Survey of over 300 companies’ readiness for IFRS
December 2004

www.pwc.com/ifrs

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IFRS conversion leaders for the countries participating in this survey are listed below. Please contact them or your local PricewaterhouseCoopers office to discuss how we can help you make the change to International Financial Reporting Standards. See inside back cover for further details of publications, products and services.

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This survey was organised by the European IFRS Transition Steering Group, PricewaterhouseCoopers’ coordinating body for supporting IFRS transition projects across Europe.

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Partial readiness is not an option

This survey of 323 companies in 20 countries worldwide, conducted during the third quarter of 2004, assesses companies’ readiness to start reporting under International Financial Reporting Standards (IFRS) from 2005. It is an update of our previous survey, *IFRS – Ready to take the plunge?*, carried out during the first quarter of 2004, which measured readiness using the same metrics. (See Survey participants, page 32).

266 European companies (18 countries) took part in the survey this time, as well as 57 companies from Australia and New Zealand (not included in the previous survey). The Australia and New Zealand results are analysed in a separate section of this report because the majority have June rather than December year-ends (see page 28).

Our experience of working with hundreds of companies in the process of making the change confirms that many are discovering that IFRS is much more work than they had anticipated. The results show that progress has been slow overall. Companies have a considerable distance to go in adapting systems and processes for IFRS to become part of ‘business as usual’ in their organisations. Most have probably missed the chance of having IFRS in place for internal integrated reporting by the start of 2005. Many seem to be focusing on short-term solutions to their data capture and reporting issues, but in doing so carry higher risk of errors or omissions and of last-minute surprises that could unsettle investors.

If companies do not embed IFRS in core systems such as budgeting, how will they be able to give prompt and reliable guidance to the market in 2005 on future IFRS revenue, earnings, balance sheet and net equity for 2005? It is imperative that companies now focus sufficient internal resources on their IFRS projects so that their IFRS reporting is right first time – there will be no second chances.

The capital markets are unforgiving of delays or errors, and one national regulator has warned that it could delist companies that do not comply with IFRS in full. For companies registered in the US the implications are more far-reaching – IFRS implementation will be subject to the internal control reporting requirements of the Sarbanes-Oxley Act. Auditors will need to be able to sign off on the control system before they can provide assurance as to the reliability of reported financial information.

Around 20% of companies are well positioned overall. But even these companies cannot afford to relax, because the ‘stable platform’ of standards for 2005 will not be stable for long. The International Accounting Standards Board (IASB) is tasked with moving standards forward swiftly, and the pace of change will be accelerated by the IASB / US standards setter convergence project.

Management in all other companies must now focus intensely on properly implementing IFRS. Partial readiness is not an option.

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Executive summary

‘Finding and retaining resources is proving a very significant issue’
Survey participant

Our research has identified that many of the key IFRS transition issues that were apparent earlier this year are still causing difficulties for companies, only now they are more urgent. There is still concern about the acute shortage of skilled resources, for example. And just as existing IFRS reporters predicted last time, many companies are identifying more detailed issues than expected, and their transition projects are proving more time-consuming.

This summary looks at the key results of all the 266 participants headquartered in Europe comparing them to the first quarter survey. We recognise that the mix of participants for each survey is different, so the subsequent section focuses on companies that have taken part in both, comparing them to overall quarter one results. In addition, Australia and New Zealand results are separately analysed in the final section.

Larger companies and those listed in the US are pulling away from their mid-cap counterparts*

The largest companies in the survey are much more prepared on almost every measure than companies with a market capitalisation of under €1bn (referred to as ‘mid-cap’ in this report). 83% of companies with a market capitalisation of over €10bn, for example, now have a training strategy in place and have identified the training needs of staff across their organisation. In contrast, only 33% of mid-cap companies have reached this stage. This indicates that many are leaving important issues until the last minute, and highlights a need for additional effort to ensure that financial information is robust (see page 15).
SEC registrants are furthest ahead on issues such as deciding on their accounting policies (81% compared to 59% of other companies) and identifying new IFRS data (61% compared to 41%). But even here there is little room for complacency. Only around 20% of large or SEC-registered companies have taken serious action on key areas of the change process such as starting to implement IFRS for internal management reporting (see page 20).

Readiness in Australia and New Zealand is similar on several measures to Europe (see page 28)

Companies in Australia and New Zealand have made the same progress as Europe in resourcing their IFRS projects and carrying out high-level business impact assessments. They are behind on accounting policy decisions, data identification and systems issues, but this is consistent with their June year-end, which gives companies six months longer than most European companies.

Companies have not yet communicated the impact of IFRS on their business to the market

IFRS has increasingly featured in the financial media over the past six months and, even as we write, the temperature is rising as investors and others search for a clear understanding of what IFRS will mean. They want to know how the accounting will differ, and what new insight IFRS information will offer about the underlying economics of a company’s circumstances.

Perhaps because of this avid interest, companies have been very cautious about giving information to the market before they are certain that it is robust. 96% of companies have not yet communicated with the markets about the likely impact of IFRS on their business. This seems to be because most are not yet certain of the full implications themselves. Only 4% of companies had released any ‘broad picture’ IFRS communications to the markets by September this year, and the disclosures that have been made are often very limited in scope. However, there are now more companies that have made decisions about how they will communicate changes (see chart below).

