A BPM Partners White Paper

Making Collaboration Work
in Your Financial Consolidation and Disclosure Processes

June 2011

Research Supported by:

Table of Contents

Executive Summary

Financial consolidation has become an ever tougher first stage in the Last Mile of finance, particularly for international companies and those in financial services. The Finance group is stressed by tighter deadlines, more reporting requirements, and multiple national GAAP standards that are shifting in reaction to IFRS, as well IFRS itself. The XBRL reporting mandate is also among the causes.

Disclosure is a quicksand trap waiting in the Last Mile. More people must participate in disclosure than in the past: investor relations, sales, legal, accounting, and others. They have varying knowledge of disclosure requirements, and few tools to guide their collaboration and help ensure consistent disclosures. Disclosure remains time-consuming, tedious, and a risk area. Collaboration in disclosure tasks is important, especially when a company is reporting on results from far-flung operations.

Few consolidation software solutions link seamlessly to the surrounding processes, handle IFRS and multi-GAAP effectively, deliver XBRL reports, and have features to manage disclosure as a collaborative activity.

A consolidation application should deliver specific benefits in the near-term, mid-term, and longer-term. Any consolidation system licensed today should, in the near term, reduce the manpower, time and resources needed to survive a specific closing period, increase accuracy, and meet applicable reporting and disclosure mandates.

In its first year, a consolidation system should help to resolve IT diversity (a mix of ERP systems from multiple vendors), conflicting charts of accounts and taxonomies, and the complications of growth; mergers and acquisitions, new subsidiaries, and shuffling of divisions.

More benefits should come over the long term. Consolidation software is uniquely able to promote a common financial language for all managers across business units and national boundaries. If the application meshes well with budgeting, planning, as a part of enterprise-wide BPM it will help align execution with strategy.

These more strategic gains come only when departments and different levels of management collaborate. Consolidation keeps getting more complex. It’s much bigger than simply aggregating data. Proper disclosure requires team contribution.

In the financial close, a software system that includes disclosure management workflow can add great value. Adjusting and disclosing data is where collaboration looms large, and a software solution should support that interaction with workflow and document version control.

A key guideline: select software that can handle processes and regulatory demands which become more complicated over time.

Historic Challenges in Financial Consolidation

Financial Consolidation stands between a rock and hard reporting deadlines

As financial consolidation becomes more difficult the need to improve it is more urgent than ever. CFOs and Finance groups are squeezed between twin pressures: more regulation, reporting and disclosure demands on the “output” side, with increased IT diversity and shifting corporate structures—from growth, reorganizations, and mergers—complicating the “input” side. Financial consolidation, reporting, and accurate disclosure management require teams of participants. Throughout consolidation and reporting, including XBRL tagging, collaboration is a key ingredient for success.

In the last few years, the number of stakeholders who must take part in the Last Mile financial processes has increased. Often these individuals have not collaborated previously. They may not know one another. They might have no idea of how the work should flow. Who gets this next? Who needs to approve it? What if someone changes it? Can I trust the other people involved in this? Auditability, to track who did what, and workflow management are important software capabilities.

One can debate whether the increase in regulation and reporting standards really stops malfeasance and helps investors, or just penalizes the righteous, but there’s no dodging the fact that the Last Mile has become a steeper uphill climb.

Faster, better financial consolidation has become a necessity. With more steps and requirements in the Last Mile, Finance needs whatever time advantages it can find. Changing reporting mandates, especially on major financial institutions are a major factor. IFRS puts more pressure on the financial consolidation process. Compared to U.S. GAAP, IFRS consolidation can result in different conclusions, particularly when special purpose entities or other complex arrangements are involved.

XBRL, at least until it becomes a well-traveled path that companies are comfortable with, can consume weeks of the time available for reporting, contributing to a significant time crunch for Finance.

Multi-GAAP Reporting Capability

Unless a company is resolutely uni-national, and fairly certain it will not expand or make acquisitions outside its home country, it should give priority to software solutions that address multi-GAAP reporting. IFRS may paradoxically have the near-term effect of making multi-GAAP more important, not less. The US, Canada, Japan, the UK, France, Germany, Italy, Spain, Switzerland, and the Netherlands—to name a handful of countries--have differences in their respective national GAAPs. Not only that, with local GAAP standards in varied states of flux in some countries, they have bowed to the inevitability of IFRS and are adapting toward IFRS in certain respects.

A financial consolidation system selected today should support the accounting standards for each country where the company operates or might in the foreseeable future. Given mergers and acquisitions, it's wise to have a system that handles multinational consolidation, and integrates well with other BPM applications, and with the other Last Mile processes. This is not just good for the company. As a side effect, it can benefit the career of Finance staff. If two companies join, the Finance group with the system flexible enough to survive the merger may have more job security.

