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This publication has been updated to include all standards and interpretations published up to August 2006.

# Preface

One day we may not need to produce a publication comparing **IFRS** and **US GAAP** because they will be sufficiently converged that there will be no need for a comparison between the two sets of standards. However, there is much to do before this could become the reality, and most observers are unwilling to speculate about when that level of convergence will be achieved.

In Belgium, despite the adoption of **IFRS** for the consolidated financial statements of several types of companies, **Belgian GAAP** remains the required accounting framework for company financial statements, because of the current impact on tax, company laws and SMEs (small and medium size entities). The current situation is indeed as follows for Belgian companies:

1. Consolidated financial statements. **IFRS** as adopted by the European Union are required as from financial year 2005 for listed companies, as from 2006 for banks and as from 2007 for those companies that only have bonds listed. Other companies are allowed since 2004 to early adopt **IFRS** instead of **Belgian GAAP** in their consolidated financial statements (irrevocable choice).
2. Company financial statements. **Belgian GAAP** is still mandatory for company financial statement (except for listed real-estate investment trusts that must apply **IFRS** for company financial statements as from 2007).

The International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) have been committed to converging **IFRS** and **US GAAP** since the Norwalk Accord of 2002. Preparers and others, including regulators, have called for convergence to simplify financial reporting and reduce the compliance burden for listed companies, especially those with a stock market listing in more than one jurisdiction. The Securities and Exchange Commission (SEC), in its more recent 'roadmap' towards removing the **US GAAP** reconciliation requirement for foreign private issuers using **IFRS**, has cited the continuing convergence of **IFRS** and **US GAAP** as a key building block. In addition, the European Commission has thrown its weight behind convergence as part of its strategy to better protect domestic investors who invest in non-European companies.

The two boards have three major types of convergence projects underway:

1. joint projects where the standards are expected to be the same word-for-word (Business Combinations Phase 2 is the first example of this approach);
2. short-term projects where convergence on the answer in either **US GAAP** or **IFRS** seems possible on a fast-track basis (deferred tax accounting is an example); and
3. developing a consensus approach on long-term projects that are more conceptual in nature (revenue recognition and the conceptual framework are examples).

While all of these initiatives are in play, we are starting to see some resistance from commentators. The joint proposals on business combinations have proved controversial. The early experience of standards that are converged in broad principles only, such as share-based payments, is that convergence at a high level removes only the broad conceptual differences but replaces them with detailed application differences.

# Preface

A further concern is that the potential benefit of standards produced with the same text could be short-lived. We have two official interpretative bodies: the International Financial Reporting Interpretations Committee (IFRIC) and the Emerging Issues Task Force (EITF). But in addition, the FASB produces guidance in the form of staff position papers, while numerous national guidance groups and regulators charged with enforcing **IFRS** for their listed companies are starting to add to the literature. If all of these interpretive and regulatory bodies cannot work in harmony and avoid adding multiple rules and varying interpretations to the principles, the end goal of worldwide harmonised accounting standards may not be reached.

This might all seem rather pessimistic, but few worthwhile goals are achieved easily. In the meantime, PricewaterhouseCoopers remains committed to supporting convergence on a single set of reporting standards for companies in the capital markets, and I believe that collectively the capital market constituencies can achieve this goal. Until we arrive at convergence, you may find this publication useful in helping you identify key differences between **IFRS**, **US GAAP** and **Belgian GAAP**. This latest version has been updated to include all standards and interpretations published up to August 2006.



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# How to use this publication

This PricewaterhouseCoopers publication is for those who wish to gain a broad understanding of the key similarities and differences between **IFRS**, **US GAAP** and **Belgian GAAP**. The first part of this document provides a summary of the similarities and differences between **IFRS**, **US GAAP** and **Belgian GAAP**. It refers to subsequent sections of the document where key differences are highlighted and explained in more detail.

No summary publication can do justice to the many differences of detail that exist between **IFRS**, **US GAAP** and **Belgian GAAP**. Even if the guidance is similar, there can be differences in the detailed application, which could have a material impact on the financial statements. This publication focuses on the measurement similarities and differences most commonly found in practice. When applying the individual accounting frameworks, readers should consult all the relevant accounting standards and, where applicable, their national law. Listed companies should also follow relevant securities regulations - for example, the US Securities and Exchange Commission requirements and local stock exchange listing rules.

This publication takes account of authoritative pronouncements issued under **IFRS**, **US GAAP** and **Belgian GAAP** up to August 2006 and is based on the most recent version of those pronouncements, should an earlier version of a pronouncement still be effective at the date of this publication. We have noted certain developments within the detailed text; however, not all recent developments or exposure drafts have been included.

# Summary of similarities and differences

SUBJECT	IFRS	US GAAP	Belgian GAAP	Page
<b>Accounting framework</b>				
Historical cost	Generally uses historical cost, but intangible assets, property plant and equipment (PPE) and investment property may be revalued to fair value. Derivatives, biological assets and certain securities are revalued to fair value.	No revaluations except for certain types of financial instrument.	Comparable to <b>IFRS</b> , with special rules to require/allow nominal value, present value or revaluation.	18
Fair presentation override	Entities may, in rare cases, override the standards where essential to give a fair presentation.	Similar to <b>IFRS</b> ; rarely used in practice.	Comparable to <b>IFRS</b> .	19
First-time adoption of accounting frameworks	Full retrospective application of all <b>IFRSs</b> effective at the reporting date for an entity's first <b>IFRS</b> financial statements, with some optional exemptions and limited mandatory exceptions.	First-time adoption of <b>US GAAP</b> requires retrospective application.	Not applicable.	19
<b>Financial statements</b>				
Components of financial statements	Two years' balance sheets, income statements, cash flow statements, changes in equity and accounting policies and notes.	Similar to <b>IFRS</b> , except three years required for SEC registrants (public companies) for all statements except balance sheet. Specific accommodations in certain circumstances for foreign private issuers that may offer relief from the three-year requirement.	Two years' balance sheets, income statements, accounting policies and notes.	20
Balance sheet	Does not prescribe a particular format. A liquidity presentation of assets and liabilities is used, instead of a current/non-current presentation, only when a liquidity presentation provides more relevant and reliable information. Certain minimum items are presented on the face of the balance sheet.	Entities may present either a classified or non-classified balance sheet. Items on the face of the balance sheet are generally presented in decreasing order of liquidity.  US public companies should follow SEC regulations.	Standard chart of accounts and presentation format prescribed by law.	21
Income statement	Does not prescribe a standard format, although expenditure is presented in one of two formats (function or nature). Certain minimum items are presented on the face of the income statement.	Present as either a single-step or multiple-step format.  Expenditures are presented by function.  US public companies should follow SEC regulations.	Standard chart of accounts and presentation format prescribed by law.	23
Exceptional items	Does not use the term, but requires separate disclosure of items that are of such size, incidence or nature that their separate disclosure is necessary to explain the performance of the entity.	Similar to <b>IFRS</b> , but individually significant items are presented on the face of the income statement and disclosed in the notes.	Not addressed.	23

# Summary of similarities and differences

SUBJECT	IFRS	US GAAP	Belgian GAAP	Page
<b>Financial statements - continued</b>				
Extraordinary items	Prohibited.	Defined as being both infrequent and unusual, and are rare. Negative goodwill is presented as an extraordinary item.	The definition of extraordinary items is much broader than under <b>IFRS</b> and <b>US GAAP</b> . Extraordinary income and costs are presented separately in the income statement.	24
Statement of recognised income and expense (SoRIE)/Other comprehensive income and statement of accumulated other comprehensive income	A SoRIE can be presented as a primary statement, in which case a statement of changes in shareholders' equity is not presented. Alternatively it may be disclosed separately in the primary statement of changes in shareholders' equity.	Total comprehensive income and accumulated other comprehensive income are disclosed, presented either as a separate primary statement or combined with the income statement or with the statement of changes in stockholders' equity.	Not required.	24
Statement of changes in share (stock) holders' equity	Statement shows capital transactions with owners, the movement in accumulated profit and a reconciliation of all other components of equity. The statement is presented as a primary statement except when a SoRIE is presented. In this case, only disclosure in the notes applies.	Similar to <b>IFRS</b> except statement is presented as a primary statement; SEC rules allow certain information to be included in the notes and not in the primary statement.	Not required.	25
Cash flow statements - format and method	Standard headings, but limited guidance on contents. Use direct or indirect method.	Similar headings to <b>IFRS</b> , but more specific guidance for items included in each category. Direct or indirect method used; SEC encourages the direct method.	Not required.	26
Cash flow statements - definition of cash and cash equivalents	Cash includes cash equivalents with maturities of three months or less from the date of acquisition and may include bank overdrafts.	Similar to <b>IFRS</b> , except that bank overdrafts are excluded.	Not required.	26
Cash flow statements - exemptions	No exemptions.	Limited exemptions for certain investment entities.	Not required.	25
Changes in accounting policy	Comparatives and prior-year are restated against opening retained earnings, unless specifically exempted.	Similar to <b>IFRS</b> .	No restatement of opening balance of retained earnings is permitted. Must be recorded in current year income.	27
Correction of errors	Comparatives are restated and, if the error occurred before the earliest prior period presented, the opening balances of assets, liabilities and equity for the earliest prior period presented are restated.	Similar to <b>IFRS</b> .	Include effect in current year income.	27
Changes in accounting estimates	Reported in income statement in the current period and future, if applicable.	Similar to <b>IFRS</b> .	Comparable to <b>IFRS</b> .	27

# Summary of similarities and differences

SUBJECT	IFRS	US GAAP	Belgian GAAP	Page
<b>Consolidated financial statements</b>				
Consolidation model	Based on voting control or power to govern. Control is presumed to exist when parent owns, directly or indirectly through subsidiaries, more than one half of an entity's voting power. Control also exists when the parent owns half or less of the voting power but has legal or contractual rights to control, or de facto control (rare circumstances). The existence of currently exercisable potential voting rights is also taken into consideration.  Special purpose entities (SPEs) controlled by an entity are also consolidated.	A bipolar consolidation model is used, which distinguishes between a variable interest model and a voting interest model.  Control can be direct or indirect and may exist with a lesser percentage of ownership (voting interest model). 'Effective control', which is a similar notion to de facto control under <b>IFRS</b> , is very rare if ever employed in practice.	Comparable to <b>IFRS</b> .	28
Special purposes entity (SPE)	Consolidated where the substance of the relationship indicates control.	Variable interest entities (VIEs) are consolidated when the entity has a variable interest that will absorb the majority of the expected losses, receive a majority of the expected returns, or both.  A voting interest entity in which the entity holds a controlling financial interest is consolidated.  If a SPE meets the definition of a qualified SPE (QSPE), the transferor does not consolidate the QSPE.	Not addressed.	29
Non-consolidation of subsidiaries	If control, as defined under 'definition of a subsidiary' above, does not rest with the entity, the entity does not consolidate the subsidiary.	Similar to <b>IFRS</b> , but also if the owner is not the primary beneficiary of a VIE.	Comparable to <b>IFRS</b> except: 1. exclusion is optional 2. subsidiaries that are no longer going concerns should be excluded (equity method to be used) 3. subsidiaries with dissimilar activities can be excluded if their inclusion would undermine true and fair view (equity method to be used).	29
Definition of associate	Based on significant influence; presumed if 20% or greater interest or participation in entity's affairs.	Similar to <b>IFRS</b> , although the term 'equity investment' is used instead of 'associate'.	Comparable to <b>IFRS</b> .	30
Presentation of associate results	Equity method is used. Share of post-tax results is shown.	Similar to <b>IFRS</b> .	Similar to <b>IFRS</b> .	30
Disclosures about significant associates	Detailed information on significant associates' assets, liabilities and results is required.	Similar to <b>IFRS</b> .	Minimal.	31

# Summary of similarities and differences

SUBJECT	IFRS	US GAAP	Belgian GAAP	Page
<b>Consolidated financial statements - continued</b>				
Presentation of jointly controlled entities (joint ventures)	Both proportional consolidation and equity method permitted.	Equity method required except in specific circumstances.	Proportional method required, although equity method may be used where the activities of the joint subsidiary are not closely integrated with those of the parent.	32
Employee share (stock) trusts	Consolidated where substance of relationship indicates control (SIC-12 model). Entity's own shares held by an employee share trust are accounted for as treasury shares.	Similar to <b>IFRS</b> except where specific guidance applies for Employee Stock Ownership Plans (ESOPs) in SOP 93-6.	Not addressed.	33
<b>Business combinations</b>				
Types	All business combinations are acquisitions.	Similar to <b>IFRS</b> .	Similar to <b>IFRS</b> for acquisitions of subsidiaries. The legal form should sometimes be followed in merger accounting.	34
Purchase method - fair values on acquisition	Assets, liabilities and contingent liabilities of acquired entity are fair valued. If control is obtained in a partial acquisition of a subsidiary, the full fair value of assets, liabilities and contingent liabilities, including portion attributable to the minority (non-controlling) interest, is recorded on consolidated balance sheet. Goodwill is recognised as the residual between the consideration paid and the percentage of the fair value of the business acquired.  Liabilities for restructuring activities are recognised only when acquiree has an existing liability at acquisition date. Liabilities for future losses or other costs expected to be incurred as a result of the business combination cannot be recognised.	Similar to <b>IFRS</b> , except minority interest is stated at pre-acquisition carrying value of net assets, and contingent liabilities of the acquiree are not recognised at the date of acquisition. Specific rules exist for acquired in-process research and development (generally expensed) and contingent liabilities.  Some restructuring liabilities relating solely to the acquired entity may be recognised if specific criteria about restructuring plans are met.	Difference between the purchase price and the corresponding book value of the net assets acquired is allocated to recognise the fair values of acquired assets and liabilities (adjustments restricted to amount of the difference).	34
Purchase method - contingent consideration	Included in cost of combination at acquisition date if adjustment is probable and can be measured reliably.	Not recognised until contingency is resolved or amount is determinable.	Recognised only when the event occurs.	35
Purchase method - minority interests at acquisition	Stated at minority's share of the fair value of acquired identifiable assets, liabilities and contingent liabilities.	Stated at minority's share of pre-acquisition carrying value of net assets.	State at share of fair value of net assets.	36
Purchase method - goodwill and intangible assets with indefinite useful lives	Capitalised but not amortised. Goodwill and indefinite-lived intangible assets are tested for impairment at least annually at either the cash-generating unit (CGU) level or groups of CGUs, as applicable.	Similar to <b>IFRS</b> , although the level of impairment testing and the impairment test itself are different.	Capitalise and amortise over useful life. If period is more than 5 years, justification in the notes (but no maximum stipulated).	36

# Summary of similarities and differences

SUBJECT	IFRS	US GAAP	Belgian GAAP	Page
<b>Business combinations - continued</b>				
Purchase method - negative goodwill	The identification and measurement of acquiree's identifiable assets, liabilities and contingent liabilities are reassessed. Any excess remaining after reassessment is recognised in income statement immediately.	Any remaining excess after reassessment is used to reduce proportionately the fair values assigned to non-current assets (with certain exceptions). Any excess is recognised in the income statement immediately as an extraordinary gain.	If relates to expected future under-performance or costs, recognise in income when these occur. Otherwise, maintain in separate caption within shareholders' equity, for subsequent recycling to income upon partial or total disposal of the related entity.	37
Purchase method - subsequent adjustments to fair values	Fair values determined on a provisional basis can be adjusted against goodwill within 12 months of the acquisition date. Subsequent adjustments are recorded in income statement unless they are to correct an error.	Similar to <b>IFRS</b> . Once fair value allocation is finalised, no further changes are permitted except for the resolution of known pre-acquisition contingencies. The adjustments made during the allocation period relating to data for which management was waiting to complete the allocation are recorded against goodwill.	Not addressed.	38
Purchase method - disclosure	Disclosures include names and descriptions of combining entities, date of acquisition, cost of combination, summary of fair values and pre-acquisition <b>IFRS</b> values of assets and liabilities acquired, impact on results and financial position of acquirer, and reasons behind the recognition of goodwill.	Similar to <b>IFRS</b> , with additional disclosures regarding the reasons for the acquisition and details of allocations.	Only amortization period of goodwill and aggregate movements in goodwill balances must be disclosed.	38-39
Uniting of interests method	Prohibited.	Same as <b>IFRS</b> .	Not allowed, although accounting for consortium as well as tax-free mergers produces similar results.	40
Business combinations involving entities under common control	Not specifically addressed. Entities elect and consistently apply either purchase or pooling-of-interest accounting for all such transactions.	Generally recorded at predecessor cost; the use of predecessor cost or fair value depends on a number of criteria.	Not addressed.	40
<b>Revenue recognition</b>				
Revenue recognition	Based on several criteria, which require the recognition of revenue when risks and rewards and control have been transferred and the revenue can be measured reliably.	Similar to <b>IFRS</b> in principle, based on four key criteria. Extensive detailed guidance exists for specific types of transactions.	Not specifically addressed but, in practice, comparable to <b>IFRS</b> .	42
Construction contracts	Accounted for using percentage-of-completion method. Completed contract method is prohibited.	Similar to <b>IFRS</b> ; however completed contract method is permitted in rare circumstances.	Either percentage-of-completion or completed-contract method may be used to recognise long-term contract revenues and profits.	45
Multiple-element contracts	No detailed guidance for multiple-element transactions exists.	Arrangements with multiple deliverables are divided into separate units of accounting if deliverables in arrangement meet specified criteria outlined in EITF 00-21. Specific guidance exists for software vendors with multiple-element revenue arrangements.	No detailed guidance for multiple-element transactions exists.	46

# Summary of similarities and differences

SUBJECT	IFRS	US GAAP	Belgian GAAP	Page
<b>Expense recognition</b>				
Interest expense	Recognised on an accrual basis using the effective interest method.	Similar to <b>IFRS</b> .	Not addressed although in practice similar to <b>IFRS</b> .	47
Employee benefits: pension costs - defined benefit plans	Projected unit credit method is used to determine benefit obligation and record plan assets at fair value. Actuarial gains and losses can be deferred.	Similar to <b>IFRS</b> but with several areas of differences in the detailed application.	Pension obligations arising since 1 January 1986 must be financed in a separate pension fund or with an independent insurance company. Companies are exempted from providing for unfunded pension obligations arising prior to that date. Since no specific rules exist for pension accounting, periodic pension costs are generally recognised on the basis of premiums paid or due, which may differ from amounts calculated under <b>IFRS</b> or <b>US GAAP</b> . Summary disclosure of pension arrangements in force.	47-48 49-50
Employee share compensation	Expense for services purchased is recognised. Corresponding amount recorded either as a liability or an increase in equity, depending on whether transaction is determined to be cash- or equity-settled. Amount to be recorded is measured at fair value of shares or share options granted.	Similar model to <b>IFRS</b> . Compensation expense is generally recognised based on fair value of awards at grant date. Several areas of difference exist in application.	Not addressed.	50
Termination benefits	Termination benefits arising from redundancies are accounted for similarly to restructuring provisions. Termination indemnity schemes are accounted for based on actuarial present value of benefits.	Four types of termination benefits with three different timing methods for recognition. Termination indemnity schemes are accounted for as pension plans; related liability is calculated as either vested benefit obligation or actuarial present value of benefits.	Not addressed specifically, but broad by similar to <b>IFRS</b> , (except for termination benefits arising in the context of a restructuring). Provision should be made for early-retirement obligations using appropriate actuarial assumptions.	52
<b>Assets</b>				
Acquired intangible assets	Capitalised if recognition criteria are met; amortised over useful life. Intangibles assigned an indefinite useful life are not amortised but reviewed at least annually for impairment. Revaluations are permitted in rare circumstances.	Similar to <b>IFRS</b> , except revaluations are not permitted.	Capitalise if recognition criteria met and amortise over useful life (but no maximum stipulated).  Revaluations are not permitted.	53
Internally generated intangible assets	Research costs are expensed as incurred. Development costs are capitalised and amortised only when specific criteria are met.	Research and development costs are expensed as incurred. Some software and website development costs are capitalised.	Research and development costs may be capitalised or expensed. Software development costs must be capitalised if stringent criteria are met.	53
Property, plant and equipment	Historical cost or revalued amounts are used. Regular valuations of entire classes of assets are required when revaluation option is chosen.	Historical cost is used; revaluations are not permitted.	Usually acquisition cost, with revaluations permitted provided certain conditions are met.	55

# Summary of similarities and differences

SUBJECT	IFRS	US GAAP	Belgian GAAP	Page
<b>Assets - continued</b>				
Non-current assets held for sale or disposal group	Non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. A non-current asset classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. Comparative balance sheet is not restated.	Similar to <b>IFRS</b> .	Not addressed.	58
Leases - classification	A lease is a finance lease if substantially all risks and rewards of ownership are transferred. Substance rather than form is important.	Similar to <b>IFRS</b> , but with more extensive form-driven requirements.	Finance lease if lease payments cover the higher of: a. the lessor's invested capital plus interest and other costs; or b. the fair value of the leased asset.	58
Leases - lessor accounting	Amounts due under finance leases are recorded as a receivable. Gross earnings allocated to give constant rate of return based on (pre-tax) net investment method.	Similar to <b>IFRS</b> , but with specific rules for leveraged leases.	Comparable to <b>IFRS</b> .	58
Impairment of assets	Impairment is assessed on discounted cash flows. If impairment is indicated, assets are written down to higher of fair value less costs to sell and value in use based on discounted cash flows. Reversal of impairment losses is required in certain circumstances, except for goodwill.	Impairment is assessed on undiscounted cash flows for assets to be held and used. If less than carrying amount, impairment loss is measured using market value or discounted cash flows. Reversal of losses is prohibited.	If impairment indicated, write down assets to value in use or net realisable value. No specific methodology is stipulated.	60
Capitalisation of borrowing costs	Permitted as a policy choice for all qualifying assets, but not required.	Required.	Permitted for qualifying assets in respect of borrowings contracted specifically to finance the related assets.	61
Investment property	Measured at depreciated cost or fair value, with changes in fair value recognised in the income statement.	Treated the same as for other properties (depreciated cost). Industry-specific guidance applies to investor entities (for example, investment entities).	Treat as for other properties.	62
Inventories	Carried at lower of cost and net realisable value. FIFO or weighted average method is used to determine cost. LIFO prohibited.  Reversal is required for subsequent increase in value of previous write-downs.	Similar to <b>IFRS</b> ; however, use of LIFO is permitted.  Reversal of write-down is prohibited.	Comparable to <b>IFRS</b> , except that: 1. it is allowed not to include indirect production costs in cost; 2. LIFO is permitted.	63
Biological assets	Measured at fair value less estimated point-of-sale costs.	Not specified. Generally historical cost used.	Not addressed.	64

# Summary of similarities and differences

SUBJECT	IFRS	US GAAP	Belgian GAAP	Page
<b>Assets - continued</b>				
Financial assets - measurement	Depends on classification of investment - if held to maturity or loans and receivables, they are carried at amortised cost; otherwise at fair value. Unrealised gains/losses on fair value through profit or loss classification (including trading instruments) is recognised in income statement. Unrealised gains and losses on available-for-sale investments are recognised in equity.	Similar accounting model to <b>IFRS</b> , with some detailed differences in application. For example, the fair value option only applies to hybrid financial instruments.	No comprehensive set of rules for financial instruments, although some specific guidelines are provided. For example, derivative instruments often remain unrecognised and thus no measurement issues arise.	64
Derecognition of financial assets	Financial assets are derecognised based on risks and rewards first; control is secondary test.	Derecognised based on control. Requires legal isolation of assets even in bankruptcy.	Not specifically addressed.	67-68
<b>Liabilities</b>				
Provisions - general	Provisions relating to present obligations from past events recorded if outflow of resources is probable and can be reliably estimated.	Similar to <b>IFRS</b> , with rules for specific situations such as environmental liabilities, loss contingencies, etc.	The probability that the entity will incur charges as a result of a past event is sufficient to recognise a provision. No obligation needs to exist at the balance sheet date.  Accounting law stipulates that provision for major repair and maintenance costs must be made.	69
Provisions - restructuring	Restructuring provisions recognised if detailed formal plan announced or implementation effectively begun.	Recognition of liability based solely on commitment to plan is prohibited. In order to recognise, restructuring plan has to meet the definition of a liability, including certain criteria regarding likelihood that no changes will be made to plan or that plan will be withdrawn.	Make restructuring provisions if a formal decision has been taken by the board of directors.	70
Contingencies	Disclose unrecognised possible losses and probable gains.	Similar to <b>IFRS</b> .	Broadly comparable to <b>IFRS</b> .	71
Deferred income taxes - general approach	Full provision method is used (some exceptions) driven by balance sheet temporary differences. Deferred tax assets are recognised if recovery is probable (more likely than not).	Similar to <b>IFRS</b> but with specific differences in application.	Recognise any deferred tax liability to the extent that taxes will effectively be paid in the foreseeable future. <b>Belgian GAAP</b> do not further address accounting for deferred income taxes. Recognition of deferred tax assets in the consolidated financial statements is permitted if recovery is probable.	72
Government grants	Recognised as deferred income and amortised when there is reasonable assurance that the entity will comply with the conditions attached to them and the grants will be received. Entities may offset capital grants against asset values.	Similar to <b>IFRS</b> , except when conditions are attached to grant. In this case, revenue recognition is delayed until such conditions are met. Long-lived asset contributions are recorded as revenue in the period received.	Show net-of-tax under separate caption within shareholders' equity and amortise over useful economic life of related asset.	75

# Summary of similarities and differences

SUBJECT	IFRS	US GAAP	Belgian GAAP	Page
<b>Liabilities - continued</b>				
Leases - lessee accounting	Finance leases are recorded as asset and obligation for future rentals. Depreciated over useful life of asset. Rental payments are apportioned to give constant interest rate on outstanding obligation. Operating lease rentals are charged on straight-line basis.	Similar to <b>IFRS</b> . Specific rules should be met to record operating or capital lease.	Comparable to <b>IFRS</b> .	76
Leases - lessee accounting: sale and leaseback transactions	For finance leases, profit arising on sale and finance leaseback is deferred and amortised. If an operating lease arises, profit recognition depends on whether the transaction is at fair value. Substance/linkage of transactions is considered.	Timing of profit and loss recognition depends on whether seller relinquishes substantially all or a minor part of the use of the asset. Losses are immediately recognised. Specific strict criteria are considered if the transaction involves real estate.	Defer any gain or loss for recognition over the depreciation period of the leased asset.	77
Financial liabilities - classification	Capital instruments are classified, depending on substance of issuer's contractual obligations, as either liability or equity.  Mandatorily redeemable preference shares are classified as liabilities.	Similar to <b>IFRS</b> but certain redeemable instruments are permitted to be classified as 'mezzanine equity' (i.e., outside of permanent equity). Mandatorily redeemable instruments with a date or event certain redemption are classified as a liability.	Classify capital instruments according to their legal form.	78
Convertible debt	Convertible debt (fixed number of shares for a fixed amount of cash) is accounted for on split basis, with proceeds allocated between equity and debt.	Conventional convertible debt is usually recognised entirely as liability, unless there is beneficial conversion feature.	Similar to <b>IFRS</b> .	79
Derecognition of financial liabilities	Liabilities are derecognised when extinguished. Difference between carrying amount and amount paid is recognised in income statement.	Similar to <b>IFRS</b> .	Not specifically addressed.	80
<b>Equity instruments</b>				
Capital instruments - purchase of own shares	Show as deduction from equity.	Similar to <b>IFRS</b> .	Show as marketable securities (treasury shares).	81
<b>Derivatives and hedging</b>				
Derivatives and other financial instruments - cash flow and fair value hedges	Derivatives and hedge instruments are measured at fair value; changes in fair value are recognised in income statement except for effective portion of cash flow hedges, where the changes are deferred in equity until effect of underlying transaction is recognised in income statement.  Gains/losses from hedge instruments that are used to hedge forecasted transactions may be included in cost of non-financial asset/liability (basis adjustment).	Similar to <b>IFRS</b> , except no 'basis adjustment' on cash flow hedges of forecasted transactions.	Measure derivatives at lower of cost or market value, unless hedge accounting applies when specific criteria are met. <b>Belgian GAAP</b> do not distinguish explicitly between 'cash flow' and 'fair value' hedges.  Further, hedging of future transactions does not give rise to income statement recognition until the transactions occur.	82