Companies that decide to follow the recommendations of the Committee of European Securities Regulators (CESR) have just four months from the publication of this report before releasing their December 2004 IFRS balance sheet and income statement with their annual accounts.

81% of SEC registrants have decided on their IFRS accounting policies, compared to 59% of other companies

Survey result

Only 4% of companies had released any ‘broad picture’ communications to the markets by September 2004

Survey result

<table>
<thead>
<tr>
<th>IFRS communications to the market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sept 2004</td>
</tr>
<tr>
<td>Not started</td>
</tr>
<tr>
<td>March 2004</td>
</tr>
<tr>
<td>Not started</td>
</tr>
</tbody>
</table>

- No progress
- Some progress in drafting communication strategy
- Communication strategy completed and approved
- Already had direct communication with the markets
The proportion of companies that are finalising or have already produced their first draft IFRS balance sheet is more encouraging. By the end of 2004, 75% of companies expect to have taken this step. This suggests intense activity over the last quarter of 2004 as companies address their most difficult issues.

Nine out of ten European companies have at least some understanding of how IFRS will affect their business

More European companies are now assessing the impact of IFRS on their reporting and key performance indicators. Almost nine out of ten companies (88%) have now taken this crucial step, up from 75% at the end of March. Half of those, however, have not yet completed their assessment and presented the findings to the board. This means that many boards still do not have the essential information they need to inform their strategic decisions. 12% have yet to act.

In reality, this kind of assessment is a dynamic process, and assessments of the business impacts are likely to evolve as progress highlights issues that had not been anticipated.

70% have IFRS projects up and running

Well-established IFRS conversion projects are now much more in evidence. The proportion of companies with a project framework in place has risen to 70%, up from 58% at the end of March 2004. Only 3% of the companies surveyed this time have not started to plan their IFRS project.
Companies that have not set up their projects are at the highest risk of missing the deadline. The level of risk, however, is very dependent on the complexity of their business. A company with one business segment, based in one country, for example, will have a much simpler task than a company with many different business areas and operations worldwide. The diversity of a company’s systems and processes and factors such as the complexity of its treasury operations will also have a big impact on the scale of the change project. Only companies with very simple operations that have not started by now have a good chance of being ready for IFRS; others run an increasing risk of being forced to report late to the markets.

81% are still not confident that they have the resources to change to IFRS on time

### Allocation of resources for IFRS conversions

<table>
<thead>
<tr>
<th></th>
<th>Sept 2004</th>
<th>March 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not started</td>
<td>6%</td>
<td>15%</td>
</tr>
<tr>
<td>Some part-time</td>
<td>28%</td>
<td>31%</td>
</tr>
<tr>
<td>Many part-time</td>
<td>19%</td>
<td>22%</td>
</tr>
<tr>
<td>Fully resourced</td>
<td>28%</td>
<td>22%</td>
</tr>
<tr>
<td>Ready</td>
<td>19%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Only one in five companies (19%) say they are confident that they have the resources in place to make the change on time. Two-thirds (66%) of companies now have at least some full-time resource working on IFRS transition, up from just over half (54%) last time.

The shortage of skilled IFRS resources is, to a large extent, a market-wide phenomenon. However, IFRS resource levels vary widely from company to company. Responses may reflect both the complexity of the businesses concerned and the extent to which each company is attempting to embed IFRS across the organisation. While most companies report that they have fewer than five full-time personnel (or their equivalents) working on IFRS transition, at least one financial services respondent expects to have a total of around 275 people working on its IFRS project.

The results suggest that many companies expect existing staff to implement the change. It is now a matter of urgency for companies to channel sufficient resources into completing proper IFRS implementation.

It is now a matter of urgency for companies to channel sufficient resources into completing proper IFRS implementation.
Executive summary

More companies are addressing internal IFRS training needs, but progress is slow

Almost 40% of companies are now seriously tackling IFRS training needs across their organisation, up from 27% by the end of March 2004. This finding is supported by our own experience – since March we have seen a significant increase in the demand for IFRS training.

The result indicates that, rather than taking a holistic, company-wide approach, many companies are relying on a small core team of people to ‘deal with IFRS’ and push through essential changes. This model has the advantage of short-term expediency, but carries a greater risk that unidentified errors will arise at levels of the organisation where no IFRS training has been given. This is a particular issue for groups where the IFRS project is controlled at head office but financial control is devolved to the business units. Most data is driven through operating unit level transactions, so the involvement and understanding of staff at this level is essential. Only then can management be sure that all business issues have been identified and the consequences assessed for systems, sales agreements and other contracts.

The vast majority of companies are not close to making IFRS numbers part of their ‘business as usual’

Respondents are evidently working hard to decide on their accounting policies and to identify the data they need for their IFRS reporting. For example, three quarters expect to have prepared a draft IFRS balance sheet by the end of 2004. However, in September 2004 more than half the companies surveyed (56%) were still working on their data requirements. This is an improvement on the situation at the end of March 2004, when 74% had yet to take this critical step (see step 3 opposite). Companies must finish these steps fast to be able to generate audited financial statements and avoid surprising the market.

The vast majority of companies still have low scores for the latter steps in the embedding process. Just one in five companies (21%) has now made the IT system enhancements necessary to produce IFRS information. 45% indicated that their approach is purely tactical, rather than strategic, indicating that they are concentrating on short-term fixes.
The best strategy for providing information of auditable quality is to fully integrate IFRS into the company’s everyday systems and processes, so that IFRS information is generated as part of normal business routines. Where this is not done, companies must take care that their short-term solutions are robust and acceptable to their auditors.

