

The IFRS Center of Excellence

A shared environment for IFRS reporting can help drive financial reporting standardization and savings, too



CFOs of many U.S. multinationals are keeping a watchful eye on the global business community's continuing movement to International Financial Reporting Standards (IFRS). An increasing number of jurisdictions, including Italy, Netherlands, Australia, and the United Kingdom, permit the use of IFRS (or local standards that are substantially converged to IFRS) for subsidiary and/or stand-alone statutory reporting. Most of the remaining major non-U.S. markets are expected to allow local subsidiaries of foreign companies to use IFRS in the relatively near future. In February 2010, the U.S. Securities and Exchange Commission (SEC) issued a formal statement supporting convergence and the development of a single set of global accounting standards. The SEC also directed its staff to execute a work plan, the completion of which, combined with the completion of ongoing convergence efforts, will allow it to decide on a mandate in 2011. While the SEC has yet to establish a certain date for IFRS adoption, the statement acknowledged that U.S. companies could be required to report under IFRS in approximately 2015 or 2016.

Like any significant business change, the shift from local GAAP to IFRS reporting will involve an implementation cost. But unlike most other regulatory mandates, the move to IFRS also offers companies the chance to realize ongoing savings. Why? Because the adoption of IFRS across countries with formerly different local Generally Accepted Accounting Principles (GAAP) can ultimately eliminate the need for global companies to maintain local-country GAAP reporting capabilities in those countries – and, over time, allow them to consolidate IFRS reporting processes into a “Center of Excellence.” Placing IFRS reporting in such a shared environment can not only cost much less than maintaining separate local financial reporting capabilities for each country's subsidiaries, but it can also help improve the quality and consistency of financial reporting across the larger organization.

Knowledge-based shared services

Many companies currently house transactional finance, human resources, IT, tax, and other processes in a shared services organization (SSO), an in-house organization that consolidates business processes from multiple divisions, subsidiaries, or locations into one or several “shared” centers. A Center of Excellence (CoE), in our terminology, is an SSO – or a group within a larger SSO – that performs knowledge-based activities rather than transactional ones on behalf of multiple divisions, subsidiaries, or locations. As with any SSO, the purpose of a CoE is to reduce costs and improve the quality of output by consolidating, standardizing, and automating processes and tasks.

A company that already has a finance SSO is likely to be able to leverage its existing shared services governance and infrastructure to manage an IFRS CoE. In fact, IFRS reporting can be a natural step “up the value chain” for finance SSOs seeking to expand their value proposition beyond transactional processing. But even companies that don’t already have an SSO can benefit from placing IFRS reporting in a CoE. Establishing an IFRS CoE can be a fruitful way for such a company to test the waters of shared services, as IFRS reporting is well suited for placement in a shared environment.

Benefits of an IFRS CoE

The most notable benefit of establishing an IFRS CoE is its cost-saving potential over maintaining separate local-country financial reporting capabilities. Much of the potential savings are due to the lower labor costs that a shared environment can enable. These labor savings typically come from a number of factors:

- **Reduced headcount.** Aggregating work into a single organization allows processes to be redesigned so that the work can be performed more efficiently than when it was parceled out among multiple groups. This means that an IFRS CoE could employ fewer people to do the same financial reporting work that would otherwise be done in separate countries.

