Financial Accounting, Reporting and Auditing Services

IFRS versus German GAAP (revised)
Summary of similarities and differences

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Abbreviations

AktG	Aktiengesetz [Stock Corporation Act]
ATZ	Altersteilzeit [partial retirement]
BilMoG	Bilanzrechtsmodernisierungsgesetz [German Act on the Modernisation of Accounting Law]
CGU	Cash generating unit
DB	Defined benefit
DBO	Defined benefit obligation
DC	Defined contribution
FIFO	First in, first out
HGB	Handelsgesetzbuch [German Commercial Code]
GAS	German Accounting Standard [Deutscher Rechnungslegungs Standard]
IAS	International Accounting Standards
ICS	Internal control system
IFRS	International Financial Reporting Standards
incl.	Including
InvG	Investmentgesetz [German Investment Act]
IPR&D	In-process research and development
LIFO	Last in, first out
MLP	Minimum lease payments
OCI	Other comprehensive income
POC	Percentage of completion
PPE	Property, plant and equipment
PublG	Publizitätsgesetz [German Public Disclosure Act]
PUCM	Projected unit credit method
R	Revised
RMS	Risk management system
RückAbzinsV	Rückstellungsabzinsungsverordnung
Sec.	Section
SMEs	Small and medium-sized entities
SoCIE	Statement of changes in equity
Subsec.	Subsection

Introduction

The global convergence towards International Financial Reporting Standards (IFRS) continuously influences the development of German statutory accounting and reporting requirements (German GAAP). With this publication we hope to provide a broad understanding of the key similarities and differences between IFRS and German GAAP (revised). The first part of this document includes a tabular summary of the similarities and differences between IFRS and German GAAP (revised). The second part of this document includes a comparative overview of the similarities and differences between IFRS, IFRS for SMEs and German GAAP (revised).

The application of IFRS is required for consolidated financial statements of public companies that are listed in any EU Member State; other companies have the option to apply IFRS in their consolidated financial statements.

The use of IFRS in separate entity financial statements is voluntary and only allowed for presentation purposes. German commercial law continues to require the application of German GAAP especially for profit distribution, tax and statutory presentation and disclosure purposes.

The recent reform of German GAAP (Bilanzrechtsmodernisierungsgesetz – BilMoG) marked the most comprehensive revision of statutory accounting principles in the last 20 years. Its aim was to establish modern but less complex accounting principles as an adequate, sustainable alternative to IFRS and to improve the informational content of German GAAP financial reporting by implementing elements similar to IFRS.

The revision implements numerous substantial changes in the recognition and measurement criteria, several new and changed disclosure requirements as well as disclosure of further information in the management report.

The revision reduces the differences between IFRS and German GAAP (revised) in certain areas, but increases or changes them in other areas.

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

This publication takes account of authoritative pronouncements issued under IFRS and German GAAP (revised) up to 30 June 2009, issued under IFRS for SMEs up to 9 July 2009 and is based on the most recent version of those pronouncements. We have noted certain developments within the tabular summary; however, not all recent developments or exposure drafts have been included.

A Comparison of IFRS and German GAAP (revised)

1 Accounting framework

Historical cost or fair value

IFRS	German GAAP (revised)
Historical cost is the primary basis of accounting. However, IFRS permits the revaluation to fair value of intangible assets, property, plant and equipment, investment property and inventories in certain industries (e.g. commodity brokers/dealers). IFRS also requires that certain categories of financial instruments and certain biological assets be reported at fair value.	Historical cost is the main accounting convention. No revaluations are allowed. An exception applies to banks/financial institutions, where all financial instruments held for trading are to be measured at fair value (see “Financial assets”). A second exemption applies to assets which are deprived of all other creditor’s access and exclusively relate to the coverage of pension obligations or comparable long-term liabilities. They also have to be reported at fair value.

Fair presentation over-ride

IFRS	German GAAP (revised)
Entities may depart from a standard under IFRS (extremely rare in practice), if management of that entity concludes that compliance with the standard or interpretation would render financials to be misleading. The reasons for such a conclusion and departure along with the financial impact need to be disclosed.	If specific circumstances result in the financial statements not showing a true and fair view, additional disclosures are required in the notes (extremely rare in practice).

First-time adoption of accounting frameworks

IFRS	German GAAP (revised)
Full retrospective application of all IFRS effective at the reporting date for an entity’s first IFRS financial statements, with some optional exemptions and limited mandatory exceptions. Comparative information is prepared and presented on the basis of IFRS. Almost all adjustments arising from the first time application of IFRS are adjusted against opening retained earnings for the first period presented on an IFRS basis. Some adjustments are made against goodwill or other classes of equity.	No specific guidance.[1]

[1] Most changes resulting from BilMoG are effective for financial years beginning on or after 1 January 2010. Earlier adoption of the revised regulations from 1 January 2009 is allowed (or prescribed), provided that all revised regulations are adopted. A selective application of individual revised regulations is prohibited. (Some rules resulting from EU directives with compulsory implementation have to be adopted in financial years beginning after 31 December 2008 (e.g. disclosures on related parties)). General transition rules: In principle, effects from conversion to BilMoG affect net income, except where transition rules allow treatment with no net income effect (especially through revenue reserve). Income and expenses arising from the conversion to the new regulations are to be included in the items “extraordinary income” and “extraordinary expenses”. Prior year values are to be stated, although they need not be adjusted.

2 Financial statements

Components of financial statements

IFRS	German GAAP (revised)
A complete set of financial statements comprises: • statement of financial position; • statement of comprehensive income; • statement of changes in equity; • statement of cash flows; and • notes (incl. a summary of significant accounting policies). Further requirements apply when accounting policies are applied retrospectively or items are reclassified.	Similar to IFRS for consolidated financial statements, as well as for publicly traded companies.[2] For single-entity financial statements, statement of cash flows and statement of changes in equity are not required.[3] It is optional for companies who have to prepare consolidated financial statements to include segment reporting. Publicly traded companies who do not have to prepare consolidated financial statements can add segment reporting to their individual financial statements. Further financial statements include a management report (see "Management report").

Statement of financial position (balance sheet)

IFRS	German GAAP (revised)
IFRS does not prescribe a particular format. Current/non-current presentation of assets and liabilities is used. A liquidity presentation may be used when this provides more relevant and reliable information. IFRS requires, as a minimum, the presentation of certain items on the face of the balance sheet.	Items on the face of the balance sheet are presented in increasing order of liquidity. Entities with specific legal forms (e.g. corporations) are required to use a particular balance sheet format. Additional requirements exist for banks and insurance companies.
Current assets/liabilities include items due or expected to be realised within the next 12 months. Deferred taxes are classified as non-current on the balance sheet with a current/non-current break up discussed in the notes.	Separate presentation of fixed assets and current assets is required. Current assets are those not intended for long-term use in the business.
Offsetting of assets and liabilities is only allowed under restrictive conditions.	Offsetting assets and liabilities is only allowed where an entity has a legally enforceable right to offset.
Minority interests are presented as a part of equity.	Minority interests are presented as a part of equity.

[2] A company is publicly traded under German GAAP when it utilises an organised market for trading its issued securities (as defined by the German Securities Trading Act) or when it has applied for an accreditation to trade its issued securities on an organised market.

[3] However some companies are exempt from preparation of financial statements when their revenue and profit are below certain thresholds in two consecutive years.

Income statement/statement of comprehensive income

IFRS	German GAAP (revised)
An entity can choose to present income and expense in either: • a single statement of comprehensive income or • two statements – a statement displaying components of profit or loss (separate income statement) and a second statement beginning with profit or loss and displaying components of other comprehensive income (statement of comprehensive income). IFRS does not prescribe a standard format for the income statement. Expenditure is presented either by function or by nature. Certain items are presented on the face of the income statement. The portion of the income statement attributable to minority interests and to the parent entity is shown separately on the face of the income statement. All non-owner changes in equity will be presented in the statement of comprehensive income. Components of other comprehensive income include: • changes in revaluation surplus (PPE/intangible assets); • actuarial gains and losses on defined benefit plans (DB plans) recognised in full in equity (option under IAS 19); • gains and losses from translation of a foreign operation; • gains and losses on remeasuring available-for-sale financial assets; and • effective portion of gains and losses of hedging instruments in a cash flow hedge.	In general similar to IFRS. Under German GAAP there is no “statement of comprehensive income”. Income statement may be presented using the total cost (nature of expense) or the cost of sales (function of expense) method. For both methods a minimum structure is provided. Under BilMoG, income from discounting provisions is to be included in “other interest and similar income”, expense from discounting provisions in “interest and similar expenses”. Income and expense from currency translation for assets and liabilities is to be included in “other operating income” or “other operating expenses”. The exchange rate difference which results from currency translation within the consolidation process has to be accounted for directly in equity without affecting net income. For certain legal forms, especially corporations, the income statement is required to follow a detailed structure.

Statement of changes in equity (SoCIE)

IFRS	German GAAP (revised)
All owner changes in equity will be presented in a statement of changes in shareholder's equity. This statement will present: • total comprehensive income, showing separately amounts attributable to owners of the parent and minority interests; • effects of retrospective restatement and retrospective application in accordance with IAS 8; • amounts of transactions with owners in their capacity as owners; and • for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, disclosing separately each change.	A statement of changes in equity is only required for consolidated financial statements as well as for publicly traded companies which do not have an obligation to prepare consolidated financial statements. German Accounting Standard 7 (GAS 7)[4] requires the group statement of changes in equity to include the changes in the following components of group equity: • subscribed capital of the parent enterprise • capital contributions not yet called up • capital reserves • equity earned by the group • own shares held for redemption • accumulated other gains and losses recognised directly in equity and relating to the shareholders of the parent enterprise • own shares not held for redemption • equity attributable to minority shareholders, namely: – minority interest in capital and earned results – accumulated other gains and losses recognised directly in equity and relating to minority shareholders The statement of changes in equity must be presented as a primary statement.

Statement of cash flows – format and method

IFRS	German GAAP (revised)
Standard headings, but limited flexibility of contents. The statement of cash flows should report cash flows during the period classified by operating, investing and financing activities. The statement of cash flows may be prepared using the direct method (cash flows derived from aggregating cash receipts and payments associated with operating activities) or the indirect method (cash flows derived from adjusting net income for non-cash transactions – e.g. depreciation). The indirect method is more common in practice. Non-cash financing and investing transactions are to be disclosed.	Under HGB a statement of cash flows is only required for consolidated financial statements as well as for publicly traded companies which do not have an obligation to prepare consolidated financial statements. According to GAS 2 the statement of cash flows shall report cash flows classified by operating (presented either using the direct or indirect method), investing and financing activities (presented using the direct method). Special regulations apply to statements of cash flows of financial institutions (GAS 2–10) and insurance enterprises (GAS 2–20).

[4] German Accounting Standards (GAS) are generally applicable to all parent enterprises that prepare consolidated financial statements under sec. 290 HGB as well as under sec. 264a subsec. 1 HGB (in conjunction with sec. 290 HGB) and to enterprises that are required to prepare consolidated financial statements under sec. 11 PublG and set out procedures for consolidated financial statements. Application to separate financial statements is encouraged by individual German Accounting Standards (e.g. GAS 14).

Statement of cash flows – definition of cash and cash equivalents

IFRS	German GAAP (revised)
Cash includes cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. An investment normally qualifies as a cash equivalent when it has a maturity of three months or less from acquisition date. Cash may also include bank overdrafts repayable on demand but not short-term bank borrowings (these are considered to be financing cash flows).	"Cash funds" (defined as first-grade liquid funds) only include cash and cash equivalents. Investments classified as cash equivalents must be readily convertible to cash without significant losses in value and may be subject to only minor changes in value. Cash equivalents therefore generally have maturities of not more than three months, measured from the date of acquisition. Bank overdrafts which are repayable at any time and which are an integral part of an enterprise's cash management may be included in cash funds.

Changes in accounting policy

IFRS	German GAAP (revised)
Changes in accounting policies are accounted for retrospectively. Comparative information is restated and the amount of adjustment relating to prior periods is adjusted against retained earnings of the earliest period presented (except when it is impracticable to change comparative information). The effect of retrospective adjustments on equity items is presented separately in the SoCIE. Accounting policy changes resulting from the adoption of a new accounting standard are accounted for in accordance with the transition provisions of that standard. The opening statement of financial position should be presented.	Changes in accounting policies are generally accounted for prospectively. The resulting effect of a change is recognised in the current year income statement if not determined otherwise (e.g. by transition provisions of specific GASs). Changes in accounting policies have to be disclosed. Adjustment of the opening balance or restatement of the previous year is not required. To ensure comparability with prior year's figures in these cases, additional information has to be disclosed.

Correction of errors

IFRS	German GAAP (revised)
Material prior period errors are corrected retrospectively. Comparatives are restated and, if the error occurred before the earliest prior period presented, the opening balances of assets, liabilities and equity for the earliest prior period presented are restated and the opening statement of financial position should be presented.	The effect of errors in previous reporting periods shall be strictly included in the determination of net profit or loss in the current period. Additional disclosures, e.g. nature of the error, amount of the correction, are to be provided in the notes if necessary to ensure comparability with comparatives. Restatement is required only in exceptional circumstances.

Changes in accounting estimates

IFRS	German GAAP (revised)
Changes in accounting estimates are reported in the income statement in the current period when identified.	The effect of a change in an accounting estimate shall be included in the income statement for the period in which the change is made (similar to IFRS).

3 Consolidated financial statements

Definition of subsidiary

IFRS	German GAAP (revised)
Under IFRS parent-subsidiary relationships are determined by the “control concept”. Control is the parent’s ability to govern the financial and operating policies of a subsidiary to obtain benefits.[5] Control is presumed to exist when a parent owns, directly or indirectly, more than 50% of an entity’s voting power. Control also exists when a parent owns half or less of the voting power when there is power: • over more than half of the voting rights by virtue of an agreement with other investors; • to govern the financial and operating policies of the entity under a statue or an agreement; • to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entities is by that board or body; or • to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body. 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.	Under HGB the existence of a parent-subsidiary relationship is based solely on the possibility of controlling influence by the parent company. (BilMoG eliminated the concept of uniform control, which marked a conceptual difference between IFRS and German GAAP prior to the revision). Controlling interest exists when the parent (directly or indirectly through subsidiaries): • holds the majority of voting rights; • enjoys the right to appoint or dismiss the majority of the members of the administrative, management or supervisory body governing financial and operating policies, and is at the same time a shareholder; • enjoys the right to exercise a controlling influence on financial and operating policies (based on a control agreement/articles of association); or • in substance obtains the majority of the risks and rewards of an entity that has a narrow, well-defined purpose (see “Special purpose entity”). Under BilMoG the possibility of controlling influence is conclusively presumed to exist when the parent holds the majority of voting rights (50% + 1), but has no de facto control. An example for this case is the lack of the parent’s actual controlling influence because another shareholder holds participating rights. In this case, HGB offers an inclusion option for the relevant subsidiary.
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.	Under HGB potential voting rights that could be exercised at the present time are not taken into consideration. When all inclusion options for subsidiaries have been duly exercised and accordingly no subsidiary is subject to consolidation, the obligation to prepare consolidated financial statements is not applicable.

[5] In December 2008 the IASB issued Exposure Draft 10, Consolidated Financial Statements, which would replace the consolidation requirements in IAS 27, Consolidated and Separate Financial Statements and SIC-12, Consolidation – Special Purpose Entities. The main objectives of the project are to improve the definition of control and related application guidance so that a control model can be applied to all entities, and to improve the disclosure requirements about consolidated and unconsolidated entities.

Special purpose entity (SPE)

IFRS	German GAAP (revised)
SPEs are often created with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their board of directors over the SPE's operations to accomplish a narrow and well-defined objective (such as a lease or securitisation). In addition to the general control criteria the following circumstances, for example, may indicate a relationship in which an entity controls an SPE and consequently should consolidate the SPE[6]: • 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; and • 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 post-employment plans or other long-term employment benefit plans.	Similar to IFRS. Regarding SPEs control is considered to exist if from a substance-over-form perspective the parent entity assumes the majority of the risks and rewards associated with an entity, which serves to achieve a strictly limited and precisely defined purpose for the parent entity. By implementing this new regulation the legislators seeks to prevent entities from eliminating significant assets and liabilities from their consolidated financial statements by means of certain legal formalities. The classification of an entity as SPE is not limited to certain entity forms. Only institutional hedge funds (sec. 2 subsec. 3 InvG) are excluded from the regulations concerning SPEs.

[6] In December 2008 the IASB issued Exposure Draft 10, Consolidated Financial Statements, which would replace the consolidation requirements in IAS 27, Consolidated and Separate Financial Statements and SIC-12, Consolidation – Special Purpose Entities. The main objectives of the project are to improve the definition of control and related application guidance so that a control model can be applied to all entities, and to improve the disclosure requirements about consolidated and unconsolidated entities.

Non-consolidation of subsidiaries

IFRS	German GAAP (revised)
All subsidiaries that are controlled by the parent (see "Definition of a subsidiary") are consolidated. A subsidiary that meets, on acquisition, the criteria to be classified as held for sale in accordance with IFRS 5 applies the presentation for assets held for sale (e.g. separate presentation of assets and liabilities to be disposed of), rather than normal line-by-line consolidation presentation.	A subsidiary may be excluded from consolidation if: • there are significant long-term restrictions on parent's rights in respect of assets or management; • the subsidiary is acquired and held for resale in the near future; • the information required cannot be obtained without unreasonable cost or delay; or • the subsidiary is not significant in relation to the requirement to present a true and fair view of the group (if several subsidiaries fulfil this requirement, the entities must be consolidated if they are in the aggregate not insignificant). Subsidiaries excluded from consolidation are generally accounted for using the equity method (if applicable). When all inclusion options for subsidiaries have been duly exercised and accordingly no subsidiary is subject to consolidation, the obligation to prepare consolidated financial statements is not applicable.

