IFRS readiness series

IFRS and US GAAP similarities and differences*

September 2008

*connectedthinking

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IFRS and US GAAP similarities and differences

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The heart of the matter

IFRS: A reality for US business

Conversion is coming

Most of the world already talks to investors and stakeholders about corporate financial performance in the language of International Financial Reporting Standards (IFRS). All signs suggest that the United States (US) will soon follow.

By acting now, well in advance of IFRS conversion deadlines, US companies have a rare opportunity to make time work for them. Early action will allow companies to control costs, understand and manage the challenging scope of implementation, and ensure a smooth transition plan.

Conversion experience in Europe, as well as Asia and Australia, shows that conversion projects often take more time and resources than anticipated. Historically, that has led some companies to rush and risk mistakes or outsource more work than necessary, driving up costs and hindering the embedding of IFRS knowledge within the company.

At the same time, conversion brings a one-time opportunity to comprehensively reassess financial reporting and take “a clean sheet of paper” approach to financial policies and processes. Such an approach recognizes that major accounting and reporting changes may have a ripple effect impacting many aspects of a company’s organization.

Adopting IFRS will likely impact key performance metrics, requiring thoughtful communications plans for the Board of Directors, shareholders and other key stakeholders. Internally, IFRS could have a broad impact on a company's infrastructure, including underlying processes, systems, controls, and even customer contracts and interactions.

Many of these business effects will require attention; others can be addressed at the discretion of the company. In both cases, companies that identify these impacts early will be in a better position to take appropriate action. No company will want to embrace every available change in connection with adopting IFRS, but insightful companies will want to understand their options so that they know what the possible changes are, which options are most appealing, and how best to pursue them.

The process of conversion demands robust change management, initiated and championed by a company's leadership. PricewaterhouseCoopers (PwC), drawing on its broad experience with conversion projects in dozens of countries, has a full spectrum of publications aimed at providing insight for top executives as they confront IFRS conversion. Moving forward, PwC will continue to stand at the vanguard of IFRS conversion developments, providing guidance and assistance.

The conversion from US GAAP to IFRS brings a long list of technical accounting changes. This volume is designed to provide a broad understanding of the major differences between the accounting methods and to identify the impact those changes could have on individual companies. While this publication does not cover every difference, it focuses on a number of differences PwC considers most significant and/or most common.

This publication is a part of the firm's ongoing commitment to help companies navigate the switch from US GAAP to IFRS.

An in-depth discussion

Examining the implications

It is important to note that conversion to IFRS will require the retroactive restatement of certain historical periods presented within a company's first set of IFRS based financial statements. Those restated periods could show a host of changes to a company's key metrics, bottom-line performance and financial position.

For instance, IFRS changes could result in higher or lower reported earnings. This is because, on one hand, where differences exist, revenues may be recognized earlier under IFRS. On the other hand, IFRS reporting may reduce reported earnings through increases in certain expenses, such as interest expense.

In addition to differences in bottom-line results, earnings volatility may vary when reporting under IFRS. Volatility may, for example, increase because of more frequent impairments and impairment reversals under IFRS. Other aspects of IFRS work to reduce volatility.

At the same time, the conclusion as to whether a given financial instrument is accounted for as debt or as equity can vary under the two frameworks. These differences can have a profound effect on a company's capitalization profile and reported earnings.

Generally, more entities will be consolidated under IFRS. This difference could have a fundamental impact on the financial statements as a whole.

The impacts of these and so many other aspects of IFRS need careful study. Prior to converting, proactive companies will closely consider the impacts of these accounting differences and prepare for them.

A broad impact

No overview can touch on the entire volume of differences between IFRS and US GAAP. But here are a few illustrative examples of areas where accounting changes can impact wider business considerations. The selection was designed to provide a glimpse of the potential breadth of the impact of changing to IFRS. Everything from reported revenues, expenses, assets, liabilities, equity, and even what entities are consolidated, is subject to change.

Revenue recognition

In many regards, IFRS and US GAAP are supported by similar principles. But US GAAP uses additional layers of rules in its guidance. The practical accounting differences that result are real and can reverberate throughout a company.

For instance, US GAAP provides highly prescriptive revenue recognition guidance, including a significant number of standards issued by the various standard setting bodies in the US. These highly detailed standards often dictate industry-specific accounting. By comparison, IFRS has just two primary revenue standards and a handful of revenue related interpretations that capture all revenue transactions. The broad principles laid out in IFRS are generally applied without elaboration and without exceptions for specific industries.

This publication does not attempt an industry-by-industry inventory of what IFRS conversion means for revenue recognition. But a brief look at the software industry, as an example, shows that US GAAP has far more specific rules and a higher hurdle for determining fair value and achieving revenue recognition for software related transactions than does IFRS.

In practice, many US software companies have historically molded their business practices around the specific guidance laid out by US GAAP. They might have, for example, tailored their contract terms with clients to meet the reporting standards in place. At the same time, they may have designed their approaches to marketing and the bundling or un-bundling of their products and services to achieve the accounting requirements for revenue recognition. As the accounting requirements change, so may the broader business practices in place.

Those companies and others have an opportunity to closely analyze their business practices and to identify and evaluate potential GAAP differences. Even if a company's existing US GAAP policies are acceptable under IFRS, a thorough analysis can suggest voluntary changes that better align the accounting with the economic substance and how management portrays the business to key stakeholders.

Expense recognition: share-based payments

There are many differences between the two frameworks with respect to when and in what amounts expenses should be recognized. As an example, IFRS may significantly accelerate the expense recognition of certain stock options with graded vesting (e.g., awards that vest ratably over time, such as 25% per year over a four-year period).

The financial reporting impact of these differences may drive some companies to consider restructuring their share-based plans. While varying certain plan terms and conditions will decelerate the expense recognition profile, they will also impact the vesting schedule, thereby potentially raising other human resources and incentive management considerations.

Financial liabilities and equity

Certain differences within the financial liabilities and equity arenas are so significant that they may impact how a company chooses to finance its operations.

Some financial instruments considered equity under US GAAP will need to be treated as debt when reporting under IFRS. Instruments with contingent settlement provisions, such as those requiring redemption upon a change in control, represent one example. The classification of these instruments as debt will not only impact net assets and debt to equity relationships; it will also result in increased interest expense. This is because associated distributions will no longer qualify for treatment as dividends but, rather, will flow through earnings as a component of interest expense.

For some companies, finding the appropriate debt/equity capitalization ratio under a new accounting definition of what qualifies as debt will require careful study. Managing through the process while considering current debt covenant requirements may add additional complexity.

Consolidation

Under IFRS, the conclusion regarding whether or not to consolidate is premised on the power a company has to govern the financial and operating policies of another. This differs from US GAAP, which employs a two-tiered considerations model with often complex evaluation criteria. The US GAAP rules provide a bevy of exceptions allowing companies to achieve off balance sheet treatment in certain circumstances.

In general, the IFRS approach leads to increased consolidation. Becoming responsible for reporting and explaining the performance of newly consolidated entities can have a fundamental impact on how a company portrays itself to key stakeholders. And the implications of becoming a reporting parent to a previously unconsolidated entity spill out across a company's operations, potentially affecting debt covenants, financing arrangements, the entities covered by management's Sarbanes-Oxley certifications and other legal requirements.

In search of a closer look

This publication is designed to alert companies to the scope of accounting changes that IFRS conversion will bring and to stimulate executive thinking and preparation. With that in mind, the body of the publication provides an overview of some of the more significant differences between IFRS and US GAAP.

In addition, the table following the “What this means for your business” discussion offers a sampling of some of the more significant issues companies will likely face as they begin the conversion process. Those and other matters are expanded upon within the main body of this publication.

What this means for your business

A call to action

Ask the important questions now

Short-term uncertainty about when the United States will require IFRS conversion does not change the long-term outlook. The international momentum toward IFRS and the benefits to the capital markets of adopting IFRS are too great. But this interlude before mandatory implementation offers an opportunity to companies willing to take it.

PwC suggests a three-stage IFRS conversion methodology, customizable to the unique needs of individual companies and tested by real world experience. Included within the methodology is the close examination of how IFRS will change a company's accounting policies and how those changes ripple through general business practices and into areas of concern for senior leadership.

The conclusions of that review will vary, depending on the circumstances of each company and its industry. Forward-thinking executives can expect that IFRS conversion could affect business fundamentals such as communications with key stakeholders, operations and infrastructure, tax and human capital strategies.

For each of those areas, there are important questions for high-level executives to ask and be prepared to answer.

Communications with key stakeholders

- Are we prepared to manage the board communication/education process with respect to changes in the key metrics historically communicated?
- How do we best engage the board from the onset?
- How will we communicate our findings with our shareholders, analysts, and others?
- What are our competitors doing? How do we compare? How will others compare us?

Operations and infrastructure

- Are we considering IFRS in our current negotiations and dealings with customers and vendors? What long-term contract discussions should be shaped today with the requirements of IFRS in mind?
- What change management structures are in place? Will they get the job done?
- Can we consolidate legacy systems, processes and controls under IFRS? Are we buying or implementing new systems based on a US GAAP world? Will they provide us with the information we need under IFRS?
- What are the IFRS implications for our tax planning strategies?

Human capital strategies

- Are all appropriate functional disciplines and business locations sufficiently engaged?
- Which incentives will work best in ensuring a business-wide conversion?
- How does this change affect our employee compensation strategy?
- What level of in-house experience/expertise do we have?
- What types of training will it require?

By addressing these questions early, companies increase their chances of enjoying a smooth, economical and effective conversion. This thorough approach helps companies “bake-in” rather than “bolt-on” the IFRS changes. Failure to do that may lead to ongoing conversion efforts, each of them aiming to correct the previous effort. A smart investment now can minimize the chances of that happening and can help companies realize the benefits of standardized global accounting.

Embrace the new reality

In an increasingly integrated global marketplace, it makes little sense for businesses to operate under multiple distinct financial reporting frameworks.

The efficiency drag and potential for confusion are unacceptable costs. Regulators and business leaders recognize this. That's why the London-based International Accounting Standards Board has worked closely with the Financial Accounting Standards Board to bring US GAAP and IFRS closer together.

Nations are choosing IFRS and have been voting with their feet. More than 100 countries, including the members of the European Union and much of Asia, have already adopted and implemented IFRS. Israel is adopting IFRS this year, with Chile and South Korea set for 2009, Brazil for 2010, and Canada for 2011.

The US standard setters and the US Securities and Exchange Commission are moving American businesses in the same direction.

A closer look

A sampling of differences

This publication is designed to alert companies to the scope of accounting changes that IFRS conversion will bring and to stimulate executive thinking and preparation. With that in mind, the body of the publication provides an overview of some of the more significant differences between IFRS and US GAAP.

In addition, the following table offers a sampling of some of the more significant accounting differences that companies will likely face as they begin the conversion process. These and other matters are expanded upon within the body of this publication.

Revenue recognition	Broad-based differences in the accounting for the provision of services (US GAAP generally prohibits the approach required by IFRS) may impact the timing of revenue recognition.
	Differences involving the separation of multiple deliverable arrangements into components, and the allocation of consideration between those components, may impact the timing of revenue recognition. Where differences exist, revenue may be recognized earlier under IFRS.
	The guidance in IFRS with respect to how customer loyalty programs are treated may drive significant differences. The incremental cost model that is permitted under US GAAP is not accepted under IFRS.
Expense recognition—share-based payments	Companies that issue awards that vest ratably over time (e.g., 25% per year over a four-year period) may encounter accelerated expense recognition as well as a different total value to be expensed, for a given award, under IFRS.
	Income tax expense (benefit) related to share-based payments may be more variable under IFRS.
	There are differences as to when an award is classified as a liability or as a component of equity. Those differences can have profound consequences, since awards classified as liabilities require ongoing valuation adjustments through earnings each reporting period, leading to greater earnings volatility.
Expense recognition—employee benefits	Under IFRS, companies may elect to account for actuarial gains/losses in a manner such that the gains/losses are permanently excluded from the primary statement of operations.
	Differing restrictions over how assets are valued for the purposes of determining expected returns on plan assets exist under IFRS.
	IFRS allows for the separation of certain components of net pension costs whereas US GAAP does not. The interest cost and return on assets components of pension cost may be reported as part of financing costs within the statement of operations under IFRS as opposed to operating income under US GAAP.

Assets—nonfinancial assets	Differences in the asset impairment testing model may result in assets being impaired earlier under IFRS.
	The broad based requirement to capitalize development costs under IFRS (when certain criteria are met) creates the potential for differences compared with US GAAP, wherein development costs are generally expensed as incurred.
	IFRS prohibits (whereas US GAAP permits) the use of the last-in, first-out inventory-costing methodology.
	IFRS does not have bright line testing criteria for the classification of leases (i.e., operating or finance (capital) leases). In addition, both achieving sale/leaseback accounting and earlier gain recognition under sale/leaseback accounting are more frequent when reporting under IFRS.
Assets—financial assets	Many financing arrangements, such as asset securitizations, that achieved off balance sheet treatment (i.e., derecognition) under US GAAP will require full or partial-balance sheet recognition under IFRS.
	Investments in unlisted equity securities generally need to be recorded at fair value under IFRS, whereas under US GAAP they are generally recorded at cost (except for certain industries that apply a fair value model).
	Differences in the treatment of changes in estimates associated with certain financial assets carried at amortized cost may affect asset carrying values and reported earnings differently under the two accounting frameworks.

Liabilities—taxes

There are differences in the recognition and measurement criteria of uncertain tax positions (i.e., income tax contingencies) under IFRS and US GAAP.

The physical location of inventory that has moved cross border within a consolidated group can impact tax expense differently under the two frameworks. Deferred taxes on intragroup profits are determined by reference to the buyer's tax rate under IFRS. When reporting under US GAAP, any income tax effects resulting from intragroup profits are deferred at the seller's tax rate.

Differences in the treatment of subsequent changes to certain previously established deferred taxes could result in less volatility in the statement of operations under IFRS.

Liabilities—other

Differences within the accounting for provisions, including differing thresholds as to when provisions are to be established, may lead to earlier recognition of expense under IFRS.

Specific communication to employees regarding the details of a restructuring plan is not required before the recognition of a provision under IFRS (which could accelerate the timing of expense recognition).

Financial liabilities and equity

Generally, warrants issued in the US can be net share settled and, hence, are classified as equity under US GAAP. Warrants of that nature would, under IFRS, be considered derivative instruments and would be marked to market through earnings.

More instruments are likely to be classified as liabilities, as opposed to equity, under IFRS (e.g., instruments with contingent settlement provisions). Because balance sheet classification drives the treatment of disbursements associated with the instruments in question, the classification differences would also impact earnings (i.e., the treatment of disbursements as interest expense as opposed to dividends).

More instruments are likely to require bifurcation, resulting in treatment as two separate instruments under IFRS (i.e., compound and convertible instruments being split between equity and liability classification). The split accounting under IFRS versus the singular accounting under US GAAP can create a significantly different balance sheet presentation while also impacting earnings.

Derivatives and hedging

While the hedging models under IFRS and US GAAP are founded on similar principles, there are a number of detailed application differences, some of which are more restrictive under IFRS and others of which are more restrictive under US GAAP.

In relation to effectiveness testing, IFRS does not permit the shortcut method that is accepted under US GAAP. As a result, if hedge accounting is to be maintained on an uninterrupted basis, current US GAAP reporting entities using the shortcut method will need to prepare documentation that supports hedge accounting (outside of the shortcut strategy), with said documentation in place no later than the transition date to IFRS.

IFRS does not include a requirement for net settlement within the definition of a derivative, effectively resulting in more instruments being recognized as derivatives under IFRS. Hence, more instruments will be recorded on the balance sheet at fair value with adjustments through earnings and greater earnings volatility when reporting under IFRS.

Consolidation

The entities consolidated within the financial statements may vary with, generally, more entities consolidated under IFRS. IFRS focuses on a control-based model, with consideration of risks and rewards where control is not apparent. US GAAP utilizes a dual consolidation decision model, first assessing a variable interests model and then a voting control model.

US GAAP is undergoing significant changes in converging with IFRS in this area. Companies will be required to present noncontrolling interests as part of equity following the implementation of new US GAAP guidance. Additionally, in the event of a loss of control, to the extent any ownership interest is retained, the new US GAAP guidance will require that the interest retained be remeasured at fair value on the date control is lost. Any resulting gain or loss will be recognized in earnings. This is similar to the accounting currently required under IFRS.

Business combinations

US GAAP is undergoing significant changes in converging with IFRS in this area. Upon the adoption of the new US GAAP guidance, many historical differences will be eliminated, although certain important differences will remain.

Following the adoption of the new guidance, companies will be required to expense acquisition costs that were previously capitalized. Similar treatment will be required under IFRS.

Upon adoption of the new US GAAP guidance, restructuring costs will be recognized separately from a business combination in the post combination period. Similar treatment is required under IFRS.

Following the adoption of new guidance under both frameworks, there will be significant recognition differences, at the acquisition date, with respect to contingent liabilities. In addition, there will be differences in the subsequent measurement of contingent liabilities that may result in more volatility under IFRS.

Other accounting and reporting topics

Differences in the calculation methodologies used to determine dilutive potential shares could result in changes to a company's diluted earnings per share when reporting under IFRS.

Differences in the guidance addressing the offsetting of assets and liabilities could require more balance sheet gross ups under IFRS.

Fewer transactions will qualify for discontinued operations under IFRS.

Income statement recognition of exchange gains/losses captured within equity (the cumulative translation adjustment account) will be more frequent under IFRS.

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A further study

IFRS and US GAAP similarities and differences

About this publication

This publication is for those who wish to gain a broad understanding of the significant differences between International Financial Reporting Standards (IFRS) and US Generally Accepted Accounting Principles (GAAP). By no means, however, is it all-encompassing. Instead, PricewaterhouseCoopers has focused on a selection of those differences most commonly found in practice. When applying the individual accounting frameworks, companies should consult all of the relevant accounting standards and, where applicable, national law.

The goals of this publication's executive summary are to put into context how conversion to IFRS has ramifications far beyond the accounting department, to provide insight into a sampling of key differences between IFRS and US GAAP and to encourage early consideration of what IFRS means to your organization. The remainder of the document provides further details on the differences between the two sets of standards, taking into account authoritative pronouncements issued under IFRS and US GAAP up to June 30, 2008.

To gain a deeper understanding of how to best implement IFRS at your company, see this book's companion publications: PricewaterhouseCoopers' *IFRS implementation guide* and PricewaterhouseCoopers' *Adopting IFRS*.

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IFRS first-time adoption

IFRS 1, *First Time Adoption of International Financial Reporting Standards*, is the guidance that is applied during preparation of a company's first IFRS-based financial statements. IFRS 1 was created to help companies transition to IFRS and provides practical accommodations intended to make first-time adoption cost-effective. It also provides application guidance for addressing difficult conversion topics.

This section is intended to provide an overview of the standard. PricewaterhouseCoopers' publication *Adopting IFRS* serves as an excellent companion piece to this guide by helping companies understand, in greater detail, the requirements of IFRS 1 and by providing answers to common questions in relation to the implementation of IFRS.

What is IFRS 1?

The key principle of IFRS 1 is full retrospective application of all IFRS standards that are effective as of the closing balance sheet or reporting date of the first IFRS financial statements. IFRS 1 requires companies to:

- Identify the first IFRS financial statements;
- Prepare an opening balance sheet at the date of transition to IFRS;
- Select accounting policies that comply with IFRS and to apply those policies retrospectively to all of the periods presented in the first IFRS financial statements;
- Consider whether to apply any of the 15 optional exemptions from retrospective application;
- Apply the five mandatory exceptions from retrospective application; and
- Make extensive disclosures to explain the transition to IFRS.

There are 15 optional exemptions to ease the burden of retrospective application. There are also 5 mandatory exceptions where retrospective application is not permitted. The exemptions provide limited relief for first-time adopters, mainly in areas where the information needed to apply IFRS retrospectively may be most challenging to obtain. There are, however, no exemptions from the demanding disclosure requirements of IFRS and companies may experience challenges in collecting new information and data for retroactive footnote disclosures.

Many companies will need to make significant changes to existing accounting policies in order to comply with IFRS, including in such key areas as revenue recognition, financial instruments and hedging, employee benefit plans, impairment testing, provisions and stock-based compensation.

When to apply IFRS 1?

Most companies will apply IFRS 1 when they transition from their previous GAAP to IFRS and prepare their first IFRS financial statements. These are the first financial statements to contain an explicit and unreserved statement of compliance with IFRS.

The opening IFRS balance sheet

The opening IFRS balance sheet is the starting point for all subsequent accounting under IFRS and is prepared at the date of transition, which is the beginning of the earliest period for which full comparative information is presented in accordance with IFRS. For example, preparing IFRS financial statements for the three years ending December 31, 2011, would have a transition date of January 1, 2009. That would also be the date of the opening IFRS balance sheet.

IFRS 1 requires that the opening IFRS balance sheet:

- Include all of the assets and liabilities that IFRS requires;
- Exclude any assets and liabilities that IFRS does not permit;
- Classify all assets, liabilities and equity in accordance with IFRS; and
- Measure all items in accordance with IFRS.

These general principles are followed except where one of the optional exemptions or mandatory exceptions does not require or permit recognition, classification and measurement in accordance with IFRS.

Some important takeaways

The transition to IFRS can be a long and complicated process with many technical and accounting challenges to consider. Experience with conversions in Europe and Asia indicates there are some challenges that are consistently underestimated by companies making the change to IFRS, including:

Consideration of data gaps—Preparation of the opening IFRS balance sheet may require the calculation or collection of information that was not calculated or collected under US GAAP. Companies should plan their transition and identify the differences between IFRS and US GAAP early so that all of the information required can be collected and verified in a timely way.

Consolidation of additional entities—IFRS consolidation principles differ from those of US GAAP, and those differences may cause some companies to consolidate entities that were not consolidated under US GAAP. Subsidiaries that were previously excluded from the consolidated financial statements are to be consolidated as if they were first-time adopters on the same date as the parent. Companies will also have to consider the potential data gaps of investees in order to comply with IFRS informational and disclosure requirements.

Consideration of accounting policy choices—A number of IFRS standards allow companies to choose between alternative policies. Companies should select carefully the accounting policies to be applied to the opening balance sheet and have a full understanding of the implications to current and future periods. Companies should take this opportunity to approach their IFRS accounting policies with a clean-sheet-of-paper mind-set. Although many accounting policies under US GAAP will be acceptable under IFRS and, therefore, would not require change, companies should not overlook the opportunity to explore alternative IFRS accounting policies that may better reflect the economic substance of their transactions and enhance their communications with investors.

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Revenue recognition

Revenue recognition

US GAAP revenue recognition guidance is extensive and includes a significant number of standards issued by the Financial Accounting Standards Board (FASB), Emerging Issues Task Force (EITF), the American Institute of Certified Public Accountants (AICPA) and the US Securities and Exchange Commission (SEC). The guidance tends to be highly detailed and is often industry specific. IFRS, in comparison, has two primary revenue standards and three revenue focused interpretations. The broad principles laid out in IFRS are generally applied without further guidance or exceptions for specific industries.

A detailed discussion of industry-specific differences is beyond the scope of this publication. However, for illustrative purposes only, we note that US GAAP guidance on software revenue recognition requires the use of vendor-specific objective evidence (VSOE) of fair value before revenue can be recognized. IFRS does not have an equivalent requirement.

One of the most common general revenue recognition issues has to do with (1) the determination of when transactions with multiple deliverables should be separated into components and (2) with the way revenue gets allocated to the different components. While the broad concepts in this area are similar and often result in similar conclusions under both US GAAP and IFRS, the potential for significantly different conclusions also exists. US GAAP focuses on detailed separation and allocation criteria, whereas IFRS focuses on the economic substance of the transaction(s). For example, US GAAP separation criteria indicate that VSOE of fair value is preferable in all circumstances in which it is available. When VSOE is not available, third-party vendor objective evidence may be used. Consideration should be allocated based on relative fair value, but can be allocated based on the residual method in a determination of the fair value of the delivered item. IFRS is not as restrictive in terms of how to obtain sufficient evidence of fair value. For example, IFRS allows the use of cost plus a reasonable margin to determine fair value, which is typically not allowed for US GAAP purposes. This could lead to differences in both the separation and allocation of consideration in multiple deliverable arrangements.

The accounting for customer loyalty programs may drive fundamentally different results. The IFRS requirement to treat customer loyalty programs as multiple-element arrangements in which consideration is allocated to the goods or services and the award credits based on fair value through the eyes of the customer would be acceptable for US GAAP purposes. Many US GAAP reporting companies, however, use the incremental cost model, which is very different from the multiple-element approach required under IFRS. In this instance the implication is that IFRS generally results in the deferral of more revenue and profit.

For service transactions, US GAAP prohibits use of the percentage-of-completion method (unless the transaction explicitly qualifies as a particular type of construction or production contract). Most service transactions that do not qualify for these types of construction contracts are accounted for by using a proportional-performance model. IFRS requires use of the percentage-of-completion method in recognizing revenue under service arrangements unless progress toward completion cannot be estimated reliably (in which case a zero-profit approach is used) or a specific act is much more significant than any other (in which case the service is treated like a sale of a product). Diversity in application of the percentage-of-completion method may also result in differences.

Another difference involves construction contracts, because IFRS prohibits use of the completed-contract method. This may result in the acceleration of revenue recognition under IFRS (depending on the specific facts and circumstances).

In general, due to the significant differences in the overall volume of revenue-related guidance, a detailed analysis of specific fact patterns is necessary to identify and evaluate the potential GAAP differences.

Further details on the foregoing and other selected differences are described in the following table.

Impact	US GAAP	IFRS
Revenue recognition — general The concept of IFRS being principles based and US GAAP being principles based, but also rules laden, is perhaps nowhere more evident than in the area of revenue recognition. This fundamental difference requires a detailed, transaction-based analysis to identify the potential GAAP differences. Those differences may have consequential ramifications on how companies operate, including, for example, how they bundle various products and services in the marketplace.	Revenue recognition guidance is extensive and includes a significant volume of literature issued by various US standard setters. Generally, the guidance focuses on revenues being realized and earned and revenue recognition is considered to involve an exchange transaction; that is, revenues should not be recognized until an exchange transaction has occurred. These rather straightforward concepts are, however, augmented with detailed rules. A detailed discussion of industry-specific differences is beyond the scope of this publication. However, for illustrative purposes only, we note the following. Highly specialized guidance exists for software revenue recognition. One aspect of that guidance focuses on the need to demonstrate VSOE of fair value in order to separate different software elements. This requirement goes beyond the general fair value requirement of US GAAP.	Two primary revenue standards capture all revenue transactions within one of four broad categories: • Sale of goods. • Rendering of services. • Others' use of an entity's assets (yielding interest, royalties, etc.). • Construction contracts. Revenue recognition criteria for each of these categories include 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. Additional recognition criteria apply within each broad category. The principles laid out within each of the categories are generally to be applied without significant further rules and/or exceptions. The concept of VSOE of fair value does not exist under IFRS, thereby resulting in a lower fair value separation threshold for software under IFRS. While the price that is regularly charged by an entity when an item is sold separately is the best evidence of the item's fair value, IFRS acknowledges that reasonable estimates of fair value (such as cost plus a margin) may, in certain circumstances, be acceptable alternatives.