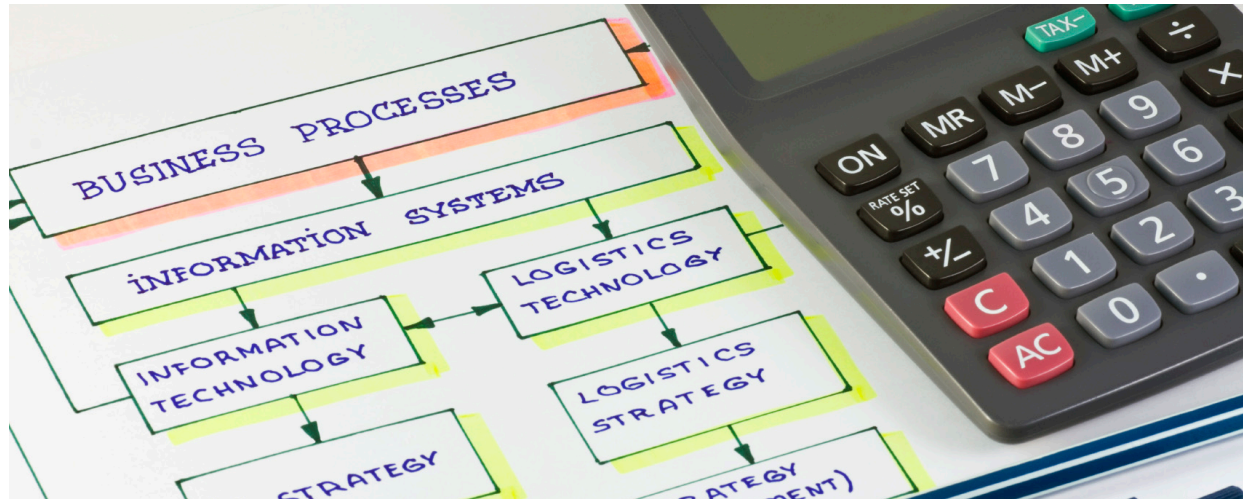
About IFRS

IFRS is a set of accounting standards published by the London-based International Accounting Standards Board (IASB). It is more focused on objectives and principles and less reliant on detailed rules than U.S. GAAP. IFRS is used for public reporting purposes in more than 100 countries, ranging from Australia to the United Kingdom, and more countries are expected to adopt IFRS in coming years.

Factors encouraging the adoption of IFRS as a single set of global financial reporting standards include:

- **Improved comparability.** The investment community is increasingly looking for high-quality financial information. In increasing numbers, investors perceive IFRS as an opportunity to improve the comparability of financial information from companies across global industries.
- **Improved transparency.** A single global set of accounting standards can encourage both companies and investors to more easily access multiple or foreign markets. In effect, this can help stimulate investment and enable cross-border capital flows.
- **Reduced complexity.** By adopting IFRS, companies can reduce the complexity of the operations now needed to create reports in multiple local-country GAAPs to help save money and improve the accuracy and reliability of financial and tax reporting.¹

¹ International Financial Reporting Standards for U.S. Companies: Implications of an accelerating global trend, Deloitte & Touche LLP, 2007.



- **Better alignment of responsibilities with positions and pay.** At many companies, relatively routine local-country statutory reporting tasks may be performed by highly paid senior-level individuals (perhaps because the local entity's finance staff is too small for such tasks to be delegated). Consolidating IFRS reporting into a CoE can allow a company to better align financial reporting responsibilities and tasks with the level and pay of the individuals performing them, reducing the amount of senior-level effort (and pay) spent on tasks that could be just as well performed at a more junior level.
- **Increased span of control.** A company that maintains a separate financial reporting capability in each country may be "top-heavy" with managers – that is, each country will need at least one manager to supervise local financial reporting activities, no matter how many or how few people are on the staff. The larger aggregate scale of an IFRS CoE can allow a company to reduce the overall ratio of managers to staff for financial reporting activities.
- **Reduced outsourcing costs.** Companies that outsource local-country statutory reporting activities may find that an IFRS CoE can do the job at less cost.
- **Labor arbitrage.** The labor savings described above can be enhanced by setting up an IFRS CoE in a low-labor-cost country. It's important, however, to carefully consider the availability of the appropriate skills when

selecting a location. Skill availability should trump labor cost in building any knowledge-based shared organization, as a CoE's performance has a critical dependence on its staff's specialized knowledge and experience.

An IFRS CoE can also help reduce the IT costs associated with financial reporting by establishing a single platform for storage and retrieval of financial reporting data, which costs less to maintain and upgrade than multiple local-country financial platforms and databases. An IFRS CoE may also lower training costs by allowing companies to deliver IFRS-related training in a single location rather than in several different countries.

In addition to the cost-saving benefits, an IFRS CoE can help improve the consistency of a company's financial reporting practices by employing the same group of people to apply interpretations to the company's financial data. This, in turn, can help improve comparability and increase the usefulness of financial reports to both internal and external stakeholders. It's also likely that the staff members of an IFRS CoE, who are focused on preparing reports according to IFRS standards, will soon become more skilled at the reporting process than local resources who juggle various other responsibilities, which should allow the CoE to further improve the accuracy and consistency of a company's financial reports.

An IFRS CoE in action

An IFRS CoE would be responsible for preparing and distributing or filing all of a company's IFRS reports. This activity would mirror or replace some of the activities that a company may currently perform in a "corporate reporting" function. However, the IFRS CoE would be responsible for multiple country filings, not just the corporate office location's filings.

