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IFRS in the Aerospace & Defense Industry:

A reasoned response to alternative reporting frameworks

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IFRS in the Aerospace & Defense Industry:

A reasoned response to alternative reporting frameworks

Decibel levels continue to rise on the subject of International Financial Reporting Standards (IFRS), with frequent communications from many sources. As the volume increases, you may find yourself asking: How will IFRS impact my company? What triggering events would compel us to move more quickly to adopt IFRS? What obstacles might stand in our way?

Recent SEC announcements suggest that IFRS is inevitable and will be the final destination for public companies in the U.S. (See "Timing is Everything" on page 2.) Still unsettled, however, is the pace of the trip. Some companies will perceive benefits in embarking immediately. Others may adopt a more measured approach. Still others may choose to closely examine the roadmap before they take any steps.

In fact, A&D companies may find that they are encountering IFRS more frequently than expected. The trend towards increased globalization in the A&D industry is undeniable. A&D companies are reaching beyond their domestic markets to become true global companies with customers, manufacturing, suppliers, strategic alliances, and joint ventures around the world. The trend is expected to accelerate as well-funded and ambitious competitors become more formidable from regions where there was no competition in the past. Through such globalization, A&D companies may discover compelling reasons to choose IFRS before it is mandated.

Of course, like any significant business decision, determining the timing and pace of an IFRS conversion requires an understanding of the potential costs and benefits. Regardless of your ultimate conversion plan, it is crucial to make an informed decision based on a thorough analysis.

Such analysis and planning is crucial, since a successful conversion will not happen overnight. Indeed, companies that have already converted to IFRS have found that the initiative can span several years, due to the surprisingly wide scope of the effort. A successful IFRS conversion project will involve not only technical accounting and financial reporting, but also issues around internal processes and controls; regulatory, statutory, and management reporting; technology infrastructure; as well as organizational issues, including tax, treasury, legal and contracts, compensation and human resources, and communication.

Suffice to say, conversion involves much more than reshuffling the chart of accounts.

Chart the Course

If you take only one action after reading this document, we suggest it be this: Develop an IFRS implementation roadmap. To kick off this effort, ask yourself and your team a few preliminary questions to gauge the potential impact of IFRS on your company:

- Have we inventoried our current IFRS reporting requirements, if any?
- How many local generally accepted accounting principles (GAAPs) do we currently report under?
- How many of our business units already prepare IFRS financial statements?
- How might our access to capital be impacted by an IFRS conversion?
- How many of our competitors have converted? Is there an expectation that they would switch to IFRS, if given the choice in the U.S.?

Competitive Landscape: Reporting Standards Used by Aerospace & Defense Companies

Company	Accounting Framework
Boeing	U.S. GAAP
EADS	IFRS
Lockheed Martin	U.S. GAAP
BAE Systems	IFRS
Northrop Grumman	U.S. GAAP
General Dynamics	U.S. GAAP
Raytheon	U.S. GAAP
Rolls-Royce Group	IFRS
Finmeccanica	IFRS
L-3 Communications	U.S. GAAP
Thales	IFRS
Safran	IFRS
Bombardier	Canadian GAAP

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- Do we have a major ERP or finance transformation project in the works?
- Are we involved in or considering a major acquisition?
- What is the level of IFRS knowledge within the company, both domestically and globally?
- What would be the impacts on our company of a possible IFRS requirement in the U.S.?
- Have we assessed the cost and benefits of adopting IFRS?

Of course, your IFRS implementation roadmap will be significantly more detailed than merely addressing these few questions. Given the far-reaching scope of IFRS, the roadmap may assess the impact on each department in your organization, including finance, human resources, tax, legal, information technology, and investor relations. Other stakeholders may also be involved, including the board, audit committee, shareholders, and your external auditor.

By determining your costs, benefits, and timing up front, you can avoid the rushed approach (and unnecessary expense) that some companies experienced through initiatives such as the Sarbanes-Oxley Act and the Year 2000 computer issue.

A carefully designed roadmap may empower your company to convert on its own terms. By taking a measured and informed approach, you increase the likelihood of identifying value in an exercise that otherwise may be reactive and solely compliance driven. The value may show itself in the form of reduced costs of implementation, standardization and centralization of statutory reporting activities and related controls, greater consistency of accounting policy application, and possibly core finance transformation. Through your roadmap, you can independently validate perceptions and dispel misconceptions. And you can justify your decisions before the board, shareholders, other stakeholder groups, and the financial analyst community.

