

**Work Plan for the Consideration of Incorporating  
International Financial Reporting Standards  
into the Financial Reporting System  
for U.S. Issuers**

**A Comparison of U.S. GAAP and IFRS**

**A Securities and Exchange Commission  
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This is a paper by the Staff of the U.S. Securities and Exchange Commission. The Commission has expressed no view regarding the analysis, findings, or conclusions contained herein.

## TABLE OF CONTENTS

I.	Introduction.....	1
II.	Methodology.....	2
	A.    Scope of the Analysis.....	2
	B.    MoU and Other Joint Projects.....	3
	C.    SEC Rules and Regulations.....	8
	D.    General Observations and Clarifications.....	8
III.	Comparison of Requirements.....	11
	A.    Accounting Changes and Error Corrections.....	11
	B.    Earnings Per Share.....	13
	C.    Interim Reporting.....	14
	D.    Risks and Uncertainties.....	15
	E.    Segment Reporting.....	16
	F.    Cash and Cash Equivalents.....	17
	G.    Other Investments.....	18
	H.    Inventory.....	20
	I.    Other Assets and Deferred Costs.....	21
	J.    Intangibles.....	22
	K.    Property, Plant, and Equipment.....	24
	L.    Liabilities.....	26
	M.    Asset Retirement and Environmental Obligations.....	26
	N.    Exit or Disposal Cost Obligations.....	28
	O.    Commitments.....	30
	P.    Contingencies.....	30
	Q.    Guarantees.....	31
	R.    Debt.....	32
	S.    Compensation – Excluding Share-based Payments.....	34
	T.    Stock Compensation.....	37
	U.    Other Expenses.....	39
	V.    Research and Development.....	41
	W.    Income Taxes.....	42
	X.    Business Combinations.....	44
	Y.    Foreign Currency Matters and Inflation.....	45
	Z.    Nonmonetary Transactions.....	47
	AA.   Related Party Disclosures.....	48
	BB.   Reorganizations.....	49
	CC.   Subsequent Events.....	49

## I. Introduction

In the *Commission Statement in Support of Convergence and Global Accounting Standards*,<sup>1</sup> the U.S. Securities and Exchange Commission (“SEC” or “Commission”) directed the staff of the Office of the Chief Accountant of the SEC, with consultation with other Divisions and Offices of the Commission (collectively, “Staff” or “we”), to develop and execute a work plan (“Work Plan”).<sup>2</sup> The Work Plan was published in February 2010. The purpose of the Work Plan is to consider specific areas and factors relevant to a Commission determination as to whether, when, and how the current financial reporting system for U.S. issuers should be transitioned to a system incorporating International Financial Reporting Standards (“IFRS”).<sup>3</sup>

The Work Plan is divided into six areas of focus. The first area involves an assessment of whether there is “sufficient development and application of IFRS for the U.S. domestic reporting system.” This area was designed to respond to Commission statements that, in further considering IFRS, it would need to “consider whether those accounting standards are of high quality and sufficiently comprehensive”<sup>4</sup> and that “[a] necessary element for a set of global accounting standards ... is that they must be high-quality ...”<sup>5</sup> The Commission has described high-quality standards as requiring “consistent, comparable, relevant and reliable information that is useful for investors, lenders and creditors, and others who make capital allocation decisions.”<sup>6</sup>

In the Work Plan, the Staff noted that its evaluation of the sufficient development and application of IFRS would include inventorying areas in which IFRS does not provide guidance or where it provides less guidance than U.S. GAAP. The manner in which the Staff intended to perform the inventory was further explained in the Staff’s October 2010 Progress Report<sup>7</sup> as an analysis of the text of IFRS as issued by the IASB as compared to the text of U.S. GAAP. In this paper, the Staff summarizes the results of its analysis.

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<sup>1</sup> See SEC Release No. 33-9109 (Feb. 24, 2010), Commission Statement in Support of Convergence and Global Accounting Standards (“2010 Statement”).

<sup>2</sup> The Work Plan is included as an appendix to the 2010 Statement.

<sup>3</sup> As used in this Staff Paper, the term “IFRS” refers to “IFRS as issued by the International Accounting Standards Board (‘IASB’),” unless otherwise noted. Further, the term “IFRS” refers to the authoritative text of IFRS, which, according to the IFRS Foundation Constitution, is published in English. See “International Financial Reporting Standards (IFRSs) as issued at 1 January 2010, Preface to International Financial Reporting Standards.” The “IASB” is the International Accounting Standards Board. “IFRSs” refers to more than one International Financial Reporting Standard.

<sup>4</sup> See SEC Release No. 33-8982 (Nov. 14, 2008) [73 FR 70816 (Nov. 21, 2008)], Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers.  
<sup>5</sup> 2010 Statement.

<sup>6</sup> See SEC Release No. 33-7801 (Feb. 16, 2000) [65 FR 8896 (Feb. 23, 2000)], International Accounting Standards (“2000 Concept Release”).

<sup>7</sup> See U.S. Securities and Exchange Commission, Office of the Chief Accountant and Division of Corporation Finance, Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers, Progress Report (October 29, 2010).

## II. Methodology

The Staff used a comparative approach to provide a context in which to frame its evaluation of IFRS, rather than to establish a minimum threshold of development that must be met for the incorporation of IFRS into the financial reporting system for U.S. issuers. The Staff used U.S. GAAP specifically as its reference point because: (1) it is the body of standards that currently applies to U.S. issuers and from which investors would be required to adjust their analyses of U.S. issuers' financial statements, and (2) it enables the Staff to minimize its consideration of areas in which IFRS currently has the same or similar accounting requirements as U.S. GAAP, as those IFRS requirements are presumably of sufficiently high quality.<sup>8</sup> As a result, our review was focused on identifying areas in which the requirements of IFRS and U.S. GAAP differ. This review did not include an analysis of the impact that those differences, individually or collectively, may have on the quality of IFRS.

### A. Scope of the Analysis

The Staff reviewed U.S. GAAP accounting requirements and compared those requirements to equivalent or corresponding IFRS requirements, as applicable. The Staff omitted from its review any U.S. GAAP requirements and the IFRS equivalents that are subject to the ongoing joint standard-setting efforts either through the Memorandum of Understanding (“MoU”) joint standard-setting projects (“Joint Projects”) of the FASB and the IASB (together with the FASB, the “Boards”) or other efforts by the Boards to work together, as further explained below.<sup>9</sup> Having excluded the areas of U.S. GAAP and IFRS subject to the ongoing Joint Projects, we analyzed the remaining U.S. GAAP Accounting Standards Codification (“ASC”) Topics and their corresponding or equivalent IFRS requirements.

