

IFRS perspectives

An executive survey

No matter how it takes shape, transition to IFRS in the US will dramatically impact companies in a number of ways. We share our views, along with those of over 100 CFOs and managing directors in US-based multinationals.[†]

Recent public comments by SEC officials and the G-20 have revitalized discussions around IFRS. Comments by Chairman Schapiro and others indicate that the SEC will provide additional guidance on the status of the SEC's thinking about IFRS soon. The September G-20 meeting highlighted the commitment of the world's leaders to one global set of accounting standards and asked regulators to redouble their efforts on the convergence front to meet the 2011 deadline. The FASB and IASB announced recently that they will focus efforts on meeting the 2011 deadline by working more closely together and issuing joint standards rather than converged separate standards. SEC commissioner Elisse Walter said in December that the SEC would share, in early 2010, its thinking about proposed actions to address certain challenges of moving to IFRS in the US.

PwC's point of view

Notwithstanding challenges, and although the path seems unclear at the moment, we continue to believe the US will transition to IFRS. The global transition to IFRS is too significant to ignore. Transition continues with Brazil, Canada, and South Korea by 2011 and Mexico in 2012. Japan will allow optional IFRS use for certain domestically listed companies beginning with fiscal years ending in March 2010. In addition, over 100 countries have already adopted IFRS with the number increasing to over 150 in 2011.

Highlights

- The next several years will bring a near-constant rate of accounting change.
- Nearly 60% of executives either agree with the current pace of conversion or think it should proceed more quickly.
- Despite an uncertain timeline, over half of respondents view IFRS conversion as at least a moderate priority.
- Companies should maintain corporate oversight as non-US subsidiaries adopt IFRS. A combined 85% of respondents plan to do so.
- Preparation is possible. There are a number of steps companies should take.

[†] Survey conducted in the second half of 2009 by an independent research firm as part of PricewaterhouseCoopers' Barometer Survey program.

The recent financial crisis has shown the interconnected nature of capital markets around the world, demonstrating the importance of achieving a common accounting language. A long-term, convergence-only process risks derailing the goal of achieving global standards and will never achieve fully the goal of a single set of standards. IFRS stakeholders outside the US are likely to become less willing to cooperate and may disengage from the convergence process if the US is not clearly committed to IFRS. Indications of this already exist.

We expect to begin to see revised thinking from the SEC in the coming months. That said, any final decision on a mandatory adoption date is still anticipated during 2011 or shortly thereafter. In response to preparer concerns, we believe the SEC will allow more than the three years proposed in the roadmap to

effect conversions. This means that the start of any mandatory conversion period set by the SEC will likely extend beyond the original 2014 date, perhaps by one or two years. Once the mandatory conversion timetable is established, we believe the SEC may allow a broader early adoption option than proposed in the original roadmap.

Regardless of the speed and direction of the SEC, or whether changes arrive through convergence, an SEC-mandated move to IFRS, or continued IFRS adoption by subsidiaries and counterparties, the effect on US businesses will be considerable. Companies will be well-served by understanding the scope of these changes and how exactly they will affect their organizations.

For non-US subsidiary adoptions, converting from local GAAP requires

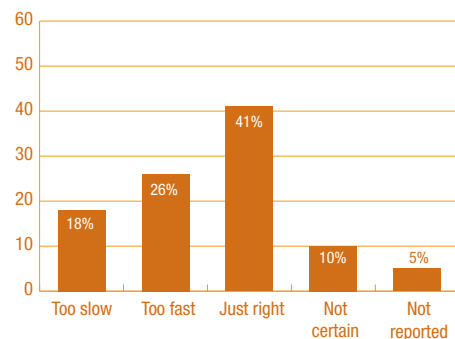
a commitment of management focus, resources, and funding. The transition will have implications on processes, systems, people, and tax, and may be costly, complex, and time-consuming. However, as more non-US subsidiaries adopt IFRS, there may be considerable benefits to the company as a whole, for example streamlining the consolidation process. To maximize these benefits, US corporate oversight is vital to ensure there is a uniform approach to the adoption of IFRS across all subsidiaries.

By keeping apprised of developments with IFRS at home and abroad, US companies may ensure that they and their affiliates remain well positioned to efficiently and effectively address issues relating to ongoing global conversion, near-term US GAAP and IFRS convergence, and the eventual US conversion to IFRS.

Marketplace perspectives

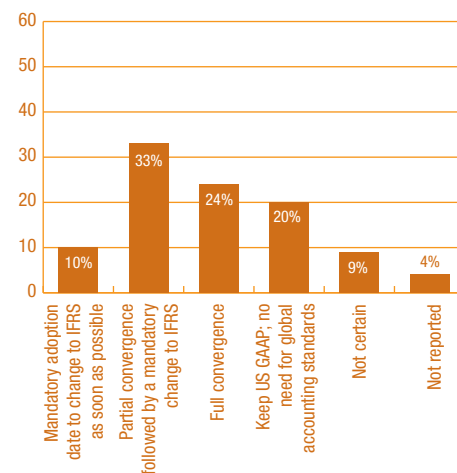
Following are the results of our survey questions, accompanied by our brief analysis.

