Managing IFRS Conversion In A Global Environment

Andreas Rothe
SVP and Global Controller
Parsons Brinckerhoff
Agenda

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

• Ranked
  – 1st in design firms for roads & highways, bridges, airports and mass-transit (Rocks 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
- Az-Zour South Power Station, Kuwait
- Palm Jumeirah, UAE
- Louisiana TIMED Program
- Madrid Barajas Airport, Spain
- Gippsland Water Factory, Australia
- Taiwan High Speed Rail
- Sacramento Airport Expansion
- AFP® Annual Conference
IFRS – and why it matters

BART, San Francisco

Taiwan High Speed Rail

MARTA, Atlanta

Taipei MRT
General Differences between US GAAP & IFRS

• 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 think)
Roadmap to IFRS

- Mid-2011: Target date for completion of FASB/IASB convergence agenda
- 2010: SEC issues Work Plan
- 2011: Proposed SEC decision on IFRS
- 2012: Possible effective dates of converged standards
- 2012-2014: Possible early adoption period
- 2013-2014: Earliest comparative information required
- January 1, 2015: Possible beginning adoption date
- 2015: Possible staggered adoption period
- 2015-2018: Possible staggered adoption period

Source: PWC
Commonalities and Differences

- 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

- 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

(excerpt from PB Org Structure)
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
Using IFRS conversion to streamline accounting processes and reduce costs

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 ?
Implementing IFRS

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

- 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
2. Focus on Commonalities

- 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

• 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.

- 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
3. Deal with Exceptions – Cont.

• Evaluate current accounting policies
  – Major differences between IFRS and US-GAAP
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• Additional information necessary from field
  - Disclosures
  - Evaluation of accounting treatments (Principle vs. Rule Based)
  - Professional judgment documentation
4. Manage the Auditors

- 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
5. Make it quick

- 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
7 Weeks

• 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

<table>
<thead>
<tr>
<th>Standard</th>
<th>Impact</th>
<th>Current Policy</th>
<th>Solution / Priority</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>IFRS / IAS Standard</strong></td>
<td><strong>Current accounting policies</strong></td>
<td><strong>Effect on PB</strong></td>
<td><strong>Potential Solutions &amp; Actions</strong></td>
</tr>
<tr>
<td>IAS 11</td>
<td>Contract costs and contract revenue</td>
<td>Contract costs generally include all direct costs and indirect costs allocable to contracts.</td>
<td>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 SOX costs. Additionally, Blackadder's policy contains different accounting treatment for cost of sales, 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 is signed.</td>
</tr>
<tr>
<td>IAS 11</td>
<td>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.</td>
<td>Costs incurred in executing 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.</td>
<td>PB should determine whether all costs of contract are chargeable to the customer or should allocate them to the contract.</td>
</tr>
<tr>
<td>IAS 11</td>
<td>Contract revenue comprises the initial revenue agreed in the contract and change orders when realization is probable.</td>
<td>As described above, Blackadder's policy requires contract revenue to be recognized when realization is probable.</td>
<td>PB should consider its Blackadder's policy to be clarified for the purposes of determining the long-term contract revenue is probable.</td>
</tr>
<tr>
<td>IAS 11</td>
<td>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.</td>
<td>As described above, Blackadder's policy requires contract revenue to be recognized when realization is probable.</td>
<td>PB should consider its Blackadder's policy to be clarified for the purposes of determining the long-term contract revenue is probable.</td>
</tr>
<tr>
<td>IAS 11</td>
<td>Segmentation and combining contracts</td>
<td>Under SOP 81-1 a Company may contract not have to segment or combine contracts upon meeting certain criteria.</td>
<td>Since segmenting and combining contracts is optional under U.S. GAAP, the Company may have a difference where it meets the criteria for segmenting or combining under IFRS and does not meet the criteria under U.S. GAAP.</td>
</tr>
<tr>
<td>Financial Significance</td>
<td></td>
<td></td>
<td>High</td>
</tr>
</tbody>
</table>

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Analysis

• 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

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

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

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7 Weeks - continued

- 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

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Thank You

Federal Courthouse, Boston

Catholic Medical Center, Korea

Venetian Macao