This paper summarizes our observations at a principles level for each ASC Topic that we evaluated. We then supplement those high-level observations with more specific examples of differences between U.S. GAAP and IFRS. The differences discussed do not comprise a comprehensive population of differences. We endeavored to provide examples that we believe could have a more significant or widespread financial reporting impact. However, we are aware that differences between IFRS and U.S. GAAP will affect individual preparers and investors to different extents.

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<sup>8</sup> The Staff believes U.S. GAAP is a set of high-quality standards because the SEC currently recognizes the financial accounting and reporting standards of the Financial Accounting Standards Board (“FASB”) as generally accepted for purposes of the federal securities laws under Section 19(b) of the Securities Act. See SEC Release No. 33-8221 (April 25, 2003), Policy Statement: Reaffirming the Status of the FASB as a Designated Private-Sector Standard Setter.

<sup>9</sup> The Boards are working on (or have finalized, as noted) joint standard-setting projects related to financial instruments, revenue recognition, leases, presentation of other comprehensive income, fair value measurement (finalized in 2011), balance sheet netting of derivative and other financial instruments, financial instruments with characteristics of equity, financial statement presentation, presentation of discontinued operations, consolidation of voting interest entities, derecognition (finalized in 2010), and insurance contracts. Some of these projects are pursuant to the MoU (entered into in 2006 and subsequently updated in 2008) that sets forth the scope of the Boards' joint work program to improve and promote convergence of their accounting standards.

The ASC Topics and IFRSs within the scope of our analysis generally are those that were finalized and incorporated into the respective bodies of authoritative accounting guidance at the time of the analysis (generally, U.S. GAAP standards finalized by June 30, 2010 and IFRSs finalized by January 1, 2010). Appreciating that the Boards have continued to finalize new standards or amend existing standards since our analysis began, we have updated the sections in this paper for which the revised guidance had a more significant effect (either decreasing or increasing differences between the two sets of standards) on our comparison between U.S. GAAP and IFRS. For example, section III.G. *Other Investments* is updated to reflect the IASB's issuance of IFRS 11, *Joint Arrangements*, and IFRS 12, *Disclosure of Interests in Other Entities*, and section III.S. *Compensation – Excluding Share-based Payments* is updated to reflect the IASB's amendments to IAS 19, *Employee Benefits*.

## **B. MoU and Other Joint Projects**

The FASB and IASB jointly issued the MoU in 2006 (updated in 2008) and, in that document, identified the standard-setting projects that the Boards considered to be most in need of improvement in the near-term. The Boards agreed to develop a plan to address each of the identified projects, primarily through the development of new standards in an effort to improve the quality of both sets of standards and achieve greater convergence between U.S. GAAP and IFRS. The MoU included short-term projects, some of which have been completed or are close to completion, and longer-term projects. The results of the short-term projects, in terms of the general similarities between U.S. GAAP and IFRS, both as amended by the projects, and any significant differences not resolved by the Boards, are reflected in this paper in the relevant parts of section III. Of the longer-term projects, three are of a greater priority—financial instruments, revenue recognition and leasing—for which the Boards have yet to finalize the technical decisions. The following table provides a listing of the longer-term projects, the current status of each project, related milestones, and the extent of inclusion of the project in this paper.

Project	Status	Milestone
<p><i>Financial instruments</i></p>	<p>Various for the different project elements.</p>	<p>The financial instruments project includes the following elements: classification and measurement, impairment, hedge accounting, and balance sheet offsetting. Although the Boards continue to have the objective of issuing converged standards, project timing and the phasing of the project has differed for each Board. A summary of each Board’s activities is as follows:</p> <p>The IASB considers each element (listed above) as a separate phase. Accordingly, the Board issued IFRS 9, <i>Financial Instruments</i>, in November 2009, which contained requirements for financial assets. Requirements for financial liabilities were added to IFRS 9 in October 2010. IFRS 9 is not yet effective, but early adoption is permitted. The IASB (together with the FASB) issued a supplementary document, <i>Financial Instruments: Impairment</i>, in January 2011. The comment period closed in April 2011 and redeliberations are on-going. The IASB issued the exposure draft, <i>Hedge Accounting</i>, in December 2010. The comment period closed in March 2011 and redeliberations are on-going.</p> <p>The FASB initially scoped the financial instruments project as two phases—1) classification and measurement, impairment, and hedging and 2) balance sheet offsetting. In May 2010, the Board issued a proposed Accounting Standards Update (“ASU”), <i>Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities</i>. The comment period ended in September 2010. In January 2011, the FASB (together with the IASB) proposed a common solution for impairment accounting, Supplementary Document—<i>Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities—Impairment</i>. The comment period ended in April 2011. In February 2011, the FASB issued a Discussion Paper—Invitation to Comment—<i>Selected Issues about Hedge Accounting</i>, to solicit input on the IASB’s exposure draft in order to improve, simplify, and converge the financial reporting requirements for hedging activities. The comment period ended in April 2011. Redeliberations are ongoing for all aspects of this project.</p> <p>The balance sheet offsetting portion of the project has followed a consistent timeline for both Boards. In January 2011, the Boards jointly issued the exposure draft, <i>Balance Sheet Offsetting</i> (titled by the IASB as, <i>Offsetting Financial Assets and Financial Liabilities</i>), which proposed changes to address the differences between IFRS and U.S. GAAP. In June 2011, in the light of feedback received on the exposure draft, the Boards decided to move forward with different offsetting models. The Boards noted that users consistently asked that information be provided to help reconcile differences in the offsetting requirements between IFRS and U.S. GAAP. Therefore, the Boards decided to work on converging disclosure requirements to assist users in comparing financial statements prepared in accordance with IFRSs and US GAAP. Such deliberations are ongoing.</p> <p>Note: Because this project was an active on-going MoU project at the time of our analysis, a comparison of the existing FASB and IASB standards related to this project has been <b>excluded</b> from this paper.</p>