Uniform accounting policies

IFRS	German GAAP (revised)
Consolidated financial statements are prepared using uniform accounting policies for all of the entities in a group.	Uniform accounting policies are required. Specialised industry accounting principles for banks and insurance companies applied by a subsidiary can be retained. If applied, disclosures are required.

Investments in joint ventures – definition and types

IFRS	German GAAP (revised)
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 (venturers), but not necessarily all parties to the joint venture, is required.	A joint venture is defined as an enterprise that is controlled jointly by one of the enterprises included in the consolidated financial statements and by one or several other enterprises which do not belong to the group. Joint control must be actually exercised. Joint control of an enterprise exists when strategic decisions relating to the business, capital expenditures and financing activities of the enterprise require the consent of all the venturers. The guidance is similar to IFRS.
IFRS distinguishes between three types of joint venture: • jointly controlled entities, in which the arrangement is carried on through a separate entity (corporation or partnership) • jointly controlled operations, in which each venturer uses its own assets for a specific project • jointly controlled assets, in which a project is carried on with assets that are jointly owned	German GAAP does not distinguish between different types of joint ventures. Accounting treatment is similar to IFRS. The term "joint venture" under German GAAP refers to "jointly controlled entities" under IFRS.

Presentation of jointly controlled entities (joint ventures)

IFRS	German GAAP (revised)
Investments in joint ventures (jointly controlled entities) are accounted for by using either the proportionate consolidation method or the equity method (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.[7]	Similar to IFRS. Under HGB both the proportionate consolidation method and the equity method (see "Equity method") are applicable to accounting for a joint venture.

Accounting for contributions to a jointly controlled entity

IFRS	German GAAP (revised)
A venturer that contributes non-monetary 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 recognises in its consolidated income statement the portion of the gain or loss attributable to the equity interests of the other venturers, except when: • significant risks and rewards of the contributed assets have not been transferred to the jointly controlled entity; • gain or loss on the assets contributed cannot be measured reliably; or • the contribution transaction lacks commercial substance.	A contribution to a jointly controlled entity in exchange for an equity interest is recognised in the same way as an exchange of assets. Cost of the acquired equity interest can be either: • carrying amount of the consideration given; • fair value of the consideration given; or • the carrying amount of the consideration given plus any amount necessary to compensate for the income tax resulting from the exchange. If the consideration comprises the exchange of shares issued through an increase of capital, in the financial statements of the joint venture, any value within the range of par value of these shares and the fair value of the consideration received could be the cost of the contribution. Intra-group profits and losses must be eliminated. Only the portion of gain or loss attributable to the equity interests of the other venturers is recognised.

[7] In September 2007 the IASB issued Exposure Draft 9, Joint Arrangements, which would amend the existing provisions of IAS 31. Its core principle is that parties to a joint arrangement recognise their contractual rights and obligations arising from the arrangement. The focus is on the recognition of assets and liabilities by the parties to the joint arrangement.

Definition of associate

IFRS	German GAAP (revised)
An associate is an entity over which the investor has significant influence, that is, the power to participate in, but not control, an associate's financial and operating policies. Significant influence is presumed if the investor holds 20% or more voting power. Significant influence may also exist where: • the investor has a representation on the investee's board of directors/governing body; • the investor is participating in policy-making processes; • there are material transactions between the investor and the investee; • there is interchange of managerial personnel; or • there is provision of essential technical information. In assessing whether potential voting rights contribute to significant influence, the entity examines all facts and circumstances that affect potential rights, except the intention of management and the financial ability to exercise or convert.	An associate is an enterprise over which the group has significant influence and which is neither a subsidiary nor a joint venture of one of the group enterprises. Significant influence is participation in the financial and operating policy decisions without actually controlling those policies. If a group company holds, directly or indirectly, 20% or more of the voting power of an investee, it is presumed that the group has significant influence. The following are indications of the existence of significant influence: • representation on the management board or equivalent governing body of the investee • participation in policy making processes of the investee • interchange of managerial personnel • material business relationships between the enterprise holding the shares and the investee • provision of essential know-how by the enterprise holding the shares

Presentation of associate results (in separate financial statements)

IFRS	German GAAP (revised)
When separate financial statements are prepared, associates that are not classified as held for sale shall be accounted for either: • at cost; or • in accordance with IAS 39.	Investments in associates are included under investments in separate financial statements. They are measured at cost less accumulated depreciation and impairment losses.

Presentation of associate results (in consolidated financial statements)

IFRS	German GAAP (revised)
In consolidated financial statements, an investor accounts for an investment in an associate using the equity method (see "Equity method").	In consolidated financial statements, an investment in an associate is accounted for using the equity method.

Equity method

IFRS	German GAAP (revised)
The investor presents its share of the investee's (that is the associate's or joint venture's) profits and losses in the income statement. This is shown at a post-tax level. The investor recognises in equity its share of changes in the investee's equity that have not been recognised in the investee's profit or loss. The investor, on acquisition of the investment, accounts for the difference between the cost of the acquisition and investor's share of fair value of the net identifiable assets as goodwill. The goodwill is included in the carrying amount of the investment. The investor's investment in the investee is stated at cost, plus its share of post-acquisition profits or losses, plus its share of post-acquisition movements in reserves, less dividends received. Losses that reduce the investment to below zero are applied against any long-term interests that, in substance, form part of the investor's net investment in the investee – for example, preference shares and long-term receivables and loans. Losses recognised in excess of the investor's investment in ordinary shares are applied to the other components in reverse order of seniority. Further losses are provided for as a liability only to the extent that the investor has incurred legal or constructive obligations to make payments on behalf of the investee. The investor has to determine whether it is necessary to recognise any additional impairment loss with respect to the investor's net investment in the associate and with the respect to the investor's interest in the associate that does not constitute part of the net investment and the amount of that impairment loss. Because goodwill that forms part of the carrying amount of an investment in an associate is not separately recognised, it is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset, by comparing its recoverable amount with its carrying amount. An impairment loss recognised in those circumstances is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Disclosure of information is required about the results, assets and liabilities of significant associates and joint ventures.	Prior to BilMoG, the investor had the choice either of presenting the carrying amount of the shares or its proportionate interest in the equity of the investee (associate or joint venture). Under BilMoG, the investor's alternative to show the proportionate interest in the equity of the investee no longer exists. Therefore the investor is obliged to present the carrying amount of the shares. The investor's share of investee's profits or losses is presented at a post-tax level (GAS 8). The carrying amount of the share and goodwill is to be calculated based on the date on which the company became an affiliated company. (Prior to BilMoG the carrying amount of the investment was determined on the basis of the carrying amounts at the date of acquisition or of the inclusion in the consolidated financial statements for the first time or, in case of acquisition of the shares at various dates, at the date the company became an associate or a joint venture). The disclosures recommended for significant associates/joint ventures are similar to IFRS (GAS 8/GAS 9). Name and percentage of capital must be disclosed for all associates included in the consolidated financial statements as well as the date of acquisition/date as of which the associate has been included for the first time.

4 Business combinations

Types of business combinations

IFRS	German GAAP (revised)
Business combinations within the scope of IFRS 3R are accounted for as acquisitions. A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses. The acquisition method applies. IFRS 3R excludes from its scope business combinations involving entities under common control, a formation of a joint venture and the acquisition of an asset or a group of assets that does not constitute a business, as defined by IFRS 3R. A business is defined in IFRS 3R as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing either a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members 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. Thus the application of IFRS 3R does not depend on the acquisition of a legal entity.	A business combination under German GAAP is the acquisition of an entity. The term "entity" is not defined explicitly by German GAAP. However the term does not refer to a structure with its own legal personality but to the existence of an impersonal entity, which disposes of all operationally needed characteristics to be able to operate independently in economic transactions. Generally this refers to individual proprietorships, yet separable parts of a business which fulfil the criteria shown above are also considered to be entities.

Acquisition date

IFRS	German GAAP (revised)
The acquisition date is the date on which the acquirer obtains control of the business or businesses (the acquiree).	The date on which the entity finally becomes a subsidiary. If an entity is obliged to prepare consolidated financial statements for the first time or in case it previously excluded certain subsidiaries from its group financial statements in accordance with sec. 296 HGB, initial consolidation is carried out as at the beginning of that business year where the respective entity becomes a subsidiary for group reporting purposes (provided that the company has not been acquired during that year).

Share-based consideration

IFRS	German GAAP (revised)
Shares issued as consideration are recorded at their fair value at the acquisition date. The published price of a share at the acquisition date is the best evidence of fair value in an active market.	Similar to IFRS. Shares issued as consideration are recorded at fair value at the date of exchange, according to GAS 4. The published price of a share at the date of exchange is the best evidence of fair value in a market. Alternatively, the nominal value plus capital surplus determined in the course of the resolution to increase the share capital may be recorded as costs for the acquisition of the shares in the subsidiary.

Contingent consideration

IFRS	German GAAP (revised)
If part of the purchase consideration is contingent on a future event, IFRS requires the recognition of the contingent consideration at the acquisition-date fair value as part of the consideration. An obligation to pay contingent consideration shall be classified as a liability or as equity. Financial liabilities are remeasured to fair value at each reporting date. Any resulting gain or loss is recognised in the income statement. 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, GAS 4 requires an estimate of the amount to be included as part of the cost at the date of the acquisition if it is probable that the amount be paid and it can be reliably measured. Changes in the value or probability of the contingent consideration reflect adjustments to the initial acquisition. They have to be recorded retrospectively against goodwill, even if the 12 months adjustment window for initial consolidation which has been introduced by BilMoG has already passed (see “Acquired assets and liabilities – subsequent adjustments”).

Contingent consideration arrangements requiring continued employment

IFRS	German GAAP (revised)
Certain contingent consideration arrangements may be tied to continued employment of the acquiree’s employees. These arrangements are generally recognised as compensation expenses in the post-combination period. However, consideration of the facts and circumstances and specific indicators provided in IFRS is necessary to determine whether the form of the contingent consideration should be recognised as compensation expenses or as part of the consideration transferred.	Not specified.

Transaction costs

IFRS	German GAAP (revised)
Transaction costs are expensed in the periods in which the costs are incurred, with one exception. The costs to issue debt or equity securities shall be recognised in accordance with other IFRSs.	Certain costs which are directly attributable to the acquisition form part of the acquisition costs. However, only those costs which have been incurred after the decision to acquire an entity have been made to qualify for capitalisation. All expenses incurred prior to the decision making have to be expensed as incurred.

Acquired assets and liabilities

IFRS	German GAAP (revised)
The identifiable assets acquired and liabilities assumed (including contingent liabilities) that existed at the acquisition date are recognised by the acquirer separately from goodwill. These assets and liabilities are measured at their acquisition-date fair values. An exception to the recognition and measurement principle applies to deferred taxes, employee benefits and indemnification assets. Furthermore an exception to the measurement principle applies to reacquired rights, share-based payments and assets held for sale. These items are accounted for in accordance with the requirements of particular standards or other rules in IFRS 3R.	Similar to IFRS, as long as the criteria for assets, liabilities and provisions according to German GAAP are met. An exemption concerning valuation applies to the recognition of provisions and deferred taxes. These items have to be recognised according to their specific valuation standard.

Acquired assets and liabilities – restructuring provisions

IFRS	German GAAP (revised)
The acquirer may recognise restructuring provisions as part of the acquired liabilities only if the acquiree has at the acquisition date an existing liability for restructuring recognised in accordance with the guidance for provisions (IAS 37). Liabilities for future losses or other costs expected to be incurred as a result of the business combination cannot be recognised.	Provisions for restructuring may only be recorded if they fulfil the general criteria for the recording of provisions at the date of acquisition, i.e. an external obligation exists. With regard to internal restructuring obligations no provision may be recorded.

Acquired assets and liabilities – intangible assets (e.g. in-process research and development (IPR&D))

IFRS	German GAAP (revised)
An intangible asset is recognised separately from goodwill if it arises from contractual or other legal rights or is capable of being separated or divided and sold, transferred, licensed, rented or exchanged. Acquired in-process research and development is recognised as a separate intangible asset if it meets the definition of an intangible asset.	Similar to IFRS except for non-contractual customer relationships and favourable contracts, which may not be recorded as assets. Acquired in-process research generally used to be subsumed within goodwill. With BilMoG development costs are eligible for capitalisation. Therefore, IPR&D may be capitalised if it meets the definition of and recognition criteria for an intangible asset.

Acquired assets and liabilities – acquired contingencies

IFRS	German GAAP (revised)
A contingent liability is recognised at the acquisition date if it meets the definition of a liability and if its fair value can be measured reliably. The contingent liability is measured subsequently at the higher of the amount initially recognised or, if qualifying for recognition as a provision, the best estimate of the amount required to settle (under the provisions guidance) with the difference being recognised in the income statement.	Contingent liabilities of an acquired entity shall only be recorded when they meet the definition of a liability according to German GAAP.
Contingent assets are not recognised. Indemnification assets are recognised as assets of the acquirer at the same time and on the same basis as indemnified items are recognised as liabilities of the acquiree.	Contingent assets are not recognised.

Acquired assets and liabilities – subsequent adjustments

IFRS	German GAAP (revised)
Fair values determined on a provisional basis can be adjusted against goodwill within 12 months of the acquisition date. Subsequent adjustments are recorded in the income statement unless they are to correct an error.	Similar to IFRS. If at that date where the parent entity obtained control over the subsidiary a purchase price allocation cannot be conclusively calculated, the values determined for the provisional purchase price allocation have to be adjusted within a period of 12 months subsequent to when control was obtained. The adjustments have to be recorded without an effect on income.

Minority interests/non-controlling interests

IFRS	German GAAP (revised)
In cases where an acquirer acquires less than 100% of an acquiree, there is a choice on a transaction-by-transaction basis. Non-controlling interests can be measured at either fair value (full goodwill method) or the non-controlling interest's proportionate share of the acquiree's net identifiable assets.	Similar to IFRS, however the full goodwill method may not be applied. If prior to the initial application of BilMoG consolidation has been carried out according to the book value or pooling of interest method, these values may be retained and need no adjustment.

Goodwill – initial recognition and measurement

IFRS	German GAAP (revised)
Goodwill is an asset and separately recognised. Goodwill is measured at the acquisition date as the excess of (a) over (b): (a) the aggregate of: • consideration transferred • amount of any non-controlling interests in the acquiree • acquisition-date fair value of the acquirer's previously held equity interest in the acquiree (b) acquisition-date amount of the identifiable net assets acquired Where an entity acquires less than 100% of a business and non-controlling interest is measured at fair value goodwill will include amounts relating to both the acquiring entity's interest and the non-controlling interest in the business acquired. In the case where non-controlling interest is measured at its proportionate shares in the acquiree's identifiable net assets goodwill will only include amounts relating to the acquiring entity's interest in the business acquired.	Goodwill arises as the difference between the cost of the acquisition and the acquirer's share of the fair value of the identifiable assets and liabilities acquired. Goodwill is recognised as an intangible asset with a finite useful life. For all subsidiaries where goodwill has been charged to group equity in accordance with the prior choice for the treatment of goodwill, this treatment may be retained.

Bargain purchases

IFRS	German GAAP (revised)
A bargain purchase is a business combination in which the amount of (b) above (net assets acquired) exceeds the aggregate amounts of (a) above (aggregate of consideration transferred, amount of non-controlling interest and fair value of previously held interests). The acquirer reassesses the identification and measurement of the assets acquired and liabilities assumed and the measurement the consideration transferred, the non-controlling interests and prior held interests (if any). Any excess remaining after reassessment is recognised in profit or loss on the acquisition date.	Negative goodwill has to be disclosed as a separate item subsequent to equity in the balance sheet. Reasons for negative goodwill have to be disclosed in the notes to the financial statements. Negative goodwill is reduced in case an unfavourable development in view of the future profit situation of the acquired entity, which has been anticipated at acquisition, has taken place or charges initially expected are realised. Badwill is also eliminated if it is determined, at the balance sheet date, that it reflects an actual gain. GAS 4 provides illustrative rules for the treatment of badwill.

Goodwill – assignment subsequent accounting

IFRS	German GAAP (revised)
Goodwill is not amortised but tested for impairment annually and – furthermore – if there is an indication that goodwill may be impaired. Goodwill is assigned to a cash generating unit (CGU) or group of CGUs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Each unit or group of units which the goodwill is allocated shall not be larger than an operating segment in accordance with IFRS 8.	German GAAP requires goodwill to be amortised over its economic life. GAS 4 states that goodwill should be allocated to the respective business units to which it refers. The economic life of each part of allocated goodwill is then determined under consideration of the business unit to which it has been allocated. German GAAP requires an explanation in the notes to the financial statements if the economic life of goodwill exceeds five years.

Goodwill – impairment testing and measurement

IFRS	German GAAP (revised)
The recoverable amount of the CGU or group of CGUs (i.e. the higher of its fair value less costs to sell and its value in use) is compared with its carrying amount. Any impairment loss is recognised 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. Impairment loss recognised for goodwill shall not be reversed in a subsequent period.	There is no explicit requirement in German GAAP to perform an annual impairment test for goodwill. However GAS 4 states that goodwill should be reviewed for impairment and its remaining useful life once a year. Goodwill is impaired if its carrying amount exceeds its fair value. A loss resulting from goodwill impairment cannot be reversed.

