

# IFRS Survey 2008

**IFRSs from a user perspective**  
What companies need to apply  
them efficiently





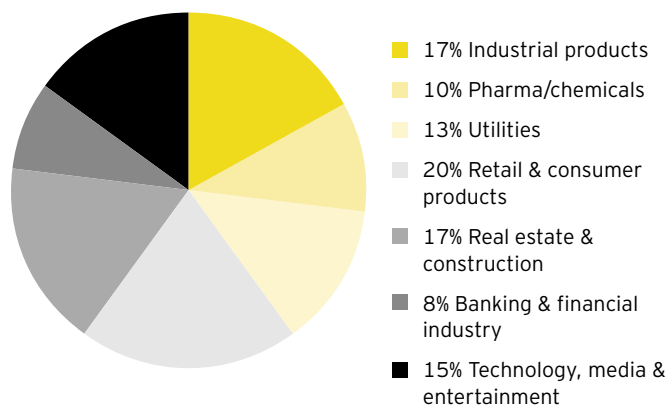
# Introduction

International Financial Reporting Standards (IFRSs) are fast becoming the global benchmark. The American Securities and Exchange Commission (SEC) has recently announced the roadmap for the introduction of IFRSs for listed companies in the US from 2014 onward. However, IFRSs are also on the agendas of non-listed companies, especially when faced with successor solutions and corporate transactions.

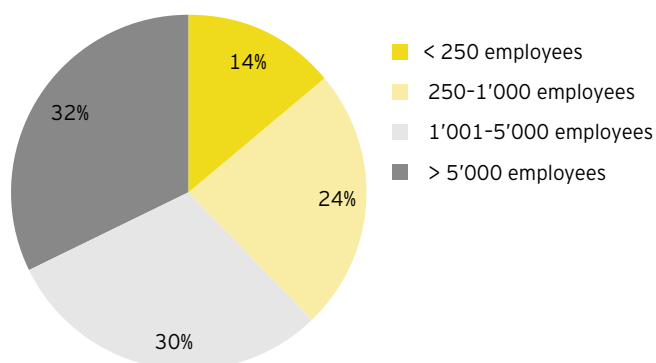
In the summer of 2008, the Ernst & Young IFRS advisory team conducted a survey to gauge sentiment among IFRS users in Switzerland. Our main aim was to document the manifold effects of IFRSs on various groups such as IFRS users, boards of directors, financial analysts or auditing firms and identify possible trends for forthcoming adjustments to the standards. The survey focused on the practical application of IFRSs and their impact on employees, systems and processes.

The findings are based on interviews with the heads of finance/accounting or CFOs of 50 (mostly) listed companies in Switzerland. The survey was conducted using a standardized questionnaire with 20 questions which were put to companies of various sizes from various industries.

**Industry of companies surveyed**



**Size of companies surveyed (number of employees)**



# The results at a glance

## IFRS knowledge is often limited to a small group of specialists

The survey participants said they were satisfied with the overall level of IFRS knowledge in their companies. However, this knowledge is limited to a small group of specialists, who thus

have a very high workload. This poses a “cluster risk” for the respective companies.

## IFRS application often requires the help of external advisors

The respondents stated that they rely heavily on external support when applying complex standards and meeting new requirements.

## IFRSs are perceived as overregulated and difficult to understand

IFRS is becoming widely regarded as a system that is overly complex, ties up considerable resources and drives up costs.

## Companies focus more on publishing key performance indicators than IFRS annual financial statements

Many of the companies surveyed are in no rush to publish their financial statements. Despite wide application in other countries, few companies in Switzerland have adopted the “fast

close” approach and the timely publication of financial results that accompanies it.

## Fair value accounting does not improve financial statement transparency

The growing shift towards fair value accounting is viewed critically. The general feeling at the companies surveyed is that

IFRSs do not improve the informative value or quality of financial statements.

## Urgent and extensive action needed in IT systems and personnel

The standards are subject to constant change. Existing structures have to adapt quickly and flexibly, especially in the areas of personnel/organization and systems/controls.