# Summary of similarities and differences

SUBJECT	IFRS	US GAAP	Belgian GAAP	Page
<b>Derivatives and hedging - continued</b>				
Derivatives and other financial instruments - net investment hedges	<p>Effective portion of gains/losses on hedges of net investments is recognised in equity; ineffective portion is recorded in income statement.</p> <p>Gains/losses held in equity are transferred to income statement on disposal or partial disposal of investment.</p>	<p>Similar to <b>IFRS</b>.</p> <p>Gains/losses are transferred to income statement upon sale or complete or substantially complete liquidation of investment.</p>	Foreign-currency borrowings that hedge non-monetary assets are not revalued to take account of fluctuations in exchange parities.	85
<b>Other accounting and reporting topics</b>				
Functional currency definition	Currency of primary economic environment in which entity operates.	Similar to <b>IFRS</b> .	Comparable to <b>IFRS</b> .	86
Functional currency - determination	If indicators are mixed and functional currency is not obvious, judgement is used to determine functional currency that most faithfully represents economic results of entity's operations by focusing on currency of primary economic environment in which entity operates.	Similar to <b>IFRS</b> ; however, no specific hierarchy of factors to consider. In practice, currency in which cash flows are settled is often key consideration.	Not specifically addressed. In practice comparable to <b>IFRS</b> .	86
Presentation currency	When financial statements are presented in the currency other than the functional currency, assets and liabilities are translated at exchange rate at balance sheet date. Income statement items are translated at exchange rate at dates of transactions, or average rates if rates do not fluctuate significantly.	Similar to <b>IFRS</b> .	Not addressed.	87
Hyperinflationary economy - definition	Hyperinflation is indicated by characteristics of economic environment of country, which include: population's attitude towards local currency and prices linked to price index; and if cumulative inflation rate over three years is approaching, or exceeds, 100%.	Hyperinflation is generally indicated by cumulative three-year inflation rate of approximately 100% or more.	Not specified.	87
Hyperinflationary economy - measurement	Entities that have as functional currency the currency of hyperinflationary economy restate financial statements using a measurement unit current at balance sheet date.	Generally does not permit inflation-adjusted financial statements; instead requires use of reporting currency (US dollar) as functional currency. Foreign private issuers that use <b>IFRS</b> are permitted to omit quantification of any differences that would have resulted from application of FAS 52.	No specific rules laid down. Companies must adopt an appropriate policy in the circumstances to ensure a true and fair view, and apply the policy consistently.	87
Earnings per share - diluted	Weighted average potential dilutive shares are used as denominator for diluted EPS. 'Treasury share' method is used for share options/warrants.	Similar to <b>IFRS</b> .	Not addressed.	88

# Summary of similarities and differences

SUBJECT	IFRS	US GAAP	Belgian GAAP	Page
<b>Other accounting and reporting topics - continued</b>				
Related-party transactions - definition	Determined by level of direct or indirect control, joint control and significant influence of one party over another or common control by another entity.	Similar to <b>IFRS</b> .	Broadly comparable to <b>IFRS</b> .	89
Related-party transactions - disclosures	Name of the parent entity is disclosed and, if different, the ultimate controlling party, regardless of whether transactions occur. For related-party transactions, nature of relationship (seven categories), amount of transactions, outstanding balances, terms and types of transactions are disclosed.  Exemption is given only to intragroup transactions in consolidated accounts.	Similar to <b>IFRS</b> .  Exemptions are narrower than under <b>IFRS</b> .	Disclose amounts of investments in, loans to/from, market investments with, guarantees/financial commitments in favour of/given by and results of financial transactions with related parties (affiliated companies and/or directors/managers who control the company).	90
Segment reporting - scope and basis of formats	Public entities: primary and secondary (business and geographic) segments are reported based on risks and returns and internal reporting structure.	Public entities (SEC registrants): reported based on operating segments, which are based on manner in which chief operating decision-maker evaluates financial information for purposes of allocating resources and assessing performance.	All large entities filing financial statements in accordance with accounting law. No specific format stipulated and very little information required.	91
Segment reporting - accounting policies	Group accounting policies apply.	Internal financial reporting policies apply (even if accounting policies differ from group accounting policy).	Use accounting policy for sales reporting in income statement.	91
Segment reporting - disclosures	Disclosures for primary segment include revenues, segment results, capital expenditures (capex), total assets, total liabilities and other items. For secondary segment, revenues, total assets and capex are reported.	Similar disclosures to <b>IFRS</b> (primary segment) except liabilities and geographical capex are not required. Depreciation, amortisation, tax, interest and exceptional/extraordinary items are disclosed if reported internally. Disclosure of factors used to identify segments is required.	Limited to details of sales analysed by significantly different types of activity and geographical markets.	91-92
Discontinued operations - definition	Operations and cash flows that can be clearly distinguished for financial reporting and represent a separate major line of business or geographical area of operations, or a subsidiary acquired exclusively with a view to resale.	Wider definition than <b>IFRS</b> : component that is clearly distinguishable operationally and for financial reporting can be: reporting segment, operating segment, reporting unit, subsidiary or asset grouping.	Not specifically addressed, although some rules apply to entities that cannot be considered as a going concern.	93
Discontinued operations - presentation and main disclosures	At a minimum, a single amount is disclosed on face of income statement, and further analysis disclosed in notes, for current and prior periods. Assets and liabilities of discontinued operations are presented separately from other assets and liabilities on balance sheet. No restatement of comparative balance sheet.	Similar to <b>IFRS</b> . Discontinued and held-for-sale operations are reported as separate line items on face of income statement before extraordinary items.	Not addressed.	93

# Summary of similarities and differences

SUBJECT	IFRS	US GAAP	Belgian GAAP	Page
<b>Other accounting and reporting topics - continued</b>				
Post-balance-sheet events	Financial statements are adjusted for subsequent events, providing evidence of conditions that existed at the balance sheet date and materially affecting amounts in financial statements (adjusting events). Non-adjusting events are disclosed.	Similar to <b>IFRS</b> .	Comparable to <b>IFRS</b> . However, recording of an additional write-down required if net realisable value of inventories, contracts in progress and short-term investments decreases after the balance sheet date.	94
Interim financial reporting	Contents are prescribed and basis should be consistent with full-year statements. Frequency of reporting (e.g., quarterly, half-year) is imposed by local regulator or is at discretion of entity.	Similar to <b>IFRS</b> . Additional quarterly reporting requirements apply for SEC registrants (domestic US entities only). Interim reporting requirements for foreign private issuers are based on local law and stock exchange requirements.	Listed companies must publish condensed semi-annual financial information (under <b>IFRS</b> as adopted by the European Union, except for those that do not prepare consolidated financial statements). No specific guidance is available. In practice, normal accounting policies are followed in preparing interim financial information.	95
Insurance and reinsurance contracts - definition	Provides definition of insurance and reinsurance contracts.	No single definition of insurance contract. The resulting population of insurance contracts is a subset of the <b>IFRS</b> classification due to stricter criteria for reinsurance. Accounting requirements for 'universal-life-type' insurance contracts is deposit accounting rather than deferral and matching.	Insurance and reinsurance contracts are not specifically defined in Belgian accounting law.	96
Discretionary participation feature (DPF)	Provides definition of DPF and introduces certain requirements for financial instruments that contain such feature. Insurance contracts or financial instruments with DPF may have a compound nature and present a DPF equity component.  Consideration received for financial instruments with DPF may be recognised as revenue with an expense representing the increase in the liability.	DPF not specifically covered, other than implicitly in SOP 95-1 for insurance contracts only. Insurance contracts and financial instruments with DPF are measured under existing GAAP and resulting equity component is not separately disclosed.  Financial instruments with DPF are deposit accounted.	Belgian accounting law does not provide a definition of discretionary participation features.  Participation features are recognised as a liability as soon as the company has decided on the profit sharing allocation.  There is no separated component in equity for DPF.	96
Insurance and reinsurance contract - measurement	Subject to a few minimum requirements. The most important requirements are the tests on insurance liability adequacy and reinsurance asset impairment. Equalisation and similar provisions are prohibited.	Detailed measurement bases for the different types of insurance and reinsurance contracts.  Also prescribes liability adequacy test and reinsurance impairment test and prohibits equalisation provisions.	Detailed measurement bases for all types of insurance and reinsurance contracts issued by insurance entities.  A liability adequacy test is prescribed.  Equalisation provisions are required for certain types of non life insurance contracts.	97

# Summary of similarities and differences

SUBJECT	IFRS	US GAAP	Belgian GAAP	Page
<b>Other accounting and reporting topics - continued</b>				
Insurance and reinsurance contracts - deposit accounting and unbundling of deposit components	<p>Deposit accounting required when measurement of deposit component is reliable and rights and obligations arising from it are not reflected in balance sheet.</p> <p>Unbundling permitted if deposit is reliably measurable. If unbundling is not required, deposit components may be recognised as revenue.</p>	<p>Concept of policyholders' account balance has been developed, and detailed rules require deposit accounting (under FAS 97).</p> <p>Deposit accounting for a component of a contract is covered by EITF 93-6. Reinsurance contracts that transfer only timing risk or only underwriting risk are deposit accounted.</p>	<p>Premiums are recorded in income with a related charge being recorded to reflect the increase in liability. Technical reserves are presented gross of the reinsurer's share, which is presented separately as an asset.</p> <p>The unbundling concept does not exist under <b>Belgian GAAP</b>.</p>	97
Insurance contracts sold by an insurer to its own defined benefit plan	Eliminate and do not treat as plan assets in pension obligation accounting.	<p>No specific guidance.</p> <p>However, practice is to treat such contracts as plan assets under FAS 87.</p>	<p>No specific guidance.</p> <p>Insurance contracts relating to such plans follow the same accounting rules as for other insurance contracts.</p>	98
Insurance and reinsurance contracts - embedded derivatives	<p>Exemptions from separation and fair value are given for certain embedded derivatives.</p> <p>Persistency bonuses are considered embedded derivatives.</p>	<p>Embedded derivatives must be separated and fair valued unless they are clearly and closely related.</p> <p>Fixed dollar persistency bonuses are not embedded derivatives but a variation of interest rates.</p>	<p>No separation required.</p> <p>Any option or guarantee should be reflected in the liability adequacy test (New RD on life insurance).</p>	98
Insurance and reinsurance contracts - disclosures	<p>Extensive disclosure requirements focussed on the accounting policies adopted, material amounts reported and factors that affect the uncertainty of the amounts and timing of insurance and reinsurance cash flows.</p> <p>Claims development tables are required.</p>	<p>Disclosure requirements are less demanding. However, a number of disclosure items are covered in the MD&amp;A and other non-audited sections of annual report.</p> <p>Claims development tables are disclosed outside financial statements.</p>	<p>Disclosure requirements are less demanding.</p> <p>However, detailed statistical information on life and non-life business should be provided annually to the CBFA. Such statistical information is not available to the public.</p>	98
Separate accounts	Single line presentation not permitted.	FAS 60 and SOP 03-1 allow single line presentation in the balance sheet and offsetting of investment results with changes in policyholder liabilities in the income statement.	Technical reserves and related investments are shown separately in the balance sheet, as are investment results and changes in technical reserves in the income statement.	98

# Accounting framework

## Conceptual framework

**IFRS** and **US GAAP** each include a conceptual framework. The principles set out in the two frameworks provide a basis for setting accounting standards, and a point of reference for the preparation of financial information where no specific guidance exists.

## Qualitative characteristics of financial information

- IFRS** Financial information must possess certain characteristics for it to be useful. The **IFRS** framework requires that financial information must be understandable, relevant, reliable and comparable.
- US GAAP** A series of concept statements set out similar characteristics to **IFRS**, with greater emphasis placed on the consistency of financial information.
- Belgian GAAP** No conceptual framework exists under **Belgian GAAP**. However, the principles set out in the **IFRS** framework apply in practice.

## Reporting elements

- IFRS** There are five reporting elements: assets, liabilities, equity, income (includes revenues and gains) and expenses (includes losses).
- Assets are resources controlled from a past event. Liabilities are present obligations arising from a past event. Assets and liabilities are recognised on the balance sheet when it is 'probable' that economic benefits will flow to or from the entity, and those benefits are reliably measurable.
- Equity is the residual interest in the assets after deducting the entity's liabilities.
- Income is increases in economic benefits that result in increases in equity other than those relating to contributions from equity participants. Expenses are decreases in economic benefits that result in decreases in equity other than those relating to distributions to equity participants.
- US GAAP** Reporting elements and the definition and recognition criteria are similar to **IFRS**. **US GAAP** concept statements contain additional elements: investments by and distributions to owners, comprehensive income and fair value measurements used in accounting. Other comprehensive income includes all changes in equity during a period, except those resulting from investments by and distributions to owners.
- Belgian GAAP** **Belgian GAAP** do not require a statement of cash flows. Statements of recognised gains and losses are not required or published in Belgium.

## Historical cost

- IFRS** Historical cost is the main accounting convention. However, **IFRS** permits the revaluation of intangible assets, property, plant and equipment (PPE) and investment property. **IFRS** also requires certain categories of financial instruments and certain biological assets to be reported at fair value.
- US GAAP** Prohibits revaluations except for certain categories of financial instrument, which have to be carried at fair value.
- Belgian GAAP** **Belgian GAAP** permit revaluations, notably for PPE that are demonstrably sustainable.

# Accounting framework

## Fair presentation override

**IFRS** Extremely rare in practice, although entities may depart from a standard or interpretation if management concludes that compliance with a requirement in a standard or interpretation would be so misleading that it would not provide a 'true and fair view' of the entity's financial statements and if this concern cannot be addressed through additional disclosure. If this occurs, the entity should depart from that requirement of the standard or interpretation only if the regulatory framework requires, or does not otherwise prohibit, such a departure. **IFRS** requires disclosure of the nature of and the reason for the departure, and the financial impact of the departure. The override does not apply where there is a conflict between local company law and **IFRS**; the **IFRS** requirements are applied in such a situation.

**US GAAP** Extremely rare in practice. The SEC will not generally accept such an override.

**Belgian GAAP** Under **Belgian GAAP**, entities may depart from a standard in those very rare cases where its application would lead to misleading financial statements. Disclosures are required of the nature of and reason for the departure and its financial impact.

## First-time adoption of accounting framework

**IFRS** The **IFRS** framework includes a specific standard on how to apply **IFRS** for the first time. It introduces certain reliefs and imposes certain requirements and disclosures. First-time adoption of **IFRS** as the primary accounting basis requires full retrospective application of **IFRS** effective at the reporting date for an entity's first **IFRS** financial statements, with optional exemptions primarily for PPE and other assets, business combinations and pension plan accounting and limited mandatory exceptions. Comparative information is prepared and presented on the basis of **IFRS**. Almost all adjustments arising from the first-time application of **IFRS** are adjusted against opening retained earnings of the first period presented on an **IFRS** basis. Some adjustments are made against goodwill or against other classes of equity.

**US GAAP** Accounting principles should be consistent for financial information presented in comparative financial statements. **US GAAP** does not give specific guidance on first-time adoption of its accounting principles. However, first-time adoption of **US GAAP** requires full retrospective application. Some standards specify the transitional treatment upon first-time application of a standard. Specific rules apply for carve-out entities and first-time preparation of financial statements for the public.

**Belgian GAAP** Not applicable.

**REFERENCES:** **IFRS:** Framework, IAS 1, IAS 8, IAS 16, IAS 38, IAS 39, IAS 40, IAS 41, IFRS 1.  
**US GAAP:** CON 1-7, SAB 107, FAS 115, FAS 130, FAS 133, FAS 154.

# Financial statements

## General requirements

### Compliance

- IFRS** Entities should make an explicit statement that financial statements comply with **IFRS**. Compliance cannot be claimed unless the financial statements comply with all the requirements of each applicable standard and each applicable interpretation.
- US GAAP** US companies with registered securities (SEC registrants) should comply with **US GAAP**, and the SEC's rules and regulations and financial interpretations. Non-US companies with registered securities in the US (foreign private issuers) may issue financial statements under **US GAAP** or another comprehensive basis of accounting (such as **IFRS**), as long as a reconciliation of net income and equity to **US GAAP** is provided in the notes, together with SEC and certain **US GAAP** disclosures.
- Belgian GAAP** All Belgian companies must comply with Belgian accounting legislation. The most important source of accounting law is the Law of 17 July 1975 and its implementing royal decrees, mainly that of 30 January 2001.

## Components of financial statements

A set of financial statements under **IFRS**, **US GAAP** and **Belgian GAAP** comprises the following components:

COMPONENT	PAGE	IFRS	US GAAP	Belgian GAAP
Balance sheet	21	Required.	Required.	Required.
Income statement	23	Required.	Required.	Required.
Statement of recognised income and expense (SoRIE)	24	Required. <sup>1</sup>	Other comprehensive income and accumulated other comprehensive income. <sup>2</sup>	Not required.
Statement of changes in shareholders' equity	25	Required. <sup>1</sup>	Statement of changes in stockholders' equity.	Not required. <sup>4</sup>
Cash flow statement	25-26	Required.	Required. <sup>3</sup>	Not required.
Accounting policies	–	Required.	Required.	Required.
Notes to financial statements	–	Required.	Required.	Required.

<sup>1</sup> **IFRS**: a statement of changes in shareholders' equity is not presented as a primary statement if a SoRIE is presented as a primary statement. Supplemental equity information is displayed in the notes. Recognised income and expense can be separately highlighted in the statement of changes in shareholders' equity if a SoRIE is not presented as a primary statement.

<sup>2</sup> **US GAAP**: the statements of other comprehensive income and accumulated other comprehensive income may be combined with the income statement, the statement of changes in stockholders' equity, or presented as a separate primary statement.

<sup>3</sup> Except for certain entities, such as investment companies.

<sup>4</sup> Under **Belgian GAAP**, statements showing the appropriation of results and changes in the share capital are foreseen in the standard format of the entity financial statements. A statement showing changes in the consolidation reserves is provided in the standard format of the consolidated financial statements.

# Financial statements

## Comparatives

- IFRS** One year of comparatives is required for all numerical information in the financial statements, with limited exceptions in disclosures.
- US GAAP** SEC requirements specify that all registrants should give two years of comparatives (to the current year) for all statements except for the balance sheet, which requires one comparative year. This rule applies whichever accounting principles are used in the primary financial statements.
- Only one year of comparatives, in the year of adoption, is required for companies that adopt **IFRS** prior to their fiscal year starting on or after 1 January 2007. This one-off accommodation was designed to allow **IFRS** adopters to avoid recasting the earliest year presented (i.e., third year back) under **IFRS**.
- The general requirement for non-public entities is one year of comparatives for all numerical information in the financial statements.
- Belgian GAAP** Requires one year of comparatives for all numerical information in the financial statements.

## Balance sheet

Each framework requires prominent presentation of a balance sheet as a primary statement.

## Format

- IFRS** There is no prescribed balance sheet format, but a separate presentation of total assets and total liabilities is required. Management may use judgement regarding the form of presentation in many areas. Entities present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of their balance sheets except when a liquidity presentation provides more relevant and reliable information. All assets and liabilities are presented broadly in order of liquidity in such cases. However, as a minimum, **IFRS** requires presentation of the following items on the face of the balance sheet:
- Assets: PPE, investment property, intangible assets, financial assets, investments accounted for using the equity method, biological assets, inventories, trade and other receivables, tax assets, and cash and cash equivalents; and
  - Equity and liabilities: issued share capital and other components of shareholders' equity, financial liabilities, provisions, tax liabilities, trade and other payables, and minority interests (presented within equity).
- US GAAP** Generally presented as total assets balancing to total liabilities and shareholders' equity. Items presented on the face of the balance sheet are similar to **IFRS** but are generally presented in decreasing order of liquidity. The balance sheet detail should be sufficient to enable identification of material components. Public entities should follow specific SEC guidance.
- Belgian GAAP** The presentation format for financial statements is strictly prescribed by the Belgian accounting law.

# Financial statements

## Current/non-current distinction (general)

<b>IFRS</b>	The current/non-current distinction is required (except when a liquidity presentation is used). Where the distinction is made, assets are classified as current assets if they are: held for sale or consumed in the normal course of the entity's operating cycle; or cash or cash equivalents. Both assets and liabilities are classified as current where they are held for trading or expected to be realised within 12 months of the balance sheet date. Interest-bearing liabilities are classified as current when they are due to be realised or settled within 12 months of the balance sheet date, even if the original term was for a period of more than 12 months. An agreement to refinance or reschedule payments on a long-term basis that is completed after the balance sheet date does not result in non-current classification of the financial liabilities even if executed before the financial statements are issued.
<b>US GAAP</b>	Management may choose to present either a classified or non-classified balance sheet. The requirements are similar to <b>IFRS</b> if a classified balance sheet is presented. The SEC provides guidelines for the minimum information to be included by public companies. Liabilities may be classified as non-current as of the balance sheet date provided that agreements to refinance or to reschedule payments on a long-term basis (including waivers for certain debt covenants) are completed before the financial statements are issued.
<b>Belgian GAAP</b>	A distinction should be made between current and non-current assets, the former being amounts receivable after more than one year and after less than one year, inventories and contracts in progress, short-term investments, cash at bank and on hand, deferred charges and accrued income.

## Offsetting assets and liabilities

<b>IFRS</b>	Assets and liabilities cannot be offset, except where specifically permitted by a standard. Financial assets and financial liabilities may be offset where an entity has a legally enforceable right to offset the recognised amounts and intends to settle transactions on a net basis or to realise the asset and settle the liability simultaneously. A master netting agreement, in the absence of the intention to settle net or realise the asset and liability simultaneously, is not sufficient to permit net presentation of derivative financial instruments. Master netting arrangements generally do not meet the conditions of offsetting.
<b>US GAAP</b>	Offsetting is permitted where the parties owe each other determinable amounts, where there is an intention to offset and where the offsetting is enforceable by law. An exemption to these requirements applies to derivative financial instruments under master netting arrangements where a net presentation is permitted.
<b>Belgian GAAP</b>	Offsetting between assets, liabilities, rights and commitments or income and charges is not permitted, except for accumulated depreciation and amounts written-down and unless there is a legal right of set-off (where a receivable and a debt towards the same counter-party exist and both are due).

## Other balance sheet classification

<b>IFRS</b>	Minority interests are presented as a component of equity.
<b>US GAAP</b>	Minority interests cannot be presented as equity.
<b>Belgian GAAP</b>	Minority interests are presented separately from the equity.

## Income statement

Each framework requires prominent presentation of an income statement as a primary statement.

### Format

**IFRS** There is no prescribed format for the income statement. The entity should select a method of presenting its expenses by either function or nature. The portion of profit and loss attributable to the minority interest and to the parent entity is separately disclosed on the face of the income statement. Disclosure of expenses by nature is required in the footnotes if functional presentation is used on the income statement. **IFRS** requires, as a minimum, presentation of the following items on the face of the income statement:

- revenue;
- finance costs;
- share of after-tax results of associates and joint ventures accounted for using the equity method;
- tax expense;
- post-tax gain or loss attributable to the results and remeasurement of discontinued operations; and
- net profit or loss for the period.

The portion of the net income attributable to the minority interest is disclosed separately in the income statement.

An entity that discloses an operating result should include all items of an operating nature, including those that occur irregularly or infrequently or are unusual in amount.

**US GAAP** Presented in one of two formats. Either:

- a single-step format where all expenses are classified by function and are deducted from total income to give income before tax; or
- a multiple-step format where cost of sales is deducted from sales to show gross profit, and other income and expense are then presented to give income before tax.

SEC regulations require public companies to categorise expenses by their function. Amounts attributable to the minority interest are presented as a component of net income or loss.

**Belgian GAAP** A standard format is prescribed by Belgian law, requiring separate presentation of operating results; financial results; results from ordinary activities before taxes; extraordinary results; results before taxes; deferred taxes; current taxes; results for the period; transfer to/from untaxed reserves; results available for appropriation. In consolidated accounts minority interests and a group's share in the income of associates should be separately presented.

### Exceptional (significant) items

**IFRS** The separate disclosure is required of items of income and expense that are of such size, nature or incidence that their separate disclosure is necessary to explain the performance of the entity for the period. Disclosure may be on the face of the income statement or in the notes. **IFRS** does not use or define the term 'exceptional items'.

**US GAAP** The term 'exceptional items' is not used, but significant items are disclosed separately on the face of the income statement when arriving at income from operations, as well as being described in the notes.

**Belgian GAAP** Not defined in Belgian accounting law.

# Financial statements

## Extraordinary items

<b>IFRS</b>	Prohibited.
<b>US GAAP</b>	These are defined as being both infrequent and unusual. Extraordinary items are rare. Negative goodwill arising in a business combination is written off to earnings as an extraordinary gain, presented separately on the face of the income statement net of taxes. Disclosure of the tax impact is either on the face of the income statement or in the notes to the financial statements.
<b>Belgian GAAP</b>	The definition of extraordinary items under <b>Belgian GAAP</b> is broader than the definition under <b>IFRS</b> or <b>US GAAP</b> , in that it embraces all revenues and costs that do not result from the usual activities of the entity. Furthermore, the standard presentation of Belgian financial statements leads to the reporting of items as extraordinary that would be included in ordinary operations under <b>IFRS</b> and <b>US GAAP</b> .

## Statement of recognised income and expense / Other comprehensive income and Statement of accumulated other comprehensive income

### Presentation

<b>IFRS</b>	Entities that present a statement of recognised income and expense (SoRIE) are prohibited from presenting a statement of changes in shareholder's equity as a primary statement; supplemental equity information is provided in a note. Recognised income and expense can be separately highlighted in the statement of changes in shareholders' equity if a SoRIE is not presented as a primary statement. Entities that choose to recognise actuarial gains and losses from post-employment benefit plans in equity in the period in which they occur are required to present a SoRIE.
<b>US GAAP</b>	<p>One of three possible formats may be used:</p> <ul style="list-style-type: none"><li>• a single primary statement of income, other comprehensive income and accumulated other comprehensive income containing both net income, other comprehensive income and a roll-forward of accumulated other comprehensive income;</li><li>• a two-statement approach (a statement of comprehensive income and accumulated other comprehensive income, and a statement of income); or</li><li>• a separate category highlighted within the primary statement of changes in stockholders' equity (as under <b>IFRS</b>).</li></ul> <p>The cumulative amounts are disclosed for each item of comprehensive income (accumulated other comprehensive income). The SEC will accept the presentation prepared in accordance with <b>IFRS</b> without any additional disclosures.</p>
<b>Belgian GAAP</b>	Not required.

# Financial statements

## Format

<b>IFRS</b>	<p>The total of income and expense recognised in the period comprises net income. The following income and expense items are recognised directly in equity:</p> <ul style="list-style-type: none"><li>• fair value gains/(losses) on land and buildings, intangible assets, available-for-sale investments and certain financial instruments;</li><li>• foreign exchange translation differences;</li><li>• the cumulative effect of changes in accounting policy;</li><li>• changes in fair values of certain financial instruments if designated as cash flow hedges, net of tax, and cash flow hedges reclassified to income and/or the relevant hedged asset/liability; and</li><li>• actuarial gains and losses on defined benefit plans recognised directly in equity (if the entity elects the option available under the amendment to IAS 19, Employee Benefits, relating to actuarial gains and losses, effective from 1 January 2006, with earlier adoption encouraged).</li></ul>
<b>US GAAP</b>	<p>Similar to <b>IFRS</b>, except that revaluations of land and buildings and intangible assets are prohibited under <b>US GAAP</b>. Actuarial gains and losses (when recorded) are recognised through the income statement.</p>

## Statement of changes in share (stock) holders' equity

<b>IFRS</b>	<p>Presented as a primary statement unless a SoRIE is presented as a primary statement. Supplemental equity information is presented in the notes when a SoRIE is presented (see discussion under 'Presentation' above). It should show capital transactions with owners, the movement in accumulated profit and a reconciliation of all other components of equity. Certain items are permitted to be disclosed in the notes rather than in the primary statement.</p>
<b>US GAAP</b>	<p>Similar to <b>IFRS</b>, except that <b>US GAAP</b> does not have a SoRIE, and SEC rules require further disclosure of certain items in the notes.</p>
<b>Belgian GAAP</b>	<p>A statement showing the appropriation of results and changes in the share capital is presented in the standard format of the entity financial statements. The format for consolidated financial statements includes a statement showing changes in consolidation reserves.</p>

## Cash flow statement

### Exemptions

<b>IFRS</b>	No exemptions.
<b>US GAAP</b>	Limited exemptions for certain investment entities.
<b>Belgian GAAP</b>	Not required.

# Financial statements

## Direct/indirect method

- IFRS** Inflows and outflows of ‘cash and cash equivalents’ are reported in the cash flow statement. The cash flow statement may be prepared using either the direct method (cash flows derived from aggregating cash receipts and payments associated with operating activities) or the indirect method (cash flows derived from adjusting net income for transactions of a non-cash nature such as depreciation). The indirect method is more common.
- US GAAP** The cash flow statement provides relevant information about ‘cash receipts’ and ‘cash payments’. The SEC encourages the direct method; however, the indirect method is permitted and more common in practice. A reconciliation of net income to cash flows from operating activities is disclosed if the direct method is used. Significant non-cash transactions are disclosed.

## Definition of cash and cash equivalents

- IFRS** Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. An investment normally qualifies as a cash equivalent only when it has a maturity of three months or less from its acquisition date. Cash may also include bank overdrafts repayable on demand but not short-term bank borrowings; these are considered to be financing cash flows.
- US GAAP** The definition of cash equivalents is similar to that in **IFRS**, except bank overdrafts are not included in cash and cash equivalents; changes in the balances of overdrafts are classified as financing cash flows, rather than being included within cash and cash equivalents.