Question 1. What is your view on the overall pace of conversion to IFRS in the US?



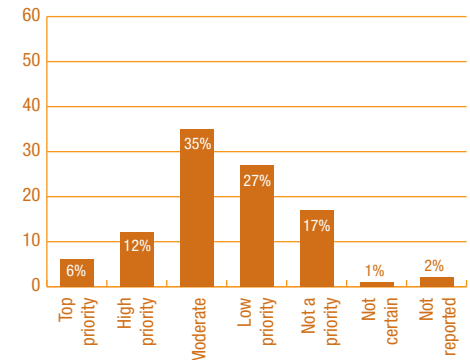
The bulk of respondents are comfortable with the pace of US conversion as-is. Just over a quarter think we're moving too quickly, whereas one in five think the SEC and standard setters should be moving more quickly to convert to IFRS in the US. Overall, this means that the SEC's thoughtful pace makes sense to this broad range of corporate executives.

Question 2. What is your company's preferred approach to achieving a global set of accounting standards?



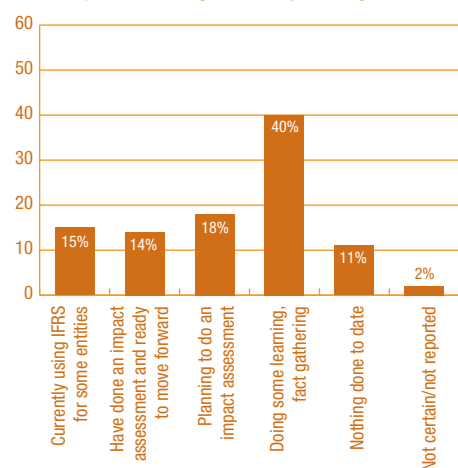
A combined 43% favor either near-term mandatory change or a change date preceded by partial convergence between IFRS and US GAAP in select areas. Nearly a quarter prefer full convergence between the two standards. One in five would prefer to keep US GAAP as-is.

Question 3. What is the priority level of IFRS conversion to your organization?



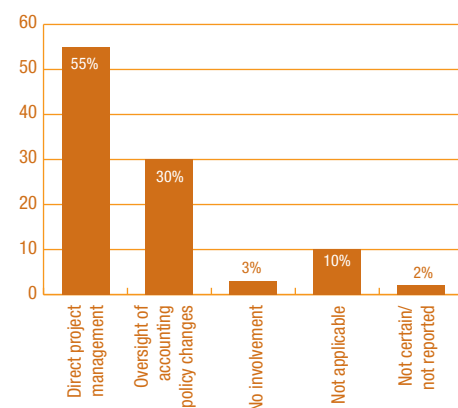
Responses indicate that over half (53%) of all executives responding to the survey place IFRS conversion as a moderate or higher priority, while 44% consider it a low priority or not a priority at all. Regardless of a company's views on pace or approach, most agree this is an issue on which they must remain focused.

Question 4. Where does your company stand with respect to using IFRS in your organization?



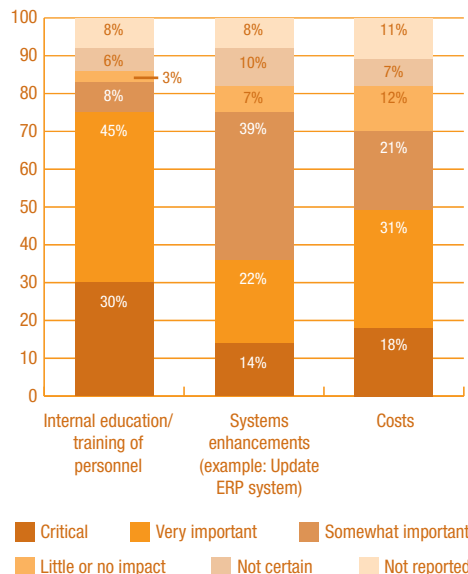
Given the multinational companies surveyed, it is not surprising that a good number are already using IFRS somewhere in the world. More interesting is the total of the responses, “Have done an impact assessment and ready to move forward” and “Planning to do an impact assessment”. Between the two, nearly one-third have done an assessment or are planning to do so. Regardless of a company’s views on IFRS, anticipating potential changes and planning ahead for various scenarios can be an advantage. The relatively minor investment can assure a company and its investors that it is prepared for whatever comes next regarding IFRS.

Question 5. In your company, what role will corporate headquarters most likely take if or when subsidiaries adopt IFRS?



These results are reassuring. As mentioned above, companies should influence the transition timing, strategies, and policy decisions of non-US subsidiaries that are increasingly likely to be on IFRS or IFRS for SMEs in the foreseeable future.

Question 6. In your company, how important is each of the following when considering the success factors needed for IFRS conversion?



