



Summary of the last meeting
in London (10 July 2006) and
objectives of today's meeting

Juergen H. Daum

- IMAS Project, second meeting, 10 November 2006, SAP offices, Paris -

The motivation for the initiative / were we started

International Financial Reporting Standards (IFRS) have created a new era of accounting and financial reporting.

Many companies that are applying IFRS for the first time experience a sharp move away from their past accounting traditions (such as from the traditional continental European principle of protecting creditors or from the caution principle) to full shareholder value orientation and to the principle of “fair value” in accounting:



- 1. A need exists to redesign management accounting / controlling concepts in order to support IFRS. Ideally this redesign is done in a harmonized way across countries according to an internationally accepted ,best practice‘**
- 2. A need exist today to fundamentally rethink and systematically redesign (management) accounting: because traditional (management) accounting is focused on the economics of industrial manufacturing, it is increasingly falling short to fulfil it’s core task: to support management of today’s businesses in decision making.**
- 3. Europe is rich in well-tested, highly advanced management accounting and controlling concepts and in very competent and active controller communities – which could serve as a basis for closing both gaps. However, each management accounting tradition and community has thus far been developed more or less in a specific national context.**

The time has come for International Management Accounting Standards!

Mission Statement – First Version

Author: Jürgen H. Daum
Subject: Draft for a proposal of cooperation between European controlling / management accounting associations in order to establish "International Controlling / Management Accounting Standards"
Approved by the Managing Committee of the ICA: January 2006

Why Do We Need International Management Accounting Standards?

In most European countries, International Financial Accounting Standards (IFRS) have created a new era of accounting and financial reporting. Many companies that are applying IFRS for the first time experience a sharp move away from their past accounting traditions - such as from the traditional continental European principle of protecting creditors or from the caution principle (value assets at the lowest possible value, value liabilities at the highest possible value) to full shareholder value orientation and to the principle of "fair value" in accounting.

Fair value accounting, in particular, is confronting accountants and auditors with a major challenge: they are no longer able to value assets and to test for possible asset impairment (for example, impairment of the book value of certain assets such as intangible assets and goodwill with their fair value) without the support of (business) controllers and management accountants, who provide reliable and "testable" planning data. Furthermore, management needs to put a new focus on their internal controlling and management accounting systems to better support the external IFRS view and to steer the business proactively.

We, therefore, the board members of the International Controller Verein (ICV) and the Managing Committee of the ICA, believe that the time has come for International Controlling Standards / International Management Accounting Standards.

Mission of the Proposed Initiative

Europe is rich in well-tested, highly advanced management accounting and controlling concepts. However, each management accounting tradition has thus far been developed and applied more or less in a specific national context. A huge potential to shape the management accounting and controlling practice globally remains unused and unexploited. We therefore propose a cooperation initiative that addresses all European controlling and management accounting associations, as far as possible with the support of the EU. Its mission:

- to bring the major players in the controlling / management accounting scene in Europe together for such a pan-European initiative
- to establish one European standard for management accounting and controlling by combining the strengths of the different approaches
- to take the lead in defining International Management Accounting Standards
- to create enough momentum to attract non-European parties to join the initiative in a second step

Possible Next Steps

- First meeting of representatives of European controlling / management accounting associations in first half of 2006. Intended result: agreement on joint "letter of intent" and roadmap.
- Create a working committee of representatives of the different controlling / management accounting associations that should work out a first version of "International Management Accounting Standards" by mid-2007.

“We therefore propose a cooperation initiative that addresses all European controlling and management accounting associations, as far as possible with the support of the European Commission.