## Format

- IFRS** Cash flows from operating, investing and financing activities are classified separately.
- US GAAP** Same as **IFRS**.

## Classification of specific items

**IFRS** and **US GAAP** require the classification of interest, dividends and tax within specific categories of the cash flow statement. These are set out below.

ITEM	IFRS	US GAAP
Interest paid	Operating or financing.	Operating. <sup>1</sup>
Interest received	Operating or investing.	Operating.
Dividends paid	Operating or financing.	Financing.
Dividends received	Operating or investing.	Operating.
Taxes paid	Operating – unless specific identification with financing or investing.	Operating. <sup>1,2</sup>

<sup>1</sup> **US GAAP** has additional disclosure rules regarding supplemental disclosure of certain non-cash and cash transactions at the bottom of the cash flow statement.

<sup>2</sup> **US GAAP** has specific rules regarding the classification of the tax benefit associated with share-based compensation arrangements and the classification of derivatives that contain a financing element.

## Changes in accounting policy and other accounting changes

### Changes in accounting policy

<b>IFRS</b>	Changes in accounting policy are accounted for retrospectively. Comparative information is restated, and the amount of the adjustment relating to prior periods is adjusted against the opening balance of retained earnings of the earliest year presented. An exemption applies when it is impracticable to change comparative information.  Policy changes made on the adoption of a new standard are accounted for in accordance with that standard's transition provisions. The method described above is used if transition provisions are not specified.
<b>US GAAP</b>	Similar to <b>IFRS</b> with the adoption of FAS 154, Accounting Changes and Error Corrections, effective for fiscal years beginning after 15 December 2005.
<b>Belgian GAAP</b>	Restatement of the opening balance of retained earnings is not permitted. Consequently, the effect of a change in accounting policy is recognised in income for the period in which the change occurs, with appropriate disclosure being provided in the notes to the financial statements.

### Correction of errors

<b>IFRS</b>	The same method as for changes in accounting policy applies.
<b>US GAAP</b>	Similar to <b>IFRS</b> , reported as a prior-period adjustment; restatement of comparatives is mandatory.
<b>Belgian GAAP</b>	Restatement of the opening balance of retained earnings is not permitted. Consequently, the effect of a correction of an error is usually recognised in income for the period of the correction, with appropriate disclosure being provided in the notes to the financial statements. However, in the extremely rare circumstances where an error has been detected, the board of directors may seek the approval of the shareholders to issue corrected financial statements for the prior years affected

### Changes in accounting estimates

<b>IFRS</b>	Changes in accounting estimates are accounted for in the income statement when identified.
<b>US GAAP</b>	Similar to <b>IFRS</b> .
<b>Belgian GAAP</b>	Changes in accounting estimates are accounted for in the income statement when identified.

<b>REFERENCES:</b>	<b>IFRS:</b> : IAS 1, IAS 7, IAS 8, IAS 21, IAS 29, IAS 32, SIC-30. <b>US GAAP:</b> CON 1-7, FAS 16, FAS 52, FAS 95, FAS 130, FAS 141, FAS 154, APB 28, APB 30, ARB 43, SEC Regulation S-X, FIN 39.
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# Consolidated financial statements

## Consolidated financial statements

### Preparation

- IFRS** Parent entities prepare consolidated financial statements that include all subsidiaries. An exemption applies to a parent that is itself wholly owned or if:
- the owners of the minority interests have been informed about and do not object to the parent not presenting consolidated financial statements, and the parent's securities are not publicly traded;
  - it is not in the process of issuing securities in public securities markets; and
  - the immediate or ultimate parent publishes consolidated financial statements that comply with **IFRS**.
- US GAAP** There is no exemption for general purpose financial statements. Consolidated financial statements are presumed to be more meaningful and are required for public companies. Specific rules apply for certain industries.
- Belgian GAAP** Consolidated financial statements must generally be produced if a parent has one or more subsidiaries, although some exemptions from preparing consolidated financial statements are available for intermediate holding companies and for small groups.

### Consolidation model and subsidiaries

The definition of a subsidiary, for the purpose of consolidation, is an important distinction between **IFRS** and **US GAAP**.

**IFRS** Focuses on the concept of the power to control in determining whether a parent/subsidiary relationship exists. Control is the parent's ability to govern the financial and operating policies of a subsidiary to obtain benefits. Control is presumed to exist when a parent owns, directly or indirectly through subsidiaries, more than one half of an entity's voting power. Control also exists when parent owns half or less of the voting power but has legal or contractual rights to control the majority of the entity's voting power or board of directors. A parent could have control over an entity in circumstances where it holds less than 50% of the voting rights of an entity and no legal or contractual rights by which to control the majority of the entity's voting power or board of directors (de facto control).

Entities acquired (disposed of) are included in (excluded from) consolidation from the date on which control passes. Currently exercisable potential voting rights should also be considered to determine whether control exists.

Special purpose entities that an entity controls are consolidated (see guidance p 29).

**US GAAP** Uses a bipolar consolidation model. All consolidation decisions are evaluated first under the variable interest entity (VIE) model. If the entity is a VIE, management should follow the guidance on the next page, under 'Special purpose entities'. Entities controlled by voting rights are consolidated as subsidiaries.

**US GAAP** contains a similar notion of de facto control, referred to as 'effective control'. This concept is rarely employed in practice. Accordingly, there could be situations in which an entity is consolidated under **IFRS** based on the notion of de facto control. However, it would not be consolidated under **US GAAP** under the concept of effective control.

**Belgian GAAP** Broadly comparable to **IFRS**, but the concept of presently exercisable potential voting rights is not addressed.

# Consolidated financial statements

## Special purpose entities

**IFRS** Special purpose entities (SPEs) are consolidated where the substance of the relationship indicates that an entity controls the SPE. Indicators of control arise where:

- the SPE conducts its activities on behalf of the entity;
- the entity has the decision-making power to obtain the majority of the benefits of the SPE;
- the entity has other rights to obtain the majority of the benefits of the SPE; or
- the entity has the majority of the residual or ownership risks of the SPE or its assets.

Post-employment benefit plans or other long-term employee benefit plans to which IAS 19, Employee Benefits, applies are excluded from this rule.

**US GAAP** The consolidation of an SPE is required by its primary beneficiary when the SPE meets the definition of a VIE and the primary beneficiary has a variable interest in the entity that will cause it to absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. There are several scope exceptions to this rule (such as pension, post-retirement or post-employment plans). Specific criteria also permit the transfer of financial assets to an SPE that is not consolidated by the transferor. The SPE should be a qualifying SPE (QSPE, as defined), and the assets should be financial assets (as defined).

**Belgian GAAP** Not addressed.

## Subsidiaries excluded from consolidation

**IFRS** All subsidiaries are consolidated except those for which control does not rest with the majority owner. A subsidiary that meets, on acquisition, the criteria to be classified as held for sale in accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, applies the presentation for assets held for sale (i.e., separate presentation of assets and liabilities to be disposed of), rather than normal line-by-line consolidation presentation.

**US GAAP** Similar to **IFRS**. Unconsolidated subsidiaries are generally accounted for using the equity method unless the presumption of significant influence can be overcome.

**Belgian GAAP** Companies acquired/disposed of are included in/excluded from consolidation from the date control changes hands (or, for practical reasons, alternatively as from the beginning or end of the financial year). Certain subsidiaries may be excluded from consolidation, typically if there are severe restrictions on the exercise of the parent's rights or if the subsidiary is acquired and held exclusively for subsequent re-sale in the near future.

The exclusion of subsidiaries with dissimilar activities is permitted if inclusion would impair fair presentation in the consolidated financial statements. The exclusion of entities that are no longer going concerns is required; the equity method should then be used.

## Uniform accounting policies

**IFRS** Consolidated financial statements are prepared using uniform accounting policies for all of the entities in a group.

**US GAAP** Similar to **IFRS**, with certain exceptions. Consolidated financial statements are prepared using uniform accounting policies for all of the entities in a group except when a subsidiary has specialised industry accounting principles. Retention of the specialised accounting policy in consolidation is permitted in such cases.

**Belgian GAAP** Similar to **IFRS**. However, departures from this principle are permitted in exceptional circumstances, i.e. when application of different rules is justified in view of the economic or legal context. In such cases, appropriate disclosure should be made in the notes.

# Consolidated financial statements

## Reporting periods

<b>IFRS</b>	The consolidated financial statements of the parent and the subsidiary are usually drawn up at the same reporting date. However, the consolidation of subsidiary accounts can be drawn up at a different reporting date provided the difference between the reporting dates is no more than three months. Adjustments are made for significant transactions that occur in the gap period.
<b>US GAAP</b>	Similar to <b>IFRS</b> , except that adjustments are generally not made for transactions that occur in the gap period.
<b>Belgian GAAP</b>	Similar to <b>IFRS</b> , except that appropriate disclosure of significant transactions between the two dates is sufficient.
<b>REFERENCES:</b>	<b>IFRS:</b> IAS 27, SIC-12, IFRS 5. <b>US GAAP:</b> ARB 51, FAS 94, FAS 144, SAB 51, SAB 84, EITF 96-16, FIN 46.

## Investments in associates

### Definition

<b>IFRS</b>	An associate is an entity over which the investor has significant influence - that is, the power to participate in, but not control, an associate's financial and operating policies. Participation in the entity's financial and operating policies via representation on the entity's board demonstrates significant influence. A 20% or more interest by an investor in an entity's voting rights leads to a presumption of significant influence.
<b>US GAAP</b>	Similar to <b>IFRS</b> , although the term 'equity investment' rather than 'associate' is used. <b>US GAAP</b> does not include unincorporated entities, although these would generally be accounted for in a similar way.
<b>Belgian GAAP</b>	Similar to <b>IFRS</b> .

### Equity method

<b>IFRS</b>	An investor accounts for an investment in an associate using the equity method. The investor presents its share of the associate's profits and losses in the income statement. This is shown at a post-tax level. The investor recognises in equity its share of changes in the associate's equity that have not been recognised in the associate's profit or loss. The investor, on acquisition of the investment, accounts for the difference between the cost of the acquisition and investor's share of fair value of the net identifiable assets as goodwill. The goodwill is included in the carrying amount of the investment.
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The investor's investment in the associate is stated at cost, plus its share of post-acquisition profits or losses, plus its share of post-acquisition movements in reserves, less dividends received. Losses that reduce the investment to below zero are applied against any long-term interests that, in substance, form part of the investor's net investment in the associate - for example, preference shares and long-term receivables and loans. Losses recognised in excess of the investor's investment in ordinary shares are applied to the other components in reverse order of priority in a winding up. Further losses are provided for as a liability only to the extent that the investor has incurred legal or constructive obligations to make payments on behalf of the associate.

Disclosure of information is required about the results, assets and liabilities of significant associates.

<b>US GAAP</b>	Similar to <b>IFRS</b> .
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# Consolidated financial statements

**Belgian GAAP** The equity method is used to account for associates in consolidated financial statements. The investor presents its share of the associate's profits and losses, as well as its share of the associate's net assets excluding any unamortised goodwill, since the acquisition of the associate. Any such unamortised goodwill is included with other goodwill arising on consolidation, with details being disclosed in the footnotes. **Belgian GAAP** do not require use of the equity method to account for investments in associates in company financial statements.

**Belgian GAAP** do not require disclosure of detailed information about the results, assets and liabilities of significant associates.

## Accounting policies

**IFRS** An investor's financial statements are prepared using uniform accounting policies for like transactions and events; adjustments are made to the associate's policies to conform to that of the investor.

**US GAAP** The investor's financial statements do not have to be adjusted if the associate follows an acceptable alternative **US GAAP** treatment, although it would be acceptable to do so.

**Belgian GAAP** Similar to **IFRS**.

## Impairment

**IFRS** Impairment is tested as prescribed under IAS 36, Impairment of Assets, (IAS 28.33) if the investment has objective evidence of one of the indicators set out in IAS 39.59 (IAS 28.31). In the estimation of future cash flows for the impairment test, the investor may use its share of future net cash flows in the investment, or the cash flows expected to arise from dividends. The investee's goodwill is not subject to direct impairment testing by the investor.

**US GAAP** Equity investments are considered impaired if the decline in value is considered to be other than temporary. The investee's goodwill is not subject to direct impairment testing by the investor, similar to **IFRS**. If an other-than-temporary impairment is determined to exist, the investment is written down to fair value.

**Belgian GAAP** Similar to **IFRS**.

## Investments in joint ventures

### Definition

**IFRS** A joint venture is defined as a contractual agreement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control of an economic activity.

**US GAAP** A corporate joint venture is defined as a corporation owned and operated by a small group of businesses as a separate and specific business or project for the mutual benefit of the members of the group.

**Belgian GAAP** A joint subsidiary is an entity, which is subject to control exercised jointly by a limited number of shareholders when they have agreed that the decisions concerning the orientation of the entity's management policy cannot be taken without their mutual consent.

# Consolidated financial statements

## Types of joint venture

<b>IFRS</b>	Distinguishes between three types of joint venture: <ul style="list-style-type: none"><li>• jointly controlled entities - the arrangement is carried on through a separate entity (company or partnership);</li><li>• jointly controlled operations - each venturer uses its own assets for a specific project; and</li><li>• jointly controlled assets - a project carried on with assets that are jointly owned.</li></ul>
<b>US GAAP</b>	Only refers to jointly controlled entities, where the arrangement is carried on through a separate corporate entity.

## Jointly controlled entities

<b>IFRS</b>	Either the proportionate consolidation method or the equity method is allowed. Proportionate consolidation requires the venturer's share of the assets, liabilities, income and expenses to be combined on a line-by-line basis with similar items in the venturer's financial statements, or reported as a separate line item in the venturer's financial statements.
<b>US GAAP</b>	Proportionate consolidation is generally not permitted except for unincorporated entities operating in certain industries. Venturers apply the equity method to recognise the investment in a jointly controlled entity.
<b>Belgian GAAP</b>	The proportional consolidation method should be applied in most cases. The equity method can only be applied where the activities of joint subsidiaries are not closely integrated with the activities of the parent

## Contributions to a jointly controlled entity

<b>IFRS</b>	A venturer that contributes non-monetary assets, such as shares or fixed assets, to a jointly controlled entity in exchange for an equity interest in the jointly controlled entity recognises in the income statement the portion of the gain or loss attributable to the equity interests of the other venturers, except when: <ul style="list-style-type: none"><li>• the significant risks and rewards of the contributed assets have not been transferred to the jointly controlled entity;</li><li>• the gain or loss on the assets contributed cannot be measured reliably; or</li><li>• the asset is similar to those contributed by other venturers.</li></ul>
<b>US GAAP</b>	Little guidance exists regarding what basis to use in recording contributions to a jointly controlled entity. Joint ventures whose financial statements are filed with the SEC (or when one or more venturers are SEC registrants) may only use step-up to fair value when certain strict criteria are met.
<b>Belgian GAAP</b>	Not specifically addressed.

## Jointly controlled operations

<b>IFRS</b>	Requirements are similar to jointly controlled entities without an incorporated structure. A venturer recognises in its financial statements: <ul style="list-style-type: none"><li>• the assets that it controls;</li><li>• the liabilities it incurs;</li><li>• the expenses it incurs; and</li><li>• its share of income from the sale of goods or services by the joint venture.</li></ul>
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# Consolidated financial statements

**US GAAP** Equity accounting is appropriate for investments in unincorporated joint ventures. The investor's pro-rata share of assets, liabilities, revenues and expenses are included in their financial statements in specific cases where the investor owns an undivided interest in each asset of a non-corporate joint venture.

**Belgian GAAP** Limited rules exist. In general, when an entity acts in an operation conducted as a temporary association or a joint venture, the accounting system shall be adapted in such a way as to ensure the completeness of transactions recorded, both in respect of dealing with third parties and in respect of the responsibilities towards each other as partners and as manager if applicable. Note that jointly controlled operations or assets correspond to the temporary association under Belgian rules.

## Jointly controlled assets

**IFRS** A venturer accounts for its share of the jointly controlled assets and any liabilities it has incurred.

**US GAAP** Not specified. However, proportionate consolidation is used in certain industries to recognise investments in jointly controlled assets.

**Belgian GAAP** Limited rules exist. In general, when an entity acts in an operation conducted as a temporary association or a joint venture, the accounting system shall be adapted in such a way as to ensure the completeness of transactions recorded, both in respect of dealing with third parties and in respect of the responsibilities towards each other as partners and as manager if applicable. Note that jointly controlled operations or assets correspond to the temporary association under Belgian rules.

**REFERENCES:** **IFRS:** IAS 1, IAS 28, IAS 31, SIC-13.  
**US GAAP:** APB 18, FIN 35.

## Employee share trusts (including employee share ownership plans)

The guidance in this section is based on the introduction of FAS 123 Revised, Share-based Payment, effective with public entities with fiscal years beginning after 15 June 2005 and non-public entities for fiscal years beginning after 15 December 2005, with earlier adoption encouraged. Refer to the October 2004 version of this publication for pre-adoption guidance.

Employee share-based payments are often combined with separate trusts that buy shares to be given or sold to employees.

## Accounting

**IFRS** The assets and liabilities of an employee share-based trust are consolidated by the sponsor if the SIC-12 criteria are met. An entity accounts for its own shares held under an employee share ownership plan (ESOP) as treasury shares under IAS 32, Financial Instruments: Presentation.

**US GAAP** For employee share trusts other than ESOPs, the treatment is generally consistent with **IFRS**. Specific guidance applies for ESOPs, under SOP 93-6.

**Belgian GAAP** No specific guidance.

**REFERENCES:** **IFRS:** IAS 32, SIC-12.  
**US GAAP:** FAS 123-R, SOP 93-6.

## Business combinations

### Types

A business combination involves the bringing together of separate entities or businesses into one reporting entity. **IFRS** and **US GAAP** require the use of the purchase method of accounting for most business combination transactions. The most common type of combination is where one of the combining entities obtains control over the other. Other types of business combinations include:

- a joint venture where the shareholders of the combining entities join in substantially equal arrangements to share control; and
- group reorganisation, which generally arises from transactions among entities that operate under common control.

**IFRS** Business combinations within the scope of IFRS 3, Business Combinations, are accounted for as acquisitions. The purchase method of accounting applies. IFRS 3 excludes from its scope business combinations involving entities under common control, formation of joint ventures, business combinations involving mutual entities and business combinations by contract alone.

**US GAAP** The use of the purchase method of accounting is required for most business combinations. Transfers of net assets or shares of entities under common control are accounted for at predecessor book basis.

**Belgian GAAP** For tax-free reorganisations, the accounting treatment is comparable to the pooling of interests method, with some exceptions. For taxable reorganisations, the method used is comparable to the purchase method of accounting, also with some exceptions. In consolidation, the purchase method of accounting should be followed.

## Acquisitions

### Date of acquisition

**IFRS** The date on which the acquirer obtains control over the acquired entity or business.

**US GAAP** Similar to **IFRS**.

**Belgian GAAP** Same as **IFRS**. It should however be noted that, for practical reasons, consolidation from beginning or end of financial year is an accepted alternative treatment.

### Cost of acquisition

The cost of acquisition is the amount of cash or cash equivalents paid (or fair value of non-monetary assets exchanged). Specific guidance applies under each framework where consideration comprises an exchange of shares.

**IFRS** Shares issued as consideration are recorded at their fair value as at the date of the exchange - the date on which the acquirer obtains control over the acquiree's net assets and operations. The published price of a share at the date of exchange is the best evidence of fair value in an active market.

**US GAAP** Shares issued as consideration are measured at their market price over a reasonable period of time (interpreted to be a few days) before and after the parties reach an agreement on the purchase price and the proposed transaction is announced. The date for measuring the value of marketable securities is not influenced by the need to obtain shareholder or regulatory approval.

**Belgian GAAP** Not addressed but, in practice, comparable to **IFRS**.

# Business combinations

## Contingent consideration

- IFRS** If part of the purchase consideration is contingent on a future event, such as achieving certain profit levels, **IFRS** requires an estimate of the amount to be included as part of the cost at the date of the acquisition if it is probable that the amount will be paid and can be reliably measured. Any revision to the estimate is adjusted against goodwill. Additional consideration to be paid contingent on the continued employment of a former owner/manager is evaluated based on facts and circumstances as to which part, if any, should be included in the cost of the acquisition and which part should be recognised as compensation expense over the service period.
- US GAAP** The additional cost is not generally recognised until the contingency is resolved or the amount is determinable. Any additional revision to the estimate is recognised as an adjustment to goodwill. Additional consideration to be paid for the continued employment of a former owner/manager is accounted for similarly to **IFRS**.
- Belgian GAAP** Adjustment is made when the contingent event occurs.

## Recognition and measurement of identifiable assets and liabilities acquired

**IFRS** and **US GAAP** require separate recognition, by the acquirer, of the acquiree's identifiable assets, liabilities and contingent liabilities that existed at the date of acquisition. These assets and liabilities are recognised at fair value at the date of acquisition.

The two frameworks apply different criteria to the recognition of acquisition restructuring provisions.

## Restructuring provisions

- IFRS** The acquirer may recognise restructuring provisions as part of the acquired liabilities only if the acquiree has an existing liability at the acquisition date for a restructuring recognised in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets.
- US GAAP** The acquirer may recognise a restructuring provision at the acquisition date if specific criteria are met. Management begins to assess and formulate a plan to exit an activity of the acquired entity as of the acquisition date. The plan should be completed in detail as soon as possible, but no more than one year after the date of the business combination. Management should communicate the termination or relocation arrangements to the employees of the acquired company. The restructuring provision should meet the definition of a liability in order to be recorded.
- Belgian GAAP** Not specifically addressed, but common practice is to take account of the acquirer's intentions.

## Intangible assets

- IFRS** An intangible asset is recognised separately from goodwill if it represents contractual or legal rights or is capable of being separated or divided and sold, transferred, licensed, rented or exchanged. Acquired in-process research and development (R&D) is recognised as a separate intangible asset if it meets the definition of an intangible asset and its fair value can be measured reliably. Non-identifiable intangible assets are subsumed within goodwill.
- US GAAP** Similar intangible assets may be recognised under both **IFRS** and **US GAAP**. **US GAAP** similarly requires acquired in-process R&D to be valued at fair value. However, the acquired in-process R&D is expensed immediately unless it has an alternative future use.
- Belgian GAAP** Comparable to **IFRS**.

# Business combinations

## Contingent liabilities

- IFRS** The acquiree's contingent liabilities are recognised separately at the acquisition date as part of allocating the cost, provided their fair values can be measured reliably.
- US GAAP** The acquiree's contingent liabilities are recognised at the acquisition date only if probable and management can make a reasonable estimate of settlement amounts.
- Belgian GAAP** Contingent liabilities are not recognised on acquisition.

## Deferred tax recognised after initial purchase accounting

- IFRS** If a deferred tax asset relating to the acquiree is identified but not recognised at the time of the acquisition and subsequently recognised in the acquirer's consolidated financial statements, the deferred tax income is recognised in the income statement. The acquirer also adjusts goodwill as if the deferred tax asset had been recognised at the acquisition date. The subsequent reduction in the net carrying amount of goodwill is recognised in the income statement as an expense.
- US GAAP** Subsequent recognition of a deferred tax asset for which a valuation allowance was established on the acquisition date reduces goodwill, then reduces intangible assets, and finally reduces tax expense. Subsequent establishment of a valuation allowance (after the allocation period) related to a deferred tax asset recognised on an acquisition is recorded as expense.
- Belgian GAAP** Not addressed.

## Minority interests at acquisition

- IFRS** Where an investor acquires less than 100% of a subsidiary, the minority (non-controlling) interests are stated on the investor's balance sheet at the minority's proportion of the net fair value of acquired assets, liabilities and contingent liabilities assumed.
- US GAAP** The minority interests are valued at their historical book value. Fair values are assigned only to the parent company's share of the net assets acquired.
- Belgian GAAP** The minority interest includes its share of any fair-value adjustment made to the net assets acquired.

## Goodwill

Goodwill arises as the difference between the cost of the acquisition and the acquirer's share of fair value of identifiable assets, liabilities and contingent liabilities acquired. Purchased goodwill is capitalised as an intangible asset.

- IFRS** Goodwill is not amortised but reviewed for impairment annually, and when indicators of impairment arise, at the cash-generating-unit (CGU) level, or group of CGUs, as applicable. A CGU is typically at a lower level than a reporting unit, as defined under **US GAAP**. CGUs may be aggregated for purposes of allocating goodwill and testing for impairment. Groupings of CGUs for goodwill impairment testing cannot be larger than a segment.
- US GAAP** Similar to **IFRS**. Goodwill is not amortised but reviewed for impairment at least annually at the reporting unit level. Goodwill is assigned to an entity's reporting unit (i.e., an operating segment) or one level below (i.e., a component).
- Belgian GAAP** No maximum useful life is stipulated. However, if it exceeds five years, justification must be provided in the footnotes.

# Business combinations

## Impairment

**IFRS** An impairment review of CGUs with allocated goodwill is required annually or whenever an indication of impairment exists. The impairment review does not need to take place at the balance sheet date. If newly acquired goodwill is allocated to a CGU that has already been tested for impairment during the period, a further impairment test is required before the balance sheet date.

A one-step impairment test is performed. The recoverable amount of the CGU (i.e., the higher of its fair value less costs to sell and its value in use) is compared to its carrying amount. The impairment loss is recognised in operating results as the excess of the carrying amount over the recoverable amount. Impairment is allocated first to goodwill. Allocation is made on a pro rata basis to the CGU's assets if the impairment loss exceeds the book value of goodwill.

**US GAAP** Goodwill is reviewed for impairment, at the reporting unit level, at least annually or whenever events or changes in circumstances indicate that the recoverability of the carrying amount should be assessed.

A two-step impairment test is required:

1. The fair value and the carrying amount of the reporting unit including goodwill is compared. Goodwill is considered to be impaired if the fair value of the reporting unit is less than the book value; and
2. If goodwill is determined to be impaired based on step one, then goodwill impairment is measured as the excess of the carrying amount of goodwill over its implied fair value. The implied fair value of goodwill is determined by calculating the fair value of the various assets and liabilities included in the reporting unit in the same manner as goodwill is determined in a business combination. The impairment charge is included in operating income.

**Belgian GAAP** Goodwill should be subject to extraordinary amortisation where, as a result of changes economic or technological developments, this is economically justified. Subsequent reversal of impairment write-downs is required when the write-down is no longer economically justified.

## Negative goodwill

**IFRS** If any excess of fair value over the purchase price arises, the acquirer reassesses the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination. Any excess remaining after reassessment is recognised immediately in the income statement.

**US GAAP** Any excess over the purchase price after reassessment is used to reduce proportionately the fair values assigned and allocated on a pro-rata basis to all assets other than:

- current assets;
- financial assets (other than equity method investments);
- assets to be sold;
- prepaid pension assets; and
- deferred taxes.

Any negative goodwill remaining is recognised as an extraordinary gain.

**Belgian GAAP** Negative goodwill relating to expected future losses/costs identified in the acquirer's plan for the acquisition should be recognised in income when those losses/costs occur. Any remaining negative goodwill is maintained within shareholders' equity until disposal of the related subsidiary/associate, at which time it is recognised in income.

# Business combinations

## Subsequent adjustments to assets and liabilities

**IFRS** Adjustments against goodwill to the provisional fair values recognised at acquisition are permitted provided those adjustments are made within 12 months of the acquisition date. Adjustments made after 12 months are recognised in the income statement.

**US GAAP** Similar to **IFRS**. However, favourable adjustments to restructuring provisions if made are recognised as changes to goodwill, with unfavourable adjustments recognised as changes to goodwill if made during the allocation period, or charged to expense if made after the allocation period. The allocation period, which cannot extend beyond one year following the date of the acquisition, is for adjustments relating to information that management has been waiting for to complete its purchase price allocation. Adjustments related to pre-acquisition contingencies that are finalised after the allocation period or events occurring after the acquisition date are recognised in the income statement.

**Belgian GAAP** Not addressed.

## Disclosure

ITEM	IFRS	US GAAP	Belgian GAAP
<b>General</b>			
Names and descriptions of the combining entities	Required.	Required. Reasons for the business combination are also disclosed.	Required, as well as the equity ownership interest.
The effective date of the combination for accounting purposes (i.e., acquisition date)	Required.	Required.	Not specified.
The cost of acquisition and the form of the consideration given, including any deferred and contingent consideration	Required.	Required. Basis for determining the value of shares given as consideration, and accounting treatment to be followed should contingent consideration be realised, is also disclosed.	Not specified.
Operations to be disposed of	Required.	Required.	Not specified.
The percentage of voting shares acquired	Required.	Required.	Share of capital held should be disclosed.
<b>Goodwill</b>			
Goodwill – impairment charge	Required.	Required.	Required.
Total amount of goodwill, the amount expected to be tax deductible and the amount of goodwill by reportable segment	Not specified.	Required.	Not specified.
Reconciliation of the goodwill between opening and closing amount	Required.	Required.	Required.
Factors giving rise to goodwill and a list of unrecognised intangible assets	Required.	Only description of factors giving rise to goodwill is required.	Not required.