XBRL and iXBRL

Compliance with the XBRL reporting mandate demands more than just consuming time during the closing period. It forces companies to think carefully about how items are classified for consolidation and then reporting. Financial consolidation is the precursor to data disclosure for XBRL tagging. Over the next few years, as companies struggle with unfamiliar tags and reports, software support for the preparation, validation, and analysis of XBRL reports will be key. It's probably wise, even if your countries of reporting do not currently require Inline eXtensible Business Reporting Language (iXRL), to choose software which does support output in iXBRL format.

Treating XBRL as a separate function can be costly, increase delays in reporting, and can lead to more errors. The SEC makes allowances for the learning phase, but after an initial two-year grace period, these errors may incur heavy penalties. We expect most companies to eventually handle XBRL in-house, for reasons of control, economy, and ease of coordination.

With less room for mistakes in reporting, and a decrease in forgiveness from regulatory authorities, the ability to check numbers before reporting is more important. Finance must deliver transparency, with a granular level of data detail accessible below each consolidated number. Less is taken at face value, and it has become an outright necessity to have the ability to investigate the detail that makes up a number.

Extreme Penalties and Errors Due to Time-Pressure

Finance groups, usually not blessed with headcount for surge situations, are familiar with the physical and emotional exhaustion of the Last Mile. The image of a marathoner struggling through the final lap is apropos. Executives are on the line. The fear of internal errors is matched by awareness of the pitfalls. The penalties for coming in late or wrong on mandated reports can be extremely high. Re-filing financial statements can significantly impact a company's market capitalization in a blink.

Nights and weekends going over the consolidated results and reports are expected and considered normal. The more an automated software solution can equip Finance to stop errors from creeping in, and catch them when they happen, the better.

Understand the Near, Mid, and Long Term Benefits

Companies that fix financial consolidation and reporting are well aware that it involves more than merely speeding up the process and reducing filing errors. Those are important, valid near-term objectives. If there is nothing else on the selection checklist for choosing a software solution, however, the result will be a lower return on investment (ROI), and probably a higher total cost of ownership (TCO). A better return comes if your company treats this as a strategic initiative that has mid-term and long-term benefits.

In the Achievable Results section later in this document, we detail the benefits by time horizon.

Once Overlooked, Now a Necessity: Disclosure Management

Disclosure in many companies has gone from being “something that Legal and Finance took care of” to a process that demands more participants and great attention to detail. To help illustrate why, consider a checklist of IFRS disclosure requirements published in 2009 by KPMG. It runs over 100 pages.

The following are a few disclosure requirements pulled at random from that checklist:

- IAS 1.98(f): litigation settlements
- IFRIC 5.10: disclose the nature of any interest in decommissioning, restoration, or environmental rehabilitation funds and any restrictions on access to assets in the fund.
- IAS 41.43: a quantified description of each group of biological assets, distinguishing between consumable and bearer biological assets or between mature and immature biological assets…

Some may be relieved to know that the last, IAS41.43 is only encouraged by IFRS, not required. The point is that disclosure has a wide scope and potentially requires expert input from individuals in different departments, who may well be newcomers to the process of disclosure. They may be subject matter experts with almost zero understanding of financial processes and requirements.

The report entitled *Managing Legal Risk in the Financial Reporting Process*, by Leonard W. Wang, Esq., Former Assistant Director, Division of Enforcement at the SEC notes: “…the importance of establishing a record of good faith effort to comply with the financial reporting rules in order to lessen the potential for fraud and criminal charges, the most serious charges that a company may confront.”

Legal and Finance executives have good reason to want software solutions which help establish their trail of good faith effort to comply, particularly in the often subjective zone of disclosure. Companies are often unclear on the distinction between ICFR, or internal controls over financial reporting, and broader disclosure requirements. ICFR overlaps partially—not entirely—with financial reporting disclosure requirements, but ICFR is more tightly defined. Parts of ICFR lie outside general disclosure. Disclosure is hazardous terrain, especially under the time pressure of a financial closing period.

The financial consolidation solution needs to support fast growth, such as a financial institution acquiring banks and related businesses in multiple countries. As risk-averse CFOs look for safe haven from mistakes and accusations, they will emphasize built-in controls for compliance and auditability. The workflow required to collect, adjust, and reconcile data accurately under time pressure can be complicated.

The production and public presentation of financial information is often centralized, and highly manual. Most companies lack adequate controls and workflow. Disclosure is managed by people who need to log onto multiple systems to collect related information and documents. It is easy to confuse sources and versions of disclosure items. Systems should provide workflow and a framework to guide disclosure.

