

# AFP<sup>®</sup> Annual Conference



— November 7-10, 2010 | San Antonio —

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ORIGINAL  
ESSENTIAL  
UNBIASED  
INFORMATION



## Managing IFRS Conversion In A Global Environment

Andreas Rothe  
SVP and Global Controller  
Parsons Brinckerhoff

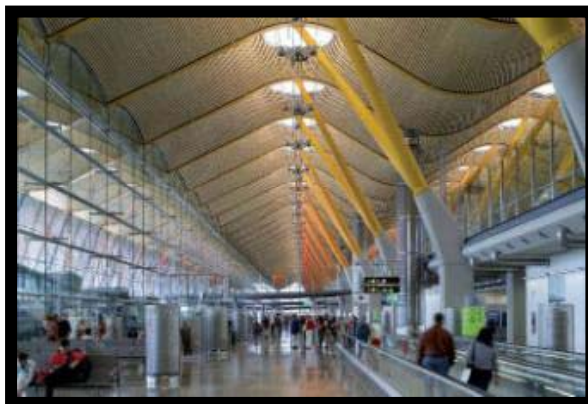
# Agenda

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- About Parsons Brinckerhoff
- IFRS and why it matters
- Implementing IFRS
- 7 Weeks in Summer 2009



Indira Gandhi International Airport, Delhi, India



Madrid-Barajas International Airport, Spain



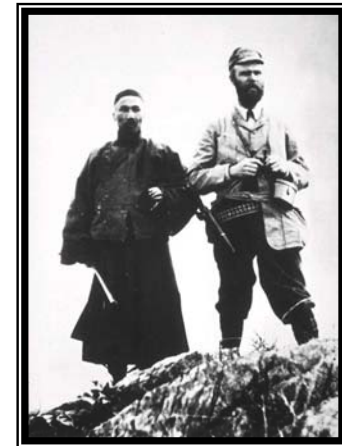
Dulles International Airport, Virginia

# Parsons Brinckerhoff

- Founded in 1885 by General William B. Parsons
- Management consulting, planning, engineering, program and construction management, O&M services
- Market sectors include transportation, power, buildings, water/wastewater, environmental
- Approximately 14,000 employees in 150 offices worldwide
- \$2.1B in Revenues, 47% outside US
- Until Oct 2009, Employee Owned approx. 5,000 shareholders
- Now fully owned subsidiary of Balfour Beatty engineering, construction, services, investments



New York City Subway



Parsons in China

# Parsons Brinckerhoff

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- Ranked
  - 1st in design firms for roads & highways, bridges, airports and mass-transit (Roads and Bridges magazine)
  - 4th in global transportation (Engineering News Record)
  - 4th for global consultants in power market (New Civil Engineer)
- Involved in some of the largest and most important infrastructure projects in the world
- Had to switch to IFRS in 2009  
... within weeks