Very few companies (12%) have put new processes and appropriate internal controls in place to ensure that their IFRS data is robust. The low level of achievement at this stage of the change process should now be ringing alarm bells in those boardrooms that have not yet sufficiently addressed this issue. This is especially urgent for companies listed in the US that have to meet the requirements of the Sarbanes-Oxley Act.

1 This chart shows the overall positions for September and March 2004. See charts in following sections for further details about the readiness of different constituencies.

17 †† Use of IFRS information for management reporting is an indication of management’s intention to fully embed IFRS across their organisation, but a full range of issues has to be addressed before a company can say that IFRS is an integral part of its day-to-day business activities.
Companies taking part in the survey for the second time have made progress, but on some measures it is slow*

PricewaterhouseCoopers

Progress since March 2004

This section of the report looks in more detail at the progress companies have made between the first and third quarters of 2004. For this reason it does not include the 121 newcomers to the survey that did not participate previously and, as a group, are less well prepared than the repeat companies.

This is largely because newcomers are typically mid-cap enterprises with market capitalisation of less than €1bn – results for this mid-cap group are analysed separately in the subsequent section: Impact of size.

Project set-up and resourcing

Repeat survey participants showed most improvement between March and September 2004 in the project management aspects of getting ready for IFRS. 77% now have their IFRS project framework in place, up from 58% in March 2004. Almost half of this group have their projects fully up and running, compared to 28% in the first survey.

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Project progress has been most dramatic at the business unit level, with coordinated action under way across all business units in 57% of these companies, compared to just 34% that had reached this level of readiness in early 2004.

Preparations at the business unit level are affected by whether or not IFRS is acceptable for subsidiaries' statutory and tax returns in different territories. Domestic subsidiaries in France, for example, must still produce national GAAP accounts for 2005 statutory reports, while in the UK subsidiaries will have a choice between IFRS and UK GAAP. In countries where IFRS accounts can be used for tax purposes in 2005, government tax departments have clarified their position on certain IFRS interpretations since March, but there are still some difficult issues outstanding. What, for example, are the implications of IFRS for distributable reserves in UK entities' accounts?

74% have some full-time resource in place, compared to 54% in March 2004. Almost a quarter say they are fully resourced for IFRS, up from 10% in the earlier survey.

Communicating the impact

45% of repeat companies have completed or are currently undertaking a full analysis of their internal training and communications needs. Only 27% had reached this stage by the end of March 2004. 16% of repeat companies have yet to carry out any kind of analysis, compared to 27% last time.
The typical repeat company is still in the very early stages of planning its external communications strategy.

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Repeat participants’ IFRS communications with the market

<table>
<thead>
<tr>
<th></th>
<th>Sept 2004</th>
<th>March 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not started</td>
<td>30%</td>
<td>42%</td>
</tr>
<tr>
<td>Ready</td>
<td>6%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Survey result

Repeat companies have made modest improvements in assessing and communicating the impact of changing to IFRS to the markets. 35% of the companies taking part in the survey for the second time are actively planning their IFRS communications, up from 18% six months ago. Only 6% have already communicated directly with the markets, up from 3% last time. This means that the typical repeat company is still in the very early stages of planning its external communications strategy, and 30% have yet to start considering this issue.

One in four repeat companies has now decided whether to adopt IFRS at the subsidiary level. Only 11% had made this decision last time. The reluctance to make decisions on this issue is likely to be linked to concerns about the impact on taxable income and distributable reserves.

Controls should already be in place for the tactical approaches that many companies are taking.

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Embedding IFRS into the organisation

Repeat companies have made some progress towards embedding IFRS into their organisations, but there is a lack of progress on adapting key processes, controls and management reporting. Companies are clearly focusing on the earlier steps of their transition to IFRS, such as deciding their accounting policies and identifying the required data – the proportion of companies completing these steps has risen by 20% in six months. But this still leaves a majority with a long way to go in a very short time.

The approach that seems to be emerging is that companies are limiting the scope of their transition projects in the short-term and putting all their resources into finding fast solutions to provide the appropriate information for their 2005 reporting deadlines. Projects to fully embed IFRS, such as adapting systems to automatically generate the required IFRS information, are being given a longer lead time and will continue during and after 2005.

This limited progress on changing processes and enhancing controls for the IFRS environment should be ringing alarm bells in a number of boardrooms. Enhancing controls is not something that can be left undone. Controls should already be in place for the tactical approaches that many companies are taking to preparing appropriate IFRS information.
Where IFRS is not fully embedded into systems and processes, companies could face significant challenges in providing timely and reliable information to the markets, and in ensuring that their 2005 financial statements (including 2004 comparatives) are produced to a standard that passes audit examination. These companies are also at risk of falling foul of corporate governance requirements.

Those managing more complex businesses seem to have realised some time ago that they would need to get going early to make the change to IFRS in time for the European 2005 deadline – and to do so in a way that made sense for their business. Indications are that these companies are now well ahead of the majority in their readiness for the new reporting regime. However, even here there is evidence that IFRS transition project leaders are identifying some project areas that do not necessarily need to be complete before their 2005 reporting, and are extending the completion dates to make the scope of the project more manageable in the short-term. Examples of these project areas that will extend well into 2005 are: IT systems enhancements, the automation of new processes, consideration of embedding changes within management information and budgeting systems.