Mission:

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The first meeting on 10 July 2006 in London

Participants:

- Dr Wolfgang Berger-Vogel (IGC, ICV / Austria),
- Juergen H. Daum (ICV, SAP / Germany),
- Stefan Gesing (Deutsche Telekom /Germany),
- Joachim Kattrup (Controller Forum Denmark /DK,
- Richard Mallet (CIMA/United Kingdom)
- Dr Walter Schmidt (ICV / Germany)

Interested persons/organisations (not participating):

- Prof Frank Hartmann (Dutch Controlling Institute, Erasmus University, Rotterdam/NL),
- Chris Jackson, (Institute of Chartered Accountants in England & Wales – ICAEW, UK),
- Guido Kerkhoff (Deutsche Telekom / D),
- Christian Lenz (Association Nationale des Directeurs Financier et Contrôle de Gestion – DFCG, LENZ International SARL / F),
- Prof G Roland Kaye (CIMA, Management Standards Advisory Board, School of Management University of East Anglia / UK),
- Piotr Madziar (European Commission / B),
- Prof Andy Neely (Cranfield School of Management, Advanced Institute for Management Research – AIM / UK),
- Emma Riddell (ICAEW / UK),
- Dr Lukas Rieder (Controller Zentrum St. Gallen – CZSG / CH),
- Prof Dr Irena Sobanska (Accounting Association of Poland, Accounting Department of Lodz University / PL),
- Dr Anna Szychta (Accounting Department of Lodz University / PL)

The first meeting on 10 July 2006 in London

Meeting objectives:

- Introduce and discuss the idea of “IMAS” with the participating representatives of management accounting/controlling organizations and from the practice.
- Decide, if there is enough interest to move forward with this pan-European initiative
- Discuss and decide possible next steps

Agenda – Morning

Opening and introduction of participants:

- 10:00 Welcome and objective of the meeting
Dr. Wolfgang Berger-Vogel, chairman ICV, chairman IGC, retired CFO of Brau Union AG, Austria
- 10:15 Why this initiative?: motivation and perspectives
Juergen H. Daum, Enterprise management expert and CFO adviser, member of the ICV, Chief Solution Architect / SAP EMEA
- 10:30 Introduction of participating (management) accounting / controlling organisations and persons (each 5-10 min)

11:00 Break

Presentations and discussion:

- 11:30 IFRS from the controller's perspective – Threat or Challenge?: Experiences from the conversion from German GAAP to IFRS at Deutsche Telekom AG (30 min + discussion)
Stefan Gesing, Business Customer Group Controlling, Deutsche Telekom AG, Group Headquarters
- 12:15 The future of the management accounting practice in the light of IFRS – overview of the current work at CIMA and IFAC (20 min + discussion)
Richard Mallett, Director Technical Development, Chartered Institute of Management Accountants (CIMA), UK

13:00 Lunch

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Agenda – Afternoon

Presentations and discussion (continued):

- 13:45 The role of management accounting and of the central European “Grenzplankostenrechnung“ concept in managing successfully a turnaround process (30 min + discussion)
Dr. Wolfgang Berger-Vogel, chairman ICV, chairman IGC, retired CFO of Brau Union AG, Austria
- 14:30 Finance (&Control) Transformation at large multinationals: insights from the SAP Finance Best Practice Network
Juergen H. Daum, Enterprise management expert and CFO adviser, member of the ICV, Chief Solution Architect / SAP EMEA

15:15 Break

Next steps:

- 15:45 Open discussion and next steps
all
- 16:30 End of meeting

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Dr Berger-Vogel, IGC: Welcome and Introduction of the IGC

Introduction of the IGC and its mission:

- The IGCs members are controlling education organizations as well as software vendors in central continental and Eastern Europe
- The IGCs main mission is to promote the function and the role of the controller (e.g. through common quality standards)

Motivation of the IGC to start this initiative:

- to not being object of the pressure for harmonizing management accounting with IFRS, but to actively shape the new management accounting practice. And this requires an international initiative

IGC
International
Group of
Controlling

Objektives

IGC International Group of Controlling has the following objectives:

