

The SEC has now made it clear that the shift from GAAP to IFRS is underway, with U.S. companies given the next several years to transition over to the new international standard. For employers, conversion to IFRS is much more than a technical accounting issue that requires you to review your internal skill sets and ensure that you have the right people on the task; it should actually be viewed as a cultural change for your company. It's important to embrace this sea change now and start building a team of people who can turn this apparent pain point into an organizational advantage.

The Transition to IFRS: Build Your Team Now and Save Money Later

Last month, the SEC adopted a proposed roadmap for the potential transition by U.S. companies from Generally Accepted Accounting Principles (GAAP) to International Financial Reporting Standards (IFRS). The roadmap provides for a voluntary transition to IFRS for a limited category of U.S. companies starting as early as 2009, then mandating IFRS for large U.S. companies for their 2014 financial statements, with somewhat smaller ones required to make the move in 2015 and then the smallest companies forced to use IFRS in 2016.

In its recent roadmap announcement, the SEC restated its view that increasing integration of the world's capital markets, which has resulted in two-thirds of U.S. investors owning securities issued by foreign companies that report their financial information using IFRS, has made the establishment of a single set of high quality accounting standards a matter of growing importance. A common accounting language around the world would give investors greater comparability and greater confidence in the transparency of financial reporting worldwide.

The final decision on whether to implement this timetable is still a couple years away, but few observers dispute the notion that a transition to IFRS is inevitable. In November of 2007, the SEC eliminated the requirement for foreign private issuers that use IFRS to reconcile to U.S. GAAP. Later, the SEC issued a concept release and sponsored a series of roundtables to explore the idea of allowing U.S. issuers to use the international standards.

For employers, conversion to IFRS is much more than a technical accounting issue that requires you to review your internal skill sets and ensure that you have the right people on the task. IFRS may significantly affect any number of a company's day-to-day operations and may even impact the reported profitability of the business itself. For these reasons, the transition to IFRS should be viewed as a cultural change for your company; not just a corporate finance project to tackle a few months before you are forced to do so by the SEC.

For example, in addition to the finance department, here are some key areas in which your organization needs to start making changes now in order to make sure that you have the people, systems and processes in place to make the IFRS transition a winner for your company:

1. **Human Resources:** The new financial reporting regime will likely affect a number of aspects of your staffing procedures, specifically the form in which some employees are compensated.
2. **Communications:** Transitioning to IFRS is likely to impact how your management team communicates with your investors, how you conduct business with your customers and even how you interact with vendors.



3. **Operations:** The transition requires sophisticated planning due to the many interrelated changes it will require within an organization. You will need to customize the transition to your business operations; there is no “one size fits all” model that you can simply deploy for your organization.

It might be advisable to use the implementation of the Sarbanes-Oxley Act as a guidepost here. Many large companies seemingly put their heads in the sand over the onerous requirements of this legislation, and then found themselves in the unenviable situation of having to hire teams of specialists and consultants in order to meet their compliance obligations at the 11th hour. The result was millions of dollars in costs, extraordinary losses of business productivity and even some examples of reporting errors that created additional headaches for executives.

But a few forward-thinking organizations theorized that their transition-related changes to Sarbanes-Oxley had the potential to deliver future dividends, such as streamlined operations and reduced costs. With this outlook, these companies approached their compliance efforts strategically (e.g., overhauled an inflexible information technology system), instead of just treating them as emergency compliance exercises.

The point is that you can wring your hands about the IFRS transition and decide to cope with it later, or you can embrace it now and start building a team of people who can turn this apparent pain point into an organizational advantage. The earlier you begin, the greater the benefits are likely to be to your company.