and 28 May 2009. The conference saw members of the International Accounting Standards Board (IASB) meeting with regulators, KPMG professionals and other corporate delegates.

Delivering the keynote address was Singapore's Minister for Finance, Mr. Tharman Shanmugaratnam who announced Singapore's intention for a full alignment of the Singapore Financial Reporting Standards with the IFRS for listed companies in Singapore by 2012.

He also spoke about the on-going debate on fair value accounting and the challenge of meeting the interests of investors, while avoiding the build-up of risks which affect the stability of the financial markets and system as a whole.

Minister Tharman welcomed the role played by the IASB in working with various stakeholders, including regulators to find the most practical way forward on a set of global standards for financial reporting.

However, he noted that it was critical not to lose sight of the objectives of financial reporting while searching for practical solutions to accounting dilemmas. Accounting standards must continue to be grounded on well established principles to reflect the economic substance of the underlying transactions, and be developed to achieve its purpose of providing timely, relevant and comparable financial information to investors. The objective of systemic stability should therefore be factored into the development of accounting standards.

"Delegates to the KPMG Asia-Pacific IFRS Conference had a fruitful discussion about the on-going efforts for a global convergence to IFRS," said Mr. **Ong Pang Thye**, KPMG's Head of IFRS initiatives in the Asia-Pacific Region, "Also raised, were the challenges faced by standards setters, accounting professionals and industry players relating to the imperfections of the accounting standards."

Restoring confidence in capital markets

Present at the conference were members of the IASB, who provided an update on the global approach to reviewing accounting issues emerging from the global financial crisis and discussed the issues surrounding the adoption of IFRS worldwide.

Speaking on the first day, IASB member Professor **Warren McGregor** noted that "The crisis continues to persist, and it continues to have a very dramatic effect on the IASB, our work programme, and the future decisions we have to make in relation to International Financial Reporting Standards."

He outlined the IASB'S response to this global crisis:

- **Ensuring appropriate and adequate disclosure** of off-balance sheet reporting
- **Addressing complexity** in accounting for financial instruments thereby both improving financial reporting and reducing the opportunity for regulatory arbitrage
- **Issuing guidance** on determining fair value in illiquid markets after having consulted industry experts
- **Enhancing relationships** with regulatory bodies

Knocking at the door of accounting

While mark-to-market accounting did not directly cause the current economic crisis, much blame has been laid at the doorstep of the accounting profession. The plenary sessions at the conference touched on the criticism and relevance of IAS 39: *Financial Instruments: Recognition and Measurements*. It is said to have facilitated and contributed to 'procyclical behavior' in the financial markets, when combined with other practices in financial markets.

In addition, a key issue raised was the comparability in financial statements with regard to the usage of valuation techniques to compute the fair value of financial instruments; even though the assumptions are disclosed, they tend to be hidden in a pile of financial information. This is where experts, analyst and accountants can play a distinctive role, noted one panel member. They can interpret financial reports, just like a doctor is needed to interpret an x-ray.

"The IASB has already done an admirable job in building financial standards using a principles-based approach," noted Mr. Ong, "Whether these criticisms are deserved or not, we in the accounting profession obviously need to deal with the criticisms at our doorstep. We need to listen, observe and reflect, so that we can better explain standards and promote consistency in their use."

Mr. Ong further said that while big challenges faced the industry, the principles-based approach to financial reporting standards allowed preparers of the financial statements the ability to exercise professional judgment when addressing market movements.

He noted that invariably, as the IASB looks for improvements to the standards, there will be pressures to endorse specific accounting treatments for expediency or sectional interests.

However, standard setters and the rest of the accounting profession should stay true to this principles-based approach without compromise. As business environments change, the standards setting process should then revise its standards to keep them relevant for continued support from the business community.

Have a clear map when going on the journey of IFRS conversion

While there are no short cuts to IFRS conversion, a clear roadmap for the process is essential. The sooner organizations embark on this journey, the more they are likely to benefit from the process before compliance is mandatory.

The convergence of country-specific to international standards therefore presents organizations with a unique opportunity to assess the role of their finance function and the value that it can bring to the organization.

Effectively leveraging IT systems can also increase the chances of a successful conversion.

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Mr. **Gary Reader**, Global Head of KPMG's IFRS initiative said at the conference session to launch KPMG's latest publication **IFRS Now** that "IFRS conversion provides the opportunity to improve the quality of financial reporting. This can have a major impact on the business' ability to present results more confidently and as a result, finance has more capacity to add value."

Delegates to the conference were polled on whether they had plans to implement some level of finance transformation in conjunction with their plans for IFRS conversion.

Eighty-four percent of respondents indicated that they had already started the transformation process or had plans to do so. Almost half indicated they already have a number of standalone change activities in-place (*Annex A*).

Mr. Reader added, "Conversion to IFRS provides the opportunity to change the perception of the finance function from number cruncher to a business partner. It can act as a catalyst for wider business transformation, for example contributing to an organization's shared service strategy."

When asked if their companies had systems well aligned for an IFRS conversion, almost half of the respondents indicated that their systems were not aligned and they foresee that a systems change or replacement would be likely.

Approximately fifty percent of respondents believe that the impact of conversion will be greatest on their people. Getting the appropriate level of support from top management and inculcating the correct mindset in the conversion process will be paramount.

"Preparers of financial statements should not simply aim for compliance. It is about providing timely, relevant and comparable financial information to investors, based on established principles to reflect the economic essence of transactions," said Mr. Reader.