‘Identifying new data requirements is a large issue that we underestimated at first’

Survey participant

18% of repeat companies have approved their strategy and detailed work plans to change to IFRS for internal reporting. However, just 4% of these are currently implementing their plans.

Where IFRS is not fully embedded companies could face significant challenges in providing timely and reliable information to the markets

PricewaterhouseCoopers
Most companies have completed a high-level impact analysis on key technical issues

Survey result

78% of repeat companies ... have started to examine the impact of IFRS on business combinations

Survey result

Technical issues

These are some of the generic technical issues for companies, with the issues that they identified as the highest priority at the top of the chart.

The typical repeat company has made most progress in evaluating its IFRS issues on: first-time adoption, revenue recognition, segment reporting and foreign entities. On all these issues, the average repeat company scored 2, meaning that it had at least completed its high-level impact analysis and that its detailed analysis was under way. In March 2004, the typical company was only scoring 1 and was at the earliest stages of analysing these issues.

Top technical issues for repeat companies

<table>
<thead>
<tr>
<th>Issue</th>
<th>Repeat participants Sept 2004</th>
<th>All March 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>First-time adoption/ business combos</td>
<td>10%</td>
<td>27%</td>
</tr>
<tr>
<td>IAS 32 and IAS 39</td>
<td>14%</td>
<td>35%</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>17%</td>
<td>39%</td>
</tr>
<tr>
<td>Deferred Tax</td>
<td>28%</td>
<td>49%</td>
</tr>
<tr>
<td>Interim reporting</td>
<td>19%</td>
<td>45%</td>
</tr>
<tr>
<td>Revenue recognition</td>
<td>7%</td>
<td>29%</td>
</tr>
</tbody>
</table>

Repeat companies are now more likely to be analysing the impact of IFRS on possible mergers and acquisitions activity. 78% of companies that consider mergers and acquisitions to be part of their business strategy have started to examine the impact of IFRS, compared to 52% in March 2004.

This shows that most companies are aware that IFRS 3 enables markets to judge the financial success or failure of acquisitions more quickly and accurately than before. The standard has implications for all stages of the acquisitions process – from planning to post-deal results – so the boardroom cannot ignore this issue.
Impact of company size*

Analysis of the results for companies of different sizes reveals a large gap between mid-cap companies (with market capitalisation of under €1bn) and the largest companies (with market capitalisation of over €10bn). Mid-cap companies are well behind on almost every measure. 78% of all listed European companies in the survey this time have a market capitalisation of under €1bn (compared to 55% of listed companies last time).

Some difference is to be expected because smaller companies will tend to be less complex and they may therefore be able to concentrate much of their IFRS transition work into a shorter time-frame. External IFRS reporting schedules will also vary. The bulk of larger companies, for example, are likely to report IFRS quarterly results at the end of March 2005, while some will not have to report IFRS information until their 2005 year-end.

However, even allowing for this differential, there is cause for concern, especially when you consider the difficulties mid-cap companies are having in finding sufficient resources for their projects. A majority of these companies need to make rapid progress.

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Reporting schedules will vary – the bulk of larger companies are likely to report IFRS quarterly results at the end of March 2005

PricewaterhouseCoopers
The vast majority of newcomers to the latest survey (121 European companies) fit into the mid-cap category of under €1bn.

‘We do not yet have full engagement at board level’
Mid-cap survey participant

Companies of all sizes have improved average scores in their project set-up and resourcing since early 2004, but it is the largest companies that are furthest along, performing well above the average in every aspect. 83% of the largest companies now have their IFRS projects fully set-up, compared to just 35% of the smallest companies.

Finding the resources. This is still a major issue for companies of all sizes. But the large companies are much better prepared than mid-cap companies. 44% of the largest companies are confident that they have all the necessary resources in place to make the change on time. This compares to only 15% of the smallest companies with a market capitalisation of under €0.5bn.

Communicating the impact

Assessing the high-level impact. Half of mid-cap companies have not yet completed their preliminary assessment of the impact of IFRS on their business and 14% have not started. In contrast, all of the largest companies have made a start and the majority have completed this assessment and presented their findings to the board. However, most large companies have not yet finalised their approach to key performance indicators.

Deciding which GAAP for subsidiaries’ external reporting. 67% of the largest companies have at least carried out a high-level review of the potential impact of differences between national GAAP and IFRS at subsidiary level. 51% of mid-cap companies that have subsidiaries have not yet reached this stage. However, it is likely that this group has a simpler review to carry out, as they may have fewer subsidiaries in less diverse locations.
Training and internal communications progress. The largest companies have made significant progress in this area compared with the typical large company last time. 83% of the largest in the survey (compared to 50% previously) have now developed their training strategy and have identified (or almost) the different training needs of their staff across the organisation. This group is now putting plans into practice and communicating with the key business areas that may be affected by IFRS implementation.

In comparison, only 33% of mid-cap companies have reached this stage, up from 20% last time. This indicates that smaller companies are leaving important elements of the change to the last minute. These companies will need to be especially vigilant to ensure that their financial information does not include errors caused by people within the organisation who are not up-to-speed on IFRS requirements.

Communications to the market. Companies of all sizes have yet to make significant progress with their IFRS market communications strategy. The typical mid-cap company has not given this issue any consideration to date. Only the largest companies are likely to have made real progress towards having a draft communications strategy in place.