Impact	US GAAP	IFRS
Multiple-element arrangements—general		
While the guidance often results in the same treatment under the two frameworks, careful consideration is required, as there is the potential for significant differences. Where differences do exist, IFRS may result in the separation of more components/elements, which may result in earlier revenue recognition.	Revenue arrangements with multiple deliverables are divided into separate units of accounting if the deliverables in the arrangement meet all of the specified criteria outlined in the guidance, with revenue recognition criteria then evaluated independently for each separate unit of accounting. The US GAAP concept of separating potential units of accounting and identifying/measuring the fair value of a potential unit of accounting looks to market indicators of fair value and does not allow, for example, an estimated internal calculation of fair value based on costs and an assumed or reasonable margin. When there is objective and reliable evidence of fair value for all units of accounting in an arrangement, the arrangement consideration should be allocated to the separate units of accounting based on their relative fair values. When fair value is known for some, but not all potential elements, a residual approach can be used subject to certain restrictions—one restriction being that there is objective and reliable evidence of the fair value of undelivered items. The reverse-residual method—when objective and reliable evidence of the fair value of an undelivered item or items does not exist—is precluded unless other US GAAP guidance specifically requires the delivered unit of accounting to be recorded at fair value and marked to market each reporting period thereafter.	The revenue recognition criteria are usually applied separately to each transaction. In certain circumstances, however, it is necessary to separate a transaction into identifiable components in order to reflect the substance of the transaction. At the same time, two or more transactions may need to be grouped 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. The price that is regularly charged when an item is sold separately is the best evidence of the item's fair value. At the same time, under certain circumstances, a cost-plus-reasonable-margin approach to estimating fair value would be appropriate under IFRS. Under rare circumstances, a reverse residual methodology may be acceptable. The incremental valuation methods available under IFRS may allow for the separation of more components/elements than would be achieved under US GAAP.

Impact	US GAAP	IFRS
Multiple-element arrangements—contingencies		
In situations where the amount allocable to a delivered item includes an amount that is contingent on the delivery of additional items, differences in the frameworks may result in recognizing a portion of revenue sooner under IFRS.	The guidance includes a strict limitation on the amount of revenue otherwise allocable to the delivered element in a multiple-element arrangement. Specifically, the amount allocable to a delivered item is limited to the amount that is not contingent on the delivery of additional items. That is, the amount allocable to the delivered item or items is the lesser of the amount otherwise allocable in accordance with the standard or the noncontingent amount.	IFRS maintains its general principles and would look to key concepts including, but not limited to, the following: • Revenue should not be recognized before it is probable that economic benefits would flow to the entity. • The amount of revenue can be measured reliably. When a portion of the amount allocable to a delivered item is contingent on the delivery of additional items, IFRS might impose a limitation on the amount allocated to the first item. It is important to note, however, that said limitation would not be automatic. A thorough consideration of all factors would be necessary so as to draw an appropriate conclusion. Factors to consider would include the extent to which fulfillment of the undelivered item is within the control of and is a normal/customary deliverable for the selling party as well as the ability and intent of the selling party to enforce the terms of the arrangement.

Impact	US GAAP	IFRS
Multiple-element arrangements—customer loyalty programs		
Entities that grant award credits as part of sales transactions, including awards that can be redeemed for goods and services not supplied by the entity, may encounter differences that impact both the timing and total value of revenue to be recognized. Where differences exist, revenue recognition is likely to be delayed under IFRS.	Currently, divergence exists under US GAAP in the accounting for customer loyalty programs. There are two very different models that are generally employed. Some companies utilize a multiple-element accounting model wherein revenue is allocated to the award credits based on relative fair value. Other companies utilize an incremental cost model wherein the cost of fulfillment is treated as an expense and accrued for as a "cost to fulfill," as opposed to deferred based on relative fair value. The two models can drive significantly different results.	Following adoption of new guidance (effective for annual periods beginning on or after July 1, 2008), IFRS requires that award, loyalty or similar programs whereby a customer earns credits based on the purchase of goods or services be accounted for as multiple-element arrangements. As such, IFRS requires that the fair value of the award credits (otherwise attributed in accordance with the multiple-element guidance) be deferred and recognized separately upon achieving all applicable criteria for revenue recognition. The above-outlined guidance applies whether the credits can be redeemed for goods or services supplied by the entity or whether the credits can be redeemed for goods or services supplied by a different entity. In situations where the credits can be redeemed through a different entity, a company should also consider the timing of recognition and appropriate presentation of each portion of the consideration received given the entity's potential role as an agent versus as a principal in each aspect of the transaction.

Impact	US GAAP	IFRS
Sales of services—general		
A fundamental difference in the guidance surrounding how service revenue should be recognized has the potential to significantly impact the timing of revenue recognition. For example, the percentage-of-completion method required by IFRS is generally precluded under US GAAP unless the transaction is within the scope of construction contract accounting.	US GAAP prohibits the use of the percentage-of-completion (input-measure-driven) model to recognize revenue under service arrangements unless the contract is within the scope of specific guidance for construction or certain production-type contracts. Generally, companies would have to apply the proportional-performance (based on output measures) model or the completed-performance model. In limited circumstances where output measures do not exist, input measures, which approximate progression toward completion, may be used. Revenue is recognized based on a discernible pattern and if none exists, then the straight-line approach may be appropriate. Revenue is deferred where the outcome of a service transaction cannot be measured reliably.	IFRS requires that service transactions be accounted for under the percentage-of-completion method. Revenue may be recognized on a straight-line basis if the services are performed by an indeterminate number of acts over a specified period of time. When the outcome of a service transaction cannot be measured reliably, revenue may be recognized to the extent of recoverable expenses incurred. That is, a zero-profit model would be utilized, as opposed to a completed-performance model. If the outcome of the transaction is so uncertain that recovery of costs is not probable, revenue would need to be deferred until a more accurate estimate could be made. Revenue may have to be deferred in instances where a specific act is much more significant than any other acts.
Sales of services—right of refund		
Differences within the models provide the potential for revenue to be recognized earlier under IFRS when services-based transactions include a right of refund.	A right of refund may preclude recognition of revenues from a service arrangement until the right of refund expires. In certain circumstances, companies may be able to recognize revenues over the service period—net of an allowance—if the strict criteria within the guidance are met.	Service arrangements that contain a right of refund must be considered in order to determine whether the outcome of the contract can be estimated reliably and whether it is probable that the company would receive the economic benefit related to the services provided. When reliable estimation is not possible, revenue is recognized only to the extent of the costs incurred that are probable of recovery.

Impact	US GAAP	IFRS
Construction contracts		
There are a variety of differences with potentially far-reaching consequences. Differences ranging from the transactions scoped into the construction contract accounting guidance in both frameworks to the actual application of the models may result in significant impacts.	The guidance applies to accounting for performance of contracts for which specifications are provided by the customer for the construction of facilities or the production of goods or the provision of related services. Given the positions taken by the SEC in this area, the scope of the guidance has, in practice, generally been limited to certain specific industries and types of contracts.	The guidance applies to the fixed-price and cost-plus-construction contracts of contractors for the construction of a single asset or a combination of assets and is not limited to certain industries. Additionally, the guidance is generally not applied to the recurring production of goods.
	Completed-contract method While the percentage-of-completion method is preferred, the completed-contract method is also acceptable in certain situations (e.g., inability to make reliable estimates). For circumstances in which reliable estimates can not be made, but there is an assurance that no loss will be incurred on a contract (e.g., when the scope of the contract is ill defined, but the contractor is protected from an overall loss), the percentage-of-completion method based on a zero-profit margin, rather than the completed-contract method, is recommended until more-precise estimates can be made	**Completed-contract method** The completed-contract method is prohibited.
	Percentage-of-completion method Within the percentage-of-completion model there are two different acceptable approaches: the revenue approach and the gross-profit approach.	**Percentage-of-completion method** IFRS utilizes a revenue-approach method of percentage of completion. When the final outcome cannot be estimated reliably, a zero-profit method is utilized (wherein revenue is recognized to the extent of costs incurred if those costs are expected to be recovered). The gross-profit approach is not allowed.

Impact	US GAAP	IFRS
Construction contracts (continued)	**Combining and segmenting contracts** Combining and segmenting contracts is permitted, but not required, so long as the underlying economics of the transaction are fairly reflected.	**Combining and segmenting contracts** Combining and segmenting contracts is required when certain criteria are met.
Barter transactions In certain circumstances the two frameworks require different methods for determining the fair value ascribed to barter transactions.	US GAAP generally requires companies to use the fair value of goods or services surrendered as the starting point for measuring a barter transaction. **Non-advertising-barter transactions** The fair value of goods or services received can be used if the value surrendered is not clearly evident. **Accounting for advertising-barter transactions** If the fair value of assets surrendered in an advertising-barter transaction is not determinable, the transaction should be recorded based on the carrying amount of advertising surrendered, which likely will be zero.	**Non-advertising-barter transactions** IFRS requires companies to look first to the fair value of items received to measure the value of a barter transaction. When that value is not reliably determinable, the fair value of goods or services surrendered can be used to measure the transaction. **Accounting for advertising-barter transactions** Should be recognized with reference to the fair value of services provided.

Impact	US GAAP	IFRS
Barter transactions (continued)	**Accounting for barter-credit transactions** It should be presumed that the fair value of the nonmonetary asset exchanged is more clearly evident than the fair value of the barter credits received. However, it is also presumed that the fair value of the nonmonetary asset does not exceed its carrying amount unless there is persuasive evidence supporting a higher value. In rare instances, the fair value of the barter credits may be utilized (e.g., if the entity can convert the barter credits into cash in the near term, as evidenced by historical practice).	**Accounting for barter-credit transactions** There is no further/specific guidance for barter-credit transactions. The broader principles outlined/referred to above should be applied.
Extended warranties The IFRS requirement to separately attribute relative fair value to each component of an arrangement has the potential to impact the timing of revenue recognition for arrangements that include a separately priced extended warranty or maintenance contract.	Revenue associated with separately priced extended warranty or product maintenance contracts should generally be deferred and recognized as income on a straight-line basis over the contract life. An exception exists where historical experience indicates that the cost of performing services is incurred on an other-than-straight-line basis. The revenue related to separately priced extended warranties is determined by reference to the selling price for maintenance contracts that are sold separately from the product. There is no relative fair market value allocation in this instance.	If an entity sells an extended warranty, the revenue from the sale of the extended warranty should be deferred and recognized over the period covered by the warranty. In instances where the extended warranty is an integral component of the sale (i.e., bundled into a single transaction), an entity should attribute relative fair value to each component of the bundle.

Impact	US GAAP	IFRS
Discounting of revenues Discounting of revenues (to present value) is more broadly required under IFRS than under US GAAP. This may result in lower revenue under IFRS, because the time value portion of the ultimate receivable is recognized as finance/interest income.	The discounting of revenues is required in only limited situations, including receivables with payment terms greater than one year and certain industry-specific situations, such as retail land sales or license agreements for motion pictures or television programs. When discounting is required, the interest component should be computed based on the stated rate of interest in the instrument or a market rate of interest if the stated rate is considered unreasonable.	Discounting of revenues to present value is required in instances where the inflow of cash or cash equivalents is deferred. In such instances, an imputed interest rate should be used for determining the amount of revenue to be recognized as well as the separate interest income component to be recorded over time.

Technical references

IFRS	IAS 11, IAS 18, IFRIC 13, IFRIC 15, SIC 31
US GAAP	FTB 90-1, SOP 81-1, SOP 97-2, EITF 99-17, EITF 01-09, EITF 00-21, CON 5, SAB 104

Note

The foregoing discussion captures a number of the more significant GAAP differences. It is important to note that the discussion is not inclusive of all GAAP differences in this area.

Recent/proposed guidance

The FASB and the International Accounting Standards Board (IASB) are currently working on a joint project to develop a comprehensive Standard on revenue recognition that would converge the revenue recognition guidance in US GAAP and IFRS.

IFRIC 15: *Agreements for the Construction of Real Estate*

The International Financial Reporting Interpretations Committee (IFRIC) recently issued IFRIC 15, *Agreements for the Construction of Real Estate*. The Interpretation provides entities involved in the construction of real estate with further guidance on whether a transaction should be accounted for under construction-contract guidance or broader revenue guidance. The guidance also describes the accounting impact of a real estate agreement, depending on whether the agreement is a construction contract for the rendering of services or a construction contract for the sale of goods. Although the Interpretation ostensibly covers a narrow topic, the guidance may have far-reaching consequences when the principles outlined therein are appropriately applied, by analogy, in a determination of whether non-real-estate transactions should be accounted for as construction contracts or as sales of goods.

Expense recognition

Expense recognition—share-based payments

Despite the progress made by the FASB and the IASB toward converging the frameworks in this area, a multitude of significant differences remain.

Companies that issue awards with graded vesting (e.g., awards that vest ratably over time, such as 25% per year over a four-year period) may encounter accelerated expense recognition as well as a different total value to be expensed (for a given award) under IFRS. The impact in this area could lead some companies to consider redesigning how they structure their share-based payment plans. By changing the vesting pattern to cliff vesting (from graded vesting), companies can avoid a front loading of share-based compensation expense, which may be desirable to some organizations.

The deferred income tax accounting requirements for all share-based awards vary significantly from US GAAP. Companies can expect to experience greater variability in their effective tax rate over the lifetime of share-based payment awards under IFRS. This variability will be linked with, but move counter to, the issuing company's stock price. For example, as a company's stock price increases, a greater income statement tax benefit will occur, to a point, under IFRS. Once a benefit has been recorded, subsequent decreases to a company's stock price may increase income tax expense within certain limits. The variability is driven by the requirement to remeasure and record through earnings (within certain limits) the deferred tax attributes of share-based payments each reporting period.

Differences within the two frameworks may also result in different classifications of an award as a component of equity or as a liability. Once an award gets classified as a liability, its value needs to be remeasured each period through earnings based on current conditions, which is likely to increase earnings volatility while also impacting balance sheet metrics and ratios. Awards that are likely to have different equity-versus-liability-classification conclusions under the two frameworks include awards that are puttable; awards that give the recipient the option to require settlement in cash or shares; awards with vesting conditions outside of plain-vanilla service, performance or market conditions; and awards based on fixed monetary amounts to be settled in a variable number of shares. Further, certain other awards that were treated as a single award with a single classification under US GAAP may need to be separated into multiple classifications under IFRS.

In addition, fundamental differences associated with awards made to nonemployees could impact both the total value of expense to be recognized in connection with a given award and the period(s) over which that expense gets recognized.

Further details on the foregoing and other selected differences are described in the following table.

Impact	US GAAP	IFRS
Graded vesting Companies that grant awards with graded vesting (e.g., awards that vest ratably over time such as 25% per year over a four-year period) may encounter accelerated expense recognition as well as a different total value to be expensed (for a given award) under IFRS. The impact may be substantial and could lead some companies to consider redesigning the structure of their share-based payment plans.	Companies have a policy choice, whereby expense recognition for share-based payment awards with only service conditions and graded vesting schedules can be recognized either over the requisite service period for each tranche of the award or on a straight-line basis over the life of the entire award. (The amount of compensation cost recognized at any point should minimally equal the portion of the grant-date value of the award vested at that date.) There's also an option to value the award in total as a single award or to value the individual tranches separately.	IFRS requires each installment of a graded vesting award to be treated as a separate grant. This requires separately measuring and attributing expense to each tranche of the award, thereby accelerating the overall expense recognition and likely resulting in a different total expense to be recognized. As an example of the attribution methodology, an award that vests 25% each year over a four-year period would have the portion vesting at the end of year one fully attributed to year one along with half of the portion vesting at the end of year two, one-third of the portion vesting at the end of year three and one-fourth of the portion vesting at the end of year four. Entities are also required to separately value the four portions individually vesting at the end of each year. This will normally result in a different total expense determination as compared with a methodology wherein the four tranches are valued as a single award.

Impact	US GAAP	IFRS
Deferred taxes on share-based payments IFRS results in greater income statement variability. Changes in a company's share price may directly (although inversely and within certain limits) impact the effective tax rate for outstanding share awards each reporting period.	Deferred tax benefits are recorded for share-based payment awards that are expected to be deductible for tax purposes (such as nonqualified stock options in the US) based on the amount of compensation expense recorded for the share award. This benefit is recognized even if the award has no intrinsic value. The accounting is then largely stagnant until the associated award is exercised regardless of share price movements. On exercise of the award, the difference between cash taxes to be paid and the tax expense recorded to date is adjusted based on the actual excess intrinsic value of the award, with adjustments generally being recorded through equity (subject to certain limitations, pools, etc.).	Deferred tax benefits are recognized in income only for those awards that currently have an intrinsic value that would be deductible for tax purposes. Additionally, valuation of the deferred tax asset is revisited each reporting period. Adjustments to the deferred tax asset balance are recorded, within limits, through earnings. Application of this model results in greater variability of income tax expense/benefit recorded within the income tax provision.
Alternative vesting triggers It is likely that awards that become exercisable based on achieving one of several conditions would result in a revised expense recognition pattern (as the awards would be bifurcated under IFRS).	An award that becomes exercisable based on the achievement of either a service condition or a market condition is treated as a single award. Because such an award contained a market condition, compensation cost associated with the award would not be reversed if the requisite service period were met.	An award that becomes exercisable based on the achievement of either a service condition or a market condition is treated as two awards with different service periods, fair values, etc. Any compensation cost associated with the service condition would be reversed if the service was not provided. The compensation cost associated with the market condition would not be reversed.

Impact	US GAAP	IFRS
Payroll tax recognition Payroll and other social tax expenses associated with share-based payments are recognized earlier under IFRS. The IFRS approach is less volatile.	Payroll-tax-related expenses are recognized at the trigger for measurement and payment to the taxing authority—either exercise date for options or vesting date for restricted stock grants.	Payroll tax expense recognition occurs over the same period that the related share-based payment expense is recognized—that is, over the vesting period.
Awards for goods or non-employee-type services Differences in the determination of measurement date, measurement method and attribution period, among others, will likely alter the measurement, timing and value of awards for goods and non-employee-type services.	The guidance is focused on/driven by the legal definition of an employee, with certain specific exceptions/exemptions. The fair value of instruments issued to nonemployees is, with some exceptions, measured at the earlier of the date on which a performance commitment is reached or the date on which performance is completed. In measuring the expense, companies should look to the fair value of the instruments issued (not the fair value of the goods or services received). Generally, companies do not consider forfeitures before they occur. Upon vesting, an award is likely to fall into the scope of separate detailed guidance, which may drive further differences such as changes in classification of equity-classified awards to classification as liability-classified awards.	IFRS focuses on the nature of the services provided and treats awards to employees and others providing employee-type services similarly. Awards for goods from vendors or for non-employee-type services are treated differently. IFRS requires measurement of fair value to occur when the goods are received or as non-employee-type services are rendered (neither on a commitment date nor solely upon completion of services). There is a rebuttable presumption that awards granted for goods or non-employee-type services can be valued by reference to the fair value of the goods or services received by the entity (not the equity instrument offered/provided). However, if the fair value of equity instruments granted is greater than the fair value of goods or services received, that difference is typically an indication that unidentifiable goods or services have been or will be received and need to be accounted for.

Impact	US GAAP	IFRS
Awards for goods or non-employee-type services (continued)		Unidentifiable goods or services are measured at the grant date (for equity-settled awards). They are measured based on the excess value of the instruments granted over the value of the items received and are recognized as an expense. Because vesting conditions generally do not exist for unidentifiable goods or services, immediate recognition of the expense related to unidentifiable goods or services would normally be appropriate. Companies are required to estimate forfeitures and adjust for the effect of the changes as they occur.
Classification of awards—equity versus liability Several differences exist for share awards and could alter the equity/liability classification of such awards. To the extent that awards are classified as liability-based awards, they would result in variable accounting (with income statement volatility), rather than fixed-grant-date accounting.	In certain situations, puttable shares may be classified as equity awards. Liability classification is required when an award is based on a fixed monetary amount settled in a variable number of shares. Share-settled awards that contain conditions that do not qualify as service, performance or market conditions result in liability classification. Single awards that offer employees the choice of settlement in stock or settlement in cash should be classified as liabilities. Tandem awards may have both a liability and an equity component.	Puttable shares are always classified as liabilities. Share-settled awards are classified as equity awards even if there is variability in the number of shares due to a fixed monetary value to be achieved. Share-settled awards that contain vesting conditions other than service, performance or market conditions would still qualify for equity classification. Awards that offer employees the choice of settlement in stock or settlement in cash should be bifurcated and treated as a compound instrument.

Impact	US GAAP	IFRS
Improbable to probable modifications Total compensation cost associated with a modification that causes an award that was previously improbable of vesting to become probable of vesting will differ under the two frameworks (because IFRS does not require a new fair value to be measured on the modification date).	Modifications of this nature would result in an updated fair value measurement as of the award modification date.	Modifications of this nature would continue to reference/utilize the original grant date fair value of the individual instruments. Any change would be treated as a change in estimate of the number of awards that will vest, rather than a change in the fair value of each award.
Classification of awards—grant date The same award may have different grant dates under the two frameworks, thereby driving differences in valuation dates (and values) as well as in the periods over which expense is recognized.	One of the criteria in identifying the grant date for an award of equity instruments is the date at which the employee begins to either benefit from, or be adversely affected by, subsequent changes in the price of the employer's equity shares. This may differ from the service inception date (the date at which an employee begins to provide service under a share-based-payment award).	There is no requirement that an employee either begin to benefit from, or be adversely affected by, subsequent changes in the price of the employer's equity shares in order to establish a grant date.
Classification of awards—cash flows Under IFRS, differences will arise in the level of reported cash flows from operations (increasing reported cash flows) and from financing (decreasing reported cash flows).	Guidance requires gross excess tax benefits (i.e., windfalls) to be classified as financing in the statement of cash flows.	Guidance requires cash flows from excess tax benefits (i.e., windfalls) associated with share-based-payment transactions to be presented as cash flows from operating activities in the statement of cash flows.

Impact	US GAAP	IFRS
Scope of employee stock purchase plans Employee stock purchase plans with any purchase discount that avoid the need to record compensation expense under US GAAP will still have compensation expense recorded under IFRS.	Employee stock purchase plans that (1) provide employees with purchase discounts no greater than 5%, (2) permit participation by substantially all employees who meet limited employment criteria and (3) incorporates only certain limited option features may be treated as noncompensatory.	There is no compensation cost exemption for employee stock purchase plans.

Technical references

IFRS IFRS 2, IFRIC 8, IFRIC 11

US GAAP FAS 123(R), FTB 97-1, EITF 96-18, EITF 00-16, EITF 00-19, EITF D-83, SAB 110

Note

The foregoing discussion captures a number of the more significant GAAP differences. It is important to note that the discussion is not inclusive of all GAAP differences in this area.

Recent/proposed guidance

Amendment to IFRS 2, *Share-based Payment: Vesting Conditions and Cancellations*

In January 2008, the IASB issued an amendment to IFRS 2, *Share-based Payment*, clarifying that only those conditions that determine whether an entity received services that entitle a counterparty to receive an award under a share-based-payment arrangement are considered vesting conditions under IFRS. All other conditions within an award are considered nonvesting conditions and their impact should be included in grant date fair value. As such, these items would not impact the number of awards expected to vest or the valuation subsequent to grant date. The amendment also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment will be applicable for periods beginning on or after January 1, 2009, with early application permitted.

US GAAP requires awards containing "other" conditions (those that are not service, performance or market conditions) to be accounted for as liability awards. As such, subsequent-period accounting for equity-settled awards of this nature differs between US GAAP and IFRS (because the liability-classified US GAAP award will be remeasured at each financial reporting date).

Other (e.g., SEC and/or industry highlights)

In December 2007, the SEC published Staff Accounting Bulletin No. 110, *Share-Based Payment*, in which the SEC staff indicated willingness to accept, in certain circumstances, the continued use of a simplified method of calculation of the expected term of plain-vanilla share options after December 31, 2007. To determine the expected term, the simplified method averages the vesting and original contractual term of the option.

Similar simplified guidance on the calculation of the expected term does not exist under IFRS.

Expense recognition—employee benefits

There are a number of significant differences between IFRS and US GAAP in the accounting for employee benefits. Some differences will result in less earnings volatility, while others will result in greater earnings volatility. The net effect depends on the individual facts and circumstances for a given company. Further differences could have a significant impact on presentation, operating metrics and key ratios. A selection of differences is summarized below.

Under IFRS, a company can adopt a policy that would allow recognition of actuarial gains/losses in a separate primary statement outside of the statement of operations. Actuarial gains/losses treated in accordance with this election would be exempt from being subsequently recorded within the statement of operations. Taking such election generally reduces the volatility of pension expense recorded in a company's statement of operations, because actuarial gains/losses would be recorded only within an IFRS equivalent (broadly speaking) of other comprehensive income (i.e., directly to equity).

US GAAP permits the use of a calculated asset value (to spread market movements over periods of up to five years) in the determination of expected returns on plan assets. IFRS precludes the use of a calculated value and requires that the actual fair value of plan assets at each measurement date be used.

Under IFRS there is no requirement to present the various components of pension cost as a net amount. As such, companies are permitted to bifurcate the components of net pension cost and disclose portions thereof within different line items on the income statement. The flexibility provided under IFRS would enable companies to record the interest expense and return on plan assets components of pension expense as part of financing costs within the income statement.

Differences between US GAAP and IFRS can also result in different classifications of a plan as a defined benefit or a defined contribution plan. It is possible that a benefit arrangement that is classified as a defined benefit plan under US GAAP may be classified as a defined contribution plan under IFRS. Differences in plan classification, although relatively rare, could have a significant effect on the expense recognition model and balance sheet presentation.

Under IFRS, companies do not present the full funded status of their postemployment benefit plans on the balance sheet. However, companies are required to present the full funded status within the footnotes.

Further details on the foregoing and other selected differences are described in the following table.

Impact	US GAAP	IFRS
Expense recognition—actuarial gains/losses Under IFRS, companies can adopt a policy that would allow recognition of actuarial gains/losses in a separate primary statement outside of the statement of operations. Actuarial gains/losses treated in accordance with such election would be exempt from being subsequently recorded within the statement of operations. Such election would generally reduce the volatility of pension expense in a company's statement of operations, because these gains/losses would be recorded only within the IFRS equivalent (broadly speaking) of other comprehensive income.	US GAAP permits companies to either (1) record expense for actuarial gains/losses in the period incurred within the statement of operations or (2) defer such costs through the use of the corridor approach (or any systematic method that results in faster recognition than the corridor approach). Whether actuarial gains/losses are recognized immediately or are amortized in a systematic fashion, they are ultimately recorded within the statement of operations as components of net periodic pension expense.	In addition to the choices available under US GAAP, IFRS allows companies to recognize all actuarial gains/losses immediately outside of the statement of operations—through the statement of recognized income and expense (SORIE). Once recognized within the SORIE, actuarial gains/losses are exempt from being recorded within the statement of operations on a prospective basis. Upon adoption of revised guidance, the SORIE will be eliminated. Entities will then determine whether they will present all items of income and expense recognized in the period in a single statement of comprehensive income or in two statements (a statement of operations and a statement of comprehensive income). For additional information, refer to the Recent/proposed guidance discussion at the end of the Other accounting and reporting topics section.
Statement of operations classification Under IFRS, companies have the option of disclosing different components of pension costs within different line items on the income statement. This could result in companies recording interest expense and return on plan assets as part of financing costs.	All components of net pension cost must be aggregated and presented as a net amount in the income statement. While it is appropriate to allocate a portion of net pension expense to different line items (such as cost of goods sold if other employee costs are included in this caption), the disaggregation and separate reporting of different components of net pension expense are precluded.	There is no requirement to present the various components of net pension cost as a single item or a set of items all presented on a net basis within the statement of operations. Rather, the guidance allows for the potential disaggregation of the component pieces of pension cost.

Impact	US GAAP	IFRS
Expense recognition—prior-service costs and credits		
IFRS has the potential to accelerate expense/credit recognition in income for the effects of prior-service costs.	Prior-service cost should be recognized in other comprehensive income at the date of the adoption of the plan amendment and then amortized into income over the participants' (1) remaining years of service (for pension plans with predominantly active employees), (2) service to full eligibility date (for other postretirement benefit plans with predominantly active employees) or (3) life expectancy (for plans that have substantially all inactive employees). Negative prior-service cost should be recognized as a prior service credit to other comprehensive income and used first to reduce any remaining positive prior-service cost included in accumulated other comprehensive income. Any remaining prior-service credits should then be amortized over the remaining service period of the active employees unless all or almost all plan participants are inactive, in which case the amortization period would be the plan participants' life expectancies.	Prior-service cost should be recognized, in income, on a straight-line basis over the average period until the benefits become vested. To the extent that benefits are vested as of the date of the plan amendment, the cost of those benefits should be recognized immediately in the income statement. Negative prior-service cost is recognized over the average period until the benefits vest. If the reduced benefits are vested at the date of the negative plan amendment, the associated negative prior-service cost should be recognized immediately in the income statement.
Expected return on plan assets		
Under IFRS, companies would no longer be permitted to use a calculated value of plan assets (reflecting changes in fair value over a period up to five years) in the determination of expected return on plan assets and in the related accounting for asset gains and losses.	Plan assets should be measured at fair value. However, for the purposes of determination of the expected return on plan assets and the related accounting for asset gains and losses, plan assets can be measured by using either fair value or a calculated value that recognizes changes in fair value over a period of not more than five years.	Plan assets should always be measured at fair value and fair value should be used to determine the expected return on plan assets.