- To promote the function and the role of controllers
- To be a forum for the exchange of ideas and experiences
- To serve as a platform for harmonising and developing the concept of controlling and the controlling terminology as well.
- To maintain the interfaces with science and related fields of study.
- To increase the market transparency and ensure quality in the field of training educational programmes in controlling.
- To define the quality standards for the members of the IGC combined with providing a "seal of quality"
- To elaborate a basis for a later controller's certificate

Mission Statement

Controller

Controllers design and accompany the management process of defining goals, planning and controlling and thus have a joint responsibility with the management to reach the objectives.
This means:

- Controllers ensure the transparency of business results, finance, processes and strategy and thus contribute to higher economic effectiveness
- Controllers co-ordinate sub-targets and the related plans in a holistic way and organise a reporting-system which is future-oriented and covers the enterprise as a whole
- Controllers moderate and design the controlling process of goals, planning and management control so that every decision maker can act in accordance with agreed objectives
- Controllers provide managers with all relevant controlling information
- Controllers develop and maintain controlling systems

IGC Quality Label

The IGC has determined quality standards. An IGC-member willing to acquire the quality label for his programme; has to meet these standards:

The quality standards cover issues concerning

- contents
- methodology
- training staff

An independent expert checks if a submitted programme fulfills all the standards. Based on the expert-opinion the IGC certification commission will recommend to award the quality label to the managing committee of the IGC, which grants the label to the programme.

IGC members can request the questionnaire and the quality standards for the IGC-certification at our [secretary](#).

Juergen H. Daum, ICV and SAP: Why this initiative?: motivation and perspectives

Status on the interest in this initiative (see list of interested persons/organizations)

The three motivations for this initiative:

- IFRS creates a need to redesign management accounting concepts (on an international level) in order to support the new financial accounting concept.
- A huge potential exist - specifically in European countries - to advance and shape the management accounting and controlling practice globally – if we can join forces and share the concepts across national borders.
- We need fundamentally rethink (management) accounting and to remodel the underlying concepts.



Why this initiative – three hypothesis

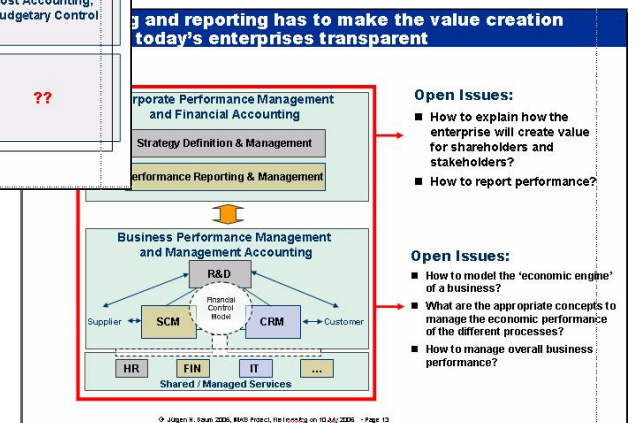
- The international standardisation of financial accounting through IFRS is also calling for an international harmonisation of the management accounting/controlling practice
- Europe is rich in well-tested, highly advanced management accounting and controlling concepts. This represents a huge opportunity to shape the future 'management accounting/controlling best practice' globally
- A need exist today to fundamentally rethink accounting – both the concept and the practice. Based on their well developed management accounting / controlling thinking, European management accounting/controlling experts and practitioners should at least actively contribute, if not take the lead.

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The Evolution of Enterprise Value Creation Models, Organisations, and Management / Accounting System

Type of Economy	Value Creation-Model/Processes	Organisation	Management system based on
International Trade, 16th-18th Century (Example: Fugger)	Value creation through legally binding external transactions (Purchase + Sales)	Smaller enterprise, family owned (the firm)	Double Entry Accounting, General Ledger
Industrial mass production, 19th-20th Century (Example: Ford)	Value creation through complex internal mass manufacturing processes	Large industrial enterprise (the corporation)	General Ledger, Cost Accounting, Budgetary Control
Knowledge Economy, 21st Century (Example: SAP)	Value creation through systematic innovation and relationship building with customers and partners	Ecosystem of partners (the virtual enterprise)	??