Mr. Ong concluded, "Over the next few years, more revisions to existing accounting standards are likely. This will result in on-going changes around the world and new pressures on professionals to keep up with the development of these standards.

At the same time, companies may also need to continually enhance their business processes and change their IT systems to meet the requirements posed by these new standards."

A vision for IFRS

The crisis of confidence within the capital markets runs deep. At the same time, it presents us with an opportunity to debate on the role of accounting standards and to elicit a broad range of ideas to help develop a consensus on the improvements needed.

Remaining focused on underlying principles will help ensure that new ground does not come at the expense of destroying old ground. The process of building this consensus on a global front will be as important as the standards that will come out of this process.

Done right, this process will raise trust in financial statements and confidence in accounting standards to higher levels.

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Note to editors:

About the KPMG Asia-Pacific IFRS Conference

Held in Singapore over two days on 27 and 28 May 2009 at the Grand Copthorne Waterfront Hotel, the conference witnessed a distinguished panel of presenters, including board members of the International Accounting Standards Board (IASB).

IASB members spoke about the board's response to the credit crisis, the progress of IFRS adoption worldwide, and provided a high level overview on the IASB's active agenda. The conference also explored issues related to fair value measurement, the role of IFRS in business transformation, and how to successfully implement the conversion process.

Technical and special interest sessions went into greater detail on topics such as financial statement presentation, revenue recognition, and updates in the financial services industry.

About IFRS Now

This new publication by KPMG looks at the impact of IFRS upon finance and discusses how it can be a catalyst for wider transformation beyond merely compliance demands, but also to serve the business better. Some of the issues discussed include:

- How IFRS conversion and finance transformation share many of the same goals
- Regulatory change can how it help finance become a partner in the business
- Learning from the European experience
- How an efficient IT infrastructure will help IFRS conversion
- Shared service centers and IFRS as a compelling combination
- People make the difference when it comes to transformation
- A seven-step guide to integrating IFRS conversion with finance transformation
- Finance transformation as a continuous journey

The publication can be downloaded at: <http://kpmg.com.sg/publications/IFRSNow.pdf>

About KPMG

KPMG is a global network of professional services firms providing Audit, Tax and Advisory services. The independent member firms of the KPMG network operate in 144 countries and have more than 137,000 professionals worldwide. Each KPMG firm is a legally distinct and separate entity and describes itself as such. KPMG's website is located at kpmg.com

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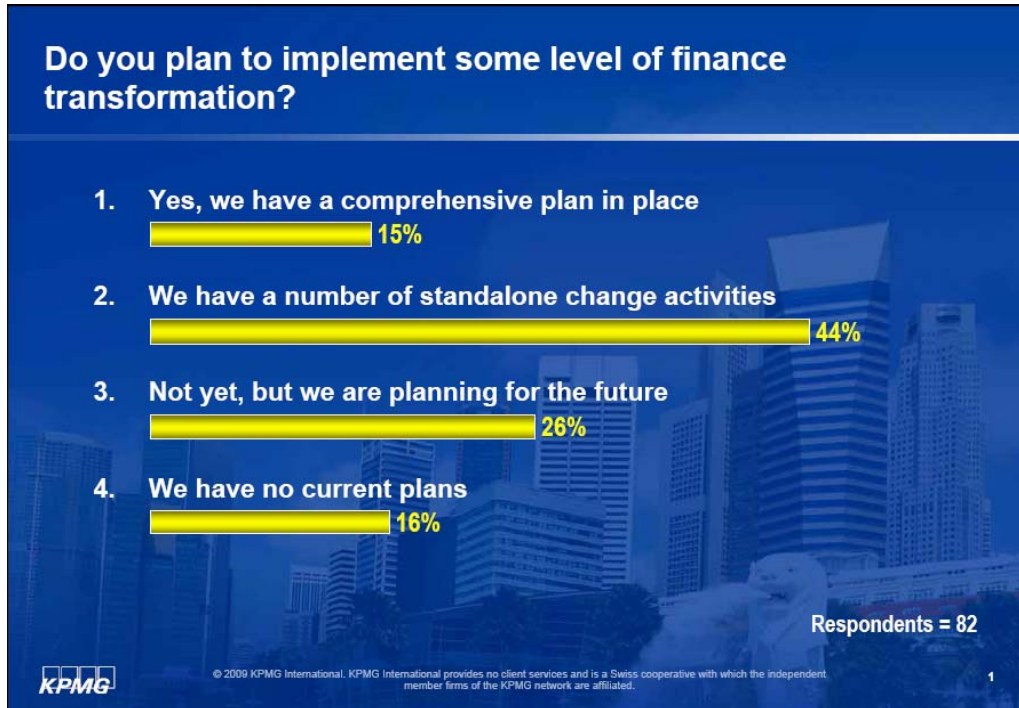
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Annex A







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Are your systems well aligned for an IFRS conversion?

(For industry participants awaiting conversion)

1. We are well aligned, e.g. we have one global ERP  32%
2. Partially, we are not anticipating major changes  26%
3. Not aligned, systems changes are likely  25%
4. Not aligned, systems replacement is likely  18%

Respondents = 73







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Which of the following was subject to the greatest change during conversion?

(For industry participants who have converted)

1. People  47%
2. Systems  22%
3. Processes  30%
4. Sourcing (Shared Services and Outsourcing)  2%

Respondents = 64



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