Step acquisitions

IFRS	German GAAP (revised)
When an entity obtains control of an acquiree in stages by successive share purchases the business combination is accounted for using the acquisition method at the acquisition date. The previously held equity interests are fair valued at the acquisition date and a gain or loss is recognised in profit or loss. The fair value of the previously held interest then forms one of the components that is used to calculate goodwill.	The acquiree's identifiable assets and liabilities are remeasured to fair value at the date when the entity finally became a subsidiary. All assets and liabilities of the acquiree should be recognised in the consolidated financial statements based on their fair values at this date. The adjustment to any previously held interests of the acquirer is treated without an effect on income.

Business combinations involving entities under common control

IFRS	German GAAP (revised)
IFRS does not specifically address such transactions. Entities elect and consistently apply either acquisition or predecessor accounting for all such transactions.	Not specified.

5 Revenue recognition

General

IFRS	German GAAP (revised)
Two primary revenue standards classify 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.	Revenues may only be recognised if they are realised at the balance sheet date (realisation principle). Under specific circumstances, dividends may be recognised earlier than under IFRS in single-entity financial statements. German GAAP requires measurement of revenues at the fair value of the consideration received or receivable (usually cash or cash equivalents). Where the inflow of cash or cash equivalents is deferred, discounting to a present value is required under German GAAP (only if the underlying obligation contains an interest component). In principle the application of the percentage of completion method is prohibited.

Sale of goods

IFRS	German GAAP (revised)
Revenue from the sale of goods should be recognised when: • it is probable that economic benefits will flow to the entity; • the amount of revenue can be measured reliably; • the enterprise has transferred to the buyer the significant risks and rewards of ownership of the goods; • the enterprise retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; or • costs incurred or to be incurred in respect of the transaction can be measured reliably.	German GAAP does not include specific rules regarding the time when revenue from the sale of goods may be recognised. The transfer of beneficial ownership is considered to be a significant criterion to determine the right point of time, but the final decision has to be made on a case-by-case basis. The realisation principle applies – revenue is only to be recognised when it has been realised at the balance sheet date. Revenue from goods (and services) may be realised, when: • goods have been delivered and risk and rewards have been transferred; and • the supplier is entitled to receive a consideration. Where the buyer has a right of return, revenue may be recognised either after such a right has expired or when a provision in the amount of the take-back obligation is set off against the revenues. If a provision is made in this case, it must be possible to measure its amount reliably.

Rendering of services

IFRS	German GAAP (revised)
IFRS requires that service transactions be accounted for under the percentage of completion method when the outcome of a transaction involving the rendering of services can be estimated reliably. Revenue may be recognised on a straight-line basis if the services are performed by an indeterminate number of acts over a specified period of time. When the outcome of a service transaction cannot be measured reliably, revenue may be recognised to the extent of recoverable expenses incurred (zero-profit 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, while the cost incurred is recognised as expense. Revenue may have to be deferred in instances where a specific act is much more significant than any other acts.	Service transactions are generally accounted for using the completed contract method. The completed contract method follows the general measurement principles. Accordingly revenue may only be recognised if it has been realised at the balance sheet date. An exception applies when the entitlement to compensation for partial performance is certain. In such cases partial revenue may be recognised.

Construction contracts

IFRS	German GAAP (revised)
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. IFRS uses a revenue-approach method of percentage of completion. When the final outcome cannot be estimated reliably, a zero-profit method is utilised (wherein revenue is recognised to the extent of costs incurred if those costs are expected to be recovered). The gross-profit approach is not allowed. The completed-contract method is prohibited under IFRS. Combining and segmenting contracts is required when certain criteria are met.	Accounted for using the completed contract method. However, the percentage of completion method is allowed in exceptional circumstances.[8] (Adoption of POC into HGB was under discussion as part of BilMoG. It has not been adopted as it would not be in line with the realisation principle; revenue can only be realised when the main part of the service/construction has been provided. A construction contract where a legal obligation of payment arises after inspection and acceptance of the constructed assets does not leave any space for a change in the accounting treatment of a construction contract under German GAAP).

[8] ADS[6] provides a list of criteria which have to be fulfilled in order to apply the percentage of completion method under German GAAP.

Multiple-element arrangements – general

IFRS	German GAAP (revised)
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.	No specific guidance. The general revenue recognition criteria apply.

6 Pensions and other long-term benefits

6.1 General considerations

Classification of pension schemes

IFRS	German GAAP (revised)
Post-employment benefits (e.g. pensions) are classified either as defined contribution plans (DC plans) or defined benefit plans (DB plans), depending on the economic substance of the individual plans. Under DC plans the entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. Therefore actuarial risks and investment risks remain with the employee. All other plans are DB plans.	Depending on whether a separate external fund is engaged to settle the pension entitlements, the plan has to be treated as an indirect or direct pension plan. (Direct insurance, pension and support funds are indirect pension plans; direct pension promises are direct pension plans.) In the case of direct pension plans the entity is obliged to meet the employee's claims directly.

Differences of the categories

IFRS	German GAAP (revised)
For DC plans only the contributions that are paid for each period for the rendered employees services are recognised as ongoing expenses. For DB plans a liability is recognised in the balance sheet and an expense is recognised for the accrual of the liability in profit or loss. Actuarial assumptions are required to measure the obligation and the expense from DB plans so that actuarial gains or losses may arise. Moreover, the obligation is measured on a discounted basis.	It is possible to recognise obligations arising from indirect pension plans off-balance and to account for the contributions as an expense (an underfunding has to be disclosed in the notes). Obligations arising from direct pension promises basically cause a liability to be recognised in the balance sheet and expense for the accrual of the liability in profit or loss.

Other long-term employee benefits

IFRS	German GAAP (revised)
Other long-term employee benefits include for example jubilee benefits, deferred compensation or bonuses that are not due to be settled within 12 months after the end of the period in which the employees render the related service. Long-term employee benefits are accounted for in the same way as DB plans with the exception that actuarial gains and losses and all past service costs are recognised immediately through profit or loss.	Other long-term employee benefits will be treated in the same way as pension obligations, if they are long term in nature and comprise a benefit characteristic (i.e. termination benefits or benefits in the case of death or disability). The prevailing view is that jubilee benefits do not fall into this category. A small accounting difference arises accordingly.

6.2 Measurement of obligation

Actuarial valuation method

IFRS	German GAAP (revised)
The projected unit credit method (PUCM) is used to determine the present value of the entity's defined benefit obligation (DBO).	No specific actuarial valuation method is specified. Use of actuarial techniques shall result in an economically reasonable amount (PUCM is a permissible actuarial valuation method.)

Use of realistic parameters

IFRS	German GAAP (revised)
Actuarial valuation techniques are used to make a reliable estimate of the amount of benefits that employees have earned in return for their services. Based on the pension promise these techniques have to include realistic assumptions (e.g. salary and/or pension increases, turnover rates and mortality probabilities) that will influence the cost of the benefits.	The regulation to use realistic parameters for the calculation of pension and similar obligations is comparable to IFRS. Whereas under the former HGB, the valuation of pension liabilities using an interest rate of 6.0% and without regard to future increases in salary or pension payments (mandatory for tax purposes) was allowed, under BilMoG this is no longer permitted.

Discount rate

IFRS	German GAAP (revised)
The rate used to discount post-employment benefit obligations is determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The currency and term shall be consistent with the currency and estimated term of the DBO.	Determination of the discount rate is based on a specific law (*RückAbzinsV*). Every month the German Federal Bank publishes a yield curve based on the average market yields for the past seven years. This discount rate is to be used for discounting pension and similar obligations. The discount rate shall basically be chosen to be term-consistent with the obligation, but in order to simplify the calculation, it is acceptable to assume a duration of 15 years if no material over- or underestimation of the obligations results by doing so.

6.3 Plan assets

Criteria

IFRS	German GAAP (revised)
Plan assets comprise: • assets held by a long-term employee benefit fund; and • qualifying insurance policies (issued by an insurer that is not a related party as defined in IAS 24). In both cases above, the assets shall be held solely for the purpose of paying or funding employee benefits and cannot be used by the employer for any other purpose, including settlement of liabilities on the employer's liquidation.	In general the criteria for plan assets are similar to IFRS, however German GAAP requires plan assets to be non-operating assets. On the other hand plan assets need not be held by a legally separate entity.

Valuation units

IFRS	German GAAP (revised)
Where plan assets include qualifying insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan, the fair value of those assets is deemed to be the present value of the related obligations.	If benefits payable under a plan are determined solely by reference to the fair value of the underlying assets, the value of these benefits shall be equal to the fair value of the assets. The prevailing view is that this is also valid for insured benefits.

Distribution-barrier

IFRS	German GAAP (revised)
No specific guidance under IFRS.	Through the transition from book value to fair value for assets now recognisable as plan assets, presumably unrecognised gains will be shown in the balance sheet. As these gains are still unrecognised they are not available for dividend distribution.

6.4 Recognition

Defined benefit liability

IFRS	German GAAP (revised)
The amount recognised as a defined benefit liability shall be the net total of the present value of DBO and the fair value of plan assets, plus or minus any unrecognised actuarial gains/losses and minus any past service costs not yet recognised.	The amount recognised as a defined benefit liability shall be the net total of the present value of DBO and the fair value of plan assets.

Actuarial gains/losses

IFRS	German GAAP (revised)
As the IFRS-approach is expense-orientated there are special rules on how to deal with deviations arising from experience adjustments and changes in actuarial assumptions. IFRS provides three approaches for recognising actuarial gains and losses: • the corridor approach • faster/immediate recognition • the OCI-approach These three approaches have an impact on the recognised defined benefit liability.	There is no deferred recognition of actuarial gains/losses under German GAAP. The volatility of the discount rates is not as high as under IFRS because of the seven years average. All effects shall be recognised immediately in profit or loss.

Treatment of surpluses

IFRS	German GAAP (revised)
If the fair value of plan assets exceeds the present value of DBO, this surplus has to be tested for whether it can be recognised as an asset or not (so-called asset ceiling test).	Each surplus (DBO – plan assets) shall be accounted for as an asset. Such an asset is to be recognised as a separate line item.

Net pension expense

IFRS	German GAAP (revised)
The pension expense includes all components of the defined benefit obligation and the plan assets. The expected return on plan assets reduces the pension expense.	The pension expense includes all components of the defined benefit liability and the plan assets. In contrast to IFRS the actual return on plan assets has to be recognised.

6.5 Presentation and disclosures

Presentation

IFRS	German GAAP (revised)
The entity may choose whether interest cost and expected return on plan assets should be included as an operating expense or as a component of finance income.	The net of interest cost and the return on plan assets is recognised as finance income in a separate line item “other interest and similar income”/“interest and similar expenses”.

General disclosures

IFRS	German GAAP (revised)
To assess the nature of DB plans and the financial effects of changes in those plans during the period, the entity shall disclose inter alia: • accounting policy for recognising actuarial gains/losses; • plan description; • reconciliation of DBO and plan assets; • total expense recognised in profit or loss for each component of pension expense; and • information regarding plan assets and valuation parameters.	The following disclosures are required by BilMoG: • actuarial method used • information regarding the valuation parameters (incl. simplifying approach for the discount rate) • book value and fair value of plan assets • present value of obligations • components of the pension expense (incl. interest components)

Special disclosures for indirect pension schemes (German GAAP only)

IFRS	German GAAP (revised)
No specific guidance.	Possible deficits arising from indirect pension schemes have to be shown in the notes.

6.6 Transition rules

Transitional liability

IFRS	German GAAP (revised)
Not applicable.	Where the implementation of BilMoG results in a higher net liability, the entity can choose whether to recognise the increase over a period up to 15 years (minimum recognition: 1/15 p.a.) or immediately. Either way the increase has to be recognised as an extraordinary expense via profit or loss. If the new liability is lower the entity can either maintain the amount if future accruals will reverse the transitional decrease, or choose to recognise the decrease immediately outside of profit or loss.

7 Assets – non-financial assets

Property, plant and equipment – initial measurement

IFRS	German GAAP (revised)
At initial measurement, PPE comprises the purchase price plus costs directly attributable to bringing the asset to the location and condition necessary for its intended use (see “Acquisition cost”).	Under German GAAP, PPE is initially measured at purchase or production cost (see “Acquisition cost”).

Property, plant and equipment – subsequent measurement

IFRS	German GAAP (revised)
Subsequently PPE is accounted for using the cost model (cost less accumulated depreciation and impairment losses) or the revaluation model (which must be adopted for an entire class of PPE).	PPE is subsequently accounted for using the cost model. Revaluation is not permitted under German GAAP. One exemption applies to assets which are deprived of all other creditor’s access and are used exclusively to cover pension obligations or comparable long-term liabilities. They have to be reported at fair value. (Note that there is a dividend distribution constraint for revenues from fair valuation which have not yet been realised. This means that the difference between the fair value less the associated deferred tax and the acquisition cost is exempt from dividend distribution.)
An increase on revaluation is credited directly to equity (“revaluation surplus”), unless it reverses a revaluation decrease for the same asset previously recognised in profit or loss.	Not applicable.
A decrease on revaluation is charged directly against any related revaluation surplus for the same asset; any excess is recognised as an expense.	Not applicable.

Property, plant and equipment – separate depreciation of significant parts of PPE (previously "component approach")

IFRS	German GAAP (revised)
IFRS requires that significant parts of items of property, plant and equipment with different useful lives be recorded and depreciated separately.	Separate depreciation of significant parts not specified under German GAAP is only permitted under specific conditions but not required.
Consistent with the component approach, the guidance requires that the carrying amount of parts or components that are replaced be written off. The costs of a replacement component are recognised as an asset if they meet the recognition criteria.	Similar to IFRS, when the component approach is used. BilMoG has eliminated recognition options of specific provisions for expenses.
The guidance includes a requirement to review residual values and useful lives at each financial year-end.	Similar to IFRS. Under German GAAP, extraordinary depreciation can only be applied to an asset as a whole.

Acquisition cost

IFRS	German GAAP (revised)
PPE comprises the cost directly attributable to the asset. The following costs are included in the initial measurement of purchased PPE under IFRS:	PPE comprises the cost directly attributable to the asset. The following costs are included in the initial measurement of purchased PPE under German GAAP:
• purchase price (incl. import duties and non-refundable purchase taxes, less trade discounts and rebates)	• purchase price (incl. import duties and non-refundable purchase taxes, less trade discounts and rebates)
• any costs directly attributable to bringing the asset to the location and conditions necessary for it to be capable of operating	• any costs directly attributable to bringing the asset to the location and conditions necessary for it to be capable of operating
• the initial estimate of the costs of dismantling and removing the item and restoring the site on which it was located	• costs of site preparation
Examples of directly attributable costs:	
• initial delivery and handling costs	• initial delivery and handling costs
• installation and assembly costs	• installation and assembly costs
• costs of employee benefits arising directly from the construction or acquisition of the item of PPE	
• costs of testing the asset for proper functionality	• costs of testing the asset for proper functionality
• professional fees	• professional fees
• the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located	• the cost of dismantling and removing the asset and restoring the site are not included in the initial measurement of the asset. In case of a legal or contractual obligation, a provision has to be recognised over the useful life of the asset on a straight line basis

Costs of conversion

IFRS	German GAAP (revised)
Costs of conversion comprise the costs directly attributable to the asset:	BilMoG adjusted the production cost floor as specified in tax laws:
• direct material costs	• direct material cost
• direct labour costs	• direct labour cost
• variable production overheads such as indirect materials and indirect labour costs	• special cost of production
• fixed production overheads such as depreciation and maintenance of factory buildings and equipment, and the cost of factory management and administration allocated based on the normal capacity	• an appropriate share of indirect material cost, indirect labour and depreciation/amortisation to the extent that they are attributable to the production process (the capitalisation of this cost was a policy choice before)
	• costs of voluntary benefits to personnel and for post-employment benefits may only be included with respect to production cost
Research costs and selling expenses are explicitly excluded from production cost.	Research costs and selling expenses are explicitly excluded from production cost.
	HGB includes a policy choice to include general and administrative costs, expenses for social amenities of the company and the costs of voluntary social benefits and of occupational pensions (to the extent that they are attributable to the production process).
	Continuity in valuation methods has to be observed in successive financial years.

Capitalisation of borrowing costs

IFRS	German GAAP (revised)
Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are required to be capitalised as part of the cost of that asset.	Borrowing costs can only be capitalised to the extent that they are used to finance the production of an asset and if they are directly attributable to the production period. Capitalisation of borrowing costs related to acquisition costs is prohibited.
Determining the amount of borrowing costs that are directly attributable to an otherwise qualifying asset may require professional judgement.	

Internally generated intangible assets

IFRS	German GAAP (revised)
Intangible assets that are developed or generated internally must satisfy the criteria for recognition (probability that future economic benefits will flow to the entity and that the cost of the asset can be reliably measured). Difficulties usually arise in distinguishing expected future economic benefits attributable to the internally generated intangible assets from those attributable to the business as a whole. Generally, the difficulties associated with identifying internally generated intangible assets and with satisfying the recognition and measurement criteria mean that such assets are either indistinguishable from the rest of the business or cannot be reliably measured.	