Project	Status	Milestone
<i>Revenue recognition</i>	Re-exposure of proposals.	<p>The Boards published a joint discussion paper, <i>Preliminary Views on Revenue Recognition in Contracts with Customers</i>, in December 2008 and a joint exposure draft, <i>Revenue from Contracts with Customers</i>, in June 2010. In June 2011, the Boards concluded that, although their due process requirements made it clear that re-exposure was not required, they would re-expose the proposals because of the special nature of revenue.</p> <p>Note: Because this project was an active on-going MoU project at the time of our analysis, a comparison of the existing FASB and IASB standards related to this project has been <b>excluded</b> from this paper.</p>
<i>Leases</i>	Redeliberation of exposure draft; re-exposure of proposals.	<p>The Boards published a joint discussion paper, <i>Leases: Preliminary Views</i>, in March 2009 and a joint exposure draft, <i>Leases</i>, in August 2010. In July 2011, the Boards agreed to re-expose the revised proposals because the decisions taken to date were sufficiently different from those published in the exposure draft to warrant re-exposure. The Boards expect to continue re-deliberations through 2011.</p> <p>Note: Because this project was an active on-going MoU project at the time of our analysis, a comparison of the existing FASB and IASB standards related to this project has been <b>excluded</b> from this paper.</p>
<i>Consolidations</i>	Ongoing (re: investment companies).	<p>The IASB issued IFRS 10, <i>Consolidated Financial Statements</i>, and IFRS 12, <i>Disclosure of Interests in Other Entities</i>, in May 2011. IFRS 12 includes disclosure requirements about off balance sheet risks. The issuance of IFRS 10 resulted in substantial convergence of IFRS with U.S. GAAP on consolidation of structured investment vehicles and other special purpose entities as well as related disclosures, although differences between IFRS 10 and ASC Topic 810, <i>Consolidation</i>, remain. The Boards continue to jointly consider issues related to the consolidation of investment companies and plan to issue converged standards in the future.</p> <p>Note: Because this project was an active on-going MoU project at the time of our analysis, a comparison of the existing FASB and IASB standards related to this project has been <b>excluded</b> from this paper.</p>
<i>Fair value measurement</i>	Completed.	<p>The FASB issued FASB Statement No. 157, <i>Fair Value Measurements</i>, (codified in ASC Topic 820, <i>Fair Value Measurements and Disclosures</i>) in 2006. The FASB has issued several ASUs in 2009-2011 (including the most recent amendment: ASU No. 2011-04, <i>Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs</i>, that was released to coincide with the IASB's issuance of IFRS 13, <i>Fair Value Measurement</i>). The IASB issued IFRS 13 in May 2011. The recent guidance issued by the Boards is converged.</p> <p>Note: Because this project was an active on-going MoU project at the time of our analysis, a comparison of the existing FASB and IASB standards related to this project has been <b>excluded</b> from this paper.</p>

Project	Status	Milestone
<i>Financial statement presentation</i>	Reassessed as a lower priority project.	<p>The Boards published a joint discussion paper, <i>Preliminary Views on Financial Statement Presentation</i>, in October 2008. After considering the 220 comment letters and the results of field tests, the FASB and IASB staff published staff drafts reflecting the Boards' tentative decisions to date. The Boards used that draft as the basis for additional outreach.</p> <p>The outreach indicated that some participants had concerns about aspects of the proposals but supported others. The Boards concluded that significant additional work would be required to develop a viable exposure draft. In the light of other priorities, the Boards decided to consider returning to the project once the other MoU projects had been completed.</p> <p>The Boards did, however, decide to align how other comprehensive income is reported. The Boards published an exposure draft, <i>Statement of Comprehensive Income</i>, in May 2010 and issued amendments in June 2011.</p> <p>Note: This project remains on the FASB/IASB technical plan; however, the project was reassessed as a lower priority project. The standards related to this project have been <b>excluded</b> from this paper.</p>
<i>Derecognition</i>	Project scope reassessed.	<p>Through separate standard setting efforts completed by the end of 2010, the Boards reduced differences between IFRS and U.S. GAAP relating to the derecognition of financial assets and liabilities and substantially aligned the related disclosure requirements.</p> <p>Note: Because this project was an active on-going MoU project at the time of our analysis, a comparison of the existing FASB and IASB standards related to this project has been <b>excluded</b> from this paper.</p>
<i>Post-employment benefits</i>	Completed.	<p>In April 2010, the IASB published an exposure draft, <i>Defined Benefit Plans</i>. The IASB finalized amendments to IAS 19, <i>Employee Benefits</i>, in June 2011.</p> <p>Note: The changes resulting from the amendments to IAS 19 have been incorporated into our analysis and included in this paper (see sections III.N. <i>Exit or Disposal Cost Obligations</i> and III.S. <i>Compensation – Excluding Share-based Payments</i>).</p>
<i>Business combinations</i>	Completed.	<p>The Boards issued joint requirements for business combination accounting and noncontrolling interests in 2008—IFRS 3, <i>Business Combinations</i>, and amended IAS 27, <i>Consolidated and Separate Financial Statements</i>, and FASB Statement No. 141 (revised), <i>Business Combinations</i>, codified in ASC Topic 805.</p> <p>Note: Because this project was finalized before our comparison analysis was performed, a comparison of the FASB and IASB standards related to this project has been included in this paper (see section III.X. <i>Business Combinations</i>).</p>

Project	Status	Milestone
<i>Financial instruments with characteristics of equity</i>	Reassessed as a lower priority project.	<p>In February 2008, the IASB published a discussion paper, <i>Financial Instruments with Characteristics of Equity</i>, to solicit input on a previously exposed FASB document. The IASB and FASB used the responses to help them develop a working draft of a proposal to replace existing guidance on these types of financial instruments, which they used to undertake focused outreach. In the light of comments received, the Boards decided to focus on other projects and not to publish an exposure draft in the near term as originally planned. The Boards will consider returning to this project at a later date.</p> <p>Note: This project remains on the FASB/IASB technical plan; however, the project was reassessed as a lower priority project. The standards related to this project have been <b>excluded</b> from this paper.</p>
<i>Intangible assets</i>	Reassessed as a lower priority project.	<p>The IASB considered an agenda proposal to add a project on intangible assets in December 2007. The IASB decided not to proceed with the project but will reconsider it when it sets its new agenda. The FASB has not added a project to its active agenda.</p> <p>Note: Because this project was not an active on-going MoU project at the time of our analysis, a comparison of the existing FASB and IASB standards related to this project has been included in this paper (see section III.J. <i>Intangibles</i>).</p>
<i>Insurance</i>	Redeliberation of exposure draft; re-exposure of proposals.	<p>The IASB published an exposure draft, <i>Insurance Contracts</i>, on July 30, 2010. The FASB published a discussion document of its own, which included alternative views, in September 2010. Most recently, the Boards have been considering together the feedback received on the IASB's exposure draft and the FASB discussion paper. The Boards are conducting targeted outreach, based on the decisions made, to a broad range of global constituents and will continue to do so on future decisions. The IASB is working to issue a review draft or revised ED by in the 1<sup>st</sup> half of 2012. The FASB will consider the feedback received on its exposure draft with a view to finalizing a standard in 2012. The Boards will then consider any differences that may have arisen and how best to address them.</p> <p>Note: Because this project was an active on-going joint project at the time of our analysis, a comparison of the existing FASB and IASB standards related to this project has been <b>excluded</b> from this paper.</p>

We are assessing the ongoing Joint Projects separate from the comparison analysis that is the subject of this paper. Our assessment of the Joint Projects includes monitoring the Boards' deliberations, reviewing exposure documents, and considering constituent comment letters, among other activities. The status of the Joint Projects and conclusions reached therein are factors, among many others, for the Commission to evaluate in its consideration of whether to incorporate IFRS into the financial reporting system for U.S. issuers.