# Business combinations

ITEM	IFRS	US GAAP	Belgian GAAP
<b>Other financial disclosures</b>			
Summary of fair value and pre-acquisition amounts of assets and liabilities acquired with separate disclosure of cash equivalents	Required unless impracticable.	Condensed balance sheet is provided disclosing amounts assigned to each balance sheet caption of the acquired entity.	Not required.
Provisions for terminating or reducing activities of acquiree	Required, subject to meeting IAS 37 recognition criteria.	Required.	Not required.
Effect of acquisition on the financial position at the balance sheet date and on the results since the acquisition	Required unless impracticable.	Not required, but pro-forma income statement information is presented instead (see below).	Required if necessary to allow comparison with comparative figures.
Amount of purchased research and development assets acquired and written off in the period	Not applicable.	Required.	Not required.
Initial purchase accounting not yet finalised. If the purchase price had not been finalised at the date of issue of the financial statements, this and the reasons are disclosed. Adjustments made to initial allocations in subsequent periods are also to be disclosed	Required.	Required.	Not specified.
Details of amounts allocated to intangible assets including total amounts, amortisable/non-amortisable, residual values and amortisation period by assets	Required.	Required.	Not required.
Pro-forma income statement including comparatives	Not required. however, the revenue and profit or loss for the period is disclosed as though the acquisition date had been the beginning of that period, unless impracticable.	Required only for public entities.	Not required.
For a series of individually immaterial business combinations that are material in the aggregate: <ul style="list-style-type: none"> <li>• the number of entities and brief description;</li> <li>• the aggregate cost, the number of equity instruments issued or issuable and value; and</li> <li>• the aggregate amount of any contingent payments options or commitments</li> </ul>	Required.	Required.	Not required.

# Business combinations

## Pooling (uniting) of interests method

**IFRS** and **US GAAP** prohibit the use of this method of accounting if the business combination meets the definition of a business combination under the relevant standards.

Under **Belgian GAAP**, a method comparable to the pooling of interests method, with some exceptions, is used to account for tax-free reorganisations.

A similar method is also used in case of consortium. A consortium exists when an enterprise governed by Belgian law and one or more enterprises incorporated under a similar form and governed by foreign law which are not subsidiaries of each other, nor subsidiaries of one and the same company are under central management.

Enterprises shall irrefutably be presumed to be under central management:

1. where the centralized management of these enterprises results from agreements concluded with these enterprises or provisions in the memorandum and articles of association of these enterprises; or
2. where the management of the enterprise comprises for the most part the same persons.

In the absence of evidence to the contrary, enterprises shall be presumed to be under central management if the majority of their shares is held by the same individuals or legal personae; the provisions of article 3 shall apply.

This paragraph shall not apply to shares held by public authorities.

## Business combinations involving entities under common control

**IFRS** Does not specifically address such transactions. Entities should develop and apply consistently an accounting policy; management can elect to apply purchase accounting or the pooling-of-interests method to a business combination involving entities under common control. The accounting policy can be changed only when the criteria in IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, are met. Related-party disclosures are used to explain the impact of transactions with related parties on the financial statements.

**US GAAP** Specific rules exist for accounting for combinations of entities under common control. Such transactions are generally recorded at predecessor cost, reflecting the transferor's carrying amount of the assets and liabilities transferred. The use of predecessor values or fair values depends on a number of individual criteria.

**Belgian GAAP** Does not specifically address such transactions. Predecessor accounting would be followed in practice.

## Partial disposals of subsidiaries with control retained

**IFRS** Does not specifically address such transactions. Entities should develop and consistently apply an accounting policy based either on the economic entity or parent company model.

**US GAAP** A gain or loss from the reduction of an interest in a subsidiary may be recognised in the income statement only if certain conditions are met (for example, if the transaction is not part of a group reorganisation).

**Belgian GAAP** Does not specifically address such transactions.

# Business combinations

## Step acquisitions (investor obtaining control through more than one purchase)

- IFRS** The acquiree's identifiable assets, liabilities and contingent liabilities are remeasured to fair value at the date of the business combination. Each significant transaction is treated separately for the purpose of determining the cost of the acquisition and the amount of goodwill. Any existing goodwill is not remeasured. The adjustment to any previously held interests of the acquirer in the acquiree's identifiable assets, liabilities and contingent liabilities is treated as a revaluation.
- US GAAP** Similar to **IFRS**, each significant transaction is treated separately for the purposes of determining the cost of the acquisition and the amount of the related goodwill. Any previous interest in the acquirer's net assets is not restated, resulting in the accumulation of portions of fair values at different dates.
- Belgian GAAP** Does not specifically address such transactions.

### Recent proposals - IFRS and US GAAP

The IASB and the FASB issued exposure drafts (EDs) of proposed amendments to IFRS 3, Business Combinations, and FAS 141, Business Combinations, in June 2005. The comment periods ended in October 2005. Both EDs propose a number of significant changes to the financial reporting for business combinations. According to the IASB's work plan, the effective date of a new IFRS will be no earlier than for financial periods beginning 1 January 2009. The Boards are currently considering the comment letters received.

- REFERENCES:** **IFRS:** IAS 12, IFRS 3, SIC-9.  
**US GAAP:** FAS 38, FAS 121, FAS 141, FAS 142, EITF 90-5, EITF 95-3, EITF 95-8.

# Revenue recognition

## Revenue

### Definition

<b>IFRS</b>	Income is defined in the IASB's Framework as including revenues and gains. The standard IAS 18, Revenue, defines revenue as the gross inflow of economic benefits during the period arising from the ordinary activities of an enterprise when the inflows result in an increase in equity, other than increases relating to contributions from equity participants.
<b>US GAAP</b>	Revenue is defined by the Concept Statement to represent actual or expected cash inflows (or the equivalent) that have occurred or will result from the entity's major ongoing operations.
<b>Belgian GAAP</b>	Belgian legislation does not address the concept of revenue recognition specifically, but includes a number of provisions relating directly or indirectly to income recognition, encompassing both revenue and gains.

### Measurement

**IFRS** and **US GAAP** require measurement of revenues at the fair value of the consideration received or receivable. This is usually the amount of cash or cash equivalents received or receivable. Discounting to present value is required under **IFRS** where the inflow of cash or cash equivalents is deferred, and in limited situations under **US GAAP**.

### Revenue recognition

<b>IFRS</b>	<p>There is a standard on revenue recognition, IAS 18. It describes specific criteria for the sale of goods, the rendering of services, and interest, royalties and dividends. The revenue recognition criteria common to each of these are the probability that the economic benefits associated with the transaction will flow to the entity and that the revenue and costs can be measured reliably.</p> <p>Additional recognition criteria apply to revenue arising from the sale of goods. <b>IFRS</b> requires the seller to have transferred the significant risks and rewards of ownership to the buyer and retained neither management involvement in, nor control over, the goods. Revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at the balance sheet date. Interest revenue is recognised on a basis that takes into account the asset's effective yield. Royalties are recognised on an accrual basis. Dividends are recognised when the shareholder's right to receive payment is established.</p>
<b>US GAAP</b>	<p>The guidance is extensive. There are a number of different sources of revenue recognition guidance, such as FAS, SABs, SOPs, EITFs and AAERs. <b>US GAAP</b> focuses more on revenues being realised (either converted into cash or cash equivalents, or the likelihood of its receipt being reasonably certain) and earned (no material transaction pending and the related performance has occurred). Revenue recognition involves an exchange transaction - i.e., there should be no revenue recognition unless and until an exchange has taken place. Additional guidance for SEC registrants sets out criteria that an entity should meet before revenue is realised and earned (compared to <b>IFRS</b> in the table hereafter). SEC pronouncements also provide guidance related to specific revenue recognition situations.</p>
<b>Belgian GAAP</b>	<p><b>Belgian GAAP</b> is broadly comparable to <b>IFRS</b>, but revenue is sometimes still recognized based on the legal form of the transaction.</p>

# Revenue recognition

## Revenue recognition criteria

IFRS	US GAAP
It is probable that economic benefits will flow to the entity.	Vendor's price to the buyer is fixed or determinable. Collectibility is reasonably assured.
The amount of revenue can be measured reliably.	Vendor's price to the buyer is fixed or determinable.
The entity has transferred to the buyer the significant risks and rewards of ownership of the goods.	Persuasive evidence that an arrangement exists, and delivery has occurred or services have been rendered.
The entity retains neither continuing managerial involvement nor effective control over the goods.	Delivery has occurred or services have been rendered.
The costs incurred or to be incurred in respect of the transaction can be measured reliably.	Vendor's price to the buyer is fixed or determinable, and collectibility is reasonably assured.
The stage of completion of the transaction can be measured reliably.	Vendor's price to the buyer is fixed or determinable.

## Specific revenue recognition issues

### Warranty and product maintenance contracts

**IFRS** Warranty servicing is deferred and recognised over the warranty period where a product's selling price includes an identifiable component for subsequent warranty servicing.

**US GAAP** Similar to **IFRS**, revenue is recognised on a straight-line basis unless the pattern of costs indicates otherwise. A loss is recognised immediately if the expected cost to provide services during the warranty period exceeds unearned revenue.

**Belgian GAAP** Similar to **IFRS**.

### Sales of services

**IFRS** Service transactions are accounted for under the percentage-of-completion method. Revenue may be recognised on a straight-line basis if the services are performed by an indeterminate number of acts over a specified period of time. Revenue may be recognised only to the extent of expenses incurred that are recoverable when the outcome of a service transaction cannot be measured reliably.

**US GAAP** Service transactions are accounted for under the appropriate specified guidance or, if none, when collectibility is reasonably assured, delivery has occurred or services have been rendered, persuasive evidence of an arrangement exists, and there is a fixed or determinable sales price. Revenue is not recognised where the outcome of a service transaction cannot be measured reliably.

**Belgian GAAP** Similar to **IFRS** except the authorisation to use the completed contract method.

# Revenue recognition

## Barter transactions

A barter arrangement exists when two companies enter into a non-cash transaction to exchange goods or services.

<b>IFRS</b>	Revenue may be recognised on the exchange of dissimilar goods and services if the amount of revenue can be measured reliably. The transaction is measured at the fair value of goods or services received. The fair value of the goods and services given up is used where the fair value of goods or services received cannot be measured reliably. Exchanges of similar goods and services do not generate revenue.
<b>US GAAP</b>	Non-monetary transactions are measured based on the fair value of the goods or services given up unless the fair value of the assets received is more clearly evident than the fair value of the assets given up. The transaction is measured at the cost of the asset given up if the fair value of both the asset received and the asset surrendered is not determinable or the exchange transaction is to facilitate sales to customers.
<b>Belgian GAAP</b>	Not addressed.

## Barter transactions - advertising

An advertising barter arrangement exists when two companies enter into a non-cash transaction to exchange advertising services.

<b>IFRS</b>	Revenue may be recognised on the exchange of dissimilar advertising services if the amount of revenue can be measured reliably. The transaction is measured at the fair value of advertising services provided. The fair value of advertising provided in a barter transaction is measured by reference to equivalent non-barter transactions that occur frequently, involve advertising similar to that in the barter transaction and do not involve the same counterparty as the barter transaction.
<b>US GAAP</b>	Revenue and expense is recognised at the fair value of the advertising given. Fair value is based on the entity's own historical practice of receiving cash for similar advertising from unrelated entities. Similar transactions used as a guide to fair value should not be older than six months prior to the date of the barter transaction. The carrying amount of the advertising surrendered, which is likely to be zero, is used if the fair value of the advertising given cannot be determined within these criteria.
<b>Belgian GAAP</b>	Not addressed.

## Multiple-element arrangements

<b>IFRS</b>	No detailed guidance for multiple-element revenue recognition arrangements exists. The recognition criteria are usually applied to the separately identifiable components of a transaction in order to reflect the substance of the transaction. However, the recognition criteria are applied to two or more transactions together when they are linked in such a way that the whole commercial effect cannot be understood without reference to the series of transactions as a whole.
<b>US GAAP</b>	Revenue arrangements with multiple deliverables are divided into separate units of accounting if the deliverables in the arrangement meet specified criteria outlined in EITF 00-21. The arrangement's consideration is allocated among the separate units of accounting based on their relative fair values. Applicable revenue recognition criteria are considered separately for separate units of accounting.
<b>Belgian GAAP</b>	Not addressed.

# Revenue recognition

## Multiple-element arrangements - software revenue recognition

<b>IFRS</b>	No specific software revenue recognition guidance exists. Fees from the development of customised software are recognised as revenue by reference to the stage of completion of the development, including completion of services provided for post-delivery customer support service.
<b>US GAAP</b>	Specific guidance on software revenue recognition for software vendors is provided, in particular for multiple-element arrangements. A value is established for each element of a multiple-element arrangement, based on vendor-specific objective evidence (VSOE) or other evidence of fair value. VSOE is generally limited to the price charged when elements are sold separately. Consideration is allocated to separate units based on their relative fair values; revenue is recognised as each unit is delivered.
<b>Belgian GAAP</b>	Not addressed.

## Construction contracts

### Scope

<b>IFRS</b>	Guidance applies to fixed-price and cost-plus construction contracts of contractors (not defined), for the construction of a single asset or combination of assets.
<b>US GAAP</b>	Guidance is defined from the perspective of the contractor rather than the contract, as in <b>IFRS</b> . Scope is not limited to construction-type contracts. Guidance is also applicable to unit-price and time-and-materials contracts.
<b>Belgian GAAP</b>	Although the wording is different and the scope of IAS 11 includes elements not explicitly foreseen in <b>Belgian GAAP</b> , the concepts of 'contracts in progress' and 'construction contracts' are similar. The key element - the existence of a negotiated contract - is present in both definitions.

### Recognition method

<b>IFRS</b>	The percentage-of-completion method is required for recognising revenue and expenses if the outcome can be measured reliably. The criteria necessary for a cost-plus contract to be reliably measurable is less restrictive than for a fixed-price contract. The zero-profit method is used when the final outcome cannot be estimated reliably. This recognises revenue only to the extent of contract costs incurred that are expected to be recovered. <b>IFRS</b> provides limited guidance on the use of estimates. The completed contract method is not permitted.
<b>US GAAP</b>	The percentage-of-completion method is preferred. The completed contract method can be used in rare circumstances, when the extent of progress towards completion is not reasonably measurable. <b>US GAAP</b> provides detailed guidance on the use of estimates.
<b>Belgian GAAP</b>	According to Belgian accounting legislation, either the percentage-of-completion method or the completed contract method (positive margin recognised upon completion) can be applied, provided it is done prudently and the accounting policy chosen is disclosed in the notes to the financial statements.

# Revenue recognition

## Percentage-of-completion method

<b>IFRS</b>	When the outcome of the contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.
<b>US GAAP</b>	Two different approaches are allowed: <ul style="list-style-type: none"><li>• the revenue approach (similar to <b>IFRS</b>) multiplies the estimated percentage of completion by the estimated total revenues to determine earned revenues and multiplies the estimated percentage of completion by the estimated total contract costs to determine the cost of earned revenue; and</li><li>• the gross-profit approach (different from <b>IFRS</b>) multiplies the estimated percentage of completion by the estimated gross profit to determine the estimated gross profit earned to date.</li></ul> Losses are recognised when incurred or when the expected contract costs exceed the expected contract revenue, regardless of which accounting method is used.
<b>Belgian GAAP</b>	Similar to <b>IFRS</b> .

## Completed contract method

<b>IFRS</b>	Prohibited.
<b>US GAAP</b>	The percentage-of-completion method is preferred. However, the completed contract method is allowed in rare circumstances where estimates of costs to completion and the extent of progress towards completion cannot be determined with enough certainty. Revenue is recognised only when the contract is completed or substantially completed. Losses are recognised when incurred or when the expected contract costs exceed the expected contract revenue.
<b>Belgian GAAP</b>	The completed contract method can be used without any restriction provided the accounting policy selected is disclosed in the notes to the financial statements.

## Combining contracts and segmenting a contract

<b>IFRS</b>	Contracts are combined when part of a package, or segregated when each contract is part of a separate proposal and when revenues and costs can be clearly identified.
<b>US GAAP</b>	Combining contracts is permitted but not required.
<b>Belgian GAAP</b>	Not addressed, but not contrary to the generally accepted viewpoint in Belgium.
<b>REFERENCES:</b>	<b>IFRS:</b> IAS 11, IAS 18. <b>US GAAP:</b> CON 5, SAB 104, SOP 81-1, SOP 97-2, EITF 99-17, EITF 00-21, FTB 90-1.

# Expense recognition

## Expenses

### Definition

<b>IFRS</b>	Expenses are defined in the Framework to include losses. Expenses are decreases in economic benefits that result in a decrease in equity.
<b>US GAAP</b>	Expenses are defined by the Concept Statement as actual or expected cash outflows, or the equivalent, that have occurred or will result from the entity's ongoing major operations.
<b>Belgian GAAP</b>	No specific definition. The generally accepted concept is similar to <b>IFRS</b> .

## Specific expense recognition issues

### Interest expense

<b>IFRS</b>	Interest expense is recognised on an accrual basis using the effective interest method. Directly attributable transaction costs and any discount or premium arising on the issue of a debt instrument is amortised using the effective interest method. The effective interest rate is the rate that discounts the estimated future cash payments through the expected life of the debt instrument to the initial carrying amount of the debt instrument.
<b>US GAAP</b>	Similar to <b>IFRS</b> ; however, the contractual life of the debt instrument is generally used in practice.
<b>Belgian GAAP</b>	Similar to <b>IFRS</b> .

## Employee benefits - pensions

The **IFRS** guidance in this section is based on the introduction of IAS 19, Employee Benefits, (revised 2004), effective 1 January 2006, with earlier adoption encouraged; refer to the October 2004 version of this publication for pre-adoption guidance.

**IFRS** and **US GAAP** require the cost of providing these benefits to be recognised on a systematic and rational basis over the period during which employees provide services to the entity. Both frameworks separate pension plans into defined contribution plans and defined benefit plans. **Belgian GAAP** does not include specific standards for the recognition and measurement of the cost of pensions and other post-retirement benefits. The accounting law requires entities to make provision for its obligations relating to retirement or survivors' pensions, early-retirement and other similar pensions or allowances. However, entities are also bound by law to fund their pension obligations with an independent pension fund or insurance company. Consequently, the usual practice in Belgium is to expense as incurred the premium charged by the insurance company or pension fund, on the assumption that the amount of the premium constitutes an appropriate measure of the economic cost of their pension obligations for the period concerned.

### Defined contribution plans

Defined contribution plans are post-employment benefit plans that require the entity to pay fixed contributions into a fund. The entity is under no legal or constructive obligation to make further contributions to the fund even if losses are sustained. Exposure risks attributable to the plan assets rest with the employee. Both frameworks require pension cost to be measured as the contribution payable to the fund on a periodic basis. If a plan does not have individual participant accounts, the plan is not a defined contribution plan for **US GAAP** purposes. Under IAS 19, a careful analysis of all terms and conditions of the plan, including its legal standing, must be performed to determine whether the substance of the plan is that of a defined contribution plan or a defined benefit plan.

# Expense recognition

## Defined benefit plans

Defined benefit plans oblige the employer to provide defined post-employment benefits of set amounts to employees. The risks associated with plan assets rest with the employer.

The methodology for accounting for defined benefit plans is based on similar principles; however, detailed differences exist in application. The key features are outlined below.

ITEM	IFRS	US GAAP
Determination of pension and post-retirement expense	Projected unit credit actuarial method used.	Similar to <b>IFRS</b> .
Discount rate for obligations	Based on market yields for high-quality corporate bonds. Government bond yields used where there is no deep market in high-quality corporate bonds.	Similar to <b>IFRS</b> , except that reference to government bonds is not required.
Valuation of plan assets	<p>Measured at fair value or using discounted cash flows if market prices unavailable.</p> <p>Insurance contracts measured at fair value. Where plan assets include qualifying insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan, the fair value of those insurance policies is deemed to be the present value of the related obligations.</p>	<p>Similar to <b>IFRS</b>, except for differences resulting from the expected long-term rate of return applied to market related value of plan assets (see expected return on plan assets below).</p> <p>Contracts (other than purchases of annuities) are measured at fair value. If the contract has a determinable cash surrender value or conversion value, that value is used.</p>
Recognition of actuarial gains and losses	<p>Recognised immediately or amortised over expected remaining working lives of participating employees.</p> <p>At a minimum, a net gain/loss in excess of 10% of the greater of the defined benefit obligation or the fair value of plan assets at the beginning of the year is recognised.</p> <p>An entity can adopt a policy of recognising actuarial gains and losses in full in the period in which they occur and recognition may be outside of the income statement; a statement of recognised income and expense is presented (the SoRIE option) if this option is chosen.</p>	<p>Similar to <b>IFRS</b>, except that actuarial gains and losses are amortised over the remaining life expectancy of the plan participants if all or almost all plan participants are inactive.</p> <p>The SoRIE option under <b>IFRS</b> is not currently permitted.</p>
Expected return on plan assets	<p>Based on market expectations at the beginning of the period for returns over the entire life of the related obligation. Reflects changes in the fair value of plan assets as a result of actual contributions and benefits paid.</p> <p>The rate is applied to the fair value of plan assets.</p>	<p>Based on market conditions and nature of the assets. Includes changes in plan assets due to contributions and benefit payments.</p> <p>The rate is applied to the market-related value of the plan assets, which is either the fair value or a calculated value (which incorporates asset-related gains and losses over a period of no more than five years).</p>
Balance sheet asset limitation	Asset limited to the lower of: a) the asset resulting from applying the standard; and b) the net total of any unrecognised actuarial losses and past-service cost, and the present value of any available refunds from the plan or reduction in future contributions to the plan.	No similar requirement.
Recognition of minimum pension liability	Not required.	Additional minimum liability required when the accumulated benefit obligation exceeds the fair value of the plan assets. It is increased by any prepaid pension asset and decreased by any accrued pension liability previously recognised.

# Expense recognition

ITEM	IFRS	US GAAP
Past-service cost	Positive and negative past-service cost recognised over remaining vesting period. Where benefits have already vested, past-service cost is recognised immediately.	Positive prior-service costs for current and former employees are recognised over the period during which the employer expects to receive an economic benefit from the increased pension benefit, which is typically the remaining service periods of active employees. Negative prior-service costs first offset previous positive prior-service costs, with the excess recognised in the same manner as positive prior-service cost.  If all or almost all plan participants are inactive, prior-service cost is amortised over the remaining life expectancy of the plan participants.
Multi-employer plans	If it is a defined benefit plan, account for it as such, unless sufficient information is not available.  If there is a contractual agreement between the multi-employer plan and its participants, and the plan is accounted for as a defined contribution plan, the asset or liability that arises from the contractual agreement and the resulting income or expense in profit or loss are recognised.	Defined contribution accounting used.
Subsidiary's defined benefit pension plan forming part of a group plan	Plans with participating entities under common control are not multi-employer plans. If there is a contractual arrangement between the subsidiary and the parent, the subsidiary accounts for the benefit costs on that basis; otherwise the contribution payable for the period is recognised as an expense, except for the sponsoring employer, which must apply defined benefit accounting for the plan as a whole.	The subsidiary should account for its participation in an overall group plan as a participant in a defined contribution (multi-employer) plan.
Curtailment definition	A curtailment occurs either when an entity is demonstrably committed to making a material reduction in the number of employees covered by the plan or when it amends the terms of the plan such that a material element of future service by current employees will no longer qualify for benefits, or will qualify only for reduced benefits.	A curtailment eliminates, rather than reduces, the accrual of benefits for some or all of employees' future services.
Settlement definition	A settlement occurs when an entity enters into a transaction that eliminates all further legal or constructive obligation for part or all the benefits under the plan.	Similar to <b>IFRS</b> and evidenced by the employer meeting three conditions.
Curtailment/settlement (timing of recognition)	Gains and losses are recognised when curtailments/settlements occur.	Curtailment losses are recognised when it is probable that a curtailment will occur and the effect of the curtailment is reasonably estimable. Curtailment gains are deferred until realised and are recognised in earnings, either when the related employees terminate, or the plan suspension or amendment is adopted.  Settlement gains or losses are recognised when settlement occurs.
Curtailment/settlement (calculation of gains and losses)	Gains and losses on curtailments/settlements include changes in the present value of the defined benefit obligation, any resulting changes in the fair value of the plan assets and any related actuarial gains and losses and past-service cost that had not previously been recognised.	Gains and losses on curtailments include unrecognised prior-service cost (including any remaining transition obligation) for which services are no longer expected to be rendered, and changes in the projected benefit obligation (net of any unrecognised gains or losses and remaining transition asset).  The gain or loss on settlements to be recognised in profit or loss only includes unrecognised net actuarial gain or loss plus any unrecognised transition asset.

# Expense recognition

## Recent proposals – IFRS

The FASB issued an exposure draft for amendments to FASB Statements No. 87, 88, 106 and 132(R) in March 2006, effective for financial years ending after 15 December 2006. It addresses the following topics:

- recognition of the overfunded or underfunded status of a defined benefit post-retirement plan in the statement of financial position;
- recognition of actuarial gains/(losses) and prior service costs/(credits) as a component of other comprehensive income;
- measurement of defined benefit plan assets and obligations as of the date of the employer's statement of financial position; and
- disclosure of additional information in the notes to the financial statements about certain effects on net periodic benefit cost in the upcoming fiscal year.

**REFERENCES:** **IFRS:** IAS 19, IAS 39, IAS 37.  
**US GAAP:** APB 12, APB 21, FAS 87, FAS 88, FAS 106.

## Employee share compensation

The guidance in this section is based on the introduction of IFRS 2, Share-based Payment, and FAS 123 Revised, Share-based Payment, effective for public entities for interim filings after 15 June 2005 and non-public entities for fiscal years beginning after 15 December 2005, with earlier adoption encouraged for both standards; refer to the October 2004 version of this publication for pre-adoption guidance.

### Recognition

- IFRS** The fair value of shares and options awarded to employees is recognised over the period to which the employees' services relate. The award is presumed to be for past services if it is unconditional without any performance criteria.
- US GAAP** The fair value of the stock-based compensation is recognised over the requisite service period, which may be explicit, implicit or derived depending on the terms of the awards (service condition, market condition, performance condition or a combination of conditions).
- Belgian GAAP** Not addressed. The **IFRS** and **US GAAP** accounting treatments conflict with generally accepted accounting principles in Belgium.

### Measurement

- IFRS** For equity-settled share-based payment transactions, the goods or services received and the corresponding increase in equity are measured at the fair value of the goods or services received. If the entity cannot estimate reliably the fair value of the goods or services received, as will be the case with employee services, it should measure their value and the corresponding increase in equity by reference to the fair value of the equity instruments granted. For cash-settled share-based payment transactions, the goods or services acquired and the liability incurred are measured at the fair value of the liability. Extensive disclosures are also required.
- US GAAP** Similar conceptual model. The use of the 'fair-value-based method' for measuring the value of share-based compensation is required. The fair value is determined at the grant date, assuming that employees fulfill the award's vesting conditions and are entitled to retain the award.
- Several detailed application differences exist, such as the definition of grant date, the classification of awards between equity-settled awards and cash-settled awards and the attribution of expense with graded vesting.
- Belgian GAAP** Not applicable, as recognition is not currently allowed.

# Expense recognition

## Employer's payroll tax payable on exercise of share options by employees

<b>IFRS</b>	Employers' social security liability arising from share-based payment transactions is recognised over the same period or periods as the share-based payment charge.
<b>US GAAP</b>	Employer payroll taxes due on employee stock-based compensation are recognised as an expense on the date of the event triggering the measurement and payment of the tax to the taxing authority (generally the exercise date and vesting date for options and restricted stock respectively).
<b>Belgian GAAP</b>	No specific guidance.

## Non-employee share-based payment transactions

**IFRS** IFRS 2 requires the fair value of the goods or services acquired by an entity to be determined and used as the value of an equity-settled share-based payment transaction. There is a rebuttable presumption that the fair value of the goods and services can be reliably estimated. However, IFRIC 8, Scope of IFRS 2, (effective for years commencing on or after 1 May 2006), stipulates that where the identifiable fair value of the goods or services received is less than the fair value of the equity instruments, there is a presumption that unidentifiable goods or services have also been received. Identifiable goods or services acquired in a share-based payment transaction are recognised when they are received. Unidentifiable goods or services are measured at grant date fair value.

The credit side of the entry will be a liability if the entity has an obligation to settle the transaction in cash. However, the credit entry is an increase in equity if there is no obligation to settle in cash; the consideration for goods and services will therefore be achieved through the issuance of equity instruments. If the fair value of the goods or services exceeds the fair value of the obligation to settle in cash, the credit entry will comprise both a liability and an increase in equity.

**US GAAP** All non-employee transactions in which goods or services are received in exchange for equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. The fair value of the equity instruments is used in most cases because a direct measurement based on the fair value of the goods and services is generally considered unreliable. The measurement date of an equity award is fixed on the earlier of (a) the date on which a performance commitment is reached, and (b) the date on which performance is complete.