Internally generated intangible assets – recognition

IFRS	German GAAP (revised)
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 capitalised if all of the following six criteria are demonstrated: • technical feasibility of completing the intangible asset • intention to complete the intangible asset • 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) • availability of adequate resources to complete the development • ability to measure reliably the expenditure attributable to the intangible asset during its development	BilMoG includes a policy choice regarding the recognition of internally generated non-current intangible assets.[9] Such intangible assets may be capitalised if they meet the general definition criteria of an individually utilisable asset. The accounting policy has to be applied consistently to comparable circumstances. Internally generated brands, mastheads, publishing titles, customer lists and comparable intangible assets are explicitly exempt from being recognised as intangible assets. An internally generated asset can only be recognised if it is independently realisable in “common opinion”; e.g. it can be sold or licensed to a third party (entity specific intangible assets that would not be realisable independently by a third party would not meet the definition of an intangible asset, therefore such assets would represent internally generated goodwill and accordingly would not be recognised).
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 recognised as intangible assets.	At the time of capitalisation, it must be most likely that an asset will arise. Under German GAAP capitalisation is strictly prohibited for internally generated brands, mastheads, publishing titles, customer lists and comparable intangible assets.

9 This policy choice results from BilMoG – prior to the revision, recognition of internally generated intangibles was prohibited. BilMoG is effective from 1 January 2010. An earlier application of the revised regulations from 1 January 2009 is allowed, provided that all revised regulations are adopted. There are transitional provisions for internally generated intangible assets, which provide that these are only to be recognised where development starts after 31 December 2009. Recognition may however be acceptable where an insignificant part of the development took place before 1 January 2010. Where an earlier application from 1 January 2009 is chosen, all internally generated intangible assets may be recognised from that date on.

IFRS	German GAAP (revised)
Development costs initially recognised as expenses cannot be capitalised in a subsequent period.	A crucial distinction regarding the recognition of an intangible asset is between research and development costs. Development costs are costs that are incurred in the application of research findings or other knowledge in the redevelopment of goods and processes or in the advancement of existing goods and processes by means of material modifications. Research on the other hand is the independent and systematic search for new scientific or technical knowledge or general experience whose technical usability and commercial prospects generally cannot be determined. Research costs have to be expensed as incurred; costs arising during development may be capitalised. When internally generated intangible assets are recognised, all correlative development costs have to be capitalised. Capitalisation is not permitted for any costs if a reliable distinction cannot be made between research and development costs. Where internally generated intangible assets are recognised, profits may only be distributed if the reserves available for distribution (+/- profit or loss brought forward) remaining after such a distribution are at least of the same amount as the recognised intangible assets (less deferred tax liabilities). Following intangible assets have to be capitalised under German GAAP: • internally generated current intangible assets; • acquired current intangible assets; and • acquired long-term intangible assets.

Intangible assets – measurement and amortisation

IFRS	German GAAP (revised)
Initial recognition at cost, which comprises all expenditures that can be directly attributed or allocated to creating, producing and preparing the asset from the date when the recognition criteria are met (see “Acquisition cost”).	Acquired intangible assets are initially measured at cost, being the fair value of the consideration paid (see “Acquisition cost”).
Subsequently intangible assets are accounted for using the cost model or the revaluation model (provided fair value can be determined with reference to an active market).	Subsequently intangible assets are accounted for at amortised cost. Revaluations are only permitted if the decline in value and the subsequent recovery in value are permanent.
Intangible assets may have finite or indefinite useful lives. • Intangibles with a finite useful life are amortised over their useful life. • Intangible assets with an indefinite useful life are not amortised but tested for impairment at least annually.	In the rare circumstance that there are indefinite-lived non-current intangible assets in separate and consolidated financial statements, these should be reviewed for impairment at least on an annual basis and not amortised systematically (GAS 12).

Inventories

IFRS	German GAAP (revised)
Carried at lower of cost and net realisable value. FIFO or weighted average method is used to determine cost. LIFO is prohibited. Reversal is required for subsequent increase in value of previous write-downs.	Measured at (strict) lower of cost or market value. As for production cost, direct material, direct labour, manufacturing, special manufacturing costs and an appropriate share of indirect cost directly attributable to the production process must be capitalised. Research cost and selling expenses are excluded from capitalisation (see "Cost of conversion"). Choices for other costs apply. LIFO, FIFO and weighted average may be used. Constant values can be used under certain conditions.

Investment property

IFRS	German GAAP (revised)
Investment property is property (land and/or buildings) held in order to earn rentals and/or for capital appreciation including property being constructed or developed for future use as investment property. The definition does not include owner occupied property or property held for sale in the ordinary course of business. 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 recognised in the income statement and the carrying amount is not depreciated. Where fair value is not reliably measurable for an investment property under construction or development, the property may be measured at cost until completion of the construction or the date when fair value becomes reliably measurable, whichever is earlier.	German GAAP has no specific guidance for investment property. Such property is accounted for as property, plant and equipment: • Initial measurement is at acquisition cost or cost of conversion. • Subsequently the depreciated cost model must be applied – no revaluation to fair value is permitted.

Impairment of long-lived assets held for use

IFRS	German GAAP (revised)
An entity should assess at each reporting date whether there are any indications that an asset may be impaired. Irrespective of indication, an annual impairment test is also required for intangible assets with indefinite useful lives and not yet ready for use (as well as for goodwill). IFRS uses a one-step impairment test. The carrying amount of an asset is compared with the recoverable amount, which is the higher of: • the asset's fair value less costs to sell; and • the asset's value in use. In practice, individual assets do not usually meet the definition of a CGU. As a result assets are rarely tested for impairment individually but are tested within a group of assets. Fair value less costs to sell represents the amount obtainable from the sale of an asset or CGU 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 pre-tax, 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. 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. Impairment losses are reversed when there has been a change in economic conditions or in the expected use of the asset. For non-current, non-financial 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.	Under HGB the lower of cost or market principle applies to fixed assets, which is less strict than under the IFRS principles. According to this principle, fixed assets must be written down to the lower of cost or market value if it is permanently lower than their carrying amount. If the decrease in value is temporary, impairment is optional. This does not apply to financial assets. Financial assets can be written down even if the decrease in value is presumed to be temporary. Prior to BilMoG, the use of this option was restricted to companies that are not corporations, partnerships where no individual person is liable for partnership debts and large partnerships. According to BilMoG, the use of this option is applicable to all legal forms. The impairment loss is the difference between the carrying amount of an asset and its lower reacquisition cost or market value. For current assets, impairment is measured by reference to the reacquisition cost or market price at the balance sheet date or, if such values are not available and the costs of acquisition or production exceed the market value at the balance sheet date, by reference to this value (the lower of cost or market principle). Where the reasons for an impairment/write-down no longer apply, a lower carrying value resulting from a previous impairment/write-down may not be retained – the impairment has to be reversed (prior to BilMoG, a lower carrying value may have been retained). An exemption from this rule is acquired goodwill, where reversal of impairments is prohibited (see "Business combinations").

Leases – classification

IFRS	German GAAP (revised)
The guidance focuses on the overall substance of the transaction. Leases are classified as an operating lease or a finance lease. Classification in finance and operating lease depends on whether the lease transfers substantially all of the risks and rewards of ownership to the lessee. Examples of situations leading to a lease being classified as a finance lease: • transfer of ownership at the end of the lease term • bargain purchase option • lease term is for the major part of the economic life of the leased asset • present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset • leased assets are of a specialised nature Minimum lease payments under IFRS include puttable rights of the lessor, any residual value guaranteed by the lessee or by a related party (for the lessee) and payments related to bargain purchase options or bargain renewal options. The interest rate implicit in the lease would, under IFRS, generally be used to calculate the present value of minimum lease payments. If not practicable, the lessor's incremental borrowing rate can be used. In a lease of land and building, the land and building elements must be considered separately for lease classification, unless the land element is not material. Under IFRS transactions that are not in the legal form of a lease may in substance be or include a so-called "embedded" lease agreement. Where such an arrangement conveys the right to use an asset and the fulfilment of the arrangement depends on the use of a specific asset, the identified embedded lease is accounted for according to IAS 17.	Under German GAAP lease accounting is governed by certain decrees of the Federal Ministry of Finance. A lessee is regarded as the beneficial owner of the leased asset if: • under a full-payout lease of moveable property and buildings: – the lease term is between 40% and 90% of the expected useful life of the asset and the lessee has a bargain purchase option and if the carrying amount or the lower market value exceeds the purchase price or if the lessee has the ability to continue the lease beyond the original lease term for a rent which is lower than market rent (for buildings: 75% or lower than market rent); – the lease term is less than 40% or more than 90% of the economic life of the asset without the requirement of providing a bargain purchase option or the ability to continue the lease beyond the original lease term for a rent which is lower than market rent; or – the leased asset is of a specialised nature that only the lessee can use it without major modification. • under a full-payout lease of land: – only if there is a purchase option and beneficial ownership of the related building rests with the lessee. • under a partial-payout leasing: – if the lessee alone bears the risk of a decrease in value of the asset without being able to benefit from an increase in value; – if more than 75% of the gain on disposal of the leased property is transferred to the lessee; or – if the lease contract includes a bargain purchase option or the ability to continue the lease beyond the original lease term for a rent which is substantially lower than market rent. • under a partial-payout lease of land: – if the lease contract includes a bargain purchase option or the ability to continue the lease beyond the original lease term for a rent and if the purchase price is lower than the carrying amount or if the subsequent rent is lower than 75% of the rent for comparable property (this is an exceptional case; usually, the lease term is up to 90% of the ordinary useful life and therefore property and buildings are attributed to the lessor); or – if the lessee takes over certain risks (in that case, the lessor is precluded from being the beneficial owner).

Lessor accounting – finance leases

IFRS	German GAAP (revised)
Amounts due under finance leases are recorded as a receivable. Gross earnings are allocated to give a constant rate of return based on (pre-tax) net investment method.	German GAAP generally differentiates between the attribution to the lessor and the attribution to the lessee. If attributable to the lessee, the receivable to be recognised consists of those rentals that the lessee is required to pay to the lessor plus any guaranteed and unguaranteed residual value.
IFRS requires the amount due from a lessee under a finance lease to be recognised as a receivable at the amount of the net investment in the lease (total of the future minimum lease payments less gross earnings allocated to future periods). The gross earnings are allocated between receipt of the capital amount and receipt of finance income on a basis so as to provide a constant rate of return. Initial direct costs should be amortised over the lease term.	Under German GAAP, the receivable to be recognised consists only of those rentals that the lessee is required to pay to the lessor plus any guaranteed and unguaranteed residual value. Lease payments are to be allocated to principle and interest payments.

Lessor accounting – operating leases

IFRS	German GAAP (revised)
IFRS requires an asset leased under an operating lease to be recognised by a lessor and depreciated/amortised over its useful life. Rental income is generally recognised on a straight-line basis over the lease term.	German GAAP requires an asset leased under an operating lease (attributed to the lessor) to be recognised by a lessor as PPE and depreciated over its useful life. Rental income is generally recognised on a straight-line basis over the lease term.

Lessee accounting – finance leases

IFRS	German GAAP (revised)
IFRS requires recognition of an asset held under a finance lease with a corresponding obligation for future rentals, at an amount equal to the lower of the fair value of the asset and the present value of the future minimum lease payments (MLPs) at the inception of the lease. The asset is depreciated over its useful life or the lease term if shorter. The interest rate implicit in the lease is normally used to calculate the present value of the MLPs. The lessee's incremental borrowing rate is used if the implicit rate is reasonable determinable.	German GAAP generally differentiates between the attribution to the lessor and the attribution to the lessee. Guidance under German GAAP is similar to IFRS. When attributed to the lessee, finance leases are recorded as an asset and an obligation for future rentals and depreciated over the useful life of the asset. Rental payments are apportioned to give a constant interest rate on the outstanding obligation. Operating lease rentals are charged on a straight-line basis.

Lessee accounting – operating leases

IFRS	German GAAP (revised)
Under IFRS the rental expense under an operating lease must generally be recognised on a straight-line basis over the lease term.	Similar to IFRS. Rental expense is recognised on a straight-line basis over the lease term (if attributed to the lessor).

Sale and leaseback transactions

IFRS	German GAAP (revised)
Recognition of profit or loss from a sale and leaseback transaction depends on whether the leaseback is a finance or an operating lease and whether the sale is at or below/above fair value.	Similar to IFRS. According to German GAAP, the transfer of beneficial ownership is the decisive factor. (Profit can therefore be realised as soon as beneficial ownership has been transferred.)

Finance leaseback

IFRS	German GAAP (revised)
Any profit or loss on sale is deferred and amortised over the term of the leaseback agreement.	A loss must be recognised immediately; a profit must be deferred and amortised over the contractual lease term. The lease object stays capitalised in the lessee's financial statement. The amount received has to be turned into a liability and amortised over the contractual lease term.

Operating leaseback – sale at fair value

IFRS	German GAAP (revised)
Any profit or loss is recognised immediately.	Similar to IFRS.

Operating leaseback – sale at a price lower than fair value

IFRS	German GAAP (revised)
Immediate recognition of any profit or loss, unless the loss is compensated by lower future rentals. In such cases, the difference is deferred over the period over which the asset is expected to be used.	Similar to IFRS.

Operating leaseback – sale at a price higher than fair value

IFRS	German GAAP (revised)
Excess of the sales price over the fair value of the asset sold is deferred over the period for which the asset is expected to be used.	Excess of the sale price over the fair value is deemed to be a borrowing and must therefore be deferred and amortised over the contractual lease term.

8 Financial assets

Definition

IFRS	German GAAP (revised)
Financial assets include: • cash • a contractual right to receive cash or another financial asset from another entity or to exchange financial instruments with another entity under conditions that are potentially favourable • an equity instrument of another entity • a contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments or a derivative (see "Derivatives and hedging")	German GAAP does not define or include specific accounting guidance for financial assets. Under German GAAP a financial instrument is a contract by which one party receives a financial asset and the other party has an obligation either via a financial liability or via an equity instrument. Derivatives are also financial instruments, but they are off-balance sheet because they are firm commitments. A firm commitment is based on a contract. The parties of the contract have not fulfilled the obligations resulting from the contract at the time of reporting.

Recognition

IFRS	German GAAP (revised)
IFRS requires an entity to recognise a financial asset when and only when the entity becomes a party to the contractual provisions of a financial instrument.	Similar to IFRS.

Categories

IFRS	German GAAP (revised)
Guidance under IFRS requires that financial assets be classified in one of the following four categories: • financial assets at fair value through profit or loss (incl. held-for-trading financial assets) • held-to-maturity investments • loans and receivables • available-for-sale financial assets	German GAAP does not define individual categories of financial assets. Accounting treatment depends on whether the asset is current or non-current. Distinction between current and non-current is determined by the intention to serve the business operation in the long term. The useful life of the asset is also an indication for an asset being current or non-current.

Financial assets at fair value through profit or loss (incl. held-for-trading financial assets)

IFRS	German GAAP (revised)
A financial asset at fair value through profit or loss is a financial asset that meets either of the following conditions: • It is classified as held for trading. A financial asset is classified as held for trading if it is: – acquired or incurred principally for the purpose of selling or repurchasing it in the near term; – part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or – a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument). • Upon initial recognition it is designated by the entity as at fair value through profit or loss. An entity may use this designation only when doing so results in more relevant information, because either: – it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; – a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel for example the entity's board of directors and chief executive officer; – if a contract contains one or more embedded derivatives, an entity may designate the entire hybrid (combined) contract as a financial asset at fair value through profit or loss unless: — the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or — it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited, such as a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortised cost.	Not applicable.

Held-to-maturity investments

IFRS	German GAAP (revised)
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity other than: • those that the entity upon initial recognition designates as at fair value through profit or loss; • those that the entity designates as available for sale; and • those that meet the definition of loans and receivables. An entity shall not classify any financial assets as held to maturity if the entity has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity (more than insignificant in relation to the total amount of held-to-maturity investments) other than sales or reclassifications that: • occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; • are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on fair value; or • are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.	Not applicable.

Loans and receivables

IFRS	German GAAP (revised)
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: • those that the entity intends to sell immediately or in the near term, which shall be 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; or • those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale. An interest acquired in a pool of assets that are not loans or receivables (for example, an interest in a mutual fund or a similar fund) is not a loan or receivable.	Not applicable.

Available-for-sale financial assets

IFRS	German GAAP (revised)
Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.	Not applicable.

Initial measurement

IFRS	German GAAP (revised)
A financial asset is recognised initially at its fair value (which is normally the transaction price), plus, in the case of a financial asset that is not recognised as at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of that asset.	Under German GAAP the general recognition and measurement criteria for assets apply. The initial recognition of financial assets is at cost including incidental acquisition expenses.

Subsequent measurement

IFRS	German GAAP (revised)
Depends on the category. Financial assets at fair value through profit or loss: • Subsequent measurement at fair value. Distribution of premiums/discounts is implied in the fair value. • Changes in fair value have to be recognised in the income statement. • Impairment losses and reversal of impairment are implied in the fair value.	Similar to IFRS. Current financial assets: For current investments the lower of cost or market principle applies. They must be impaired if the fair value is less than their carrying amount.
Held-to-maturity investments: • Subsequent measurement at amortised cost. • Premiums/discounts are recognised in profit or loss using the effective interest rate method. (For financial assets that are carried at amortised cost the calculation of the effective interest rate is generally based on the estimated cash flows over the expected life of the asset.) • Changes in fair value are not recognised. • Impairment and reversal of impairment are recognised in profit or loss. Loans and receivables: • Subsequent measurement at amortised cost • Premiums/discounts are recognised in profit or loss using the effective interest rate method. • Changes in fair value are not recognised. • Impairment and reversal of impairment are recognised in profit or loss. Available-for-sale financial assets: • Subsequent measurement at fair value (with an exception only for instances where fair value cannot be reasonably estimated). • Distribution of premiums/discounts is recognised in profit or loss. • Changes in fair value are recognised net of tax effects in equity (OCI) and recycled to the income statement when sold, impaired or collected. Foreign exchange gains and losses on monetary item (debt securities) are recognised in the income statement, on non-monetary items (equity instruments) in OCI: • Impairment losses are recognised in profit or loss. • For equity instruments it is not permissible to reverse impairment through profit or loss. • The reversal of impairment of debt instruments is recognised in profit or loss.	Non-current financial assets: Non-current assets are carried at amortised cost. An impairment loss must be recorded if the decrease in value is other than temporary; if the decrease in value is temporary, impairment is optional. An impairment shall be reversed where the reasons for the original write-down no longer apply (except for impairments on goodwill, which are never reversed).