Timing is Everything

Why go through all this trouble? The answer is simple: sooner or later, you will have to. By 2011, it's likely that virtually every country in the world will either permit or require IFRS. It is also expected that by 2014, the Securities and Exchange Commission (SEC) will mandate IFRS reporting for exchange-listed companies. IFRS adoption is no longer a question of "if," but only of "when." The more thought and planning you put into the process now, the easier your task will likely be down the road.

Recent events suggest that reporting under IFRS will be allowed or required for most public companies in the U.S. and around the globe within the next few years. On November 14, 2008, the SEC issued its long-awaited proposed IFRS "roadmap" outlining milestones that, if achieved, could lead to mandatory transition to IFRS starting in fiscal years ending on or after December 15, 2014. The roadmap also contains proposed rule changes that would give certain U.S. issuers the early option to use IFRS in financial statements for fiscal years ending on or after December 15, 2009. The SEC believes that "the use of a single, widely accepted set of high-quality accounting standards would benefit both the global capital markets and U.S. investors by providing a common basis for investors, issuers and others to evaluate investment opportunities and prospects in different jurisdictions." The roadmap also notes that IFRS has the potential "to best provide the common platform on which companies can report and investors can compare financial information." The SEC is seeking comments on numerous questions raised in the proposed roadmap. The comment period is expected to run until mid-to-late February 2009.

The proposed roadmap outlines seven milestones. Milestones 1–4 discuss issues that need to be addressed before mandatory adoption of IFRS:

1. Improvements in accounting standards.
2. Accountability and funding of the International Accounting Standards Committee Foundation.
3. Improvement in the ability to use interactive data for IFRS reporting.
4. Education and training on IFRS in the United States.

Milestones 5–7 discuss the transition plan for the mandatory use of IFRS:

5. Limited early use by eligible entities: This milestone would give certain U.S. issuers the option of using IFRS for fiscal years ending on or after December 15, 2009.
6. Anticipated timing of future rule making by the SEC: On the basis of the progress made on milestones 1–4 and experience gained from milestone 5, the SEC will determine in 2011 whether to require mandatory adoption of IFRS for all U.S. issuers. Potentially, the option to use IFRS could also be expanded to other issuers before 2014.
7. Implementation of mandatory use: The roadmap raises many questions, including whether the transition to IFRS should be phased in. According to the roadmap, large accelerated filers would be required to file IFRS financial statements for fiscal years ending on or after December 15, 2014, then accelerated filers in 2015, and nonaccelerated filers in 2016.

Under the proposed roadmap, U.S. issuers that meet both of the following criteria would be eligible to use IFRS earlier in financial statements for fiscal years ending on or after December 15, 2009:

- The U.S. issuer is globally among the 20 largest listed companies worldwide in its industry, as measured by market capitalization.
- IFRS, as issued by the IASB, is used as the basis for financial reporting more often than any other basis of accounting by the 20 largest listed companies worldwide in the U.S. issuer's industry, as measured by market capitalization.

An issuer that meets these criteria and chooses to use IFRS (an "IFRS issuer") must prepare its financial statements in accordance with IFRS as issued by the IASB. Issuers electing to file IFRS financial statements with the SEC would be required first to do so in an annual report and would not be able to file IFRS financial statements with the SEC for the first time in a quarterly report, registration statement, or proxy or information statement.

Investment companies; employee stock purchase, savings, and similar plans; and smaller reporting companies, as defined by the SEC, are excluded from the definition of an "IFRS issuer" in the proposed roadmap and therefore would not be eligible to early adopt IFRS.

For more information on the SEC's action, visit www.deloitte.com/us/ifrs.

If you think the year 2014 gives you plenty of breathing room, think again. A conversion effort that is both sane (in the sense of avoiding the fire-drill type atmosphere that characterized compliance with Sarbanes-Oxley and the Y2K problem) and successful (one that can stand up to the scrutiny of regulators, analysts, and your independent auditor) will require a lengthy runway. In mid-2008, the American Institute of Certified Public Accountants announced that it considered a 3-5 year timeline to be reasonable for transition to IFRS. Other organizations have made similar determinations.

Which Approach Will Work for You?