Ideally, a consolidation and reporting system will gather financial data and individual footnotes from any source application or database, and store all its information in a single repository, where users can track and approve disclosure content more rapidly. This enables Finance to produce regulatory reports more quickly, such as:

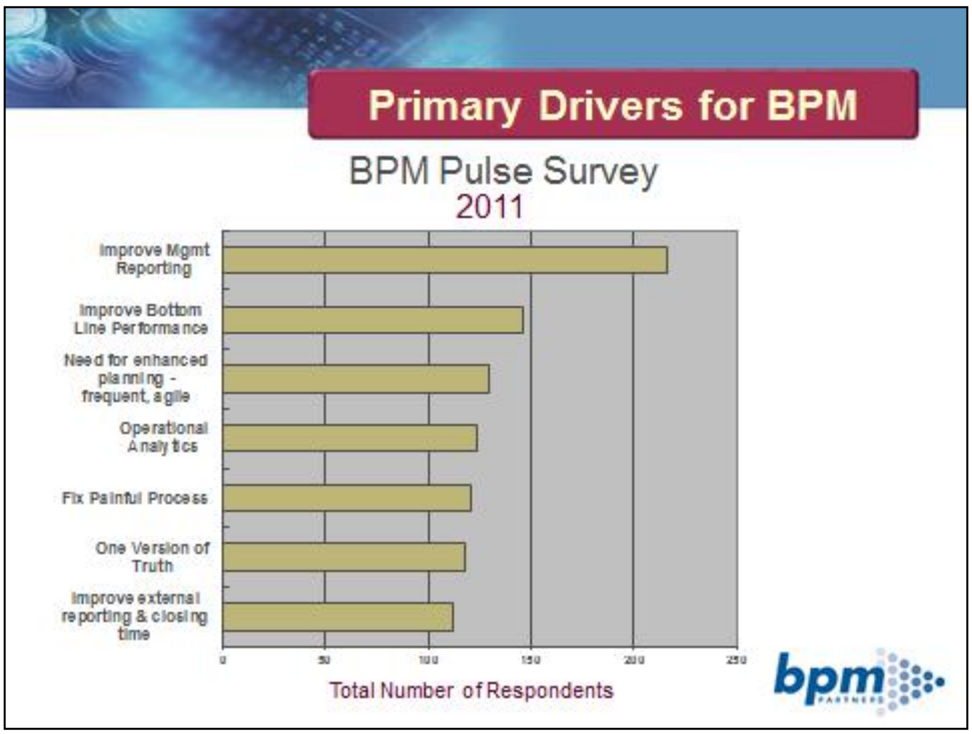
- U.S. SEC reports,
- IAS financial statements,
- annual reports,
- board books and
- other documents required.

The Difference Today: Technology, Pricing, Urgency

The Last Mile is a Priority

Although many enterprises have well-controlled environments for their transaction management systems, and perhaps their analytics as well, these same companies still struggle in the areas of management and statutory reporting.

According to the 2011 BPM Pulse Survey conducted by BPM Partners, Inc., 83 percent of respondents cited "improve management reporting" as a primary driver of their performance management and business intelligence initiative. The survey results indicate that when Finance looks for budgeting and forecasting solutions, it often wants to revamp consolidation. Unified BPM solutions that span consolidation and reporting along with budgeting and forecasting, are now well established.



Technology: Unified Applications with Web Interface

Last-Mile solutions are available with a variety of architectural foundations. The mantra "one version of the financial truth" reflects unified applications with a single data repository, with light-client or web access. This combination has strong appeal for many companies.

The unified, single-repository solution is a healthy start to tackling Last Mile challenges. It is data governance-friendly. Using one definitive information source removes a number of risk factors, including data inconsistency. There's always a tension between the pre-packaged and the customizable; between the built-in best practice and the flexibility to scale with expanding complexity. Historical trends tell us that things get more complicated, not less. Ideally, the software will adapt without major custom work to future growth of regulations and difficult business processes.

Technology: Data Discovery and Analytics

Solutions now meet new regulatory and disclosure requirements for reporting but also allow data discovery and advanced analytics. This has become particularly important with drilldown on draft reports, and xBRL reports, where Finance needs the ability to quickly validate summary-level results by going down to the underlying detail. Solid numbers are no longer enough. Nothing gets taken at face value. Knowledge that explains the results will need to accompany the numbers in many instances.

Some solutions available now allow Finance to more easily handle multi-GAAP and IFRS reporting all on the same source data without having to load data into multiple models. This eliminates the need to sync up data across models. It effectively guarantees consistency across all the statutory and management reports.