To date, the Boards have reached substantially (if not fully) converged positions on certain of the ongoing projects (revenue recognition and leases), thereby increasing the probability that IFRS

and U.S. GAAP will be converged in these areas in the near-term. However, based on the deliberations and tentative conclusions reached thus far, it is unclear whether the Boards will be able to reach convergence on key aspects of all projects (e.g., on the various elements of the financial instruments project). Further, the Boards' reprioritization of certain Joint Projects (e.g., financial instruments with characteristics of equity) makes it unclear whether these projects would be completed in the foreseeable future and, if so, whether substantive progress towards convergence would be made before any Commission consideration of whether to incorporate IFRS into the financial reporting system for U.S. issuers. The Commission indicated in the 2010 Statement that development of high-quality standards through the Joint Projects is important, and such development is an area of focus for the Staff, regardless of any ultimate determination of whether to incorporate IFRS into the financial reporting system for U.S. issuers.

### **C. SEC Rules and Regulations**

The scope of our analysis generally did not consider SEC rules and regulations or Staff guidance, other than in the limited instances noted in the paper. The purpose of this paper is to communicate a summary of the results of our evaluation of the similarities and differences between U.S. GAAP as recognized by the FASB and IFRS as issued by the IASB, without regard to additional requirements or interpretations provided by jurisdictionally-authoritative bodies, including securities regulators. National laws and regulations affect the application of IFRS across jurisdictions and, therefore, can affect the consistent application of IFRS across companies, industries, and countries. The 2010 Statement and the Work Plan both indicate the importance of considering the application of IFRS and the consistency of its application globally; however, consistency of application is a separate analysis from that which was conducted in connection with the preparation of this paper. Furthermore, SEC rules and regulations and Staff guidance would need to be evaluated separately to determine whether any recommendation would be appropriate to modify them as a result of any Commission decision to incorporate IFRS into the U.S. financial reporting system.

### **D. General Observations and Clarifications**

In this paper, we discuss some of the detailed differences we noted in comparing the text of U.S. GAAP to that of IFRS. As described further below, we generally noted that U.S. GAAP contains more detailed, specific requirements than IFRS. In some instances, IFRS does not contain any corresponding guidance and, in others, IFRS contains higher-level or general guidance that is not directly comparable to the U.S. GAAP requirement. In other instances, IFRS contains topical guidance for which there is no corresponding guidance contained in U.S. GAAP (e.g., IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*); however, our analysis generally excludes discussion on such areas because U.S. GAAP does not have requirements against which to compare.

Our analysis allowed us to identify differences between IFRS and U.S. GAAP in terms of the existence (or absence) of guidance, but it was not informative as to the effect that the differences have or may have in practice. Some of the differences—whether in terms of the amount of guidance provided or actual language used in a standard—may not have significant practical

accounting implications or may affect some entities or industries but not result in differences in application for a larger subset of the population. Conversely, some of the differences may be of greater significance. The differences included in this paper may not necessarily be presumed to have a direct or consistent correlation to the quality of IFRS. Further, the differences (whether highlighted in this paper or not) between U.S. GAAP and IFRS are not meant to be determinative that their elimination would be necessary prior to any Commission consideration regarding the incorporation of IFRS into the U.S. financial reporting system. This paper is one component of extensive efforts, forming part of the Work Plan, to facilitate the Commission's consideration regarding incorporation of IFRS. Many areas of the Work Plan are related such that observations in one area may be influenced by observations in another area.

When reading the comparison of U.S. GAAP and IFRS in section III, we believe it is important for the reader to consider the following fundamental differences between U.S. GAAP and IFRS:

*IFRS contains broad principles to account for transactions across industries, with limited specific guidance and stated exceptions to the general guidance*

We often note in this paper that IFRS does not contain specific guidance that corresponds to a detailed U.S. GAAP requirement. However, while potentially noted as a difference in the text of the two sets of standards, the absence of specific IFRS guidance may not indicate a complete absence of guidance under IFRS. Often IFRS contains general principles for recognition, measurement and/or disclosure—either in a standard specific to that type of transaction, in a general standard such as IAS 1, *Presentation of Financial Statements*, or in the IFRS Framework—that may result in a particular transaction or activity being accounted for in a manner similar to U.S. GAAP or in a manner that differs from U.S. GAAP. Therefore, our identification of such differences is based on the fact that text exists in U.S. GAAP (perhaps providing more narrow or specific guidance for application) that does not exist in IFRS in an equally specific manner.

Many of the differences noted in this paper relate to industry- or transaction-specific guidance that exists in U.S. GAAP but not in IFRS. In many cases, the U.S. guidance was developed by one of the many legacy U.S. standard setters due to a perceived need for, or void in, guidance for a particular type of transaction. The specific guidance may have been developed to provide interpretations of pre-existing general principles of recognition or measurement that are tailored for a transaction or industry or to prevent abuse or to provide an exception to the general principles. The abundance of specific guidance in U.S. GAAP may contribute to consistency in application, for example, across entities operating in a particular industry but does not always result in comparability across industries. In contrast to historical U.S. standard setting, IFRS always has been developed by a single standard-setter (the IASB, or its predecessor, International Accounting Standards Committee) with one interpretative body. In the absence of industry- and transaction-specific guidance, preparers of IFRS financial statements follow the general principles of IFRS, which may help to promote broader consistency across industries. We believe it is important to acknowledge the specific guidance that exists in U.S. GAAP so that U.S. constituents can consider the current application of such guidance and the potential implications of any incorporation of IFRS.

We also note differences that relate to U.S. GAAP that has been developed to address certain U.S.-centric transactions or activities (e.g., accounting for rate regulated entities and certain aspects of contracts with the federal government). Although we have included examples of such differences, we have made no judgment as to the impact of such differences on the quality of IFRS. IFRS has been developed for a broad constituency without regard to jurisdiction- or regulator-specific considerations. In the absence of specific guidance, IFRS requires the application of general recognition and measurement guidance, which may result in the application of similar or significantly different recognition and measurement provisions to those applied under U.S. GAAP.

