MANAGING THE CHALLENGES OF IFRS TRANSITION: A operator’s perspective

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Presentation Outline

- Overview of IFRSs
- Global adoption of IFRSs
- Concerns /Implications
- The IFRS Clouds (Challenges)
- Access Bank: Case study –Challenge /Resolution
Overview of IFRSs

IFRS is a globally-accepted set of accounting standards and interpretations established by:

- International Accounting Standards Board (IASB)
- International Financial Reporting Interpretations Committee (IFRIC).

IFRS assist preparers of financial statements produce and present:

- high quality
- transparent and,
- comparable financial information

IFRSs are designed for use by profit oriented entities. However, entities engaged in not-for-profit activities may find IFRSs useful, and may follow them if considered appropriate.
Global adoption of IFRSs

- China
- Hong Kong
- Russia
- EU countries
- Africa
  - Kenya
  - Zimbabwe
  - South Africa
  - Zambia
  - Ghana
  - Sierra Leone.
  - Canada – 2012
  - Nigeria - 2012
Global adoption of IFRSs Cont.

Having a single set of high-quality globally accepted accounting standards is important especially in increasingly global capital markets.

In fact, “the need for a single-set of highly quality globally accepted accounting standards has been highlighted by the global financial crisis, which has demonstrated how interconnected the world’s capital markets are.”

Additionally, using one set of standards globally would have the “potential to improve financial-statement comparability regardless of their domicile.”
Global adoption of IFRSs Cont.

- Over 12,000 companies in over 100 countries have already adopted IFRS.

- In the European Union, member states whose securities are listed on EU regulated stock exchanges prepare Consolidated Financial Statements as per IFRS.

- In Israel, Australia and New Zealand, IFRS has been adopted as national accounting standards.

- China has formulated local GAAP which are IFRS based, although some differences still exist.

- Other countries like Canada, India and South Korea are attempting to complete the transition to IFRS by 2011 while Mexico and Japan are working towards convergence by 2012, which would eliminate major differences between their current standards and IFRS.
Concerns/Implications

As with many benefits, there also comes challenges and concerns. For one thing, the first time cost of implementing a new accounting system and training of employees will be quite significant.

Other concerns about the conversion to IFRS are caused by the nature of IFRS. Because IFRS is more principles-based, there is a fear that the companies may apply the same rules differently thereby causing varying results.

For example, while IFRS provides flexibility it can also create a lack of comparability; “two different reporting entities may account for comparable transactions differently under IFRS, depending upon the opinion of each entity and the professional judgment of their auditors” This in turn can defeat one of the major purposes of IFRS, which is to increase comparability in business across the globe.
IFRS Adoption challenges from an operator's perspective
The IFRS Clouds (Challenges)

- Cash Flow projection
- Business impact
- Data availability
- Credit rating
- Financial reporting
- Recognition & Measurement
- Systems & processes
- Analysis & Disclosures
- EIR & amortized cost
- Valuations
- Accounting policies
- Knowledge gap
- Reconciliations
- Other challenges peculiar to institutions

IFRS adoption

Impairment
IFRS Challenges

In a nutshell, IFRS transition challenges can be categorized into:
IFRS Challenges

Skill set for back office staff
Knowledge gap for front office staff
Resistance to change
Misconceptions: IFRS is a Finance Function

Managing the challenges:

Training and re-training
Ensure the people are part of the transition process
Board and executive approvals
Develop a governance structure to drive the process
IFRS Challenges

- Core banking application is not IFRS compliant
- Search for an IFRS compliant application
- Internal processes necessary to support IFRS
- I.T infrastructure and skill
- Change in loan structure affecting EIR

Managing the challenges:

- Consult
- Conduct site visitation
- Appraise present infrastructure and processes
- Train the I.T staff for required supports
IFRS Challenges

Keeping Investors informed
Customers uncertain of IFRS implications
Budgeting

Managing the challenges:
Keep all stakeholders informed
Develop a communication calendar
Develop an IFRS driven budgeting process
IFRS Challenges

Accounting policies
EIR & amortized cost
Impairment
Analysis & Disclosures
Recognition & Measurement
Credit rating
Data availability
Collaterals valuation and Models

Managing the challenges:

Training of Finance and Risk management staff
Engage consultants/Auditors
Outsourcing
### Other issues from Banking perspective

**Identification of impairment triggers.**

- It is necessary to set impairment triggers which would prompt for impairment testing.
- More than one impairment trigger is required. Most common and readily visible is customer default.
- Need for a system of monitoring and review of loan portfolios
- Historical data management for ease of retrieval is important

**Determination of probability of default and loss given default.**

- PD and LGD are two important concept in loan impairment. Methodologies for arriving at these ratios is important
Access Bank: Case Study – Challenges / Resolution

Some challenges encountered during the course of the project at Access Bank:

- Data analysis
- Lack of historical rating data
- Valuation of collaterals
- Servers’ capacity
- Selection of system for IFRS
- Separating value of land and building
- Impairment computation
- Matching of fees to relevant loans for EIR
- Systems Interfacing
## Access Bank: Case Study – Challenges / Resolution

<table>
<thead>
<tr>
<th>Phase</th>
<th>Access Bank Resolution</th>
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| **Accounting & Reporting** | • Review results of express conversion  
• Determine impacts on other reporting entities  
• Development of an appropriate chart of account  
• Developed a data capturing methodology and template to ensure that all IFRS required disclosures are captured in line with disclosure specific.  
• Develop a methodology of calculating the banks PD, LGD, EP, and put in place framework for continuous review every six months. |
| **System & Processes:** | • Systems Interfacing - The bank has acquired an IFRS calculating engine (Flex-finance) which has the capacity of interfacing with our system to pick GAAP numbers and recalculate to generate IFRS numbers.  
• Matching of fees to relevant loans for EIR - Adopted an operational policy on loan booking which ensures that loans are not booked without the related fees and fees are not booked with related loans to ensure matching concept  
• Develop a customer rating model and ensure review of customer rating on a quarterly basis  
• Develop an impairment trigger determinant which is gradational |
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<th>Phase</th>
<th>Access Bank</th>
<th>Resolution</th>
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<tbody>
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<td><strong>Business Impact:</strong></td>
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<td>• Determine business impacts (HR, Legal, Treasury, etc)</td>
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<td>• <em>Pricing of loans and advances</em></td>
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<td>• The performance measurement of business units and staff needs to reflect the effective interest rate accounting and the new pricing basis of the loans.</td>
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<tr>
<td>• <em>Debt &amp; Equity Instruments</em></td>
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<td>• Carefully determine the appropriate classification of the debt and equity instrument before issuing the instrument.</td>
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<td>• <em>Staff loan</em></td>
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<td>• Incorporate the impact of the fair valuation of loan on profit and loss into the budget and performance process.</td>
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<td>• <em>Management reports and budgets</em></td>
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<td>• Analyze current management reports in order to identify current gaps between the Nigerian GAAP and IFRS.</td>
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<td><strong>People</strong></td>
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<td>• Development of communication plan for all stakeholders</td>
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<td>• Conduct basic IFRS training for all staff</td>
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<td>• Conduct basic IFRS training for Board Members</td>
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<td>• Develop a periodic update to stakeholders</td>
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Thank You