

IFRS case study: RTL



Media group RTL made the transition to IFRS with support from PricewaterhouseCoopers. We are grateful to CFO Thomas Rabe and head of group consolidation Jean-Marie Bourhis, who reveal here the lessons they learned.

RTL Group was formed early in 2000 as a result of a merger between TV and radio group CLT-UFA – owned by Bertelsmann and Groupe Bruxelles Lambert – and the UK production group Fremantle Media – owned by Pearson plc. We were one of the first companies to apply IFRS whilst also being listed on the London, Brussels and Luxembourg stock exchanges.

We had to determine the principal differences between local GAAPs and IFRS in a short time, due to the London listing requirements. These ranged from accounting for business combinations and goodwill, and recognition of programme and sports rights, to classification issues such as the current/non-current distinction. IAS 39 was not then in force, which helped the group address the IFRS impact in the given timeframe.

It then took 18 months to address the wider and more complex elements of the conversion process, and embed the changes across the organisation.

‘Detailed scoping and planning of the different elements of the project, identifying resource requirements and allocation of responsibility to individuals were key success factors’

Thomas Rabe, RTL chief financial officer

Key project components:

- Compliance with the public reporting requirements of three different stock exchanges
- Roll-out of a ‘fast close’ project, to ensure year-end closing processes were managed in a timely manner
- Implementation of a new financial reporting system and chart of accounts
- Development and roll-out of a group finance manual that provided practical guidance on the application of the new policies
- Application of the new policies to local operations at a transaction level
- Implementation of IAS 39 when it became mandatory
- Training and awareness of finance and operational management on technical and non-technical issues, tailored to the varying needs of the different levels of staff

Detailed scoping and planning of the different elements of the project, identifying resource requirements and allocation of responsibility to individuals were key to ensuring a smooth transition. We assigned a full-time project manager who reported to a steering committee responsible for making decisions on key issues and the timely delivery of the project. The committee also had to ensure minimal disruption to local management.

Pilot projects smoothed the transition process and allowed us to address many of the common issues before we rolled the project out across the whole group.

The planning focused us on the scale of the project and highlighted the need to involve outside support. We involved a number of specialists from our auditors.

Specialist help – PricewaterhouseCoopers' integrated services

- Industry specialists
- Technical specialists, including the firm's global corporate reporting group, to advise on business combinations and impairment
- Treasury specialists from the firm's corporate treasury practice, particularly for IAS 39 issues
- Global human resources specialists to advise the group on actuarial issues in relation to IAS 19

Once IFRS is embedded, it becomes the basis by which all operations in the group are measured. Management needs to be aware how IFRS impacts on specific business areas. For example, the appraisal of acquisitions has been subject to greater scrutiny and rigour by management, which led to a non-cash goodwill write off of €2.4 billion in 2001.

The move to IFRS had benefits for the business. Reporting processes are less time-consuming than they would be if the companies within the group were reporting under their respective national GAAPs; the financial information is reported on the same basis and does not need to be harmonised for consolidated financial statements. Comparability between entities in the industry will improve, and this market transparency benefits a business that performs well.

Impact of applying IFRS on pro forma results for year-end 31 December 1999

1999 results € million	Estimated pro forma results prepared under local GAAP	Impact of applying IFRS	Pro forma results reported by RTL prepared under IFRS	Percentage Impact
Sales	3,289	221	3,510	7%
Operating profit	240	284	524	118%
Net earnings	373	(201)	172	(54%)
Net assets	5,731	1,640	7,371	29%

A word from the auditors

During the transition process, the PricewaterhouseCoopers audit team gained some valuable insights. Some of the lessons learned were:

- Scope out the project in detail and determine milestones
- Review the IFRS requirements thoroughly – often the 'devil is in the detail'
- Ensure that adequate resource is available to address issues identified
- Seek specialist input at the earliest opportunity on areas such as IAS 39
- Invest in group-wide training and awareness sessions focused on both operational and financial management