*Fundamental differences exist between the FASB and IASB conceptual frameworks*

The FASB's *Statements of Financial Accounting Concepts* ("Concepts Statements") and the IASB's *Framework for the Preparation and Presentation of Financial Statements* ("Conceptual Framework") differ with respect to the underlying concepts and the authority of the concepts in application. The Boards often are guided by the conceptual frameworks in their development of standards and in their review of existing standards and, thus, differences in the frameworks can contribute to differences in the recognition and measurement guidance incorporated at the standards level.

Prior to the development of the MoU and the onset of focused joint standard-setting efforts, the Boards understood the importance of aligning the conceptual frameworks of IFRS and U.S. GAAP. In 2004, the Boards added a joint project to their agendas to develop an improved, common conceptual framework that builds on their existing frameworks. The Boards intended to update and refine the existing concepts to reflect the changes in markets, business practices, and economic environment and use the revised concepts in the development of the Joint Projects. The Boards completed one<sup>10</sup> of eight phases of the conceptual framework project in 2010 before deferring their efforts to converge the remaining phases because of the reprioritization of the Joint Projects.

Examples of the basic differences that currently exist between the conceptual frameworks include the following:

*Level of authority* – Under IFRS, the Conceptual Framework is authoritative guidance, and the concepts are applied when there is no standard or interpretation that specifically applies to a transaction, other event, or condition. Under U.S. GAAP, the Concept Statements were not included in the ASC and, thus, are not FASB authoritative guidance. The difference in the level of authority could negatively impact comparability of the accounting for transactions under U.S. GAAP and IFRS, even if the applicable concepts within the FASB and IASB frameworks are converged. For example, the Boards have reached tentative conclusions on the general concept of a reporting entity (i.e., one would consider the boundaries of economic activities to identify the reporting entity, which may result in the identification of boundaries that are consistent or inconsistent with those of

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<sup>10</sup> The FASB issued Concepts Statement No. 8, *Conceptual Framework for Financial Reporting*, comprising Chapter 1, "The Objective of General Purpose Financial Reporting", and Chapter 3, "Qualitative Characteristics of Useful Financial Information," and the IASB issued, *Conceptual Framework for Financial Reporting 2010*.

legal entities). If final consensuses are converged, that convergence may not impact accounting under U.S. GAAP because authoritative guidance at the standards level does not refer to or incorporate the definition of a reporting entity from the Concept Statements. Conversely, the application of IFRS could be affected by such convergence in situations when explicit guidance does not exist in a particular standard (e.g., in common control transactions).

*Definition and recognition of assets and liabilities* – The Concept Statements define an asset or a liability in terms of a “probable” future event (i.e., economic benefit for an asset and economic sacrifice for a liability) with “probable” defined in a general-use context, referring to that which can be reasonably expected or believed on the basis of available evidence. IFRS does not include the concept of probability in the definition of an asset or a liability, rather considering the probability of occurrence in the recognition requirements (i.e., recognize an asset when it is probable that future economic benefits will flow to the entity; a liability when probable that an outflow will result from settlement of a present obligation), though “probable” is not defined. IFRS has an additional recognition criterion that requires an entity to be able to measure reliably the cost or value before recognition. These differences may contribute to differences between current IFRS and U.S. GAAP and the Boards’ future standard setting.

### **III. Comparison of Requirements**

Our analysis of accounting requirements is organized following the content of the ASC at a topical level, excluding ASC Topics subject to MoU projects as discussed in section II.B. Therefore, the analysis begins with ASC Topic 250, *Accounting Changes and Error Corrections*, and continues through ASC Topic 855, *Subsequent Events*. Industry-specific guidance included in ASC Topics 905 through 995 is discussed within the most applicable non-industry section and is not otherwise addressed comprehensively in this paper.

The organization of this paper is cause for a certain amount of repetition in those instances in which U.S. GAAP contains specific, transactional guidance throughout the ASC and the corresponding guidance in IFRS is located in one (or a limited number of) general, principle-based standard. To illustrate, U.S. GAAP addresses the accounting for contingencies in various ASC Topics—for example, ASC Topic 410, *Asset Retirement and Environmental Obligations*, Topic 420, *Exit or Disposal Cost Obligations*, and Topic 450, *Contingencies*—whereas the corresponding IFRS guidance for contingencies is primarily included in IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. In these instances, principle-level differences that are reflected as examples in more than one topical area may give the impression of a more pervasive level of overall difference between IFRS and U.S. GAAP than if our discussion were only at the level of differences in principles.

#### **A. Accounting Changes and Error Corrections**

IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, and ASC Topic 250, *Accounting Changes and Error Corrections*, both provide guidance on changes in accounting

principle (or policy), corrections of errors, and changes in estimates. IAS 8 provides incremental guidance (to that provided in U.S. GAAP) on the selection and application of accounting policies, including in instances for which no IFRS requirement specifically applies to the transaction, event, or condition. The more notable differences between IFRS and U.S. GAAP are described below.

*Evaluating materiality* – IFRS and U.S. GAAP both have limited guidance for evaluating materiality. IFRS guidance is limited to the definition of a material omission in IAS 8 that “omissions or misstatements of items are material if they could ... influence the economic decisions that users make ....” ASC Topic 250 indicates that the assessment of an error shall be related to the estimated income for the full fiscal year and also to the trend on earnings but does not otherwise provide materiality guidance. The Staff has observed that, in the absence of guidance from the Boards, some regulators (e.g., the SEC staff<sup>11</sup> and some foreign regulators) have established their own guidance on evaluating materiality.

*Correction of errors* – Under IFRS, an entity is required to correct for material prior period errors retrospectively in the first set of financial statements authorized for issuance after discovery of the error (without requiring revision and reissuance of previously issued financial statements). U.S. GAAP requires prior period financial statements previously issued to be revised and reissued to correct for the error.

*Impracticability exception* – IFRS provides an impracticability exception to full retrospective correction of prior period errors in the following circumstances: if the *period-specific effects* of the error are impracticable to determine, then the opening balance sheet for the earliest period for which retrospective restatement is practicable is restated; if the *cumulative effects* of the error are impracticable to determine, then the comparative information is restated prospectively from the earliest date practicable. U.S. GAAP requires the quantification and restatement of material errors without exception.

*Retrospective presentation of statement of financial position* – Under IFRS, if an entity applies an accounting policy retrospectively or makes a retrospective restatement of items, three years of statements of financial position are required to be presented. U.S. GAAP has no similar requirement.