# IFRS knowledge is often limited to a small group of specialists

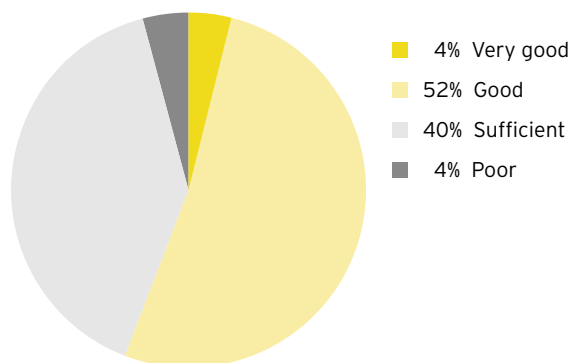
Overall, Swiss companies have good knowledge of IFRSs but this knowledge is limited to a small group of specialists.

The large majority of the companies surveyed are happy with their IFRS knowledge: only 4% thought that IFRS knowledge in their company was poor. However, almost half (46%) of those surveyed think that there are too few people in their company with the required knowledge. This key statement was made regardless of the size of the company. Even companies with more than 1,000 employees stated their IFRS knowledge was concentrated in a small group of people.

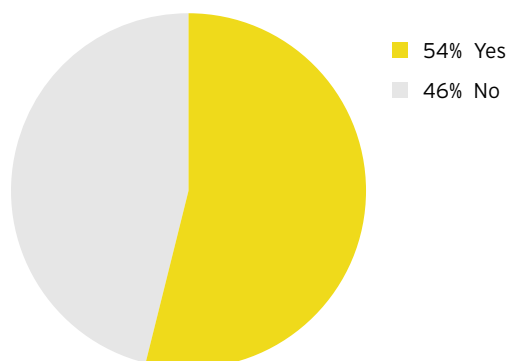
Generally, we found that the specialist IFRS knowledge available within companies is dwindling as the standards themselves become more complex. In particular, many of the companies surveyed depend on external support with share-based payment (IFRS 2) and employee benefits (IAS 19).

The respondents are aware of the growing complexity of the standards and place great importance on providing their employees with ongoing training. At the same time, more than a third of respondents stated that training was not provided often enough.

How do you rate the IFRS knowledge available within your company?



Does your company have enough people with IFRS knowledge?



## Our position

"I am convinced that a company can only retain specialist knowledge when it is shared by a number of people. Management must ensure that suitable specialists are selected and provided with ongoing IFRS training."

Alessandro Miolo, Audit Partner

## What do things look like in practice at your company?

- Does financial reporting play a role in your company's job advertisements or training programs?
- Does your company have a strategy to spread knowledge and responsibilities in finance and financial control?
- Are your management and supervisory board ready for IFRSs and the ongoing changes in financial reporting?

# IFRS application often requires the help of external advisors

The companies surveyed often depend on the support of external IFRS specialists. None of the companies surveyed stated that they were able to apply IFRSs without any external help.

The majority regularly consult external specialists in connection with IFRS issues. Two thirds (66%) of the companies turn to their auditors first, while 17% seek advice from external advisors.

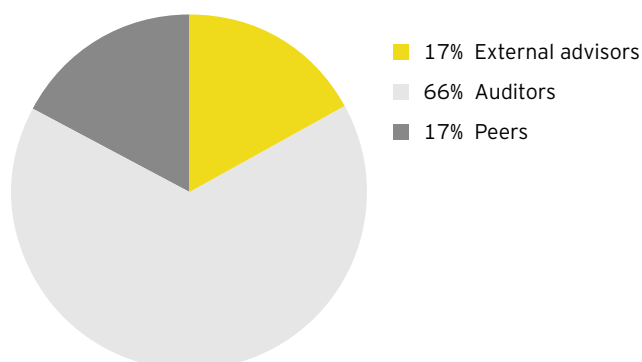
Most of the advice requested covered

- ▶ Share-based payment (IFRS 2)
- ▶ Employee benefits (IAS 19)
- ▶ Business combinations (IFRS 3)
- ▶ Financial instruments (IAS 32, IAS 39 and IFRS 7)

Companies also often draw on external support when implementing new standards. For example, when IFRS 7 was introduced, 80% of the companies surveyed asked external specialists to help them with its implementation.