**Belgian GAAP** Not addressed.

### Recent proposals - IFRS

The IASB issued an exposure draft of amendments to IFRS 2 in February 2006. It addresses how to apply IFRS 2 to account for an employee who ceases to contribute to an employee share purchase plan (ESPP) (i.e., is not able to buy shares under the plan) or if the employee starts to contribute to another ESPP (i.e., changes from one ESPP to another).

IFRIC issued draft interpretation D17 on IFRS 2 in May 2005. It applies to some share-based payment transactions (for example, involving treasury shares, or two or more entities within the same group of entities) and questions whether those transactions should be accounted for as equity-settled or cash-settled.

**REFERENCES:** **IFRS:** IAS 19, IAS 37, IFRS 2.  
**US GAAP:** FAS 123-R, FIN 44, EITF D-83, EITF 96-18, EITF 00-16.

## Compensated absences

This includes long-term compensated absences such as long-term disability, long service and sabbaticals. These benefits may accumulate over the employee's service period. For a benefit that is attributable to an accumulating right, all three frameworks generally recognise the liability, as the employee provides the service that gives rise to the right to the benefit.

## Termination benefits

**IFRS** Termination benefits arising from redundancies are accounted for similarly to restructuring provisions. A liability is recorded when the entity is demonstrably committed to the reduction in workforce.

If an offer is made to encourage voluntary redundancy, the measurement of termination benefits is based on the number of employees expected to accept the offer.

Termination indemnities are generally payable regardless of the reason for the employee's departure. The payment of such benefits is certain (subject to any vesting or minimum service requirements), but the timing of their payment is uncertain. Termination indemnities are accounted for consistently with pension obligations (i.e., including a salary progression element and discounting).

**US GAAP** Specific guidance is provided on post-employment benefits – for example, salary continuation, termination benefits, training and counselling. **US GAAP** distinguishes between four types of termination benefits with three timing methods for recognition:

1. Special termination benefits - generally additional benefits offered for a short period of time to certain employees electing to accept an offer of voluntary termination, recognised at the date on which the employees accept the offer and the amount can be reasonably estimated;
2. Contractual termination benefits - benefits provided to employees when employment is terminated due to the occurrence of a specified event under an existing plan, recognised at the date when it is probable that employees will be entitled to the benefits and the amount can be reasonably estimated;
3. Termination benefits that are paid for normal severances pursuant to an ongoing termination benefit plan. Costs are recognised for probable and reasonably estimable payments as employee services are rendered, if the benefit accumulates or vests, or when the obligating event occurs; and
4. One-time termination benefits - benefits provided to current employees that are involuntarily terminated and will receive a termination benefit under the terms of a one-time benefit arrangement.

A one-time benefit arrangement is established by a termination plan that applies for a specified termination event or for a specified future period. These one-time benefits are recognised as a liability when the termination plan meets certain criteria and has been communicated to employees (the communication date). The liability is recognised ratably over the future service period if employees are required to render future service in order to receive the one-time benefits.

Termination indemnity plans are considered defined benefit plans under **US GAAP**. Entities may choose whether to calculate the vested benefit obligation as the actuarial present value of the vested benefits to which the employee is entitled if the employee separates immediately, or as the actuarial present value of the benefits to which the employee is currently entitled, based on the employee's expected date of separation or retirement.

**Belgian GAAP** Similar to **IFRS** except that Belgian accounting law provides that the early retirement obligation (termination) should only be recognised when the early retirement is notified individually to the employees. IAS 19 (revised) requires the obligation to be accounted for when the entity is demonstrably committed to a termination. There is thus a conflict between the two sets of rule as regards the timing of recognition of an obligation.

**REFERENCES:** **IFRS:** IAS 19.  
**US GAAP:** FAS 43, FAS 88, FAS 112, FAS 146, EITF 88-1, EITF 06-2.

## Intangible assets

### Definition

<b>IFRS</b>	An intangible asset is an identifiable non-monetary asset without physical substance controlled by the entity. It may be acquired or internally generated.
<b>US GAAP</b>	Similar to <b>IFRS</b> .
<b>Belgian GAAP</b>	Similar to <b>IFRS</b> .

### Recognition - separately acquired intangible <sup>1</sup>

<b>IFRS</b>	General <b>IFRS</b> asset recognition criteria apply. The acquired intangible is recognised if future economic benefits attributable to the asset are probable and the cost of the asset can be measured reliably.
<b>US GAAP</b>	Similar to <b>IFRS</b> .
<b>Belgian GAAP</b>	Permit the capitalisation of formation and certain start-up or restructuring costs, which must be amortised at an annual rate of at least 20%.

<sup>1</sup> See p 35 for accounting for intangible assets acquired in a business combination.

### Recognition - additional criteria for internally generated intangibles

<b>IFRS</b>	<p>The costs associated with the creation of intangible assets are classified between the research phase and development phase. Costs in the research phase are always expensed. Costs in the development phase are expensed unless the entity can demonstrate all of the following:</p> <ul style="list-style-type: none"><li>• the technical feasibility of completing the intangible asset;</li><li>• the intention to complete the intangible asset;</li><li>• the ability to use or sell it;</li><li>• how the intangible asset will generate future economic benefits - the entity should demonstrate the existence of a market or, if for internal use, the usefulness of the intangible asset;</li><li>• the availability of adequate resources to complete the development; and</li><li>• the ability to measure reliably the expenditure attributable to the intangible asset during its development.</li></ul> <p>Development costs initially recognised as an expense cannot be capitalised in a subsequent period.</p>
<b>US GAAP</b>	<p>Research and development costs are expensed as incurred, making the recognition of internally generated intangible assets rare. However, separate rules apply to development costs for computer software that is to be sold; capitalisation (and amortisation) applies once technological feasibility is established. Capitalisation ceases when the product is available for general release to customers. Similar rules apply to certain elements of development costs for computer software developed for internal use.</p>
<b>Belgian GAAP</b>	<p>Research and development costs are defined as a single concept, and may be capitalised for amortisation on the basis of a rebuttable assumption that the maximum useful life does not exceed five years.</p> <p>Research &amp; development costs may be expensed as incurred or capitalised, depending on the entity's chosen accounting policy, except that costs of internal software development should be capitalised to the extent that the costs do not exceed a prudent estimate of their useful value or future profit contribution to the entity. They should be amortised over their estimated useful life, which should not exceed five years unless a longer period can be justified and the justification is disclosed in the footnotes.</p>

## Recognition - website development costs

<b>IFRS</b>	Costs incurred during the planning stage are expensed. Costs incurred for activities during the website's application and infrastructure development stages are capitalised, and costs incurred during the operation stage are expensed as incurred.
<b>US GAAP</b>	Similar to <b>IFRS</b> .
<b>Belgian GAAP</b>	Not addressed specifically.

## Measurement - acquired intangibles

<b>IFRS</b>	The cost of a separately acquired intangible asset at the date of acquisition is usually self-evident, being the fair value of the consideration paid.
<b>US GAAP</b>	Similar to <b>IFRS</b> .
<b>Belgian GAAP</b>	Similar to <b>IFRS</b> .

## Measurement - internally generated intangibles

<b>IFRS</b>	The cost comprises all expenditures that can be directly attributed or allocated to creating, producing and preparing the asset from the date when the recognition criteria are met.
<b>US GAAP</b>	Costs of internally developing, maintaining or restoring intangible assets that are not specifically identifiable and that have indeterminable lives, or that are inherent in a continuing business and related to an entity as a whole, are recognised as an expense when incurred.
<b>Belgian GAAP</b>	It is possible to include only direct costs in the cost of an internally generated intangible asset.

## Subsequent measurement - acquired and internally generated intangibles

<b>IFRS</b>	Intangible assets subject to amortisation are carried at historical cost less accumulated amortisation/impairment, or at fair value less subsequent amortisation/impairment. Intangible assets not subject to amortisation are carried at historical cost unless impaired. Subsequent revaluation of intangible assets to their fair value is based on prices in an active market. Evaluations are performed regularly and at the same time if an entity adopts this treatment (extremely rare in practice).
<b>US GAAP</b>	Initial recognition is similar to <b>IFRS</b> . Revaluation is not allowed. Intangible assets subject to amortisation are carried at amortised cost less impairment. Intangible assets not subject to amortisation are carried at historical cost less impairment.
<b>Belgian GAAP</b>	<b>Belgian GAAP</b> does not permit revaluations of intangible assets.

## Amortisation - acquired and internally generated intangibles

<b>IFRS</b>	Amortised if the asset has a finite life; not amortised if the asset has an indefinite life, but should be tested at least annually for impairment. There is no presumed maximum life.
<b>US GAAP</b>	Similar to <b>IFRS</b> .
<b>Belgian GAAP</b>	There is no generally applicable maximum useful life, except that justification for amortising research and development costs over more than five years must be disclosed. If formation or other start-up costs are capitalised, they must be amortised over a maximum of five years.

## Impairment - acquired and internally generated intangibles

<b>IFRS</b>	Impairment reviews are required whenever changes in events or circumstances indicate that an intangible asset's carrying amount may not be recoverable. Annual reviews are required for intangible assets with indefinite useful lives and for assets not yet ready for use. Indefinite-lived assets are usually reviewed for impairment as part of a CGU. Reversals of impairment losses are allowed under specific circumstances.
<b>US GAAP</b>	Similar to <b>IFRS</b> , except reversals of impairment losses are prohibited and indefinite-lived intangible assets are tested for impairment separately from the reporting unit.
<b>Belgian GAAP</b>	Intangibles fixed assets are subject to exceptional amortisation when, due to changes in economic or technological circumstances, their carrying value exceeds their recoverable amount.
<b>REFERENCES:</b>	<b>IFRS:</b> IAS 36, IAS 38, SIC-32. <b>US GAAP:</b> FAS 86, FAS 142, APB 17, SOP 98-1.

## Property, plant and equipment

### Definition

<b>IFRS</b>	Property, plant and equipment (PPE) are tangible assets that are held by an entity for use in the production or supply of goods or services, for rental to others, or for administrative purposes. They are expected to be used during more than one reporting period.
<b>US GAAP</b>	Similar to <b>IFRS</b> .
<b>Belgian GAAP</b>	Similar to <b>IFRS</b> .

### Recognition

<b>IFRS</b>	General <b>IFRS</b> asset recognition criteria apply. PPE is recognised if future economic benefits attributable to the asset are probable and the cost of the asset can be measured reliably.
<b>US GAAP</b>	Similar to <b>IFRS</b> .
<b>Belgian GAAP</b>	Similar to <b>IFRS</b> .

### Initial measurement

<b>IFRS</b>	<p>PPE, at initial measurement, comprises the costs directly attributable to bringing the asset to the location and working condition necessary for it to be capable of operating in the way management intends, including costs of testing whether the asset is functioning properly. Start-up and pre-production costs are not capitalised unless they are a necessary part of bringing the asset to its working condition. The following are also included in the initial measurement of the asset:</p> <ul style="list-style-type: none"><li>• the costs of site preparation;</li><li>• initial delivery and handling costs;</li><li>• installation and assembly costs;</li><li>• costs of employee benefits arising from construction or acquisition of the asset;</li><li>• costs of testing whether the asset is functioning properly;</li><li>• professional fees;</li><li>• fair value gains/losses on qualifying cash flow hedges relating to the purchase of PPE in a foreign currency (see p 83) and;</li><li>• the initial estimate of the costs of dismantling and removing the item and restoring the site on which PPE is located.</li></ul>
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The entity has the policy option to include the borrowing costs incurred during the period of acquiring, constructing or producing the asset for use (see p 61).

Government grants received in connection with acquisition of PPE may be offset against the cost (see p 75).

**US GAAP** Similar to **IFRS**, except that hedge gains/losses on qualifying cash flow hedges are not included. Relevant borrowing costs are included if certain criteria are met. Consistent with **IFRS**, the fair value of a liability for an asset retirement obligation is recognised in the period incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalised as part of the asset's carrying amount.

**Belgian GAAP** Practice is broadly similar to **IFRS**, except that grants cannot be deducted from the cost of PPE.

## Decommissioning, restoration and similar liabilities (asset retirement obligations)

See 'Decommissioning, restoration and similar liabilities (asset retirement obligations)' on p 70.

## Subsequent expenditure

**IFRS** Subsequent maintenance expenditure is expensed as incurred. Replacement of parts may be capitalised when general recognition criteria are met. The cost of a major inspection or overhaul occurring at regular intervals is capitalised where the recognition criteria are satisfied. The net book value of any replaced component would be expensed at the time of overhaul.

**US GAAP** Similar to **IFRS**.

**Belgian GAAP** Not specifically addressed in Belgian accounting law. Belgian practice is similar to **IFRS**, except that the cost of major repairs and overhauls occurring at regular intervals is often provided for (provision for major repairs and maintenance) instead of being capitalised as asset cost when relevant recognition criteria are met.

## Depreciation

**IFRS** The depreciable amount of an item of PPE is allocated on a systematic basis over its useful life, reflecting the pattern in which the entity consumes the asset's benefits. Any change in the depreciation method used is treated as a change in accounting estimate reflected in the depreciation charge for the current and prospective periods. The depreciation methods are reviewed periodically; residual values and useful lives are reviewed at each balance sheet date.

**US GAAP** Similar to **IFRS**, FAS 154 requires that a change in depreciation method be accounted for as a change in accounting estimate affected by a change in accounting principle. Regarding periodic reviews of depreciation methods, residual values and useful lives, the appropriateness of these decisions should be assessed at each reporting date.

**Belgian GAAP** Similar to **IFRS** in theory but, in practice, depreciation is an area that is typically driven by tax considerations. Major differences can arise from the choice of certain options permitted by the Belgian accounting legislation (because they are permitted by tax legislation) but not under **IFRS**:

- depreciation rates and methods such as accelerated depreciation allowed for tax purposes;
- depreciation of ancillary costs at a rate (generally 100%) different from the rate applied to the asset to which they relate;
- depreciation of advance payments relating to acquisitions of fixed assets.

## Subsequent measurement

**IFRS** The cost model requires an asset to be carried at cost less accumulated depreciation and impairment. However, revaluation of PPE at fair value is permitted under the alternative treatment.

The revaluation model should be applied to an entire class of assets.

The increase of an asset's carrying amount as a result of a revaluation is credited directly to equity under the heading 'revaluation surplus', unless it reverses a revaluation decrease for the same asset, previously recognised as an expense. In this case it is recognised in the income statement. A revaluation decrease is charged directly against any related revaluation surplus for the same asset; any excess is recognised as an expense.

Disclosures of the historical cost equivalent (cost and accumulated depreciation) of assets carried at revalued amounts are required.

**US GAAP** PPE is carried at cost less accumulated depreciation and impairment losses. Revaluations are not permitted. Consistent with **IFRS**, impairment testing is performed whenever events or changes in circumstances suggest the carrying value of an asset is not recoverable.

**Belgian GAAP** The subsequent use of revalued amounts in accounting for property, plant and equipment is also permitted. Revaluation surpluses are credited to a specific reserve account in shareholders' equity. Contrary to **IFRS**, revaluation may be a one-off exercise and can relate either to one single asset or to an entire class of assets.

## Frequency of revaluations

**IFRS** Revaluations have to be kept sufficiently up to date so that the carrying amount does not differ materially from the fair value. This requires regular revaluations of all PPE in the relevant class when the revaluation policy is adopted. Management should consider at each year-end whether fair value is materially different from carrying value.

**US GAAP** Not applicable.

**Belgian GAAP** No requirement to update revaluations.

## Impairment of revalued PPE

**IFRS** An impairment loss (downward revaluation) may be offset against revaluation surpluses to the extent that it relates to the same asset; any uncovered deficit is recorded to the income statement.

**US GAAP** Not applicable (see above).

**Belgian GAAP** Comparable to **IFRS**.

**REFERENCES:** **IFRS:** IAS 16, IAS 23, IAS 36.  
**US GAAP:** FAS 34, FAS 143, FAS 144, FAS 154, ARB 43, APB 6, FIN 47.

## Non-current assets held for sale

**IFRS** A non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The asset should be available for immediate sale in its present condition, and its sale should be highly probable. For the sale to be highly probable, the appropriate level of management should be committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan should have been initiated. The asset should be actively marketed for sale at a price that is reasonable in relation to its current fair value. The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. Once classified as held for sale, the asset is measured at the lower of its carrying amount and fair value less costs to sell.

**US GAAP** Similar to **IFRS**. For assets to be disposed of, the loss recognised is the excess of the asset's carrying amount over its fair value less cost to sell. Costs to sell include incremental direct costs to transact the sale that would not have been incurred had the decision to sell not been made. These assets are not depreciated or amortised during the selling period.

**Belgian GAAP** Not specifically addressed.

**REFERENCES:** **IFRS:** IFRS 5.  
**US GAAP:** FAS 144.

## Leases – lessor accounting

### Classification

The lease classification concepts are similar in all three frameworks. However, while extensive form-driven requirements are present in **US GAAP**, substance rather than legal form is applied under **IFRS** and, to a lesser extent, under **Belgian GAAP**. Furthermore, **Belgian GAAP** does not foresee finance lease accounting for intangibles and land.

A finance (capital) lease exists if the agreement transfers substantially all the risks and rewards associated with ownership of the asset to the lessee. All three frameworks provide guidance on determining when an arrangement contains a lease. All three frameworks provide indicators for determining the classification of a lease; these are presented in the table below.

INDICATOR	IFRS	US GAAP	Belgian GAAP
<b>Normally leads to a finance lease</b>			
Ownership is transferred to the lessee at the end of the lease term	Indicator of a finance lease.	Finance lease accounting required.	Indicator of a finance lease.
A bargain purchase option exists	Indicator of a finance lease.	Finance lease accounting required.	Not specified.
The lease term is for the majority of the leased asset's economic life	Indicator of a finance lease.	Specified as equal to or greater than 75% of the asset's life; finance lease accounting required.	Not specified.
The present value of minimum lease payments is equal to substantially all the fair value of the leased asset	Indicator of a finance lease.	Specified as 90% of the fair value of the property less any investment tax credit retained by the lessor; finance lease accounting required.	The capital portion of the lease payments should reconstitute the fair value of the leased assets in order to qualify the transaction as a finance lease.
The leased assets are of a specialised nature such that only the lessee can use them without major modification	Indicator of a finance lease.	Not specified.	Not specified.

INDICATOR	IFRS	US GAAP	Belgian GAAP
<b>Could lead to a finance lease</b>			
On cancellation, the lessor's losses are borne by the lessee	Indicator of a finance lease.	Not specified.	Not specified.
Gains and losses from the fluctuation in the fair value of the residual fall to the lessee	Indicator of a finance lease.	Not specified.	Not specified.
The lessee has the ability to continue the lease for a secondary period at below market rental	Indicator of a finance lease.	Not specified.	Not specified.

**Belgian GAAP** is somewhat simpler, in that a finance lease is deemed to exist when the sum of the minimum lease payments is equal to or greater than the lessor's investment in the leased asset, including related interest and other transaction costs. Purchase options included in leases for assets other than property assets and that represent no more than 15 per cent of the lessor's investment are treated as minimum lease payments.

## Recognition of the investment in the lease

**IFRS** and **US GAAP** require the amount due from a lessee under a finance lease to be recognised as a receivable at the amount of the net investment in the lease. This will comprise, at any point in time, the total of the future minimum lease payments and the unguaranteed residual value less gross earnings allocated to future periods. Minimum lease payments for a lessor under **IFRS** include guarantees from the lessee or a party related to the lessee or a third party unrelated to the lessor. **US GAAP** excludes third party residual value guarantees that provide residual value guarantees on a portfolio basis. The interest rate implicit in the lease would, under **IFRS** and **US GAAP**, generally be used to calculate the present value of minimum lease payments.

The gross earnings are allocated between receipt of the capital amount and receipt of finance income to provide a constant rate of return. Initial direct costs are amortised over the lease term. **IFRS** and **US GAAP** require use of the net investment method to allocate gross earnings; this excludes the effect of cash flows arising from taxes and financing relating to a lease transaction. An exception to this is for leveraged leases under **US GAAP** where tax cash flows are included.

Under **Belgian GAAP**, assets acquired for the purpose of being leased are classified as inventories. A receivable is recorded at inception of the lease in the amount of the sum of the capital portion of instalments to be received in future periods. The capital and interest portions of the lease instalments received are recorded as reductions of the receivable and finance income (or sales), respectively. Finance income is generally computed on the net receivable outstanding according to the agreed reimbursement schedule. The difference between acquisition cost of the leased asset and the amount recognised as a receivable at the inception of the lease is taken directly to income.

## Operating leases

All three frameworks require an asset leased under an operating lease to be recognised by a lessor as PPE and depreciated over its useful life. Rental income is generally recognised on a straight-line basis over the lease term.

## Incentives

Both **IFRS** and **US GAAP** require the lessor to recognise the aggregate cost of incentives given as a reduction of rental income over the lease term on a straight-line basis. **Belgian GAAP** does not provide specific guidance on this issue, however a similar treatment to **IFRS** would be followed in practice.

**REFERENCES:** **IFRS:** IAS 17, IFRIC 4.  
**US GAAP:** FAS 13, FAS 66, FAS 98, FTB 88-1, EITF 01-08.

## Impairment of assets

### Recognition

- IFRS** An entity should assess at each reporting date whether there are any indications that an asset may be impaired. The asset is tested for impairment if there is any such indication. An impairment loss is recognised in the income statement when an asset's carrying amount exceeds its recoverable amount. Assets classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell.
- US GAAP** Long-lived assets shall be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Several impairment indicators exist for making this assessment. For assets to be held and used, impairment is first measured by reference to undiscounted cash flows. Any impairment is measured by comparing the asset's carrying value to its fair value. No further action is required if there is no impairment by reference to undiscounted cash flows, but the useful life of the asset should be reconsidered. Assets classified as held for disposal are measured at the lower of the carrying amount or fair value less costs to sell.
- Belgian GAAP** An impairment loss is recognised when the carrying value of fixed assets exceeds their value in use or, in the case of idle tangible assets, their realisable value.

### Measurement

- IFRS** The impairment loss is the difference between the asset's carrying amount and its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. Value in use is the future cash flows to be derived from the particular asset, discounted to present value using a pre-tax market-determined rate that reflects the current assessment of the time value of money and the risks specific to the asset.
- US GAAP** The impairment loss is measured as the excess of the carrying amount over the asset's fair value, being either market value (if an active market for the asset exists), the best information available in the circumstances including the price for similar assets, or the sum of discounted future cash flows or other valuation techniques, using market assumptions.
- Belgian GAAP** Not specified, although impairment is the difference between the carrying value and the recoverable amount due to economic or technological circumstances.

### Reversal of impairment loss

- IFRS** Impairment losses are reversed when there has been a change in economic conditions or in the expected use of the asset.
- US GAAP** Impairment losses cannot be reversed for assets to be held and used, as the impairment loss results in a new cost basis for the asset. Subsequent revisions to the carrying amount of an asset to be disposed of are reported as adjustments to the asset's carrying amount, but limited by the carrying amount at the date on which the decision to dispose of the asset is made.
- Belgian GAAP** Extraordinary depreciation/amortisation on fixed assets should be reversed through the income statement when this is no longer economically justified.

- REFERENCES:** **IFRS:** IAS 16, IAS 36.  
**US GAAP:** FAS 143, 144.

## Capitalisation of borrowing costs

### Recognition

**IFRS** An entity can make a policy choice to capitalise or expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The policy is applied consistently to all qualifying assets. A qualifying asset is one that necessarily takes a substantial period of time to get it ready for its intended use or sale.

**US GAAP** Borrowing costs are capitalised, including the amortisation of discount premium and issue costs on debt, if applicable. A qualifying asset is defined similarly to **IFRS**, except that investments accounted for using the equity method meet the criteria for a qualifying asset while the investee has activities in progress necessary to commence its planned principal operations, provided that the investee's activities include the use of funds to acquire qualifying assets for its operations.

**Belgian GAAP** An entity can choose between capitalising or not capitalising interest on specific borrowings to finance the construction of individual qualifying assets.

Under **Belgian GAAP**, the cost of inventories and contracts that take more than a year to produce or execute, respectively, may include interest on capital borrowed to finance their production, to the extent that it is incurred during the normal period of production or execution.

Belgian legislation also permits the capitalisation of debt-issue costs as formation expenses, to be amortised over the period of the related debt instrument.

### Measurement

**IFRS** The amount of interest eligible for capitalisation is either the actual costs incurred on a specific borrowing or an amount calculated using the weighted average method, considering all the general borrowings outstanding during the period for that entity. Interest can include foreign exchange differences but under tightly defined conditions. Any interest earned on temporary investment of funds borrowed to finance the asset's production is netted and the interest capitalised. Capitalisation of interest ceases once the asset is ready for its intended use or sale. The amount of borrowing costs capitalised during a period may not exceed the amount of borrowing costs incurred during that period.

**US GAAP** Similar to **IFRS**, except that foreign exchange differences and interest earned on funds borrowed to finance the production of the asset cannot be netted against interest, except for certain governmental or private entities that finance qualifying assets through tax-exempt borrowings. In these cases, interest costs to be capitalised are required to be reduced by related interest income.

**Belgian GAAP** Similar to **IFRS** in practice, although less specific guidance is given.

#### Recent proposals - IFRS

The IASB issued an exposure draft for public comment of amendments to IAS 23, Borrowing Costs, in May 2006. The objective is to remove the main difference between US GAAP and IAS 23. This will require the capitalisation of borrowing costs, to the extent they are directly attributable to the acquisition, production or construction of a qualifying asset. The existing option of immediate recognition of those borrowing costs as an expense will be removed. The final amendments to IAS 23 are expected in Q1 or Q2, 2007.

**REFERENCES:** **IFRS:** IAS 23.  
**US GAAP:** FAS 34, FAS 58, FAS 62.

## Investment property

### Definition

<b>IFRS</b>	Property (land and buildings) held in order to earn rentals and/or for capital appreciation. The definition does not include owner-occupied property or property held for sale.
<b>US GAAP</b>	No specific definition.
<b>Belgian GAAP</b>	No separate rules for investment property, which is accounted for in the same way as property, plant and equipment.

### Initial measurement

<b>IFRS</b>	The same cost-based measurement is used for acquired and self-constructed investment property. The cost of a purchased investment property comprises its purchase price and any directly attributable costs, such as professional fees for legal services, property transfer taxes and other transaction costs. Self-constructed property is accounted for as PPE until construction is complete; then it becomes an investment property. Property under finance or operating lease can also be classified as investment property.
<b>US GAAP</b>	The historical cost model is used for most real-estate companies and operating companies. Investor entities such as many investment companies, insurance companies separate accounts, bank-sponsored real-estate trusts and employee benefit plans that invest in real estate carry their investments at fair value.
<b>Belgian GAAP</b>	Such properties are treated in the same way as property, plant and equipment.

### Subsequent measurement

<b>IFRS</b>	The entity can choose between the fair value and depreciated cost models for all investment property. When fair value is applied, the gain or loss arising from a change in the fair value is recognised in the income statement. The carrying amount is not depreciated.
<b>US GAAP</b>	The depreciated cost model is applied for real estate companies and operating companies. Investor entities measure their investments at fair value.
<b>Belgian GAAP</b>	Such properties are treated in the same way as property, plant and equipment.

### Transfers to/from investment property

<b>IFRS</b>	There is detailed guidance for subsequent classification where there is a change in use of the investment property. Investment property to be sold is re-classified as inventories; investment property to be owner-occupied is reclassified as PPE.
<b>US GAAP</b>	Not applicable.
<b>Belgian GAAP</b>	Not applicable.

## Frequency and basis of revaluations

- IFRS** The fair value of investment property reflects the market conditions and circumstances as of the balance sheet date. The standard does not require the use of an independent and qualified appraiser, but the use is encouraged. Revaluations should be made with sufficient regularity that the carrying amount does not differ materially from fair value.
- US GAAP** Specific rules apply to determine the fair value of investment entities.
- Belgian GAAP** Not applicable.
- REFERENCES:** **IFRS:** IAS 40.  
**US GAAP:** ARB 43, APB 6.

## Inventories

### Definition

All three frameworks define inventories as assets that are: held for sale in the ordinary course of business; in the process of production or for sale in the form of materials; or supplies to be consumed in the production process or in rendering services.

### Measurement

- IFRS** Inventories are carried at the lower of cost or net realisable value (sale proceeds less all further costs to bring the inventories to completion). Reversal (limited to the amount of the original write-down) is required for a subsequent increase in value of inventory previously written down. Inventories of producers and dealers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products are allowed at net realisable value even if above cost.
- US GAAP** Broadly consistent with **IFRS**, in that the lower of cost and market value is used to value inventories. Market value is defined as being current replacement cost subject to an upper limit of net realisable value (i.e., estimated selling price in the ordinary course of business less reasonably predictable costs of completion and disposal) and a lower limit of net realisable value less a normal profit margin. Reversal of a write-down is prohibited, as a write-down creates a new cost basis. The treatment is similar for inventories of agricultural and forest products and mineral ores. Mark-to-market inventory accounting is allowed for refined bullion of precious metals.
- Belgian GAAP** Inventories are valued at the lower of cost or net realisable value.