U.S. GAAP provides guidance for certain aspects of accounting changes or error corrections for which corresponding guidance is not provided under IFRS. Examples of such guidance include:

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<sup>11</sup> See, e.g., Staff Accounting Bulletin (“SAB”) Topic 1M, *Materiality*. In discussing the concept of “materiality,” the Staff guidance quotes FASB Concept Statement 2 as follows: “the omission or misstatement of an item in a financial report is material if, in the light of surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item,” and notes it is consistent with the Supreme Court decisions in *TSC Industries v. Northway, Inc.*, 426 U.S. 438, 449 (1976) and *Basic, Inc. v. Levinson*, 485 U.S. 224 (1988) that a fact is material if there is “a substantial likelihood that the ... fact would have been viewed by a reasonable investor as having significantly altered the ‘total mix’ of information made available.” SAB Topic 1M also addresses “rules of thumb,” factors to consider in evaluating a quantitatively small misstatement, aggregation and netting of misstatements, intentional immaterial misstatements, and effects of prior year (immaterial) misstatements when quantifying misstatements in the current year.

*Indirect effects* – U.S. GAAP specifies that retrospective application only includes the direct effect of a change in accounting principle, not indirect effects (i.e., any change to current or future cash flow as a result of the change, for example, change to a profit sharing plan). Indirect effects that are incurred are reported in the period of accounting change.

*Change in reporting entity* – U.S. GAAP specifies the circumstances in which a change in reporting entity occurs (i.e., an accounting change that results in the financial statements, in effect, of another entity) and requires that consequent changes are applied retrospectively to the financial statements of all prior periods presented.

*Disclosure requirements* – U.S. GAAP requires certain disclosures for accounting changes that are not required by IFRS, including: (1) a description of the indirect effects (which are not adjusted for under U.S. GAAP), including disclosures about current period and cumulative amounts and related per share effects; and (2) interim disclosures after the date of adoption that describe the impact of the change on income from continuing operations, net income, and related per share amounts.

## **B. Earnings Per Share**

IAS 33 and ASC Topic 260, both titled *Earnings Per Share*, contain generally similar requirements for calculating earnings per share (“EPS”). Both standards require the calculation of basic and diluted EPS for entities with publicly-traded shares (with an exception provided in U.S. GAAP for investment companies that follow separate requirements). Despite the similarities in principles between the standards, differences exist in the detailed requirements. Further, differences in the classification of financial instruments as debt or equity under IFRS and U.S. GAAP may limit the comparability between IFRS and U.S. GAAP reporting entities with similar capital structures that employ certain instruments. The more notable differences between IAS 33 and ASC Topic 260 include the following:

*Diluted EPS year-to-date period shares calculation* – IFRS requires dilutive potential ordinary shares to be determined independently for each period presented. The number of dilutive potential ordinary shares included in the year-to-date period is not a weighted average of the dilutive potential ordinary shares included in each interim computation, which is the case under U.S. GAAP.

*Instruments with multiple settlement alternatives* – For contracts that are permitted to be settled in either common stock or cash at the entity’s option, IAS 33 contains a presumption that the contract will be settled in ordinary shares if the effect is dilutive, and such presumption cannot be overcome. Under ASC Topic 260, a similar presumption exists if the effect is dilutive; however, the presumption can be overcome if an entity has an existing practice or stated policy that provides a reasonable basis to conclude that the contract will be settled partially or wholly in cash.

*Convertible instruments and two-class method* – Under ASC Topic 260, instruments that contain embedded conversion features that are contingently convertible or exercisable on the

basis of a market price trigger are included in diluted EPS (if dilutive) regardless of whether the market price trigger has been met. IFRS does not provide specific guidance for these types of instruments. IAS 33 requires that contingently issuable ordinary shares are treated as outstanding and included in the calculation of diluted EPS only if the conditions are satisfied (i.e., the contingent events have occurred).

For mandatorily convertible instruments, IAS 33 requires the ordinary shares that will be issued upon conversion to be considered outstanding in the basic EPS calculation from the date on which the contract is entered. Under ASC Topic 260, these mandatorily convertible instruments are not specifically addressed; however, an entity should consider whether or not the contract is considered participating<sup>12</sup> and, if so, apply the two-class method.<sup>13</sup>

Finally, IAS 33 requires application of the two-class method only to participating securities that are classified as equity. The two-class method is not required for participating debt instruments (e.g., participating convertible debt). Under ASC Topic 260, the two-class method applies to instruments that are participating, regardless of legal form or classification.

*Tax effect on application of treasury stock method* – Under the treasury stock method in U.S. GAAP, assumed proceeds include the excess tax effects, if any, that would be credited to additional paid-in capital assuming exercise of the options. The inclusion of tax effects in assumed proceeds is not addressed in IFRS.

*Presentation of cash flow per share* – U.S. GAAP specifically prohibits the presentation of cash flow per share, or similar information, in the financial statements. IFRS does not have a similar restriction.

### **C. Interim Reporting**

IAS 34, *Interim Financial Reporting*, and ASC Topic 270, *Interim Reporting*, have similar objectives for interim reporting: to prescribe the form and content of interim financial statements and to provide recognition and measurement guidance for interim periods. Neither IFRS nor U.S. GAAP requires interim reporting; however, both provide guidance in situations when interim reporting is required (e.g., by a securities regulator) or when an entity elects to report on an interim basis. Both IFRS and U.S. GAAP generally require interim reporting to be based on the same accounting principles as are used to prepare annual financial statements; however, each provides different detailed guidance. Conceptually, IFRS tends to consider interim periods as discrete accounting periods, while U.S. GAAP generally considers interim periods as a component of an annual period.

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<sup>12</sup> U.S. GAAP defines a participating security (in ASC Section 260-10-20) as: “A security that may participate in undistributed earnings with common stock, whether that participation is conditioned upon the occurrence of a specified event or not. The form of such participation does not have to be a dividend—that is, any form of participation in undistributed earnings would constitute participation by that security, regardless of whether the payment to the security holder was referred to as a dividend.”

<sup>13</sup> U.S. GAAP describes the two-class method (in ASC paragraph 260-10-45-60) as: “an earnings allocation formula that treats a participating security as having rights to earnings that otherwise would have been available to common shareholders but does not require the presentation of basic and diluted EPS for securities other than common stock.”