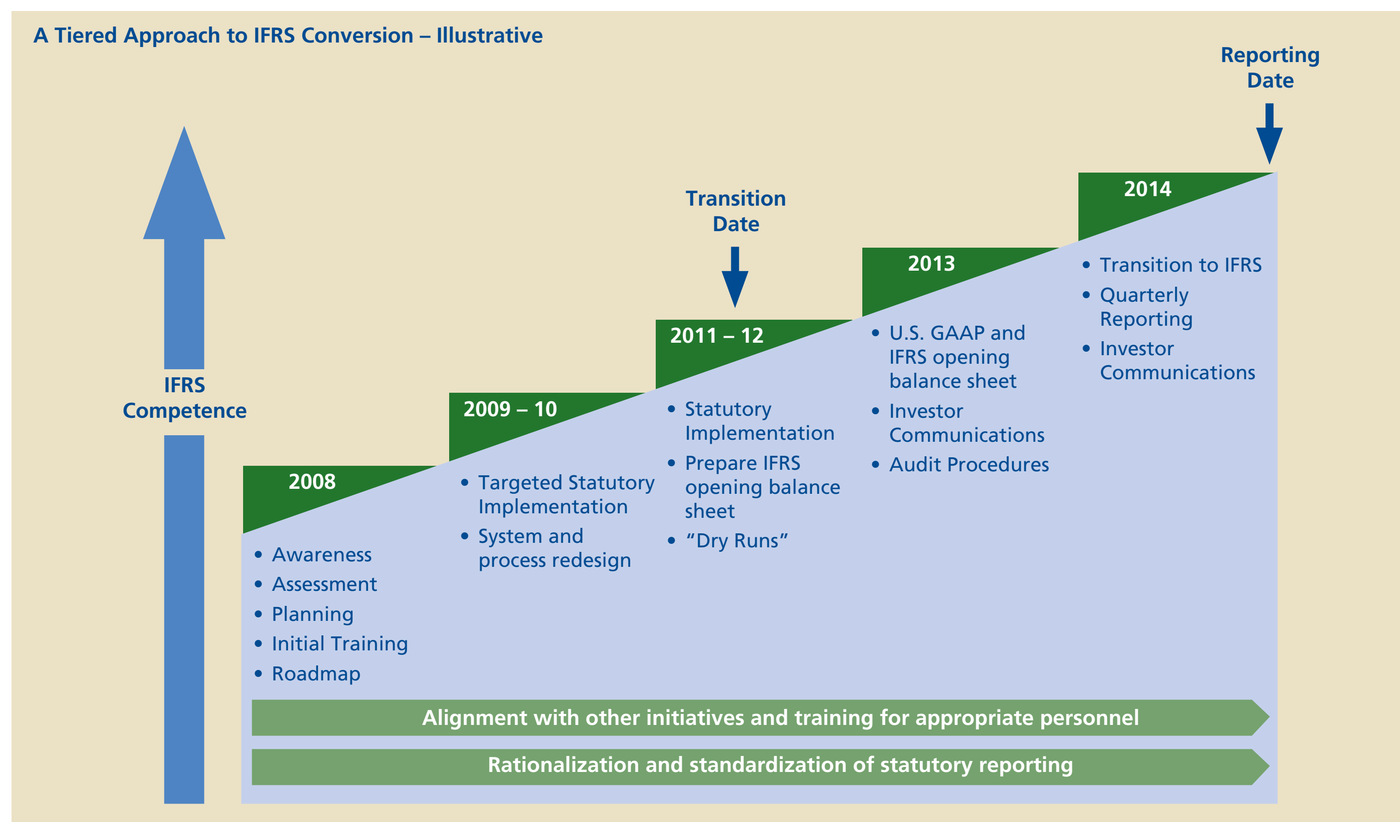
Generally speaking, two approaches to IFRS conversion predominate: all-in and tiered. The former is characterized by a relatively short timeframe; simultaneous conversion of all reporting entities; dedicated project teams; and commitment of significant resources. The latter is conducted over a more extended period; with phased conversion of reporting entities; with at least some personnel retaining their "day job" duties; and with a spreading out of project costs.

When the European Union converted to IFRS in 2005, it was, for most companies, an all-in effort driven by the tight timelines imposed by the European regulators. Without the luxury of time to convert on a staggered basis, most companies were forced to rush through the process, leading to inevitable inefficiencies and ineffectiveness.

A tiered approach – staged, rational, and measured – to IFRS conversion will likely provide better results. This comes with a seemingly self-contradictory caveat: You'll have to act fast if you want to go slow. That is, if you want to reap the potential benefits of phasing in your conversion, you'll need to start planning soon.