Embedding IFRS into the organisation

Larger companies are ahead of the mid-cap company at almost every stage of the seven-step embedding process. By now, most companies – whatever their size – have completed an assessment of the business impact of IFRS. Larger companies are much more likely than the others to have completed steps two and three – deciding on their accounting policies and identifying the new data that IFRS requires. Only the exceptional companies of whatever size are likely to have already completed the remaining four steps.

‘So far we have trained 600 staff and briefed the audit committee’
Large survey participant
‘Our IFRS presentation and workshop for analysts is planned for late 2004’

Large survey participant

Accounting policy review. 55% mid-cap companies have carried out a desktop review of the options, but this proportion jumps to 89% for the largest companies.

Systems enhancements. 50% of the largest companies are engaged in detailed analysis of IT and systems solutions to IFRS challenges. But almost all of these are focusing on short-term tactical fixes, and are not yet implementing their longer-term strategic solutions.

Just 20% of mid-cap companies have reached this stage, but most have at least identified the implications of IFRS for their systems at a high level. 28% have still not made a start, but this is an improvement on the first quarter of 2004 when 56% had not paid any attention to systems issues.

Internal controls. Mid-cap companies have not yet addressed the implications of IFRS for their internal control environment. Even the largest companies have only carried out a preliminary review and have yet to undertake a detailed review.

Management information.
The typical mid-cap company has moved on a little since early 2004 and is now at least considering how to embed IFRS in its management reporting. But still only 12% have reached the stage of starting to implement their plans.

<table>
<thead>
<tr>
<th>IFRS embedding process</th>
<th>The largest companies compared to the smallest September 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Step 1: Assess the high-level business impact</td>
<td>100%</td>
</tr>
<tr>
<td>Step 2: Decide on accounting policies</td>
<td>89%</td>
</tr>
<tr>
<td>Step 3: Identify new data</td>
<td>67%</td>
</tr>
<tr>
<td>Step 4: Adapt systems</td>
<td>50%</td>
</tr>
<tr>
<td>Step 5: Put processes in place</td>
<td>15%</td>
</tr>
<tr>
<td>Step 6: Enhance internal controls</td>
<td>33%</td>
</tr>
<tr>
<td>Step 7: Start to implement IFRS for internal management reporting</td>
<td>33%</td>
</tr>
</tbody>
</table>

1 In progress or completed
2 At least preliminary decisions made
3 Detailed planning completed
Larger companies are now more likely to have developed their management reporting strategies in the light of IFRS, and are considering the training required to help individuals implement the new reporting environment. 33% of this largest group have started to implement their plans.

Balancing the key issues

Larger companies are more advanced than mid-cap companies in their investigations of all the key technical issues. Around 90% of the largest companies are now at least undertaking a detailed evaluation of the key issues. All large companies, for example, have reached this stage on first-time adoption and financial instruments issues. Significant progress has also been achieved in areas such as accounting for tax, revenue recognition, segment reporting and foreign entities, compared to large companies six months previously. However, more than half of these companies have not yet completed their detailed reviews of some technical issues. For complex businesses, this indicates a significant amount of work that will need to be completed quickly.

Mid-cap companies are consistently below, but on most issues close to, the average score in terms of their technical readiness. Around half of mid-cap companies have at least carried out a high-level assessment and started their detailed analysis of most issues, such as employee benefits, revenue recognition, segment reporting and first-time adoption. But far fewer companies have reached this detailed assessment stage on accounting for deferred tax (26%) or interim reporting (38%).

‘Management reporting is an urgent issue for us – we are currently drawing up plans’
Survey participant

‘Hedge accounting and loss provisions under IFRS have a major impact on the volatility of our financial reporting’
Survey participant
SEC registrants in the lead*

European companies registered with the US Securities and Exchange Commission (SEC) have increased their IFRS readiness lead over other companies since the first quarter 2004. In our earlier survey, SEC registrants were a little further ahead in implementing IFRS, but not significantly so. SEC-registered companies represent 15% of the third quarter 2004 survey (40 of 266 companies).

Results suggest that SEC registrants have a greater sense of urgency about their compliance issues, not least because Sarbanes-Oxley requires these companies to demonstrate that there are appropriate controls over their IFRS reporting. Their lead may also be linked to the higher expectations of the group in advising the market about future earnings.

However, SEC registrants have not progressed much further than others on enhancing their internal controls and implementing new processes and procedures. There must now be a strong focus on documenting and testing the new way of working with IFRS information and ensuring that it is robust. This is an urgent issue for close to 90% of all respondents.
Project set-up and resourcing

The average SEC-registered respondent is ahead of other companies in setting up its IFRS programme and securing appropriate board-level sponsorship and resources. 88% of SEC registrants now have their IFRS transition project in place, compared to 67% for all other companies. Two-thirds (67%) of SEC registrants participating for the second time have now produced IFRS-compliant reporting packs, and issued them to their business units. Only 27% of SEC registrants had reached this stage last time.

SEC registrants are also more likely to have committed dedicated resources to the IFRS project – 30% say they are confident they have the resources in place to complete IFRS transition on time, up from 14% last time and ahead of the overall survey score of 19%.