Impact	US GAAP	IFRS
Balance sheet presentation Under IFRS, companies do not present the full funded status of their postemployment benefit plans on the balance sheet. However, companies are required to present the funded status within the footnotes.	Entities are required to record on the balance sheet the full funded status (i.e., the fair value of the plan assets less the projected benefit obligation) of pension and postretirement plans with the offset to other comprehensive income. This guidance does not have an impact on the recognition of net periodic pension costs.	Entities are required to recognize on the balance sheet the defined benefit obligation (as defined) plus or minus any unrecognized actuarial gains/losses or prior-service costs and the fair value of plan assets.
Substantive commitment to provide pension or other postretirement benefits Differences in the manner in which a substantive commitment to increase future pension or other postretirement benefits is determined may result in an increased benefit obligation under IFRS.	The determination of whether a substantive commitment exists to provide pension or other postretirement benefits for employees beyond the written terms of a given plan's formula requires careful consideration. Although actions taken by an employer can demonstrate the existence of a substantive commitment, a history of retroactive plan amendments is not sufficient on its own.	In certain circumstances, a history of regular increases may indicate (1) a present commitment to make future plan amendments and (2) that additional benefits will accrue to prior-service periods. In such cases, the substantive commitment (to increased benefits) is the basis for determination of the obligation.
Defined benefit versus defined contribution plan classification Certain plans currently accounted for as defined benefit plans under US GAAP may be classified as defined contribution plans under IFRS and vice versa. Classification differences would result in changes to the expense recognition model as well as to balance sheet presentation.	A defined contribution plan is any arrangement that provides benefits in return for services rendered, that establishes an individual account for each participant and that specifies how recurring periodic contributions to the individual's account should be determined. Multiemployer plans are treated similarly to defined contribution plans.	An arrangement qualifies as a defined contribution plan if a company's legal or constructive obligation is limited to the amount it contributes to a separate entity (generally, a fund or an insurance company). There is no requirement for individual participant accounts. For multiemployer plans, the accounting treatment used is based on the substance of the terms of the plan. If the plan is a defined benefit plan in substance, it should be accounted for as such.

Impact	US GAAP	IFRS
Curtailments A multitude of differences exist in relation to how curtailments are defined, how both gains and losses are calculated and when gains should be recorded. (Losses are typically recorded in the same period.)	A curtailment is defined as an event that significantly reduces the expected years of future service of present employees or eliminates for a significant number of employees the accrual of defined benefits for some or all of their future service. Curtailment gains are recognized when realized—that is, only once the terminations have occurred. The guidance does not permit pro rata recognition of remaining gains/losses in a curtailment.	The definition of a curtailment captures situations where current employees will qualify only for significantly *reduced* (not necessarily eliminated) benefits. Curtailment gains should be recorded when the entity is demonstrably committed to making a material reduction (as opposed to once the terminations have occurred). IFRS permits the curtailment gain/loss to be offset by unrecognized gains/losses if they are related, but requires pro rata acceleration of the remaining gains/losses.
Asset limitation Under IFRS there is a limitation on the value of the pension asset that can be recorded.	There is no limitation on the size of the pension asset that can be recorded.	Under the guidance, an asset ceiling test limits the amount of the net pension asset that can be recognized to the lower of (1) the amount of the net pension asset or (2) the sum of any cumulative unrecognized net actuarial losses, unrecognized prior-service cost, and the present value of any economic benefits available in the form of refunds or reductions in future contributions to the plan. The guidance also governs the treatment and disclosure of amounts, if any, in excess of the asset ceiling.

Impact	US GAAP	IFRS
Deferred compensation arrangements The accounting for these arrangements, which include individual senior executive employment arrangements, varies under the two frameworks. IFRS provides less flexibility than is available under US GAAP with respect to the expense attribution methodology.	Deferred compensation liabilities are measured at the present value of the benefits expected to be provided in exchange for an employee's service to date. If expected benefits are attributed to more than an individual year of service, the costs should be accrued in a systematic and rational manner over the relevant years of service in which the employee earns the right to the benefit. Multiple acceptable attribution models exist under the guidance. Examples include the sinking-fund model and the straight-line model.	The liability associated with deferred compensation contracts is measured by the projected-unit-credit method (similar to postemployment benefits and other long-term benefits), with the exception that all prior-service costs and actuarial gains and losses are recognized immediately in the statement of operations.
Plan asset valuation There are differences in the determination of fair value of plan assets under each framework.	Plan assets should be measured at fair value less cost to sell. Fair value should reflect an exit price at which the asset could be sold to another party. For markets in which dealer-based pricing exists, the price that is most representative of fair value—regardless of where it falls on the fair value hierarchy—should be used. As a practical expedient, the use of midmarket pricing is permitted.	Plan assets should always be measured at fair value, which is defined as the amount for which an asset could be exchanged in an arm's-length transaction between knowledgeable and willing parties. For securities quoted in an active market, the bid price should be used.

Impact	US GAAP	IFRS
Discount rates Differences in the selection criteria for discount rates could lead companies to establish different discount rates under IFRS.	The discount rate is based on the rate at which the pension obligation could be effectively settled. Companies may look to the rate of return on high-quality, fixed-income investments with similar durations to those of the benefit obligation, to establish the discount rate. The SEC has stated that the term *high-quality* means that a bond has received one of the two highest ratings given by a recognized ratings agency (e.g., Aa or higher by Moody's). The guidance does not specifically address circumstances where a deep market in high-quality corporate bonds does not exist. However, in practice, government bonds (which would be expected to be of a higher quality than corporate bonds in a given market) may be used to set the discount rate in such instances.	The discount rate should be determined by reference to market yields on high-quality corporate bonds with durations that are similar to those of the benefit obligation. Where a deep market of high-quality corporate bonds does not exist, companies are required to look to the yield on government bonds when selecting the discount rate.

Technical references

IFRS IAS 19, IAS 37, IAS 39, IFRIC 14

US GAAP FAS 87, FAS 88, FAS 106, FAS 112, FAS 157, FAS 158, APB 12, APB 21, EITF 88-1

Note

The foregoing discussion captures a number of the more significant GAAP differences. It is important to note that the discussion is not inclusive of all GAAP differences in this area.

Recent/proposed guidance

IFRIC 14: IAS (International Accounting Standard) 19—*The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction*

Issued in July 2007, IFRIC 14 provides guidance on how to assess the limitation on the asset surplus position that can be recognized under IFRS and describes how the pension asset or liability may be affected when a statutory or contractual minimum funding requirement exists. The Interpretation allows surplus assets to be included in the balance sheet to the extent they either (1) are available as a refund or (2) can be used to reduce future contributions. Where minimum funding requirements exist, the Interpretation further considers whether those funding requirements exist to cover existing or future benefits. IFRIC 14 is likely to have the most impact in countries that have a minimum funding requirement and that restrict a company's ability to get refunds or reduce contributions and it will further complicate the asset limitation difference between US GAAP and IFRS.

Statement of Financial Accounting Standards (FAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*

Issued in September 2006, FAS 158 requires companies to measure their pension obligations as of the end of the year (previously, US GAAP had permitted companies to measure the obligations at a date up to three months in advance of year-end). This change is effective for years ending on or after December 15, 2008, and upon transition, will bring alignment with IFRS in this narrow area (because IFRS currently requires period-end measurement of pension obligations).

Preliminary Views on Amendments to IAS 19, *Employee Benefits*

In April 2008, the IASB issued a discussion paper that starts the process of revising IAS 19. Based on the paper, the two major proposed changes to the Standard are to remove the option for deferred recognition of actuarial gains and losses (the corridor) and to introduce new classifications for defined benefit programs. The discussion paper represents part of the ongoing process (by both the IASB and the FASB) to amend employee benefit accounting.

Assets

Assets—nonfinancial assets

The guidance under US GAAP and IFRS as it relates to nonfinancial assets (e.g., intangibles; property, plant and equipment—including leased assets; inventory; and investment property) contains some striking differences that have potentially far-reaching implications.

Differences in the testing for the potential impairment of long-lived assets held for use may lead to earlier impairment recognition under IFRS. IFRS requires the use of entity-specific discounted cash flows or a fair value measure in tests for the recoverability of an asset. By comparison, US GAAP uses a two-step model that begins with undiscounted cash flows. This fundamental distinction between the impairment models can make the difference between an asset being impaired or not. Further differences, such as what qualifies as an impairment indicator or how recoveries in previously impaired assets are treated, also exist.

The recognition and measurement of intangible assets could differ significantly under IFRS. With very limited exceptions, US GAAP prohibits the capitalization of development costs, whereas development costs under IFRS are capitalized if certain criteria are met. Even where US GAAP allows for the capitalization of development costs (e.g., software development costs), differences exist. In the area of software development costs, US GAAP provides different guidance depending on whether the software is for internal use or for sale. The principles surrounding capitalization under IFRS, by comparison, are the same whether the internally generated intangible is being developed for internal use or for sale.

In the area of inventory, IFRS prohibits the use of the last in, first out (LIFO) costing methodology, which is an allowable option under US GAAP. As a result, a company that adopts IFRS and that utilizes the LIFO method would have to move to an allowable costing methodology, such as first-in, first-out or weighted-average cost. Differences in costing methodologies could have significant impact on reported operating results as well as on current income taxes payable, given the book/tax LIFO Internal Revenue Service (IRS) conformity rules.

IFRS provides criteria for lease classification that are similar to US GAAP criteria. However, the IFRS criteria do not override the basic principle that classification is based on whether the lease transfers substantially all of the risks and rewards of ownership to the lessee. This could result in varying lease classifications for similar leases under the two frameworks. Other key differences involve such areas as sale-leaseback accounting, leveraged leases and real estate transactions.

Further details on the foregoing and other selected differences are described in the following table.

Impact	US GAAP	IFRS
General		
Impairment of long-lived assets held for use		
The IFRS-based impairment model may lead to the need to recognize impairments of long-lived assets held for use earlier than would be required under US GAAP. There are also differences related to such matters as what qualifies as an impairment indicator and how recoveries in previously impaired assets get treated.	US GAAP requires a two-step impairment test and measurement model as follows: 1. The carrying amount is first compared with the undiscounted cash flows. If the carrying amount is lower than the undiscounted cash flows, no impairment loss is recognized, although it may be necessary to review depreciation (or amortization) estimates and methods for the related asset. 2. If the carrying amount is higher than the undiscounted cash flows, an impairment loss is measured as the difference between the carrying amount and fair value. Fair value is defined as the price that would be received to sell an asset or that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. If the asset is recoverable based on undiscounted cash flows, the discounting or fair value type determinations are not applicable. Changes in market interest rates are not considered impairment indicators. The reversal of impairments is prohibited.	IFRS uses a one-step impairment test. The carrying amount of an asset is compared with the recoverable amount. The recoverable amount is the higher of (1) the asset's fair value less costs to sell or (2) the asset's value in use. In practice, individual assets do not usually meet the definition of a cash generating unit. As a result assets are rarely tested for impairment individually but are tested within a group of assets. Fair value less cost to sell represents the amount obtainable from the sale of an asset or cash-generating unit in an arm's-length transaction between knowledgeable, willing parties less the costs of disposal. Value in use represents the future cash flows discounted to present value by using a pretax, market-determined rate that reflects the current assessment of the time value of money and the risks specific to the asset for which the cash flow estimates have not been adjusted.

Impact	US GAAP	IFRS
Impairment of long-lived assets held for use (continued)		The use of entity-specific discounted cash flows is required in the first step of the value in use analysis. Changes in market interest rates can potentially trigger impairment and hence are impairment indicators. If certain criteria are met, the reversal of impairments is permitted. For noncurrent, nonfinancial assets (excluding investment properties) carried at revalued amounts instead of depreciated cost, impairment losses related to the revaluation are recorded directly in equity to the extent of prior upward revaluations.
Carrying basis The ability to revalue assets (to fair market value) under IFRS may create significant differences in the carrying value of assets as compared with US GAAP.	US GAAP generally utilizes historical cost and prohibits revaluations except for certain categories of financial instruments, which are carried at fair value.	Historical cost is the primary basis of accounting. However, IFRS permits the revaluation to fair value of intangible assets; property, plant and equipment; and investment property and inventories in certain industries (e.g., commodity broker/dealer). IFRS also requires that certain categories of financial instruments and certain biological assets be reported at fair value.

Impact	US GAAP	IFRS
Intangible assets		
Internally developed intangibles US GAAP prohibits, with very limited exceptions, the capitalization of development costs. Development costs are capitalized under IFRS if certain criteria are met. Further differences may exist in such areas as software development costs, where US GAAP provides specific detailed guidance depending on whether the software is for internal use or for sale. The principles surrounding capitalization under IFRS, by comparison, are the same, whether the internally generated intangible is being developed for internal use or for sale.	In general, both research costs and development costs are expensed as incurred, making the recognition of internally generated intangible assets rare. However, separate, specific rules apply in certain areas. For example, there is distinct guidance governing the treatment of costs associated with the development of software for sale to third parties. Separate guidance governs the treatment of costs associated with the development of software for internal use. The guidance for the two types of software varies in a number of significant ways. There are, for example, different thresholds for when capitalization commences, and there are also different parameters for what types of costs are permitted to be capitalized.	Costs associated with the creation of intangible assets are classified into research phase costs and development phase costs. Costs in the research phase are always expensed. Costs in the development phase are capitalized if *all* of the following six criteria are demonstrated: • The technical feasibility of completing the intangible asset. • The intention to complete the intangible asset. • The ability to use or sell the intangible asset. • 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). • The availability of adequate resources to complete the development. • The ability to measure reliably the expenditure attributable to the intangible asset during its development. Expenditures on internally generated brands, mastheads, publishing titles, customer lists and items similar in substance cannot be distinguished from the cost of developing the business as a whole. Therefore, such items are not recognized as intangible assets. Development costs initially recognized as expenses cannot be capitalized in a subsequent period.

Impact	US GAAP	IFRS
Advertising costs Under IFRS, advertising costs may need to be expensed sooner.	The costs of other than direct response advertising should be either expensed as incurred or deferred and then expensed the first time the advertising takes place. This is an accounting policy decision and should be applied consistently to similar types of advertising activities. Certain direct response advertising costs are eligible for capitalization if, among other requirements, probable future economic benefits exist. Direct response advertising costs that have been capitalized are then amortized over the period of future benefits (subject to impairment considerations).	Costs of advertising are expensed as incurred. The guidance does not provide for deferrals until the first time the advertising takes place, nor is there an exception related to the capitalization of direct response advertising costs or programs. Prepayment for advertising may be recorded as an asset only when payment for the goods or services is made in advance of the entity's having the right to access the goods or receive the services.

Impact	US GAAP	IFRS
Property, plant and equipment		
Asset retirement obligations IFRS results in greater income statement volatility, as in subsequent periods obligations get adjusted and accreted based on current market-based discount rates.	US GAAP requires that the fair value of an asset retirement obligation be recorded when a reasonable estimate of fair value can be made. The estimate is to be based on a legal obligation that arises as a result of the acquisition, construction or development of a long-lived asset. The use of a credit-adjusted, risk-free rate is required for discounting purposes when an expected present-value technique is used for estimating the fair value of the liability. The guidance also requires an entity to measure changes in the liability for an asset retirement obligation due to passage of time by applying an interest method of allocation to the amount of the liability at the beginning of the period. The interest rate used for measuring that change would be the credit-adjusted, risk-free rate that existed when the liability, or portion thereof, was initially measured. In addition, changes to the undiscounted cash flows are recognized as an increase or a decrease in both the liability for an asset retirement obligation and the related asset retirement cost. Upward revisions are discounted by using the current credit-adjusted, risk-free rate. Downward revisions are discounted by using the credit-adjusted, risk-free rate that existed when the original liability was recognized. If an entity cannot identify the prior period to which the downward revision relates, it may use a weighted-average, credit-adjusted, risk-free rate to discount the downward revision to estimated future cash flows.	IFRS requires that management's best estimate of the costs of dismantling and removing the item or restoring the site on which it is located be recorded when an obligation exists. The estimate is to be based on a present obligation (legal or constructive) that arises as a result of the acquisition, construction or development of a long-lived asset. If it is not clear whether a present obligation exists, the entity may evaluate the evidence under a more-likely-than-not threshold. This threshold is evaluated in relation to the likelihood of settling the obligation. The guidance uses a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. Changes in the measurement of an existing decommissioning, restoration or similar liability that result from changes in the estimated timing or amount of the outflow of cash flows or other resources or a change in the discount rate adjust the carrying value of the related asset under the cost model. Adjustments may not increase the carrying amount of an asset beyond its recoverable amount or reduce it to a negative value. The periodic unwinding of the discount is recognized in profit or loss as a finance cost as it occurs.

Impact	US GAAP	IFRS
Depreciation		
Under IFRS, differences in asset componentization guidance may result in the need to track and account for property, plant and equipment at a more disaggregated level. Greater disaggregation may in turn trigger earlier disposal or retirement activity when portions of a larger asset group are replaced.	US GAAP generally does not require the component approach for depreciation. While it would generally be expected that the appropriateness of significant assumptions within the financial statements would be reassessed each reporting period, there is no requirement for an annual review of residual values.	IFRS requires that separate significant components of an item of property, plant and equipment with different lives be recorded and depreciated separately. Consistent with the componentization model, the guidance requires that the carrying amount of parts or components that are replaced be derecognized. The guidance includes a requirement to review residual values at each balance sheet date.
Borrowing costs		
US GAAP allows for more judgment in the determination of the capitalization rate that could lead to differences in the amount of costs capitalized. IFRS does not permit the capitalization of borrowing costs in relation to equity-method investments, whereas US GAAP may allow capitalization in certain circumstances.	Capitalization of interest costs while a qualifying asset is being prepared for its intended use is required. The guidance does not require that all borrowings be included in the determination of a weighted-average capitalization rate. Instead, the requirement is to capitalize a reasonable measure of cost for financing the asset's acquisition in terms of the interest cost incurred that otherwise could have been avoided. An investment accounted for by using the equity method meets 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.	Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are required to be capitalized as part of the cost of that asset. The guidance acknowledges that determining the amount of borrowing costs that are directly attributable to an otherwise qualifying asset may require professional judgment. Having said that, the guidance first requires the consideration of any specific borrowings and then requires consideration of all general borrowings outstanding. In broad terms, a qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use or sale. Investments accounted for under the equity method would not meet the criteria for a qualifying asset.

Impact	US GAAP	IFRS
Leases		
Lease classification—general Leases may be classified differently under IFRS than under US GAAP. Different classification can have a profound effect on how a lease is reflected within the financial statements.	The guidance contains four specific criteria for determining whether a lease should be classified as an operating lease or a capital lease by a lessee. The criteria for capital lease classification broadly address the following matters: • Ownership transfer of the property to the lessee. • Bargain purchase option. • Lease term in relation to economic life of the asset. • Present value of minimum lease payments in relation to fair value of the leased asset. The criteria contain certain specific quantified thresholds such as whether the present value of the minimum lease payments equals or exceeds 90% of the fair value of the leased property. For a lessor to classify a lease as a direct financing or sales-type lease under the guidance, two additional criteria must be met.	The guidance focuses on the overall substance of the transaction. Lease classification as an operating lease or a finance lease (i.e., the equivalent of a capital lease under US GAAP) depends on whether the lease transfers substantially all of the risks and rewards of ownership to the lessee. While the lease classification criteria identified in US GAAP are considered in classification of a lease under IFRS, there are no quantitative breakpoints or bright lines to apply (e.g., 90%). A lease of special purpose assets that only the lessee can use without major modification would generally be classified as a finance lease. This would also be the case for any lease where the lessor is not subject to significant risk with respect to the residual value of the leased property. Importantly, there are no incremental criteria for a lessor to consider in classifying a lease under IFRS. Accordingly, lease classification by the lessor and the lessee should typically be symmetrical.

Impact	US GAAP	IFRS
Sale-leaseback arrangements		
Differences in the frameworks may lead to differences in the timing of gain recognition in sale-leaseback transactions. Where differences exist, IFRS may lead to earlier gain recognition.	The gain on a sale-leaseback transaction is generally deferred and amortized over the lease term. Immediate recognition of the full gain is normally appropriate only when the leaseback is minor, as defined. If the leaseback is more than minor, but less than substantially all of the asset life, a gain is recognized immediately to the extent that the gain exceeds the present value of the minimum lease payments. If the lessee provides a residual value guarantee, the gain corresponding to the gross amount of the guarantee is deferred until the end of the lease; such amount is not amortized during the lease term. When a sale-leaseback transaction results in a capital lease, the gain is amortized in proportion to the amortization of the leased asset. There are onerous rules for determining when sale-leaseback accounting is appropriate for transactions involving real estate. If the rules are not met, the sale leaseback will be accounted for as a financing. As such, the real estate will remain on the seller-lessee's balance sheet and the sales proceeds will be reflected as debt. Thereafter, the property will continue to be depreciated and the rent payments will be recharacterized as debt service.	When a sale-leaseback transaction results in a lease classified as an operating lease, the full gain on the sale would normally be recognized if the sale was executed at the fair value of the asset. It is not necessary for the leaseback to be minor. If the sale price is below fair value, any profit or loss should be recognized immediately, except that if the favorable price is compensated for by future lease payments at below-market rates, the impact thereof should be deferred and amortized in proportion to the lease payments over the lease period. If the sale price is above fair value, the excess over fair value should be deferred and amortized over the period for which the asset is expected to be used. When a sale-leaseback transaction results in a finance lease, the gain is amortized over the lease term irrespective of whether the lessee will reacquire the leased property. There are no real estate specific rules equivalent to the US guidance. Accordingly, almost all sale-leaseback transactions result in sale-leaseback accounting. The property sold would be removed from the balance sheet and if the leaseback is classified as an operating lease, the property would not come back onto the seller-lessee's balance sheet.

Impact	US GAAP	IFRS
Leases involving land and buildings		
More frequent bifurcation under IFRS may result in differences in the classification of and accounting for leases involving land and buildings.	Land and building elements are generally accounted for as a single unit, unless the land represents 25% or more of the total fair value of the leased property.	Land and building elements must be considered separately, unless the land element is not material. This means that nearly all leases involving land and buildings should be bifurcated into two components, with separate classification considerations and accounting for each component.
Lease classification—other		
The exercise of renewal/extension options within leases may result in a new lease classification under US GAAP, but not under IFRS.	The renewal or extension of a lease beyond the original lease term, including those based on existing provisions of the lease arrangement, normally triggers a fresh lease classification.	If the period covered by the renewal option was not considered to be part of the initial lease term, but the option is ultimately exercised based on the contractually stated terms of the lease, the original lease classification under the guidance continues into the extended term of the lease; it is not revisited.
Leveraged lease accounting is not available under IFRS, potentially resulting in delayed income recognition and gross balance sheet presentation.	The lessor can classify leases that would otherwise be classified as direct-financing leases as leveraged leases if certain additional criteria are met. Financial lessors sometimes prefer leveraged lease accounting, because it often results in faster income recognition. It also permits the lessor to net the related nonrecourse debt against the leveraged lease investment in the balance sheet.	The guidance does not permit leveraged lease accounting. Leases that would qualify as leveraged leases under US GAAP would typically be classified as finance leases under IFRS. Any nonrecourse debt would be reflected gross on the balance sheet.

Impact	US GAAP	IFRS
Lease classification—other (continued)		
Immediate income recognition by lessors on leases of real estate is more likely under IFRS.	Under the guidance, income recognition for an outright sale of real estate is appropriate only if certain requirements are met. By extension, such requirements also apply to a lease of real estate. Accordingly, a lessor is not permitted to classify a lease of real estate as a sales-type lease unless ownership of the underlying property automatically transfers to the lessee at the end of the lease term, in which case the lessor must apply the guidance appropriate for an outright sale.	The guidance does not have a similar provision. Accordingly, a lessor of real estate (e.g., a dealer) will recognize income immediately if a lease is classified as a finance lease (i.e., if it transfers substantially all the risks and rewards of ownership to the lessee).
Other		
Inventory costing		
Companies that utilize the LIFO-costing methodology under US GAAP may experience significantly different operating results as well as cash flows under IFRS. Furthermore, regardless of the inventory costing model utilized, under IFRS companies may experience greater earnings volatility in relation to recoveries in values previously written down.	A variety of inventory costing methodologies such as LIFO, FIFO and/or weighted-average cost are permitted. For companies using LIFO for US income tax purposes, the book/tax conformity rules also require the use of LIFO for book accounting/reporting purposes. Reversals of write-downs are prohibited.	A number of costing methodologies such as FIFO or weighted-average costing are permitted. The use of LIFO, however, is precluded. Reversals of inventory write downs (limited to the amount of the original write-down) are required for subsequent recoveries.
Insurance recoveries		
When insurance recoveries get recorded varies under the two accounting frameworks and could result in delayed recognition under IFRS.	Contingent assets are generally recognized when virtually certain. However, the threshold for recognizing insurance recoveries is lower (i.e., probable).	A contingent asset is recognized only when realization of the associated benefit, such as an insurance recovery, is virtually certain.

Impact	US GAAP	IFRS
Biological assets—fair value versus historical cost		
Companies whose operations include management of the transformation of living animals or plants into items for sale, agricultural produce or additional biological assets, have the potential for fundamental changes to their basis of accounting (because IFRS requires fair-value-based measurement).	Historical cost is generally used for biological assets. These assets are tested for impairment in the same manner as other long-lived assets.	The accounting treatment for biological assets requires measurement at fair value less estimated point-of-sale costs (replaced with "costs to sell" in Annual Improvements, May 2008) at initial recognition of biological assets and at each subsequent reporting date, unless fair value cannot be measured reliably. All changes in fair value are recognized in the statement of operations in the period in which they arise.
Investment property		
Alternative methods or options of accounting for investment property under IFRS could result in significantly different asset carrying values (fair value) and earnings.	There is no specific definition of investment property. The historical-cost model is used for most real estate companies and operating companies holding investment-type property. 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.	Property (land and/or buildings) held in order to earn rentals and/or for capital appreciation is separately defined. The definition does not include owner occupied property, property held for sale in the ordinary course of business or property being constructed or developed. In connection with the May 2008 Annual Improvements project, properties under construction or development for future use as investment properties were moved into the scope of investment properties.

Impact	US GAAP	IFRS
Investment property (continued)	The fair value alternative for leased property does not exist.	Investment property may be accounted for on a historical-cost basis or on a fair value basis. When fair value is applied, the gain or loss arising from a change in the fair value is recognized in the statement of operations. The carrying amount is not depreciated. The election to account for investment property at fair value can also be applied to leased property.

Technical references

IFRS IAS 2, IAS 16, IAS 17, IAS 23, IAS 36, IAS 37, IAS 40, IAS 41, IFRS 5, IFRIC 4, SIC 15

US GAAP FAS 13, FAS 28, FAS 34, FAS 58, FAS 62, FAS 66, FAS 98, FAS 143, FAS 144, FAS 151, FAS 154, FIN 47, ARB 43, APB 6, FTB 88-1, EITF 01-08

Note

The foregoing discussion captures a number of the more significant GAAP differences. It is important to note that the discussion is not inclusive of all GAAP differences in this area.