Derecognition of financial assets

<table>
<tr><th>IFRS</th><th>German GAAP (revised)</th></tr>
<tr><td>
An entity consolidates any subsidiaries or special purpose entities (SPEs) before applying the derecognition tests.
Before evaluating whether, and to what extent, derecognition is appropriate, an entity determines if the financial asset being considered for derecognition meets one of the following three conditions:

the part comprises only specifically identified cash flows from a financial asset
the part comprises only a fully proportionate (pro rata) share of the cash flows from a financial asset
the part comprises only a fully proportionate (pro rata) share of specifically identified cash flows from a financial asset

In all other cases, an entity shall derecognise a financial asset when one of the following situations applies:

The contractual rights to the cash flows from the financial asset expire.
The entity considers whether it has transferred the contractual rights to the cash flows or entered into a so-called “pass-through arrangement” (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).

In such cases an analysis of the risks and rewards of the asset is required. The entity derecognises the asset completely if an entity transfers substantially all risks and rewards of ownership of the asset (e.g. in an unconditional sale of the financial asset). It continues to recognise the asset if it retains substantially all risks and rewards of ownership of the asset. The transaction is accounted for as a collateralised borrowing in this case.
If an entity neither transfers nor retains substantially all the risks and rewards of ownership of the asset, it needs to determine whether it has retained control over the asset. Control is based on the transferee’s practical ability to sell the asset transferred to a third party. The asset is derecognised if the entity has lost control. If the entity has retained control, it continues to recognise the asset to the extent of its continuing involvement. Under continuing involvement, the transferred asset continues to be recognised with an associated liability.
On derecognition of a financial asset the difference between the amount received (sum of the consideration received and any cumulative gain or loss that had been recognised directly in equity) and the carrying amount of the asset is recognised in the income statement. Any new assets or liabilities arising from the transaction are recognised at fair value.
</td><td>
German GAAP adopts a risk-oriented approach to determine whether derecognition of a financial asset is appropriate. It is focused on whether substantially all risks and rewards of an asset are permanently retained by or transferred to an entity. For receivables a substantial risk may be the credit risk. Other financial assets may have other risks and rewards (e.g. a participation right or the right to transfer a financial asset).
</td></tr>
</table>

9 Liabilities

Contingent liabilities

IFRS	German GAAP (revised)
A contingent liability is defined as a possible obligation whose outcome will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events outside the entity's control. A contingent liability can also be a present obligation that is not recognised because it is not probable that there will be an outflow of economic benefits, or the amount of the outflow cannot be reliably measured. Contingent liabilities are disclosed unless the probability of outflows is remote.	Under German GAAP guidance for contingent liabilities is similar to IFRS; contingent liabilities may relate to the issuance and transfer of bills of exchange, guarantees, bills and cheque guarantees and warranties as well as from granting of security for third party liabilities. Due to the importance of the prudence principle more items are recognised as provisions rather than only disclosed as contingencies.

General provisions – recognition

IFRS	German GAAP (revised)
A provision 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%.	Recognition criteria for provisions are similar to IFRS. Provisions must be recognised for uncertain liabilities, expected losses from executory contracts, necessary repair and maintenance expenses incurred within the first three months from the end of the preceding financial year, expenses for removal of earth and demolished buildings incurred within the following year and guarantee expenses incurred without any legal or contractual obligation. For other purposes than the afore-mentioned the recognition of a provision is prohibited. BilMoG eliminated the option to recognise specific provisions for expenses which had been a difference between IFRS and German GAAP prior to the revision.[10]

[10] Provisions on transition to BilMoG for the elimination of recognition options: companies have the option to either retain and use recognised expense provisions as intended or reverse provisions and transfer gains directly to profit reserves – exception: new provisions or additions in the year prior to the revision, if they are reversed they are recognised in profit or loss. Accordingly treatment of individual items may not be necessarily consistent.

General provisions – measurement

IFRS	German GAAP (revised)
The amount recognised 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). The entity must discount the anticipated cash flows using a pre-tax discount rate (or rates) that reflect(s) current market assessments of the time value of money and those risks specific to the liability if the effect is material.	Similar, but not the same as IFRS. Provisions must be carried at the amount required to settle the obligation based on sound business judgement in accordance with the prudence principle. Provisions with a residual term over one year are to be discounted using a market rate deemed appropriate for the term (seven year average; provided by German Federal Bank). Prior to BilMoG, discounting was only permitted where the underlying obligation contained an interest component. Future increases in prices and costs are to be considered in measurement of provisions also introduced by the revision.[11]

Restructuring provisions

IFRS	German GAAP (revised)
A provision for restructuring costs is recognised 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.	The general recognition and measurement rules apply no specific guidance under German GAAP apart from recognition principles under purchase accounting (GAS 4) which is similar to IFRS.

[11] Provisions on transition to BilMoG for changes of the valuation of provisions: releases due to new valuation regulations may be avoided if the released amounts would have to re-provided for by new additions until 31 December 2024 at the latest (on a hypothetical basis).

10 Financial liabilities

Definition

IFRS	German GAAP (revised)
IFRS defines a financial liability as a contractual obligation: • to deliver cash or a financial asset to another entity; • to exchange financial instruments with another entity under conditions that are potentially unfavourable; • as a contract that will or may be settled in the entity's own equity instrument and is a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or • a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.	German GAAP does not define or include specific accounting guidance for financial liabilities. German GAAP defines a financial instrument as a contract by which one party receives a financial asset and the other party is obliged by a financial liability or an equity instrument. Derivatives are also financial instruments.

Classification

IFRS	German GAAP (revised)
The issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of financial instruments. When there is a contractual obligation (either explicit or indirectly through its terms and conditions) on the issuer of an instrument to deliver either cash or another financial asset to the holder; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer, that instrument meets the definition of a financial liability regardless of the manner in which the contractual obligation may be settled. To classify a financial instrument on initial recognition as a financial liability/asset or an equity instrument, see details in IAS 32.15–32.26.	Financial instruments are classified as financial liabilities or equity instruments. The following three criteria should not be fulfilled simultaneously for a financial instrument to be classified as a financial liability: • subordination • profit-related compensation and loss participation up to the principal amount • long-term lending

Recognition

IFRS	German GAAP (revised)
The financial liability shall be recognised when the entity becomes party to the contractual provisions of the instrument.	Similar to IFRS.

Categories

IFRS	German GAAP (revised)
Guidance under IFRS requires that financial liabilities be classified in one of the two categories: • financial liabilities at fair value through profit or loss (incl. held-for-trading financial liabilities) • financial liabilities at amortised cost	German GAAP does not define individual categories of financial liabilities for purposes of recognition, accounting treatment or measurement. A distinction is made between short-term and long-term liabilities for the disclosures in the notes (e.g. in the ageing analysis for liabilities).

Financial liabilities at fair value through profit or loss (incl. held-for-trading financial liabilities)

IFRS	German GAAP (revised)
A financial liability at fair value through profit or loss is a financial liability that meets either of the following conditions: • It is classified as held for trading. A financial liability is classified as held for trading if it is: – acquired or incurred principally for the purpose of selling or repurchasing it in the near term; – part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or – a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument). • Upon initial recognition it is designated by the entity as at fair value through profit or loss. An entity may use this designation only when doing so results in more relevant information, because either: – it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as “an accounting mismatch”) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; – a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity’s key management personnel for example the entity’s board of directors and chief executive officer; or – if a contract contains one or more embedded derivatives, an entity may designate the entire hybrid (combined) contract as a financial liability at fair value through profit or loss unless: — the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or — it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited, such as a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortised cost.	Not applicable.

Other liabilities

IFRS	German GAAP (revised)
An entity shall measure all other financial liabilities at amortised cost using the effective interest method.	Not applicable.

Initial measurement

IFRS	German GAAP (revised)
A financial liability is recognised initially at its fair value plus, in the case of a financial liability that is not recognised as at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of that liability.	Financial liabilities must be measured at the amount for offsetting the liability at maturity even if the contractual interest rate is zero or below the market rate. Any discount at the date of issuance is amortised over the contract term of the liability or recognised immediately as an expense. A discount may be the difference between the repayable amount of a liability and its value on issuance. Liabilities may only be discounted if the underlying obligation contains an interest component.

Subsequent measurement

IFRS	German GAAP (revised)
After initial recognition, an entity shall measure all financial liabilities at amortised cost using the effective interest method, except for financial liabilities at fair value through profit or loss: • Subsequent measurement at fair value. • Distribution of discount/premium is implied in the fair value. • Changes in fair value have to be recognised in the income statement. • Credit risk of the issuer is recognised.	Any discount is amortised over the contract term of the liability or recognised immediately as an expense.

Derecognition of financial liabilities

IFRS	German GAAP (revised)
A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires, or the primary responsibility for the liability is legally transferred to another party. A liability is also considered extinguished if there is a substantial modification in the terms of the instrument. The difference between the carrying amount of a liability (or a portion thereof) extinguished or transferred and the amount paid for it should be recognised in net profit or loss for the period.	Derecognition principles under German GAAP are similar to IFRS, with the exception that there is no corresponding provision for the treatment of substantial modifications in the terms of the instrument.

Convertible debt

IFRS	German GAAP (revised)
For convertible instruments with a conversion feature characterised 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 recognised 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 recognised in equity with no subsequent measurement. 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 recognised in the statement of operations.	Similar to IFRS. Split accounting is applied to convertible debt where appropriate. However, the debt component has to be recognised at the amount for offsetting the liability at maturity. Where the repayable amount of a liability is higher than its value on issuance, the difference may be included in prepaid expenses on the assets side of the balance sheet and shall be amortised by systematic annual charges that may be allocated over the full term of the liability. Alternatively such a discount may be recognised as an expense immediately.

11 Equity instruments

Recognition and classification

IFRS	German GAAP (revised)
An instrument is classified as equity when it does not contain an obligation to transfer economic resources to another entity. Preference shares that are not redeemable, or that are redeemable solely at the option of the issuer, and for which distributions are at the issuer's discretion, are classified as equity. Only derivative contracts that result in the delivery of a fixed amount of cash, or other financial asset for a fixed number of an entity's own equity instruments, are classified as equity instruments. For this purpose the entity's own equity instruments do not include puttable financial instruments that are classified as equity instruments. All other derivatives on the entity's own equity are treated as derivatives. Special guidance was introduced regarding the classification of puttable financial instruments and instruments that impose an obligation to deliver a pro rata share of the net assets to another party upon liquidation. Such instruments are classified as equity if all of the following criteria are met: • It entitles the holder to a pro rata share of the entity's net assets in the event of the entity's liquidation. • The instrument is in the class of instruments that is subordinate to all other classes of instruments. • All financial instruments in that class have identical features. • Apart from the contractual obligation for the issuer, the instrument does not include any contractual obligation to deliver cash or another financial asset. • The total expected cash flows attributable to the instrument are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the entity. • The issuer must have no other financial instrument or contract that has: – total cash flows based substantially on the profit or loss, the change in the recognised net assets or in the fair value of the recognised/unrecognised net assets of the entity; and – the effect of substantially restricting or fixing the residual return to the puttable instrument holders.	For the classification of financial instruments as equity, the following three criteria must be fulfilled simultaneously: • subordination • profit-related compensation and loss participation up to the principal amount • long-term lending (note that under German GAAP there are no general criteria which apply to all legal forms; thus long-term lending can only serve as a qualified criterion) Shareholder's equity is classified as: • subscribed capital, which is the capital in respect of which the liability of the shareholders for the liabilities of the company to creditors is limited; • capital reserves, which contain, for example, the amount (premium) received on the issuance of shares; • revenue reserves (including the legal reserve, the reserve for treasury shares, the reserves provided for under the articles of association and other revenue reserves); • retained profits/accumulated losses brought forward; and • net income/loss for the year. Transaction costs related to the issuance of equity instruments must be recognised in profit or loss and cannot be deducted from equity. Uncalled outstanding contributions to subscribed capital are to be deducted from subscribed capital on the liabilities side of the balance sheet.[12]

[12] Prior to BilMoG, HGB offered a policy choice to present uncalled outstanding contributions to subscribed capital on the asset side of the balance sheet (characteristics of a receivable) or to deduct them from on the liabilities side of the balance sheet.

Purchase of own shares

IFRS	German GAAP (revised)
When an entity's own shares are repurchased, they are shown as a deduction from shareholders' equity at cost.	Under BilMoG repurchased own shares are to be deducted from shareholder's equity at par value. Any profit or loss (difference between cost and par value) is to be offset with reserves available for distribution. Incidental expenses of the acquisition are to be expensed in profit or loss for the period.

12 Derivatives and hedging

12.1 Derivatives – non-hedging

Definition

IFRS	German GAAP (revised)
A derivative is a financial instrument: • whose value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the "underlying"); • that requires no or little net investment; and • that is settled at a future date.	Same definition as under IFRS. Forwards (or futures) to purchase or sell goods (non-financial items, especially commodities) are also considered as derivatives for hedge accounting.

Recognition

IFRS	German GAAP (revised)
All derivatives are recognised on the balance sheet as either financial assets or liabilities when the legal transaction is concluded. See "Financial assets" for recognition of financial assets and "Financial liabilities" for recognition of financial liabilities.	German GAAP requires an entity to recognise a derivative financial instrument when and only when the entity becomes a party to the contract of the financial instrument. See "Financial assets" for recognition of financial assets and "Financial liabilities" for recognition of financial liabilities.

Initial measurement

IFRS	German GAAP (revised)
Derivatives are initially measured at fair value on the acquisition date. Transaction costs are recognised in profit or loss. The consideration paid or received for an option (option premium) represents the fair value at initial recognition. On the balance sheet the option premium is recognised as a financial asset for the buyer of the option and as a financial liability for the writer of the option. Contracts of derivatives which are not in line with market require upfront payments. An upfront payment is a single payment which is paid at conclusion of the legal transaction.	Usually at initial measurement all derivatives with contracts which are in line with current market condition have no value. There are two exceptions: • purchased and written options; and • derivatives with upfront payments (not in line with market). Upfront payments are recognised on the balance sheet as other assets or liabilities. Those derivatives which have no value at initial recognition are not recognised on the balance sheet. The initial margin paid for a future is recognised on the balance sheet as other assets. The consideration paid or received for an option (option premium) is recognised on the balance sheet as other assets or liabilities.

Subsequent measurement

IFRS	German GAAP (revised)
For derivatives the subsequent measurement is at fair value. Changes in a derivative's value are recognised in the income statement as they arise, unless they satisfy the criteria for hedge accounting outlined below.	Derivatives (except options): • For unrealised losses of derivatives (except options) the entity sets up a provision on the balance sheet. • Unrealised gains are not directly recognised in the amount of the financial asset or liability (derivative) on the balance sheet. Options: • For the buyer of an option unrealised losses are recognised as an impairment of the option premium. • For the writer/seller of an option, unrealised losses are recognised in a separate provision to the extent that they have not been already recognised as part of the option premium received.

12.2 Hedge accounting requirements

Overview

IFRS	German GAAP (revised)
Hedge accounting is a technique that modifies the normal basis for recognising gains and losses on associated hedging instruments and hedged items so that both are recognised in earnings in the same accounting period. An accounting mismatch occurs when: • a hedged item and the corresponding hedging instrument are measured on different measurement bases (e.g. hedged item at amortised cost, hedging instrument at fair value through profit or loss); • gains and losses on the hedged item and the hedging instrument are not recognised consistently (e.g. hedged item is an available-for-sale financial asset and the hedging instrument is a derivative); or • the hedged item is an unrecognised firm commitment or forecast transaction, whereas the hedging instrument is already recognised. Financial statements provide more relevant information if hedge accounting is applied. In a hedge relationship hedge accounting is applied to the hedged item and the hedging instrument.	BilMoG defines the combination of an underlying transaction (hedged item) and the hedging instrument as a “valuation unit”.
Hedge accounting is permitted provided that an entity meets stringent qualifying criteria in relation to:	Treatment as a valuation unit is permitted provided that an entity meets qualifying criteria in relation to:
• designation;	• designation;
• qualifying hedged item;	• qualifying hedged item;
• qualifying hedging instrument;	• qualifying hedging instrument;
• qualifying hedged risk (hedged risk should be in compliance with the specifications of risk management);	
• documentation;	
	• intention (and ability) to hedge;
	• homogeneity of the risk (that includes identity of timing and nominal amount of hedged item and hedging instrument. The risks have to be similar and in opposite directions.);
• high probability of a forecast transaction; and	• probability test concerning the forecast transaction; and
• prospective and retrospective hedge effectiveness.	• prospective hedge effectiveness (this would not be materially different from determining that timing and nominal amount of hedged risk and hedging instrument are in substance similar (see “Homogeneity”). No arithmetical calculations are to be performed.