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ICV, CIMA and the Controller Forum Denmark: Introduction of participating organisations

Introduction of the International Controller Verein (ICV) by Walter Schmidt:


- The ICV is the largest controller organization in the German speaking countries that is currently expanding into Eastern Europe.

Introduction of the Controller Forum Denmark by Joachim Katstrup:

- The Controller Forum Denmark is the only (commercial) controller education organization in Denmark.

Introduction of the Chartered Institute of Management Accounting (CIMA) by Richard Mallet:

- CIMA is the international accountancy body with a sole focus on business with members in 158 countries.

 Internationaler Controller Verein	
Internationaler Controller Verein eV Founded 1975	
<ul style="list-style-type: none">■ Network for exchange of experiences in controlling■ more then 6.000 Members■ Currently 50 working groups (regional resp. specialized)■ Annual the Controller Congress in Munich■ 8 regional resp. specialized conferences■ Controller e-news with >10.000 subscribers■ periodical editions of Statements	
more information by www.controllerverein.com	Internationaler Controller Verein eV Leutstener Straße 2 D 82116 Gauting Tel. +49-(0)89-89 31 34-20 Fax +49-(0)89-89 31 34-31 verein@controllerverein.de www.controllerverein.com
<small>London 12.07.2006</small>	<small>3</small>

About CIMA

CIMA

- The only international accountancy body with a sole focus on business.
- The voice of over 68,000 members and 87,000 students in 158 countries.
- CIMA's focus is to qualify students, support members and employers and protect the public interest.



Stefan Gesing, Deutsche Telekom AG: IFRS from a Controller's Perspective – Threat or Challenge?

Accounting and regulatory environment of Deutsche Telekom:

- Listed in Frankfurt and New York. The aim is to do internally what is expected externally.

Experiences with IFRS conversion:

- In financial accounting: hardly any effect on revenue, EBITDA and FCF – but significant effects on Net Income, Shareholders' Equity and Net Debt (through fair value accounting)
- In management accounting/controlling: it becomes more difficult to compare input (based on acquisition costs) with output (based on fair value).

Conclusion:

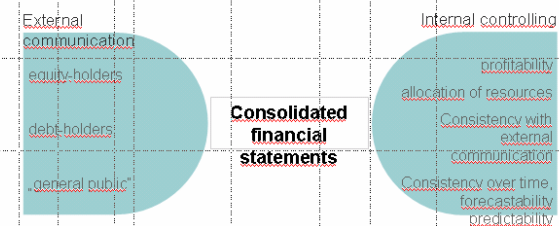
- IFRS offers a good opportunity to standardize reporting. But fair value is not useful in controlling: we need a clear split between decision support and financial accounting

IFRS from the controllers' perspective - Threat or Challenge ?

Guido Kerkhoff
Senior Executive Vice President
Group Accounting and Controlling
Deutsche Telekom AG

What are consolidated financial statements good for?

Information and stewardship



Main objectives of financial statements:
Information and Stewardship

Effects of the IFRS-Conversion Reactions of equity (capital) markets

- No significant impact on revenues and EBITDA
- High transparency through detailed information and clear guidance (EBITDA) on impact of IFRS-conversion
- For analysts IFRS is not a "new accounting" but instead analysts are less interested in past data forecasts:
 - presentation of corporate planings limited for reasons
- Empirical evidence (see Ernst, Gassen/Peller) financial information in general has limited value for private investors as they focus on press releases, other media
 - empirical evidence indicates that stewardship superior to information as objective of financial statements

Key objective for industrial companies

- Management should realize highest possible return (earnings/cash) from using assets in the normal operating business cycle
 - Key objectives for internal controlling
- Compare output (cash/earnings) to input on the relevant basis
 - Acquisition cost, not fair values
 - Matching principle:
 - Assets used for production should be depreciated/amortized over their useful life
 - Revenues should be realized in accordance with production (percentage of completion)
 - Consistency over time