Communicating the impact

PricewaterhouseCoopers supports CESR’s recommendations on making IFRS communications to the market as early as possible to help avoid unnecessary surprises. However, companies need to have full confidence in any IFRS information that they make public. It would be counter-productive to make announcements that subsequently prove misleading.

The average SEC company is ahead of other companies with its plans for communicating the impact of IFRS to the markets. 45% of SEC registrants have now taken key decisions on how they will communicate IFRS changes, up from 20% last time and well ahead of the overall proportion in this survey (31%). However, only two SEC registrants responding to the survey had already communicated some IFRS information to the markets by September 2004.

SEC registrants have made good progress on defining the content of IFRS financial statements, deciding how to treat subsidiary external accounts, and the impact of IFRS on mergers and acquisitions activity.

This group is also further advanced with plans for internal communications, knowledge transfer and training. 32% of SEC registrants are now carrying out a training needs analysis, and 20% have fully developed and launched their strategy for training, internal communications and stakeholder management.

<table>
<thead>
<tr>
<th>Internal training and communications</th>
<th>SEC registrants compared to all other companies September 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>No progress</td>
<td>SEC registrants: 48% Ready: 32% Other companies: 63%</td>
</tr>
<tr>
<td>Analysis under way</td>
<td>SEC registrants: 32% Ready: 20% Other companies: 25%</td>
</tr>
<tr>
<td>Needs analysis not undertaken</td>
<td>SEC registrants: 20% Ready: 12% Other companies: 12%</td>
</tr>
<tr>
<td>Strategies being implemented</td>
<td>SEC registrants: 12% Ready: 12% Other companies: 12%</td>
</tr>
</tbody>
</table>

88% of SEC registrants now have their IFRS transition project in place
Survey result

45% of SEC registrants have taken key decisions on how they will communicate IFRS changes
Survey result
53% of SEC registrants have at least started a detailed review of IFRS control issues

Survey result

Embedding IFRS into the organisation

SEC registrants are significantly ahead of the average company in the survey on some aspects of the seven-step IFRS embedding process. The typical SEC registrant has assessed the business impact of IFRS and has made good progress on deciding its accounting policies, identifying new data requirements and adapting its systems for IFRS. SEC registrants have also made some progress on adapting their management reporting for IFRS.

Too few, however, have properly addressed revisions to their internal processes and new controls. In particular, management of the 85% of SEC registrants that scored below level 3 or 4 on their internal controls readiness should now make this a priority issue for the early part of 2005 – especially the 25% that have not started to tackle this issue. 53% of SEC registrants have reached the level 2 benchmark or above, which means that they have at least started a detailed review of IFRS control issues and have assessed compliance with Sarbanes-Oxley and local governance requirements.

SEC registrants are well ahead of other companies in this respect – only 25% of other companies have reached the level 2 benchmark and 45% have not looked at this issue at all.

‘Our IFRS implementation project has led to building and installing a new consolidation system’

Survey participant

<table>
<thead>
<tr>
<th>Step</th>
<th>SEC registrants (40)</th>
<th>Other companies (not US listed) (226)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>90%</td>
<td>57%</td>
</tr>
<tr>
<td>2</td>
<td></td>
<td>81%</td>
</tr>
<tr>
<td>3</td>
<td>81%</td>
<td>61%</td>
</tr>
<tr>
<td>4</td>
<td>61%</td>
<td>41%</td>
</tr>
<tr>
<td>5</td>
<td>41%</td>
<td>28%</td>
</tr>
<tr>
<td>6</td>
<td>20%</td>
<td>14%</td>
</tr>
<tr>
<td>7</td>
<td>14%</td>
<td>11%</td>
</tr>
</tbody>
</table>

1 In progress or completed
2 At least preliminary decisions made
3 Detailed planning completed
Technical issues

SEC registrants are comfortably ahead of other companies on all the technical issues highlighted in the survey. Those taking part in the survey for the second time are dramatically ahead of the average level of readiness in the third quarter 2004. These companies are ahead, for example, in their investigations of first-time adoption, accounting for deferred tax, financial instruments, segment reporting, revenue recognition and foreign entities.

There is still a minority of SEC registrants, however, that have not made a start on some of their technical issues.

Top technical issues for companies
SEC registrants’ readiness compared to all other companies September 2004

The consolidation aspects of segment reporting are troublesome
Survey participant
Industries prepare to launch*

Average readiness levels have risen since the first quarter 2004 for European companies in all industry sectors measured by the survey. For this report we have analysed these results by grouping industries into three main areas:

- **Consumer and industrial products and services (CIPS)** including industrial products, pharmaceuticals, retail and consumer, and automotive.
- **Financial services (FS)** including banking, insurance, investment management and real estate.
- **Technology, infocomms and entertainment (TICE)** including entertainment and media, infocomms and technology.

As in the first quarter, FS companies are on average the furthest ahead, but not significantly so, and TICE companies are ahead of FS on several of the more detailed measures underlying the summary chart opposite. Both FS and TICE are consistently above the average company in the survey. Companies in CIPS are close to but slightly below the average on every measure in the survey. This result is affected by the bigger sample of CIPS companies in the survey.

*connectedthinking
which makes it more likely that this group will be closer to the average. In addition, there are proportionately fewer large companies (with market capital over €1bn) in this group, and the results show that mid-cap companies tend to be less advanced in their preparations for IFRS.