Recent/proposed guidance

Leases—joint project of the IASB and FASB

The IASB and the FASB are carrying out a project with the objective of comprehensively reconsidering the guidance in FASB Statement No. 13, *Accounting for Leases*, and IAS 17, *Leases*, along with subsequent amendments and interpretations, to ensure that financial statements provide useful, transparent and complete information about leasing transactions for investors and other users of financial statements.

At the April 2008 joint meeting, the Boards discussed updating the Memorandum of Understanding, which includes the leases project. At that meeting the Boards accepted the broad principles outlined in the joint meeting discussion paper. At the Boards' June meeting the project's technical plan was updated. A final standard is expected no later than 2011.

Assets—financial assets

There are fundamental differences in the way US GAAP and IFRS assess the potential derecognition of financial assets. The differences can have significant impact on a variety of transactions such as asset securitizations. IFRS focuses on whether a qualifying transfer has taken place, whether risks and rewards have been transferred and, in some cases, whether control over the asset(s) in question has been transferred. US GAAP focuses on whether an entity has surrendered control over an asset, including the surrendering of legal and effective control. The fundamental differences are as follows:

- Under US GAAP, derecognition can be achieved even if the transferor has significant ongoing involvement with the assets, such as the retention of significant exposure to credit risk.
- Under IFRS, full derecognition can be achieved only if substantially all of the risks and rewards are transferred or the entity has neither retained nor transferred substantially all of the risks and rewards and the transferee has the practical ability to sell the transferred asset.
- Under IFRS, if the entity has neither retained nor transferred substantially all of the risks and rewards and if the transferee does not have the practical ability to sell the transferred asset, the transferor continues to recognize the transferred asset with an associated liability in a unique model known as the continuing involvement model, which has no equivalent under US GAAP.

The IFRS model does not permit many securitizations to qualify for derecognition. Most securitization transactions include some ongoing involvement by the transferor that causes the transferor to retain some of the risks and rewards related to the transferred assets—a situation that may preclude full derecognition under IFRS, but not under US GAAP.

Under US GAAP, various specialized pronouncements provide guidance for the classification of financial assets. IFRS has only one standard for the classification of financial assets and requires that financial assets be classified in one of four categories: assets held for trading or carried at fair value, with changes in fair value reported in earnings; held-to-maturity investments; available-for-sale financial assets; and loans and receivables. The specialized US guidance and the singular IFRS guidance in relation to classification are particularly important, because they can drive differences in both classification and measurement (since classification drives measurement under both IFRS and US GAAP).

A detailed discussion of industry-specific differences is beyond the scope of this publication. However, for illustrative purposes only, we note that the accounting under US GAAP for unlisted equity securities can differ substantially depending on industry-specific requirements. US GAAP accounting by general corporate entities that do not choose the fair value option, for example, differs significantly from accounting by broker/dealers, investment companies and insurance companies. In contrast, the guidance in relation to unlisted equity securities under IFRS is the same regardless of the industry in which the entity in question operates.

Additional differences involve financial assets that are carried at amortized cost. For such assets, both IFRS and US GAAP use the effective interest method to calculate amortized cost and allocate interest income over the relevant period. The effective interest method is based on the effective interest rate calculated at initial recognition of the financial instrument. Under IFRS, the effective interest rate is calculated based on estimated future cash payments or receipts through the expected life of the financial instrument. Under US GAAP, although certain exceptions apply, the effective interest rate is generally calculated based on the contractual cash flows through the contractual life of the financial assets, adjusted for unanticipated changes in the instrument's estimated cash flows. Under IFRS, changes in the estimated cash flows due to a closely related embedded derivative that is not bifurcated results in a cumulative catch up reflected in the current-period income statement. US GAAP does not have the equivalent of a cumulative catch-up-based approach for these scenarios.

Differences in the impairment assessment for financial assets may result in fewer impairments under IFRS. Furthermore, certain impairments that are not permitted to be reversed under US GAAP are permitted to be reversed under IFRS.

Further details on the foregoing and other selected differences are described in the following table.

Impact	US GAAP	IFRS
Asset derecognition		
Derecognition Derecognition, such as off-balance-sheet treatment of asset securitization transactions, will be much less frequent under IFRS.	The guidance focuses on an evaluation of the transfer of control. The evaluation is governed by three key considerations: • Legal isolation of the transferred asset from the transferor. • The ability of the transferee to pledge or exchange the asset. • No right or obligation of the transferor to repurchase. As such, derecognition can be achieved even if the transferor has significant ongoing involvement with the assets, such as the retention of significant exposure to credit risk.	The guidance focuses on evaluation of whether a qualifying transfer has taken place, whether risks and rewards have been transferred and, in some cases, whether control over the asset(s) in question has been transferred. The transferor first applies the consolidation guidance and consolidates any and all subsidiaries or special purpose entities (SPEs) it controls. IFRS does not have the notion of a qualifying special-purpose entity (QSPE).

Impact	US GAAP	IFRS
Derecognition (continued)	FAS 140 is applied before consolidation guidance is considered. The use of an SPE that meets the definition of a QSPE under FAS 140 or of a former QSPE is generally not consolidated by the transferor or its affiliates under FIN (FASB interpretation No.) 46R. An enterprise that owns a variable interest in a QSPE should not consolidate that QSPE if it does not have the unilateral ability to liquidate or change the QSPE so that it is no longer considered qualifying. In April 2008, the FASB decided to remove the concept of a QSPE from FAS 140. The QSPE concept had resulted in the scope exception for QSPEs from FIN 46R. See the Recent/proposed guidance discussion within the Consolidation section for further commentary related to this matter. There is no concept of continuing involvement/partial derecognition under US GAAP. Instead, if a transaction qualifies for derecognition, the transferor must recognize any retained ongoing liability at fair value (i.e., a financial-components approach). The fair value of a guarantee would reflect the likelihood of payment or repurchase, rather than the maximum possible payment.	Under IAS 39, full derecognition is appropriate once both of the following conditions have been met: • The financial asset has been transferred outside the consolidated group. • The entity has transferred substantially all of the risks and rewards of ownership of the financial asset. The first condition is achieved in one of two ways: • When an entity transfers the contractual rights to receive the cash flows of the financial asset; or • When an entity retains the contractual rights to the cash flows, but assumes a contractual obligation to pass the cash flows on to one or more recipients (referred to as a pass-through arrangement). Many securitizations do not meet the strict pass-through criteria to recognize a transfer of the asset outside of the consolidated group and as a result fail the first condition for derecognition. Furthermore, many securitization transactions include some ongoing involvement by the transferor that causes the transferor to retain substantial risks and rewards, thereby failing the second condition for derecognition.

Impact	US GAAP	IFRS
Derecognition (continued)		When an asset transfer has been accomplished, but the entity has neither retained nor transferred substantially all risks and rewards, an assessment as to control becomes necessary. The transferor assesses whether the transferee has the practical ability to sell the asset transferred to a third party. The emphasis is on what the transferee can do in practice and whether it is able, unilaterally, to sell the transferred asset. If the transferee does not have the ability to sell the transferred asset, control is deemed to be retained by the transferor and the transferred asset may require a form of partial derecognition called continuing involvement. Under continuing involvement, the transferred asset continues to be recognized with an associated liability. When the entity has continuing involvement in the transferred asset, the entity must continue to recognize the transferred asset to the extent of its exposure to changes in the value of the transferred asset. Continuing involvement is measured as either the maximum amount of consideration received that the entity could be required to repay (in the case of guarantees) or the amount of the transferred asset that the entity may repurchase (in the case of a repurchase option).

Impact	US GAAP	IFRS
Classification and measurement		
Available-for-sale financial assets: fair value versus cost of unlisted equity securities More investments in unlisted equity securities are recorded at fair value under IFRS.	Unlisted equity investments generally are scoped out of FAS 115 and, hence, are generally carried at cost (unless either impaired or the fair value option is elected). Certain exceptions requiring that investments in unlisted equity securities be carried at fair value do exist for specific industries (e.g., broker/dealers, investment companies, insurance companies, defined benefit plans).	There are no industry-specific differences in the treatment of investments in equity securities that do not have quoted market prices in an active market. Rather, all available-for-sale assets, including investments in unlisted equity securities, are measured at fair value (with rare exceptions only for instances where fair value cannot be reasonably estimated). Fair value is not reliably measurable when the range of reasonable fair value estimates is significant and the probability of the various estimates within the range can not be reasonably assessed. In those instances where an entity demonstrates that fair value cannot be reasonably estimated, extensive disclosures are required, including (1) the fact that the instruments are not reflected at fair value, (2) reasons that the fair value could not be measured, (3) information about the market for the instruments and (4) whether and how the entity plans to dispose of the instruments.

Impact	US GAAP	IFRS
Available-for-sale debt financial assets: foreign exchange gains/losses		
The treatment of foreign exchange gains and losses on available-for-sale debt securities will create more income statement volatility under IFRS.	The *total* change in fair value of available-for-sale debt securities—net of associated tax effects—is recorded within other comprehensive income. Any component of the overall change in fair market value that may be associated with foreign exchange gains and losses on an available-for-sale debt security is treated in a manner consistent with the remaining overall change in the instrument's fair value.	For available-for-sale instruments, the total change in fair value is bifurcated, with any portion associated with foreign exchange gains/losses separately recognized in the income statement. The remaining portion of the total change in fair value is recognized in a separate component of equity, net of tax effect.
Effective interest rates: expected versus contractual cash flows		
Differences between the expected and contractual lives of financial assets carried at amortized cost have different implications under the two frameworks. The difference in where the two accounting frameworks place their emphasis (contractual term for US GAAP and expected outcome for IFRS) can affect asset carrying values and the timing of income recognition.	For financial assets that are carried at amortized cost, the calculation of the effective interest rate is generally based on *contractual* cash flows over the asset's *contractual* life. The expected life, under US GAAP, is typically used only for (1) loans if the entity holds a large number of similar loans and the prepayments can be reasonably estimated, (2) certain structured notes, (3) certain beneficial interests in securitized financial assets and (4) certain loans or debt securities acquired in a transfer.	For financial assets that are carried at amortized cost, the calculation of the effective interest rate is generally based on the *estimated* cash flows over the *expected* life of the asset. Contractual cash flows over the full contractual term of the financial asset are used only in those rare cases when it is not possible to reliably estimate the expected cash flows over the expected life of a financial asset.

Impact	US GAAP	IFRS
Effective interest rates: changes in expectations Differences in how changes in expectations (associated with financial assets carried at amortized cost) are treated can affect asset valuations and the timing of income statement recognition.	Different models apply to the ways revised estimates are treated depending on the type of financial asset involved (e.g., structured notes, beneficial interests, loans or debt acquired in a transfer). Depending on the nature of the asset, changes may be reflected prospectively or retrospectively. Typically, the US GAAP model ignores the changes in current interest rates. None of the US GAAP models are the equivalent of the IFRS cumulative-catch-up-based approach.	If an entity revises its estimates of payments or receipts, the entity adjusts the carrying amount of the financial asset (or group of financial assets) to reflect both actual and revised estimated cash flows. Frequent revisions of the estimated life or of the estimated future cash flows may exist, for example, in connection with debt instruments that contain a put or call option that doesn't need to be bifurcated or whose coupon payments vary, because of an embedded feature that does not meet the definition of a derivative because its underlying is a nonfinancial variable specific to a party to the contract (e.g., cash flows that are linked to earnings before interest, taxes, depreciation and amortization; sales volume; or the earnings of one party to the contract). The entity recalculates the carrying amount by computing the present value of estimated future cash flows at the financial asset's original effective interest rate. The adjustment is recognized as income or expense in the income statement (i.e., by the cumulative-catch-up approach).

Impact	US GAAP	IFRS
Fair value option for equity-method investments		
While both accounting standards include a fair value option for equity-method investments, the IFRS-based option has limits as to which entities can exercise it, whereas the US GAAP option is broad based.	The fair value option exists for US GAAP entities under FAS 159 wherein the option is unrestricted.	IFRS permits venture capital organizations, mutual funds and unit trusts (as well as similar entities, including investment-linked insurance funds) that have investments in associates (entities over which they have significant influence) to measure their investments at fair value, with changes in fair value reported in earnings (provided certain criteria are met). In those cases, such investors are exempt from the measurement requirements of IAS 28, which prescribes that associates use equity-method accounting.
Fair value measurement: bid/ask spreads		
Differences in the ways bid-ask spreads are treated may affect financial asset valuations. At the same time, the recognition of Day One gains will be less frequent under IFRS. Day One gains occur when the entity uses a model to measure the fair value of the instrument and the result is initial value recognition different from the transaction price, thus resulting in the recognition of a gain on Day One.	If an input used for measuring fair value is based on bid and ask prices, the price within the bid-ask spread that is most representative of fair value in the circumstances is used. At the same time, US GAAP does not preclude the use of midmarket pricing or other pricing conventions as practical expedients for fair value measurements within a bid-ask spread. As a result, financial assets may, in certain situations, be valued at a bid or ask price, at the last price, at the mean between bid and ask prices or at a valuation within the range of bid and ask prices.	The appropriate quoted market price for an asset held or a liability to be issued is the current bid price and, for an asset to be acquired or a liability held, is the ask price. However, when the entity has assets and liabilities with offsetting market positions, the entity may use the midprice for the offsetting positions and apply the bid or ask price to the net open position.
	If otherwise supported by the facts and circumstances, entities may recognize Day One gains on financial instruments reported at fair value even when some inputs to the measurement model are not observable.	Day One gains are recognized only when all inputs to the measurement model are observable.

Impact	US GAAP	IFRS
Reclassifications Transfers of financial assets into or out of the trading securities classification are prohibited under IFRS.	Changes in classification between trading, available-for-sale and held-to-maturity categories occur only when justified by the facts and circumstances within the concepts of FAS 115. Given the nature of a trading security, transfers into or from the trading category should be rare, though they do occur.	An entity does not reclassify a financial asset into or out of the fair value through the profit-or-loss category after the asset's initial recognition.
Loans and receivables Loans and receivables may be carried at different amounts under the two frameworks.	The classification and accounting treatment of nonderivative financial assets such as loans and receivables generally depend on whether the asset in question meets the definition of a debt security under FAS 115. If the asset meets that definition, it is generally classified as either trading, available for sale or held to maturity. To meet the definition of a debt security under FAS 115, the asset is required to be of a type commonly available on securities exchanges or in markets or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment. Loans and receivables that are not within the scope of FAS 115 fall within the scope of either FAS 65, SOP 01-6 or APB 21. As an example, mortgage loans are either: • Classified as loans held for investment, in which case they are measured at amortized cost;	IFRS defines loans and receivables as nonderivative financial assets with fixed or determinable payments not quoted in an active market and that are other than: • Those that the entity intends to sell immediately or in the near term, which are classified as held for trading and those that the entity upon initial recognition designates as at fair value through profit or loss; • Those that the entity upon initial recognition designates as available for sale; and • Those for which the holder may not recover substantially all of its initial investment (other than, because of credit deterioration) and that shall be classified as available for sale. An interest acquired in a pool of assets that are not loans or receivables (i.e., an interest in a mutual fund or a similar fund) is not a loan or receivable.

<table>
<tr><th>Impact</th><th>US GAAP</th><th>IFRS</th></tr>
<tr><td>Loans and receivables (continued)</td><td>Classified as loans held for sale, in which case they are measured at the lower of cost or fair value (market); or
Fair value if the fair value option is elected.</td><td>Instruments that meet the definition of loans and receivables are carried at amortized cost in the loan and receivable category unless classified into either the profit-or-loss category or the available-for-sale category. In either of the latter two cases, they are carried at fair value.

IFRS does not have a category of loans and receivables that is carried at the lower of cost or market.</td></tr>
<tr><td colspan="3">Impairments and subsequent loss treatment</td></tr>
<tr><td>Impairment principles: available-for-sale and held-to-maturity debt securities

IFRS focuses on trigger events that affect the recovery of the cash flows from the asset regardless of the entity's intent. US GAAP takes into account the entity's intent and ability to hold the security in determining whether or not it is impaired.

Furthermore, when held-to-maturity debt securities are impaired under both models, the amount of impairment may differ.</td><td>An investment in debt securities is assessed for impairment if the fair value is less than cost. An analysis is performed to determine whether the shortfall in fair value is temporary or other than temporary.

In a determination of whether impairment is other than temporary, the following factors are assessed:
The length of the time that and the extent to which the market value has been less than cost.
The financial condition and near-term prospects of the issuer, including any specific events that may influence the operations of the issuer.
The intent and ability of the holder to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value.</td><td>A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as the result of one or more events that occurred after initial recognition of the asset (a loss event) and if that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be estimated reliably. In assessing the objective evidence of impairment, an entity considers the following factors:
Significant financial difficulty of the issuer.
High probability of bankruptcy.
Granting of a concession to the issuer.
Disappearance of an active market, because of financial difficulties.
Breach of contract, such as default or delinquency in interest or principal.</td></tr>
</table>

Impact	US GAAP	IFRS
Impairment principles: available-for-sale and held-to-maturity debt securities (continued)	A debt security may also be considered impaired if the decline in the security's value is due to an increase in market interest rates. A company therefore needs to evaluate whether impairments due to interest rate increases are other than temporary. If impairment does exist, the impairment loss under US GAAP is always based on the difference between the debt security's carrying value and its fair market value.	• Observable data indicating there is a measurable decrease in the estimated future cash flows since initial recognition. The disappearance of an active market, because an entity's securities are no longer publicly traded or the downgrade of an entity's credit rating, is not by itself evidence of impairment, although it may be evidence of impairment when considered with other information. At the same time, a decline in the fair value of a financial asset below its cost or amortized cost is not necessarily evidence of impairment. (For example, a decline in the fair value of an investment in a debt instrument that results solely from an increase in market interest rates is not an impairment indicator and would not require an impairment evaluation under IFRS.) An impairment analysis under IFRS focuses only on the triggering events that affect the cash flows from the asset itself and does not consider the holder's intent. If an impairment of a held-to-maturity debt security does exist, IFRS requires that the impairment loss be measured based on the present value of future cash flows as calculated with the original effective interest rate. IFRS also allows the impairment loss to be, as a practical expedient, based on fair value. The two methods could yield significantly different results if, for example, there has been a change in current market rates compared with the original rate implicit in the instrument.

Impact	US GAAP	IFRS
Losses on available-for-sale equity securities subsequent to initial impairment recognition		
In periods after the initial recognition of an impairment loss on available-for-sale equity securities, further income statement charges are more likely under IFRS.	Impairment charges establish a new cost basis. As such, further reductions in value below the new cost basis may be considered temporary (when compared with the new cost basis).	Impairment charges do not establish a new cost basis. As such, further reductions in value below the original impairment amount are recorded within the current-period income statement.
Impairments: measurement and reversal of losses		
Certain impairment losses that are not permitted to be reversed under US GAAP are permitted to be reversed under IFRS if the recovery in impairment can be objectively associated with an event occurring after the impairment was recognized.	Impairments of loans held for investment measured under FAS 114 and FAS 5 are permitted to be reversed; however, the carrying amount of the loan can at no time exceed the recorded investment in the loan. Reversals of impairment losses for debt securities classified as available-for-sale or held-to-maturity securities, however, are prohibited. The other-than-temporary impairment model under US GAAP establishes a new cost basis in the investment that is not changed for future recoveries of impairment losses.	For financial assets carried at amortized cost, if in a subsequent period the amount of impairment loss decreases and the decrease can be objectively associated with an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. The reversal, however, does not exceed what the amortized cost would have been had the impairment not been recognized. For available-for-sale debt instruments, if in a subsequent period the fair value of the debt instrument increases and the increase can be objectively related to an event occurring after the loss was recognized, the loss may be reversed through the income statement.

Technical references

IFRS IAS 39, SIC 12

US GAAP FAS 65, FAS 91, FAS 114, FAS 115, FAS 133, FAS 140, FAS 155, FAS 157, FAS 159, EITF 96-12, EITF 96-15, EITF 99-20, SOP 01-06, SOP 03-03

Note

The foregoing discussion captures a number of the more significant GAAP differences. It is important to note that the discussion is not inclusive of all GAAP differences in this area.

Recent/proposed guidance

Amendments to IAS 32, *Financial Instruments: Presentation*, and IAS 1, *Presentation of Financial Statements*

See the Financial liabilities and equity section for a discussion regarding this amendment.

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Liabilities

Liabilities—taxes

Although the two frameworks share many fundamental principles, they are at times conceptualized and applied in different manners. Differences in the calculations of liabilities and deferred taxes will likely result in a number of required adjustments in a company's tax accounts. The following represent some of the more significant differences between the two frameworks.

In 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. To date, no similar detailed income tax specific guidance has been issued by the IASB. Differences in both the unit-of-account methodology and the measurement methodology for uncertain tax positions may result in varying outcomes under the two frameworks.

Under US GAAP, any income tax effects resulting from intragroup profits are deferred at the seller's tax rate and recognized upon sale to a third party. IFRS requires the recording of deferred taxes based on the buyer's tax rate at the time of the initial transaction. Changing that calculation from the seller's to the buyer's tax rate requires multinational entities to consider the location of their cross-border inventories at the balance sheet date, because the location of the inventory could result in a significant impact to recorded deferred-tax assets.

Differences in subsequent changes to deferred taxes recorded for certain equity-related items could result in less volatility in the statement of operations under IFRS. At the same time, the opposite impact (i.e., additional volatility) could result when share-based equity awards are considered. Under both US GAAP and IFRS, entities generally initially record their deferred taxes through the income statement unless the related item was recorded directly into equity or as an adjustment to goodwill. Under IFRS, all future increases or decreases in equity-related deferred tax asset or liability accounts are traced back to equity. Under US GAAP, however, subsequent changes arising as a result of tax rate and law changes on deferred taxes are recorded through the statement of operations even if the related deferred taxes initially arose in equity.

Presentation differences related to deferred taxes could affect the calculation of certain ratios from the face of the balance sheet—including a company's current ratio—because IFRS requires all deferred taxes to be classified as noncurrent.

Following a business combination, differences in the recognition criteria used for measuring deferred taxes could result in additional income statement volatility. Under US GAAP, the subsequent resolution of any tax uncertainties related to a business combination is applied as an increase or a decrease in the goodwill attributable to that acquisition regardless of the timing of resolution. Under IFRS, the resolution of income tax uncertainties is recognized in the income statement if outside the one-year purchase accounting adjustment period. However, importantly, the US guidance in that area is changing as a result of the new business combinations guidance and will be converged with the IFRS approach once the new standard goes into effect.

Further details on the foregoing and other selected differences are described in the following table.

Impact	US GAAP	IFRS
Uncertain tax positions Differences with respect to both the unit-of-account methodology and the measurement methodology may result in varying outcomes under the two frameworks.	Under uncertain tax position guidance, entities utilize a two-step process, first determining whether recognition of an uncertain tax position is appropriate and subsequently measuring the position. Tax benefits from uncertain tax positions can be recognized only if it is more likely than not that the tax position is sustainable based on its technical merits. The tax position is measured by using a cumulative probability model: the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement.	Accounting for uncertain tax positions is not specifically addressed within IFRS. The tax consequences of events should follow the manner in which an entity expects the tax position to be resolved (through either payment or receipt of cash) with the taxation authorities at the balance sheet date. Acceptable methods by which to measure tax positions include (1) the expected-value/probability-weighted-average approach and (2) the single-best-outcome/most-likely-outcome method. Use of the cumulative probability model required by US GAAP is not supported by IFRS.
Unrealized intragroup profits The frameworks require different approaches when deferred taxes on unrealized intragroup activity are considered.	The buyer is prohibited from recognizing deferred taxes on unrealized intragroup profits. Any tax impacts to the seller as a result of the intercompany sale are deferred and are realized upon the ultimate third-party sale.	Deferred taxes on intragroup profits are recognized at the buyer's tax rate. Any tax impacts to the seller as a result of the intercompany transaction are recognized as incurred.

Impact	US GAAP	IFRS
Intraperiod allocations Differences in subsequent changes to deferred taxes could result in less volatility in the statement of operations under IFRS.	Subsequent changes in deferred tax balances due to enacted tax rate and tax law changes are taken through the statement of operations regardless of whether the deferred tax was initially created through the income statement, through equity or in purchase accounting. Subsequent changes in deferred tax assets (by reducing valuation allowances) due to changes in assessment about realization in future periods are generally taken through the statement of operations, with limited exceptions for certain equity-related items and acquired deferred tax assets.	Subsequent changes in deferred tax balances are recognized in the statement of operations—except to the extent that the tax arises from a transaction or event that is recognized, in the same or a different period, directly in equity.

Impact	US GAAP	IFRS
Deferred taxes in business combinations Differences in the recognition criteria following an acquisition could result in additional volatility in the statement of operations, because amounts currently recorded as adjustments to the carrying value of goodwill would be taken to the income statement. This difference will be eliminated upon the adoption of new guidance under US GAAP.	Under the current guidance, after an acquisition is accounted for as a business combination, the subsequent resolution of any acquired tax uncertainties is applied first as an increase or decrease in the goodwill attributable to that acquisition regardless of the timing of resolution. If goodwill is reduced to zero, the remaining adjustment is used for reducing the value of other noncurrent intangible assets related to the acquisition, with any remaining residual being recognized as income. Following the adoption of new guidance (aside from true-ups during the measurement period), the resolution of income tax uncertainties will be recognized in the statement of operations. The release of a valuation allowance for acquired deferred tax assets will also be recognized in the income tax provision if occurring outside the measurement period (which will not be permitted to exceed one year).	Under the current guidance, the resolution of uncertainties is recognized in the income statement if outside the one-year purchase accounting adjustment period. Currently, the initial recognition of an acquired deferred tax asset subsequent to the date of acquisition would increase deferred tax assets and decrease tax expense and would decrease goodwill and increase operating expense (essentially becoming net income neutral). There is no time limit for recognition of this deferred tax asset. Following the adoption of new guidance, the initial recognition of acquired tax benefits, subsequent to the date of acquisition (that does not qualify as a measurement period adjustment) will be reflected in the income statement with no change to goodwill.

Impact	US GAAP	IFRS
Treatment of undistributed profits Differences in the recognition criteria surrounding undistributed profits and other outside basis differences could result in changes in recognized deferred taxes under IFRS.	With respect to undistributed profits and other outside basis differences, different requirements exist depending on whether they involve investments in subsidiaries, in joint ventures or in equity investees. As it relates to investments in domestic subsidiaries, deferred tax liabilities are required on undistributed profits arising after 1992 unless the amounts can be recovered on a tax-free basis and unless the entity anticipates utilizing that method. As it relates to investments in domestic corporate joint ventures, deferred tax liabilities are required on undistributed profits that arose after 1992. Deferred tax liabilities are not required for the undistributed profits of foreign subsidiaries or foreign corporate joint ventures if the earnings are indefinitely reinvested, unless it is apparent that the undistributed profit would be taxable in the foreseeable future. Deferred taxes are generally recognized on temporary differences related to investments in equity investees. Deferred tax assets for investments in subsidiaries and corporate joint ventures may be recorded only to the extent they will reverse in the foreseeable future.	With respect to undistributed profits and other outside basis differences related to investments in subsidiaries, branches and associates, and joint ventures, deferred taxes are recognized except when a parent company (investor or venturer) is able to control the ultimate distribution of profits and it is probable that the temporary difference will not reverse in the foreseeable future.

Impact	US GAAP	IFRS
Recognition of deferred tax assets The frameworks take differing approaches to the presentation of deferred tax assets. It would be expected that net deferred tax assets recorded would be similar under both standards.	Deferred taxes are recognized in full, but are then reduced by a valuation allowance if it is considered more likely than not that some portion of the deferred taxes will not be realized.	Deferred taxes are recognized when it is considered probable (defined as *more likely than not*) that sufficient taxable profits will be available to utilize the temporary difference. Valuation allowances are not allowed to be recorded.
Exemptions from accounting for temporary differences In certain situations there will be no deferred tax accounting under IFRS that would exist under US GAAP and vice versa.	An exemption exists from the initial recognition of temporary differences in connection with transactions that qualify as leveraged leases under lease-accounting guidance.	An exemption exists in the accounting for deferred taxes from the initial recognition of an asset or liability in a transaction that neither (1) is a business combination nor (2) affects accounting profit (or taxable profit) at the time of the transaction. No special treatment of leveraged leases exists under IFRS.
Measurement of foreign nonmonetary assets and liabilities where the local currency is not the functional currency The establishment of deferred taxes on exchange rate changes and tax indexing related to nonmonetary assets and liabilities under IFRS is likely to result in additional volatility in the statement of operations.	No deferred taxes are recognized for differences related to nonmonetary assets and liabilities that are remeasured from local currency into their functional currency by using historical exchange rates (if those differences result from changes in exchange rates or indexing for tax purposes).	Deferred taxes are recognized for the difference between the carrying amount determined by using the historical rate of exchange and the relevant tax basis at the balance sheet date, which may have been affected by exchange rate movements or tax indexing.