Richard Mallet, CIMA: The Management Accounting Guidance Project of CIMA and IFAC

Introduction of IFAC:

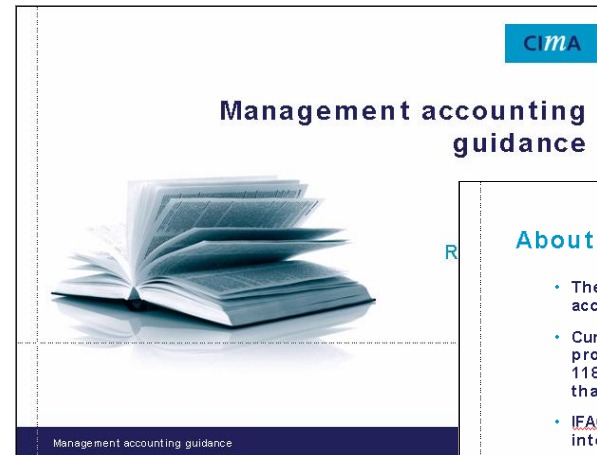
- IFAC is a global organisation for currently 163 professional accountancy bodies in 118 countries (mainly US, UK + 'Commonwealth').
- Official title at IFAC for this project is "Professional Accountants in Business" (PAIB)

About the PAIB committee IFAC:

- The aim is to facilitate global exchange of knowledge and best practices and to build public awareness of value of professional accountants.
- It works on a "principles-based good practice guidance" to promote consistently high quality practice ((IMAPS)..
- Is very open to input and discussion

Result of the discussion:

- It makes sense to reconcile our work with IFAC, as both projects can complement each other



About IFAC

- The global organisation for the accountancy profession.
- Current membership of 163 professional accountancy bodies in 118 countries, representing more than 2.5 million accountants.
- IFAC's mission is to serve the public interest, strengthen the worldwide accountancy profession and contribute to the development of strong international economies.

About PAIB

- Professional Accountants in Business - a committee of IFAC.
- The PAIB Committee serves IFAC member bodies and more than one million professional accountants in business.
- Aims to enhance profession by encouraging and facilitating global exchange of knowledge and best practices.
- Works to build public awareness of value of professional accountants.