Project set-up and resourcing

CIPS and TICE companies have now at least made key decisions on all aspects of their IFRS project set-up. This represents an improvement on the first quarter 2004, when the typical company in both these sectors was still conducting its initial analysis of the issues. Two-thirds (67%) of CIPS, 78% of TICE and 82% of FS companies have their projects fully up and running.

Companies in all three industry groups have made most progress on extending the IFRS project into the business units.

Finding the resources. TICE companies have made significant progress on resourcing their IFRS projects; the average TICE company IFRS project is now as well resourced as the average FS company. Around 60% of TICE and FS companies have significant full-time IFRS resources in place – 24% of TICE and 20% of FS companies say they are fully resourced for IFRS. CIPS companies have also now at least assigned significant part-time and some full-time resources to IFRS.

On average financial services companies are just ahead of others in the main project areas

Survey result

Technology, infocomms and entertainment companies’ IFRS projects are now as well resourced as their financial services counterparts

Survey result
Communicating the impact

<table>
<thead>
<tr>
<th>Industry</th>
<th>Needs analysis not undertaken</th>
<th>Analysis underway</th>
<th>Strategies being implemented</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIPS</td>
<td>64%</td>
<td>24%</td>
<td>12%</td>
</tr>
<tr>
<td>TICE</td>
<td>57%</td>
<td>27%</td>
<td>16%</td>
</tr>
<tr>
<td>FS</td>
<td>50%</td>
<td>35%</td>
<td>15%</td>
</tr>
</tbody>
</table>

Training and internal communications progress. It is rare for the average company in any industry to have completed its communications planning. However, FS and TICE companies have reached the planning stage of their training needs analysis for the introduction of new skills and internal communications for IFRS.

Assessing the high-level impact. 65% of CIPS companies have not yet finished their high-level analysis of the business impact of IFRS, and 16% have yet to start their assessment. Only 13% of TICE and 2% of FS companies have not yet started this analysis, and the majority in TICE and FS have completed their high level analysis.

Communications to the market. FS companies are slightly behind TICE companies in their plans to communicate IFRS changes to the market. 32% of FS companies and 40% of TICE companies have a draft communications strategy close to final approval. Most companies in all three industry groups are still in the preliminary planning stages on this measure of readiness.

65% of consumer and industrial products companies have not yet completed their high-level business impact assessments

Survey result
Embedding IFRS

FS and TICE companies have made most progress in identifying their new data requirements and in planning changes to their systems and processes. FS companies are slightly ahead on these measures.

There is little difference between the industry groups in terms of enhancing their controls around IFRS information. The average TICE company is furthest ahead, but has still done only partial analysis of the changes required.

Technical issues

TICE companies have made most progress on technical issues since the first quarter 2004. Their average level of readiness has improved most on IFRS 1, First-time adoption, employee benefits, segment reporting, foreign entities, interim reporting, de-recognition and SPEs. On every key technical issue, a greater proportion of TICE companies than FS and CIPS have completed their detailed evaluations.

Not surprisingly, FS companies have paid most attention to IAS 32 and IAS 39. FS dips below the average for the survey on segment reporting readiness.

Companies in all three industry groups have made least progress on accounting for deferred tax because this can only be addressed when decisions on other issues are complete.

The typical TICE company has shown most progress since the last survey in terms of its investigations of the impact of IFRS on mergers and acquisitions. Only 28% of FS companies had a detailed study under way, compared to 34% in the CIPS grouping and 50% in TICE.

‘Deferred tax is proving to be a very challenging area’
Survey participant
Companies in Australia will make the transition to IFRS for their 2005 financial year. New Zealand companies will not be required to move to IFRS until 2007, but in some cases management has taken the decision to make the transition in 2005.

The survey assessed the readiness of 45 companies from Australia and New Zealand that will change to IFRS in 2005. Most companies in this group have reporting year-ends of June rather than December, and the results reflect this timing difference. Another difference is that IFRS will apply to all reporting entities, their subsidiaries and the public sector. This is in contrast to Europe, where most countries do not intend to permit IFRS for unlisted companies’ 2005 reporting.

The average Australian and New Zealand company is at a similar level of readiness in the third quarter of 2004 as the average European company was in the first quarter of 2004 (see previous survey). However, there are some notable exceptions to this general trend.
Australia and New Zealand companies are further along with their project planning than the average European company was in the March 2004 survey, but they lag behind Europe's average readiness for September 2004 on most measures. This may be because the first IFRS reporting deadline for most Australian and New Zealand companies is six months later than for the average European company, as they generally have June year-ends. Most companies surveyed in the region have at least made key decisions on all of the major IFRS project issues.

64% of companies have a project framework in place, against 70% for European companies. Only 2% of the companies surveyed in Australia and New Zealand have yet to start planning their IFRS project.

Australia and New Zealand are very similar to the European average on finding the people they need for IFRS implementation. 69% of companies have some full-time resources working on IFRS transition, compared to 67% in Europe. 18% say they have all the resources they need, compared to 19% of European companies. This puts them ahead of Europe when you consider that they have six months longer to complete their transition to IFRS. It is perhaps an indication that resource constraints are slightly less severe in Australia and New Zealand than in Europe.

Communicating the impact

Nine out of ten companies in Australia and New Zealand have now completed their high-level assessment of the impact of IFRS. This is the same proportion as for the European survey.