### Formula for determining cost

METHOD	IFRS	US GAAP	Belgian GAAP
LIFO	Prohibited.	Permitted.	Permitted.
FIFO	Permitted.	Permitted.	Permitted.
Weighted average cost	Permitted.	Permitted.	Permitted.
Specific identification of costs	Prohibited for ordinarily interchangeable items.	Prohibited for ordinarily interchangeable items.	Permitted.

## Consistency of the cost formula for similar inventories

<b>IFRS</b>	The same cost formula is used for all inventories that have a similar nature and use to the entity.
<b>US GAAP</b>	Similar to <b>IFRS</b> .
<b>Belgian GAAP</b>	Not specifically addressed.

## Allocation of fixed overheads

<b>IFRS</b>	Any allocation of fixed production overheads is based on normal capacity levels, with unallocated overheads expensed as incurred.
<b>US GAAP</b>	Similar to <b>IFRS</b>
<b>Belgian GAAP</b>	Similar to <b>IFRS</b> , except that indirect production costs may be expensed directly, provided that the amount relating to closing inventories, if material, is disclosed in the footnotes.
<b>REFERENCES:</b>	<b>IFRS:</b> IAS 2. <b>US GAAP:</b> ARB 43, FAS 151.

## Biological assets

### Definition

<b>IFRS</b>	Biological assets are measured on initial recognition and at each balance sheet date at their fair value less estimated point-of-sale costs. All changes in fair value are recognised in the income statement in the period in which they arise.
<b>US GAAP</b>	Not specified, historical cost is generally used.
<b>Belgian GAAP</b>	Not addressed.
<b>REFERENCES:</b>	<b>IFRS:</b> IAS 41.

## Financial assets

**IFRS** outlines the recognition and measurement criteria for all financial assets defined to include derivatives. The guidance in **IFRS** is broadly consistent with **US GAAP**. Belgian rules are very limited although some detailed provisions exist in respect of participating interests, shares classified as long-term financial assets, receivables and receivables under forward-exchange contracts

### Definition

**IFRS** and **US GAAP** define a financial asset in a similar way, to include:

- cash;
- a contractual right to receive cash or another financial asset from another entity or to exchange financial instruments with another entity under conditions that are potentially favourable; and
- an equity instrument of another entity.

Financial assets include derivatives (under **IFRS**, these include many contracts that will or may be settled in the entity's own equity instruments). See p 82 for accounting for derivatives.

## Recognition and initial measurement

**IFRS** and **US GAAP** require an entity to recognise a financial asset when and only when the entity becomes a party to the contractual provisions of a financial instrument. A financial asset is recognised initially at its fair value (which is normally the transaction price), plus, in the case of a financial asset that is not recognised at fair value with changes in fair value recognised in the income statement, transaction costs that are directly attributable to the acquisition of that asset.

Under **Belgian GAAP** participating interests and shares classified as long-term financial assets are initially measured at cost. Receivables are recorded at nominal amount, and under a method similar to the amortised cost in some circumstances. Receivables under currency forward contracts are off-balance sheet items. Put and call options acquired are treated as short-term investments and should be recorded at cost.

The following table outlines the classification requirements for various financial assets.

CLASSIFICATION	IFRS	US GAAP
<b>Financial assets at fair value through profit or loss</b>		
Two sub-categories: financial assets held for trading (see below), and those designated to the category at inception. Any financial asset may, on initial recognition, be classified as fair value through profit or loss provided it meets certain criteria. <sup>1</sup>	An irrevocable decision to classify a financial asset at fair value, with changes in fair value recognised in the income statement, provided it results in more relevant information because either: <ol style="list-style-type: none"> <li>it eliminates or significantly reduces a measurement or recognition inconsistency;</li> <li>a group of financial assets, financial liabilities or both is managed and performance is evaluated on a fair value basis; or</li> <li>the contract contains one or more substantive embedded derivatives.</li> </ol>	Option to designate financial assets at fair value with changes in fair value recognised in the income statement only if it is a hybrid financial instrument that contains an embedded derivative that would otherwise require separation.
<b>Held-for-trading financial assets</b>		
Debt and equity securities held for sale in the short term. Includes non-qualifying hedging derivatives.	The intention should be to hold the financial asset for a relatively short period, or as part of a portfolio for the purpose of short-term profit-taking. Guidance applies to all financial assets.  Subsequent measurement at fair value. Changes in fair value are recognised in the income statement.	Similar to <b>IFRS</b> . Frequent buying and selling usually indicates a trading instrument. Guidance applies to equity securities that have a readily determinable fair value and all debt securities.  Similar to <b>IFRS</b> .
<b>Held-to-maturity investments</b>		
Financial assets held with a positive intent and ability to hold to maturity. Includes assets with fixed or determinable payments and maturities. Does not include equity securities, as they have an indefinite life.	An entity should have the 'positive intent and ability' to hold a financial asset to maturity, not simply a present intention.  When an entity sells more than an insignificant amount of assets (other than in limited circumstances), classified as held to maturity, it is prohibited from using the held-to-maturity classification for two full annual reporting periods (known as tainting). The entity should also reclassify all its held-to-maturity assets as available-for-sale assets.  Measured at amortised cost using the effective interest rate method.	Similar to <b>IFRS</b> , although <b>US GAAP</b> is silent about when assets cease to be tainted. However, for listed companies, the SEC generally believes that the taint period for sales or transfers of held-to-maturity securities should be two years.
<b>Loans and receivables</b>		
Financial assets with fixed or determinable payments not quoted in an active market. May include loans and receivables purchased, provided their intention is similar, but not interests in pools of assets (for example, mutual funds).	Measured at amortised cost.	Does not define a loan and receivable category. Focuses on the definition of a security. Industry-specific guidance may also apply.

CLASSIFICATION	IFRS	US GAAP
<b>Available-for-sale financial assets</b>		
Includes debt and equity securities designated as available for sale, except those equity securities classified as held for trading, and those not covered by any of the above categories.	<p>Measured at fair value.</p> <p>Changes in fair value are recognised net of tax effects in equity (i.e., presented in a statement of changes in shareholders' equity or in a SoRIE) and recycled to the income statement when sold, impaired or collected.</p> <p>Foreign exchange gains and losses on debt securities are recognised in the income statement.</p>	<p>Similar to <b>IFRS</b>, except unlisted equity securities are generally carried at cost. Exceptions apply for specific industries.</p> <p>Changes in fair value are reported in other comprehensive income.</p> <p>Foreign exchange gains and losses on debt securities are recognised in equity.</p>

<sup>1</sup> This restricted fair value option under **IFRS** is applicable for annual periods beginning on or after 1 January 2006. Prior to that date, entities had an ability to designate any financial asset or financial liability at fair value thought profit or loss.

Under **Belgian GAAP**, participating interests should be valued at cost subject to impairment write-downs. Revaluation of such interests is allowed under **Belgian GAAP** when classified in non-current assets. Receivables are valued at cost subject to impairment write-down. Acquired put and call options should be written off at maturity date unless exercised. If call options are exercised then the acquisition cost should be included in the carry value of underlying assets. If put options are exercised then the acquisition cost should be included in the acquisition cost of an underlying asset, the aggregate amount being compared to the strike price to determine the realised gain or loss.

## Reclassification of assets between categories

**IFRS** Reclassifications between categories are uncommon under **IFRS**. They are prohibited into and out of the fair-value-through-profit-or-loss category.

Reclassifications from the held-to-maturity category as a result of a change of intent or ability are treated as sales and, other than in exceptional circumstances, result in the whole category being tainted. The most common reason for a reclassification out of the category is when the whole category is tainted and has to be reclassified as available for sale for two years. The assets are remeasured to fair value in these circumstances, with any difference recognised in equity.

An instrument may be reclassified into the category where the tainted held-to-maturity portfolio has been 'cleansed'. In this case, the financial asset's carrying value at the date of reclassification becomes its amortised cost. For financial assets that do not have a fixed maturity, any gains and losses already recognised in equity remain in equity until the asset is impaired or derecognised. For financial assets with a fixed maturity, the gain or loss is amortised to profit or loss over the remaining life of the instrument using the effective yield method.

**US GAAP** The following rules apply under **US GAAP** to the transfer of financial assets between categories:

- **Held-to-maturity investments**  
A financial asset is reclassified from the held-to-maturity category when there has been a change of intent or ability, or there has been evidence of short-term profit-taking. Where the reclassification is to held-for-trading, the asset is remeasured to fair value with the difference recognised in the income statement. Where the financial asset is reclassified from held-to-maturity to available for sale, the asset is remeasured at fair value with the difference recognised in equity. Such a transfer may trigger tainting provisions, similar to **IFRS**.

If an entity transfers an asset into the held-to-maturity category, the asset's fair value at the date of reclassification becomes its amortised cost. Any previous gain or loss recognised in equity is amortised over the remaining life of the held-to-maturity investment. Any difference between the new amortised cost and the amount due at maturity is treated as an adjustment of yield.

- Available-for-sale financial assets  
Transfers from (to) available for sale into (or out of) trading should be rare.

## Impairment

Both **IFRS** and **US GAAP** have similar requirements for the impairment of financial assets.

**IFRS** Entities should consider impairment when there is an indicator of impairment, such as: the deterioration in the creditworthiness of a counterparty; an actual breach of contract; a high probability of bankruptcy; the disappearance of an active market for an asset, or in the case of an investment in an equity instrument, whether there has been a significant or prolonged decline in the fair value of that investment below its cost. A decline in the fair value of a financial asset below its cost that results from the increase in the risk-free interest rate is not necessarily evidence of impairment. An impairment of a security does not establish a new cost basis.

**US GAAP** Requires the write-down of financial assets when an entity considers a decline in fair value to be 'other than temporary'. Indicators of impairment are: the financial health of the counterparty; whether the investor intends to hold the security for a sufficient period to permit recovery in value; the duration and extent that the market value has been below cost; and the prospects of a forecasted market price recovery. A new cost basis is established after a security is impaired.

Both **IFRS** and **US GAAP** generally require that, for financial assets carried at amortised cost, the impairment loss is the difference between the asset's carrying amount and its estimated recoverable amount (present value of expected future cash flows discounted at the instrument's original effective interest rate). For financial assets carried at fair value, the recoverable amount is usually based on quoted market prices or, if unavailable, the present value of the expected future cash flows discounted at the current market rate. Any loss that has been deferred in equity is recycled to the income statement on impairment.

**US GAAP** prohibits the reversal of an impairment charge on available-for-sale debt and equity securities. **IFRS** requires changes in value of available-for-sale debt securities, identified as reversals of previous impairment, to be recognised in the income statement. **IFRS**, similar to **US GAAP**, prohibits reversals of impairment on available-for-sale equity securities.

**Belgian GAAP** does not specifically address financial assets by classifying them into different categories, but there are general provisions relating to impairment of assets:

- amounts receivable should be written down if the amount due is not expected to be fully or partly collectible;
- participating interests classified in non-current assets should be written-off in case of durable impairment, whereas those classified in current assets should be written-off when their realisation value is lower than their carrying amount at balance sheet date.

## Derecognition

**IFRS** A financial asset (or part) is derecognised when:

- the rights to the asset's cash flows expire;
- the rights to the asset's cash flows and substantially all risks and rewards of ownership are transferred;
- an obligation to transfer the asset's cash flows is assumed, substantially all risks and rewards are transferred and the following conditions are met:
  - no obligation to pay cash flows unless equivalent cash flows from the transferred asset collected;
  - prohibition from selling or pledging the asset other than as security to the eventual recipients for the obligation to pass through cash flows; and
  - obligation to remit any cash flows without material delay; or
- substantially all the risks and rewards are neither transferred nor retained, but control of the asset is transferred.

An entity consolidates any subsidiaries including SPEs before applying the derecognition tests to the consolidated entity. The entity derecognises the asset if an entity transfers substantially all the risks and rewards of ownership of the asset (for example, an unconditional sale of a financial asset). It continues to recognise the asset (the transaction is accounted for as a collateralised borrowing) if it retains substantially all the risks and rewards of ownership of the asset. If an entity neither transfers nor retains substantially all the risks and rewards of ownership of the asset, it has to determine whether it has retained control of the asset. Control is based on the transferee's practical ability to sell the asset. The asset is derecognised if the entity has lost control. If the entity has retained control, it continues to recognise the asset to the extent of its continuing involvement.

The difference between the amount received and the carrying amount of the asset is recognised in the income statement on derecognition. Any fair value adjustments of the assets formerly reported in equity are recycled to the income statement. Any new assets or liabilities arising from the transaction are recognised at fair value.

## US GAAP

The derecognition model is different from the **IFRS** model and governed by three key tests:

1. legal isolation of the transferred asset from the transferor assets have to be isolated from the transferor and beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership;
2. the ability of the transferee to pledge or sell the asset the transferee has to be able to pledge or exchange the transferred asset free from constraint; and
3. no right or obligation of the transferor to repurchase the transferor cannot maintain effective control through a right or obligation to repurchase or redeem assets or a right to purchase or redeem 'not readily obtainable' assets (except for 'clean-up' call).

## Belgian GAAP

When an entity sells an asset and, at the same time, enters into a separate agreement to repurchase the asset at a later date, the transaction is considered to be fiduciary in nature. The assets 'sold' should thus be kept on the balance sheet of the 'seller' and amounts received from the 'buyer' recorded as borrowings. Any difference between the 'sale price' and the repurchase price is considered as interest and is expensed in the income statement. Security-lending is also considered as a borrowing, rather than a sales transaction. Accordingly, the accounting treatment required is to transfer the securities to a receivable account included in the same subheading and valued according to accounting policies applicable to them.

### Recent proposals - US GAAP

The FASB issued an exposure draft on fair value measurements in June 2004. The ED enhances the current guidance on fair value measurements by establishing a measurement framework for financial and non-financial assets and liabilities that are measured at fair value under other authoritative pronouncements.

The FASB issued an ED on the fair value option for financial assets and financial liabilities in January 2006. The proposals would create a fair value option under which an entity may irrevocably elect fair value through profit or loss for the initial and subsequent measurement of certain financial assets and financial liabilities on a contract-by-contract basis.

## REFERENCES:

**IFRS:** IAS 39, SIC-12.

**US GAAP:** FAS 115, FAS 133, FAS 140, FAS 155.

## Provisions

**IFRS** has a specific standard on accounting for various types of provisions. **US GAAP** has several standards addressing specific types of provisions - for example, environmental liabilities and restructuring costs. Both frameworks prohibit recognition of provisions for future costs, including costs associated with proposed but not yet effective legislation. **Belgian GAAP** are noticeably less articulated on the question of provisions, defining generally their required attributes to be prudence, authenticity and made in good faith, although several positions have been taken by the ASC on specific subjects e.g., restructuring and early-retirement provisions.

## Recognition

<b>IFRS</b>	<p>A provision is recognised when:</p> <ul style="list-style-type: none"><li>• the entity has a present obligation to transfer economic benefits as a result of past events;</li><li>• it is probable that such a transfer will be required to settle the obligation; and</li><li>• a reliable estimate of the amount of the obligation can be made.</li></ul> <p>A present obligation arises from an obligating event. It may take the form of either a legal obligation or a constructive obligation. An obligating event leaves the entity no realistic alternative to settle the obligation created by the event. If the entity can avoid the future expenditure by its future actions, it has no present obligation and a provision is not recognised.</p>
<b>US GAAP</b>	Similar to <b>IFRS</b>
<b>Belgian GAAP</b>	Provisions must be recorded to cover clearly identified losses or charges which result from past events at the balance sheet date, and which are either likely or certain to occur, but not reliably quantifiable as to their amount. Examples are given of the types of cost for which provision should be made (pensions, major repairs and maintenance, guarantees, litigation, etc). The presence of a legal or constructive obligation is not required to justify the recording of a provision. Consequently, <b>Belgian GAAP</b> allow entities much greater latitude in exercising judgement about the need for provisions. In practice, together with a tendency to emphasise the importance of the attribute of prudence, this means that certain provisions recorded in conformity with <b>Belgian GAAP</b> would not pass the test to qualify as provisions under either <b>IFRS</b> or <b>US GAAP</b> .

## Measurement

<b>IFRS</b>	<p>The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The anticipated cash flows are discounted using a pre-tax discount rate (or rates) that reflect(s) current market assessments of the time value of money and those risks specific to the liability if the effect is material. If a range of estimates is predicted and no amount in the range is more likely than any other amount in the range, the 'mid-point' of the range is used to measure the liability.</p>
<b>US GAAP</b>	<p>Similar to <b>IFRS</b>. However, if a range of estimates is present and no amount in the range is more likely than any other amount in the range, the 'minimum' (rather than the mid-point) amount is used to measure the liability. A provision is only discounted when the timing of the cash flows is fixed.</p> <p>Differences may arise in the selection of the discount rate, particularly in the area of asset retirement obligations.</p>
<b>Belgian GAAP</b>	Essentially similar to <b>IFRS</b> .

## Restructuring provisions

- IFRS** A present obligation exists only when the entity is ‘demonstrably committed’ to the restructuring. An entity is usually demonstrably committed when there is legal obligation or when the entity has a detailed formal plan for the restructuring. The entity must be unable to withdraw because it has started to implement the plan or announced its main features to those affected (constructive obligation). A current provision is unlikely to be justified if there will be a delay before the restructuring begins, or the restructuring will take an unreasonably long time to complete.
- US GAAP** Similar to **IFRS**. However, **US GAAP** prohibits the recognition of a liability based solely on an entity’s commitment to a plan. Recognition of a provision for one-time termination benefits requires communication of the details of the plan to the affected employees. Initial liabilities for restructurings that meet the definition of a liability are measured at fair value and are evaluated each reporting period, with subsequent changes in fair value measured using an interest allocation approach.
- Belgian GAAP** A formal decision by the board of directors is considered sufficient to warrant the recording of a restructuring provision.

## Onerous contracts

- IFRS** Provisions for future operating losses are prohibited. However, if an entity is party to a contract that is onerous (the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under the contract), the present obligation under the contract is recognised and measured as a provision. One of the most common examples relates to leasehold property that has been left vacant. The liability is reduced by estimated sub-lease rentals if management has the ability to sublease and sublease income is probable (more likely than not) of being obtained.
- US GAAP** A liability for costs to terminate a contract before the end of its term is recognised and measured at fair value when the entity terminates the contract in accordance with the contract terms (for example, when the entity gives written notice to the counterparty within the notification period specified by the contract or has otherwise negotiated a termination with the counterparty). A liability for costs that will continue to be incurred under a contract for its remaining term without economic benefit to the entity is recognised and measured at its fair value when the entity ceases to use the right conveyed by the contract. A common example relates to leasehold property that is no longer being used. The liability is reduced by estimated sub-lease rentals that could reasonably be obtained for the property (consistent with **IFRS**).
- Belgian GAAP** In practice, the accounting treatment is similar to **IFRS**.

- REFERENCES:** **IFRS:** IAS 37.  
**US GAAP:** FAS 5, EITF 88-10, FAS 143, FAS 146, SOP 96-1.

## Decommissioning, restoration and similar liabilities (asset retirement obligations)

- IFRS** A liability for the present value of the costs of dismantling, removal or restoration as a result of a legal or constructive obligation is recognised and the corresponding cost included as part of the related property, plant or equipment (PPE). An entity incurs this obligation as a consequence of installing the item or using the item during a particular period for purposes other than to produce inventories during that period.

Changes in the measurement of the liability relating to changes in the estimate of the timing or amount of the future cash flows or changes in the discount rate are recognised immediately with a corresponding adjustment to the total cost of the PPE asset. If the PPE asset is measured using the cost model, a decrease in the liability is deducted from the cost of the asset until the full carrying

# Liabilities

amount of the asset is reduced to zero. The discount rate applied is adjusted at each reporting date. Changes in the measurement of the liability due to the passage of time (accretion of the discount) are included in the income statement.

## US GAAP

The decommissioning liability is referred to as an 'asset retirement obligation' (ARO). The associated asset retirement costs are capitalised as part of the asset's carrying amount. The criteria for accrual and capitalisation of an ARO are more stringent under **US GAAP** than under **IFRS** - for example, there has to be an existing legal obligation and the ARO is recorded only if a reasonable estimate of fair value can be made. **IFRS** has no similar requirement regarding an entity's ability to estimate fair value.

Changes in the measurement of the liability relating to changes in the estimate of the timing or amount of the future cash flows are recognised as a decrease or increase in the carrying amount of the liability, with a corresponding increase or decrease to the related capitalised ARO asset. The discount rate applied upon initial recognition of the liability is used for changes in estimates that decrease the ARO. For changes in estimates that increase the amount of the ARO, the discount rate applied to the change is the current rate. Similar to **IFRS**, changes in the measurement of the liability due to the passage of time (accretion of the discount) are included in the income statement.

## Belgian GAAP

Not specifically addressed.

## REFERENCES:

**IFRS:** IAS 16, IAS 37, IFRIC 1.

**US GAAP:** FAS 143, FIN 47.

## Liability arising from participating in a specific market - waste electrical and electronic equipment

### IFRS

An entity obligated under the national legislation to bear the waste management cost on equipment sold to private households before 13 August 2005 ('historical waste') recognises a liability when it participates in the market during the measurement period. The entity applies the same treatment for waste management cost on equipment sold to private households on or after 13 August 2005 ('new waste') if the national legislation treats new waste in a similar manner as historical waste and the entity is not obligated for costs incurred after it exits the business. Commercial-user entities can also apply the same treatment if the fact pattern is similar.

### US GAAP

Similar to **IFRS**.

### Belgian GAAP

Not specifically addressed.

### REFERENCES:

**IFRS:** IAS 37, IFRIC 6.

**US GAAP:** FAS 143, FIN 47, FSP No. FAS 143-1.

## Contingencies

### Contingent asset

#### IFRS

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the entity's control. An asset is recognised when the realisation of the associated benefit, such as an insurance recovery, is virtually certain.

#### US GAAP

Similar to **IFRS**, but the threshold for recognising insurance recoveries is lower. The recovery is required to be probable (the future event or events are likely to occur) rather than virtually certain as under **IFRS**.

#### Belgian GAAP

Broadly similar to **IFRS**.

# Liabilities

## Contingent liability

**IFRS** A contingent liability is a possible obligation whose outcome will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events outside the entity's control. It can also be a present obligation that is not recognised because it is not probable that there will be an outflow of economic benefits, or the amount of the outflow cannot be reliably measured. Contingent liabilities are disclosed unless the probability of outflows is remote.

**US GAAP** Similar to **IFRS**, an accrual for a loss contingency is required if it is probable (defined as likely to occur) that there is a present obligation resulting from a past event and an outflow of economic resources is reasonably estimable.

**Belgian GAAP** Broadly similar to **IFRS**.

**REFERENCES:** **IFRS:** IAS 37  
**US GAAP:** FAS 5, SOP 96-1.

## Deferred tax

Although both **IFRS** and **US GAAP** require full provision for deferred tax, there are differences in the methodology as set out in the table below.

Although there is no standard on accounting for deferred income taxes in **Belgian GAAP**, existing rules stipulate that a deferred tax may arise on investment grants obtained from public authorities for investment in fixed assets and on gains on disposals of tangible and intangible fixed assets and securities issued by public authorities. Deferred taxes arising on temporary differences other than those mentioned are not recognised in entity financial statements what so ever. It is, however, possible to record deferred tax liabilities in consolidated financial statements if it is probable that an actual tax charge will arise in the foreseeable future. Furthermore, recognition of deferred tax assets in the consolidated financial statements is permitted if recovery is probable.

ISSUE	IFRS	US GAAP
<b>General considerations</b>		
General approach	Full provision.	Similar to <b>IFRS</b> .
Basis for deferred tax assets and liabilities	Temporary differences - i.e., the difference between carrying amount and tax base of assets and liabilities (see exceptions below).	Similar to <b>IFRS</b> .
Exceptions (i.e., deferred tax is not provided on the temporary difference)	<p>Non-deductible goodwill (that which is not deductible for tax purposes) does not give rise to taxable temporary differences.</p> <p>Initial recognition of an asset or liability in a transaction that:</p> <ul style="list-style-type: none"> <li>a. is not a business combination; and</li> <li>b. affects neither accounting profit nor taxable profit at the time of the transaction.</li> </ul> <p>Other amounts that do not have a tax consequence (commonly referred to as permanent differences) exist and depend on the tax rules and jurisdiction of the entity.</p>	Similar to <b>IFRS</b> , except no initial recognition exemption and special requirements apply in computing deferred tax on leveraged leases.

# Liabilities

ISSUE	IFRS	US GAAP
<b>Specific applications</b>		
Unrealised intra-group profits - for example, on inventory	Deferred tax recognised at the buyer's tax rate.	The buyer is prohibited from recognising deferred taxes. Any income tax effects to the seller (including taxes paid and tax effects of any reversal of temporary differences) as a result of the inter-company sale are deferred and recognised upon sale to a third party.
Revaluation of PPE and intangible assets	Deferred tax recognised in equity.	Not applicable, as revaluation is prohibited.
Intra-period tax allocation (backwards tracing)	Deferred tax is recognised in the income statement unless changes in the carrying amount of the assets are taken to equity. In this case, deferred tax is taken to equity (the 'follow-up principle').	Similar to <b>IFRS</b> for initial recognition, but certain subsequent changes (rate changes and valuation allowance) are recognised in the income statement.
Foreign non-monetary assets/liabilities when the tax reporting currency is not the functional currency	Deferred tax is recognised on the difference between the carrying amount determined using the historical rate of exchange and the tax base determined using the balance sheet date exchange rate.	No deferred tax is recognised for differences related to assets and liabilities that are remeasured from local currency into the functional currency resulting from changes in exchange rates or indexing for tax purposes.
Investments in subsidiaries - treatment of undistributed profit	Deferred tax is recognised except when the parent is able to control the distribution of profit and if it is probable that the temporary difference will not reverse in the foreseeable future.	Deferred tax is required on temporary differences arising after 1992 that relate to investments in domestic subsidiaries, unless such amounts can be recovered tax-free and the entity expects to use that method. No deferred taxes are recognised on undistributed profits of foreign subsidiaries that meet the indefinite reversal criterion.
Investments in joint ventures - treatment of undistributed profit	Deferred tax is recognised except when the venturer can control the sharing of profits and if it is probable that the temporary difference will not reverse in the foreseeable future.	Deferred tax is required on temporary differences arising after 1992 relating to investment in domestic corporate joint ventures. No deferred taxes are recognised on undistributed profits of foreign corporate joint ventures that meet the indefinite reversal criterion.
Investments in associates - treatment of undistributed profit	Deferred tax is recognised except when the investor can control the sharing of profits and it is probable that the temporary difference will not reverse in the foreseeable future.	Deferred tax is recognised on temporary differences relating to investments in investees.
Uncertain tax positions	Reflects the tax consequences that follow from the manner in which the entity expects, at the balance sheet date, to be paid to (recovered from) the taxation authorities.	A tax benefit from an uncertain tax position may be recognised only if it is 'more likely than not' that the tax position is sustainable based on its technical merits. The tax position is measured as the largest amount of tax benefit that is greater than 50% likely of being realised upon ultimate settlement.
Share-based compensation	<p>If a tax deduction exceeds cumulative share-based compensation expense, deferred tax calculations based on the excess deduction are recorded directly in equity. If the tax deduction is less than or equal to cumulative share-based compensation expense, deferred taxes arising are recorded in income. The unit of accounting is an individual award.</p> <p>If changes in the stock price impact the future tax deduction, the estimate of the tax deduction is based on the current stock price.</p>	<p>If the tax benefit available to the issuer exceeds the deferred tax asset recorded, the excess benefit (known as a 'windfall' tax benefit) is credited directly to shareholders' equity. If the tax benefit is less than the deferred tax asset, the shortfall is recorded as a direct charge to shareholders' equity to the extent of prior windfall tax benefits, and as a charge to tax expense thereafter.</p> <p>Changes in the stock price do not impact the deferred tax asset or result in any adjustments prior to settlement or expiration. Although they do not impact deferred tax assets, future changes in the stock price will affect the actual future tax deduction (if any).</p>

# Liabilities

ISSUE	IFRS	US GAAP
<b>Measurement of deferred tax</b>		
Tax rates	Tax rates and tax laws that have been enacted or substantively enacted.	Use of substantively enacted rates is not permitted. Tax rate and tax laws used must have been enacted.
Recognition of deferred tax assets	A deferred tax asset is recognised if it is probable (more likely than not) that sufficient taxable profit will be available against which the temporary difference can be utilised.	A deferred tax asset is recognised in full but is then reduced by a valuation allowance if it is more likely than not that some or all of the deferred tax asset will not be realised.
Discounting	Prohibited.	Prohibited.
<b>Business combinations - acquisitions</b>		
Step-up of acquired assets/liabilities to fair value	Deferred tax is recorded unless the tax base of the asset is also stepped up.	Similar to <b>IFRS</b> .
Previously unrecognised tax losses of the acquirer	A deferred tax asset is recognised if the recognition criteria for the deferred tax asset are met as a result of the acquisition. Offsetting credit is recorded in income.	Similar to <b>IFRS</b> , except the offsetting credit is recorded against goodwill.
Tax losses of the acquiree (initial recognition)	Similar requirements as for the acquirer except the offsetting credit is recorded against goodwill.	Similar to <b>IFRS</b> .
Subsequent resolution of income tax uncertainties in a business combination	If the resolution is more than one year after the year in which the business combination occurred, the result is recognised in the income statement.	The subsequent resolution of any tax uncertainty relating to a business combination is recorded against goodwill.
Subsequent recognition of deferred tax assets that were not 'probable' at the time of the business combination	A deferred tax asset that was not considered probable at the time of the business combination but later becomes probable is recognised. The adjustment is to income tax expense with a corresponding adjustment to goodwill. The income statement shows a debit to goodwill expense and a credit to income tax expense. There is no time limit for recognition of this deferred tax asset.	The subsequent resolution of any tax uncertainty relating to a business combination is recorded first against goodwill, then non-current intangibles and then income tax expense. There is no time limit for recognition of this deferred tax asset.
<b>Presentation of deferred tax</b>		
Offset of deferred tax assets and liabilities	Permitted only when the entity has a legally enforceable right to offset and the balance relates to tax levied by the same authority.	Similar to <b>IFRS</b> .
Current/non-current	Deferred tax assets and liabilities are classified net as non-current on the balance sheet, with supplemental note disclosure for: 1. the components of the temporary differences, and 2. amounts expected to be recovered within 12 months and more than 12 months of the balance sheet date.	Deferred tax assets and liabilities are either classified as current or non-current, based on the classification of the related non-tax asset or liability for financial reporting. Tax assets not associated with an underlying asset or liability are classified based on the expected reversal period.
Reconciliation of actual and expected tax expense	Required. Computed by applying the applicable tax rates to accounting profit, disclosing also the basis on which the applicable tax rates are calculated.	Required for public companies only. Calculated by applying the domestic federal statutory tax rates to pre-tax income from continuing operations.

