



P&L planning in accordance with IFRS

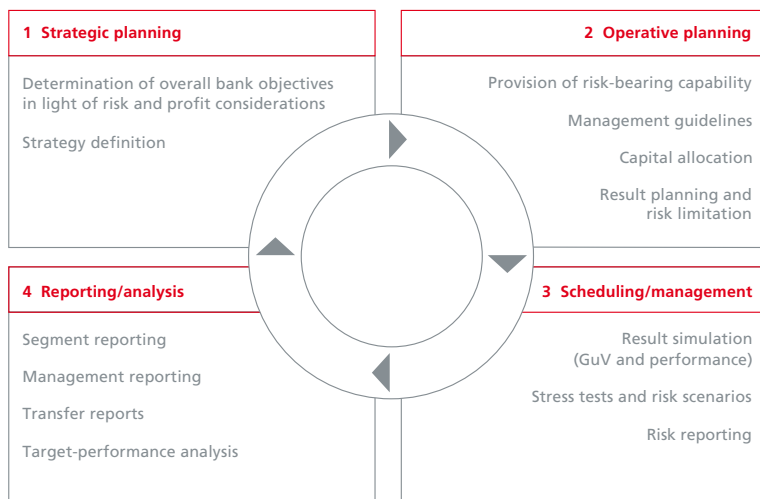
Methods of integrating IFRS into the management cycle

As of the 2005 financial year at the latest, listed financial institutes in the EU have been preparing their consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). However, in the mid-term, it is unlikely that this will remain exclusively in the domain of annual accounts preparation. Management, shareholders, rating agencies and the capital markets are all looking for clear statements on the future development of IFRS accounting. In terms of external financial reporting it is therefore becoming increasingly necessary to publish not only relevant actual figures, but also to provide comment on the company's intended development in accordance with IFRS. Consequently, the days of reporting based exclusively on accounts prepared according local GAAP or internally structured in line with present value figures appear to be numbered. As such, a clear alignment with IFRS, or at the very least a link to IFRS, is urgently required.

When addressing the subject of IFRS planning, banks are frequently faced with the question of how planning based on local GAAP figures will look from an IFRS perspective. As a rule, a step-by-step approach to the subject is practical; the management must first develop a "feel" for the IFRS system of figures. Moreover, a differentiated overall understanding of the IFRS system of figures needs to be achieved within the various business units, prior to adapting the overall planning and controlling process. An IFRS planning project implemented at a major regional bank substantiates the fact that this understanding can be developed from the IFRS reporting system extremely effectively.

Pragmatic transition strategy

Together with the ifb group, the bank set about preparing an income statement plan in accordance with IFRS at the start of 2006. While the strategic and operative planning process continued in the usual manner, the accounting and controlling departments simultaneously drew up a concept for the IFRS income statement plan up to and including the operating result. Experts in business units close to the market also provided support for the



Management process for integrated total bank controlling

Children of the ifb AG, Cologne



primarily centralised planning process. Particular attention was paid to earnings statement planning in respect of financial instruments and relevant non-financial instrument areas.

The annual planning of the regional bank was based on a strategic multi-year plan, the objectives of which were adjusted by virtue of a strategy update, spread over the profit centres, and ultimately validated by way of bottom-up projected figures. This process remained constant throughout the project. As far as possible, the aim was to generate IFRS projected figures for the year 2007 by transferring existing data. In this respect, clarification was required regarding the extent to which data from profit centre accounting or HGB planning could be used to produce an illustration of consolidated planning in accordance with IFRS. At profit centre level and portfolio level, the project team examined the nature of the intended operations and compared the reporting methods. The first criterion was to establish whether the accounting methods for HGB planning and profit centre accounting enabled the use of data for planning in accordance with IFRS. The second criterion was to determine whether the respective ratios according to IFRS and HGB and according to the rules applied for profit centre accounting are posted in the same or a different manner. In this way, IFRS-compliant projected figures could be generated at considerably less expense, with expert assessments only needed for items that could not be posted or obtained with the aid of the existing data.

Consistently thought through

The IFRS-compliant planning overview for the regional bank facilitated a comparison of the consolidated planning ratios according to HGB and IFRS, in turn providing the management with an illustration of the primary shifts resulting from the change in standards. The next step was to refine the methodology by means of the actual figures and supplement the planning reports with additional ratios. In the next planning iteration, the planning process will be converted to the IFRS accounting method as the primary environment for the group.

By embarking on IFRS-orientated analysis of results and profit planning, the company has paved the way for integration of IFRS throughout the entire bank. The aim is to combine reporting, strategic and operative planning, risk and return management within one single IFRS-orientated management cycle. In turn, this requires that planning and performance data can also be regularly reported in accordance with IFRS. In addition, the company plans to enhance the simulation and forecast reports in order that the P&L statement and equity capital can be managed from the perspective of IFRS. En route to achieving integrated reporting, transition reports will be established between profit centre accounting and the IFRS system of figures; thereby creating the basis for plan/actual comparisons and controlling strategy implementation in the IFRS environment. Within this context, this year the regional bank is switching its profit centre accounting to an IFRS-comparable accounting method, which likewise was developed in cooperation with ifb. As such, this challenging catalogue of measures is creating a solid foundation for dealing constructively with investor information requirements.