Companies obtain information on new or revised standards either from their auditors or directly from the International Accounting Standards Board (IASB). The companies surveyed stated that they were very happy with the relevance and content of this information.

Who do you consult first with questions relating to IFRS interpretation?



## Our position

"My experience shows that companies that address new developments and changes in financial reporting early and in cooperation with the right partner are well equipped - especially for a volatile and difficult market environment."

Chris Schibler, Audit Partner

## What do things look like in practice at your company?

- Does the CFO of your company have an IFRS coach or sparring partner?
- Does your company have good contacts to IFRS experts and are you satisfied with the answers you receive?

# IFRSs are perceived as overregulated and difficult to understand

IFRS is becoming widely regarded as a system that is overly complex, ties up considerable resources and drives up costs.

70% of the companies surveyed perceived IFRSs as overregulated. Only 14% of the respondents judged the volume of IFRS standards to be appropriate. This group is not homogenous in terms of company size or industry.

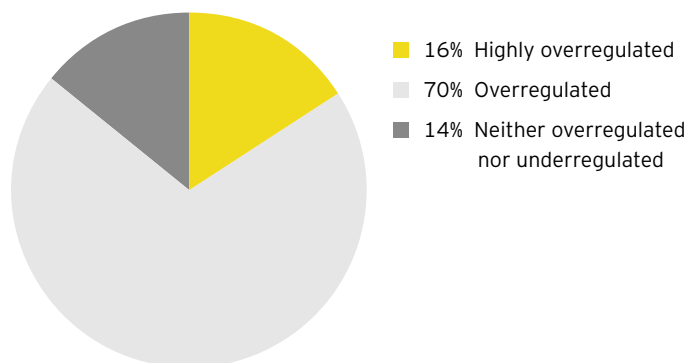
This confirms the widespread opinion that IFRSs tend to be overregulated. Companies feel increasingly compelled to expand their group accounting resources in order to ensure correct implementation of IFRSs.

Despite overregulation, the companies in the survey assessed IFRSs positively as regards quality, relevance for their operating activities and comparability within the industry. In terms of comprehensibility, the standards were rated negatively.

The survey shows that complex standards are perceived as difficult to understand. Specific reference was again made to financial instruments (IFRS 7, IAS 32 and IAS 39), employee benefits (IAS 19) and share-based payment (IFRS 2).

Many of the companies identified the standards which will be amended in the near future, IFRS 8 and IFRS 3, in response to the question as to which standard will become more significant. This suggests that the "IFRS radar" of many companies is chiefly focused on forthcoming amendments in the short term.

How do you rate IFRSs overall?



## Our position

"In my view, there is only one way to manage the constantly growing complexity in financial reporting. That is early recognition of possible amendments and proactive communication to the board of directors and investors."

Roger Müller, Senior Manager Audit

## What do things look like in practice at your company?

- Does your company operate an IFRS radar?
- Are the board of directors, shareholders and investors aware of the ongoing implementation of IFRSs and its effects on the company?

# Companies focus more on publishing key performance indicators than IFRS annual financial statements

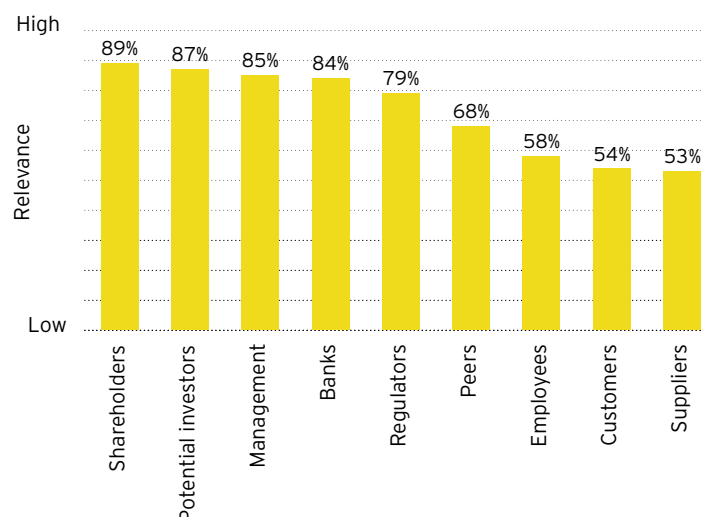
On average, 75 days elapse between the balance sheet date and the publication of the final annual report.