Hedged item

IFRS	German GAAP (revised)
Hedged items can be recognised assets, recognised liabilities, firm commitments, or forecast transactions that involve an external party. As an exception, the foreign currency risk of an intragroup monetary item may qualify as a hedged item if it results in an exposure to foreign exchange rate gains or losses that are not fully eliminated on consolidation.	Underlying transactions may be assets, liabilities, firm commitments or highly probable forecast transactions that involve an external party.
A forecast transaction should be highly probable to qualify as a hedged item.	A forecast transaction should be highly probable.
In principle derivatives do not qualify as hedged items.	Derivatives qualify as hedged items.
Held-to-maturity investments cannot be designated as hedged items with respect to interest-rate risk, because held-to-maturity investments require an intention to hold to maturity without regard to changes in fair value or cash flows due to changes in interest rates.	Not applicable in German GAAP, because the category held to maturity does not exist.
If the hedged item is a financial asset or liability, hedging of the following is permitted:	Designation of the following is admitted:
• a proportion of the nominal amount;	• a proportion of nominal amount;
• a portion of a risk; and	• a portion of a risk; and
• a portion of time provided that effectiveness can be measured.	• a portion of time, provided the effectiveness can be measured.
If the hedged item is a non-financial asset or liability, it may be designated as a hedged item with regard to foreign currency risk only or all risks because of the difficulty of isolating other risks.	Under German GAAP there is no distinction between financial and non-financial assets or liabilities as hedged item.
A firm commitment to acquire a business cannot be a hedged item, except for foreign exchange risk, because the other risks that are hedged cannot be specifically identified and measured.	Similar to IFRS.

Hedging instrument

IFRS	German GAAP (revised)
Only a derivative financial instrument can qualify as a hedging instrument.	Financial instruments can qualify as hedging instruments. Forwards and futures to purchase or sell goods (non-financial items) are also considered as financial instruments for hedge accounting.
The only exemption is a non-derivative financial instrument (such as foreign currency borrowing) to be used as a hedging instrument for hedging the foreign currency risk.	Only financial instruments are used as hedging instruments. There is no further distinction between derivative and non-derivative instruments.
Only instruments that involve a party external to the reporting entity can be designated as hedging instruments.	Similar to IFRS.
A written option cannot be designated as a hedging instrument unless it is combined with a purchase option and a net premium is paid or a purchased option is hedged. The purchased option may be embedded in another instrument.	A written option can generally not be designated as a hedging instrument.
In principle a derivative has to be designated as a hedging instrument in its entirety. A hedging relationship may not be designated for only a portion of the time period during which a hedging instrument remains outstanding. It is not permissible to designate changes of cash flows for a specified portion of the time period as a hedging instrument and to leave out the rest of the time period.	Similar to IFRS.
Designation of a proportion of the notional amount of the hedging instrument is admitted (e.g. 50% of the notional amount).	Similar to IFRS.
Designation of a component of a derivative as a hedging instrument is not allowed. Two exceptions exist: • Designating as the hedging instrument only the change in intrinsic value of an option and excluding change in its time value. • Separating the interest element and the spot price of a forward or future contract and designating the spot price.	Similar to IFRS, the following is allowed: • designating the change in intrinsic value of an option and excluding change in its time value • separating the interest element and the spot price of a forward or future contract and designating the spot price.
A single hedging instrument can hedge more than one risk in two or more hedged items under certain circumstances.	Similar to IFRS.

IFRS	German GAAP (revised)
Under IFRS the following combinations of hedged item (n) and the hedging instrument (m) are permitted: • 1:1 • 1:m • n:1 • n:m Similar assets or similar liabilities can be aggregated and hedged as a group (n) only if the individual assets or individual liabilities in the group share the risk exposure that is designated as being hedged (i.e. the change in the fair value attributable to the hedged risk for individual terms should be proportionate to the change in the fair value for the group). In a fair value hedge of the interest rate exposure of a portfolio of financial assets or financial liabilities, the portion hedged may be designated in terms of an amount of a currency rather than as individual assets (or liabilities). Although the portfolio may, for risk management purposes, include assets and liabilities, the amount designated is an amount of assets or an amount of liabilities. The overall net position cannot be hedged. The entity may hedge a portion of the interest rate risk associated with this designated amount.	In German GAAP three types of hedges are permitted: • Micro hedge: a single underlying transaction is hedged by a single hedging instrument. • Portfolio hedge: a hedge of the risk of several similar underlying transactions by a single or by several hedging instruments. • Macro hedge: combined hedging of the risk exposure of complete groups of underlying transactions. Regarding a specified risk the overall net position of groups of hedged items may be hedged. Additionally, in order to apply portfolio or macro hedge accounting, an efficient risk management which identifies and limits risks has to be established.

Hedge effectiveness

IFRS	German GAAP (revised)
A hedge qualifies for hedge accounting under IFRS if changes in fair values or cash flows of the hedged item are expected to be highly effective in offsetting changes in the fair value or cash flows of the hedging instrument prospectively and retrospectively.	Under German GAAP only prospective testing of hedge effectiveness is required to establish that the timing and nominal amount of the underlying transaction and hedging instrument are similar in substance.
The results of effectiveness testing (hedge effectiveness) should be within a range of 80% to 125% ("retrospective" test).	There are no specifications of effectiveness limits for the determination whether a hedge is highly effective.
IFRS requires that hedges are assessed for effectiveness on an ongoing basis and that effectiveness is 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 is tested only once a year.	Similar to IFRS.
An entity may, of course, choose to test effectiveness more frequently.	Similar to IFRS.
IFRS does not specify a single method for assessing hedge effectiveness prospectively and retrospectively.	Under German GAAP every economically reasonable method is accepted. These methods include the accepted methods of IAS 39.

Hedge relationships

IFRS	German GAAP (revised)
Fair value hedge: The risk of a change in the fair value of a recognised asset or liability or an unrecognised firm commitment or portions thereof is hedged.	Under German GAAP there is no distinction in the accounting treatment between fair value hedges, cash flow hedges or hedges of net investments in foreign operations. Fair value hedge: similar to IFRS.
Cash flow hedge: The risk of potential volatility in future cash flows is hedged.	Cash flow hedge: similar to IFRS.
Hedge of a net investment in a foreign operation: A hedging instrument is used to hedge the currency risk (translation risk) of a net investment in a foreign entity.	Hedge of a net investment in a foreign operation: similar to IFRS.

Hedge accounting – accounting treatment

IFRS	German GAAP (revised)
Application of hedge accounting is optional if the requirements are fulfilled.	Generally a requirement to create a valuation unit exists when the hedging instrument and the hedged items are clearly linked for internal risk management purposes.
Fair value hedges: Hedging instruments are measured at fair value. The hedged item is adjusted for changes in its fair value but only due to the risks being hedged. Gains and losses on the hedging instrument and gains and losses on the hedged item attributable to the hedged risk are recognised in the income statement. Cash flow hedges: Hedging instruments are measured at fair value, with gains and losses on the hedging instrument to the extent they are effective being initially deferred in equity and subsequently released to the income statement concurrent with the earnings recognition pattern of the hedged item. Gains and losses on financial instruments used to hedge forecast assets and liability acquisitions may be included in the cost of the non-financial asset or liability – a "basis adjustment". This is not permitted for financial assets or liabilities. Hedges of net investments in foreign operations: Similar treatment to cash flow hedges. The hedging instrument is measured at fair value with gains/losses deferred in equity, to the extent that the hedge is effective, together with exchange differences arising from the entity's investment in the foreign operation. These gains/losses are transferred to the income statement on disposal or partial disposal of the foreign operation.	Fair value hedges, cash flow hedges, hedges of net investments in foreign operations: The valuation unit is regarded as a new valuation object. To the extent and for the time period the opposing changes of the fair values or cash flows of the hedged item and the hedging instrument are offsetting (effective part) the principles of realisation, imparity and item-by-item valuation are not applied. Generally, this can be implemented in two ways: • "Freeze in method" The offsetting changes in the fair values of the hedged item and hedging instrument due to the risk being hedged will be recognised neither in balance sheet nor in the income statement (effective part). • "Through posting method" The offsetting changes in the fair values of the hedged item and the hedging instrument due to the risk being hedged will be recognised in the financial statement (effective part). For changes in the fair values of hedged item and hedging instrument due to the hedged risk that are not offset the principles of realisation, imparity and item-by-item valuation have to apply (ineffective part). For changes in the fair values of hedged item and hedging instrument due to risks not being hedged the principles of realisation, imparity and item-by-item valuation have to apply (part/risks not being hedged).

Disclosure requirements

IFRS	German GAAP (revised)
An entity shall disclose the following separately for each type of hedge (i.e. fair value hedges, cash flow hedges, and hedges of net investments in foreign operations): • a description of each type of hedge; • a description of the financial instruments designated as hedging instruments and their fair values at the reporting date; and • the nature of the risks being hedged. For cash flow hedges, an entity shall disclose: • the periods when the cash flows are expected to occur and when they are expected to affect profit or loss; • a description of any forecast transaction for which hedge accounting had previously been used, but which is no longer expected to occur; • the amount that was recognised in equity during the period; • the amount that was removed from equity and included in profit or loss for the period, showing the amount included in each line item in the income statement; and • the amount that was removed from equity during the period and included in the initial cost or other carrying amount of a non-financial asset or non-financial liability whose acquisition or incurrence was a hedged highly probable forecast transaction. An entity shall disclose separately: • in fair value hedges, gains or losses: – on the hedging instrument; and – on the hedged item attributable to the hedged risk; • the ineffectiveness recognised in profit or loss that arises from cash flow hedges; and • the ineffectiveness recognised in profit or loss that arises from hedges of net investments in foreign operations. The disclosures are presented in the notes.	BilMoG requires disclosure about: • the amount of the hedged item included in the valuation unit; • type of hedged risks; • type of valuation unit formed (micro-, portfolio- or macro-hedge); • extent of hedged risks in total; • for the risks being hedged: why, to which extent and in what time frame changes in the fair values or cash flows of the hedged item and the hedging instrument will offset each other in future; • method used to determine effectiveness; and • for forecast transactions a description of the transaction and the reason why the occurrence of the transaction will be highly probable. The extensive disclosure requirements concern the notes, except if they have been disclosed in the management report.

Recent amendment

IFRS	German GAAP (revised)
In July 2008, the IASB issued an amendment to IAS 39, “Eligible hedged items”, which shall be effective from annual reporting periods beginning on or after 1 July 2009. It should be applied retrospectively. The amendment clarifies the principles on the eligibility of hedged risks and portions of cash flows: • It prohibits designating inflation as a hedgeable component of a fixed rate debt. • In a hedge of one-sided risk with options, it prohibits including time value in the hedged risk. This change precludes a treatment that many companies had previously considered acceptable. Hedging strategies involving options should be reassessed immediately to minimise the effect on comparatives arising from the retrospective application from 1 July 2009.	Not applicable.

13 Deferred taxes

Concept of deferred taxes

IFRS	German GAAP (revised)
Temporary concept	Temporary concept

Basis for deferred tax assets and liabilities

IFRS	German GAAP (revised)
Temporary differences – i.e. the difference between carrying amount and tax base of assets and liabilities (see exceptions below).	Temporary differences – i.e. the difference between carrying amount and tax base of assets and liabilities (see exceptions below). The temporary concept becomes obligatory for German GAAP financial statements covering periods beginning after 31 December 2009. Before BilMoG the timing concept was applicable. A deferred tax asset for the carryforward of unused tax losses and unused tax credits shall be recognised differently, because of objective requirements.

Quasi-permanent differences (e.g. temporary differences within measurement of property)

IFRS	German GAAP (revised)
Recognition of deferred taxes due to the temporary concept.	Recognition of deferred taxes due to the temporary concept.

Tax rate

IFRS	German GAAP (revised)
Tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.	Tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted by the balance sheet date. Changes in tax rate (or law) are enacted if passed by the German Federal Council by the balance sheet date.

Presentation and maturity

IFRS	German GAAP (revised)
Deferred tax assets (liabilities) are treated as non-current assets (liabilities). Additional statements for different components of deferred taxes must be made (expected realisation of deferred taxes within 12 months after the balance sheet date and beyond 12 months after the balance sheet date).	Disclosure as “D. Deferred tax assets” on the assets side and “E. Deferred tax liabilities” on the liabilities side. Presentation does not incorporate the maturity of deferred taxes.

Set off

IFRS	German GAAP (revised)
Setting off if the enterprise has a legally enforceable right to set off current tax assets against liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same tax authority.	No specific requirements under German GAAP for setting off deferred tax assets and liabilities.

Distribution restrictions

IFRS	German GAAP (revised)
No distribution measurement function.	Only the part of the deferred tax assets that is not covered by deferred tax liabilities is restricted for distribution. Deferred tax liabilities that have already been recognised in connection with intangible assets or other assets at fair value, must not be recognised again for this calculation.

Discounting

IFRS	German GAAP (revised)
Prohibited	Prohibited

Disclosures

IFRS	German GAAP (revised)
Various disclosures are required (IAS 12.79–12.88), e.g. major components of tax expense (income), the aggregate current and deferred tax relating to items that are charged or credited to equity, an explanation of the relationship between tax expense (income) and accounting profit.	Which temporary differences and tax loss carryforwards the deferred taxes are based on must be disclosed. This information must be presented irrespective of whether deferred taxes are shown in the balance sheet or not. There is no need to disclose information for that part of deferred tax assets which is not covered by deferred tax liabilities and not recognised in the balance sheet.

Tax rate reconciliation

IFRS	German GAAP (revised)
Explanation of the relation between tax expenses and accounting profit (or loss) by reconciling the tax expenses recognised and the expected tax expenses or the effective tax rate and the applicable tax rate. The basis on which the applicable tax rate is computed should be disclosed.	There is no obligation by law to disclose a tax rate reconciliation – other explanations which create an understanding of the presented deferred taxes are acceptable as well.

Tax groups

IFRS	German GAAP (revised)
For the recognition of deferred taxes on tax groups no rules exist. In practice there are two different approaches. The “formal approach” states that deferred taxes are shown in the financial statements of the controlling company. The “stand-alone approach” states that deferred taxes are recognised on the level of the subsidiary company.	Temporary differences of the subsidiary company are incorporated in the calculation of deferred taxes at the controlling company. The subsidiary company does not recognise any deferred taxes. In case of an (expected) termination of a tax group, the deferred taxes should be recognised at the level of the subsidiary company.

Initial differences

IFRS	German GAAP (revised)
Deferred taxes which are based on temporary differences resulting from initial recognition of goodwill (only in cases of taxable temporary differences) or of an asset or liability in a transaction that is not a business combination and at the time of the transaction neither affects accounting profit nor taxable profit (tax loss) shall not be recognised.	All temporary differences resulting from initial recognition of assets, liabilities and accruals have to be recognised for the calculation of deferred taxes.

Tax non-deductible goodwill

IFRS	German GAAP (revised)
No recognition of deferred taxes.	No recognition of deferred taxes.

Outside basis differences

IFRS	German GAAP (revised)
Deferred tax liabilities for outside basis differences should be recognised, except to the extent that the parent, investor or venture is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets for outside basis differences should be recognised to the extent that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.	Outside basis differences must not be recognised for the calculation of deferred taxes. As a parent controls the dividend policy of its subsidiary, it is able to control the timing of the reversal of the temporary differences associated with that investment. Furthermore it would be impracticable to determine the amount of the income taxes that would be payable when the temporary differences reverse. For example, the exception of sec. 306 subsec. 4 HGB is not applicable for a delayed transfer of results, if the approval of income allocation takes place within the adjusting event period of the consolidated financial statements. In this case the parent company needs to effect further income taxes from the 5% taxation.

Consolidation of intermediate results

IFRS	German GAAP (revised)
Deferred taxes arising from temporary differences from the consolidation of intermediate results should be recognised at the level of the recipient of the intercompany transaction.	Deferred taxes depending on temporary differences from the consolidation of intermediate results should be recognised at the level of the recipient of the intercompany transaction. In this case the tax rate of the recipient is applicable.

Risks resulting from audits by the fiscal authorities

IFRS	German GAAP (revised)
No specific rules exist. However effects depending on audits of the fiscal authorities have to be recognised for deferred tax purposes if probable.	Effects resulting from audits of the fiscal authorities have to be recognised for deferred tax purposes to the extent that they lead to temporary differences.

14 Other accounting and reporting topics

14.1 Share-based payments

Classification

IFRS	German GAAP (revised)
IFRS 2 encompasses all arrangements where an entity purchases goods or services in exchange for the issue of equity instruments (including shares or share options), or cash-payments based on the price (or value) of the equity instruments of the entity or another group entity. Goods or services received in a share-based payment transaction are recognised when they are received. Share-based payment transactions include: • equity-settled share-based payment transactions (entity receives goods or services as consideration for its own equity instruments or the entity has no obligation to settle the share-based payment transaction); • cash-settled share-based payment transactions (entity acquires goods or services by incurring liabilities, but amount is based on the price (or value) of the equity instruments of the entity or another group entity); and • choice of settlement, where arrangements provide either the entity or the counterparty with a choice of settlement in cash or equity.	No specific guidance. The general recognition and measurement criteria apply. There is no specific guidance in the accounting legislation. Several accounting treatments may be acceptable. Share-based payment transactions are classified as: • equity-settled share-based payment transactions; • cash-settled share-based payment transactions; or • share-based payment transactions with a choice of settlement. Allocation to the individual classes may differ for individual transactions between IFRS and German GAAP.