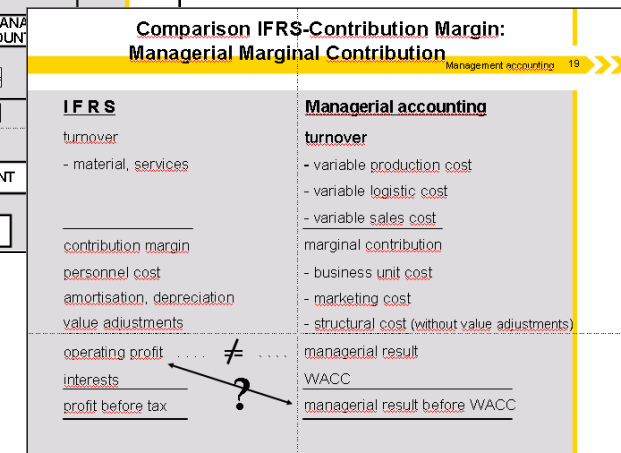
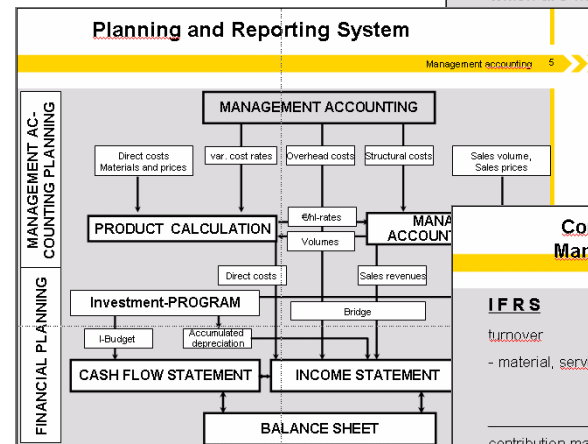
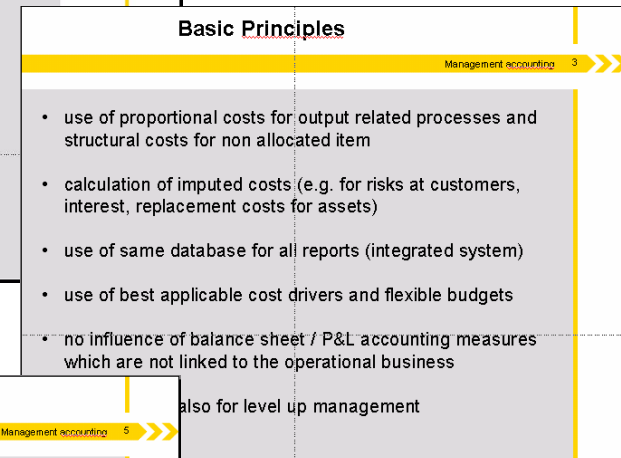
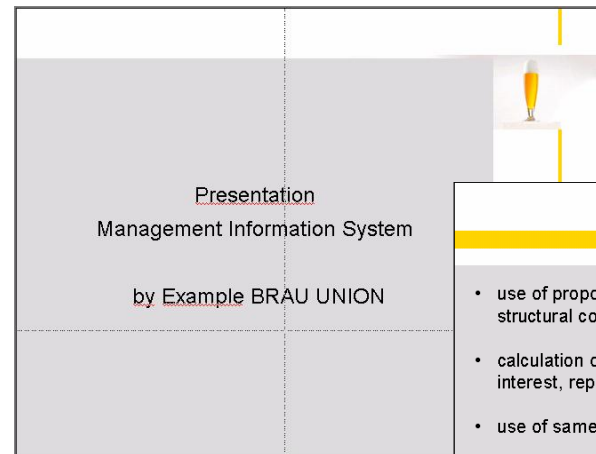
Good practice guidance

- International Management Accounting Practice Statements (IMAPS).
- Standard Setting discussed in September 2004; appointed sub-committee.
- Discussion Paper for IFAC CEOs meeting and PAIB Committee April 2005.
- Principles Based Good Practice Guidance agreed as the way forward in April 2006.
- Preface approved for public exposure.
- Guidance for the Development of a Code of Conduct exposed.
- Sub Committee meeting in New York June 2006.

Dr Berger-Vogel, IGC chairman and retired CFO, BRAU UNION: The role of the „Grenzplankostenrechnung“ in a turnaround at BRAU UNION

Introduction to the “Grenzplan- kostenrechnung”-concept for flexible cost management in a manufacturing business:

- The basic principle: use of proportional costs for output related processes + structural costs for non allocated item = “Sollkosten” (split into variable, activity-based costs, and fixed costs)
- Highly efficient for analysis purposes - numbers give immediate answers for decisions (short term and long term)
- Result: BRAU UNION was able to improve step-by-step its profitability even in a shrinking beer market
- Open issues: managerial results / analytic data are not directly reconcilable with IFRS-based operating profit



Juergen H. Daum, ICV and SAP: Finance (&Control) Transformation at large Multinationals