Arthur Ravenel Jr. Bridge, South Carolina

# Global Projects and Business Operations



Woodrow Wilson Bridge, DC



Louisiana TIMED Program



Sacramento Airport Expansion



Palm Jumeirah, UAE



Az-Zour South Power Station, Kuwait



Gippsland Water Factory, Australia



Taiwan High Speed Rail



Madrid Barajas Airport, Spain

# IFRS – and why it matters

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BART, San Francisco



Taiwan High Speed Rail



MARTA, Atlanta



Taipei MRT

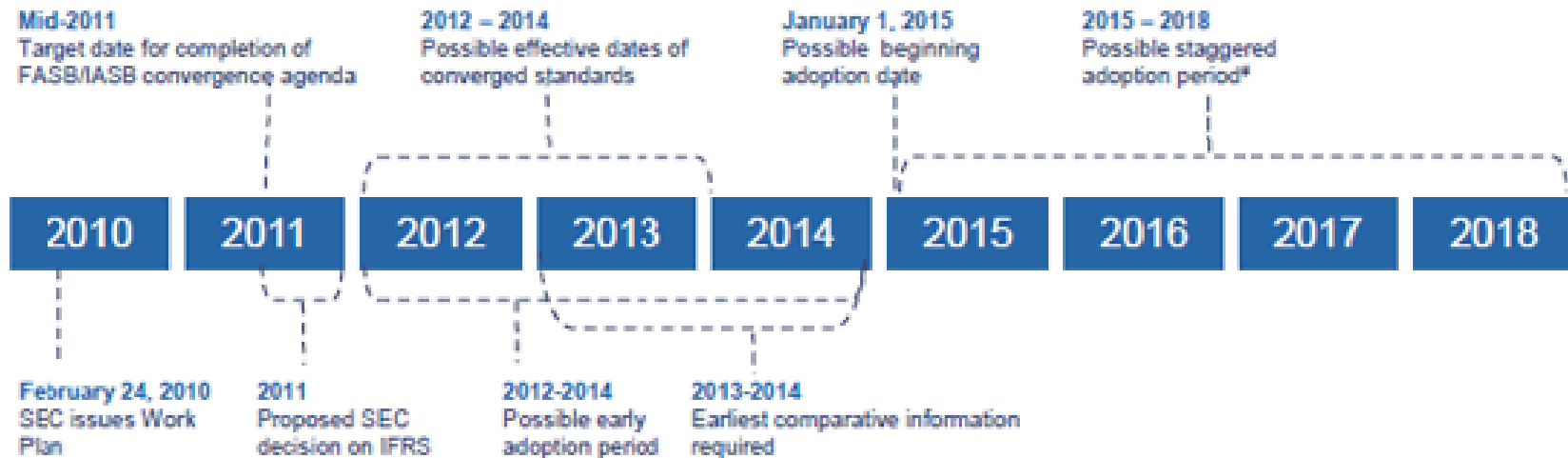
## General Differences between US GAAP & IFRS

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- Main difference is in the level of detail
- principles-based (IFRS)  
vs. rules-based (US GAAP)
  - Or: detailed vs less detailed
- IFRS provides far less guidance
  - Industry specific
  - Special situations / examples
- IFRS guidance fits into a single book (2 ½ inch thick)  
US GAAP (FASB and EITF alone 10 inch thick)



# Roadmap to IFRS



Source: PWC



# Commonalities and Differences

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- IFRS/US GAAP Differences, Differences to local GAAP
- While language of accounting standards may differ, most accounting treatment is still the same or does not result in material differences
- Many differences relay to presentation, disclosures and more / less specific guidance on how-to, e.g.
  - Layout of balance sheet and income statement
  - Joint Venture Treatment
  - Revenue Recognition
    - 200 pieces of literature vs. 2
- IFRS and US GAAP convergence efforts
  - Many current differences may not exist in a few years