If you think of unification as applying throughout the *closing process* for each single entity with the group consolidation process, this would mean that the Finance team in a subsidiary in France would have available the results, disclosure information, IFRS reports, national GAAP reports, and other local required reports. Their process would be as seamless as that of the headquarters in the UK, which would have to meet UK reporting requirements and iXBRL filing.

Collaboration

If executed correctly, collaboration in the financial close can help companies take control of these processes and not just measure results. To put it more concretely, integration of a consolidation solution with integrated systems such as Sharepoint makes it easier for multiple users to build final documents without version confusion. It is easy to understand the impact on effective decisions if collaborators, regardless of their location, participate in a systematic approach to capture their input.

In evaluating technology, once should consider a highly collaborative environment that allows for internal control helps achieve needed transparency. In addition, built-in controls ensure 100% compliance and traceability every step of the way.

Technology: Solution Attributes

Packaged software solutions in financial consolidation have become much stronger, often delivering the capabilities listed below:

Output

1. Ability to quickly produce regulatory reports such as the U.S. SEC reports, IAS financial statements, annual reports, board books and other documents required either by regulatory bodies, central banks, or internal policies, with full XBRL support.
2. Provide both standard reports and allowing more flexible queries,
3. Ability to change rollup alignments,
4. IFRS support; a select few software applications have addressed IFRS effectively. This means they support easy segment reporting, and can dynamically aggregate data according to the different segment structures defined.
5. Simulation and capability for ad-hoc analysis by business unit, geography, product line, etc.

Finance-related processing

6. Tracking and auditing; "full auditability" has almost achieved mantra status. Changes to data should be traceable to the date, time, and individual making the change.
7. Built-in workflow measures to guide and manage the process of disclosure management.
8. Currency consolidation, intercompany adjustments and reconciliations,
9. Transparency has become more than a helpful feature, it's a requirement for compliance; iXBRL in the UK requires drilldown capability, as one example.
10. Ability to track movement in a balance without referring to a more technical audit log.

Storage and Processing

11. Ability to store large volumes of data, with tens of millions of rows and detail fields, throughout data model.
12. Complexity - scalability is not limited to volume; companies should also consider whether a software solution is scalable for complexity; as the organization and the business processes themselves become more complicated, the system can adapt. The ability to adjust workflow to changes in business processes, and to add new

business processes that come with new reporting requirements, will be important over time.

13. Connection to other key processes matters more in certain areas. Budgeting synchronized to reporting and analysis is very helpful; consolidation synched with reporting is crucial.

Input

14. Compatibility with many GLs and ERP systems, and the ability to map in new data sources easily. disclosure and collaboration with guidance from intelligent workflow. If the system gathers financial data and individual footnotes from any consolidation and ERP systems and stores information in a single repository, users can track and approve the data more easily.

15. The ability to record ownership transactions to keep up with a complex, fluid ownership structure environment.

16. Diagnostic checks to guarantee data consistency during data entry and consolidation processes

With these capabilities, the software will probably be able to keep up with the increasing complexity of business processes, reporting demands, and the enterprise structure.

Consolidation Renaissance: Achievable Results

Financial consolidation can be part of a long-term, wide-scope BPM strategy that brings a range of benefits. Near-term ROI is more visible; compliance with reporting mandates is probably the biggest pain relief. Meeting the report requirements of IFRS and XBRL are among the most pressing, and they will help sell the project internally.

The mid-term benefits of a strong consolidation solution, especially for a multinational, include resolving differences between ERP and financial transaction systems, charts of accounts, and terminology used in different business units. Putting the Last Mile processes under one cohesive solution frees CFOs and other senior finance staff for more strategic tasks, and reduces the risks of late or erroneous financial statements. Since producing and communicating financial information is often a centralized, highly manual process, most companies still lack adequate controls and workflow support.

Longer-Term Benefits

The longer-term, strategic objectives include integration with performance management that spans other processes. But how does a team mesh financial consolidation effectively into a comprehensive BI practice that spans the enterprise? A good starting point: the unified application with consolidation that fits your company's anticipated requirements.

Flexibility

In financial services, growth and mergers and acquisitions are normal, so software that is adaptable will have more likelihood of meeting your needs over time. The software solution will have to adjust to jumps in complexity of regulations, multiple standards, and the corporate organization.

Efficiency and Compliance

The benefits include better coordination of far-flung, wide-scope operations, better coordination of planning and activities with strategy, more efficient processes with money savings, overall compliance with regulatory and reporting requirements in different countries.

The company can convert the entire production and communication of financial information from a centralized, highly manual process, to one that is more robust, with sufficient controls and workflows.

