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IFRS Insights

Achieving a global standard



Cut costs and improve transparency with an IFRS Center of Excellence

The shift from reporting under local Generally Accepted Accounting Principles (GAAP) to International Financial Reporting Standards (IFRS) will most likely involve an implementation cost, but it can also offer companies the chance to realize ongoing savings.

Why? Because the adoption of IFRS across countries with formerly different local GAAPs can ultimately eliminate the need for global companies to maintain local-country GAAP reporting capabilities – and, over time, may allow them to consolidate many IFRS reporting processes into a “Center of Excellence.”

A Center of Excellence (CoE) is a shared internal organization that performs knowledge-based activities on behalf of multiple divisions, subsidiaries, or locations. Like a traditional transactional shared services organization (SSO), the purpose of a CoE is typically to reduce costs and improve the quality of output by consolidating, standardizing, and automating processes and tasks. Placing IFRS reporting in a CoE can potentially 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. Much of the potential savings typically comes from the lower labor costs that a shared environment can enable through means such as headcount reduction, labor arbitrage, and better alignment of pay with responsibilities. 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.

Beyond 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 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 could allow the CoE to further improve the accuracy and consistency of a company’s statutory financial reports.

An IFRS CoE could have various areas of responsibility, examples of which would include:

- **Maintaining corporate accounting policies and procedures.** As IFRS is generally 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, could 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 ERP CoE, for example), companies might consider having the decision-making around the Chart of Accounts reside with the IFRS CoE, since aligning IFRS guidance with a company's standard financial reports might 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 may 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, could coordinate preparation, dissemination, and filing, which could occur either directly from the CoE or via an in-country finance function.

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 do not already have an SSO – in finance or otherwise – can benefit from placing IFRS reporting in a CoE.

The global movement toward IFRS offers companies the chance to 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 may not only help offset IFRS implementation costs but yield ongoing operational savings and improve the quality of financial reporting.

Additional information

If you would like additional information, please read our new white paper ["The IFRS Center of Excellence: A shared environment for IFRS reporting can help drive financial reporting standardization and savings, too."](#)

Changes ahead for lease accounting

Lease accounting is about to undergo a fundamental overhaul. On August 17, 2010, the U.S. Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) (the Boards) issued a joint exposure draft (ED), Leases. The ED creates a new accounting model for both lessees and lessors and eliminates the concept of operating leases. Comments on the proposed ED are due by December 15, 2010, and the Boards expect to issue a final standard in June 2011.

The ED, if finalized, would converge the FASB's and IASB's accounting for lease contracts in most significant areas. (The few remaining differences pertain mostly to discrepancies with other existing standards.) Essentially,

all outstanding leases as of the date of initial application¹ would be subject to the new lease accounting model — there would be no grandfathering of existing leases.

Background

The Boards have been discussing lease accounting since 2006 when the project was added to the Memorandum of Understanding. Many believe the current lease accounting is too reliant on bright lines and subjective judgments that may result in economically similar transactions being accounted for differently. The Boards published a Discussion Paper in March 2009 which focused on lessee accounting and have since decided to address both lessee and lessor accounting.

¹Date of initial application is the beginning of the first comparative period presented in the first financial statements in which the entity applies the guidance.

The bottom line

- The proposals would affect the accounting for lease contracts for both lessees and lessors.
- “Lease classification” in the current IAS 17 lessee accounting model would no longer exist.
- Lessees would no longer be permitted to treat leases as “off-balance sheet” financing, but instead would be required to recognize an asset and liability for all leases within the scope of the proposals.
- For leases currently classified as operating leases, rent expense would be replaced with amortization expense and interest expense, with total expense being recognized earlier in the lease term.
- Estimates of contingent rentals, residual value guarantees, and term option penalties would be included as part of the lease liability using an expected outcome approach.
- Rentals during renewal periods would be included as part of the lease liability on the basis of the longest possible lease term that is more-likely-than-not to occur.
- A reassessment of the estimates of lease payments and renewal periods would be required if facts or circumstances indicate that there would be a significant change.
- The ED includes two accounting models for lessors. A lessor that retains exposure to significant risks or benefits associated with the underlying asset would apply the performance obligation approach; otherwise, the lessor would apply the derecognition approach.
- The identification of non-lease components would become more important under the proposals.
- Extensive disclosures would be required for both lessees and lessors.
- The proposed transition requirements would not grandfather existing leases and would require adjustment of comparative periods.
- There is the potential for deferred tax consequences associated with the adoption of the proposals.
- Lessees and lessors should begin to evaluate how the proposals would affect their financial statements, the future structuring of lease contracts, performance metrics used, debt covenants, accounting policies, and information systems.

Scope

The scope of the ED is similar to that of existing lease accounting standards; therefore, most contracts currently accounted for as leases would be subject to the new guidance as well. In addition, the ED includes conditions for use in determining whether an arrangement contains a lease. Contracts specifically identified as not being within the scope of the ED are: 1) leases of intangible assets, 2) leases to explore for or use minerals, oils, natural gas, and similar non-regenerative resources, 3) leases of biological assets, and 4) leases between the date of inception² and date of commencement of a lease³ if they meet the definition of an onerous contract under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

²Date of inception of the lease is defined in the ED as “the earlier of the date of the lease agreement and the date of commitment by the parties to the lease agreement.”