Impact	US GAAP	IFRS
Presentation		
Presentation differences related to deferred taxes could affect the calculation of certain ratios from the face of the balance sheet (including a company's current ratio), because IFRS requires all deferred taxes to be classified as noncurrent.	The classification of deferred tax assets and deferred tax liabilities follows the classification of the related, nontax asset or liability for financial reporting (as either current or noncurrent). If a deferred tax asset is not associated with an underlying asset or liability, it is classified based on the anticipated reversal periods. Any valuation allowances are allocated between current and noncurrent deferred tax assets for a tax jurisdiction on a pro rata basis. The classification of interest and penalties related to uncertain tax positions (either in income tax expense or as a pretax item) represents an accounting policy decision that is to be consistently applied and disclosed.	Generally, deferred tax assets and liabilities are classified net (within individual tax jurisdictions) as noncurrent on the balance sheet. Supplemental note disclosures are included to describe the components of temporary differences as well as the recoverable amount bifurcated between amounts recoverable less than or greater than one year from the balance sheet date. Interest and penalties are to be classified in either interest expense or other operating expenses when they can be clearly identified and separated from the related tax liability.

Technical references

IFRS IAS 1, IAS 12, IFRS 3, IFRS 3 (Revised)

US GAAP FAS 109, FAS 123(R), FAS 141, FAS 141(R), FIN 48, APB 23

Note

The foregoing discussion captures a number of the more significant GAAP differences. It is important to note that the discussion is not inclusive of all GAAP differences in this area.

Other (e.g., SEC and/or industry highlights)

Further differences in deferred taxes exist between US GAAP and IFRS in the treatment of deferred taxes within share-based payment arrangements. Because those differences represent discrete calculations based on the manner of calculation of the deferred tax asset under both frameworks, the relevant differences have been described in the Expense recognition—share-based payments section of this document.

Liabilities—other

The guidance in relation to nonfinancial liabilities (e.g., provisions, contingencies and government grants) includes some fundamental differences with potentially significant implications.

For instance, a difference exists in the interpretation of the term *probable*. IFRS defines probable as *more likely than not*, while US GAAP defines probable as *likely to occur*. Because both frameworks reference *probable* within the liability recognition criteria, the difference could lead companies to record provisions earlier than they otherwise would have under US GAAP. The use of the midpoint of a range when several outcomes are equally likely (rather than the low-point estimate, as used in US GAAP) may also lead to increased or earlier expense recognition under IFRS.

As it relates to restructuring provisions, the specific communication to employees that is required prior to the recording of a provision under US GAAP is not required by IFRS. This could lead companies to record restructuring provisions in periods earlier than they previously would have under US GAAP.

The interpretation of probable, as presented in the guidance for contingencies, could again lead to more contingent liabilities being recognized as provisions under IFRS, rather than being disclosed only in the footnotes to a company's financial statements. At the same time, IFRS has a higher threshold for the recognition of contingent assets associated with insurance recoveries by requiring that they be virtually certain of realization, whereas US GAAP allows earlier recognition.

Further details on the foregoing and other selected differences are described in the following table.

Impact	US GAAP	IFRS
Probability and the recognition of provisions		
Differences in the definition of *probable* may result in earlier recognition of liabilities under IFRS.	An accrual for a loss contingency is required if it is probable that there is a present obligation resulting from a past event and that an outflow of economic resources is reasonably estimable. Guidance uses the term probable to describe a situation in which the outcome is likely to occur. While a numeric standard for probable does not exist, practice generally considers an event that has a 75% or greater likelihood of occurrence to be probable.	A contingent liability is defined as a possible obligation whose outcome will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events outside the entity's control. A contingent liability becomes a provision and is recorded when three criteria are met: that a present obligation from a past event exists, that the obligation is probable and that a reliable estimate can be made. The term probable is used for describing a situation in which the outcome is more likely than not to occur. Generally, the phrase *more likely than not* denotes any chance greater than 50%.
Measurement of provisions		
In certain circumstances, the measurement objective of provisions varies under the two frameworks. IFRS results in a higher liability being recorded when there is a range of possible outcomes with equal probability.	A single standard does not exist to determine the measurement of obligations. Instead, entities must refer to guidance established for specific obligations (e.g., environmental or restructuring) to determine the appropriate measurement methodology. Pronouncements related to provisions do not necessarily have settlement price or even fair value as an objective in the measurement of liabilities and the guidance often describes an accumulation of the entity's cost estimates. When no amount within a range is a better estimate than any other amount, the low end of the range is accrued.	The amount recognized should be the best estimate of the expenditure required (the amount an entity would rationally pay to settle the obligation at the balance sheet date). Where there is a continuous range of possible outcomes and each point in that range is as likely as any other, the midpoint of the range is used.

Impact	US GAAP	IFRS
Restructuring provisions (excluding business combinations)		
Differences exist in the accounting for restructuring or termination benefit provisions (e.g., IFRS does not require specific communication to employees). Therefore, IFRS may alter the timing of liability recognition.	The guidance prohibits the recognition of a liability based solely on an entity's commitment to an approved plan. Recognition of a provision for onetime termination benefits requires communication of the details of the plan to employees who could be affected. The communication is to contain sufficient details about the types of benefits so that employees have information for determining the types and amounts of benefits they will receive. Further guidance exists for different types of termination benefits (i.e., special termination benefits, contractual termination benefits, severance benefits and onetime benefit arrangements). Inducements for voluntary terminations are to be recognized when (1) employees accept offers and (2) the amounts can be estimated.	A provision for restructuring costs is recognized when, among other things, an entity has a present obligation. A present obligation exists when, among other conditions, the company is demonstrably committed to the restructuring. A company is usually demonstrably committed when there is legal obligation or when the entity has a detailed formal plan for the restructuring. To record a liability, the company must be unable to withdraw the plan, because either it has started to implement the plan or it has announced the plan's 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 if the restructuring will take an unreasonably long time to complete. Liabilities related to offers for voluntary terminations are measured based on the number of employees expected to accept the offer.

Impact	US GAAP	IFRS
Onerous contracts Onerous contract provisions may be recognized earlier and in different amounts under IFRS.	Provisions are not recognized for unfavorable contracts unless the entity has ceased using the rights under the contract (i.e., the cease-use date). One of the most common examples of an unfavorable contract has to do with leased property that is no longer in use. With respect to such leased property, estimated sublease rentals are to be considered in a measurement of the provision to the extent such rentals could reasonably be obtained for the property, even if it is not management's intent to sublease or if the lease terms prohibit subleasing. Incremental expense in either instance is recognized as incurred.	Provisions are recognized when a contract becomes onerous regardless of whether the entity has ceased using the rights under the contract. When an entity commits to a plan to exit a lease property, sublease rentals are considered in the measurement of an onerous lease provision only if management has the right to sublease and such sublease income is probable.

Impact	US GAAP	IFRS
Accounting for government grants IFRS permits the recognition of government grants once there is reasonable assurance that requisite conditions have been met, rather than waiting for the conditions to be fulfilled, as is usually the case under US GAAP. As a result, government grants may be recognized earlier under IFRS.	If conditions are attached to the grant, recognition of the grant is delayed until such conditions have been fulfilled. Contributions of long-lived assets or for the purchase of long-lived assets are to be credited to income over the expected useful life of the asset for which the grant was received.	Government grants are recognized once there is reasonable assurance that both (1) the conditions for their receipt will be met and (2) 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 involve recognized assets are presented in the balance sheet either as deferred income or by deducting the grant in arriving at the asset's carrying amount, in which case the grant is recognized as a reduction of depreciation.

Technical references

IFRS IAS 20, IAS 37

US GAAP FAS 5, FAS 116, FAS 143, FAS 146, SOP 96-1

Note

The foregoing discussion captures a number of the more significant GAAP differences. It is important to note that the discussion is not inclusive of all GAAP differences in this area.

Financial liabilities and equity

Financial liabilities and equity

Both US GAAP and IFRS define financial liabilities and require that financing instruments be assessed to determine whether or not they meet the definition of and require treatment as liabilities. In very general terms, financial instruments that do not meet the definition of a liability are classified as equity. The US GAAP definitions of what qualifies as or requires treatment as a liability are narrower than the IFRS definitions. The narrower US GAAP definitions of what requires liability classification result in more instruments being treated as equity/mezzanine equity under US GAAP and comparatively more instruments being treated as liabilities under IFRS.

In a determination of the appropriate classification of an instrument within liabilities or equity, the guidance under IFRS is captured in one comprehensive standard: IAS 32. The basic premise of IAS 32 is to assess the substance of contractual arrangements, rather than their legal form. Guidance under US GAAP is not organized into one comprehensive standard. The relevant guidance can be found in a number of different sources (e.g., FASB standards, EITF issues and SEC rules), and must be followed in sequence (i.e., first look at FAS 150, then FAS 133, then EITF 00-19, etc.) to determine the appropriate classification and measurement of an instrument with characteristics of liabilities and equity.

Under IFRS, contingent settlement provisions and puttable instruments are more likely to result in liability classification. When assessing contingent settlement provisions, IFRS focuses on whether or not the issuer of an instrument has the unconditional right to avoid delivering cash or another financial asset in any or all potential outcomes. The fact that the contingency associated with the settlement provision might not be triggered does not influence the analysis unless the contingency is not genuine or it arises only upon liquidation. With very limited exceptions—such exceptions being effective only from January 1, 2009 (unless early adopted), as a result of the February 2008 amendment to IAS 32—puttable instruments are financial liabilities under IFRS.

US GAAP examines whether or not the instrument in question contains an unconditional redemption requirement. Unconditional redemption requirements result in liability classification. Contingent settlement/redemption requirements and/or put options, however, would generally not be unconditional, as they may not occur. As such, under US GAAP liability classification would not be required. SEC-listed entities, however, would need to consider application of mezzanine accounting guidance. When an instrument that qualified for equity treatment under US GAAP is classified as a liability under IFRS there are potential follow-on implications. For example, an entity must consider and address the further potential need to bifurcate and separately account for embedded derivatives within liability-classified host contracts. Also, because balance sheet classification drives the treatment of disbursements associated with such instruments, classification differences may impact earnings (i.e., interest expense calculated by using the effective interest method, as opposed to dividends) as well as key balance sheet ratios.

There are some significant differences in the treatment of written puts that will be settled by gross receipt of an entity's own shares. Under US GAAP, such items are measured initially and subsequently at fair value. Under IFRS, even though the contract in itself may meet the definition of equity if the contract is for the receipt of a fixed number of the entity's own shares for a fixed amount of cash, IFRS requires the entity to set up a financial liability for the discounted value of the amount of cash it may be required to pay.

Under IFRS, if an instrument has both a liability component and an equity component (e.g., redeemable preferred stock with dividends paid solely at the discretion of the issuer), the issuer is required to separately account for each component. The liability component is recognized at fair value calculated by discounting the cash flows associated with the liability component at a market rate for a similar debt host instrument and the equity component is measured as the residual amount.

US GAAP does not have the concept of compound financial instruments outside of instruments with equity conversion features. In the limited situations where both accounting models call for separate recording of certain aspects of an instrument, the manner in which the different components are valued initially can vary significantly (i.e., the US GAAP valuation of beneficial conversion features at intrinsic value, in certain circumstances, would vary from the IFRS-based model).

Bifurcation/split accounting under IFRS versus singular accounting under US GAAP can create a significantly different balance sheet presentation while also impacting earnings (mainly due to recognition of interest expense at the market rate at inception as opposed to any contractual rate within the compound arrangement).

Additional differences have to do with financial liabilities that are carried at amortized cost. For these liabilities, both IFRS and US GAAP use the effective interest method to calculate amortized cost and allocate interest expense over the relevant period. The effective interest method is based on the effective interest rate calculated at initial recognition of the financial instrument. Under IFRS the effective interest rate is calculated based on estimated future cash flows through the expected life of the financial instrument. Under US GAAP, the effective interest rate is generally calculated based on the contractual cash flows through the contractual life of the financial liability. Certain exceptions to this rule involve (1) puttable debt (amortized over the period from the date of issuance to the first put date) and (2) callable debt (a policy decision to amortize over either the contractual life or the estimated life). Under IFRS, changes in the estimated cash flow due to a closely related embedded derivative that is not bifurcated result in a cumulative catch-up reflected in the current-period income statement. US GAAP does not have the equivalent of a cumulative-catch-up-based approach.

Further details on the foregoing and other selected differences are described in the following table.

Impact	US GAAP	IFRS
Classification		
Contingent settlement provisions Contingent settlement provisions, such as provisions requiring redemption upon a change in control, result in liability classification under IFRS unless the contingency arises only upon liquidation or is not genuine. When an instrument is classified as a liability under IFRS, but as equity under US GAAP, the need to separately account for any embedded derivatives in the liability host contract is likely to create greater earnings volatility under IFRS. Items classified as mezzanine equity under US GAAP generally are classified as liabilities under IFRS.	A contingently redeemable financial instrument (e.g., one redeemable only if there is a change in control) is outside the scope of FAS 150, because its redemption is not unconditional. (Note: All conditional provisions must be assessed to ensure that the contingency is substantive.) As referenced previously, the guidance focuses on whether or not redemption is unconditional. Potential redemptions do not require liability classification. When US GAAP results in equity classification, there is generally no subsequent consideration of separate accounting for embedded derivatives. For SEC-listed companies applying US GAAP, certain types of securities require classification in the mezzanine equity category of the balance sheet. Examples of items requiring mezzanine classification are instruments with contingent settlement provisions or puttable shares as discussed in the Puttable shares section.	IAS 32 notes that a financial instrument may require an entity to deliver cash or another financial asset in the event of the occurrence or nonoccurrence of uncertain future events that are beyond the control of both the issuer and the holder of the instrument. Contingencies may include linkages to such events as a change in control or to other matters such as a change in a stock market index, consumer price index, interest rates, or net income. If the contingency is outside of the issuer's control, the issuer of such an instrument does not have the unconditional right to avoid delivering cash or another financial asset. Therefore, except in limited circumstances (such as if the contingency were not genuine or if it is triggered only in the event of a liquidation of the issuer), instruments with contingent settlement provisions represent liabilities.

Impact	US GAAP	IFRS
Contingent settlement provisions (continued)	Mezzanine classification is a US-public-company concept that is also preferred (but not required) for private companies. *(Note:* FAS 150 has a relatively narrow scope and an entity still needs to refer to other guidance such as FAS 133, ASR 268 and EITF 00-19 for instruments that are not covered by FAS 150.)	As referenced previously, the guidance focuses on the issuer's unconditional ability to avoid settlement no matter what contingencies may or may not be triggered. If an instrument is classified as a liability, an entity must also consider the existence of any embedded derivatives within the host instrument that may need to be bifurcated and accounted for separately. Embedded derivatives whose economics are not closely related to those of the host contract are bifurcated. Financial instruments with characteristics of liabilities and equity are classified as either liabilities or equity or they are bifurcated between liabilities and equity. There is no concept of mezzanine classification under IFRS.

Impact	US GAAP	IFRS
Compound instruments that are not convertible instruments (that do not contain equity conversion features)		
Bifurcation and split accounting under IFRS may result in significantly different treatment, including increased interest expense.	The guidance does not have the concept of compound financial instruments outside of instruments with equity conversion features. As such, under US GAAP the instrument would be classified wholly within liabilities or equity.	If an instrument has both a liability component and an equity component—known as a compound instrument (e.g., redeemable preferred stock with dividends paid solely at the discretion of the issuer)—IFRS requires separate accounting for each component of the compound instrument. The liability component is recognized at fair value calculated by discounting the cash flows associated with the liability component at a market rate for a similar debt host instrument and the equity component is measured as the residual amount. The accretion calculated in the application of the effective interest rate method on the liability component is classified as interest expense.

Impact	US GAAP	IFRS
Convertible instruments (compound instruments that contain equity conversion features)		
Differences in how and when convertible instruments get bifurcated and/or how the bifurcated portions get measured can drive substantially different results.	Equity conversion features should be separated from the liability component and recorded separately as embedded derivatives only if they meet certain criteria (e.g., fail to meet the scope exception of FAS 133). If equity conversion features are not bifurcated as embedded derivatives, the intrinsic value of a beneficial conversion feature may still need to be recorded in equity in certain circumstances.	For convertible instruments with a conversion feature characterized by a fixed amount of cash for a fixed number of shares, IFRS requires bifurcation and split accounting between the substantive liability and equity components of the instrument in question. The liability component is recognized at fair value calculated by discounting the cash flows associated with the liability component—at a market rate for nonconvertible debt—and the equity conversion rights are measured as the residual amount and recognized in equity with no subsequent remeasurement. Equity conversion features within liability host instruments that fail the fixed-for-fixed requirement are considered to be embedded derivatives. Such embedded derivatives are bifurcated from the host debt contract and measured at fair value, with changes in fair value recognized in the statement of operations.

Impact	US GAAP	IFRS
Puttable shares Puttable shares are more likely to be classified as liabilities under IFRS. The potential need to classify certain interests in open-ended mutual funds, unit trusts, partnerships and the like as liabilities under IFRS could lead to situations where some entities have no equity capital in their financial statements. When an instrument or interest is liability classified under IFRS, but equity classified under US GAAP, the need to separately account for any embedded derivatives in the liability host contract is likely to create greater earnings volatility under IFRS.	The redemption of puttable shares is conditional upon the holder exercising the put option. This contingency removes puttable shares from the scope of instruments that FAS 150 requires be classified as a liability. When US GAAP results in equity classification, there generally is no subsequent consideration of separate accounting for embedded derivatives.	Puttable instruments are generally classified as financial liabilities, because the issuer does not have the unconditional right to avoid delivering cash or other financial assets. Under IFRS, the legal form of an instrument does not necessarily influence the classification of a particular instrument. (This includes puttable shares or other puttable instruments.) Under this principle, IFRS may require certain interests in open-ended mutual funds, unit trusts, partnerships and the like to be classified as liabilities (since holders can require cash settlement). This could lead to situations where some entities have no equity capital in their financial statements. For items classified as liabilities, entities should also consider the existence of any embedded derivatives within the host instrument that may need to be bifurcated and accounted for separately. Embedded derivatives, whose economics are not closely related to those of the host contract, are bifurcated. In February 2008 the IASB issued amendments to IAS 32 *Financial Instruments*, which require an entity to classify certain puttable instruments as equity, provided they have particular features and meet certain specific conditions. The amendment will allow a limited subset of puttable instruments to achieve equity classification under IFRS.

Impact	US GAAP	IFRS
Derivatives on own shares		
Entities will need to consider how derivative contracts on an entity's own shares will be settled. Many of these contracts that are classified as equity under US GAAP (e.g., warrants that will be net share settled) will be classified as derivatives under IFRS, which will create additional volatility in the statement of operations. Written puts that are to be settled by gross receipt of the entity's own shares are treated as derivatives under US GAAP, while IFRS requires the entity to set up a liability for the discounted value of the amount of cash the entity may be required to pay. The accounting for share buy-back programs is also impacted.	Derivative contracts that are in the scope of EITF 00-19 and that: (1) require physical settlement or net share settlement; and (2) give the issuer a choice of net cash settlement or settlement in its own shares are considered equity instruments, provided they meet the criteria set forth in paragraphs 12 to 32 of the EITF. Analysis of a contract's terms is necessary to determine whether the contract meets the qualifying criteria, some of which can be difficult to meet in practice. Similar to IFRS, derivative contracts that require net cash settlement are assets or liabilities and contracts that require settlement in shares are equity instruments. A financial instrument—other than an outstanding share—that at inception (1) embodies an obligation to repurchase the issuer's equity shares or is indexed to such an obligation and (2) requires or may require the issuer to settle the obligation by transferring assets shall be classified as a liability (or an asset in some circumstances). Examples include forward purchase contracts or written put options on the issuer's equity shares that are to be physically settled or net cash settled.	Only contracts that provide for gross physical settlement can be classified as equity when they meet the fixed-for-fixed criteria (i.e., a fixed number of shares for a fixed amount of cash). Contracts that are net settled (net cash or net shares) are classified as liabilities or assets. Unlike US GAAP, under IFRS a derivative contract that gives one party a choice over how it is settled (net in cash, net in shares or by gross delivery) is a derivative asset/liability unless all of the settlement alternatives would result in its being an equity instrument. When an entity has an obligation to purchase its own shares for cash (e.g., such as under a forward contract to purchase its own shares or under a written put), the issuer still records a financial liability for the discounted value of the amount of cash that the entity may be required to pay. If, in addition, the contract itself meets the definition of an equity instrument (because it requires the entity to purchase a fixed amount of its own shares for a fixed amount of cash), any premium received or paid must be recorded in equity.

Impact	US GAAP	IFRS
Derivatives on own shares (continued)	A financial instrument that embodies an unconditional obligation or a financial instrument other than an outstanding share that embodies a conditional obligation and that the issuer must or may settle by issuing a variable number of its equity shares shall be classified as a liability (or an asset in some circumstances) if certain conditions are met. FAS 150 requires put options be measured at fair value, with changes in fair value recognized in current earnings. If the shares underlying the put option are readily convertible to cash as defined in FAS 133, the put option would also be subject to FAS 133, but its accounting would be identical to that under FAS 150. Refer to a discussion below regarding issuance of FSP APB 14-1, which will impact entities with instruments settled in cash.	
Measurement		
Initial measurement of a liability with a related party There are fundamental differences in the approach to related-party liabilities under the two accounting models that may impact the values at which these liabilities are initially recorded. The IFRS model may, in practice, be more challenging to implement.	When an instrument is issued to a related party at off-market terms, one should consider which model the instrument falls within the scope of as well as the facts and circumstances of the transaction (i.e., the existence of unstated rights and privileges) in determining how the transaction should be recorded. There is, however, no requirement to initially record the transaction at fair value. The FAS 57 presumption that related party transactions are not at arm's length and the associated disclosure requirements should also be considered.	When an instrument is issued to a related party, the liability should initially be recorded at fair value, which may not be the value of the consideration received. The difference between fair value and the consideration received (i.e., any additional amount lent or borrowed) is accounted for as a current-period expense, income, or as a capital transaction based on its substance.

Impact	US GAAP	IFRS
Effective-interest-rate calculation Differences between the expected lives and the contractual lives of financial liabilities have different implications under the two frameworks unless the instruments in question are carried at fair value. The difference in where the two accounting frameworks place their emphasis (contractual term for US GAAP and expected outcome for IFRS) can impact carrying values and the timing of expense recognition. Similarly, differences in how revisions to estimates get treated also impact carrying values and expense recognition timing, with the potential for greater volatility under IFRS.	The effective interest rate used for calculating amortization under the effective interest method discounts contractual cash flows through the contractual life of the instrument. There are certain exceptions: • Puttable debt: amortize over the period from the date of issuance to the first put date. • Callable debt: amortize over either the contractual life or the estimated life. Either method is acceptable; however, the entity needs to make a policy choice and apply it consistently.	The effective interest rate used for calculating amortization under the effective interest method discounts estimated cash flows through the expected—not the contractual—life of the instrument. Generally, if the entity revises its estimate after initial recognition, the carrying amount of the financial liability should be revised to reflect actual and revised estimated cash flows at the original effective interest rate, with a cumulative-catch-up adjustment being recorded in profit and loss. Frequent revisions of the estimated life or of the estimated future cash flows may exist, for example, in connection with debt instruments that contain a put or call option that does not need to be bifurcated or whose coupon payments vary. Payments may vary, because of an embedded feature that does not meet the definition of a derivative because its underlying is a nonfinancial variable specific to a party to the contract (e.g., cash flows that are linked to earnings before interest, taxes, depreciation and amortization; sales volume; or the earnings of one party to the contract). For floating-rate instruments, the effective interest rate is adjusted each period to reflect market rate changes and no gain or loss is recognized.

Impact	US GAAP	IFRS
Transaction costs (also known as debt issue costs) When applicable, the balance sheet presentation of transaction costs (separate asset versus a component of the instrument's carrying value) differs under the two standards. IFRS prohibits the balance sheet gross up required by US GAAP.	When the liability is not carried at fair value through income, transaction costs are deferred as an asset. Transaction costs are expensed immediately when the liability is carried at fair value, with changes recognized in profit and loss.	When the liability is not carried at fair value through income, transaction costs are deducted from the carrying value of the financial liability and are not recorded as separate assets. Rather, they are accounted for as a debt discount and amortized using the effective interest method. Transaction costs are expensed immediately when the liability is carried at fair value, with changes recognized in profit and loss.

Technical references

IFRS IAS 32, IAS 39, IFRIC 2

US GAAP FAS 57, FAS 133, FAS 140, FAS 150, FAS 155, FAS 159, APB 6, APB 14, EITF 00-19, CON 6, ASR 268

Note

The foregoing discussion captures a number of the more significant GAAP differences. It is important to note that the discussion is not inclusive of all GAAP differences in this area.

Recent/proposed guidance

Amendments to IAS 32, *Financial Instruments: Presentation*, and IAS 1, *Presentation of Financial Statements*

On February 14, 2008, the IASB published an amendment to IAS 32, *Financial Instruments: Presentation*, and to IAS 1, *Presentation of Financial Statements*, called *Puttable Financial Instruments and Obligations Arising on Liquidation* (the amendment). The amendment requires entities to classify the following types of financial instruments as equity, provided the instruments have particular features and meet specific conditions:

- Puttable financial instruments (e.g., some shares issued by cooperative entities and some partnership interests).
- Instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation (e.g., some shares issued by limited life entities).

The conditions for equity classification for puttable instruments are strict and may, in practice, be difficult to achieve. The amendments result from proposals that were contained in an exposure draft of proposed amendments to IAS 32 and IAS 1—*Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation*, published in June 2006. Entities shall apply these amendments for annual periods beginning on or after January 1, 2009. Earlier application is permitted. If entities apply these amendments for an earlier period, they shall disclose that fact.

FASB and IASB Comment Requests

In November 2007, the FASB issued its Preliminary Views on Financial Instruments with Characteristics of Equity and the IASB issued a discussion paper under the same title in February 2008. The Boards have indicated their intent to use input received to their individual requests as the basis of a joint project to develop a high-quality common standard. Comments on these requests are due by May 30, 2008 (FASB), and September 5, 2008 (IFRS). The requests are part of larger, broad-based projects that have lasted a number of years and that are expected to continue for the near future and that are further evidence of the complexity and challenge this topical area presents in practice.

FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (including Partial Cash Settlement)*

On May 12, 2008, the FASB issued FASB Staff Position (FSP) APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (including Partial Cash Settlement)*. The FSP applies to convertible debt instruments that, by their stated terms, may be settled in cash (or by other assets) upon conversion, including partial cash settlement, unless the embedded conversion option is required to be separately accounted for as a derivative under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*.

Convertible debt instruments within the scope of this FSP are not addressed by paragraph 12 of APB Opinion No. 14, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants*. Instruments within the scope of this FSP shall be separately accounted for in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The issuer of a convertible debt instrument within the scope of this FSP shall first determine the carrying amount of the liability component by measuring the fair value of a similar liability (including any embedded features other than the conversion option) that does not have an associated equity component. The issuer shall then determine the carrying amount of the equity component represented by the embedded conversion option by deducting the fair value of the

liability component from the initial proceeds ascribed to the convertible debt instrument as a whole. The excess of the principal amount of the liability component over its carrying amount shall be amortized to interest cost by using the interest method. For purposes of applying the interest method to instruments within the scope of the FSP, debt discounts shall be amortized over the expected life of a similar liability that does not have an associated equity component.

The FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and for interim periods within those fiscal years. Early adoption is not permitted. The FSP shall be applied retrospectively to all periods presented except to those instruments within its scope that were not outstanding during any of the periods that will be presented in the annual financial statements for the period of adoption, but were outstanding during an earlier period. Therefore, an entity shall not reclassify amounts between its opening equity accounts in those circumstances.

This FSP applies only to instruments that may be settled in cash upon conversion. Under IFRS, such a conversion option is accounted for as an embedded derivative. Therefore, in practice, we do not expect the release of this FSP to eliminate the current difference between US GAAP and IFRS in this area.

Other (e.g., SEC and/or industry highlights)

Impact of FSP FAS 150-3

This FSP deferred indefinitely the effective date of Statement 150 for certain mandatorily redeemable financial instruments (namely, those that are not redeemable on a fixed date for a fixed or determinable amount) issued by nonpublic entities that are *not* SEC registrants. In addition, this FSP deferred indefinitely the effective date of Statement 150 for certain mandatorily redeemable noncontrolling interests (of all entities—public and nonpublic). Both of these areas will be considered as part of the Board's ongoing projects on liabilities and equity.

Nonpublic entities and those entities (both public and nonpublic) with mandatorily redeemable noncontrolling interests should ensure that the guidance in this FSP is considered in evaluations of any potential differences between their current accounting (potentially under this FSP) under US GAAP compared with the accounting under IFRS as further discussed earlier.

Derivatives and hedging

Derivatives and hedging

Derivatives and hedging represent one of the more complex and nuanced topical areas within both US GAAP and IFRS. While IFRS is generally viewed as less rules laden than US GAAP, the difference is less dramatic in relation to derivatives and hedging wherein both frameworks embody a significant volume of detailed implementation guidance. Although the hedging models under IFRS and US GAAP are founded on similar principles, there are a number of application differences. Some of the differences result in IFRS being more restrictive than US GAAP, whereas other differences provide more flexibility under IFRS.

Areas where IFRS is more restrictive than US GAAP include the nature, frequency and methods of measuring and assessing hedge effectiveness. As an example, US GAAP provides for a shortcut method that allows an entity to assume no ineffectiveness and, hence, bypass an effectiveness test as well as the need to measure quantitatively the amount of hedge ineffectiveness. The US GAAP shortcut method is available only for certain fair value or cash flow hedges of interest rate risk using interest rate swaps (when certain stringent criteria are met). IFRS has no shortcut method equivalent. To the contrary, IFRS requires that, in all instances, hedge effectiveness be measured and any ineffectiveness be recorded in profit or loss. IFRS does acknowledge that in certain situations little or no ineffectiveness could arise, but IFRS does not provide an avenue whereby an entity may assume no ineffectiveness.

Because the shortcut method is not accepted under IFRS, companies utilizing the shortcut method under US GAAP will need to prepare the appropriate level of IFRS-compliant documentation if they want to maintain hedge accounting. The documentation will need to be in place no later than at the transition date to IFRS if hedge accounting is to be maintained on an uninterrupted basis. For example, for a company whose first IFRS-based financial statements will be issued for the three years ended December 31, 2011, hedging documentation needs to be in place as of the day after the opening balance sheet date. Hence, documentation needs to be in place as of January 1, 2009, if the entity wants to continue to apply hedge accounting on an uninterrupted basis.

Another area where IFRS is more restrictive involves the use of basis swaps as hedging instruments. The use of basis swaps is specifically addressed and permitted via tailored rules under US GAAP. No basis-swap-specific guidance exists under IFRS. While the use of basis swaps as hedging instruments is not precluded in principle under IFRS, in many cases the general IFRS-based ineffectiveness result will be so great as to disqualify an entity from using hedge accounting.

IFRS is also more restrictive than US GAAP in relation to the use of internal derivatives. Restrictions under the IFRS guidance may necessitate that entities desiring hedge accounting enter into separate, third-party hedging instruments for the gross amount of foreign currency exposures in a single currency, rather than on a net basis (as is done by many treasury centers under US GAAP).

At the same time, there are a number of areas where IFRS provides opportunities not available under US GAAP. Such opportunities arise in a series of areas where hedge accounting can be accomplished under IFRS, whereas it would have been precluded under US GAAP. For example, under IFRS an entity can achieve hedge accounting in relation to the foreign currency risk associated with a firm commitment to acquire a business in a business combination (whereas US GAAP would not permit hedge accounting). At the same time, IFRS allows an entity to utilize a single hedging instrument to hedge more than one risk in two or more hedged items. That difference may allow entities under IFRS to adopt new and sometimes more complex risk management strategies while still achieving hedge accounting. IFRS is more flexible than US GAAP with respect to the ability to achieve fair value hedge accounting in relation to interest rate risk within a portfolio of dissimilar financial assets and in relation to hedging a portion of a specified risk and/or a portion of a time period to maturity (i.e., partial-term hedging) of a given instrument to be hedged. A series of further differences exists as well.

As companies work to understand and embrace the new opportunities and challenges associated with adopting IFRS in this area, it is important that they ensure that data requirements and underlying systems support are fully considered.

Further details on the foregoing and other selected differences are described in the following table.

Impact	US GAAP	IFRS
General		
Net settlement provisions More instruments will qualify as derivatives under IFRS. Some instruments, such as option and forward agreements to buy unlisted equity investments, are accounted for as derivatives under IFRS, but not under US GAAP.	To meet the definition of a derivative, a financial instrument or other contract must require or permit net settlement. US GAAP generally excludes from the scope of FAS 133 certain instruments linked to unlisted equity securities when such instruments fail the net settlement requirement and are therefore not accounted for as derivatives.	IFRS does not include a requirement for net settlement within the definition of a derivative. There is an exception under IAS 39 for derivatives whose fair value cannot be measured reliably (i.e., instruments linked to equity instruments that are not reliably measurable), which could result in not having to account for such instruments at fair value. In practice, however, this exemption is very narrow in scope, because in most situations it is expected that fair value can be measured reliably even for unlisted securities.
Hedge qualifying criteria		
When to assess effectiveness Non-SEC-listed entities may see greater flexibility in the frequency of required effectiveness testing under IFRS. Although the rules under IFRS allow less frequent effectiveness testing in certain situations, SEC-listed entities will still be required to assess effectiveness on a quarterly basis in conjunction with their interim reporting requirements.	US GAAP requires that hedge effectiveness be assessed whenever financial statements or earnings are reported and at least every three months (regardless of how often financial statements are prepared).	IFRS requires that hedges be assessed for effectiveness on an ongoing basis and that effectiveness be measured, at a minimum, at the time an entity prepares its annual or interim financial reports. Therefore, if an entity is required to produce only annual financial statements, IFRS requires that effectiveness be tested only once a year. An entity may, of course, choose to test effectiveness more frequently.

Impact	US GAAP	IFRS
Items allowed under US GAAP that are not acceptable under IFRS		
A written option in a separate contract Differences with respect to when a written option and a purchased option may be combined and viewed as one contract may result in significantly different outcomes and treatment (i.e., hedge accounting or not). Fewer written and purchased options are combined under IFRS. That difference may impede hedge accounting that is achievable under US GAAP and as a consequence may introduce a new level of volatility to reported results if an entity does not modify its hedging strategy accordingly.	The guidance does not require contracts to be entered into contemporaneously with the same counterparty in a determination of when separate contracts can be combined and designated as a hedging instrument. In instances where a net premium is received, US GAAP requires that the quantitative tests in FAS 133.20(c) or 133.28(c) be met in order to qualify as a hedging instrument.	Under the guidance, two or more instruments may be designated as the hedging instrument only if none of them is a written option or a net written option. Assessment of whether a contract is a net written option includes assessment of whether a written option and a purchased option can be combined and viewed as one contract. If the contracts can be combined, none of the contracts is a written option and the combined contract would be the eligible hedging instrument. For a written option and a purchased option to be combined and viewed as one contract, the separate contracts must meet a series of indicators, including that they (1) were entered into contemporaneously and in contemplation of one another, (2) have the same counterparty and (3) relate to the same risk and that there is no apparent economic need or substantive business purpose for structuring the transactions separately that could not also have been accomplished in a single transaction.

Impact	US GAAP	IFRS
Foreign currency risk and internal derivatives Restrictions under the IFRS guidance may necessitate that entities desiring hedge accounting enter into separate third-party hedging instruments for the gross amount of foreign currency exposures in a single currency, rather than on a net basis (as is done by many treasury centers under US GAAP).	US GAAP permits hedge accounting for foreign currency risk with internal derivatives, provided specified criteria are met and, thus, accommodates the hedging of foreign currency risk on a net basis by a treasury center. The treasury center enters into derivatives contracts with unrelated third parties that would offset, on a net basis for each foreign currency, the foreign exchange risk arising from multiple internal derivative contracts.	While IFRS allows hedge accounting to be applied to transactions between entities in the same group or between segments in the separate reporting of those entities or segments, IFRS does not recognize internal derivative contracts within the consolidated financial statements. Said another way, only instruments that involve a party external to the reporting entity can be designated as hedging instruments. Entities may use internal derivatives as an audit trail or a tracking mechanism to relate external derivatives to the hedged item.

Impact	US GAAP	IFRS
Basis swaps Achieving hedge accounting for basis swaps is more difficult under IFRS. Given the practical difficulties in this area, entities active in the use of basis swaps may need to consider new strategies to achieve hedge accounting for the risks currently managed through the use of basis swaps.	The use of basis swaps as hedging instruments is specifically addressed and permitted if certain criteria are met. US GAAP notes that if a hedging instrument is used for modifying the interest receipts or payments associated with a recognized financial asset or liability from one variable rate to another variable rate, the hedging instrument is to be a link between an existing designated asset (or group of similar assets) with variable cash flows and an existing designated liability (or group of similar liabilities) with variable cash flows and be highly effective at achieving offsetting cash flows. A link exists if (1) the basis (that is, the rate index on which the interest rate is based) of one leg of an interest rate swap is the same as the basis of the interest receipts for the designated asset and (2) the basis of the other leg of the swap is the same as the basis of the interest payments for the designated liability.	IFRS does not specifically address the use of a basis swap as a hedging instrument for interest rate risk. In practice, under IFRS, basis swaps may be designated as hedging instruments in a fair value hedge so long as hedge effectiveness is measured (and achieved) against the overnight rate in the entity's functional currency. In many circumstances, ineffectiveness against the overnight rate would be so great as to disqualify an entity from meeting the retrospective hedge effectiveness test, thus precluding the entity from applying hedge accounting.

Impact	US GAAP	IFRS
Effectiveness testing and measurement of hedge ineffectiveness		
IFRS requires an increased level of hedge effectiveness testing and/or detailed measurement than is required under US GAAP. There are a number of similarities between the effectiveness-testing methods that are acceptable under US GAAP and those that are acceptable under IFRS. At the same time, important differences exist in areas such as the use of the shortcut method and the matched-terms method.	US GAAP does not specify a single method for assessing hedge effectiveness prospectively or retrospectively. The method an entity adopts depends on the entity's risk management strategy and is included in the documentation prepared at the inception of the hedge.	IFRS does not specify a single method for assessing hedge effectiveness prospectively or retrospectively. The method an entity adopts depends on the entity's risk management strategy and is included in the documentation prepared at the inception of the hedge. The most common methods used are the critical-terms comparison, the dollar-offset method and regression analysis.
	Shortcut method US GAAP provides for a shortcut method that allows an entity to assume no ineffectiveness (and, hence, bypass an effectiveness test) for certain fair value or cash flow hedges of interest rate risk using interest rate swaps (when certain stringent criteria are met).	**Shortcut method** IFRS does not allow a shortcut method by which an entity may assume no ineffectiveness. IFRS permits portions of risk to be designated as the hedged risk for financial instruments in a hedging relationship such as selected contractual cash flows or a portion of the fair value of the hedged item, which can improve the effectiveness of a hedging relationship. Nevertheless, entities are still required to test effectiveness and measure the amount of any ineffectiveness.

Impact	US GAAP	IFRS
Effectiveness testing and measurement of hedge ineffectiveness (continued)	**Matched-terms method** Under US GAAP, for hedges that do not qualify for the shortcut method, if the critical terms of the hedging instrument and the entire hedged item are the same, the entity can conclude that changes in fair value or cash flows attributable to the risk being hedged are expected to completely offset. An entity is not allowed to assume (1) no ineffectiveness when it exists or (2) that testing can be avoided. Rather, matched terms provide a simplified approach to effectiveness testing in certain situations. The SEC has clarified that the critical terms have to be perfectly matched to assume no ineffectiveness. Additionally, the critical-term-match method is not available for interest rate hedges.	**Matched-terms method** IFRS does not specifically discuss the methodology of applying a matched-terms approach in the level of detail included within US GAAP. However, if an entity can prove for hedges in which the principal terms of the hedging instrument and the hedged items are the same that the relationship will always be 100% effective based on an appropriately designed test, a similar qualitative analysis may be sufficient for prospective testing. Even if the principal terms are the same, retrospective effectiveness is still measured in all cases, since IFRS precludes the assumption of perfect effectiveness.

Impact	US GAAP	IFRS
Items not allowed under US GAAP that are acceptable under IFRS		
Hedges of a portion of the time period to maturity IFRS is more permissive than US GAAP with respect to a partial-term fair value hedge.	US GAAP does not permit a hedge of a portion of the time period to maturity of a hedged item.	IFRS permits designation of a derivative as hedging only a portion of the time period to maturity of a hedged item if effectiveness can be measured and the other hedge accounting criteria are met. For example, an entity with a 10% fixed bond with remaining maturity of 10 years can acquire a 5-year pay-fixed, receive-floating swap and designate the swap as hedging the fair value exposure of the interest rate payments on the bond until year 5 and the change in value of the principal payment due at maturity to the extent affected by changes in the yield curve relating to the 5 years of the swap. That is, a 5-year bond is the imputed hedged item in the actual 10-year bond; the interest rate risk hedged is the 5-year interest rate implicit in the 10-year bond.
Designated risks for financial assets or liabilities IFRS provides opportunities with respect to achieving hedge accounting for a portion of a specified risk. Those opportunities may reduce the amount of ineffectiveness that needs to be recorded in the statement of operations under IFRS (when compared with US GAAP).	The guidance does not allow a portion of a specific risk to qualify as a hedged risk in a hedge of financial assets or financial liabilities. US GAAP specifies that the designated risk be in the form of changes in one of the following: • Overall fair value or cash flows. • Benchmark interest rates. • Foreign currency exchange rates. • Creditworthiness and credit risk.	The guidance allows a portion of a specific risk to qualify as a hedged risk (so long as effectiveness can be reliably measured). Designating a portion of a specific risk may reduce the amount of ineffectiveness that needs to be recorded in the statement of operations under IFRS.

Impact	US GAAP	IFRS
Designated risks for financial assets or liabilities (continued)	The interest rate risk that can be hedged is explicitly limited to specified benchmark interest rates.	Under IFRS, portions of risks can be viewed as portions of the cash flows (e.g., excluding the credit spread from a fixed-rate bond in a fair value hedge of interest rate risk) or different types of financial risks, provided the types of risk are separately identifiable and effectiveness can be measured reliably.
Fair value hedge of interest rate risk in a portfolio of dissimilar items IFRS is more flexible than US GAAP with respect to the ability to achieve fair value hedge accounting in relation to interest rate risk within a portfolio of dissimilar items. That difference is especially relevant for financial institutions that use such hedging as a part of managing overall exposure to interest rate risk and may result in risk management strategies' being reflected as hedges under IFRS that do not qualify for hedge accounting under US GAAP.	US GAAP does not allow a fair value hedge of interest rate risk in a portfolio of dissimilar items.	IFRS allows a fair value hedge of interest rate risk in a portfolio of dissimilar items whereby the hedged portion may be designated as an amount of a currency, rather than as individual assets (or liabilities). In addition, in such a strategy, the change in fair value of the hedged item is presented in a separate line in the balance sheet and does not have to be allocated to individual assets or liabilities. An entity is also able to incorporate changes in prepayment risk by using a simplified method set out in the guidance, rather than specifically calculating the fair value of the prepayment option on a prepayable item.

Impact	US GAAP	IFRS
Firm commitment to acquire a business IFRS permits entities to hedge, with respect to foreign exchange risk, a firm commitment to acquire a business in a business combination, which is precluded under US GAAP.	US GAAP specifically prohibits a firm commitment to enter into a business combination or acquire or dispose of a subsidiary, minority interest or equity method investee from qualifying as a hedged item for hedge accounting purposes (even if it is with respect to foreign currency risk).	An entity is permitted to hedge foreign exchange risk to a firm commitment to acquire a business in a business combination only for foreign exchange risk. Companies accounting for these types of hedges as cash flow hedges under IFRS establish a policy for releasing the cumulative amount recorded in equity to profit or loss. In practice, such amounts are released into profit or loss at the earlier of (1) goodwill impairment, (2) disposal of the acquiree or (3) the time the contemplated transaction is no longer probable to occur.
Foreign currency risk and intragroup hedging In the hedging of a transactional foreign currency exposure, IFRS provides an opportunity for a parent to hedge the exposures of an indirect subsidiary regardless of the functional currency of intervening entities within the organizational structure. Differences in the application of the detailed guidance may provide entities an opportunity to centrally manage foreign currency risks under IFRS.	Under the guidance, either the operating unit that has the foreign currency exposure is a party to the hedging instrument or another member of the consolidated group that has the same functional currency as that operating unit is a party to the hedging instrument. However, for another member of the consolidated group to enter into the hedging instrument, there may be no intervening subsidiary with a different functional currency.	IFRS does not require the entity with the hedging instrument to have the same functional currency as the entity with the hedged item. At the same time, IFRS does not require that the operating unit exposed to the risk being hedged within the consolidated accounts be a party to the hedging instrument. As such, IFRS allows a parent company with a functional currency different from that of a subsidiary to hedge the subsidiary's transactional foreign currency exposure.

Impact	US GAAP	IFRS
Foreign currency risk and the combination of derivatives and nonderivatives		
IFRS provides an opportunity to consider a separate derivative and a nonderivative as a single synthetic derivative for hedge accounting purposes. That enhanced flexibility under IFRS may allow entities to adopt new and sometimes more complex strategies to manage certain risks while achieving hedge accounting.	US GAAP prohibits considering a separate derivative and a nonderivative as a single synthetic instrument for accounting purposes. In the illustrative example at right, US GAAP would preclude the combination of the derivative and nonderivative to be designated as a single hedging instrument in the hedge of a net investment in a foreign operation.	Under the guidance, for foreign currency risk only, two or more nonderivatives or proportions of them or a combination of derivatives and nonderivatives or proportions of them can be viewed in combination and jointly designated as the hedging instrument. As an illustrative example, consider a fact pattern in which a US parent's functional currency is the US dollar. Say the US parent has a net investment in a French subsidiary whose functional currency is the Euro. US parent also has fixed-rate external debt issued in yen and a receive-fixed-yen, pay-floating-Euro currency swap for all principal and interest payments. The combination of the fixed-rate yen debt and a receive-yen, pay-Euro currency swap resembles the economics of floating-rate Euro debt. Under IFRS, the combination of the debt and the swap may be designated as a hedge of the net investment in the French subsidiary.

Impact	US GAAP	IFRS
Hedging more than one risk IFRS provides greater flexibility with respect to utilizing a single hedging instrument to hedge more than one risk in two or more hedged items. That difference may allow entities to adopt new and sometimes more complex strategies to achieve hedge accounting while managing certain risks.	US GAAP does not allow a single hedging instrument to hedge more than one risk in two or more hedged items. US GAAP does not permit creation of a hypothetical component in a hedging relationship to demonstrate hedge effectiveness in the hedging of more than one risk with a single hedging instrument.	IFRS permits designation of a single hedging instrument to hedge more than one risk in two or more hedged items by separating a single swap into two hedging instruments if certain conditions are met. A single hedging instrument may be designated as a hedge of more than one type of risk if the risks hedged can be identified clearly, the effectiveness of the hedge can be demonstrated and it is possible to ensure that there is specific designation of the hedging instrument and different risk positions. In the application of this guidance, a single swap may be separated by inserting an additional (hypothetical) leg, provided that each portion of the contract is designated as a hedging Instrument.
Cash flow hedges and basis adjustments on acquisition of nonfinancial items In the context of a cash flow hedge, IFRS permits more flexibility regarding how to amortize amounts that have accumulated in equity in a cash flow hedge of nonfinancial assets and liabilities. Therefore, the balance sheet impacts may be different depending on the policy election made by entities for IFRS purposes. The income statement impact, however, is the same regardless of this policy election.	In the context of a cash flow hedge, US GAAP does not permit basis adjustments. That is, under US GAAP, an entity is not permitted to adjust the initial carrying amount of the hedged item by the cumulative amount of the hedging instruments' fair value changes that were recorded in equity. US GAAP does refer to basis adjustments in a different context wherein the term is used to refer to the method by which, in a fair value hedge, the hedged item is adjusted for changes in its fair value attributable to the hedged risk.	Under IFRS, *basis adjustment* commonly refers to an adjustment of the initial carrying value of a nonfinancial asset or nonfinancial liability subject to a cash flow hedge. That is, the initial carrying amount of the hedged item recognized on the balance sheet (i.e., the basis of the hedged item) is adjusted by the cumulative amount of the hedging instrument's fair value changes that were recorded in equity. IFRS gives entities an accounting policy choice to either basis adjust the hedged item (if it is a nonfinancial asset or liability) or release amounts to profit or loss as the hedged item affects earnings.

Impact	US GAAP	IFRS
Embedded derivatives		
US GAAP and IFRS require separation of derivatives embedded in hybrid contracts when the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host contract, when a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and when the hybrid instrument is not measured at fair value through profit or loss. US GAAP and IFRS provide an option to value certain hybrid instruments to fair value instead of bifurcating the embedded derivative. There are a series of detailed differences between US GAAP and IFRS related to the treatment of certain types of embedded derivatives. For example, there are differences in relation to what is meant by closely related, the need to reassess whether an embedded derivative needs to be separated, treatment of calls and puts in debt instruments and treatment of synthetic collateralized debt obligations. Entities should ensure appropriate attention is given to consideration of potential differences in this area.		

Technical references

IFRS IAS 39, IFRS 7, IFRIC 9, IFRIC 16

US GAAP FAS 133, FAS 137, FAS 138, FAS 149, FAS 155, FIN 37, FAS 133 Implementation Issues, EITF D-102

Note

The foregoing discussion captures a number of the more significant GAAP differences. It is important to note that the discussion is not inclusive of all GAAP differences in this area.

Recent/proposed guidance

FASB Exposure Draft: FAS 133: *Hedging, Accounting for Hedging Activities*

On June 6, 2008, the FASB issued an exposure draft (ED) to amend the accounting for hedging activities in FASB Statement No. 133, *Accounting for Hedging Activities*, and other, related literature. The objective of the proposed Standard is to simplify the accounting for hedging activities, resolve hedge accounting practice issues that have arisen under FAS 133 and make the hedge accounting model and associated disclosures more useful and understandable to financial statement users.

The ED would eliminate:

- The shortcut method and critical-terms match method
- The right to designate individual risks as hedged risk, except in the case of foreign currency risk and hedges of interest rate risk on a company's own debt at inception of the debt
- The requirement to quantitatively assess hedge effectiveness on an ongoing basis in order to qualify for hedge accounting

In addition, the ED would enable companies to qualify for hedge accounting by their performing a qualitative assessment at inception of the hedging relationship demonstrating that:

- An economic relationship exists between the hedging instrument and the hedged transaction
- The derivative would be expected to reasonably offset the change in fair value of the hedged item

After inception, companies would need to reassess hedge effectiveness only if circumstances suggest that the hedging relationship may no longer be reasonably effective.

The proposed Statement would be effective for financial statements issued for fiscal years beginning after June 15, 2009, and interim periods within those fiscal years. Comments were due on August 15, 2008.

IASB Discussion Paper, *Reducing Complexity in Reporting Financial Instruments*

In March 2008 the IASB released a discussion paper that discusses the main causes of complexity in reporting financial instruments. It also discusses possible intermediate and long-term approaches to improving financial reporting and reducing complexity. The IASB has noted that many preparers of financial statements, their auditors and users of financial statements find the requirements for reporting financial instruments complex. The IASB and the FASB have been urged by many to develop new standards of financial reporting for financial instruments that are principles based and less complex than today's requirements.

The discussion paper is being published by the IASB. However, it will also be considered for publication by the FASB for comment by FASB constituents. The paper is designed to gather information to assist the Boards in deciding how to proceed in the development of new standards that are principles based and less complex than today's requirements.

The discussion paper is being published as a basis for future discussion of issues related to measuring financial instruments and to hedge accounting. Subsequent steps in this project are expected ultimately to lead to new standards, but neither the timing nor the content of those standards has been determined. The discussion paper is designed to gather information to assist the IASB in deciding how to proceed.

The comment period on the discussion paper ends on September 19, 2008.

Amendments to IAS 39, *Financial Instruments: Eligible Hedged Items*

In September 2007 the IASB issued an exposure draft outlining amendments to IAS 39 called *Exposures Qualifying for Hedge Accounting*. The proposed amendments were intended to clarify the Board's original intentions regarding (1) what kind of instrument may be designated as a hedged risk and (2) when an entity may designate a portion of the cash flows of a financial instrument as a hedged item. Subsequently the IASB decided to drop this project in favor of a much narrower project entitled "Eligible Hedged Items."

The amendments as a result of the "Eligible Hedged Items" project specify:

- It is inappropriate to designate time value of an option as an eligible portion of a hedged item. Effectively, an entity will be required to separate the intrinsic value and time value of an option contract and designate as the hedging instrument only the change in intrinsic value of the option. This differs from US GAAP, which permits option time value to be designated as part of a hedge of a one-sided risk; and
- It is inappropriate to hedge inflation as a portion of a fixed-rate instrument.

The amendments are effective for annual periods beginning on or after July 1, 2009 with retrospective application.

IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*

The IFRIC recently issued IFRIC 16, *Hedges of a Net Investment in a Foreign Operation.* The interpretation applies to an entity that hedges the foreign currency risk arising from its net investments in foreign operations and that wishes to qualify for hedge accounting under IAS 39. The interpretation:

- Disqualifies presentation currency risk as a risk that can be hedged: The interpretation clarifies that only risk associated with functional currencies can be hedged.
- Allows a parent company to hedge a net investment in an indirect subsidiary: The interpretation clarifies that an entity can hedge a net investment in an indirect foreign subsidiary where there are intervening subsidiaries with different functional currencies.
- Allows a hedging instrument to be held anywhere within a consolidated group regardless of the functional currency of the entity holding the hedging instrument.

The interpretation converges to US GAAP in relation to presentation currency risk. However, IFRS still has more flexibility for hedge accounting in terms of the levels where the actual hedges are located within an entity.

Consolidation

Consolidation

IFRS is a principles-based framework and the approach to consolidation reflects that structure. IFRS provides indicators of control, some of which individually determine the need to consolidate. However, where control is not apparent, consolidation is based on an overall assessment of all of the relevant facts, including the allocation of risks and benefits between the parties. The indicators provided under IFRS help the reporting entity in making that assessment. Consolidation is required under IFRS when an entity has the ability to govern the financial and operating policies of another entity to obtain benefits.

US GAAP is principles based, but is also rules laden; as such the guidance is much more detailed. US GAAP can be influenced by form and, relative to IFRS, has many more exceptions. At its core, US GAAP has a two-tiered consolidation model: one focused on voting rights (the voting interest model) and the second based on a party's exposure to the risks and rewards of an entity's activities (the variable interest model). Under US GAAP, all entities are evaluated to determine whether they are variable-interest entities (VIEs). If so, consolidation is based on economic risks and rewards and decision-making authority plays no role in consolidation decisions. Consolidation of all non-VIEs is assessed on the basis of voting and other decision-making rights. Even in cases where both US GAAP and IFRS look to voting rights to drive consolidation, differences can arise. Examples include cases where de facto control exists, how the two bodies of GAAP address potential voting rights, and finance structures such as investment funds. As a result, careful analysis is required to identify any differences.