Collaboration to Get the Financial Truth

Intangible results include spreading a common language and framework for evaluating results and performance throughout a large, diverse enterprise, across national boundaries. Software that supports collaboration enables greater ability to spot opportunities and problems by division and segment. There is still a gulf between ad hoc and guided collaboration at most companies. Software that guides workflow and collaboration but allows reshaping of the processes gives the ideal combination.

Keep in mind that disclosure is not a clarification by an individual; it's a company-wide process of explanation, and because it has become so important, it needs to advance and become a highly controlled, compliant process. Management needs to be sure it can publish accurate financial statements with necessary disclosures, on time.

Pricing and Return on Investment

Pricing of enterprise applications, including consolidation, has split across two primary approaches: some applications are priced on a per-seat basis (often in brackets; up to 10 or 25 seats or greater), while others have taken an enterprise-wide license approach. Financial consolidation systems usually do not have a great number of individual users, but unified applications that include consolidation could have hundreds of seats. Per-seat pricing is the norm with hosted (cloud-based, SaaS) applications.

The payback from packaged financial consolidation solutions is now well documented and established. Software can help manage the entire closing process, including a framework for management of disclosure activities, and output in accordance with different filing standards.

Best Practices for the Financial Consolidation Initiative

Renovating financial consolidation is complex. Achieving maximum benefits is more likely with an overall Last Mile solution, usually a packaged application. Software is just one aspect, however, along with the people and processes of any BPM initiative.

Recruit Executive Support

Committed executive sponsorship is a required building block, and should represent IT, Finance, and corporate strategy. Consolidation, a strategic process, impacts heavily upon Finance and IT. Strong champions help guide the project through typical obstacles and decision points. The strategic executive leader needs to keep less tangible long-term objectives in the discussion, so they are not pushed aside.

Maintain a "Big Picture" Perspective

A long-term commitment from the outset is needed, or a company will miss key parts of the payoff. Benefits multiply if you continue the project's development to the longer-term. They include better alignment of execution with strategy, a common language for finance and accounting across global organizations, where the senior finance executives may have received very different business educations. Help initiative sponsors to see the benefits: integration of budgeting and planning, enterprise-wide performance management and reporting, and collaborative features.

Ensure that Business Process Improvement Drives Technology Choices

Project planning and implementation teams should understand not only the technical side, but the business processes as well: consolidation, XBRL, reporting, and disclosure. The early-stage project team needs people who are cognizant of what is changing in the Last Mile, and how regulations are evolving. The team needs a vision for how the business processes will have to adapt in the future. For example, disclosure has emerged as a Last Mile process of high importance. If it's not handled correctly, management could face liabilities for inadvertently misinforming investors.

Score Quick Wins Early in the Project

The internal sale of the project will probably hinge on the guarantee to solve impending urgencies like IFRS, xBRL, and disclosure management. Go for a fast initial project with limited scope to boost support. A strategic sequence would be:

1. First, meet regulatory requirements

2. Second, address internal issues, such as disparate IT sources. It takes time to correctly map and reconcile charts of accounts that may reflect the approach of US, Indian, and Russian subsidiaries of one financial services company.

3. Third, do not neglect to focus on strategic BPM benefits, such as more flexible reporting for data discovery, better cost allocation methodology, and seamless interaction with budgeting and reforecasting. Among longer term benefits: fulfill data governance goals, and reduce risk of reporting late or misreporting.

Conclusion

Financial consolidation has gained in importance as the reporting standards and deadlines become increasingly difficult to satisfy, companies must cope with these changes, and they experience growth and become more international.

Initiatives to address financial consolidation are best seen as part of a strategic improvement in reporting and communication throughout the enterprise.
Technology for financial consolidation has improved and the solution can be relatively seamless, incorporating other BPM functions like budgeting, planning, and forecasting.

Implementation is best staged for a series of relatively fast payback or must-do projects, starting with mandatory reporting, then internal management reporting with data discovery and flexible access, followed by broader strategic benefits.

The benefits from upgrading financial consolidation in the near time include saving money and time. However, these are only elements of the quantifiable ROI, and probably not the most impactful to your business over the long haul.

The more strategic results should include the ability to coordinate divisions and address market segments more effectively, integrate planning and strategy, with budgeting, and reforecasting, and reconciliation of different data sources. Looming over any consolidation initiative is the need to comply with new reporting requirements.

Users should evaluate adaptability when choosing a consolidation solution. To put it differently, when a set of business processes and the regulations that govern them are in flux, they rarely become simpler. Select software that can handle processes and regulatory demands which become more complicated over time.