³Date of commencement of the lease is defined in the ED as “the date on which the lessor makes the underlying asset available for use by the lessee.”

Effective date

The ED does not specify an effective date. The Boards plan to consider the effective date after reviewing the comments they receive on the ED and after taking into account all other joint projects expected to be finalized in the coming year.

Additional information

If you would like additional information on this ED, check out the following resources available from Deloitte:⁴

- [Heads Up: Proposed ASU Revamps Lease Accounting](#)
- [IFRS in Focus: IASB Issues Exposure Draft on Lease Accounting](#)
- [Archive of September 10 Dbriefs Webcast: FASB’s Exposure Draft on Lease Accounting: A Closer Look at the Proposed Guidance](#)

⁴ As used in this document, “Deloitte” means Deloitte & Touche LLP, a subsidiary of Deloitte LLP. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries.

Technical corner:

Accounting for Property, Plant, and Equipment under IFRS: What companies need to consider for a successful conversion

As companies adopt International Financial Reporting Standards (IFRS), they may face significant changes in the accounting of Property, Plant, and Equipment (PP&E) that will challenge them to reassess their fixed asset policies, procedures, data, and systems, and implement the necessary actions for a successful conversion. Careful consideration of the following changes can help companies to better prepare for the transition.

First-time adopters

For first time adoption, PP&E is to be recorded at *deemed cost*, which is either the asset's carrying amount under Generally Accepted Accounting Principles (GAAP) based on historical cost, or the fair value of the asset. This allows companies to make a decision on how to record PP&E. The decision can be influenced based on several factors, such as the quality of the historical cost detail, or relative differences between carrying value and fair value.

On a go-forward basis

On a go-forward basis the company accounts for each class of PP&E using a cost model or revaluation model. The cost model is the most common method and uses the deemed cost of the assets, less subsequent accumulated depreciation and accumulated impairment. The revaluation model is the fair value at the date of revaluation less subsequent accumulated depreciation and impairment losses.

Componentization

One of the main differences between U.S. GAAP and IFRS accounting for PP&E is the IFRS requirement to depreciate separately a part of an asset that is significant in cost relative to the total cost of the item. The item may or may not have a different depreciable life. A few examples may be the roof covering or the HVAC equipment in a building, the engine of an airplane, a robot or conveyor utilized in an assembly line, or a storage tank in a chemical processing system.

There is currently no detailed guidance regarding the level of componentization, and, as a result, companies have to evaluate the relevant industry environment and make sound judgments based on a defined approach that facilitates consistent accounting treatment for all assets. Some companies have utilized cost segregation studies that were performed for tax purposes to aid in the componentization effort. Other companies are obtaining cost segregation studies to take advantage of potentially accelerated tax depreciation from these studies, as well as the additional value of these studies for their componentization effort.

Decisions regarding the establishment of the deemed cost of componentized assets will depend on the level of componentization required, and the quality of the historical fixed asset records and related asset cost detail. Depending on the data quality, establishing the deemed cost through determination of the fair value of the assets as of the conversion date may be the most practical solution.

In addition, companies will need to coordinate these changes to fixed asset accounting with the Tax organization as statutory requirements may not allow similar changes to the asset detail. In the effort to refine the process prior to rolling it out through the organization, it can be helpful to execute a pilot for the componentization of assets.

Useful life and residual values

Depreciation of each item of PP&E requires consideration of the appropriate useful life, and the method of depreciation, as well as establishing the residual value of each item. The *residual value* should be set at the amount expected to be realized for the PP&E item at the end of its useful life less the cost of disposal. The method of depreciation (e.g., straight line, units of production), as well as residual values, need to be assessed on an annual basis. Revisiting useful lives may result in changes to prior policies based on how long assets are actually in-service and generating value to the organization.

Conclusion

The combination of changes in the accounting of PP&E under IFRS can result in a considerable undertaking for asset-intensive companies, requiring potentially significant efforts to evaluate fixed asset data quality; cleansing the data to remove "ghost assets" or other items that are not in service; inventorying and valuation of assets; designing new fixed asset policies, procedures, and controls; and assessing and/or upgrading systems that handle the fixed asset data. Further complications arise when companies have multiple legacy fixed asset accounting systems as the result of acquisitions over time. But our experience indicates that these hurdles can often be overcome by implementing a program, which typically includes groups across the organization such as procurement, finance, tax, accounting, operations, maintenance, engineering, IT, and auditors, both internal and external. This can also be an opportune time to take a step back and look for value-add that can be derived from the fixed assets, such as reductions in property tax values, acceleration of depreciation for tax purposes, and optimizing operational tracking of assets to maximize asset utilization.

Learning more about IFRS

Building an IFRS internal accreditation program

Many companies are designing internal training programs to develop their employees' understanding of the differences between International Financial Reporting Standards (IFRS) and U.S. Generally Accepted Accounting Principles (GAAP). In an effort to adequately prepare their professionals, companies are designing their programs to cover not only the accounting differences, but also the differences that will occur in the tax and information technology functions of the business.