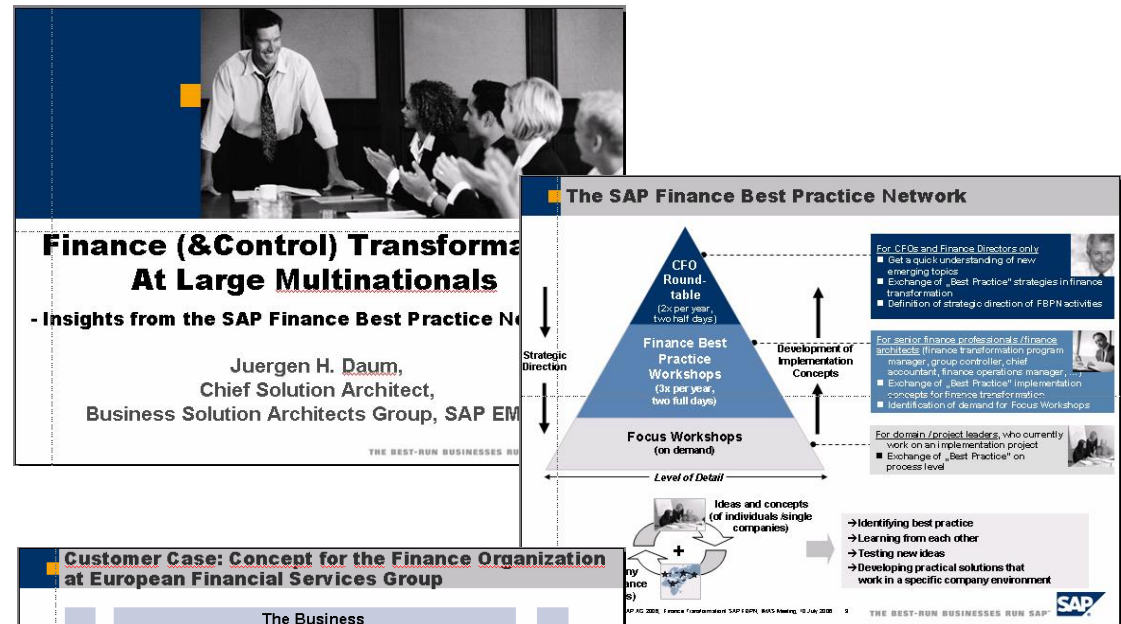
Introduction to the SAP Finance Best Practice Network

- A communication and working platform for the CFOs and senior finance professionals for exchanging best practice

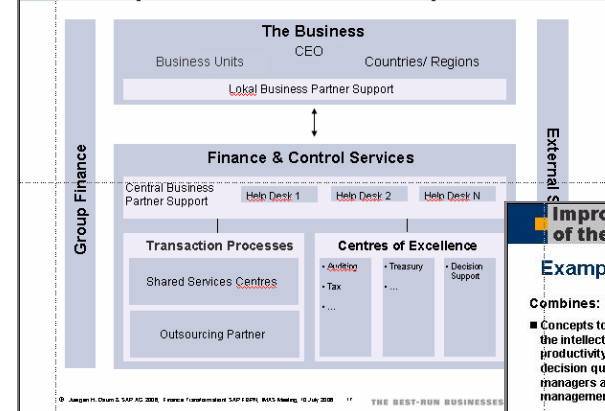
Insights in several examples for Finance Transformation projects :

- CFO will focus on securing external reputation and corp. governance + decision support
- Transactional / routine tasks will be eliminated (through automation, consolidated in SSC or outsourcing (= industrialization of finance&control services -> creating de-factor standards also in core (management) accounting)

Overview about current best practice trends in performance management/controlling and about next practice trends



Customer Case: Concept for the Finance Organization at European Financial Services Group



Improve quality of managerial decision making / of the productivity of management teams

Example: The Management Cockpit War Room concept

- Combines:**
- Concepts to improve the intellectual productivity and decision quality of managers and management teams
 - Ergonomic room design
 - Information Technology



- What it does:**
- Effective information supply: provides standardized information, tailored to management needs / decision making
 - Effective management collaboration: supports the work of a management team and the accompanying decision process

Benefits:

- Management coherence / creates the one point of reference for management
- Strategy focus: infuse strategy in all operational decision taking
- Promotes systematic thinking and cross-functional learning
- Increases efficiency of management meeting (reduces time needed)
- Management know-how is saved and preserved

See for example the interview with Unilever Belgium www.juergendaum.com/news/08_30_2004.htm

Results of discussion about next steps

Is there enough motivation for you to participate in this innovative (IMAS)?