To be effective in this role, an IFRS CoE would have three major areas of responsibility:

- **Maintaining corporate accounting policies and procedures.** Knowledge management is the primary role of any CoE. As a more principles-based approach than many local GAAPs, IFRS will force many organizations to assess the IFRS guidelines' impact on current reporting practices and procedures. The IFRS CoE, therefore, would need to be responsible not only for developing and maintaining IFRS-consistent corporate accounting policies and procedures, but also for maintaining current knowledge of IFRS standards and proposals, assessing compliance with company accounting policies and procedures, and evaluating the impact of any changes from a procedural, systems, and reporting perspective.
- **Maintaining the Chart of Accounts.** The Chart of Accounts forms the linkage between accounting policies/procedures and financial reports. While the actual Chart of Accounts may reside in a General Ledger Application CoE (an SAP CoE, for example), the decision-making around the Chart of Accounts should be shifted to the IFRS CoE, since aligning IFRS guidance with a company's standard financial reports can significantly reduce efforts and errors associated with converting results from the company's internal books and records to those suitable for external reports. The IFRS CoE would also need to ensure consistency between the IFRS Chart of Accounts and any local tax requirements.
- **Preparing and disseminating IFRS statements.** While IFRS may make reporting standards more consistent across countries, the filing procedures for each country are likely to remain varied (e.g., hand-signed paper vs. electronic filing). The IFRS CoE, in its role of IFRS statement preparer and disseminator, would coordinate preparation, dissemination, and filing, which could occur either directly from the CoE or via an in-country finance function.



Short-term costs, long-term savings

Companies that have set up any kind of SSO know that a variety of implementation and adjustment costs can cause a temporary rise in costs in the SSO's first year or so of operation. The same holds true for an IFRS CoE. The savings from an IFRS CoE may not materialize until a year or more after its establishment, although the CoE should then begin to yield the expected savings as its processes improve and the local subsidiaries complete their associated infrastructure and personnel reductions.

One way a company may help speed the IFRS CoE's cost savings, or even help fund the CoE's implementation effort, is through proper advance tax planning in the relevant jurisdictions. Another way savings may be accelerated is to begin the local-country headcount rationalization process early, especially in countries where labor laws make it difficult and/or time-consuming to reduce headcount. In countries with especially strict labor laws, companies may want to consider whether they may be able to redeploy some of the affected staff to the IFRS CoE, even on a part-time or remote working basis, rather than eliminating them completely.

Tax considerations in CoE implementation

The deployment of any SSO or CoE, including an IFRS CoE, can give companies the opportunity to critically evaluate the value such organizations provide to various constituencies within the enterprise and to develop and deploy a corresponding tax-efficient structure. This process involves the careful analysis of:

- The proposed locations for the CoE, both geographically and within the enterprise's legal structure.
- The income tax, transfer pricing, and indirect tax consequences arising from the CoE's contemplated transactional footprint.
- Perhaps most importantly, the manner in which the intangibles deployed through the service center (such as standardized processes, technology systems, etc.) are funded, developed, and directed. Proper attention to the taxation of intangibles associated with an SSO or CoE may help a company realize significant value and avoid many of the complications that can result from a lack of clarity around the tax treatment of intangibles.²

Caveats and considerations

The general challenges of establishing an effective SSO have been widely discussed elsewhere,^{3,4} but companies should also be aware of two considerations specific to setting up a shared environment for IFRS reporting. The first consideration is that not every country yet allows subsidiaries of foreign companies to file statutory financial reports using IFRS standards. Because of this, a company considering setting up an IFRS CoE should take care to determine whether it currently has – or expects to have in the future – enough of a “critical mass” of IFRS reporting activities to make an IFRS CoE worthwhile. (Generally speaking, the more work can be moved into a shared environment, the greater the potential savings and other benefits.)

Companies should generally base the decision of whether it has enough IFRS reporting activity to warrant a CoE not only on the number of entities they have in countries that currently permit IFRS reporting, but on the likelihood that additional countries in which they do business will move to IFRS reporting in the future. Many observers believe that most major markets will eventually adopt IFRS, and an IFRS CoE may be able to efficiently handle reporting even for non-IFRS countries whose GAAPs require only small adjustments to conform to IFRS. It's quite possible that setting up an IFRS CoE will deliver a solid long-term return on investment for companies with only a modest presence in countries permitting IFRS at the time of implementation. The time that it may take for additional countries to migrate to IFRS would also permit a CoE to increase its volume of reporting naturally over time as its personnel gain experience and proficiency.

The second consideration is that local-country data privacy and security laws may complicate the process of preparing financial reports outside that country. Possible ways to accommodate such regulations vary from country to country and from situation to situation. In practice, companies are likely to be able to address them in the same way as such issues are handled when migrating transactional financial processes into an SSO – for instance, by keeping hard copies of records in-country while sending electronic records outside the country for processing.

² Warning: Shared Services Tax Trap Ahead: How to manage the risk and extract the value of intangible property taxation, Deloitte Development LLC, 2008.

³ The Future of Shared Services, Deloitte & Touche USA LLP, 2003.