Key activities to developing an IFRS accreditation program:

- Conduct IFRS training needs assessment (e.g., who to train)
- Develop comprehensive curriculums/customized training plans for each audience (e.g., executives, audit committees, finance and accounting, tax, information technology)
- Prepare/develop data for training environments (e.g., which materials/information to focus development of training materials)
- Understand the training delivery approach (e.g., logistics requirements, e-learning set ups, etc.)
- Develop training materials
- Identify training logistics requirements (e.g., A/V, locations, e-learning, etc.)
- Develop training schedule (e.g., instructor-led training, computer-based training, executive training/workshops)
- Develop employee accreditation tracking mechanism (e.g., a tool to monitor the stage of completion)
- Establish accreditation metrics

An accreditation program typically revolves around understanding the three major training audiences: the core project team training, the trainers, and the accreditation trainees (i.e., end users). The components of the program include:

Core project team training — The team members who deliver the IFRS training will likely require a tremendous amount of training themselves. In an effort to adequately prepare the training team, many companies are sending the core project team to external training programs to develop a deep understanding of IFRS.

Train-the-trainer (TTT) program — An ideal way to train employees is to use credible, knowledgeable employees from within the business. For that reason, many companies are creating a comprehensive TTT program which prepares trainers to deliver the IFRS training. Such TTT programs are designed to fully prepare trainers with the knowledge required to effectively perform their role.

Accreditation trainees/end users — The culmination of the learning program is typically delivering training to the professionals. This program typically provides the end users with the knowledge, skills, and capabilities needed to develop a deep understanding of IFRS.

Developing the materials

There are two common approaches to developing the materials for a company's IFRS accreditation program. The first is to develop materials that will teach the participants about each individual IFRS standard. This approach can be best used when the participants will have varying degrees of understanding of U.S. GAAP, and, therefore, you are teaching them the standards in their entirety and not just the differences between U.S. GAAP and IFRS. It will also provide internal training materials after U.S. GAAP is no longer relevant.

Key activities: development

- Identify a team of subject matter specialists and content developers
- Develop templates to ensure consistency across all materials
- Develop the training materials
- Review the materials for technical accuracy
- Review the materials for learning and approved for CPE requirements
- Resolve feedback/comments
- Approve the training content
- Upload the e-learning content on hosting system
- Periodically update the materials based on user feedback

The second is to only focus on the differences between U.S. GAAP and IFRS. This approach typically works best when all the participants have a deep understanding of U.S. GAAP and the training can be focused and abbreviated on only the differences between the two sets of standards. Another potential approach is to develop the

training to cover the standards in their entirety and then to highlight the differences between U.S. GAAP and IFRS in each accounting standard. These materials then can be abbreviated based on the different audiences being trained.

Delivering the materials

Once a company determines the approach that they will take to teach their professionals about IFRS, the company should determine how to deliver the content. Many companies are determining that the best approach would include a combination of facilitator-led courses and virtual courses (i.e., webinars and e-learning modules).

Facilitator-led material development would require the development of not only the actual training materials, but also often the development of guidance and case studies. If the company wants to include e-learning modules in their training program, they would need to develop the e-learning content, case studies, and various learning tests for the participants. Another option is a blended learning solution, with media and delivery options selected based on content complexity and appropriateness for the specific subject matter. Companies would then create a comprehensive training curriculum that identifies courses and maps them to the respective IFRSs. This curriculum can serve as a foundation for the full set of training materials.

Online IFRS training options

Deloitte now offers 14 online courses — one to three hours each in length — that provide a detailed review of many technical IFRS requirements. They focus on cross-industry issues and will provide you with the basic knowledge to understand the differences between U.S. GAAP and IFRS.

These courses are convenient, flexible, and interactive; they can be taken anytime and anywhere with an internet connection, subject to a nominal monthly per user subscription fee. Participants can earn 27 CPE credits if they complete all 14 courses.

Contact your local client engagement team for more information or to enroll.

Available courses

1. IFRS 1, First-Time Adoption of IFRS
2. IFRS 7, Financial Instruments: Disclosures
3. IAS 2, Inventories
4. IAS 10, Events after the Reporting Period
5. IAS 11, Construction Contracts
6. IAS 18, Revenue
7. IAS 24, Related-Party Disclosures Statements
8. IAS 27, Consolidated and Separate Financial Statements
9. IAS 32/39, Financial Instruments Accounting
10. IAS 34, Interim Financial Reporting
11. IAS 36, Impairment of Assets
12. IAS 37, Provisions, Contingent Liabilities, and Contingent Assets
13. IAS 38, Intangible Assets
14. IAS 39, Financial Instruments: Hedge Accounting



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IFRS resources

If you're looking to learn more about IFRS and need some CPE credits, attend our one-day IFRS Boot Camp, co-sponsored by Financial Executives International (FEI), in New York City on November 17. This full-day workshop will provide financial executives with practical information, cost-effective approaches, and an overview of time-saving tools for addressing IFRS assessments and conversions in their organizations. Go to [FEI's website](#) for additional information.

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