# Implementing IFRS



Central Artery/Tunnel, Boston



Woodrow Wilson Bridge,  
Maryland/Virginia

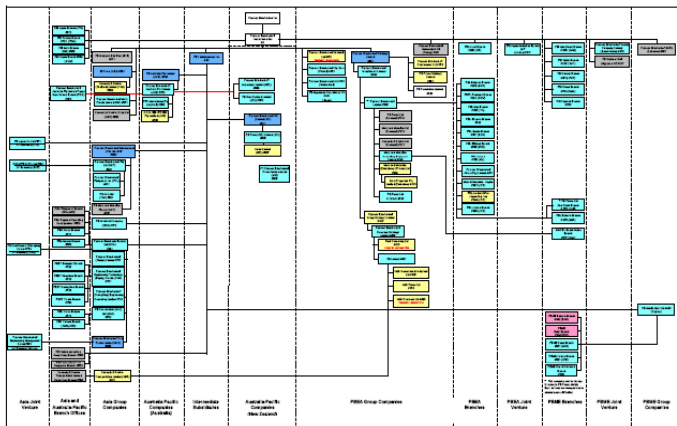


East Link, Australia



Kanchanaphisek Bridge, Thailand

# What to consider: Complexity in Global Organizations



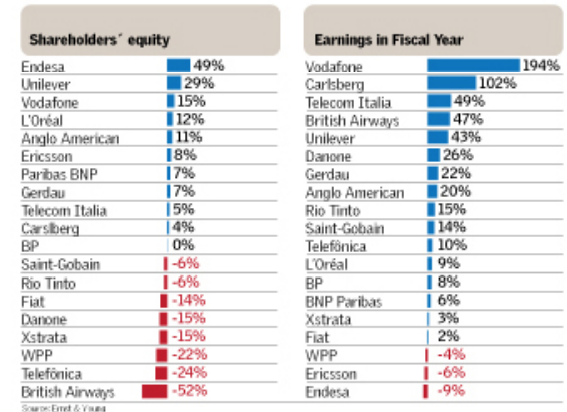
(excerpt from PB Org Structure)

- Multiple subsidiaries
- Local statutory reporting requirements
- Different Rollups (Statutory/Mgmt)
- Subconsolidations
- Different local Accounting Standards
  - IFRS
  - Local IFRS Adjustments
  - UK GAAP
  - US GAAP
  - Tax Reporting
  - Year Ends
  - ...
- Global US GAAP reporting

# What to consider: Many parties involved

- Auditors and Consultants
  - ‘the next SOX’ ?
- Tax
  - Local tax requirements
  - LIFO (Last in first out) not allowed under IFRS
- Treasury
  - Hedge Instruments, Debt to Equity Ratios / Covenants
- Contracts
  - E.g. Consolidation of Entities, Joint Ventures
  - Specific accounting treatments (e.g. Revenue Recognition EITFs)
- Management
  - Performance Metrics

**FIRST IMPACT OF ADOPTING IFRS**  
Difference in Local GAAP vs. IFRS



## Using IFRS conversion to streamline accounting processes and reduce costs

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Do you have many different

- accounting policies ?
- accounting processes ?
- financial systems ?

Did you ever think of centralizing finance functions ?

What did you learn from the SOX Implementation ?

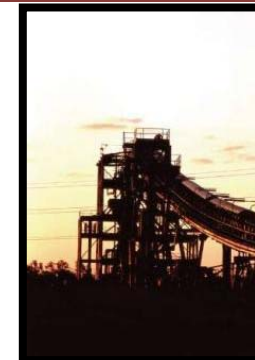
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# Implementing IFRS

1. Centralize
2. Focus on Commonalities
3. Deal with Exceptions
4. Manage the Auditors
5. Make it quick



Sabiya Power Plant, Kuwait



Kogan Creek Power Station, Australia



Navasota Colorado Bend, Texas



Medupi Power Plant, South Africa

# 1. Centralize

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- Local requirements
  - Most countries now follow IFRS or converge
  - Differences may not be material
  - Subsidiaries may not be public entities outside the US, less stringent requirements
- Many differences to US GAAP may impact head office only
  - Financial Instruments
  - Liability/Equity
  - Stock Options
- ... or could be managed centrally
  - Accounting for M&A, Divestitures
  - Joint Venture Accounting



Glenwood Canyon, Colorado

## 2. Focus on Commonalities

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- Modify US GAAP policies only if necessary
- Usage of same accounting standards make it easier to use
  - same chart of accounts
  - same processes
  - same systems
- Issue global accounting manual
  - Ensure global uniformity of standards
  - Provide guidelines to staff, auditors etc.
- Global processes and systems
- Global consolidation system



Deep Tunnel Sewerage  
System, Singapore



## 3. Deal with Exceptions

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- Major exceptions / changes to be dealt with at head office
  - Less need for training on new standard
  - Possible insight in alternative accounting treatment opportunities
  - More support from external auditors
  - Restrict number of exceptions
  - Most accounting differences with significant impact may only be relevant for head office
  - Infrastructure for valuation services