**REFERENCES:** **IFRS:** IAS 1, IAS 12, IFRS 3.  
**US GAAP:** FAS 109, FIN 48.

## Government grants

**IFRS** Government grants (or contributions) received as compensation for expenses already incurred are recognised in the income statement once the conditions for their receipt have been met and there is reasonable assurance that the grant will be received. Revenue-based grants are deferred in the balance sheet and released to the income statement to match the related expenditure that they are intended to compensate. Capital-based grants are deferred and matched with the depreciation on the asset for which the grant arises.

Grants that relate to recognised assets are presented in the balance sheet as either deferred income or by deducting the grant in arriving at the asset's carrying amount, in which case the grant is recognised as a reduction of depreciation. Specific rules apply for agricultural assets.

**US GAAP** Similar to **IFRS**, except when there are conditions attached to the grant. Revenue recognition is delayed until such conditions are met under **US GAAP**. Contributions of long-lived assets or for the purchase of long-lived assets are reported in the period received.

**Belgian GAAP** Similar to **IFRS** for recognition, but **Belgian GAAP** require deferred capital grants to be reported in a separate caption within shareholders' equity, net of the deferred tax impact.

## Grants – agricultural assets

**IFRS** An unconditional government grant related to a biological asset measured at its fair value is recognised in the income statement when the grant becomes receivable. If a government grant relating to a biological asset measured at its fair value is conditional, the grant is recognised when the conditions are met. The accounting treatment specified for government grants generally is applied if a grant relates to a biological asset measured at cost.

**US GAAP** Not specified.

**Belgian GAAP** Not addressed specifically.

**REFERENCES:** **IFRS:** IAS 20, IAS 41.  
**US GAAP:** FAS 116

## Leases – lessee accounting

### Finance leases

**IFRS** Requires recognition of an asset held under a finance lease (see classification criteria on p 59) with a corresponding obligation for future rentals, at an amount equal to the lower of the fair value of the asset and the present value of the future minimum lease payments (MLPs) at the inception of the lease. The asset is depreciated over its useful life or the lease term if shorter. However, this is only permitted if there is no reasonable certainty of the lessee obtaining ownership of the asset. The interest rate implicit in the lease is normally used to calculate the present value of the MLPs. The lessee's incremental borrowing rate may be used if the implicit rate is unknown.

**US GAAP** Similar to **IFRS**, except that the lessee's incremental borrowing rate is used to calculate the present value of the MLPs, excluding the portion of payments representing executory costs, unless it is practicable to determine the rate implicit in the lease and the implicit rate is lower than the incremental borrowing rate. If the incremental borrowing rate is used, the amount recorded as the asset and obligation is limited to the fair value of the leased asset. Asset amortisation is consistent with **IFRS**.

**Belgian GAAP** Under **Belgian GAAP**, finance leases are recorded as an asset and an obligation to pay future rentals, at an amount equal to the capital portion of the instalments payable under the contract.

The asset is normally depreciated over its useful life or the lease term, if shorter. However, as under **IFRS**, the latter is only permitted if there is no reasonable certainty of the lessee obtaining ownership of the asset. The same depreciation rules apply as for other similar depreciable assets.

Rental payments are apportioned between the outstanding obligation and the finance charge in the income statement, so as to produce a constant rate of charge on the remaining balance of the obligation for each accounting period.

### Operating leases

The rental expense under an operating lease is generally recognised on a straight-line basis over the lease term under **IFRS**, **US GAAP** and **Belgian GAAP**.

### Incentives

A lessor often provides lease incentives to encourage the lessee to renew a lease arrangement. The lessee, **IFRS** and **US GAAP** frameworks, recognises the aggregate benefit of incentives as a reduction of rental expense over the lease term. The incentive is amortised on a straight-line basis unless another systematic basis is representative of the pattern of the lessee's benefit from the use of the leased asset. **Belgian GAAP** do not provide specific guidance on this issue but in practice, a similar treatment would apply.

## Sale and leaseback transactions

The seller-lessee sells an asset to the buyer-lessor and leases the asset back in a sale and leaseback transaction. There are differences between the frameworks in the accounting for profits and losses arising on sale and leaseback transactions. These are highlighted in the table below.

ISSUE	IFRS	US GAAP	Belgian GAAP
<b>Finance lease</b>			
Profit or loss on sale	Deferred and amortised over the lease term.	Timing of profit or loss recognition depends on whether the seller relinquishes substantially all or a minor part of the use of the asset. If substantially all, profit/loss is generally recognised at date of sale. If seller retains more than a minor part, but not substantially all of the use of the asset, any profit in excess of either the present value of MLPs (for operating leases) or the recorded amount of the leased asset (for finance leases) is recognised at date of sale. A loss on a sale-leaseback is recognised immediately by the seller-lessee to the extent that net book value exceeds fair value. Specific rules apply for sale-leasebacks relating to continuing involvement and transfer of risks and rewards of ownership.	Deferred for recognition in the income statement in proportion to the depreciation of the leased assets.
<b>Operating lease</b>			
Sale at fair value	Immediate recognition.	See above.	Not addressed.
Sale at less than fair value	Immediate recognition, unless the difference is compensated by lower future rentals. In such cases, the difference is deferred over the period over which the asset is expected to be used.	See above.	Not addressed.
Sale at more than fair value	The difference is deferred over the period for which the asset is expected to be used.	See above.	Not addressed.

**REFERENCES:**      **IFRS:** IAS 17, SIC-15.  
                             **US GAAP:** FAS 13, FAS 28, FAS 66, FAS 98.

## Financial liabilities

### Definition

**IFRS** and **US GAAP** define a financial liability in a similar way, to include a contractual obligation to deliver cash or a financial asset to another entity, or to exchange financial instruments with another entity under conditions that are potentially unfavourable. Financial liabilities include derivatives (under **IFRS**, these include many contracts that will or may be settled using the entity's own equity instruments). See also 'Derivatives' on p 82.

### Classification

**IFRS** Where there is a contractual obligation (either explicit or indirectly through its terms and conditions) on the issuer of an instrument to deliver either cash or another financial asset to the holder, that instrument meets the definition of a financial liability regardless of the manner in which the contractual obligation will be settled.

Preferred shares that are not redeemable, or that are redeemable solely at the option of the issuer, and for which distributions are at the discretion of the issuer, are classified as equity. Preferred shares requiring the issuer to redeem for a fixed or determinable amount at a fixed or determinable future date, or where the holder has the option of redemption, are classified as liabilities.

The issuer classifies the financial instrument as a liability if the settlement of a financial instrument, such as a preferred share, is contingent on uncertain future events beyond the control of both the issuer and the holder. An instrument that is settled using an entity's own equity shares is classified as a liability if the number of shares varies in such a way that the fair value of the shares issued equals the obligation.

Puttable instruments (financial instruments that give the holder the right to put the instrument back to the issuer for cash or another asset) are liabilities. Specific guidance exists for when the holder's right to redemption is subject to specific limits.

Split accounting is applied to convertible debt - see 'Convertible debt' p 79.

**US GAAP** SEC guidance provides for the classification of certain redeemable instruments that are outside the scope of FAS 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, as mezzanine equity (i.e., outside of permanent equity). The following types of instrument are classified as liabilities under FAS 150:

- a financial instrument issued in the form of shares that is mandatorily redeemable i.e., that embodies an unconditional obligation requiring the issuer to redeem it by transferring its assets at a specified or determinable date (or dates) or upon the occurrence of an event that is certain to occur;
- a financial instrument (other than an outstanding share) that, at inception, embodies an obligation to repurchase the issuer's equity shares, or is indexed to such an obligation, and that requires or may require the issuer to settle the obligation by transferring assets (for example, a forward purchase contract or written put option on the issuer's equity shares that is to be physically settled or net cash settled); and
- a financial instrument that embodies an unconditional obligation or a financial instrument other than an outstanding share that embodies a conditional obligation that the issuer should or may settle by issuing a variable number of its equity shares.

**US GAAP** does not make specific reference to classification of instruments where contingent settlement provisions exist.

**Belgian GAAP** Although Belgian legislation does not cover the whole topic of financial instruments, there are some overlapping areas. Sometimes, the same rationale applies as under **IFRS**, sometimes it does not and the legal form of the instrument determines its classification.

## Convertible debt

- IFRS** 'Split accounting' is used for convertible instruments where the conversion is a fixed amount of cash for a fixed number of shares. The proceeds are allocated between the two components; the equity conversion rights are recognised in equity and the liability recognised in liabilities at fair value calculated by discounting at a market rate for a non-convertible debt. Certain embedded derivatives may have to be bifurcated.
- US GAAP** For conventional convertible debt, the instrument is treated as one unit and recorded as a liability in its entirety (no recognition is given to the equity component), unless the instrument contains a beneficial conversion feature that requires separation. Similar to **IFRS**, certain embedded derivatives may have to be bifurcated.
- Belgian GAAP** Various accounting treatments (split accounting as compound instrument treated as a liability) are possible depending on the particular form of the compound instrument.

## Measurement

- IFRS** Convertible debt is measured at fair value on initial recognition, which is usually the consideration received plus incremental and directly attributable costs of issuing the debt.
- There are two categories of financial liabilities: those that are recognised at fair value through profit or loss (includes trading), and all others. All derivatives that are liabilities (except qualifying hedging instruments) are trading liabilities. Other trading liabilities may include a short position in securities. Financial liabilities at fair value through profit or loss (including trading) are measured at fair value (the change is recognised in the income statement for the period). Financial liabilities aside from those that are trading can only be designated at fair value through profit or loss provided they meet certain criteria. All other (non-trading) liabilities are carried at amortised cost using the effective interest method.
- US GAAP** Similar to **IFRS**. Incremental and directly attributable costs of issuing debt are deferred as an asset and amortised using the effective interest method. There are also specific measurement criteria for certain financial instruments. Entities cannot use the fair value option to designate at initial recognition a financial liability at fair value through profit or loss, except for certain hybrid financial instruments.
- Belgian GAAP** Payables are recorded at nominal amount; provision should be raised for contingent losses and charges resulting from foreign-currency positions or transactions, from commodity positions or forward transactions; premiums received in respect of (written) put and call options should be either recognised in the income statement immediately (and provision made for any contingent losses) or recorded as deferred income until maturity (similarly, a provision for contingent losses should be recorded insofar as it exceeds the deferred income recorded).

## Derecognition of financial liabilities

**IFRS** A financial liability is derecognised when: the obligation specified in the contract is discharged, cancelled or expires; or the primary responsibility for the liability is legally transferred to another party. A liability is also considered extinguished if there is a substantial modification in the terms of the instrument - for example, where the discounted present value of new cash flows is different from the previous cash flows by at least 10%.

The difference between the carrying amount of a liability (or a portion thereof) extinguished or transferred and the amount paid for it should be recognised in net profit or loss for the period.

**US GAAP** Similar to **IFRS**, a financial liability is derecognised only if it has been extinguished. Extinguished means paying the creditor and being relieved of the obligation or being legally released from the liability either judicially or by the creditor, or as a result of a substantial modification in terms (10% or greater change in discounted present value of cash flows).

**Belgian GAAP** Not specifically addressed.

### Recent proposals – IFRS

The IASB issued an exposure draft in June 2006 on financial instruments puttable at fair value and obligations arising on liquidation in June 2006. The ED proposes a limited-scope short-term solution to improve financial reporting regarding those instruments that have characteristics similar to ordinary shares.

**REFERENCES:** **IFRS:** IAS 32, IAS 39, IFRIC 2.  
**US GAAP:** CON 6, ASR 268(SEC), APB 6, APB 14, FAS 140, FAS 150, FAS 155.

## Equity instruments

### Recognition and classification

<b>IFRS</b>	An instrument is classified as equity when it does not contain an obligation to transfer economic resources. Preference shares that are not redeemable, or that are redeemable solely at the option of the issuer, and for which distributions are at the issuer's discretion, are classified as equity. Only derivative contracts that result in the delivery of a fixed amount of cash, or other financial asset for a fixed number of an entity's own equity instruments, are classified as equity instruments. All other derivatives on the entity's own equity are treated as derivatives.
<b>US GAAP</b>	Shareholders' equity is analysed between capital stock (showing separate categories for non-redeemable preferred stock and common stock) and other categories of shareholders' equity. Mandatorily redeemable financial instruments (date or event certain redemption), obligations to repurchase own shares by transferring assets and certain obligations to issue a variable number of shares are not classified as equity but are considered to be liabilities. Unlike <b>IFRS</b> , certain derivatives of an entity's own shares that are or may be net share-settled can be classified as equity.
<b>Belgian GAAP</b>	Not addressed.

### Purchase of own shares

<b>IFRS</b>	When an entity's own shares are repurchased, they are shown as a deduction from shareholders' equity at cost. Any profit or loss on the subsequent sale of the shares is shown as a change in equity.
<b>US GAAP</b>	Similar to <b>IFRS</b> , except when treasury stock is acquired with the intention of retiring the stock, an entity has the option to: charge the excess of the cost of treasury stock over its par value entirely to retained earnings; allocate the excess between retained earnings and additional paid-in-capital (APIC); or charge the excess entirely to APIC.
<b>Belgian GAAP</b>	Reported as marketable securities under current assets, with a corresponding reserve for the same amount included separately in equity. Any profit or loss on subsequent disposal of the shares is recorded in the income statement.

### Dividends on ordinary equity shares

<b>IFRS</b>	Presented as a deduction in the statement of changes in shareholders' equity in the period when authorised by shareholders.
<b>US GAAP</b>	Similar to <b>IFRS</b> .
<b>Belgian GAAP</b>	Presented as a deduction in the statement of appropriation of results, at the end of the income statement.
<b>REFERENCES:</b>	<b>IFRS:</b> IAS 32, IAS 39. <b>US GAAP:</b> CON 6, APB 6, APB 14, FAS 150.

# Derivatives and hedging

## Derivatives

**IFRS** and **US GAAP** specify rules for the recognition and measurement of derivatives.

### Definition

- IFRS** A derivative is a financial instrument:
- whose value changes in response to a specified variable or underlying rate (for example, interest rate);
  - that requires no or little net investment; and
  - that is settled at a future date.
- US GAAP** Sets out similar requirements, except that the terms of the derivative contract should require or permit net settlement. There are therefore some derivatives, such as option and forward agreements to buy unlisted equity investments, that fall within the **IFRS** definition, not the **US GAAP** definition, because of the absence of net settlement.

### Initial measurement

All derivatives are recognised on the balance sheet as either financial assets or liabilities under **IFRS** and **US GAAP**. They are initially measured at fair value on the acquisition date.

### Subsequent measurement

**IFRS** and **US GAAP** require subsequent measurement of all derivatives at their fair values, regardless of any hedging relationship that might exist. Changes in a derivative's value are recognised in the income statement as they arise, unless they satisfy the criteria for hedge accounting outlined hereafter. Under **IFRS**, a derivative that is linked to and should be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured is carried at cost less impairment until settlement.

### Embedded derivatives

**IFRS** and **US GAAP** require separation of derivatives embedded in hybrid contracts the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risk of the host contract. A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the hybrid instrument is not measured at fair value through profit or loss. **IFRS** and **US GAAP** provide an option to value certain hybrid instruments to fair value instead of bifurcating the embedded derivative.

There are some detailed differences between **IFRS** and **US GAAP** for certain types of embedded derivatives on what is meant by 'closely related'. Under **IFRS**, reassessment of whether an embedded derivative needs to be separated is permitted only when there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract. Under **US GAAP**, reassessment of whether an embedded derivative should be bifurcated from its host contract is required on an ongoing basis, even if there is no modification of the hybrid contract (certain exceptions apply).

The concept of embedded derivatives is not articulated in Belgian legislation. However, the ASC has considered this topic in relation to certain specific circumstances (equity warrants linked to equity shares, bonds issued with warrants and 'VPR strips'), and has determined that the derivative should be accounted for separately from the host contract subject to certain conditions.

# Derivatives and hedging

## Hedge accounting

Detailed guidance is set out in the respective standards under **IFRS** and **US GAAP** dealing with hedge accounting.

In general, **Belgian GAAP** emphasise the concept of prudence, implying that companies holding derivative positions for which no hedge accounting is available should apply a lower of cost or market approach, meaning that unrealised gains (with the exception of unrealised exchange gains) are deferred, whilst unrealised losses are recorded in the income statement. Hedge accounting is specifically permitted, subject to certain criteria, for forward contracts hedging currency and commodity risks, and for hedges using equity options. The fair value and cash flow hedge categories foreseen by **IFRS** and **US GAAP** do not have specific equivalents under **Belgian GAAP**.

## Criteria for hedge accounting

Hedge accounting is permitted under **IFRS** and **US GAAP** provided that an entity meets stringent qualifying criteria in relation to documentation and hedge effectiveness. Both frameworks require documentation of the entity's risk management objectives and how the effectiveness of the hedge will be assessed. Hedge instruments should be highly effective in offsetting the exposure of the hedged item to changes in the fair value or cash flows, and the effectiveness of the hedge is measured reliably on a continuing basis under both frameworks.

A hedge qualifies for hedge accounting under **IFRS** and **US GAAP** if changes in fair values or cash flows of the hedged item are expected to be highly effective in offsetting changes in the fair value or cash flows of the hedging instrument ('prospective' test) and 'actual' results are within a range of 80% to 125% ('retrospective' test). **US GAAP**, unlike **IFRS**, also allows, assuming stringent conditions are met, a 'short-cut' method that assumes perfect effectiveness for certain hedging relationships involving interest-rate swaps.

## Hedged items

**IFRS** and **US GAAP** contain additional requirements for the designation of specific financial assets and liabilities as hedged items. These are outlined in the table below.

IFRS	US GAAP
Held-to-maturity investments cannot be designated as a hedged item with respect to interest-rate risk or prepayment risk, because held-to-maturity investments require an intention to hold to maturity without regard to changes in fair value or cash flows due to changes in interest rates.	Similar to <b>IFRS</b> .
If the hedged item is a financial asset or liability, it may be a hedged item with respect to the risks associated with only a portion of its cash flows or fair value provided that effectiveness can be measured.	The designated risk is the risk of changes in: the overall fair value or cash flow; market interest rates; foreign currency exchange rates; or the creditworthiness of the 'obligor'. Portions of risk cannot be designated as the hedged risk.
If the hedged item is a non-financial asset or liability, it may be designated as a hedged item only for foreign currency risk, or in its entirety because of the difficulty of isolating other risks.	Similar to <b>IFRS</b> .
If similar assets or similar liabilities are aggregated and hedged as a group, the change in fair value attributable to the hedged risk for individual items should be proportionate to the change in fair value for the group.	Similar to <b>IFRS</b> .
The foreign currency risk of a highly probable forecast intragroup transaction may qualify as a hedged item in consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss.	Similar to <b>IFRS</b> . In addition, the foreign currency risk arising from a forecasted royalty of a foreign subsidiary is permitted to be a hedged item if certain conditions are met.

# Derivatives and hedging

IFRS	US GAAP
Not specified; however, practice is similar to <b>US GAAP</b> .	An asset or liability that is remeasured to fair value with changes recognised in earnings - for example, a debt security classified as trading - is not permitted as a hedged item.
A firm commitment to acquire a business cannot be a hedged item, except for foreign exchange risk, because the other risks that are hedged cannot be specifically identified and measured.	The hedged item cannot be related to: a business combination; the acquisition or disposition of subsidiaries; a minority interest in one or more consolidated subsidiaries; or investments accounted for using the equity method. The foreign exchange risk in a firm commitment to acquire a business cannot be a hedged item.

## Hedging instruments

Only a derivative instrument can qualify as a hedging instrument in most cases. **IFRS**, however, permits a non-derivative (such as a foreign currency borrowing) to be used as a hedging instrument for foreign currency risk. **US GAAP** provides that a non-derivative can hedge currency risk only for a net investment in a foreign entity or a fair value hedge of an unrecognised firm commitment.

Under **IFRS**, only instruments that involve a party external to the reporting entity can be designated as hedging instruments. Under **US GAAP**, certain internal derivatives (i.e., derivatives entered into with another group entity such as a treasury centre) can qualify as a hedging instrument for cash flow hedges of foreign currency risk if specific conditions are met.

Under **IFRS**, a written option cannot be designated as a hedging instrument unless it is combined with a purchase option and a net premium is paid. Under **US GAAP**, a written option can be designated as a hedging instrument only if stringent criteria are met. Written options will not qualify for hedge accounting in most cases.

**IFRS** permits a single hedging instrument to hedge more than one risk in two or more hedged items under certain circumstances. Under **US GAAP**, an entity is generally prohibited from separating a derivative into components representing different risks and designating any such component as the hedging instrument.

## Hedge relationships

Exposure to risk can arise from: changes in the fair value of an existing asset or liability; changes in the future cash flows arising from an existing asset or liability; or changes in future cash flows from a transaction that is not yet recognised.

**IFRS** Recognises the following types of hedge relationships:

- a fair value hedge where the risk being hedged is a change in the fair value of a recognised asset or liability;
- a cash flow hedge where the risk being hedged is the potential volatility in future cash flows; and
- a hedge of a net investment in a foreign entity, where a hedging instrument is used to hedge the currency risk of a net investment in a foreign entity.

A forecasted transaction should be highly probable to qualify as a hedged item.

**US GAAP** Similar to **IFRS**.

## Fair value hedges

**IFRS** Hedging instruments are measured at fair value. The hedged item is adjusted for changes in its fair value but only due to the risks being hedged. Gains and losses on fair value hedges, for both the hedging instrument and the item being hedged, are recognised in the income statement.

**US GAAP** Similar to **IFRS**.

# Derivatives and hedging

## Cash flow hedges

- IFRS** Hedging instruments are measured at fair value, with gains and losses on the hedging instrument, where they are effective, initially deferred in equity and subsequently released to the income statement concurrent with the earnings recognition pattern of the hedged item. Gains and losses on financial instruments used to hedge forecasted asset and liability acquisitions may be included in the cost of the non-financial asset or liability - a 'basis adjustment'. This is not permitted for financial assets or liabilities.
- US GAAP** Similar to **IFRS**; however, the basis adjustment approach is not permitted. All gains and losses are subsequently released to the income statement concurrent with the deferred recognition of the hedged item.

## Hedges of net investments in foreign operations

- IFRS** Similar treatment to cash flow hedges. The hedging instrument is measured at fair value with gains/losses deferred in equity, to the extent that the hedge is effective, together with exchange differences arising on the entity's investment in the foreign operation. These gains/losses are transferred to the income statement on disposal or partial disposal of the foreign operation.
- US GAAP** Similar to **IFRS**. Gains and losses are transferred to the income statement upon sale or complete or substantially complete liquidation of the investment.

## Fair value hedge accounting for a portfolio hedge of interest rate risk

- IFRS** An entity may designate an amount of assets or liabilities in a given 'time bucket', scheduled based on expected repricing dates of a portfolio. The changes in the fair value of this hedged item are reflected in a single separate line item within assets or liabilities. The carrying amounts of the individual assets or liabilities in the portfolio are not adjusted.
- US GAAP** Prohibited.

## Disclosure

The disclosures are similar under the two frameworks and include general information about the entity's use of financial instruments, fair value information, details of hedging activities and liquidity information. However, there are differences in the detailed requirements (such as those for disclosures of interest-rate risk, credit risk and market risk), as well as industry-specific disclosures, which are outside the scope of this publication. Disclosures in **IFRS** are presented in the notes to the financial statements, while many similar disclosures in **US GAAP** are presented in the management discussion and analysis (MD&A) for SEC registrants.

- REFERENCES:** **IFRS:** IAS 39, IFRS 7, IFRIC 9.  
**US GAAP:** FAS 133, FAS 137, FAS 138, FAS 149, FAS 155, EITF D-102, FIN 37.

# Other accounting and reporting topics

## Foreign currency translation

### Functional currency – definition and determination

**IFRS** Functional currency is defined as the currency of the primary economic environment in which an entity operates. If the indicators are mixed and the functional currency is not obvious, management should use its judgement to determine the functional currency that most faithfully represents the economic results of the entity's operations by focusing on the currency of the economy that determines the pricing of transactions (not the currency in which transactions are denominated).

Additional evidence (secondary in priority) may be provided from the currency in which funds from financing activities are generated, or receipts from operating activities are usually retained, as well as the nature of activities and extent of transactions between the foreign operation and the reporting entity.

**US GAAP** Similarly emphasises the primary economic environment in determining an entity's functional currency. However, **US GAAP** has no hierarchy of indicators. In practice, there is a greater focus on the cash flows rather than the currency that influences the pricing.

**Belgian GAAP** EUR is the default reporting currency, although other currencies are allowed in certain rare circumstances.

### Translations - the individual entity

**IFRS** and **US GAAP** have similar requirements regarding the translation of transactions by an individual entity, as follows:

- Translation of transactions denominated in foreign currency is at the exchange rate in operation on the date of the transaction;
- Monetary assets and liabilities denominated in a foreign currency are translated at the closing (year-end) rate;
- Non-monetary foreign currency assets and liabilities are translated at the appropriate historical rate;
- Non-monetary items denominated in a foreign currency and carried at fair value are reported using the exchange rate that existed when the fair value was determined (**IFRS** only);
- Income statement amounts are translated using historical rates of exchange at the date of transaction or an average rate as a practical alternative, provided the exchange rate does not fluctuate significantly; and
- Exchange gains and losses arising from an entity's own foreign currency transactions are reported as part of the profit or loss for the year. This includes foreign currency gains and losses on available-for-sale debt securities (**IFRS** only) as well as long-term loans, which in substance form part of an entity's net investment in a foreign operation. See 'Derivatives and hedging' section for the hedge of a net investment (p 85).

Under **Belgian GAAP**, exchange gains resulting from the translation of monetary items may be deferred until realization.

### Translation - consolidated financial statements

When translating financial statements into a different presentation currency (for example, for consolidation purposes), **IFRS**, **US GAAP** and **Belgian GAAP** require the assets and liabilities to be translated using the closing (year-end) rate. Amounts in the income statement are translated using the average rate for the accounting period if the exchange rates do not fluctuate significantly. **IFRS** is silent on the translation of equity accounts; historical rates are used under **US GAAP**. The translation differences arising are reported in equity (other comprehensive income under **US GAAP**).

# Other accounting and reporting topics

## Tracking of translation differences in equity

<b>IFRS</b>	Translation differences in equity are separately tracked and the cumulative amounts disclosed. The appropriate amount of cumulative translation difference relating to the entity is transferred to the income statement on disposal of a foreign operation and included in the gain or loss on sale. The cumulative translation difference may be released through the income statement, for a partial disposal on a pro rata basis relative to the portion disposed. The proportionate share of the related cumulative translation difference is included in the gain or loss. The payment of a dividend out of pre-acquisition profits constitutes a return of the investment and is regarded as a partial disposal.
<b>US GAAP</b>	Similar to <b>IFRS</b> ; however, gains and losses are transferred to the income statement only upon sale or complete or substantially complete liquidation of the investment.
<b>Belgian GAAP</b>	Similar to <b>IFRS</b> .