- all participants agreed

What should we do?

- create a 'principled-based good practice guidance' for management accounting / controlling
- guidelines for solving certain problems: e.g. for valuing goodwill based on management accounting data / to help to better understand the business model for that purpose
- getting some influence on IFRS: e.g. in the areas of performance reporting and for better bridging the management view and financial accounting view – joining forces for that
- rethinking accounting: create a concept and an impulse to help managers to better rethink from an economic perspective their business models and to exchange best practice

Are there other topics which should be considered in the context of this initiative?

- 'the cultural thing': how to deal with it in management accounting?

Which other parties should be involved?

- more European management accounting / controller organisations should actively participate
- more representatives from the larger European companies should be involved
- the European Commission should be involved

What traps should we avoid?

- that IMAS is regarded as 'a regulatory thing'. Instead, the intention is to establish them as 'principles-based good practice guidance'

Decisions

- **A new/more detailed version of the IMAS mission statement based on the discussion of today will be drafted by Juergen Daum. He will reconcile it with all participants and potential participants until the next meeting**
- **At the next meeting we will try to get more organisations involved (both companies and management / Controlling organisations)**
- **At the next meeting concrete steps for how to proceed to define 'IMAS' should be decided**
- **The next meeting will be held in Paris and will be organised again by Juergen Daum**

The second meeting on 10 November 2006 in Paris

Meeting objectives:

- Discuss the mission and purpose of the IMAS project based on the input of the new participants / new comments from participants of the last meeting
- Decide on the mission and purpose (high level bullet points)
- Discuss the future organization of the IMAS project and next steps / the high level roadmap
- Decide on the organization of the project / initiative:
 - General organizational framework
 - Meeting structure and meeting intervals for 2007
 - Set up of a working group / committee and define its task
 - Topics for work agenda / priorities
 - High level roadmap
 - Others (depending on input of participants)

The motivation

1.

A need exists to redesign management accounting / controlling concepts in order to support IFRS.

This should be done in a harmonized way across countries according to an internationally accepted 'best practice'



Rethink the fundamentals of financial accounting

2.

A need exist today to fundamentally and systematically redesign management accounting / controlling concepts in order to better support managerial decision needs of today's businesses (that exceed traditional manufacturing economics)



Rethink the fundamentals of management accounting



The need to fundamentally rethink accounting

“ IFRS is a principles-based approach. Even in the U.S. some of the new rules resemble now more principles rather than rules. But principles need interpretation. And the Americans are, due to their rules-based history, totally afraid that they could make an error in the interpretation process. To overcome the problem, we first have to commonly rethink how we do accounting.”

“Before we go into the definition of new standards, we first have to rethink some basic principles of accounting such as, to what extent share value or fair value should go into the P&L account, how the P&L account or performance reports should roughly be structured.”

Statements made during a panel discussion at a SAP CFO Roundtable with Tom Jones, Vice Chairman IASB, Prof. Dr. Pohle, then president of the German Accounting Standards Board, and several CFOs of European Multinationals

The motivation to join our forces

1.

A need exists to redesign management accounting / controlling concepts in order to support IFRS.

This should be done in a harmonized way across countries according to an internationally accepted ‚best practice‘

2.

A need exist today to fundamentally and systematically redesign management accounting / controlling concepts in order to better support managerial decision needs of today’s businesses (that exceed traditional manufacturing economics)

3.

Europe is rich in well-tested, highly advanced management accounting and controlling concepts and in very competent and active controller communities.

A huge potential exist to advance and shape the management accounting and controlling practice globally.

This requires a reconciliation / ‘consolidation’ effort across countries and local management accounting / controller communities have to join forces.



Thank You!

Juergen H. Daum

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