Fort McHenry Tunnel, Baltimore

## 3. Deal with Exceptions – Cont.

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- Evaluate current accounting policies
  - Major differences between IFRS and US-GAAP
  - Current policies that do not reflect economic reality
  - Current policies that differ from those used by competitors
  - One time chance to change – future changes may be more difficult
  
- Additional information necessary from field
  - Disclosures
  - Evaluation of accounting treatments (Principle vs. Rule Based)
  - Professional judgment documentation

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## 4. Manage the Auditors

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- Challenges of the Principles-based Approach in the US
- Less detailed guidance to consider
  - More of a focus on the “substance” of transactions
  - Evaluate whether the accounting presentation reflects the “economic reality”
- More use of professional judgment
- Impact on risk
- Possibility of second-guessing by regulators and auditors
  - More of a focus on the “process” around making judgments



Grove Pashley-Corbis

## 5. Make it quick

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- Manage it like a project
- Get familiar with standards / differences
- It helps to have a deadline
  - Keep internal focus
  - Materiality is key, yet ...
  - Auditors will take time
- Document (in particular if you are public)

The longer you have, the longer you need.

# 7 Weeks in Summer 2009

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# 7 Weeks

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- Week 1
  - Audit Firm analysis of differences in standard
  - Set up Project plan
  - Start evaluation of major differences
  - Design and communicate data gathering requirements (for analysis, notes)
- Week 2
  - Communicate Project Plan
  - Draft analysis completed



# Analysis - Example

Ref (IFRS / IAS)	IFRS / IAS Standard	Current accounting policies	Effect on PB	Potential Solutions & Actions	Financial Significance
IAS 11.11-21	<p><u>Contract costs and contract revenue</u></p> <p>IAS 11 provides detailed guidance on the definition of contract costs and contract revenues.</p> <p>Contract costs comprise costs that relate directly to the specific contract, costs attributable and can be allocated to the contract activity and other costs specifically chargeable to the customer.</p> <p>Costs incurred in securing the contract are included as part of the contract costs if they can be separately identified and measured reliably and it is probable that the contract will be obtained.</p> <p>Contract revenue comprises the initial revenue agreed in the contract and change orders when realization is probable.</p>	<p>Contract costs generally include all direct costs and indirect costs allocable to contracts.</p> <p>Costs incurred in securing the contract are included as part of the contract costs if they can be separately identified and measured reliably and it is probable that the contract will be obtained.</p>	<p>PB's current expense recognition policy is in compliance with IFRS. However, Blackadder's policy contains some ambiguity as to what types of costs should be included as contract costs and which should be included as SG&amp;A costs. Additionally, Blackadder's policy contains different accounting treatment for start-up costs, which are spread evenly over the contract term, and pre-contract costs related to tendering and securing a contract, which are expensed immediately until the contract award is virtually guaranteed.</p>	<p>The Company should confer with Blackadder to determine:</p> <p>a) what types of overhead or other indirect costs should be allocated to contracts. For example, Blackadder's policy states that legal costs arising from contract related disputes should be provided for as incurred and full provision made within forecast cost outcome of the contract for the expected total cost of the litigation. The Company would need to know whether this includes litigation for injury liability, etc. and also how to treat these costs after the specific contract has been closed. The Company currently has established a reserve for litigation, which is accrued when the loss is deemed probable and estimable in accordance with FAS 5.</p> <p>b) what types of costs are treated as start-up costs, and</p> <p>c) the definition of an "asset recognition date" for purposes of determining if and when an asset should be recognized.</p>	High
	<p>One of Blackadder's policies is regarding gain share/ pain share income. Gain share income should be reflected in project costs to complete when the risks of the residual contract can be assessed with accuracy. Pain share negative income should be reflected in costs to complete when identified.</p>			<p>PB should determine with Blackadder whether estimates should be shown on the left.</p>	Medium
IAS 11.7-10	<p><u>Segmenting and combining contracts</u></p> <p>The Standard recognizes that often the legal contract is not the unit on which the accounting for construction activity should be based.</p> <p>For the purposes of financial reporting it may be necessary to segment or group contracts together.</p>	<p>Under SOP 81-1 a Company may (but does not have to) segment or combine contracts upon meeting certain criteria.</p>	<p>Since segmenting and combining contracts is optional under US GAAP, the Company may have a difference where it meets the criteria for segmenting or combining under</p>	<p>The Company should determine with Blackadder:</p> <p>a) whether estimates should be shown on the left. If the Company generally does not meet these criteria when bidding for jobs, then no further action needs to be</p>	