⁴ Shared Services Handbook: Working Together Effectively, A Practical Guide To Implementing Shared Services, Deloitte Consulting LLP, 2006.

Toward an IFRS CoE

Setting up an IFRS CoE relatively early in the IFRS adoption process can offer companies the benefit of establishing a core group of knowledgeable specialists who can facilitate future conversions to IFRS at individual legal entities as well as on a consolidated basis. This is especially true if the CoE includes people who have participated in prior GAAP-to-IFRS conversions, as is likely to happen if a company initially locates its CoE at an entity that has or is in process of adopting IFRS. Professionals with such experience can help the company identify where and how IFRS is likely to diverge from local GAAPs more quickly than if each reporting entity had to work out the divergences independently. Also, especially for U.S. filers, establishing an IFRS CoE sooner rather than later gives a company more time to build up IFRS knowledge and experience before it needs to file its first IFRS consolidated reports.

For leaders interested in establishing an IFRS CoE, we suggest considering the following as first steps:

- **Assess the enterprise's readiness to move to a shared model for financial reporting.** Is the organization extremely decentralized or otherwise culturally resistant to the concept of shared services? To what extent does the existing finance SSO, if any, perform "value-added" or knowledge-based activities? How much push-back, if any, can be expected from different countries to the prospect of consolidating financial reporting processes? The more integrated a company's operating model, and the more accustomed it is to receiving support under a shared model, the easier it will likely be to garner support for a shared IFRS CoE, and the more cooperation leaders can expect from the various countries involved.
- **Develop a charter of the CoE's capabilities and responsibilities.** What, specifically, do leaders want the CoE to do? What processes and responsibilities will the CoE take over, and what will remain within the countries? To what will the CoE have authority over the countries' finance functions – for example, will the CoE drive IFRS adoption in the countries, or will it simply prepare statutory reports once a country has converted to IFRS?

Establishing a CoE to handle statutory reporting and tax compliance on behalf of multiple countries, even before those countries transition to IFRS reporting, can lead to considerable cost savings from reductions in local personnel and operations. Using a CoE to perform statutory reporting can also help ease the organization's transition to IFRS, since the required process and technology changes would only need to be made in one place as opposed to in multiple countries.

- **Determine what skills the IFRS CoE will need.** Depending on the desired scope of the IFRS CoE's responsibilities, needed skills might include knowledge of both IFRS and local-country GAAP, experience in assisting with IFRS transitions, and cross-border project management skills. Given the pervasive impact IFRS may have throughout the organization, the CoE may need to work closely with various organizational functions.
- **Consider whether the CoE will physically consolidate resources or operate on a virtual basis.** Factors to consider include the feasibility and desirability of relocating appropriately skilled staff, the extent to which CoE staff will need to interact with country-based resources, and the organization's technological capabilities for enabling remote collaboration.
- **Find out where the enterprise has pockets of excess capability.** A company that already has an SSO for transactional finance processes may be able to identify individuals with IFRS reporting skills in the SSO who can form the nucleus of the IFRS CoE. Companies that do not have a finance SSO, or whose finance SSO does not currently include IFRS capabilities, may wish to explore where they might have excess capacity in a local-country finance organization and consider establishing the IFRS CoE there.
- **Decide where CoE will "sit" within the organization.** Should the CoE be part of the finance function, for instance, or should it be part of the finance SSO (if one exists)?

- **Establish the CoE's governance structure.** For instance, will the CoE be governed by an executive management steering committee or by others within the organization? In either case, consider establishing a governance team with representation from all major organizational functions, such as HR, legal, and treasury, so that all parts of the organization can be aware of any changes that are proposed. Also, the CoE should be backed by individuals who have the authority and support within the organization to push through the changes needed to achieve its mandate.
- **Explore the potential for placing the CoE in a low-cost labor market.** The global availability of IFRS reporting skills is expected to increase as more and more countries adopt IFRS. Companies seeking labor arbitrage opportunities may wish to consider the potential for locating the IFRS CoE in a low-labor-cost region if leaders decide to physically consolidate IFRS resources in one or more locations.
- **Consider piggybacking onto concurrent technology upgrades or implementations.** A finance system upgrade or implementation – particularly one that involves consolidation tools – can connect quite well with an IFRS CoE initiative.

The global movement toward IFRS offers companies the chance to significantly improve efficiency and reduce financial reporting costs. By consolidating their IFRS reporting activities into a CoE, companies can take advantage of what many see as an inevitable global shift to IFRS to do financial reporting better, faster, and cheaper – a welcome benefit that can not only help offset IFRS implementation costs but may yield ongoing operational savings and improve the quality of financial reporting.



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