Internal education/training of personnel

A combined 75% of respondents indicated this area was either critical or very important to their company. We, too, believe that a well thought-out training strategy is vital to successfully making the transition to IFRS (indeed, for near-term convergence issues as well). It is essential that project and finance teams are equipped with the appropriate knowledge, skills and behaviors to effectively use IFRS in their day-to-day roles, and incorporate new working practices into business as usual. Given the far reaching impact of IFRS, training needs extend not only to those directly impacted by IFRS, but also to the wider organization (e.g. operational/functional managers, business units, Boards, acquisition teams, investor relations) who may now be faced with new information, policies, processes and systems.

Systems enhancements

A lesser number of respondents viewed system enhancements as either a critical or very important success factor in an IFRS conversion. While initially the importance may not be as evident in other areas, the systems impact is one that requires companies’ attention. Technology is a key enabler in the transition to IFRS. Most organizations will undergo a phased embedding process. Therefore, the ability to produce both US GAAP and

IFRS information will be necessary for an extended period until there is a complete global shift to IFRS for statutory purposes. Recognizing that changes to technology cannot be avoided, forward-looking companies are taking steps now to gain an understanding of how well their existing systems can support IFRS compliance and what changes are needed.

Costs

Nearly half of the respondents ascribed a high level of importance (critical and very important) to costs when considering success factors needed for a conversion. Costs will be a factor in a conversion—the SEC has estimated that US issuers on average will spend 0.125% to 0.13% of revenue in the first year of transition. Per SEC estimates, second-year costs would be 75% less than first-year, and third-year costs would be 90% lower than second-year.

These are higher than companies experienced in Europe, which can in part be associated with the need for a longer dual reporting transition period and more stringent internal control requirements in the US compared to Europe.

About this survey

This survey was conducted by an independent research firm to ascertain the views of over 100 CFOs and managing directors regarding the transition to IFRS in the US. Executives surveyed were leaders in US-based multinational companies spanning many industries.

Below are the average demographics of our survey respondents’ companies:

Number of employees:	10,214
Annual revenues:	\$9.18B
Market capitalization:	\$9.92B

This is a part of PwC’s Barometer Survey program, which provides quarterly guideposts on the direction of the economy and its key industries, including revenue growth, new investments, new hiring plans, emerging business barriers and more. Changing, in-depth “hot topics” are featured each quarter, and for this survey, IFRS was the “hot topic”.

What should companies be doing now?

According to our survey, a combined total of almost one half of companies are either currently using IFRS somewhere in the world, have completed an initial impact assessment, or are planning to do an assessment soon. This sends a strong message—companies are anticipating and getting prepared for the changes that lie ahead on the IFRS landscape. Other companies may wish to consider doing the same if they have not already. We cannot stress enough the importance of an appropriate level of awareness and preparedness. If readers take just one thing away from this survey, we hope it is that. Companies should be thoughtful and measured in their approach as they consider this complex change management challenge.

Below are our suggestions on what companies should be doing now:

- **Focus on the challenge.** The next several years will bring major changes to US financial reporting.

Whether changes arrive through convergence, an SEC-mandated move to IFRS, or continued IFRS adoption by subsidiaries and counterparties, the effect on US businesses will be considerable.

- **Perform an assessment.** Consider the effects various alternative paths could have. Identify and consider the implications of business, accounting, tax structure, financing, long-term contractual commitment, investor, control, systems and work-force related issues. Consider how changes will influence the behavior of your non-US counterparties (customers and vendors).
- **Be poised to adapt to ongoing change.** Use scenario planning to incorporate likely convergence and IFRS adoption expectations into your strategic thinking and business planning. Closely follow SEC actions, new FASB and IASB standards, and the increasing international acceptance of IFRS and IFRS for SMEs for statutory purposes.

- **Maintain corporate oversight.** Influence transition timing, strategies, and policy decisions of non-US subsidiaries that are increasingly likely to be on IFRS or IFRS for SMEs in the foreseeable future.
- **Identify what you can do now.** Be mindful of aspects of convergence and conversion that will take the longest. Consider smaller controlled one-off projects and “easy wins” where desirable.

By following these recommendations, companies will be better prepared for whatever comes next—be it more convergence, more immediate conversion, or somewhere in between. In our experiences with IFRS conversions elsewhere in the world, many companies failed to adequately plan and were therefore forced to conduct last-minute transitions which increased conversion costs and left opportunities on the table. Through adequate advance planning, US companies can avoid those risks.

For our full line of IFRS resources, including additional publications, webcasts and interactive tools, please visit www.pwc.com/usifrs.

This survey is part of PricewaterhouseCoopers' Barometer Survey program—specifically the quarterly Management Barometer. For additional information about the Barometer Survey program, please visit www.barometersurveys.com.

To have a deeper conversation about how this topic may affect your business and/or obtain further information, please visit our dedicated US IFRS website or contact one of the following:

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