There will be significant changes within US GAAP upon adoption of FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51* (FAS 160, or the Standard). FAS 160 is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The following is a selection of the significant changes introduced by FAS 160:

- Noncontrolling interest (previously referred to as minority interest) is reported as part of equity in the consolidated financial statements.
- Losses are allocated to the noncontrolling interest even when such allocation might result in a deficit balance. This reduces the losses attributed to the controlling interest.
- In cases where control is maintained, changes in ownership interests are treated as equity transactions. Differences between the fair value of the consideration received or paid and the related carrying value of the noncontrolling interest are recognized in the controlling interest's equity.
- Upon a loss of control, any gain or loss on the interest sold is recognized in earnings. Additionally, any ownership interest retained is remeasured at fair value on the date control is lost, with any gain or loss being recognized in earnings.

FAS 160 also changes the accounting and reporting for the deconsolidation of a subsidiary. Most organizations will be impacted by the major changes in accounting for noncontrolling interests and the accounting for the deconsolidation of a subsidiary.

IAS 27 (Revised), *Consolidated and Separate Financial Statements*, must be applied for annual periods beginning on or after July 1, 2009. Earlier application is permitted. However, an entity must not apply the amendments for annual periods beginning before July 1, 2009, unless it also applies IFRS 3, *Business Combinations* (as revised in 2008). IAS 27 (Revised) does not change the presentation of noncontrolling interests from the previous standard, which is similar to the new requirement under FAS 160; however, additional disclosures are required to show the effect of transactions with noncontrolling interests on the equity attributable to parent company shareholders. IAS 27 (Revised) and FAS 160 have converged in the broad principles, particularly related to the reporting of noncontrolling interests in subsidiaries. However, the standards have not been developed using consistent language.

For jointly controlled entities, IFRS provides an option for proportional consolidation; the proportional method is only allowed under US GAAP for unincorporated entities in certain industries. In addition, gain recognition upon noncash contributions to a jointly controlled entity is more likely under IFRS.

Differences in consolidation under US GAAP and IFRS may also arise in the event a subsidiary's set of accounting policies differs from that of the parent. While under US GAAP it is acceptable to apply different accounting policies within a consolidation group to address issues relevant to certain specialized industries, exceptions to the requirement to consistently apply standards in a consolidated group are very limited under IFRS. In addition, potential adjustments may occur in situations where a parent company has a fiscal year-end different from that of a consolidated subsidiary (and the subsidiary is consolidated on a lag). Under US GAAP, significant transactions in the gap period may require disclosure only, while IFRS may require that transactions in the gap period be recognized in the consolidated financial statements.

Further details on the foregoing and other selected differences are described in the following table.

Impact	US GAAP	IFRS
General requirements		
Requirements to prepare consolidated financial statements IFRS does not provide industry-specific exceptions (e.g., investment companies and broker/dealers) to the requirement for consolidation of controlled entities. However, IFRS is, in limited circumstances, more flexible with respect to the right to issue nonconsolidated financial statements.	The guidance applies to legal structures. Industry-specific guidance precludes consolidation of controlled entities by certain types of organizations, such as registered investment companies or broker/dealers. Consolidated financial statements are presumed to be more meaningful and are required for SEC registrants. There are no exemptions for consolidating subsidiaries in general-purpose financial statements.	Parent entities prepare consolidated financial statements that include all subsidiaries. An exemption applies to a parent entity: • That is itself wholly owned or if the owners of the minority interests have been informed about and do not object to the parent's not presenting consolidated financial statements. • When the parent's securities are not publicly traded and the parent is not in the process of issuing securities in public securities markets. • When the immediate or ultimate parent publishes consolidated financial statements that comply with IFRS. A subsidiary is not excluded from consolidation simply because the investor is a venture capital organization, mutual fund, unit trust or similar entity. The guidance applies to activities regardless of whether they are conducted by a legal entity.

Impact	US GAAP	IFRS
Consolidation model Differences in consolidation can arise due to: • Differences in how economic benefits are evaluated, even when the consolidation assessment considers more than just voting rights (i.e., differences in methodology). • Specific differences or exceptions such as: - The consideration of variable interests. - Concepts of de facto control. - How potential voting rights are evaluated. - Guidance related to de facto agents, etc. - Reconsideration events.	All consolidation decisions are evaluated first under the VIE model. Under the VIE model, consolidation decisions are driven solely by the right to receive expected residual returns or exposure to expected losses. Voting control as a means of determining consolidation is irrelevant to identification of the primary beneficiary. The party exposed to the expected losses consolidates if one party is exposed to the majority of the expected losses and another party is entitled to the majority of the expected residual returns. US GAAP also includes specific guidance on interests held by related parties. A related-party group includes the reporting entity's related parties and de facto agents (close business advisers, partners, employees, etc.) whose actions are likely to be influenced or controlled by the reporting entity. If the aggregate interests of the related-party group absorb more than 50% of the VIE's expected residual returns or expected losses, one member of the group must consolidate. Specific guidance is provided under US GAAP with respect to determination of the consolidating party. Determination of whether an entity is a VIE gets reconsidered either when a specific reconsideration event occurs or, in the case of a voting interest entity, when voting interests or rights change.	IFRS focuses on the concept of 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, more than 50% of an entity's voting power. IFRS specifically requires potential voting rights to be assessed. Instruments that are currently exercisable or convertible are included in the assessment, with no requirement to assess whether exercise is economically reasonable (provided such rights have economic substance). Control also exists when a 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. In rare circumstances, a parent could also have control over an entity in circumstances where it holds less than 50% of the voting rights of an entity and lacks legal or contractual rights by which to control the majority of the entity's voting power or board of directors (de facto control). An example of de facto control is when a major shareholder holds an investment in an entity with an otherwise dispersed public shareholding. The assertion of de facto control is evaluated on the basis of all relevant facts and circumstances, including the legal and regulatory environment, the nature of the capital market and the ability of the majority owners of voting shares to vote together.

Impact	US GAAP	IFRS
Consolidation model (continued)	While US GAAP applies to legal structures, the FASB has included guidance to address circumstances in which an interest holder's risks and rewards are based not on the performance of the entity as a whole, but on the performance of specific assets or activities (a silo) hosted by a larger entity. A party that holds a variable interest in the silo then assesses whether it is the silo's primary beneficiary. The key distinction is that the US GAAP silo guidance applies only when the larger entity is a VIE. IFRS focuses on activities rather than legal entities and, as such, offers no specific guidance on silos. All other entities are evaluated under the voting interest model. Unlike IFRS, only actual voting rights are considered. Under the voting interest model, control can be direct or indirect and in certain unusual circumstances, may exist with less than 50% ownership (when contractually supported). The concept is referred to as effective control.	Similar to US GAAP, under IFRS, control may exist even in cases where an entity owns little or none of an SPE's equity. The application of the control concept requires, in each case, judgment in the context of all relevant factors. IFRS does not provide explicit guidance on silos. However, it does create an obligation to consider whether a corporation, trust, partnership or other unincorporated entity has been created to accomplish a narrow and well-defined objective. The governing document of such entities may impose strict and sometimes permanent limits on the decision-making ability of the board, trustees, etc. IFRS requires the consideration of substance over form and discrete activities within a much larger operating entity to fall within its scope. When an SPE is identified within a larger entity (including a non-SPE), the SPE's economic risks, rewards and design are assessed in the same manner as any legal entity's. When control of an SPE is not apparent, IFRS requires evaluation of every entity—based on the entity's characteristics as a whole—to determine the controlling party. The concept of economic benefit or risk is just one part of the analysis. Other factors considered in the evaluation are the entity's design (e.g. autopilot), the nature of the entity's activities and the entity's governance.

Impact	US GAAP	IFRS
Consolidation model (continued)	Control may exist even in cases where an entity owns little or none of the SPE's equity. The application of the control concept requires, in each case, judgment in the context of all relevant factors.	The substance of the arrangement would be considered in order to decide the controlling party for IFRS purposes. IFRS does not address the impact of related parties and de facto agents. There is no concept of a trigger event under IFRS.
Special-purpose entities Differences in consolidation can arise due to differences in the definition of VIE versus SPE, including scope exceptions (i.e., scope differences).	Consolidation requirements focus on whether an entity is a VIE regardless of whether it would be considered an SPE. Often, an SPE would be considered a VIE, since they are typically narrow in scope, often highly structured and thinly capitalized, but this is not always the case. For example, clear SPEs benefit from exceptions to the variable interest model such as pension, postretirement or postemployment plans and entities meeting the definition of a qualifying special-purpose entity. The guidance above applies only to legal entities.	Decision-making rights are not always indicative of control, particularly in the case of an SPE where decision making rights may be either on autopilot or structured for a narrow, well-defined purpose (such as a lease or securitization). As a result, IFRS requires other indicators of control to be considered. Those indicators are as follows: • Whether the SPE conducts its activities on behalf of the evaluating entity. • Whether the evaluating entity has the decision-making power to obtain the majority of the benefits of the SPE. • Whether the evaluating entity has the right to obtain the majority of the benefits of the SPE. • Whether the evaluating entity has the majority of the residual or ownership risks of the SPE or its assets. This guidance is applied to all SPEs, with the exception of postemployment benefit plans or other long-term employee benefit plans. The guidance above applies to activities regardless of whether they are conducted by a legal entity.

Impact	US GAAP	IFRS
Presentation of noncontrolling or minority interest		
There are currently differences in the way minority interests are presented within the primary financial statements. Those differences will be eliminated upon adoption of updated guidance under US GAAP.	Minority interest is currently presented outside of equity on the balance sheet and as a component of net income or loss in the income statement. With the adoption of FAS 160, US GAAP will converge to IFRS in this area.	Minority interests are presented as a separate component of equity in the balance sheet. In the income statement, the minority interests are presented on the face of the statement, but are not deducted from profit or loss in the determination of consolidated earnings. A separate disclosure on the face of the income statement attributing net earnings to the equity holders is required.
Accounting policies and reporting periods		
In relation to certain specialized industries, US GAAP allows more flexibility for utilization of different accounting policies within a single set of consolidated financial statements. In the event of nonuniform reporting periods, the treatment of significant transactions in any gap period varies under the two frameworks, with the potential for earlier recognition under IFRS.	Consolidated financial statements are prepared by using uniform accounting policies for all of the entities in a group. Limited exceptions exist when a subsidiary has specialized industry accounting principles. Retention of the specialized accounting policy in consolidation is permitted in such cases. 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 generally not made for transactions that occur in the gap period. Disclosure of significant events is required.	Consolidated financial statements are prepared by using uniform accounting policies for like transactions and events in similar circumstances for all of the entities in a group. The consolidated financial statements of the parent and the subsidiary are usually drawn up at the same reporting date. However, the subsidiary accounts as of a different reporting date can be consolidated, provided the difference between the reporting dates is no more than three months. Unlike US GAAP, adjustments are made to the financial statements for significant transactions that occur in the gap period.

Impact	US GAAP	IFRS
Equity investments/investments in associates and joint ventures		
Conforming accounting policies Under IFRS, entities must conform policies for all associates, which may affect reported figures (assets, liabilities and earnings), covenants and ratios.	The equity investee's accounting policies do not have to conform to the investor's accounting policies if the investee follows an acceptable alternative US GAAP treatment.	An investor's financial statements are prepared by using uniform accounting policies for similar transactions and events.
Definition and types Differences in the definition or types of joint ventures may result in different arrangements being considered joint ventures, which could affect reported figures, earnings, ratios and covenants.	The term joint venture refers only to jointly controlled entities, where the arrangement is carried on through a separate entity. 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. Most joint venture arrangements give each venturer (investor) participating rights over the joint venture (with no single venturer having unilateral control) and each party sharing control must consent to the venture's operating, investing and financing decisions.	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. Unanimous consent of the parties sharing control, but not necessarily all parties in the venture, is required. IFRS distinguishes between three types of joint ventures: • Jointly controlled entities, in which the arrangement is carried on through a separate entity (company or partnership). • Jointly controlled operations, in which each venturer uses its own assets for a specific project. • Jointly controlled assets, which is a project carried on with assets that are jointly owned.

Impact	US GAAP	IFRS
Accounting for joint venture arrangements IFRS provides an option for proportional consolidation of jointly controlled entities. Under US GAAP, the proportional method is allowed only for entities in certain industries. Refer to the Recent/proposed guidance section for potential changes in this area.	Prior to determining the accounting model, an entity first assesses whether the joint venture is a VIE. If the joint venture is a VIE, the accounting model discussed earlier is applied. Joint ventures often have a variety of service, purchase and/or sales agreements as well as funding and other arrangements that may affect the entity's status as a VIE. Equity interests are often split 50-50 or near 50-50, making nonequity interests (i.e., any variable interests) highly relevant in consolidation decisions. Careful consideration of all relevant contracts and governing documents is critical in the determination of whether a joint venture is within the scope of the variable interest model and, if so, whether consolidation is required. If the joint venture is not a VIE, venturers apply the equity method to recognize the investment in a jointly controlled entity. Proportionate consolidation is generally not permitted except for unincorporated entities operating in certain industries. A full understanding of the rights and responsibilities conveyed in management, shareholder and other governing documents is necessary.	Either the proportionate consolidation method or the equity method is allowed to account for a jointly controlled entity (a policy decision that must be applied consistently). Proportionate consolidation requires the venturer's share of the assets, liabilities, income and expenses to be either combined on a line-by-line basis with similar items in the venturer's financial statements or reported as separate line items in the venturer's financial statements. A full understanding of the rights and responsibilities conveyed in management agreements is necessary.

Impact	US GAAP	IFRS
Accounting for contributions to a jointly controlled entity		
Gain recognition upon contribution to a jointly controlled entity is more likely under IFRS.	As a general rule, a venturer records its contributions to a joint venture at cost (i.e., the amount of cash contributed and the carrying value of other nonmonetary assets contributed). When a venturer contributes appreciated noncash assets and others have invested cash or other hard assets, it may be appropriate to recognize a gain for a portion of that appreciation. Practice and existing literature vary in this area. As a result, the specific facts and circumstances affect gain recognition and require careful analysis.	A venturer that contributes nonmonetary assets, such as shares, property plant and equipment or intangible assets, to a jointly controlled entity in exchange for an equity interest in the jointly controlled entity recognizes in its consolidated income statement the portion of the gain or loss attributable to the equity interests of the other venturers, except when: • The significant risks and rewards of the contributed assets have not been transferred to the jointly controlled entity; • The gain or loss on the assets contributed cannot be measured reliably; or • The contribution transaction lacks commercial substance.

Technical references

IFRS IAS 1, IAS 27, IAS 27(Revised), IAS 28, IAS 36, IAS 39, IFRS 5, SIC 12, SIC 13

US GAAP FAS 94, FAS 144, FAS 153, FAS 160, FIN 35, FIN 46R, APB 18, EITF 96-16, SAB 51, SAB 84

Note

The foregoing discussion captures a number of the more significant GAAP differences. It is important to note that the discussion is not inclusive of all GAAP differences in this area.

Recent/proposed guidance

Reconsideration of Interpretation 46(R)

The FASB is currently working on a project to reconsider the guidance in FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, for determining which enterprise with a variable interest in a VIE, if any, shall consolidate the entity. The project will address the effect of the proposed elimination of the QSPE concept as decided in another Board project, Transfer of Financial Assets, which seeks to amend certain aspects of the guidance in FASB Statement No. 140, Accounting for *Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*. The Interpretation 46(R) project will also address concerns raised as a result of recent market events. Key areas addressed include the guidance on reconsidering whether an entity is a VIE; reconsidering which enterprise, if any, consolidates the entity (the primary beneficiary); the process for determining which enterprise, if any, is the primary beneficiary in a VIE; and disclosures.

At the June 11, 2008, meeting, the Board decided to require a 60-day comment period and hold a roundtable to allow constituents to provide comments on the proposed amendments to Interpretation 46(R). The Board decided that the proposed amendments to Interpretation 46(R) should be applied in fiscal years beginning after November 15, 2008 (effective date), on a limited retrospective basis, except for QSPEs that existed as of the effective date. The proposed amendments to FIN 46(R) would be applied to QSPEs that existed prior to the effective date in fiscal years beginning after November 15, 2009. For example, a calendar year-end entity would apply the proposed Interpretation 46(R) amendments to QSPEs that existed as of December 31, 2008, in the entity's 2010 first-quarter financial statements or in its December 31, 2010, financial statements if quarterly financial statements are not required. The entity would apply the proposed Interpretation 46(R) amendments to all other VIEs in its 2009 financial statements. Transition disclosures would be provided for existing QSPEs during the one-year deferral period.

In the event that the final amendments to the Interpretation are not effective for fiscal years beginning after November 15, 2008, the Board asked the staff to prepare separate disclosures for inclusion in the proposed Exposure Draft on Interpretation 46(R), based on the disclosures approved at the June 4, 2008, Board meeting.

The Board authorized the staff to proceed to issue a draft of the proposed amendments to Interpretation 46(R) for vote by written ballot. The Board expects to issue a proposed Exposure Draft in the third quarter of 2008.

Exposure Draft 9, *Joint Arrangements*

In September 2007 the IASB issued Exposure Draft 9, *Joint Arrangements*, which would amend existing provisions of IAS 31. The exposure draft's core principle is that parties to a joint arrangement recognize their contractual rights and obligations arising from the arrangement. The exposure draft therefore focuses on the recognition of assets and liabilities by the parties to the joint arrangement. The scope of the exposure draft is broadly the same as that of IAS 31. That is, unanimous agreement is required between the key parties that have the power to make financial and operating policy decisions for the joint arrangement.

Exposure Draft 9 proposes two key changes. The first is the elimination of proportionate consolidation for a jointly controlled entity. This is expected to bring improved comparability between entities by removing the policy choice. The elimination of proportionate consolidation would have a fundamental impact on the income statement and balance sheet for some entities, but it should be straightforward to apply. Entities that currently use proportionate consolidation to account for jointly controlled entities may need to account for many of the latter by using the equity method. These entities will replace the line-by-line proportionate consolidation of the income statement and balance sheet by a single net result and a single net investment balance.

The second change is the introduction of a dual approach to the accounting for joint arrangements. Exposure Draft 9 carries forward—with modification from IAS 31—the three types of joint arrangement, each type having specific accounting requirements. The first two types are Joint Operations and Joint Assets. The description of these types and the accounting for them is consistent with Jointly Controlled Operations and Jointly Controlled Assets in IAS 31. The third type of joint arrangement is a Joint Venture, which is accounted for by using equity accounting. A Joint Venture is identified by the party having rights to only a share of the outcome of the joint arrangement—for example, a share of the profit or loss of the joint arrangement. The key change is that a single joint arrangement may contain more than one type—for example, Joint Assets and a Joint Venture. Parties to such a joint arrangement account first for the assets and liabilities of the Joint Assets arrangement and then use a residual approach to equity accounting for the Joint Venture part of the joint arrangement.

Business combinations

Business combinations

US GAAP is converging with IFRS in this area. Upon the adoption of new US guidance, many historical differences will become eliminated, although certain important differences will remain.

It is expected that the pervasive impact of the new guidance on accounting practices will have an immediate impact on the mergers and acquisitions environment. Accounting areas such as the accounting for restructuring costs present significant change and are expected to result in a higher level of management accountability moving forward. Finance leaders, deal makers and senior executives need to be aware of the impact the differences will have on their business and future transactions. The accounting and disclosure changes are likely to have considerable influence on the negotiation of and planning for merger transactions and communications with shareholders.

Effective for fiscal years after December 15, 2008, FASB Statement No. 141(R), Business Combinations (FAS 141(R)), introduces significant changes in the accounting for and reporting of business acquisitions and noncontrolling interests in a subsidiary. Nearly every organization will be affected by the major changes in acquisition accounting as introduced by FAS 141(R). FAS 141(R) continues the movement toward (1) greater use of fair value in financial reporting and (2) transparency through expanded disclosures. It changes how business acquisitions are accounted for under US GAAP and will affect financial statements at the acquisition date and in subsequent periods. Further, certain changes will introduce more volatility into earnings and thus may affect a company's acquisition strategy. In addition, FAS 141(R) will affect the annual goodwill impairment test associated with acquisitions that close both before and after the effective date of the Standard. Thus, companies that have goodwill from an acquisition that closed prior to the effective date will need to understand the provisions of FAS 141(R) regardless of whether those companies intend to have future acquisitions.

IFRS 3 (Revised) is applied prospectively to business combinations occurring in the first accounting period beginning on or after July 1, 2009. It can be applied early, but only to an accounting period beginning on or after June 30, 2007. IFRS 3 (Revised) and IAS 27 (Revised) (see the Consolidation section for additional discussion on IAS 27 (Revised)) are to be applied at the same time. For IFRS, a filer's retrospective application to earlier business combinations is not permitted unless it is being applied in conjunction with a first-time adoption of IFRS. IFRS 3 (Revised) represents significant changes under IFRS, but is less of a radical change than the comparable Standard in US GAAP.

The business combinations standards (FAS 141(R) and IFRS 3 (Revised)) are very close in principles and language, with two major exceptions: (1) full goodwill and (2) the requirements regarding recognition of contingent assets and contingent liabilities. Upon adoption of these new standards almost all of the current differences in the initial accounting for business combinations will be eliminated. Significant differences will remain in subsequent accounting. Different requirements for impairment testing and accounting for deferred taxes are among the most significant.

The following table identifies and discusses differences in the current application of IFRS and US GAAP. Significant changes within the respective frameworks arising from the adoption of FAS 141(R) and IFRS 3 (Revised) are also noted.

Impact	US GAAP	IFRS
Definition of a business		
Current differences in the definitions of a business may result in more transactions' being accounted for as business combinations under IFRS. Those differences will, in substance, be eliminated upon the adoption of new guidance.	The use of the purchase method of accounting is required for most business combinations if the acquired entity meets the definition of a business. A business is defined as a self-sustaining integrated set of activities and assets conducted and managed for the purpose of providing a return for investors. A business consists of inputs, the processes applied to those inputs and the resulting outputs that are used for generating revenues.	Business combinations within the scope of IFRS 3 are accounted for as acquisitions. A business is defined in IFRS 3 as an integrated set of activities and assets conducted and managed for the purpose of providing either a return for investors or lower costs or other economic benefits directly and proportionately for policyholders or participants. A business generally consists of inputs, the processes applied to those inputs and the resulting outputs that are or will be used for generating revenues. If goodwill is present in a transferred set of activities and assets, the transferred set is presumed to be a business.
	If the acquired entity is a development-stage entity and has not commenced planned principal operations, it is presumed not to be a business. If the acquired operations do not constitute a business, the individual assets and liabilities are recognized at their relative fair values and no goodwill is recognized.	Often, a development-stage entity might include significant resources in the nature of goodwill. Under IFRS 3 and IFRS 3 (Revised), the acquisition of such an entity may be accounted for as a business combination and any goodwill is recognized as a separate asset, rather than being subsumed within the carrying amounts of the other assets in the transferred set.

Impact	US GAAP	IFRS
Costs of acquisitions		
Restructuring provisions Currently, significantly more restructuring charges can be recorded within the cost of an acquisition under US GAAP. That difference will be eliminated upon the adoption of new guidance under US GAAP.	The acquirer may recognize a restructuring liability as part of the cost of the acquisition if specific criteria are met. Management should assess and formulate a plan to exit an activity of the acquired entity as of the acquisition date and complete the plan as soon as possible, but no more than one year after the date of the business combination. As soon as they are available, management should communicate the termination or relocation arrangements to the affected employees of the acquired company. With the adoption of FAS 141(R), restructuring costs generally will be expensed in periods after the acquisition date, similar to the current treatment under IFRS.	The acquirer may recognize restructuring provisions as part of the acquired liabilities only if the acquiree has at the acquisition date an existing liability for a restructuring recognized in accordance with the guidance for provisions. A restructuring plan that is conditional on the completion of the business combination is not recognized in the accounting for the acquisition. It is recognized postacquisition and the expenses flow through postacquisition earnings.
Share-based consideration The date on which share-based consideration is valued varies under the two frameworks. That difference may lead to significant purchase price differences; however, it will be eliminated upon the adoption of new guidance under 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 date 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. Upon the adoption of FAS 141(R), US GAAP will be similar to IFRS with respect to the date on which share-based consideration is measured.	Shares issued as consideration are recorded at their fair value at the date of the exchange. Where control is achieved in a single transaction, the date of exchange will be the date on which the acquirer obtains control over the acquiree's net assets and operations.

Impact	US GAAP	IFRS
Contingent consideration		
Current guidance with respect to when contingent consideration gets recorded varies under the two accounting frameworks. Upon the adoption of new guidance in both frameworks, the accounting for contingent consideration will move toward being recorded at fair value. Differences may remain between the expected settlement amount and fair value until consideration is paid for nonfinancial contingent consideration.	Additional cost is generally not recognized until the contingency is resolved or the amount is determinable. If the contingent consideration is based on earnings, any additional revision to the estimate is recognized as an adjustment to goodwill. If the contingent consideration is based on security prices, the issuance of additional securities or the distribution of other consideration generally does not change the recorded cost of an acquired entity. Upon the adoption of FAS 141(R), US GAAP will require measurement initially at fair value. In subsequent periods, changes in the fair value of contingencies classified as assets or liabilities will be recognized in earnings. Equity-classified contingent consideration is not remeasured at each reporting date. Settlement is accounted for within equity.	If part of the purchase consideration is contingent on a future event, such as achieving certain profit levels, IFRS requires that an estimate of the amount be included as part of the cost at the date of the acquisition if it is probable (i.e., more likely than not) that the amount will be paid and can be measured reliably. Any revision to the estimate is adjusted against goodwill. Upon the adoption of IFRS 3 (Revised), contingent consideration is recognized initially at fair value as either a financial liability or equity. Financial liabilities are remeasured to fair value at each reporting date. Any changes in estimates of the expected cash flows outside the measurement period are recognized in the income statement. Equity-classified contingent consideration is not remeasured at each reporting date. Settlement is accounted for within equity.
Transaction costs		
Currently, transaction costs (e.g., professional fees) represent part of the purchase price under both frameworks. Upon the adoption of the new guidance, transaction costs will be recognized as period costs under both frameworks.		

Impact	US GAAP	IFRS
Acquired assets and liabilities		
In-process research and development In-process research and development (IPR&D) is generally expensed at the acquisition date under US GAAP and is capitalized under IFRS. That difference will be eliminated upon the adoption of new guidance under US GAAP.	Acquired IPR&D is expensed immediately unless it has an alternative future use. Upon the adoption of FAS 141(R), US GAAP will be similar to IFRS. Research and development intangible assets will initially be recognized and measured at fair value and treated as indefinite lived, subject to amortization upon completion or impairment.	Acquired IPR&D is recognized as a separate intangible asset if it meets the definition of an intangible asset and its fair value can be measured reliably, subject to amortization upon completion or impairment.
Acquired contingencies Current guidance with respect to when and how contingent liabilities get recorded varies under the two accounting frameworks. Upon the adoption of new guidance under US GAAP, there will be significant differences related to the recognition of noncontractual contingencies, as well as to the recognition of contingent assets.	The acquiree's contingent liabilities are typically recorded when payment is deemed to be probable and the amount is reasonably estimable. Upon the adoption of FAS 141(R), acquired liabilities and assets subject to contractual contingencies will be recognized at fair value. In addition, entities will be required to recognize liabilities and assets subject to other contingencies (i.e., noncontractual) only if it is more likely than not that they meet the definition of an asset or a liability at the acquisition date. After recognition, entities retain initial measurement until new information is received and then measure at the higher of the amount initially recognized or the amount under general contingency guidance for liabilities and at the lower of acquisition date fair value or the best estimate of a future settlement amount for assets subject to contingencies.	The acquiree's contingent liabilities are recognized separately at the acquisition date as part of allocation of the cost, provided their fair values can be measured reliably. The contingent liability is measured subsequently at the higher of the amount initially recognized or, if qualifying for recognition as a provision, the best estimate of the amount required to settle (under the provisions guidance). Contingent assets are not recognized. IFRS 3 (Revised) did not change the accounting for contingencies under IFRS.

