KPMG

New standards

Good and bad news on IT implementation

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Critical time challenge to get your systems ready

The new standards that are rapidly coming down the line represent huge changes to accounting and are a major technical challenge. But meeting the implementation deadline becomes even more challenging when we factor in the changes required in processes and IT systems.

Across the three standards, there is some good news – and some bad news, too.

Perfect time to get going on leases

With IFRS 16 due to be implemented from 2019, the good news is that now is the right time to start properly planning for it and get the project onto your organisation's IT road map.

You will need to create an inventory of possibly thousands of contracts, all over the world, that should be classified as leases and therefore come on-balance sheet: a big one-time effort. You then need to extract all of the necessary information from those contracts to meet the standard's requirements. The technology now exists, using machine-learning algorithms, to extract that information directly from PDFs and put it into a structured format: dramatically reducing the man hours needed.

Once this has been done, you need to identify the best lease accounting software tool to run the system on and choose a software provider to implement the changes. Organisations such as KPMG can help you with all of these steps and quality assure the results.

But time is already of the essence. Vendors have limited capacity to implement for multiple clients and we are hearing of shortages in the market even at this stage.

Financial instruments strike a better note

There is also good news on IFRS 9. For most corporates – i.e. companies that are not financial institutions – the systems implementation requirements should be relatively modest to collect data for disclosures. The bigger need is for new methodology and documentation, especially for the provisioning of bad debt.

For most corporates, the systems implications will be less than for IFRSs 15 and 16. But the impact on systems could be significantly higher for a corporate that has exposure to hedge accounting and chooses to adopt the new requirements.

Revenue recognition – It may already be too late!

The challenge, however, comes with IFRS 15. The systems solutions needed are harder to find in the market and to implement than for leases, because there aren't the same kind of standardised solutions available: lots of companies will be affected differently due to their industry sector and to different degrees, and therefore have to implement tailor-made system solutions.

There are some judgemental areas around the new revenue standard that also make it harder to assess exactly what IT changes are needed to meet the accounting requirements.

Of course, the revenue standard also needs to be implemented a year earlier than leases, from the start of 2018!

But from what we hear from our clients, a significant minority of organisations are already behind. If systems changes are not well-advanced by now – then it may prove impossible to achieve a solution that is fully installed into an ERP system. You may have to look at workarounds to get the book-keeping right and then migrate into ERP later.

Even with such workarounds, time is very tight. The same skills shortages and pressures in the market as for leases also apply.

Bear in mind, too, that workarounds will still need to be audited and possibly even reviewed by regulators.

What should you do right now?

Get going! On IFRS 16 and IFRS 9, it is time to start now.

With IFRS 15, if you have fallen behind then you need to start prioritising right now and urgently discussing how to manage an interim solution. You need a Plan B and you need to get it in place straight away.

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