Companies that choose a tiered strategy should consider staggering their conversions on a country-by-country or region-by-region basis. As each group moves through the stages (see graphic, "A Tiered Approach to IFRS Conversion," below), the processes developed and lessons learned are applied to the next group.

A Tiered Approach to IFRS Conversion – Illustrative



Key Impacts of IFRS Implementation

Technical Accounting	Process and Statutory Reporting	Technology Infrastructure	Organizational Issues
• Overall approach to IFRS implementation • First time adoption policy considerations, including reporting dates and use of exemptions • Ongoing policy considerations, including alternatives and approach to "principles"	• Internal controls and processes, including documentation and testing • Management and internal reporting packages • Global reporting packages • Statutory reporting, including "opportunities" around IFRS adoption • Considerations for the impact of accounting changes on compliance with U.S. government cost accounting standards and federal acquisition regulations	• General ledger and chart of account structure, including performance metrics • Global consolidation • Sub-system issues related to configuration and data capture • Capabilities to manage multiple GAAP accounting during transition	• Tax structures • Treasury and cash management • Legal and debt covenants • People issues, including education and training, compensation structures • Internal communications • External and shareholder communications

Technical Accounting Issues Aerospace & Defense Companies

U.S. GAAP and IFRS differ in key ways, including their fundamental premise. At the highest level, U.S. GAAP is more of a rules-based system, whereas IFRS is more principles-based. This distinction may prove more vexing than it initially appears, because most accounting and finance professionals in the U.S. have been schooled in the rules of U.S. GAAP. The overriding lesson from their years of study and work is this: If you have an issue, look it up. Under U.S. GAAP, voluminous guidance attempts to address nearly every conceivable accounting problem that might arise. And if that guidance doesn't exist, it generally is created. On the other hand, IFRS is a far shorter volume of principles-based standards, and consequently requires more judgment than American accountants are accustomed to.

US GAAP accountants in the A&D industry are familiar with the application of the AICPA's Statement of Position Number 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts (SOP 81-1), but SOP 81-1 would be replaced by comparable IFRS guidance such as International Accounting Standard No. 11. The familiar AICPA Audit and Accounting Guide: Federal Government Contractors (AICPA Audit Guide) is also not part of the current IFRS framework.

Beyond the issue of rules versus principles, IFRS also can pose particular technical accounting challenges to A&D companies. The table "Technical Accounting Issues" highlights a number of these concerns.

Technical Accounting Issues

Potential Differences	US GAAP	IFRS
Contract accounting – scope	Contract accounting applies to specific types of contracts identified in SOP 81-1 and the AICPA Audit Guide.	Contract accounting applies to construction contracts in the financial statements of contractors.
Contract accounting – combination and segmentation of contracts	Provides contractor with discretion for segmenting or combining if applied consistently and if certain criteria are met.	Combination and segmentation criteria are more streamlined and do not provide contractor with alternatives.
Contract accounting – completed contract method of accounting	SOP 81-1 allows the use of the completed contract method and discusses when such approach is preferred (i.e. when the contractor is unable to make reliable estimates).	The completed contract method is not allowed. Revenue is recognized at zero margin to the extent cost is incurred (assuming no loss expected) when unable to make reliable estimates. Expected losses shall be recognized immediately as an expense.
Contract accounting - claims	Recognition is based on specific criteria outlined in SOP 81-1 related to legal entitlement, probability and ability to reliably estimate.	Recognition is based on specific criteria: that the contractor should be in advanced stages of negotiation and the claim is probable and reliably measurable.
Non-contract inventory accounting	Last in, First out (LIFO) costing permitted. Stated at lower of cost or market, with reversals of any previous write-downs prohibited.	LIFO costing prohibited. Stated at the lower of cost or net realizable value and may reverse prior write-downs.
Property, plant and equipment (PP&E) accounting	Major maintenance/ overhaul costs are either expensed as incurred, deferred and amortized until the next overhaul, or accounted for as part of the cost of the asset. PP&E is not depreciated based on a component approach.	Major maintenance/ overhaul costs are generally capitalized in asset costs. PP&E is depreciated based upon a component approach.
Impairment	Recognition of impairment is a two-step process. (1) Carrying values compared with undiscounted future cash flows to assess for impairment, and losses only recognized if carrying value is more than undiscounted cash flows. (2) Impairments are measured based upon fair value (frequently determined using discounted future cash flows). No reversals are permitted.	Recognition of impairment is a one-step process. Carrying values are compared with the "recoverable amount" of the asset. The recoverable amount is defined as the higher of fair value less costs to sell or value in use (present value of future cash flows). Additionally, previous impairments may be reversed in certain instances
Development costs	Generally expensed as incurred unless conducted for others under a contractual arrangement.	Capitalized if certain criteria are met.
Investment in subsidiaries - treatment of undistributed profit	Deferred tax is required on temporary differences arising after 1992 that relate to investments in domestic subsidiaries, unless such amounts can be recovered tax-free and the entity expects to use that method. No deferred taxes are recognized on undistributed profits of foreign subsidiaries that meet the indefinite reversal criterion.	Deferred tax is recognized except when the parent is able to control the distribution of profit and it is probable that the temporary difference will not reverse in the foreseeable future.