Results indicate that resource constraints are slightly less severe than in Europe

Survey result
However, companies in the region are only at Europe’s average for March 2004 on external communications planning. None of the companies surveyed has yet communicated with the external markets about the change to IFRS. Only 13% are actively planning their IFRS communications.

Australia and New Zealand companies are below Europe’s first-quarter average on adapting their systems, and on addressing management information issues.

29% of companies in the Australia and New Zealand survey are undertaking (or have completed) a full analysis of their training and internal communications needs. They are behind Europe on this measure, where 39% of the third-quarter companies surveyed are conducting a needs analysis. 20% of Australia and New Zealand companies have yet to act at all on their internal communications, knowledge transfer and training. Overall, they are at a similar level to European companies surveyed in the first quarter 2004.

Embedding IFRS into the organisation

Australia and New Zealand are at an earlier stage of their IFRS transition than the average European company. Most companies in the region have not progressed much beyond assessing the business impact of IFRS.

29% of Australian and New Zealand companies are undertaking a full analysis of their training needs.
Balancing the key technical issues

Australian and New Zealand companies are behind the European average in their readiness to tackle most key technical issues, but are on a par with participants in the previous survey, which is consistent with their different timing. They perform as well as the average European company in this survey on accounting for tax, but have a similarly high percentage (33%) of companies that have not yet addressed this issue. One in four companies from Australia and New Zealand has already taken a detailed look at the impact of IFRS on employee benefits and revenue recognition.

The Australian and New Zealand GAAP on interim reporting and segment reporting are already largely compatible with IFRS, so for many companies there will be little or no preparation needed in these areas.

Financial instruments and employee benefits are among the top technical issues for Australian companies, but intangible assets, impairment and business combinations have also been identified as key issues.

The move to a fair value model, with greater rigour around valuation and impairment testing, represents a significant change for companies and is likely to affect their reported results on an ongoing basis. The prohibition on recognition of internally generated intangible assets will have a considerable impact on transition for those companies presently carrying these assets on their balance sheet.

Approximately half the regions’ participants have an understanding of the impact of goodwill and intangible assets for future deals. One in ten companies have completed their full impact assessment, and all relevant people are up-to-speed on the changes.

‘The two key determinants of our profit are both affected by IAS 39’

Australian survey participant
Survey participants

The main sections of this survey are based on structured interviews with 266 European company officers, generally the IFRS transition project leader, carried out during the third quarter of 2004. 86% of respondents are listed in their country of incorporation; and 15% of respondents are also listed in the US.

57 Australian and New Zealand companies also took part in the survey this time. The results of those companies changing to IFRS in 2005 (45 of those 57) have been summarised in a separate section (see page 28).

The same questionnaire was used as in the previous survey (first quarter 2004). Companies’ readiness for IFRS was assessed in the following main areas:

• Project set-up and resourcing
• Communications and training
• Embedding – data, systems, process and controls
• Key technical issues

All companies were asked the same key questions. Readiness was assessed on a scale of 0 to 4 against specific criteria for each question. These can be summarised as follows:

0 – No progress yet in this area
1 – Initial analysis started with high-level considerations
2 – Thought process completed with relevant analysis and decisions in place
3 – Actions started to address this issue
4 – Actions completed, issues resolved and changes being embedded in the business

Reporting year-ends (Europe)
31 December 84%; 31 March 8%; Other 8%

Market capitalisation of listed companies
% of the 229 listed European companies:
Under €1bn = 78%; €1bn to €10bn = 14%; Over €10bn = 8%

Industry groups (Europe)
Financial services (FS) 24%; technology, infocomms, communications and entertainment (TICE) 18%; consumer and industrial products and services (CIPS) 55%; other 3%

20 countries taking part in the survey: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hungary, Italy, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Republic of Ireland, Spain, Sweden, Switzerland and the United Kingdom.
IFRS products and services
PricewaterhouseCoopers has a range of tools, publications and industry experience to help companies apply IFRS. For further advice on how we can help you make the change to IFRS, please contact your national IFRS conversion leader (see inside front cover) or your local office.

IFRS Readiness Questionnaire
The IFRS Readiness Questionnaire enables you to assess your IFRS readiness with PricewaterhouseCoopers. The feedback highlights areas that need further attention and enables you to benchmark your company’s progress against the aggregate results of companies worldwide.

For further information contact your national IFRS conversion leader (see inside front cover).

Applying IFRS
Applying IFRS is PwC’s authoritative guidance on the interpretation and application of IFRS. The interactive tool includes links to over 1,000 real-life solutions, as well as direct links to applicable text in the IFRS standards and interpretations.

Applying IFRS is available on our electronic research tool, Comperio IFRS. To order see www.pwc.com/ifrs

P2P IFRS – from principle to practice
P2P IFRS is PwC’s interactive electronic learning solution. Users build their knowledge easily and conveniently with 19 hours of learning in 36 interactive modules.

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TransitionIFRS e-Platform
The TransitionIFRS e-Platform is an integral part of the PwC TransitionIFRS service offering. It is a web-based communication platform from which you can control your IFRS conversion project. It enables you to work collaboratively with your advisers, access support and guidance and transfer knowledge within your organisation.

For further information contact implementation manager Sarah.Troughton@uk.pwc.com.

IFRS News
IFRS News is a monthly newsletter focusing on the business implications of IASB proposals and new standards.

Copies are available free on the website www.pwc.com/ifrs. For further information, send an email to the editor: joanna.c.malvern@uk.pwc.com

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