Standard

Impact

Current Policy

Solution /Priority



# Analysis

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- If possible, use existing auditor for analysis
  - They know you and your policies / practices
  - They will have to sign off
- Differences
  - >100 identified possible differences were identified
  - 25 were addressed in detail
  - 8 required adjustments
- Additional 43 areas of additional disclosure

# Project Plan

#	Issue	Ops Co Involvement	Resource Enterprise	Resource Field	Date	EY Preparer	Reviewer
4	1 IFRS 2- Share Based Payment	no	MF, CY		ASAP	MZ	LK
5	2 Shareholder Notes	no	MF, CY		Week 3	MZ	LK
6	3 IFRS 3, 36 - Business Combination, Goodwill	no, minimal	FJ	Pat (For Acquisition)	Week 2	MR	JK
7	4 IFRS 10 - After Balance Sheet	no	CY		Week 3	SP	MZ
8	5 IFRS 11 - Contracts - Rev Rec Analysis	yes, selected contracts	FJ		Week 2	MZ	JK
9	6 IFRS 11 - Contracts - Cost of Sales	yes	FJ, AR		Week 2	MZ	JK
10	7 IFRS 11 - Contracts - Legal	yes, selected contracts	AR, FJ		Week 2	MZ	JK
11	8 IFRS 11 - Contracts - Segmenting	yes, selected contracts	FJ		Week 2,3	MZ	JK
12	9 IFRS 12 - Taxes	no, minimal	Nick, CY		Week 2,3,4	Tax, MZ	LK
13	10 IFRS 16 - PPE - Lifes Issue / Residual value	no, minimal	FJ		Week 1,2	MR	JK
14	11 IFRS 16 - PPE - Software	no, minimal	FJ		Week 1,2	MR	JK
15	12 IFRS 16 - PPE - Long Term Leases (not mentioned by E&Y)	no, minimal	FJ		Week 1,2	MR	JK
16	13 IFRS 16 - Leasehold Improvements	no, minimal	FJ		Week 1,2	MR	JK
17	14 IFRS 19 - Employee Benefits	yes	MF, CY	All	Week 3	MZ	LK
18	15 IFRS 21 - FX	no	CY		Week 2	SP	MZ
19	16 IFRS 31, 27, 28 - Joint Ventures and	yes, mainly US	CY	Pat, Diane, Matt P	Week 2,3	SP	MZ
20	17 IFRS 37, Provisions	yes	AR	Pat, Linda, others	Week 2,3	SP	JK
21	18 IFRS 38 - Intangibles	no	FJ		Week 2	MR	JK
22	19 IFRS 14, Segment Reporting	no	FJ		Week 4	SP	MZ

— Approx. 68 ‘issues’, 18 of which required involvement of field

# 7 Weeks - continued

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- Week 3
  - Data Gathering
  - Analysis of impact on areas where data was already available, e.g. Fixed Assets
- Week 4,5
  - Data Gathering
  - Analysis of major items, e.g. Rev Rec, JV
- Week 6
  - Adjustment entries
  - Draft Financials
- Week 7
  - Audit Committee



# Thank You

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Federal Courthouse, Boston



Catholic Medical Center, Korea



Venetian Macao

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