More Than Accounting and Financial Reporting

Without question, IFRS will impact the general ledger, and financial statements. But in a relative sense, the accounting and financial reporting may be the easy part. How you handle the nonfinancial aspects of the transition to IFRS may be a far more accurate indicator of your success. Among the areas warranting your attention human resources, contract management, mergers and acquisitions, tax, valuation, and technology.

Human Resources: As noted, IFRS involves much more than reorganizing the chart of accounts. It represents a change that cascades well beyond the finance department.

Consequently, human resources issues may be a major concern. A conversion project will place increased demands on your personnel, which may come at a time when you are least able to handle it. Finance organizations have streamlined in recent years, downsizing accounting functions through reduced hiring, layoffs, and attrition, as well as outsourcing or offshoring key functions. Unfortunately, these personnel reductions may mean that the people who could best help with your IFRS efforts are no longer available.

Recruiting may pose another challenge, particularly in the United States. College accounting programs across the country represent an important pipeline for keeping finance functions staffed and operating. Yet, most U.S. university accounting programs are only now beginning to develop comprehensive instruction on IFRS.

This issue can be addressed through training programs in the U.S. and internationally, to help key personnel become proficient in both IFRS and U.S. GAAP.

Contract Management: An IFRS conversion will potentially impact your existing contracts. Consider involving your legal team as part of the remedy. Issues may include the following:

Many contracts may need to be reviewed to make sure the proper accounting treatment is followed under IFRS. To improve the efficiency of this process, a contract database could be created (if not already in place) to better monitor the IFRS conversion and tracking of effects.

Many A&D companies participate in joint ventures that they don't directly control. Thus, it can be difficult for the company to obtain all the necessary information to accurately convert to IFRS. In such instances, you may want to reassess (and potentially revise) your requirements for financial and accounting information from the joint venture.

The IFRS conversion may trigger the need to amend contracts with financial institutions and joint venture partners in regards to financial accounting information to be supplied by your company. You may have to reword certain sections to address regulatory or third-party requirements to replace U.S. GAAP information with IFRS information.

Mergers and Acquisitions: Implementation of a single set of accounting standards for all subsidiaries, and joint ventures around the world will allow for streamlined integration of new acquisitions into your company's consolidated financial reporting system. Also, the transparency resulting from fair value reporting may impact your strategic business decisions around acquisitions and dispositions based on their likely impact to your financial statements under IFRS.

Tax: As certain foreign jurisdictions require taxes to be paid based on earnings reported in the financial statements, the changes to net earnings due to an IFRS adoption may result in significant fluctuations — increases or decreases — in the foreign taxes owed. This is an area that management would be expected to carefully evaluate as an IFRS adoption is considered.

Adoption of IFRS may also result in changes in profit recognition and ultimately pre-tax income. These changes will likely result in the need to evaluate their impact on the deferred taxes recorded, the timing of reversals of deferred items, and valuation allowances. It is important to acknowledge these changes and understand that the book revenue/expense recognition policies may all need to be reviewed to get them right.

Additionally, the many changes to the financial reporting of assets, liabilities, profits, and losses may result in significant impacts on compliance with regulatory requirements.

Valuation: Measurements of fair value weave their way through many sections of IFRS, transcending many functional areas of an A&D company, including M&A via purchase accounting or the reporting of fair value. Fair value also potentially has a direct impact on tax through asset impairment testing, as well as on treasury functions through disclosure and transparency effects. In addition, legal areas may be affected through debt covenants, partnership or joint venture agreements, or even compensation arrangements with employees or management. Estimating, supporting, documenting, and reporting fair value requires a thoughtful process and the allocation of appropriate resources to manage this important aspect of IFRS.