Examples of the detailed differences between IFRS and U.S. GAAP include the following:

*Allocation of costs* – Under U.S. GAAP, certain costs that benefit more than one interim period may be allocated to those respective interim periods. For example, advertising costs maybe deferred and allocated within a fiscal year if the costs benefit more than one interim period. Under IFRS, the expense would be recognized entirely in the period incurred.

*Materiality determination for correction of an error* – Under IFRS, the assessment of materiality for correction of an error is performed in relation to the interim period financial data. Under U.S. GAAP, the same assessment is performed in relation to the estimated income for the entire fiscal year and to the effect on the trend of earnings. Further, under U.S. GAAP, correction of errors that are material to the interim period but not to the estimated income for the entire fiscal year or on earnings trends shall be separately disclosed in the interim period. As noted above, the SEC staff and some foreign regulators have established their own guidance for determining materiality.

*Fourth quarter activity* – IFRS generally requires that the nature and amount of a change in estimate are disclosed in a note to the annual financial statements, if a separate financial report related to fourth quarter activity is not published for the fourth quarter. U.S. GAAP is more explicit about the types of transactions that require specific disclosure related to fourth quarter activity. Specifically, in the absence of a separate fourth quarter report or disclosure of fourth quarter results in the annual report, ASC Topic 270 requires disclosure in a note to the annual financial statements of fourth quarter activity related to any change in accounting principle, disposals of components of an entity, and extraordinary, unusual, or infrequently occurring items recognized in the fourth quarter, as well as the aggregate effect of year-end adjustments that are material to the results of the fourth quarter.

Additionally, U.S. GAAP has certain explicit interim disclosure requirements, many of which are related to the valuation of financial assets and derivatives (e.g., information about the fair value of financial instruments, other-than-temporary impairments, and credit quality of financing receivables). IFRS does not contain the same explicit requirements but instead contains disclosure objectives and illustrative examples relating to specific events and transactions.

Further, IAS 34 contains requirements for the form and content of interim financial reports, for which corresponding requirements do not exist in U.S. GAAP. These requirements generally are addressed for U.S. issuers by certain SEC regulations, although differences exist between IFRS and the SEC regulations.

#### **D. Risks and Uncertainties**

IAS 1, *Presentation of Financial Statements*, and ASC Topic 275, *Risks and Uncertainties*, address the disclosure of certain risks and uncertainties. Although generally similar in principle, U.S. GAAP includes specific disclosure requirements that are not explicitly required in IFRS. Therefore, disclosures provided under IFRS and U.S. GAAP may differ depending on the nature

of the risks and uncertainties associated with the underlying transaction. The requirements for risks and uncertainties differ between IFRS and U.S. GAAP in the following aspects:

*Vulnerabilities due to certain concentrations* – U.S. GAAP requires disclosure of exposure to certain concentrations (e.g., individual customers, supply sources, or geographical areas) if the concentration exists at the date of the financial statements, the concentration makes the entity vulnerable to the risk of a near-term severe impact, and it is at least reasonably possible the events that could cause the severe impact will occur in the near term. Additional disclosure of labor subject to collective bargaining agreements is also required. IFRS contains no similar specific disclosure requirement, although this information may be viewed as an appropriate disclosure under IFRS as part of the segment disclosure requirements or to satisfy the general requirements of IAS 1.

*Estimates and uncertainties* – U.S. GAAP requires discussion of estimates when it is reasonably possible that the estimate will change materially in the next year. Disclosures should include an estimate of the effect of a change in a condition, situation, or set of circumstances that existed at the date of the financial statements and an indication that it is at least reasonably possible that a change in the estimate will occur in the near term. Disclosure of factors that cause the estimate to be sensitive to change is encouraged but not required.

IAS 1 requires disclosure of information about key assumptions concerning the future—and other key sources of estimation uncertainty at the balance sheet date—that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Disclosures shall include the nature of the assets and liabilities; the carrying amounts of those assets and liabilities; sensitivity to methods, assumptions, and estimates underlying the calculation of those assets and liabilities; expected resolution and the range of reasonably possible outcomes; and an explanation of changes made to past assumptions.

## **E. Segment Reporting**

IFRS 8, *Operating Segments*, and ASC Topic 280, *Segment Reporting*, both require disclosures that are intended to provide information about the activities of an entity based on how management organizes the entity for making operating decisions and assessing performance. IFRS 8 resulted from an IASB project to converge segment reporting requirements under IFRS with U.S. GAAP. Therefore, the majority of the disclosure requirements are consistent between IFRS and U.S. GAAP. In some cases, U.S. GAAP includes explicit guidance, while IFRS provides a core disclosure principle without providing specific guidance. These areas include the following:

*Matrix form of organizational structure* – a matrix form of organizational structure is one in which managers are held responsible for two or more overlapping sets of components of an entity (e.g., certain managers are responsible for different product and service lines worldwide, while other managers are responsible for specific geographic areas). In these situations, IFRS 8 requires entities to determine which set of components constitutes the entity's operating segments by reference to the core principle (i.e., which disaggregation of

information—in this example, product and service lines or geographical—would enable investors to evaluate the nature and financial effects of the business activities in which the entity engages and the economic environments in which it operates). U.S. GAAP requires that an entity with a matrix form of organizational structure determine its operating segments using the components that are based on the products and services, rather than using geographical components or other bases.

*Determination of an operating segment* – Unlike U.S. GAAP, IFRS does not provide specific guidance for determining operating segments in certain circumstances (e.g., for equity method investees, certain corporate divisions, and divisions that do not have assets allocated for internal reporting purposes).

*Aggregation of operating segments* – IFRS does not provide application guidance to justify the aggregation of operating segments on a quantitative basis other than as specified in the standard (i.e., based on similar long-term gross margins). U.S. GAAP provides other quantitative considerations in implementation guidance and illustrations with respect to the aggregation of operating segments.

## **F. Cash and Cash Equivalents**

Cash and cash equivalents are addressed under IFRS in IAS 7, *Statement of Cash Flows*, and under U.S. GAAP in ASC Topic 305, *Cash and Cash Equivalents*. Both standards contain similar principles that govern the accounting for cash and cash equivalents and both define cash equivalents similarly. Therefore, certain requirements, including that cash equivalent instruments be of short-duration, highly liquid, and readily convertible to cash, are consistent between IFRS and U.S. GAAP. However, IAS 7 articulates certain requirements in a less prescriptive manner than ASC Topic 305. As a result, certain types of instruments, such as money market funds, may be determined not to qualify as cash equivalents under IFRS, and certain investments with maturities greater than three months may be determined to qualify as cash equivalents under IFRS.