The consolidated financial statements are highly relevant for many interest groups, such as shareholders, management, banks, regulators and potential investors. It is therefore all the more surprising that, on average, the annual report is not available until 75 days after the balance sheet date. The companies quoted on the SIX Swiss Exchange can wait even longer: they do not have to submit their financial reports until 120 days after the balance sheet date.

Press and analyst conferences, which are often held shortly after the balance sheet date, are mostly based on provisional unaudited figures. Opinions are therefore largely formed on the basis of unaudited financial reports.

Due to this relatively long time to publication by international standards, hard closes are thin on the ground in Switzerland. A hard close is when financial statements are prepared and figures audited at the end of months 10 or 11 and the remaining months are audited in the new year.

How relevant is your annual report for the following interest groups?



## Our position

“It goes without saying that prompt reporting increases the relevance of the audited financial reports and allows a conclusive and reliable assessment for interest groups such as potential investors. Accelerating the closing process, however, usually means adapting internal processes and IT systems.”

Alessandro Miolo, Audit Partner

## What do things look like in practice at your company?

- Are disclosures in the notes to the financial statements clearly structured and comprehensible for all interest groups?
- Has your company ever carried out a hard close to improve and accelerate the closing process?
- Have you ever prepared an early draft of the notes to the financial statements to which the definitive figures are added later on?

# Fair value accounting does not improve financial statement transparency

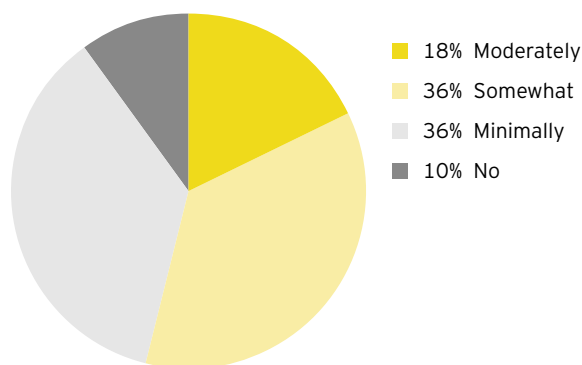
The companies surveyed are of the opinion that fair value accounting barely increases or does not increase the transparency, informative value and comparability of financial statements.

The objective of IFRSs is to provide a true and fair view of a company's net assets, financial position and results of operation. The highest principles of IFRS accounting are the accrual basis and the going concern principle. Comprehensibility, relevance, integrity, reliability and comparability are the qualitative requirements which IFRS financial statements must meet.

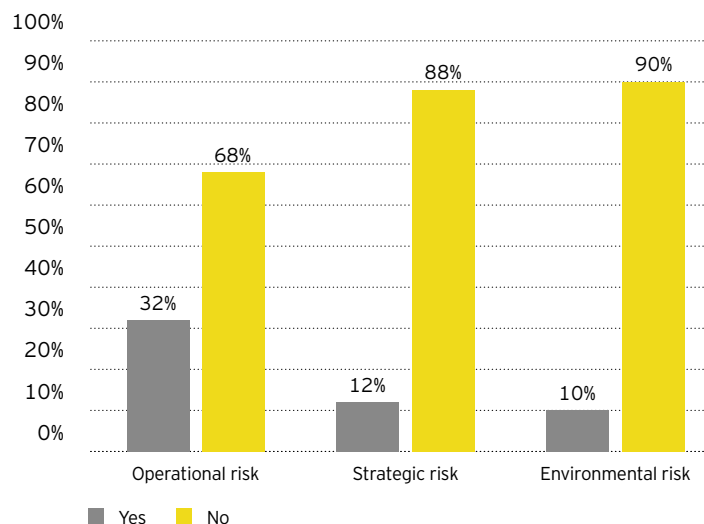
The companies surveyed agree that IFRS annual reports present the financial situation of companies correctly. However, the majority of the companies find that fair value accounting does not increase the quality and informative value of the financial statements to the desired degree.