Recognition and measurement

IFRS	German GAAP (revised)
Equity-settled share-based payment transactions are measured at the fair value of the goods or services received, with a corresponding increase in equity. If the entity cannot estimate reliably the fair value, which is deemed always to be the case for transactions with employees, the transactions are measured at the fair value of the equity instruments granted, ignoring any service or non-market vesting conditions or reload features. Cash-settled share-based payment transactions are measured at the fair value of the liability. Until the liability is settled, the fair value of the liability is remeasured at each reporting date and at the date of final settlement, with any changes in fair value recognised in profit or loss. Awards that offer the counterparty the choice of settlement in equity instruments or settlement in cash should be bifurcated and treated as a compound instrument. If the entity has the choice to settle in cash or by the issue of equity instruments, the entity has a present obligation (legal or constructive) to settle in cash. The entity has a present obligation if the choice of settlement has no commercial substance or if the entity has a past practice or stated policy of settling in cash. If no such obligation exists, the entity shall account the transaction as equity-settled share-based payment transaction.	For equity-settled transactions an accounting treatment similar to IFRS is recommended. Alternatively an equity-settled transaction may not be recognised in the financial statements. For cash-settled transactions an accounting treatment similar to IFRS is recommended. Alternatively an entity may recognise the intrinsic value of the plan at the balance sheet date. Off-balance treatment of a cash settled transaction is not possible, as the entity has incurred an obligation. Transactions with choice of settlement (either counterparty or entity) should be measured either as equity-settled or as cash-settled, whatever is more probable. Before settlement the amount should always be shown as a liability.

14.2 Foreign currency translation

Functional currency

IFRS	German GAAP (revised)
Functional currency is defined as the currency of the primary economic environment in which an entity operates. IFRS provides a list of primary and secondary indicators to consider when determining functional currency. If the indicators are mixed and the functional currency is not obvious, management should use its judgement to determine the functional currency that most faithfully represents the economic results of the entity's operations by focusing on the currency of the economy that determines the pricing of transactions (not the currency in which transactions are denominated) and the currency that mainly influences labour, material and other costs of providing goods and services. Additional evidence (secondary in priority) may be provided from the currency in which funds from financing activities are generated, or receipts from operating activities are usually retained, as well as the nature of activities and extent of transactions between the foreign operation and the reporting entity.	Under German GAAP there is no concept of a functional currency and the determination thereof (GAS 14 provided guidance for the determination of the functional currency and the translation of foreign currency transactions into the functional currency – however this standard has been superseded by BilMoG). Consolidated financial statements have to be prepared in Euro (sec. 244 in conjunction with sec. 298 HGB).

Single-entity financial statements

IFRS	German GAAP (revised)
IFRS proposes the following translation requirements: • Transactions denominated in foreign currency – translate at the exchange rate at the date of the transaction. • Monetary assets/liabilities denominated in a foreign currency – translate at the closing (year-end) rate. • Non-monetary foreign currency assets/liabilities – translate at the appropriate historical rate. • Non-monetary items denominated in a foreign currency and carried at fair value – reported using the exchange rate that existed when the fair value was determined. • Income statement amounts – translated using historical exchange rates (at the date of the transaction) or an average rate (provided that exchange rates do not fluctuate significantly). • Exchange gains and losses arising from an entity's own foreign currency transactions are reported as part of the profit or loss for the year, including foreign currency gains and losses on available-for-sale debt securities as well as long-term loans, which in substance form part of an entity's net investment in a foreign operation. • When a gain or loss on a non-monetary item is recognised directly in equity, any exchange component of that gain or loss is recognised directly in equity. Any changes in fair value that are recognised directly in equity through the statement of changes in equity also include any related foreign exchange element.	Single-entity financial statements have to be prepared in Euro (sec. 244 HGB). Pronouncements introduced by BilMoG only include guidance for subsequent measurement. General measurement criteria apply on initial measurement. The rate that has to be used in translation is the exchange rate at date of transaction. In subsequent measurement, the mean spot rate has to be used for translation (sec. 256a subsec. 1 HGB). For assets and liabilities with a remaining term of more than one year, realisation, imparity and the cost method principle have to be applied. Gains or losses from translation of foreign currency are recognised in profit or loss and are presented separately as a part of "other operating income"/"other operating expenses".

Consolidated financial statements

IFRS	German GAAP (revised)
Foreign currency translation of foreign operations depends on the consistency of the functional currency of the foreign operation with the functional currency of the reporting entity or not. When the foreign operation has the same functional currency as the reporting entity, the effect of transactions in a foreign currency will be reflected in profit or loss. Conversely, when the foreign operation has a functional currency different from the reporting entity, then foreign exchange gains or losses on translation of the foreign operation into the group presentation currency will be recognised in other comprehensive income as it is part of a net investment in a foreign operation.	In consolidated financial statements, the "modified closing rate method" is used for the translation of financial statements in foreign currencies. The following translation requirements are prescribed by German GAAP: • Balance sheet items are translated using the mean spot rate on the balance sheet date. Exception: shareholder's equity (translated at historical rate). • Items of income and expense: translated at average rated exchange rate. Any exchange gain or loss arising from translation of foreign currencies is recognised as a separate component of group equity labelled "equity difference due to currency translation". When parts or the whole of the respective subsidiary is sold this item is released into profit or loss, partly or in full, respectively.

14.3 Related parties

Definition of a related party

IFRS	German GAAP (revised)
Related party relationships are generally determined by reference to the control or indirect control of one party by another, or by the existence of joint control or significant influence by one party over another. Included within the definition of related parties are subsidiaries, joint ventures, associates, key management personnel and shareholders.	Determination of "related party relationships" in German GAAP is similar to IFRS (reference to IAS 24).

Disclosures and exemptions

IFRS	German GAAP (revised)
The nature and extent of any transactions with all related parties and the nature of the relationship is disclosed, together with the amounts involved. There is a requirement to disclose the amounts involved in a transaction, the amount, terms and nature of the outstanding balances, any doubtful amounts related to those outstanding balances and balances for each major category of related parties. The compensation of key management personnel is disclosed in total and by category of compensation. (Amendments of IAS 24 include a revision of the definition of related parties and the exclusion of state-controlled entities from related parties.)	BilMoG requires, as a minimum requirement, the disclosure of all material transactions with related parties which are not at arm's length.[13] BilMoG offers a policy choice whether to include all material transactions with affiliated companies or just those that are not at arm's length. Disclosures that have to be made for these transactions include: • the nature of the related party relationship; • the nature of the transaction; • amounts of the transaction; and • any additional information necessary for an understanding of the financial position. No disclosures have to be made for transactions between fully consolidated entities in consolidated financial statements. In separate financial statements these disclosures are not required for transactions between group companies with a shareholding of 100%. Transactions may be grouped into types of transactions, where a separate disclosure is not necessary for an understanding of the financial position.

15 Management report

Disclosure requirements differ between IFRS and German GAAP to a certain degree. A significant requirement under German GAAP is the so-called *"Lagebericht"* (management report), for which IFRS has no direct equivalent.

IFRS currently has no detailed guidance on the disclosure of additional information concerning an analysis of the company's financial position and

[13] Prior to the revision German GAAP did not include comparable disclosure requirements for related party transactions. GAS 11 includes disclosure requirements for parent enterprises that prepare consolidated financial statements under sec. 290 HGB as well as under sec. 264a subsec. 1 HGB and to enterprises that are required to prepare consolidated financial statements under sec. 11 PublG. There are differences in the disclosure requirements under GAS 11 and those introduced by the revision of German GAAP, in particular GAS 11 does not include a distinction between transactions on market and non-market terms (GAS 11 has been (temporarily) superseded by the Standard setter).

performance. Following a discussion paper in October 2005, the exposure draft *Management Commentary* was issued by the IASB in June 2009.

The purpose of this project was to develop a model for a narrative report that would set out management's explanation of the enterprise's financial condition, changes in financial condition, results of operations, and causes of changes in material line items. It should enable users of financial statements to interpret financial statements in the context of the entity's operating environment and assess what management views as the most important issues and strategies adopted by the entity and their likelihood of success. The output of the project will be a "best practice" guidance document rather than a new IFRS Standard.

Under German GAAP the management report should contain a description of the course of business, including the financial results and the position of the corporation in such a way as to provide a true and fair view. The report should include a balanced, comprehensive analysis of the course of the business and the position of the company, including key financial performance indicators for the business activities and comments about these with reference to the amounts and disclosures in the annual financial statements. The expected development of the company, together with significant risks and opportunities, is also to be explained. Additionally, the legal representatives of companies which are domestic issuers have to declare to the best of their knowledge that the information given in the management report provides a true and fair view of the company's position and accurately describes the significant risks and opportunities.

Public companies, specific associations limited by shares and big companies (according to German GAAP measurement criteria) have to disclose supplementary or different information within their management reports.

BilMoG has also set some new requirements regarding the management report.

Description of internal control and internal risk management systems relevant to financial reporting (only for publicly traded companies)

Sec. 289 subsec. 5 HGB (revised) introduces a description of the main features of the entity's internal control (ICS) and risk management systems (RMS) regarding the financial reporting process. There are no minimum disclosure requirements. The degree of description rather depends on the individual situation of the company (e.g. industry, size, regulatory requirements and business model). A description of structures and processes of ICS and RMS relevant to financial reporting is required, whereas no disclosure with regards to the estimated effectiveness of ICS and RMS is necessary. The financial reporting processes that have to be described in this context comprise the processes needed to draw up financial statements (or consolidated financial statements) on the basis of BilMoG. Since the RMS is, for the most part, seen as an element of the ICS, the focus of this description will be on the ICS. The only major exception to that will be the description of the RMS with regard to the control and supervision of valuation units.

The new regulation, however, does not limit the reporting requirements regarding risks and opportunities, but rather intensifies them. Thus the description of the ICS and RMS regarding the financial reporting process can be incorporated into the risk report, which is already part of the management report.

In addition, listed companies are required to provide an explanatory report regarding the description of the ICS and RMS at the shareholders' meeting.

The new requirement will be applicable to all management reports relating to financial years starting after 31 December 2008.

Corporate governance statement

Another disclosure introduced by the BilMoG is the corporate governance statement. A company whose securities are admitted to trading on a regulated market and on markets in financial instruments has to include such a statement in a separate section of the management report. Many companies have reported on corporate governance topics in the past already on a voluntary basis. As a result of the revision the corporate governance statement now has to be included in the management report with a defined set of components. Companies can also choose to publish the corporate governance statement on their company website instead. In that case, a reference to the website has to be made in the management report.

A corporate governance statement includes the following:

- A statement of compliance with the German corporate governance codex according to sec. 161 AktG. In the past, only listed companies had to publish this statement and they only had to disclose whether they had complied with the rules of the codex or not. Now the statement has to be made on a "comply or explain" basis – reasons for non-compliance with individual elements of the code are to be given. Also, the scope of affected companies was broadened.
- Disclosure of relevant corporate governance practices, including a reference where these are publicly available. Corporate governance practices may include entity-wide ethical standards as well as working- and social standards.
- A description of the work of management and board of directors as well as the composition and work of board committees. This could include the organisational structure of the boards and committees, provisions of the articles of association or the internal rules of procedure, internal information management or frequency of meetings. If this information is available on the company website, a reference to this should be made in the corporate governance statement.

Systematically the inclusion of the corporate governance statement in the management report is rather unusual, as the information included in the corporate governance statement has no connection with the disclosures on the company's reporting (one exemption being the disclosure that the statement of compliance according to sec. 161 AktG has been issued and made publicly available) and accounting and other disclosures included in the management report. The requirement for the corporate governance statement has not been added to the management report sec. 289 HGB but has been placed in a separate sec. 289a HGB. Furthermore the content of the corporate governance statement is explicitly excluded from the annual audit of financial statements – the company's auditor solely audits whether a corporate governance statement has been included, but does not audit the content of the statement.

This requirement is also applicable to all management reports relating to financial years beginning after 31 December 2008.

B Comparative overview of IFRS, IFRS for SMEs and German GAAP (revised)

On 9 July 2009 the IASB published the IFRS for SMEs after six years of project work. The IFRS for SMEs represent a comprehensive body of regulations that are wholly detached from the regular set of IFRS. They were developed in order to accommodate the needs of small and medium-sized entities (SMEs). In comparison to the regular IFRS they comprise alleviations in order to make the body of regulations less complex. In addition a variety of subjects that are not relevant for SMEs were omitted and the compulsory notes to the financial statements were significantly reduced. Amendments to the standard shall only be carried out every three years.

1 Summary presentation

Scope of application

IFRS	IFRS for SMEs	German GAAP (revised)
Compulsory application for group accounting of publicly traded companies in the EU. Voluntary application principally permitted for all entities.	Previously only voluntary application alongside national law. Applicable for entities that do not have public accountability, i.e. not publicly traded and no fiduciary administration of assets.	Compulsory for annual and consolidated financial statements of traders and entities registered in the commercial register, except for entities that are obliged to apply IFRS for the consolidated financial statements. (These entities also have to follow some German GAAP rules.)

Components of financial statements

IFRS	IFRS for SMEs	German GAAP (revised)
Statement of financial position, statement of comprehensive income, notes, statement of cash flows, statement of changes in equity, and a management report for consolidated financial statements in Germany due to national law.	Statement of financial position, statement of comprehensive income, notes, statement of cash flows, statement of changes in equity. Under certain conditions the statement of comprehensive income and statement of changes in equity may be combined.	Balance sheet, profit and loss account, notes. Medium-sized and large entities are required additionally to present a management report. For entities preparing consolidated financial statements or annual financial statements of publicly traded companies not presenting consolidated financial statements, the preparation of a cash flow statement and a statement of changes in equity is required.

2 Recognition and measurement in the statement of financial position and the statement of comprehensive income

2.1 Assets

IFRS	IFRS for SMEs	German GAAP (revised)	
Recognition and amortisation of internally generated intangible assets (development costs) compulsory, if certain criteria are met. Research costs shall be recognised as expenses.	No recognition of internally generated assets (development costs). All costs shall be recognised as expenses in relevant period.	If certain requirements are met, and no prohibition according to sec. 248 subsec. 2 HGB, option to recognise internally generated assets (development costs). Corresponding constraints on dividend distribution in this case.	Internally generated intangible assets

IFRS	IFRS for SMEs	German GAAP (revised)	
Measurement at initial recognition: acquisition costs. Measurement after recognition: cost model or revaluation model (see "Revaluation model").	Measurement at initial recognition: similar to IFRS. Measurement after recognition: cost model.	Measurement at initial recognition: similar to IFRS. Measurement after recognition: see "Property, plant and equipment".	Intangible assets
No amortisation. Impairment test on the basis of cash generating units (CGUs).	No provision; a finite useful life shall be considered.	No provision, but test of exceptional depreciation.	Indefinite useful life
Amortisation according to useful life (cost method) or application of the revaluation method. If there is any indication of impairment an impairment test shall be performed.	Amortisation according to useful life. If the useful life cannot be estimated reliably it shall be ten years. If there is any indication of impairment an impairment test shall be performed.	Amortisation according to estimated useful life for wasting asset. Exceptional depreciation shall be undertaken according to sec. 253 subsec. 3 HGB.	Finite useful life

IFRS	IFRS for SMEs	German GAAP (revised)	
Measurement at recognition: acquisition costs Measurement after recognition: • cost model: carrying amount – depreciation according to useful life • revaluation model: see "Revaluation model" If there is any indication of impairment an impairment test shall be performed.	Measurement at recognition: equivalent to IFRS. Measurement after recognition: • cost model: principally similar to IFRS • revaluation model: see "Revaluation model" If there is any indication of impairment an impairment test shall be performed.	Measurement at recognition: similar to IFRS. Measurement after recognition: carrying amount. Depreciation over estimated useful life for wasting assets (sec. 253 subsec. 3 HGB). Extraordinary depreciation has to be accounted according to sec. 253 subsec. 3 HGB.	Property, plant and equipment

Revaluation model

IFRS	IFRS for SMEs	German GAAP (revised)
For subsequent measurement according to IAS 16 and IAS 38 there are the following options: besides the application of the cost model the revaluation model can selected for a class of assets in PPE. In this case regular assessment of the value of the asset is required according to IAS 16.31–16.42.	Not permitted.	Similar to IFRS for SMEs.

Component approach for property, plant and equipment

IFRS	IFRS for SMEs	German GAAP (revised)
Components of assets that are material in relation to the acquisition costs shall be recognised and depreciated separately. Components with the same useful life and depreciation method can be combined. There is an additional option to recognise and depreciate insignificant components. Significant servicing and maintenance shall be recognised and depreciated as separate components.	The acquisition costs of significant components of assets with different useful lives shall be separated and depreciated over the individual useful lives. Similar to IFRS.	No specific regulations. However, German GAAP allows separate depreciation if significant components of the asset are physically separated and individually replaceable. Testing for exceptional depreciation has to be done at the asset level. No specific regulations, however under German GAAP: significant servicing and maintenance shall not be recognised as separate components.

Yearly review of depreciation methods and useful lives

IFRS	IFRS for SMEs	German GAAP (revised)
Necessary.	Not necessary. Review only if indication for impairment exists.	Is not explicitly necessary.

Investment property

IFRS	IFRS for SMEs	German GAAP (revised)
Measurement at recognition: acquisition costs. Measurement after recognition: option for all investment properties held to earn rentals or for capital appreciation – at cost or fair value with gains and losses arising from a change in the fair value of investment property recognised in profit or loss for the period. In this case no depreciation.	Measurement at recognition: comparable to IFRS (no capitalisation of borrowing costs). Measurement after recognition: at fair value through profit and loss if fair value can be determined reliably at no additional cost. Otherwise: carrying amount.	No specific regulations.