Several areas related to fair value estimates may be considered, including the use of qualified specialists; the determination of proper extent and frequency; careful scoping of the analysis and report; and the development of a detailed policy or standard.

Fair value disclosures in financial statements will likely vary in detail; however, they should include information on valuation methods, assumptions (cost of capital, discount rates, capitalization rates, rental and expense growth rates, etc.), qualification of the valuation specialist, and explanations of fair value conclusions.

Treasury: Moving to a global financial reporting model may open up access to new sources of capital. Many global lenders, global private equity firms, and international exchanges require or prefer IFRS reporting due, in part, to its increased transparency into fair values and comparability to other investments or companies. Thus, these sources potentially become new avenues for capital funding, particularly in the current U.S. dollar environment.

Note, however, that greater use of fair value may create more volatility in your company's access to capital. That is, not only can reporting under IFRS potentially open up access to additional capital in a favorable fair value environment, but it can also serve to limit the additional capital in an unfavorable fair value environment.

Furthermore, with reporting or disclosure under fair value, management will likely need to understand, evaluate, and manage the expected market reactions to reported volatility in values. This will represent new territory for most U.S.-headquartered A&D companies.

Additional impacts of IFRS on the treasury function may include the following:

Companies that choose to present fair value may consider the need to lower their leverage models to ensure that market fluctuations can be adequately absorbed by equity.

Companies may need to consider and revise existing debt terms for covenants based on U.S. GAAP metrics or financial results which don't make sense or are no longer attainable under IFRS.

The clearer view that lenders get into the fair value of collateral (whether presented on the balance sheet or disclosed in the footnotes) may alter their evaluation of creditworthiness and may impact the terms of new debt instruments related to collateral values and covenants.

Technology Issues: IFRS is expected to have wide-ranging impacts at different levels of the IT systems architecture. The realignment of the company information systems will pose a real challenge for IT (along with the rest of the organization). Virtually all applications and interfaces in the system architecture can be affected, from the upstream or source of data to the farthest end of the reporting tools. As such, time and resource needs may be significant.

As you plan changes to your IT systems, you will need to take into account external factors such as local and international regulations, financial consolidation of subsidiaries, stock markets, and external auditors. This business transformation should not be considered a one-step project. It may be necessary to implement short-term initiatives strategically designed to institute an effective long-term solution for the organization.

Technology Impacts

Upstream Source Systems and Transformation Layer	General Ledger and Financial Applications	Reporting Data Warehouse Planning and Calculation Engines	Downstream Reporting Capabilities
Differences in the accounting treatment between current accounting standards and IFRS will create a need for new input data.	Differences in the accounting treatment between current accounting standards and IFRS will likely drive changes to general ledger design, chart of accounts, as well as sub-ledgers and feeds.	IFRS has much more extensive disclosure requirements, requiring regular reporting and usage of financial data that may not be standardized in current data models.	The differences that arise in the accounting treatment between current accounting standards and IFRS will create a need for changes in reporting.
Data and transactions that are captured, stored and ultimately sent to the financial systems may not have all the needed attributes or qualities.	Multinational companies may ultimately realize a need to re-develop general ledger platforms or additional sets of books to ensure compliance with multiple financial reporting requirements.	Increased need for documented assumptions, sensitivity analyses; potential factors that could affect future development may expand the scope of information managed by financial systems.	Assumption changes from period to period can introduce significant volatility and require detailed support for derivation and rationale for changes, requiring design of additional reports.
Sub ledgers within the ERP may have additional functionality to support IFRS that is currently not being utilized but could be implemented.	Multi-ledger accounting functionality within newer releases of ERP's may be considered for long-term solutions.	Reporting warehouse feeds to calculation engines may need to be adjusted in a standardized way to support reporting processes.	External reporting templates will likely require revisions to reflect IFRS requirements.
Transformation layer not likely to have been designed with IFRS in mind; data sender/receiver structures may need to be adjusted.	Changes to IFRS will likely necessitate redesigned accounting, reporting, consolidation, and reconciliation processes, which may impact configurations of the financial applications.	Data governance functions and meta data repositories (potentially including data dictionary, ETL & business intelligence tools) may need to be adjusted to reflect revised data models.	Increased disclosures such as sensitivity tests and roll-forwards may require additional ad hoc query capabilities.
Over time the potential for acquisitions of companies using IFRS will increase; altering source systems and Extract, Transform and Load (ETL) tools to provide all needed data elements will make integrations significantly more efficient.	Differences that arise in accounting treatment between current accounting standards and IFRS may create a need for new expense allocations and other calculations.	Current valuation systems may not have functionality to handle IFRS requirements.	