Impact	US GAAP	IFRS
Assignment and impairment of goodwill		
The definition of the levels at which goodwill is assigned and tested for impairment varies between the two frameworks and may not be the same. Additional differences in the impairment testing methodologies could create further variability in the timing and extent of recognized impairment losses.	Goodwill is assigned to an entity's reporting units, as defined within the guidance. Goodwill impairment testing is performed under a two-step approach: 1. The fair value and the carrying amount of the reporting unit, including goodwill, are compared. If the fair value of the reporting unit is less than the carrying amount, step 2 is completed to determine the amount of the goodwill impairment loss, if any. 2. Goodwill impairment is measured as the excess of the carrying amount of goodwill over its implied fair value. The implied fair value of goodwill—calculated in the same manner that goodwill is determined in a business combination—is the difference between the fair value of the reporting unit and the fair value of the various assets and liabilities included in the reporting unit. Any loss recognized is not permitted to exceed the carrying amount of goodwill. The impairment charge is included in operating income.	Goodwill is assigned to a cash-generating unit (CGU) or group of CGUs, as defined within the guidance. Goodwill impairment testing is performed under a one-step approach: The recoverable amount of the CGU or group of CGUs (i.e., the higher of its fair value minus costs to sell and its value in use) is compared with its carrying amount. Any impairment loss is recognized in operating results as the excess of the carrying amount over the recoverable amount. The impairment loss is allocated first to goodwill and then on a pro rata basis to the other assets of the CGU or group of CGUs to the extent that the impairment loss exceeds the book value of goodwill.
Subsequent adjustments to assets and liabilities		
Current guidance is generally similar under the two frameworks, except that US GAAP requires that favorable adjustments to restructuring provisions and adjustments to tax contingencies be taken against purchase accounting outside the measurement period. Under the new guidance, those differences will be eliminated. Additionally, both frameworks will require that measurement-period adjustments to provisional accounting estimates that get recorded on the acquisition date be accounted for as adjustments to prior-period financial statements.		

Impact	US GAAP	IFRS
Other		
Minority interests/noncontrolling interests Under US GAAP, minority interests are valued at historical cost. Upon the adoption of new guidance, minority interests will be measured at full fair value under US GAAP. IFRS will provide two valuation options.	Minority interests get valued at their historical book value. Fair values are assigned only to the parent company's share of the net assets acquired. Business combinations occurring after the adoption of FAS 141(R) will result in a noncontrolling interest being measured at fair value. In addition, no gains or losses will be recognized in earnings for transactions between the parent company and the noncontrolling interests—unless control is lost.	Where an investor acquires less than 100% of a subsidiary, the minority (noncontrolling) interests are stated on the investor's balance sheet at the minority's proportion of fair value of identifiable net assets, excluding goodwill. Upon the adoption of IFRS 3 (Revised), entities will be given the option, on a transaction-by-transaction basis, to measure noncontrolling interests at the fair value of their proportion of identifiable net assets or at full fair value. In addition, no gains or losses will be recognized in earnings for transactions between the parent company and the noncontrolling interests—unless control is lost.
Combinations involving entities under common control Under US GAAP there are specific rules for common control transactions. IFRS provides more variability in the accounting treatment for such transactions.	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.	IFRS does not specifically address such transactions. Entities develop and consistently apply an accounting policy; management can elect to apply purchase accounting or the predecessor value method to a business combination involving entities under common control. The accounting policy can be changed only when criteria for a change in an accounting policy are met in the applicable guidance (i.e., it provides more-reliable and more-relevant information). Related-party disclosures are used for explaining the impact of transactions with related parties.

Impact	US GAAP	IFRS
Step acquisitions Under current US GAAP, entities do not remeasure their interests in net assets of an acquired entity when control is achieved, resulting in the accumulation of fair values at various dates. However, under the current IFRS Standards, an acquiree's identifiable net assets are remeasured to fair value at the date that the transaction providing control occurs. Following the adoption of new guidance in both frameworks, when entities obtain control through a series of acquisitions (step acquisitions) the entity will remeasure any previously held equity interests to fair value, with any gain or loss recorded through the statement of operations.		
Additional differences created upon adoption of 141(R) and IFRS 3 (Revised)		
Effective date and early application Significant GAAP differences may exist with respect to when the new guidance is adopted.	FAS 141(R) is effective for acquisitions that close in years beginning after December 15, 2008 (2009 for calendar-year-end companies), and is to be applied prospectively. Early application is prohibited.	IFRS 3 (Revised) is effective for acquisitions occurring in the first accounting period beginning on or after July 1, 2009, and is to be applied prospectively unless it is being applied in conjunction with a first-time adoption of IFRS. It can be applied early, but only to an accounting period beginning on or after June 30, 2007, as long as IAS 27 (Revised) is also applied at the same time.
Identifying the acquirer Potentially different entities may be determined to be the acquirer when applying purchase accounting. Impacted entities should refer to the Consolidation section above for a more detailed discussion of differences related to the consolidation models between the frameworks that may create significant differences in this area.	The acquirer is determined by reference to ARB No. 51, under which the general guidance is that the party that holds directly or indirectly greater than 50% of the voting shares has control, unless the acquirer is the primary beneficiary of a VIE in accordance with FIN 46(R).	The acquirer is determined by reference to IAS 27, under which the general guidance is the party that holds greater than 50% of the voting power has control. In addition, there are several instances where control may exist if less than 50% of the voting power is held by an entity. IFRS 3 (Revised) does not have guidance related to primary beneficiaries.
Employee benefit arrangements and income taxes Accounting for share-based payments and income taxes in accordance with separate standards, not a fair value, may result in significantly different results being recorded as part of purchase accounting.		

Impact	US GAAP	IFRS

Technical references

IFRS IAS 12, IFRS 3, IFRS 3 (Revised), SIC 9

US GAAP FAS 38, FAS 141, FAS 141(R), FAS 142, FAS 144, EITF 90-5, EITF 95-3, EITF 95-8, EITF 98-3

Note

The foregoing discussion captures a number of the more significant GAAP differences. It is important to note that the discussion is not inclusive of all GAAP differences in this area.

Recent/proposed guidance

IFRS

The IASB has added a project to its agenda to address the treatment of business combinations involving entities under common control. The Fair Value Measurement Project (a discussion paper was released in December 2006) is still in progress and might affect the definition of fair value as currently contained in IFRS 3 (Revised). There are other ongoing projects on some Standards that are linked to business combinations (notably, IAS 37 on provisions and IAS 12 on deferred tax) that may affect either the recognition or measurement at the acquisition date or the subsequent accounting.

Other accounting and reporting topics

Other accounting and reporting topics

In addition to areas previously discussed, differences exist in a multitude of other standards, including translation of foreign currency transactions, calculation of earnings per share, disclosures regarding operating segments and discontinued-operations treatment. Differences also exist in the presentation and disclosure of annual and interim financial statements.

There are differences in the accounting for diluted earnings per share, which could result in differences in the amounts reported. Some of the differences (such as the inclusion of option grants, even in the instance where a company is prohibited from issuing new shares) would result in lower potential common shares under IFRS, while others (such as the presumption that contracts that can be settled in either cash or common shares will always settle in shares) would generally result in a higher number of potential common shares under IFRS.

IFRS contains a narrower definition of a discontinued operation than does US GAAP. The IFRS definition of a component—for purposes of determining whether a disposition would qualify for discontinued operations treatment—requires the unit to represent a separate major line of business or geographic area of operations or to be a subsidiary acquired exclusively with a view toward resale. This requirement will tend to reduce the number of divestitures that are treated as discontinued operations in IFRS financial statements.

Differences in the guidance surrounding the offsetting of assets and liabilities under master netting arrangements, repurchase and reverse-repurchase arrangements and the number of parties involved in the offset arrangement could change the balance sheet presentation of items currently shown net (or gross) under US GAAP, which could impact an entity's key metrics or ratios.

Further details on the foregoing and other selected differences are described in the following table.

Impact	US GAAP	IFRS
Financial statements		
Balance sheet: offsetting assets and liabilities Differences in the guidance covering the offsetting of assets and liabilities under master netting arrangements, repurchase and reverse-repurchase arrangements and the number of parties involved in the offset arrangement could change the balance sheet presentation of items currently shown net (or gross) under US GAAP. Consequently, more items are likely to appear gross under IFRS.	The guidance states that "it is a general principle of accounting that the offsetting of assets and liabilities in the balance sheet is improper except where a right of setoff exists." A right of setoff is a debtor's legal right, by contract or otherwise, to discharge all or a portion of the debt owed to another party by applying against the debt an amount that the other party owes to the debtor. A debtor having a valid right of setoff may offset the related asset and liability and report the net amount. A right of setoff exists when all of the following conditions are met:	Under the guidance, a right of setoff is a debtor's legal right, by contract or otherwise, to settle or otherwise eliminate all or a portion of an amount due to a creditor by applying against that amount an amount due from the creditor. Two conditions must exist for an entity to offset a financial asset and a financial liability (and thus present the net amount on the balance sheet). The entity must:

Impact	US GAAP	IFRS
Balance sheet: offsetting assets and liabilities (continued)	• Each of *two* parties owes the other determinable amounts. • The reporting party has the right to set off the amount owed with the amount owed by the other party. • The reporting party intends to set off. • The right of setoff is enforceable by law. Repurchase agreements and reverse-repurchase agreements that meet certain conditions are permitted, but not required, to be offset in the balance sheet. The guidance provides an exception to the previously described intent condition for derivative instruments executed with the same counterparty under a master netting arrangement. An entity may offset (1) fair value amounts recognized for derivative instruments and (2) fair value amounts (or amounts that approximate fair value) recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) arising from derivative instruments recognized at fair value. Entities must adopt an accounting policy to offset fair value amounts under this guidance and apply that policy consistently.	• Currently have a legally enforceable right to set off the recognized amounts; and • Intend either to settle on a net basis or to realize the asset and settle the liability simultaneously. In unusual circumstances, a debtor may have a legal right to apply an amount due from a third party against the amount due to a creditor, provided that there is an agreement between the three parties that clearly establishes the debtor's right of setoff. Master netting arrangements do not provide a basis for offsetting unless both of the criteria described earlier have been satisfied.

<table>
<tr><th>Impact</th><th>US GAAP</th><th>IFRS</th></tr>
<tr><td><h3>Balance sheet: classification</h3>Under IFRS, the classification of debt does not consider post-balance-sheet refinancing agreements. As such, more debt is classified as current under IFRS.</td><td>Entities may classify debt instruments due within the next 12 months as noncurrent at the balance sheet date, provided that agreements to refinance or to reschedule payments on a long-term basis (including waivers for certain debt covenants) get completed before the financial statements are issued.

The presentation of a classified balance sheet is required, with the exception of certain industries.</td><td>If completed after the balance sheet date, neither an agreement to refinance or reschedule payments on a long-term basis nor the negotiation of a debt covenant waiver would result in noncurrent classification of debt, even if executed before the financial statements are issued.

The presentation of a classified balance sheet is required, except when a liquidity presentation is more relevant.</td></tr>
<tr><td><h3>Statement of operations</h3>The most significant differences between the frameworks are the ability to present expenses based on their nature, rather than their function and the lack of a prescribed format for the statement of operations, both under IFRS.</td><td>The statement of operations can be presented in (1) either a single-step format, whereby all expenses are classified by function and then deducted from total income to arrive at income before tax or (2) a multiple-step format separating operating and nonoperating activities before presenting income before tax.

SEC regulations require all registrants to categorize expenses in the statement of operations by their function. However, depreciation expense may be presented as a separate income statement line item. In such instances the caption cost of sales should be accompanied by the phrase exclusive of depreciation shown below and presentation of a gross margin subtotal is precluded.</td><td>Entities can present their expenses either by function or by nature. Additional disclosure of expenses by nature is required if functional presentation is used.

No prescribed statement-of-operations format exists. At least the following items have to be disclosed:
Revenue.
Finance costs.
Share of post tax results of associates and joint ventures accounted for by the equity method.
Tax expense.
Post tax gain or loss attributable to the results and to remeasurement of discontinued operations.
Profit or loss for the period.</td></tr>
</table>

Impact	US GAAP	IFRS
Statement of operations (continued)	Although US GAAP does not use the term *exceptional items,* significant unusual or infrequently occurring items are reported as components of income separate from continuing operations—either on the face of the statement of operations or in the notes to the financial statements. Extraordinary items are defined as being both infrequent and unusual and are rare in practice.	Additionally, entities that disclose an operating result should include all items of an operating nature, including those that occur irregularly or infrequently or are unusual in amount within that caption. Entities should not mix functional and natural classifications of expenses by excluding certain expenses from the functional classifications to which they relate. The term *exceptional items* is not used or defined. However, the separate disclosure is required (either on the face of the statement of operations or in the notes) 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. Extraordinary items are prohibited.

Impact	US GAAP	IFRS
Statements of equity and comprehensive earnings		
IFRS permits a policy election for recognizing actuarial gains and losses outside of the core income statement. If this election is made, a statement of recognized income and expense (SORIE) must be presented. Also, if such an election is made, the presentation of the statement of shareholders' equity as a primary statement is prohibited.	SEC rules permit the statement of changes in shareholders' equity to be presented either as a primary statement or within the notes to the financial statements. Entities may utilize one of three formats in their presentation of comprehensive income: • A single primary statement of income and comprehensive income. • A two-statement approach (a statement of income and a statement of comprehensive income). • A separate category highlighted within the primary statement of changes in shareholders' equity.	A statement of shareholders' equity is presented as a primary statement unless a SORIE is presented. In such cases, supplemental equity information is required to be presented in the notes to the financial statements. Recognized 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. Upon adoption of revised guidance, the SORIE will be eliminated. Entities will then determine whether they will present all items of income and expense recognized in the period in a single statement of comprehensive income or in two statements (a statement of operations and a statement of comprehensive income). Comprehensive income may not be presented within the statement of changes in shareholders' equity. Refer to the Recent/proposed guidance discussion below.

Impact	US GAAP	IFRS
Statement of cash flows Differences exist between the two frameworks for the presentation of the statement of cash flows that could result in differences in the actual amount shown as cash and cash equivalents in the statement of cash flows as well as changes to each of the operating, investing and financing sections of the statement of cash flows.	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. The guidance is specific on the cash flow classification of certain items, requiring dividends paid to be classified in the financing section of the cash flow statement and requiring interest paid, interest received and dividends received to be classified as cash flows from operations. Taxes paid are generally classified as operating cash flows; specific rules exist regarding the classification of the tax benefit associated with share-based compensation arrangements. Additional disclosure rules exist regarding the supplemental disclosure of interest and taxes paid during the period at the foot of the cash flow statement.	Cash may also include bank overdrafts repayable on demand. Short-term bank borrowings are not included in cash or cash equivalents and are considered to be financing cash flows. Interest and dividends paid should be classified in either operating or financing cash flows; receipts of interest or dividends should be classified in either operating or investing activities. Taxes paid should be classified within operating cash flows unless specific identification with a financing or investing activity exists. Once an accounting policy election is made, it should be followed consistently.

Impact	US GAAP	IFRS
Disclosure of critical accounting policies and significant estimates An increased prominence exists in the disclosure of an entity's critical accounting policies and disclosures of significant accounting estimates under IFRS in relation to the requirements of US GAAP.	For SEC registrants, disclosure of critical accounting policies is normally made in the Management's Discussion and Analysis section of Form 10-K. Separate inclusion of critical accounting policies in the notes to the financial statements is not required.	Within the notes to the financial statements, entities are required to disclose: • The judgments that management has made in the process of applying its accounting policies that have the most significant effect on the amounts recognized in those financial statements; and • Information about the key assumptions concerning the future—and other key sources of estimation uncertainty at the balance sheet date—that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.
Comparative financial information IFRS specifies the periods for which comparative financial information is required, which differs from both US GAAP and SEC requirements.	Comparative financial statements are not required; however, SEC requirements specify that most registrants provide two years of comparatives for all statements except for the balance sheet, which requires only one comparative year.	One year of comparatives is required for all numerical information in the financial statements, with limited exceptions in disclosures. In limited note disclosures, more than one year of comparative information is required. Following adoption of new guidance, a third balance sheet is also required in situations where a restatement or reclassification has occurred. Reclassifications in this context are in relation to a change in accounting policies or accounting estimates, errors or changes in presentation of previously issued financial statements.

Impact	US GAAP	IFRS
Earnings per share		
Diluted earnings-per-share calculation Several specific differences exist that could result in a different denominator being utilized in the diluted earnings-per-share (EPS) calculation under the two frameworks.	The treasury stock method for year-to-date diluted EPS requires that the number of incremental shares included in the denominator be determined by computing a year-to-date weighted-average number of incremental shares by using the incremental shares from each quarterly diluted EPS computation. The guidance contains the presumption that contracts that may be settled in common shares or in cash at the election of the entity will be settled in common shares and the resulting potential common shares be included in diluted EPS. However, that presumption may be overcome if past experience or a stated policy provides a reasonable basis to believe that the contract will be paid in cash. In those cases where the holder controls the means of settlement, the more dilutive of the methods (cash versus shares) should be used to calculate potential common shares. Contingently convertible debt securities with a market price trigger (e.g., debt instruments that contain a conversion feature that is triggered upon an entity's stock price reaching a predetermined price) should always be included in diluted EPS computations if dilutive—regardless of whether the market price trigger has been met. That is, the contingency feature should be ignored and the instrument treated as a regular convertible instrument.	The guidance states that dilutive potential common shares shall be determined independently for each period presented, not a weighted average of the dilutive potential common shares included in each interim computation. The contracts that can be settled in either common shares or cash at the election of the entity or the holder are always presumed to be settled in common shares and included in diluted EPS; that presumption may not be rebutted. The potential common shares arising from contingently convertible debt securities would be included in the dilutive EPS computation only if the contingency price was met as of the reporting date.

Impact	US GAAP	IFRS
Foreign currency translation		
Trigger to release amounts recorded in a currency translation account Different recognition triggers for amounts captured in a currency translation account (CTA) could result in more instances where amounts included in a CTA are recycled through the statement of operations under IFRS.	The CTA balance is released into the statement of operations in the event of a complete or substantially complete liquidation of a foreign operation. A partial liquidation does not trigger the release of the CTA. Amounts in the CTA should generally not be released into earnings when a first-tier foreign subsidiary sells or liquidates a second-tier subsidiary, because the first-tier subsidiary still contains investments in foreign assets. This principle may be overcome in certain cases. Repayment of permanent advances does not result in a release of the CTA unless it constitutes a substantially complete liquidation of the foreign entity.	Release of the CTA balance would be triggered by partial liquidation of a foreign operation, sale of a second-tier subsidiary or repayment of permanent advances.
Translation in consolidated financial statements Upon initial adoption, IFRS does not require equity accounts to be translated at historical rates.	Equity is required to be translated at historical rates.	Management has a policy choice to use either the historical rate or the closing rate. The chosen policy should be applied consistently. If the closing rate is used, the resulting exchange differences are recognized in equity and thus the policy choice has no impact on the amount of total equity.

Impact	US GAAP	IFRS
Determination of functional currency Under US GAAP there is no hierarchy of indicators to determine the functional currency of an entity, whereas a hierarchy exists under IFRS.	There is no hierarchy of indicators to determine the functional currency of an entity. In those instances in which the indicators are mixed and the functional currency is not obvious, management's judgment is required so as to determine the functional currency that most faithfully portrays the economic results of the entity's operations.	Primary and secondary indicators should be considered in the determination of the functional currency of an entity. If indicators are mixed and the functional currency is not obvious, management should use its judgment 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 from the nature of the activities and the extent of transactions between the foreign operation and the reporting entity.

Impact	US GAAP	IFRS
Other		
Interim financial reporting—allocation of costs in interim periods IFRS requires entities to account for interim financial statements via the discrete-period method. The spreading of costs that affect the full year is not appropriate and could result in increased volatility in interim financial statements. The tax charge in both frameworks is based on an estimate of the annual effective tax rate applied to the interim results.	US GAAP views interim periods primarily as integral parts of an annual cycle. As such, it allows entities to allocate among the interim periods certain costs that benefit more than one of those periods.	Interim financial statements are prepared via the discrete-period approach, wherein the interim period is viewed as a separate and distinct accounting period, rather than as part of an annual cycle.
Discontinued operations—definition of a component A narrower definition of the components that can be classified as a discontinued operation under IFRS may have the effect of reducing the number of disposals that are accounted for as discontinued operations.	A component comprises operations and cash flows that can be clearly distinguished operationally and for financial reporting. It may be a reportable segment, operating segment, reporting unit, subsidiary or asset group. Generally, partial disposals characterized by movement from a controlling to a noncontrolling interest would not qualify as discontinued operations due to continuing involvement.	A component of an entity represents, among other things, a separate major line of business, a geographic area of operations or a subsidiary acquired exclusively with a view to resale. Partial disposals characterized by movement from a controlling to a noncontrolling interest could qualify as discontinued operations.
Related parties—disclosure of management compensation Under IFRS, a financial statement requirement exists to disclose the compensation of key management personnel.	Disclosure of the compensation of key management personnel is not required within the financial statements. SEC regulations require key management compensation to be disclosed outside the primary financial statements.	The compensation of key management personnel is disclosed within the financial statements in total and by category of compensation.

Impact	US GAAP	IFRS
Operating segments—segment reporting Upon adoption of new guidance under IFRS, a principles-based approach to the determination of operating segments in a matrix-style organizational structure could result in entities disclosing different operating segments.	Entities that utilize a matrix form of organizational structure are required to determine their operating segments on the basis of products or services offered, rather than geography or other metrics.	Entities that utilize a matrix form of organizational structure are required to determine their operating segments by reference to the core principle (i.e., an entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates).

Technical references

IFRS IAS 1(Revised), IAS 14, IAS 21, IAS 24, IAS 33, IFRS 5, IFRS 8

US GAAP FAS 52, FAS 57, FAS 95, FAS 128, FAS 131, FAS 144, FIN 37, EITF 03-13

Note

The foregoing discussion captures a number of the more significant GAAP differences. It is important to note that the discussion is not inclusive of all GAAP differences in this area.

Recent/proposed guidance

In September 2007, the IASB issued IAS 1 (Revised 2007), which will become effective for years beginning on or after January 1, 2009. Upon adoption, all entities will be required to provide a statement of changes in equity (which for entities that currently present a SORIE under IFRS is presented in the notes to the financial statements). Entities can also determine whether they will present all items of income and expense recognized in the period in a single statement of comprehensive income or in two statements (a statement of operations and a statement of comprehensive income). IAS 1(Revised) does not permit comprehensive income to be displayed in a statement of changes in equity (as is permitted under US GAAP).

In November 2006, the IASB issued IFRS 8, *Operating Segment*s, which will become effective for years beginning on or after January 1, 2009. Following adoption, limited differences will exist in the determination and disclosure of operating segments between US GAAP and IFRS.

FASB/IASB project summary exhibit

FASB/IASB project summary exhibit

The following table presents the status of all joint projects on the agenda of the IASB and FASB. In addition, each Board separately has a number of research and standards projects in various stages of completion. Although preliminary in some cases, the topics under consideration provide an overview of and insight into how each set of standards may further evolve. More information on the status of these projects can be found on each Board's Web site. For the IASB, visit www.iasb.org. For the FASB, visit www.fasb.org.

		2008	2009	Years thereafter
	Responsible Board	Issuance anticipated	Issuance anticipated	Issuance anticipated
Joint projects				
Standards and amendment to standards				
Consolidation (portion relating to IASB active agenda)	Joint	ED	F	
Earnings per share	Joint	ED	F	
Emissions trading schemes	Joint		ED	F 2010
Financial statement presentation	Joint			
Phase B		DP/PV		ED 2010/F 2011
Phase C				TBD
Income taxes	Joint	ED		F 2010
Leases	Joint	DP/PV		ED 2010/F 2011
Revenue recognition	Joint	DP/PV	ED	F 2011
Amendments to IFRS 5: Non-current assets held for sale and discontinued operations/FAS 144: Reporting discontinued operations	Joint	ED	F	
Liabilities and equity (portion relating to FASB active agenda)	Modified joint		ED	F 2011
Conceptual framework				
Phase A: Objectives and qualitative characteristics	Joint		F	
Phase B: Elements and recognition	Joint		DP/PV	ED 2010/F 2011
Phase C: Measurement	Joint		DP/PV	ED 2010/F 2011
Phase D: Reporting entity	Joint		ED	TBD
Phase E: Presentation and disclosure	Joint			TBD

		2008	2009	Years thereafter
	Responsible Board	Issuance anticipated	Issuance anticipated	Issuance anticipated
Phase F: Framework purpose and status in GAAP hierarchy	Joint			TBD
Phase G: Application to not-for-profit entities	Joint			TBD
Phase H: Remaining issues/entire framework	Joint			TBD
IASB projects				
Annual improvements—2009 cycle	IASB	ED	F	
Common control transactions	IASB			TBD
Fair value measurement guidance	IASB		ED	F 2010
Financial instruments: Eligible hedged items	IASB	F		
First-time adoption of IFRSs (IFRS 1): Additional exemptions	IASB	ED	F	
Government grants	IASB			Deferred
Insurance contracts	IASB		ED	F 2011
IFRS for private entities	IASB		F	
Joint ventures	IASB		F	
Liabilities	IASB			F 2010
Management commentary	IASB	ED	F	
Post-employment benefits, including pensions	IASB		ED	F 2011
Related-party disclosures	IASB	F		
Share-based payment: Group cash-settled share-based payment transactions	IASB		F	
IASB research agenda				
Derecognition	Joint			TBD
Extractive activities	IASB	DP		TBD
Financial instruments (replacement of current standards)	Joint			TBD
Intangible assets	IASB			TBD
Liabilities and equity	Modified joint		ED	F 2011

	Responsible Board	2008	2009	Years thereafter
		Issuance anticipated	Issuance anticipated	Issuance anticipated
IFRIC projects				
D24—Customer contributions	IASB	F		
D23—Distributions of non-cash assets to owners	IASB	F		
FASB research projects				
Accounting for insurance contracts	Joint			TBD
Consolidations: Policy and procedure	Joint			TBD
Financial instruments	Joint			TBD
Other FASB projects				
Contingency disclosures	FASB	F		
Mergers and acquisitions by a not-for-profit organization:	FASB			
Mergers and acquisitions		F		
Goodwill and other intangible assets acquired in a merger or acquisition		F		
Reconsideration of interpretation 46(R)	FASB	ED	F	
Statement 133: Hedging	FASB	F		
Statement 140 implementation: Transfers of financial assets	FASB	ED	F	
Fair value option (Phase 2)	FASB			TBD
Loan loss disclosures	FASB			TBD
FAS 2: IPR&D acquired in an asset acquisition	FASB			TBD
Technical corrections to FASB statements	FASB	ED/F		

	Responsible Board	2008 Issuance anticipated	2009 Issuance anticipated	Years thereafter Issuance anticipated
FASB staff positions				
FAS 117: Not-for-profit endowments and UPMIFA (proposed FSP FAS 117-a)	FASB	F		
Postretirement benefit obligations including pensions (Phase 2): FAS 132(R)—Disclosure about plan assets (proposed FSP FAS 132 (R)-a)	FASB	F		
FAS 133/FIN 45: Disclosures about credit derivatives and certain guarantees (proposed FSP FAS 133-b and FIN 45-c)	FASB	F		
FAS 157: Measurement of liabilities (proposed FSP FAS 157-c)	FASB	F		
ARB 43: Accounting for trading inventory (proposed FSP ARB 43-a)	FASB	F		
A single proposed and final FSP amending disclosure requirements for both the FIN 46(R) and FAS 140 projects is expected	FASB	ED/F		

Explanation of symbols:

DP = Discussion Paper (IASB)

ED = Exposure Draft

F= Final

PV = Preliminary View (FASB)

TBD = To Be Determined

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