## Translation of goodwill and fair value adjustments on acquisition of foreign entity

<b>IFRS</b>	Translated at closing rates.
<b>US GAAP</b>	Similar to <b>IFRS</b> .
<b>Belgian GAAP</b>	Not addressed.

## Presentation currency

<b>IFRS</b>	Assets and liabilities are translated at the exchange rate at the balance sheet date when financial statements are presented in a currency other than the functional currency. Income statement items are translated at the exchange rate at the date of the transaction or are permitted to use average rates if the exchange rates do not fluctuate significantly.
<b>US GAAP</b>	Similar to <b>IFRS</b> ; historical rates are used in equity.
<b>Belgian GAAP</b>	Not addressed, but similar to <b>IFRS</b> in practice.

## Foreign currency translation - hyperinflationary economy

### Definition

<b>IFRS</b>	Hyperinflation is indicated by characteristics of the economic environment of a country. These characteristics include: the general population's attitude towards the local currency; prices linked to a price index; and the cumulative inflation rate over three years is approaching or exceeds 100%.
<b>US GAAP</b>	Similar to <b>IFRS</b> ; however, the prescribed test for a highly inflationary economy is cumulative inflation of approximately 100% or more over a three-year period. Historical inflation rate trends and other pertinent economic factors are also considered if the cumulative inflation rate is high but less than 100%.
<b>Belgian GAAP</b>	There is no equivalent requirement but a similar procedure to <b>IFRS</b> would be followed in practice.

# Other accounting and reporting topics

## Functional currency - hyperinflationary economy

- IFRS** Entities that have the currency of a hyperinflationary economy as the functional currency use that currency for measurement of transactions. The financial statements for current and prior periods are remeasured at the measurement unit current at the balance sheet date in order to present current purchasing power.
- US GAAP** Does not generally permit inflation-adjusted financial statements; the use of the reporting currency (US dollar) as the functional currency is required. However, SEC rules provide an accommodation allowing foreign issuers that use **IFRS** to omit quantification of any differences that would have resulted from the application of FAS 52, Foreign Currency Translation.
- Belgian GAAP** Not addressed but **IFRS** would apply in practice.

## Presentation currency - hyperinflationary economy

- IFRS** The results and financial position of an entity whose functional currency is the currency of a hyperinflationary economy are translated into a different presentation currency using the following procedure:
- all items, including comparatives, are translated at the closing rate at the date of the most recent balance sheet; except,
  - when amounts are translated into the currency of a non-hyperinflationary economy, comparative amounts are those that were presented as current year amounts in the relevant prior-year financial statements.
- US GAAP** Not applicable, because the currency of a hyperinflationary economy is not used for measuring its transactions in the hyperinflationary economy.
- Belgian GAAP** Not addressed but **IFRS** would apply in practice.

**REFERENCES:** **IFRS:** Framework, IAS 21, IAS 29.  
**US GAAP:** FAS 52, FIN 37.

## Earnings per share

Earnings per share (EPS) is disclosed by entities whose ordinary shares are publicly traded, and by entities in the process of issuing such shares under both frameworks. **IFRS** and **US GAAP** use similar methods of calculating EPS, although there are detailed application differences. **Belgian GAAP** do not address the issue.

### Basic EPS

- IFRS** Basic EPS is calculated as profit available to common shareholders, divided by the weighted average number of outstanding shares during the period. Shares issued as a result of a bonus issue are treated as outstanding for the whole year. Bonus issues occurring after the year-end are also incorporated into the calculation. For rights issues, a theoretical ex-rights formula is used to calculate the bonus element. Comparative EPS is adjusted for bonus issues and rights issues.
- US GAAP** Similar to **IFRS**.

# Other accounting and reporting topics

## Diluted EPS

**IFRS** For diluted EPS, earnings are adjusted for the after-tax amount of dividends and the impact resulting from the assumed conversion of dilutive potential ordinary shares; diluted shares are also adjusted accordingly for any assumed conversions. A conversion is deemed to have occurred at the beginning of the period or the date of the issue of potential dilutive ordinary shares, if later. There is no '*de minimis*' dilution threshold below which diluted EPS need not be disclosed.

**US GAAP** Similar to **IFRS**.

## Diluted EPS – share option

**IFRS** The 'treasury share' method is used to determine the effect of share options and warrants. The assumed proceeds from the issue of the dilutive potential ordinary shares are considered to have been used to repurchase shares at fair value. The difference between the number of shares issued and the number of shares that would have been issued at fair value is treated as an issue of ordinary shares for no consideration (i.e., a bonus issue) and is factored into the denominator used to calculate the diluted EPS. The earnings figure is not adjusted for the effect of share options/warrants.

**US GAAP** Similar to **IFRS**; however, when applying the treasury stock (share) method in year-to-date computations, the number of incremental shares to be included in the denominator is determined by computing a year-to-date weighted average of the number of incremental shares included in each quarterly diluted EPS computation.

### Recent proposals - US GAAP

The FASB issued an exposure draft in December 2003 proposing revisions to FAS 128, Share-based Payment, designed to converge the computations of basic and diluted EPS with IFRS. The ED proposed changes to the treasury stock method to eliminate the averaging of quarterly computations, and new computational guidance covering mandatorily convertible instruments, contracts that may be settled in cash or shares and contingently issuable shares. The FASB issued a revised ED for FAS 128 in September 2005, proposing further changes to the treasury stock method to include in assumed proceeds the carrying amount of certain instruments classified as liabilities that may be settled in shares.

**REFERENCES:** **IFRS:** IAS 33.  
**US GAAP:** FAS 128.

## Related-party transactions

The objective of the disclosures required by all three frameworks in respect of related-party relationships and transactions is to ensure that users of financial statements are made aware of the extent to which the financial position and results of operations may have been influenced by the existence of related parties.

Related-party relationships are generally determined by reference to the control or indirect control of one party by another, or by the existence of joint control or significant influence by one party over another. All three accounting frameworks are broadly similar as to which parties would be included within the definition of related parties, including subsidiaries, joint ventures, associates, directors and shareholders.

Certain disclosures are required if the relationship is one based on control, regardless of whether transactions between the parties have taken place. These include the existence of the related-party relationship, the name of the related party and the name of the ultimate controlling party.

# Other accounting and reporting topics

## Disclosures and exemptions

**IFRS** The nature and extent of any transactions with all related parties and the nature of the relationship is disclosed, together with the amounts involved. There is no specific requirement to disclose the name of the related party (other than the ultimate parent entity, immediate parent entity and ultimate controlling party). There is a requirement to disclose the amounts involved in a transaction, the amount, terms and nature of the outstanding balances, any doubtful amounts related to those outstanding balances and balances for each major category of related parties.

The compensation of key management personnel is disclosed in total and by category of compensation.

**US GAAP** Similar to **IFRS**, except that disclosure of compensation of key management personnel is not required. SEC regulations, however, require disclosure of compensation of key management personnel as well as other specific disclosures.

**Belgian GAAP** Standard-form disclosures relating to specific relationships with affiliated companies should be provided. This does not include transactions such as purchases or sales.

Whereas the scope of **IFRS** disclosure requirements is limited to associates, based on ownership of 20% or more of voting rights, Belgian requirements extend to companies in which the reporting entity holds 10% or more of the voting rights.

Under **IFRS**, key management personnel and individuals owning significant voting rights are considered as related parties and, consequently, full disclosure requirements apply. In Belgium, disclosure requirements are restricted to remuneration, loans and guarantees granted to directors or individuals controlling the reporting entity, and to commitments made by the entity in their favour (e.g., guarantees).

**REFERENCES:** **IFRS:** IAS 1 and IAS 24.  
**US GAAP:** FAS 57.

# Other accounting and reporting topics

## Segment reporting

Both **IFRS** and **US GAAP** have specific requirements about the identification, measurement and disclosure of segment information. The similarities and differences are shown in the table below. The topic is not specifically addressed by **Belgian GAAP**. The only requirement is for disclosure of sales analysed by significantly different types of activity and geographical markets. However, in practice, this disclosure is seldom made in individual entity financial statements, on the grounds of confidentiality.

ISSUE	IFRS	US GAAP
<b>General requirements</b>		
Scope	Listed entities and entities in the process of listing. Non-listed entities may choose full compliance.	Listed entities. Non-listed entities are encouraged but not required to comply.
Format	Business and geographical reporting, one as primary format other as secondary. Choice will depend on the impact on business risks and returns. The secondary format requires less disclosure.	Based on operating segments and the way the chief operating decision-maker evaluates financial information for purposes of allocating resources and assessing performance.
<b>Identification of segment</b>		
General approach	Based on profile of risks and returns and internal reporting structure.	Based on the internally reported operating segments.
Aggregation of similar business/operating segments	Specific factors are given to determine whether products and services are similar.	Similar criteria apply for the aggregation of similar operating segments.
Aggregation of similar geographical segments	As for business/operating segments: six factors as given, focusing on economic and political conditions, special risks, exchange control regulations and currency risks.	Not specified. Certain disclosures (revenues and assets) are required, on a consolidated basis, of domestic operations, foreign countries in total and each material country.
Threshold for reportable segments	Revenue, results or assets are 10% or more of all segments. If revenue of reported segments is below 75% of the total, additional segments are reported until the 75% threshold is reached.	Similar to <b>IFRS</b> .
Segments not reported	Segments not identified as above are included as unallocated items.	Included in 'all other' category, with sources of revenue disclosed.
Maximum number of reported segments	No limits.	Same as <b>IFRS</b> .
<b>Measurement</b>		
Accounting policies for segments	Those adopted for consolidated financial statements. Entities may disclose additional segment data based on internal accounting policies.	Those adopted for internal reporting to the chief operating decision-maker for the purposes of allocating resources and assessing performance.
Symmetry of allocation of assets/liabilities, revenues/expenses	Symmetry required.	Not required, but asymmetrical allocations are disclosed.
<b>Main disclosures</b>		
Factors used to identify reportable segments	No specific disclosure required.	Required, including basis of organisation (for example, based on products and services, geographic areas, regulatory environments) and types of product and service from which each segment derives its revenues.

# Other accounting and reporting topics

ISSUE	IFRS	US GAAP
<b>Main disclosures - continued</b>		
Composition of segments	Types of products and services included in each reported business segment and composition of each geographical segment are disclosed.	Same as <b>IFRS</b> .
Profit	Required. The results of continuing operations are disclosed separately from the results of discontinued operations.	Required.
Assets and liabilities	Assets required. Liabilities for primary segment format only.	Assets required. Liabilities not required.
External and inter-segment revenue	External revenue required. Inter-segment revenue in primary segment format only.	Required on a consolidated basis, and on a segment basis if included in the measurement of segment profit/loss for internal reporting.
Depreciation and amortisation expense and other significant non-cash expense	Required only for primary segment format.	Required for reportable segments if included in the measurement of segment profit/loss in internal reporting or otherwise regularly reported to chief operating decision-maker.
Exceptional (significant) items	Encouraged but not required for primary segment format only.	
Interest revenue and interest expense	Not required.	
Income tax	Not required.	
Capital expenditure on an accrual basis	Required.	
Profit/loss from investments in equity method investees, and amount of investment in equity method investees	Required if operations of associate are substantially all within a single segment.	
Major customers	Not required.	Total revenue is disclosed, as well as the relevant segment that reported the revenues for each external customer greater than or equal to 10% of consolidated revenue.
Reconciliation of total segment revenue, total segment measures of profit or loss (for continuing and discontinued operations), total segment assets, total segment liabilities and any other significant segment totals to the corresponding totals of the entity	Required.	Required, except for segment liabilities.

## Recent proposals - IFRS

The IASB issued an exposure draft on operating segments (ED 8) that sets out the requirements for disclosing information about an entity's operating segments, its products and services, the geographical areas in which it operates and its major customers. ED 8 adopts the management approach to segment reporting set out in FAS 131, Disclosures about Segments of an Enterprise and Related Information. It may require disclosure of information that differs from the information used to prepare the income statement and balance sheet. ED 8 generally has the same wording as that of FAS 131. The ED is part of the short-term convergence project of the two standard setters and is expected to be published by the end of 2006.

**REFERENCES:** **IFRS:** IAS 14.  
**US GAAP:** FAS 131.

# Other accounting and reporting topics

## Discontinued operations

**IFRS** and **US GAAP** contain requirements for the measurement and disclosures of 'discontinued' operations.

**Belgian GAAP** does not provide any definition of discontinuing operations. However, specific accounting principles apply to entities, subdivisions and business segments that can no longer be considered as going concerns.

ISSUE	IFRS	US GAAP
Definition	Operations and cash flows that can be clearly distinguished operationally and for financial reporting and represent a separate major line of business or geographical area of operations, or are subsidiaries acquired exclusively with a view to resale.	A component is considered a discontinued operation if the operations and cash flows have been or will be eliminated, and if the entity will not have significant continuing involvement. A component that can be clearly distinguished operationally and for financial reporting. It may be a reportable segment, operating segment, reporting unit, subsidiary or an asset grouping.
Envisaged timescale	Completed within a year, with limited exceptions.	Similar to <b>IFRS</b> .
Starting date for disclosure	From the date on which a component has been disposed of or, if earlier, is classified as held for sale.	Similar to <b>IFRS</b> .
Measurement	Lower of carrying value or fair value less costs to sell.	Similar to <b>IFRS</b> .
Presentation	A single amount is presented on the face of the income statement comprising the post-tax profit or loss of discontinued operations and an analysis of this amount either on the face of the income statement or in the notes for both current and prior periods. Separate classification on the balance sheet for assets and liabilities for the current period only.	Similar to <b>IFRS</b> . From measurement date, results of operations of discontinued component (and gain or loss on disposal) are presented as separate line items in the income statement, net of tax, after income from continuing operations. There is no change in balance sheet presentation if discontinuance is not completed by period end, but assets and liabilities (current and non-current) related to the disposal groups are segregated and classified as held for sale.
Ending date of disclosure	Until completion of the discontinuance.	Similar to <b>IFRS</b> .
Disclosures	<ul style="list-style-type: none"> <li>• assets and liabilities of related disposal groups classified as held for sale disclosed separately on the balance sheet;</li> <li>• revenue, expenses, pre-tax result, tax and cash flows for current and prior periods of discontinued operations;</li> <li>• description of disposal group;</li> <li>• expected manner and timing of disposal;</li> <li>• facts and circumstances leading to sale or disposal;</li> <li>• gain or loss recognised on classification as held for sale; and</li> <li>• segment of disposal group.</li> </ul>	Similar to <b>IFRS</b> , except that separate disclosure of operating, investing and financing cash flows related to discontinued operations is not required.
Comparatives	Income statement re-presented for effects of discontinued operations but not balance sheet.	Similar to <b>IFRS</b> .

**REFERENCES:** **IFRS:** IFRS 5.  
**US GAAP:** FAS 144.

# Other accounting and reporting topics

## Post-balance-sheet events

The three frameworks have similar standards on post-balance-sheet events.

### Adjusting events after the balance sheet date

- IFRS** Adjusting events that occurred after the balance sheet date are events that provide additional evidence of conditions that existed at the balance sheet date and that materially affect the amounts included. The amounts recognised in the financial statements are adjusted to reflect adjusting events after the balance sheet date.
- US GAAP** Similar to **IFRS**, referred to as 'Type 2' subsequent events. However, see refinancing and rescheduling of debt payments on p 21.
- Belgian GAAP** Similar to **IFRS**. However, recording of an additional write-down is required if net realisable value of inventories, contracts in progress and short-term investments decreases after the balance sheet date.

### Non-adjusting events after the balance sheet date

- IFRS** Non-adjusting events that occur after the balance sheet date are defined as events that are indicative of conditions that arose after the balance sheet date. The nature and estimated financial effects of such events are disclosed to prevent the financial statements from being misleading.
- US GAAP** Similar to **IFRS**.
- Belgian GAAP** Similar to **IFRS**.

### Announcement of a dividend relating to the financial year just ended

- IFRS** This event is a non-adjusting event.
- US GAAP** The declaration of a cash dividend is a non-adjusting event but a stock dividend is an adjusting event.
- Belgian GAAP** Financial statements submitted to the approval of the shareholders must include proposed profit appropriations, including dividends. Dividends proposed in respect of one financial year are presented as a liability in the year-end financial statements relating to that year, even though they may only be declared and paid in the following year.
- REFERENCES:** **IFRS:** IAS 10.  
**US GAAP:** AU Section 560.

# Other accounting and reporting topics

## Interim financial reporting

### Stock exchange requirements

- IFRS**                      **IFRS** does not require public entities to produce interim statements but encourages interim reporting - see 'Additional guidance' below.
- US GAAP**                      Similar to **IFRS**, the FASB does not mandate interim statements. However, if required by the SEC, domestic US SEC registrants should follow APB 28 and comply with the specific financial reporting requirements in Regulation S-X applicable to quarterly reporting.
- Belgian GAAP**                      Company law stipulates that directors should provide statutory auditors with interim financial statements, at least every six months, comprising a balance sheet and income statement. In addition, companies listed on the Belgian Stock Exchange must publish a half-yearly report relating to their activities during the first six months of the year including:
- key financial data (at least the amount of net sales, as well as pre- or after-tax results and the amount of any interim dividend distribution);
  - a commentary on their activities and results for the period concerned.
- However, those listed companies that prepare consolidated financial statements must publish this report under **IFRS** as adopted by the European Union.

### Additional guidance

Additional guidance under all three frameworks is similar. They include the following:

- Consistent and similar basis of preparation of interim statements, with previously reported annual data and from one period to the next;
- Use of accounting policies consistent with the previous annual financial statements, together with adoption of any changes to accounting policies that it is known will be made in the year-end financial statements (for example, application of a new standard);
- Preparation of the interim statements using a 'discrete approach' to revenue and expenditure recognition that is, viewing the interim period as a distinct accounting period, rather than part of the annual cycle. Incomplete transactions are therefore treated in the same way as at the year-end. Impairment losses recognised in interim periods in respect of goodwill, or an investment in either an equity instrument or a financial asset carried at cost, are not reversed;
- However, **US GAAP** allows allocation between interim periods of certain costs benefiting more than one of those periods, and deferral of certain cost variances expected to be absorbed by year-end. The tax charge in both frameworks is based on an estimate of the annual effective tax rate applied to the interim results;
- Summarised income statement (including segment revenue/profit), balance sheet, cash flow statement, changes in equity, selected notes and (under **IFRS**) a statement of recognised income and expense; and
- A narrative commentary.

Comparatives for the balance sheet are taken from the last annual financial statements under all three frameworks. Under **IFRS** and **US GAAP**, quarterly interim reports contain comparatives (other than for the balance sheet) for the cumulative period to date and the corresponding period of the preceding year.

- REFERENCES:**                      **IFRS:** IAS 34, IFRIC 10  
   **US GAAP:** APB 28, FAS 130, FAS 131.

# Other accounting and reporting topics

## Insurance

### Insurance and reinsurance contracts - definition

**IFRS** introduces a definition of an insurance contract based on the concept of insured event and significant insurance risk transfer. This definition applies to both insurance contracts issued and reinsurance contracts held.

**US GAAP** does not provide a single definition of insurance contract. The classification of contracts is performed by reference to the combined requirements of FAS 60, FAS 97 and FAS 120. Reinsurance contracts are subject to the definition contained in FAS 113. FAS 97 also covers investment contracts that would be accounted for under IAS 39 in **IFRS** financial statements.

The resulting population of insurance contracts under **US GAAP** is a subset of the **IFRS** classification. In addition, 'universal life-type contracts' within FAS 97 contain significant insurance risk under **IFRS** but are required to be accounted for under **US GAAP** using the deposit method of accounting rather than the deferral and matching accounting model used for all other insurance contracts (see hereafter).

Reinsurance contracts that compensate the ceding party for losses but contain a timing delay in reimbursement (i.e., the loss will certainly occur but its timing is uncertain) are subject to deposit accounting under FAS 113 but are classified as insurance contracts under **IFRS**.

One of the results of applying the **IFRS** insurance contract definition is that companies can no longer analogise to FAS 97 measurement principles with respect to their accounting for deferred acquisition costs (DAC). **IFRS** preparers with investment contracts under IAS 39 must look to IAS 18 for accounting guidance related to the recognition and measurement of DAC. **IFRS** also recognises that the fair value of an investment contract cannot be less than the amount payable on demand (the 'deposit floor'); under **US GAAP**, the account value may fall below this level.

**Belgian GAAP** includes a definition of an insurance contract based on the concept of insured event (no concept of significance of insurance risk transfer). This definition applies to both insurance contracts issued and reinsurance contracts held.

### Discretionary participation feature (DPF)

This is a new term under **IFRS** relating to the right of holders of certain insurance contracts and/or financial instruments to receive a supplemental return (in addition to guaranteed benefits) arising from certain components of the residual interest of the entity that has issued contracts with DPF as compound instruments. **IFRS** defines insurance contracts and financial instruments with DPF as compound instruments. **IFRS** does not require but permits the separation of the DPF equity component. The use of hybrid categories classified between equity and liabilities is prohibited.

**IFRS** requires entities to perform an adequacy test for those financial instruments with DPF. This liability adequacy test is different for those financial instruments with DPF that have an equity component. In this case, the liability adequacy test is based on IAS 39. In all other cases, IFRS 4 applies.

This type of participation is described under **US GAAP** as policyholder dividends, and guidance is provided on accounting for dividends paid out of insurance contracts.

Entities must recognise a liability for the expected dividend payout based on an estimate of the amount to be paid. There are no requirements to disclose the portion of equity that arises from contracts that pay dividends. However, any dividend payments or declarations in excess of the liability are charged to profit or loss when paid or declared.

The possibility of such dividends being paid on financial instruments is not contemplated in **US GAAP**. Current **US GAAP** reporters have adopted the insurance accounting guidelines for measuring the obligations under such contracts.

Under **Belgian GAAP** there is no requirement to classify DPF features as a liability or a separate component of equity. Belgian legislation provides guidance on profit sharing and recognition of allocated profit sharing (whether allocated or unallocated to individual policies). Therefore, participation features are recognised as a liability as soon as the entity has determined the percentage of profit sharing. Allocated dividends provisions are calculated on the same basis as for other mathematical reserves.

# Other accounting and reporting topics

## Insurance and reinsurance contracts – measurement

The existing accounting policies for insurance contracts issued and reinsurance contracts held (including related intangible assets like deferred acquisition costs) are exempt from **IFRS** hierarchy and need not be changed on adoption of IFRS 4, except for the following five requirements:

1. Provisions for possible claims under contracts that are not in existence at the reporting date (such as catastrophe and equalisation provisions) are prohibited;
2. Insurance liabilities must be tested for adequacy;
3. Reinsurance assets must be tested for impairment;
4. Insurance liabilities can be de-recognised only when they are discharged or cancelled or expire;
5. Insurance liabilities and income should not be offset against related reinsurance assets and expenses.

**US GAAP** has specific measurement guidance for insurance contracts and reinsurance contracts. As explained above, **IFRS** allows entities to continue with their accounting policies developed under another GAAP. There are several differences between **US GAAP** and **IFRS** and the entity's insurance and reinsurance accounting policies that have been developed from another GAAP basis. These are not covered by this publication.

Under **IFRS** the asset liability adequacy test requirement is met by the FAS 60 premium deficiency test. However, any deficiency resulting from the assumed realisation of unrealised gains or losses is reflected through the income statement under **IFRS** because **IFRS** does not have the option to reflect this type of liability adequacy loss through equity. This type of loss is known in **US GAAP** as a 'shadow' premium deficiency adjustment. In addition, **IFRS** requires guaranteed options to be considered in the liability adequacy test. In **US GAAP**, these are provided for under SOP 03-01 and are not explicitly considered in the premium deficiency test.

**Belgian GAAP** has specific requirements on measurement for all contracts issued by an insurance entity. For life business, the guidance refers to the calculation methodology as well as the assumptions used. For both life and non-life businesses, Belgian legislation requires the entity to calculate outstanding loss reserves, IBNR reserves and provisions for unallocated expenses. Those reserves are not discounted.

Furthermore, Belgian legislation requires the following:

1. For some non-life risks, catastrophe and equalisation reserves must be calculated. The measurement basis is determined by law;
2. For business with levelled premiums and increasing risks, recognition of ageing reserves must be calculated on an actuarial basis;
3. All liabilities must be tested for adequacy;
4. For the life business, a general provision is calculated to reflect the low interest rate risk. This provision uses assumptions that are determined by law.

Insurance liabilities should not be offset against related reinsurance assets.

## Insurance and reinsurance contracts - deposit accounting and unbundling of deposit components

**IFRS** requires the unbundling and separate measurement of the deposit component bundled in an insurance contract if and only if the deposit can be reliably measured and the entity's accounting policies do not recognise all rights and obligations arising from it. This requirement is limited in practice to situations in which the insurer or reinsurer has established experience accounts that refund the policyholder or cedant but has not appropriately reflected this obligation in its balance sheet.

**IFRS** also allows the unbundling of deposit components on a voluntary basis if the deposit component can be reliably measured. This right would allow preparers to use the FAS 97 deposit accounting approach for universal life-type contracts (these contracts most likely qualify as insurance contracts under **IFRS** because they usually transfer significant insurance risk). For these contracts, **US GAAP** requires the recognition of the liability representing the policyholder's account balance with the insurer. The account balance concept is equivalent to the deposit component concept in **IFRS**.

Under **Belgian GAAP**, premiums (net of ceded premiums) are recognised as revenue with a related expense representing the increase in liability. Liabilities are presented net of reinsurer's share on the balance sheet with presentation of related reinsurance assets. There is no unbundling concept under **Belgian GAAP**.

# Other accounting and reporting topics

## Insurance contracts sold by an insurer to its own defined benefit plan

Insurance contracts sold by an insurer to its own defined benefit plan will generally be eliminated on consolidation, as outlined in IFRS 4 implementation guidance. The financial statements will then include:

- the full amount of the pension obligation under IAS 19, Employee Benefits, with no deduction for the plan's rights under the contract;
- no liability to policyholders under the contract; and
- the assets backing the contract.

Under **US GAAP**, these contracts are recorded by including the value of the insurance contract as plan assets in the calculation of the company's net defined benefit liability, and reflecting the insurance contract liability in accordance with the applicable insurance accounting guidance.

Under **Belgian GAAP** insurance contracts relating to the defined benefit plans are shown on the face of the balance sheet and follow the same accounting requirements as the other insurance contracts.

## Insurance and reinsurance contracts - embedded derivatives

Under **IFRS**, embedded derivatives that also meet the definition of insurance contracts are not required to be separated and fair valued. Options to surrender the insurance contract are exempted from separation and fair value measurement if the option price is a fixed amount or a fixed amount plus interest. This exemption also applies to derivatives embedded in financial instruments with DPF. Under **US GAAP**, these embedded derivatives are not subject to exemptions from the general principle of separation and fair value measurement when they are not closely related to the host contract.

**IFRS** classifies persistency bonuses as embedded derivatives; **US GAAP** treats them as an effective yield adjustment and does not require them to be separated and fair valued.

## Disclosures

**IFRS** Requires extensive disclosures to allow the users of financial statements to understand the measurement bases adopted, the materiality of the reported amounts arising from insurance contracts and the factors that affect the uncertainty of amount and timing of the cash flows arising from insurance and reinsurance contracts.

**US GAAP** Disclosures are less demanding than **IFRS**. However, similar disclosures are included in other sections of the annual report (for example in the MD&A section). An example of such disclosure is the claims development table.

**Belgian GAAP** No separation required. Any option or guarantee would be reflected in the liability adequacy test. Disclosure requirements are less demanding. However, detailed statistical information on life and non-life insurance and reinsurance contracts must be provided on a yearly basis.

## Separate accounts

**IFRS** Does not permit a single line presentation.

**US GAAP** FAS 60 and SOP 03-01 allow single line presentation in the balance sheet and offsetting of investment results, with changes in policyholder liabilities in the income statement.

**Belgian GAAP** Single line presentation on the balance sheet. No offsetting of investment results with changes in policyholder liabilities in the income statement.

**REFERENCES:** **IFRS:** IFRS 4.  
**US GAAP:** FAS 60, 97, 120 and 113, SOP 03-1, SOP 95-1 for insurance contracts, and FAS 91 for financial instruments, FAS 133.

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# PricewaterhouseCoopers has a range of tools and publications to help companies make the change to IFRS and apply the standards

## Making the change to IFRS

For many companies the change to **IFRS** will mean fundamental changes – changes that can ripple right across the business operations.

This publication explains PwC's comprehensive approach to transition, including our proven accounts conversion methodology and e-platform that enables companies to work collaboratively with PwC throughout the transition period.

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Comperio **IFRS** is a one-stop instant access point to a comprehensive collection of technical financial reporting and assurance literature. It provides a fast and effective way of finding the answers to your **IFRS** questions.

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For copies of the publications, to order P2P IAS or Comperio IFRS, or for any IFRS question you might have, please contact our following Global Capital Markets Group experts:

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