Assets held for sale

IFRS	IFRS for SMEs	German GAAP (revised)
If criteria of IFRS 5.6–14 are met, classification as held for sale. Valuation: the lower of carrying amount and fair value less costs to sell.	General rules apply. The intention to sell is the indicator for impairment testing.	No specific regulations.

Capitalisation of borrowing costs

IFRS	IFRS for SMEs	German GAAP (revised)
Compulsory capitalisation, provided that: • there is a qualifying asset; and • borrowing costs are directly attributable to the acquisition, construction or production of the asset.	Shall be recognised immediately as an expense in the period in which costs are incurred.	Optional capitalisation of borrowing costs, provided that: • they are attributable to the production of assets; and • they are related to the construction/production period.

2.2 Inventories

General information

IFRS	IFRS for SMEs	German GAAP (revised)
Measurement of inventories at the lower of cost and net realisable value. The cost of inventories shall be assigned by using the FIFO or weighted average cost formula. LIFO cost formula is not permitted. Subsequent write-downs are necessary.	Measurement of inventories at the lower of cost and selling price less costs to complete and sell. Everything else the same as IFRS.	Measurement of inventories at cost or lower value according to types of inventories: replacement value, selling price less arising expenses, or the lower of both. The costs of inventories may be assigned using the FIFO, LIFO or weighted average cost formula consistently for a group of similar assets. Under certain circumstances the recognition of a fixed value is permitted.

Capitalisation of borrowing costs

IFRS	IFRS for SMEs	German GAAP (revised)
Compulsory recognition if borrowing costs can be directly attributed to a qualifying asset.	See “Assets”.	See “Assets”.

Construction contracts

IFRS	IFRS for SMEs	German GAAP (revised)
Percentage of completion method if reliable estimates are attainable.	Similar to IFRS.	Partial realisation of profits not permitted.

2.3 Equity and liabilities

Equity

IFRS	IFRS for SMEs	German GAAP (revised)
The residual interest in the assets of the entity after deducting all its liabilities. An equity instrument only exists if the investor has no individual entitlement for repayment on the invested capital. A financial liability shall be recognised if the issuer of a financial instrument has the right to repurchase or redeem that instrument for cash or another financial asset. Exceptional rule for redeemable share capital of the issuer qualifying as equity if specific characteristics are fulfilled contrary to the general regulation.	Similar to IFRS.	The residual interest in the assets of the entity after deducting all its liabilities. According to German GAAP a qualifying item of equity has to meet the following criteria (special regulations for partnerships according German GAAP): • subordination; • full loss participation; • performance related remuneration; and • long-term capital commitment.

General criteria for provisions

IFRS	IFRS for SMEs	German GAAP (revised)
Provisions shall be recognised when: • an entity has a present obligation (legal or constructive) as a result of a past event; • it is probable (> 50%) that an outflow of resources embodying economic benefits will be required to settle the obligation; and • a reliable estimate can be made of the amount of obligation. Generally no provision if no (legal or constructive) obligation against a third party exists. No provisions for future expenses from which the business can withdraw. The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation (single obligation: individual most likely outcome as best estimate of the liability; provision involving large population of items: "expected value" weighting all possible outcomes by their associated probabilities), provisions are measured before tax.	Similar to IFRS.	Fundamentally similar to IFRS; continuation of the obligation to recognise a provision even in the absence of a reliable estimate. The recognition of a provision with a probability lower than 50% is possible. Obligation to recognise provisions for deferred maintenance that shall be performed within three months after the end of the reporting period and for removal of excavated waste that shall be performed within 12 months after the end of the reporting period. Measurement similar to IFRS. Long-term provisions (over one year) shall be discounted with the average interest rate of the past seven years, given by the German Federal Bank.
The risk of cost increases shall be taken into consideration.		The risk of cost increases shall be taken into consideration.
Provisions for decommissioning liabilities shall be recognised as part of the costs of the related PPE.		No specific regulations (but generally not accepted).

Provision for restructuring costs

IFRS	IFRS for SMEs	German GAAP (revised)
Recognition of a provision for restructuring costs when a detailed formal plan has been announced or the implementation of the plan has effectively started.	Similar to IFRS.	No specific regulations (generally rules for provisions applicable).

Liabilities

IFRS	IFRS for SMEs	German GAAP (revised)
A financial liability, comprising contractual obligations in particular: • to deliver cash or another financial asset to another entity; and • to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.	Similar to IFRS.	Liabilities on its merits and in its value are fixed liabilities of the entity in cash or tangible assets.

Contingent liabilities

IFRS	IFRS for SMEs	German GAAP (revised)
Contingent liabilities shall be disclosed in the notes to the financial statements.	Similar to IFRS.	Contingent liabilities shall be disclosed below the balance sheet or in the notes to the financial statements.

2.4 Other relevant issues

Employee benefits – defined benefit plans

IFRS	IFRS for SMEs	German GAAP (revised)
The defined benefit obligation is presented net of the fair value of the plan asset allowing for expected increases in wages and salaries and retirement benefits. Past service costs shall be recognised as an expense. Actuarial gains and losses shall be recognised immediately (either in profit or loss or in other comprehensive income) or allocated according to the corridor method. Principally apply projected unit credit method (PUCM).	The defined benefit obligation is presented net of the fair value of the plan asset allowing for expected increases in wages and salaries and retirement benefits. Recognise the total change of the net liability in profit or loss, except actuarial gains and losses which also can be recognised in other comprehensive income. Principally apply PUCM, provided that necessary information is available without undue cost or effort.	Offsetting provisions for post employment benefits taking future cost increases (changes in wages and retirement benefits) into consideration with restricted, insolvency protected collateral measured at total fair value. Discounting of long-term provisions (over one year) with time appropriate average market interest rate, fixed assumption of residual term of 15 years possible, given by German Federal Bank. PUCM or fair market value method.

Employee benefits – defined contribution plans

IFRS	IFRS for SMEs	German GAAP (revised)
Period costs shall be recognised as expenses.	Similar to IFRS.	Generally as expenses of the respective period.

Employee benefits – termination benefits

IFRS	IFRS for SMEs	German GAAP (revised)
Benefits payable as a result of an entity's decision to terminate an employee's employment before normal retirement date. Immediate recognition if liability is verifiable and unavoidable (no proportional recognition). Where termination benefits fall due more than 12 months after the reporting period, they shall be discounted.	Similar to IFRS.	No specific regulations. Where termination benefits fall due more than 12 months after the reporting period, they shall be discounted like DB plans.

Leasing – classification

IFRS	IFRS for SMEs	German GAAP (revised)
The classification of leases depends on the substance of the transaction rather than the form of the contract. A finance lease is a lease that transfers substantially all risks and rewards incidental to the ownership of an asset. Several criteria ought to be considered (economic useful life, present value criteria). Otherwise application of operating lease.	Similar to IFRS.	No specific regulations, economic classification generally follows taxation rules.

Leasing – leases in the financial statements of lessees

IFRS	IFRS for SMEs	German GAAP (revised)
Finance lease: the lessee shall recognise the finance lease as assets and liabilities initially at the amount equal to the fair value of the leased property or, if lower, the present value of minimum lease payments. Minimum lease payments shall be apportioned between the interest charge and the reduction of the outstanding liability. Operating lease: no recognition of lease as an asset; lease payments shall be recognised as an expense generally on a straight-line basis.	Similar to IFRS.	Finance lease: recognition at acquisition and production costs of the lessor in the lessee's balance sheet. Depreciation over the economic useful life or the shorter duration of contract. Lease payments shall be apportioned between the finance charge and the reduction of the outstanding liability. Operating lease: generally no recognition of the lease as an asset; lease payments shall be recognised as an expense on a straight-line basis over duration of contract.

Financial instruments

IFRS	IFRS for SMEs	German GAAP (revised)

Four categories:
• at fair value through profit and loss (measurement: at fair value through profit and loss)
  – held for trading
  – fair value option
• loans and receivables (measurement: at amortised cost using the effective interest method)
• held to maturity (measurement: at amortised cost using the effective interest method)
• available for sale (measurement: at fair value, changes in fair value recognised in other comprehensive income)
	Two categories:
	• basic financial instruments (measurement: at amortised cost using the effective interest method (exceptions (e.g. listed securities) obligatory at fair value));
	• other financial instruments (measurement: at fair value through profit and loss).
		No specific regulations with the exception for assets in connection with pension liabilities that are recognised at fair value.
		Extraordinary depreciation of financial assets also acceptable if depreciation is not permanent.
		Certain disclosures are required for derivative financial instruments and for long-term financial assets.

Financial instruments – derivatives without hedge accounting

IFRS	IFRS for SMEs	German GAAP (revised)
• Classification: at fair value through profit and loss • Measurement: at fair value through profit and loss	• Classification: other financial instruments • Measurement: at fair value through profit and loss	No specific regulations. Generally accounted for as a pending transaction: potential recognition of provision for contingent losses.

Financial instruments – hedge accounting

IFRS	IFRS for SMEs	German GAAP (revised)
Hedging relationships are of three types: • cash flow hedge • fair value hedge • net investment hedge A hedging relationship qualifies for hedge accounting if all conditions are met (i.e. formal designation and documentation, prospective and retrospective effectiveness test).	Hedge accounting is only permitted for specific risks. Compare with sec. 12.17. The entity ought to assess the hedge as highly effective, also documentation requirements.	Specific regulations for the creation of valuation units. Documentation, designation and prospective effectiveness test required.

Government grants

IFRS	IFRS for SMEs	German GAAP (revised)
Grants related to assets: shall be presented in the statement of financial position either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset. Grants related to income: for incurred expenses the financial support to the entity shall be recognised in profit and loss of the period in which it becomes receivable.	Grants shall be recognised dependent on whether conditions are attached or not. If no conditions are attached the grant shall be recognised in profit and loss. In case conditions are attached to the grant it shall not be recognised in profit and loss until the performance condition is met. Before recognition in profit and loss the grant received shall be recognised as a liability in the statement of financial position. Measurement of asset received or the receivable at fair value.	No specific regulations, but German GAAP commentary on accounting issues with grants, exemplary representation of a financial governmental grant; similar to IFRS.

Deferred taxes

IFRS	IFRS for SMEs	German GAAP (revised)
• Balance sheet approach • Recognition of temporary differences • Measurement with future tax rate (enacted or substantively enacted) • Recognition of deferred tax asset arising from unused tax losses or credits if probable that taxable profit will be available • Deferred tax assets and liabilities shall be offset if entity has legal right and certain criteria are met • No regulation for uncertain tax positions	Similar to IFRS, however substantial differences in certain elements. Partially anticipates planned upcoming changes of IAS 12. Specific regulations for uncertain tax positions.	• Balance sheet approach • Obligation to recognise temporary differences • Measurement with future tax rate • Recognition of deferred tax asset arising from unused tax losses or credits if probable that taxable profit will be available, restricted to five years • Option to offset deferred tax assets and liabilities • Option to set up tax assets, if the option is used, restricted dividend distribution • Not applicable for all companies, if optional, companies have to regard sec. 249 HGB for a tax liability • No specific regulations for uncertain tax positions

2.5 Consolidated financial statements and business combinations

Business combinations

IFRS	IFRS for SMEs	German GAAP (revised)
Business combinations are presented according to the acquisition method. The fair value of the acquired assets and liabilities shall be compared to the fair value of the transferred consideration in order to establish the goodwill. There is an option to account for non-controlling interests of the acquired business at the net asset value or at fair value ("full goodwill method"). Similar steps to IFRS for SMEs.	Business combinations shall be accounted for by applying the purchase method. Applying the purchase method requires the following steps: • identifying the acquirer • determining the acquisition costs • allocating the acquisition costs to all assets and liabilities	Similar to IFRS for SMEs. (Differentiations in the recognition of intangible assets and certain liabilities for example.)

Recognising and measuring goodwill

IFRS	IFRS for SMEs	German GAAP (revised)
No depreciation. Annual test for impairment on the basis of CGUs. Subsequent reversal of write- down is not permitted.	Goodwill is depreciated over the economic useful life. If the useful life cannot be estimated reliably it shall be ten years. An impairment test shall only be performed if there are indicators of impairment; a subsequent reversal of write-down is not permitted.	Obligation to recognise goodwill. Depreciation over the economic useful life. Extraordinary depreciation shall be maintained according to sec. 253 subsec. 5 HGB in conjunction with sec. 298 subsec. 1 HGB.

Recognising and measuring badwill

IFRS	IFRS for SMEs	German GAAP (revised)
Immediately through profit and loss.	Similar to IFRS.	Basic principal: recognition like a liability. Release in profit and loss if: • expected unfavourable development has occurred; and • it is determined that it corresponds to a realised profit (sec. 309 subsec. 2 HGB). Further interpretation in German GAAP (GAS 4.41).

Transaction costs

IFRS	IFRS for SMEs	German GAAP (revised)
Transaction costs shall be realised immediately through profit and loss.	Costs directly attributable to the business combination shall be accounted for as acquisition costs.	Similar to IFRS for SMEs.

Contingent consideration

IFRS	IFRS for SMEs	German GAAP (revised)
Contingent consideration is recognised initially at fair value as either a financial liability or equity regardless of the probability of payment. The probability of payment is included in the fair value, which is deemed to be reliably measurable. Financial liabilities are re-measured to fair value at each reporting date. Changes in the fair value of contingent consideration that are not measurement period adjustments are recognised either in profit or loss or in other comprehensive income. Equity-classified contingent consideration is not remeasured at each reporting date; its settlement is accounted for within equity.	Contingent considerations included as part of the cost at the date of the acquisition if it is probable (that is more likely than not) that the amount will be paid and can be measured reliably. If such adjustment is not recognised at the acquisition date but becomes probable afterwards, the additional consideration adjusts the cost of the combination.	Adjustment technique: • future events shall be included in the cost of acquisition if the adjustment is probable and the amount can be measured reliably; • adjustments within a 12-month period after the acquisition date relate to assets and liabilities when indicated; • otherwise relate to goodwill or negative goodwill.

Date of initial consolidation

IFRS	IFRS for SMEs	German GAAP (revised)
Date of obtaining control.	Similar to IFRS.	Similar to IFRS.

Investment in associates

IFRS	IFRS for SMEs	German GAAP (revised)
An investment in an associate shall be accounted for using the equity method.	Measurement at amortised costs, according to equity method or fair value. Publicly traded shares of companies shall be measured at fair value.	Similar to IFRS.

Interest in jointly controlled entities

IFRS	IFRS for SMEs	German GAAP (revised)
Proportional consolidation and equity method are both permitted.	Measurement at amortised cost according to the equity method or fair value. Publicly traded shares of companies shall be measured at fair value. Proportional consolidation is not permitted.	Similar to IFRS.

Special purpose entities

IFRS	IFRS for SMEs	German GAAP (revised)
In addition to general consolidation rules: consolidation if consideration of economic circumstances demonstrates control. An indication of control is to sustain the substantial rewards, risk and the right of use. This may be applicable to a so-called “autopilot”.	Similar to IFRS.	In addition to general consolidation rules: consolidation if majority of risks and rewards remain in the parent company and special purpose entities simply serve for the achievement of clearly defined and limited goals of the parent company.

2.6 Disclosure notes

General

IFRS	IFRS for SMEs	German GAAP (revised)
Maximum disclosures required approx. 3000.	Maximum disclosures required approx. 300.	For publicly traded entities maximum disclosure approx. 270, for small and medium sized entities according to size and legal maximum required disclosure approx. 250.

Related party disclosure

IFRS	IFRS for SMEs	German GAAP (revised)
Disclosure of relationships between parents and subsidiaries, key management personnel compensation and transactions between the reporting entity and all related parties (certain companies, individuals) necessary.	Similar to IFRS, but differences in detail (e.g. the definition of related parties or the level of details of key management personnel compensation).	Disclosure of transactions with companies and individuals that were not formed at regular market conditions: • only material transactions; • no disclosure of 100% shareholding companies; • aggregation with transactions formed at regular market conditions possible; • exceptions for small and medium-sized companies (sec. 288 subsec. 1,2 HGB). Disclosure of remuneration of current and former board member.

2.7 Other issues

Segment reporting

IFRS	IFRS for SMEs	German GAAP (revised)
Compulsory for publicly traded entities.	No provision.	Voluntary in consolidated financial statements.

Earnings per share

IFRS	IFRS for SMEs	German GAAP (revised)
Entities whose ordinary shares or potential ordinary shares are traded in a public market or entities that file financial statements with a regulatory organisation for the purpose of issuing ordinary shares in the public market shall calculate and disclose earnings per share.	No provision.	No specific regulations.

Discontinued operations

IFRS	IFRS for SMEs	German GAAP (revised)
In the statement of comprehensive income the profit/loss after tax shall be presented separately with a further breakdown in the statement of comprehensive income or in the disclosure notes.	In the statement of comprehensive income the profit/loss after tax of the discontinued operation shall be presented separately.	No specific regulations.

Interim financial reporting

IFRS	IFRS for SMEs	German GAAP (revised)
If interim financial reporting is necessary in accordance with IFRS it shall be presented according to IAS 34. Minimum of interim financial report (end of the first half of financial year), interim financial statements independent for interim period are required, hence no smoothing. Either complete or condensed set of financial statements.	No provision.	According to German GAAP interim financial statements of the managing directors are required for capital market orientated entities. Condensed financial statements and condensed management report.

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