The respondents are rather skeptical as far as the transparent presentation of financial risks and their adequate management are concerned. They tend to reject a more extensive disclosure of operational, environmental and strategic risks in the annual report. This is probably due to the additional financial and personnel-related resources required.

**Does fair value accounting improve the transparency, informative value and comparability of financial statements?**



**What other risks should be reported on more extensively in financial reporting?**



## Our position

"I understand that fair value accounting is viewed critically due to the recent developments on the international financial markets. I am, however, convinced that the trend toward fair value accounting will prevail in the mid term. This means that the development of suitable models and the disclosure of the assumptions used will be a priority in the future." Chris Schibler, Audit Partner

## What do things look like in practice at your company?

- Does your company disclose assumptions used in the valuation models consistently and in detail?
- Is there sufficient communication with competent valuation specialists on valuation models in your company?
- Do you perform scenario analyses regularly?

# Urgent and extensive action needed in IT systems and personnel

The IFRS standards are subject to constant change. Existing structures have to adapt quickly and flexibly, especially in the areas of personnel/organization and systems/controls.

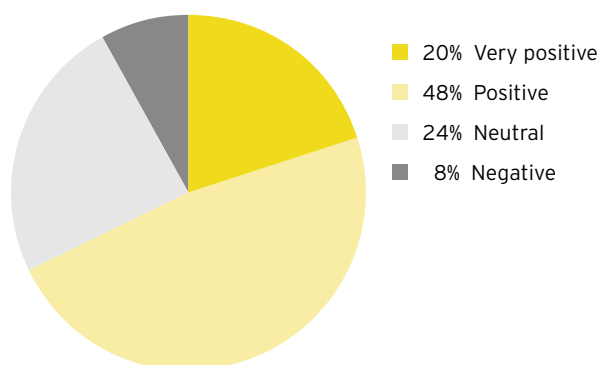
Most of the companies in the survey are satisfied with the efficiency and effectiveness of their financial statement preparation process. At a third of the companies, the subsidiaries report using manual reporting packages. At the majority of companies surveyed, reporting is an integrated component of the consolidation software.

IFRS standards are evolving all the time. The financial statement preparation process and the implementation of the standards therefore require ongoing adjustments. The companies in the survey see further room for improvement.

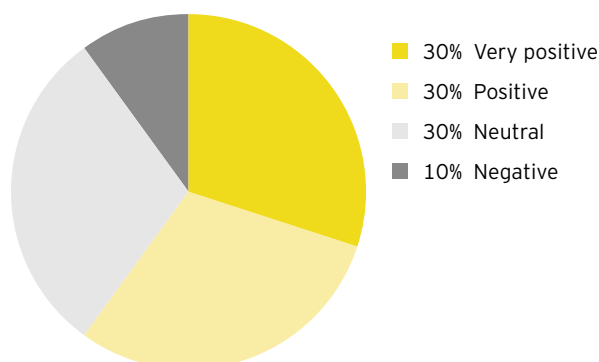
In order to utilize this potential, personnel and organization will need to be adapted and systems and controls will require modification.

No standardized consolidation software is used by over 10% of the companies surveyed. In addition, the survey shows that only 60% of the companies surveyed use an IT system that is simple to adapt.

**How do you rate your processes for preparing consolidated financial statements in terms of efficiency?**



**How do you rate your processes for preparing consolidated financial statements in terms of cost?**



## Our position

"I frequently observe that financial reporting is regarded as a purely mechanical and accounting discipline. In my view, only an optimized financial statement preparation process and supporting IT systems allow successful and efficient implementation of IFRSs."

Roger Müller, Senior Manager Audit

## What do things look like in practice at your company?

- Is the financial statement preparation process at your company ideally structured and automated?
- Do you collect additional information required for reporting under IFRSs at an early stage?

# Ernst & Young IFRS Advisory

We support you in meeting the current and future challenges of IFRS financial reporting in a rapidly changing environment. We work with you to identify potential problems and offer solutions that are tailored to your requirements.

Our services at a glance:

- ▶ CFO coaching
- ▶ Implementation of new accounting standards
- ▶ Assistance in conversion to new standards
- ▶ Training and knowledge management
- ▶ Optimization of accounting and financial control processes
- ▶ IFRS transaction advisory

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## Imprint

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