The European Experience

In July 2002, the European Parliament passed legislation requiring listed companies to convert to IFRS by 2005. The short timeframe and extensive reach of the directive had many companies scrambling to comply. Anecdotal reports suggest that the conversion placed significant resource pressure – human and financial – on finance teams and their companies at large.

A more tangible measurement of the effort can be found by comparing the length of European companies' 2004 (local GAAP) and 2005 (IFRS) financial statements. The latter averaged more than 50 percent longer than the former; in some instances, reports doubled in length. Much of the increase can be attributed to an increased level of disclosure in the financial statements in areas such as judgments made and assumptions used.

Certain accounting issues proved especially vexing during the transition, including asset impairments, financial instruments, lease accounting, and emission rights.

Among the lessons learned from the European experience were the following:

The effort was often underestimated. The original misconception that conversion was solely an accounting issue was replaced with a growing realization that the initiative was larger and more complex.

Projects often lacked a holistic approach. Because of the limited view cited above, companies frequently did not take the collateral effects into consideration, such as the impacts on IT, HR, and tax.

A late start often resulted in escalation of costs. Those few companies that anticipated conversion and took steps to prepare for it were in much better shape than those that did not. Companies that delayed their response paid a price for it, in terms of higher costs and greater diversion of resources.

Many companies did not achieve "business as usual" state for IFRS reporting. The highest quality financial data is obtained when companies fully integrate IFRS into their systems and processes. The compressed timeframes often precluded this possibility; instead, first-year financials were often produced using extraordinary, labor-intensive, and unsustainable measures.

Several companies are only now starting to explore benefits from IFRS implementation. Due to multiple constraints, the first-year effort in the EU was focused more on "getting it done." Potential benefits in terms of reducing complexity, increasing efficiency, decreasing costs, and improving transparency had to be deferred.

Smoothing the Transition

If you decide an accelerated IFRS conversion is desirable, here are a few considerations for smoothing implementation:

Leverage existing projects: If you are already going through — or have recently completed — an enterprise resource planning (ERP) or finance transformation project, now may be the time to consider IFRS adoption. Recent versions of major ERP systems are designed to accommodate IFRS, which can be mapped in, usually with significant cost savings.

Conduct a trial run: Implementation might be easier if you take a bite-sized approach starting with a single country or reporting entity. Use existing reporting requirements and local country IFRS requirements to your advantage. For example, subsidiaries in countries adopting IFRS over the next three years may be good candidates for your trial run. Learn from this initial conversion exercise, and apply the lessons learned to your global rollout down the road.

Consider shared services centers: IFRS provides a compelling reason to establish shared services centers, to potentially consolidate dozens of local GAAPs down to a single reporting standard. Geographically-dispersed finance offices could be drastically reduced or even eliminated in favor of a central finance function, strategically located to take advantage of tax incentives, payroll savings, and facilities cost reductions. In many cases, this concept is already aligned with the strategic direction A&D companies have taken or are currently considering relative to their finance function.

Strengthen controls: IFRS offers the opportunity to implement standardized frameworks and processes to enhance the overall control environment.

Refresh your policies: Conversion to IFRS drives a need to revisit fixed asset componentization, inventories, derivatives, revenue recognition, and other accounting policies (as discussed on page 4). In other words, IFRS provides a refresh exercise for accounting policy implementation, with the aim of more accurate and timely financial reporting.

Improve your access to capital: Capital is migrating away from the U.S. for a number of reasons, including the weakness of the dollar, the credit crisis, and the growth of foreign financial centers in Europe and Asia. Regardless of the cause, when it comes to raising capital, trends are clearly global. IFRS can potentially improve liquidity and access to capital by offering greater transparency, in the form of full and better disclosure, to investors.

Access to capital may also be enhanced by virtue of aligning with a common standard. Markets and investors have been demanding a common standard for years, and IFRS has increasingly served that need. As such, companies reporting under IFRS may have an improved ability to access other capital markets that have adopted the standard.

Time for Leadership

You are in an enviable position, because you possess knowledge that many others in your organization may not: the movement toward IFRS is inexorable, and the initiative involves multiple corporate functions, not solely finance.

So you have a choice: either sit back and wait for it to happen (with all the attendant uncertainty and risk), or mobilize your company to attempt to extract every possible benefit and dodge every avoidable obstacle.

In other words, it's time for leadership.

By starting now, you will likely spread out your costs, get the jump on your competition, and reel in scarce talent before it vanishes. You can avoid the fire-drill atmosphere that characterizes most last-minute projects. You can improve your processes and systems. You can integrate with other initiatives, such as an ERP upgrade or a merger or acquisition. Most important, you can do it on your own terms, at a pace that suits your company and its circumstances.

A&D companies are characterized by intensive activity that places major demands on financial and human resources. An IFRS project cannot be a distraction from the primary activities of your business. It must be integrated, coordinated, and aligned. It starts now with some preliminary questions and a carefully drawn roadmap. And it ends somewhere in the next decade when you report for the first time under a single unified standard. Whether the journey from here to there is rocky or smooth may be entirely up to you.

Resources

Deloitte has extensive experience in the A&D industry with considerations relating to IFRS and its implementation. With thousands of IFRS-experienced professionals in our global network, we provide an array of services related to IFRS and, as a multidisciplinary organization, are positioned to assist companies in addressing a wide range of IFRS issues.

Deloitte offers companies assistance with:

- Evaluating the potential impacts of IFRS
- Assessing readiness for IFRS conversions
- Implementing IFRS conversions, providing support with technical research, project management, and training
- Addressing the implications of IFRS in such areas as tax, finance operations, technology, and valuation

Deloitte's U.S. A&D Practice:

For more than 65 years, Deloitte has provided a wide array of audit, consulting, financial advisory and tax services to leading companies throughout the A&D industry, including commercial and military aircraft, engines and propulsion systems, guided missiles, space vehicles and shipbuilding. Deloitte currently serves 13 of the 14 largest A&D companies.

The service model of Deloitte's A&D practice is based on deep knowledge of the industry and our clients. We are one of the few major professional services providers with an organized A&D practice, utilizing approximately 300 cross-functional client service professionals. Our consulting practice focuses on the principal issues facing the industry, including Supply Chain Strategy, Customer Support and Sustainment (CS&S), Mid-market ERP Solutions, Talent Management, and Tax Strategies. Our team brings a multi-disciplinary approach to our engagements, and to the recommended solutions. Our A&D team approaches each engagement with objectivity, integrity and candor and maintains a long-term view of our client relationships. We have the willingness to tackle the tough issues and are involved with initiatives that create value for our client. Our number one priority is to assist our clients with their recognition of issues and challenges, and identification of solutions.

Deloitte's Online Resources

For a wealth of online resources related to IFRS, visit www.deloitte.com/us/ifrs. Available materials include newsletters, whitepapers, pocket guides, timelines, webcasts, podcasts, and more.

Contacts

IFRS Solutions Center

D.J. Gannon
National Leadership Partner, IFRS Solutions Center
Deloitte & Touche LLP
+1 202 220 2110
dgannon@deloitte.com

Our Practitioners

For more information, please contact:

Tom Captain
Vice Chairman
Global & US A&D Industry Leader
Deloitte Consulting LLP
+1 206 716 6452
tcaptain@deloitte.com

Tim Bremer
Audit & Enterprise Risk Services
A&D Industry Leader
Deloitte & Touche LLP
+1 314 342 1830
tbremer@deloitte.com

Steve Caramello
Tax A&D Industry Leader
Deloitte Tax LLP
+1 617 437 2718
scaramello@deloitte.com

Nick Florio
Financial Advisory Services
A&D Industry Leader
Deloitte Financial Advisory Services LLP
+1 213 688 5421
nflorio@deloitte.com

Kevin McFarlane
Corporate Finance A&D Industry Leader
Deloitte Financial Advisory Services LLP
+1 213 553 1423
kemcfarlane@deloitte.com

Tim Short
Human Capital A&D Industry Leader
Deloitte Consulting LLP
+1 617 437 3189
tishort@deloitte.com

Nick DiFazio
Partner, Deloitte & Touche LLP
+1 212 436 7747
ndifazio@deloitte.com

Joel Osnoss
Leader, Global IFRS Service Line
Partner, Deloitte & Touche LLP
+1 212 436 3352
josnoss@deloitte.com

Alfred Popken
Principal, Deloitte & Touche LLP
+1 212 436 3693
apopken@deloitte.com

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