IAS 7 also provides guidance to the effect that cash equivalents are “held for the purpose of meeting short-term cash commitments rather than for investment or other purposes,” which could result in identical instruments being classified differently between entities based upon different cash management and investment strategies. U.S. GAAP does not provide similar guidance. There is also a difference between IFRS and U.S. GAAP in accounting for bank overdrafts. Under IFRS, bank overdrafts are permitted to be included in cash and cash equivalents if the overdraft balance is part of an integrated cash management strategy. Under U.S. GAAP, a net overdraft position with a financial institution is treated similar to a short-term loan and presented as a liability on the balance sheet (and, frequently, as a financing cash flow on the statement of cash flows).

## G. Other Investments

IFRS 11, *Joint Arrangements*, and IAS 28, *Investments in Associates and Joint Ventures*, address the accounting for investments in entities that are not required to be consolidated and over which significant influence has been established, including joint ventures and joint operations. U.S. GAAP addresses similar investments in ASC Topic 323, *Investments—Equity Method and Joint Ventures*. The scope of the guidance and the general requirements for equity method accounting are similar in IFRS and U.S. GAAP. Under IFRS, investees over which an entity has significant influence are referred to as “associates,” which is similar in concept to an “equity method investee” under U.S. GAAP. Both IFRS and U.S. GAAP include a rebuttable presumption that significant influence exists when a 20% voting interest is owned. Despite the similarities, differences exist between the standards, as further discussed below.

The accounting for joint ventures under U.S. GAAP and IFRS has historically been substantially different. ASC Topic 323 generally requires equity method accounting for an investment in an entity that qualifies as a joint venture. Further, certain U.S. GAAP industry guidance permits the use of proportional consolidation. IFRS 11 defines two types of joint arrangements—joint ventures and joint operations. Joint ventures are required to apply equity method of accounting (except mutual funds, venture capital organizations, etc. with investments in associates that have the option to elect fair value). Joint operations are required to apply proportionate consolidation (in which an investor (referred to as a “venturer”) recognizes its proportion of the investee’s individual assets and liabilities in the investor’s respective financial statement line items). The previous IFRS guidance permitted the use of proportional consolidation more broadly and contained additional differences that have been eliminated with the recent issuance of IFRS 11 and amendments to IAS 28.

The potentially more significant differences between IFRS and U.S. GAAP with respect to equity method investment or joint venture accounting that remain subsequent to the issuance of IFRS 11 and the amendments to IAS 28 include the following:

*Scope of investments accounted for under equity method* – IAS 28 excludes from its scope venture capital organizations and mutual funds, unit trusts, and other similar entities when those investments are accounted for at fair value through profit or loss (in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*, and IFRS 9, *Financial Instruments*).<sup>14</sup> Similarly, ASC Topic 323 excludes from its scope the accounting for common stock held by investment companies registered under the Investment Company Act of 1940 (or those that would meet this definition except that the number of stockholders is limited and the securities are not offered publicly) and nonbusiness entities (e.g., an estate, trust, or individual). Although the exclusions under IFRS and U.S. GAAP are similar, a venture capital organization is not defined in IFRS, which may result in diverse accounting by similar entities.

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<sup>14</sup> IAS 31 excludes these same types of entities (i.e., venture capital organizations and mutual funds, unit trusts, and other similar entities when those investments are accounted for at fair value through profit or loss) from its scope.

*Differences in reporting periods* – IFRS requires an investor to use the most recent financial statements of an associate in applying the equity method. These financial statements should be prepared using the same reporting period as the financial statements prepared by the investor, unless it is impracticable to do so, in which case the difference between the end of the reporting period of the investor and associate should be no longer than three months and be consistent from period to period. If any significant events occur between the date of the associate’s financial statements and the date of the investor’s financial statements, adjustments are required for the investor to capture these events. U.S. GAAP is similar to IFRS except that U.S. GAAP allows for differences in the reporting periods of the investor and investee without applying an “impracticability” threshold; does not explicitly limit the difference between the investor and investee reporting period;<sup>15</sup> and requires disclosure of (rather than adjustment for) any significant events that occur between the date of the investee’s financial statements and the date of the investor’s financial statements.

*Differences in investor/investee accounting policies* – Under IFRS, an investor’s financial statements are required to be prepared using uniform accounting policies, inclusive of associates. Therefore, if an associate applies different accounting policies than the investor, the investor is required to record adjustments to conform the policies in applying the equity method. U.S. GAAP requires an equity method investee to use a GAAP-compliant policy in order for the investor to apply the equity method without adjustment but does not require conformity in the principles of the investor and the investee (e.g., the last-in-first-out inventory costing accounting method can be used by an investee even if the consolidated entity applies a first-in-first-out costing accounting method).

*Determination of significant influence* – IAS 28 and ASC Topic 323 both require an investor to determine if it has “significant influence” over an investee to determine whether the application of the equity method of accounting is appropriate. However, the following differences arise between the standards in evaluating the level of influence:

- Potential voting shares: IAS 28 explicitly requires an investor to consider potential voting rights that are currently exercisable or convertible, including those held by the investor and by other investors in the associate in determining significant influence. ASC Topic 323 precludes any consideration of potential voting shares in the determination of the voting interest percentage in an investee.
- In-substance common stock: IAS 28 does not have explicit requirements that an investor analyze its non-common stock investments in an investee to determine if it is “in-substance” common stock. ASC Topic 323 requires such an analysis and requires the analysis to include consideration of subordination, risks and rewards of ownership, and any obligation to transfer value. Ultimately, if in-substance common stock

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<sup>15</sup> ASC paragraph 323-10-35-6 provides that “if financial statements of an investee are not sufficiently timely for an investor to apply the equity method currently, the investor ordinarily should record its share of the earnings or losses of an investee from the most recent available financial statements.” ASC Topic 323 does not provide specific guidance as to the maximum permissible time lag. However, practice has generally evolved such that entities reference the guidance in Rule 3A-02(b) of Regulation S-X with respect to consolidated subsidiaries, which permits a lag of no more than 93 days.

requirements have not been met, the investment may be recorded at cost under ASC Topic 323 or accounted for as a debt or equity security under ASC Topic 320, *Investments – Debt and Equity Securities*.

*Increase in level of ownership or degree of influence* – U.S. GAAP requires that an investor in the common stock of an investee retrospectively apply the equity method of accounting when it increases its existing investment in the common stock and consequently obtains significant influence over that investee. IFRS generally requires entities to apply the equity method prospectively from the time at which the investee is considered an associate (i.e., the investor obtains significant influence).

*Loss of significant influence* – Under IAS 28, when an investment ceases to be an associate (upon loss of significant influence and discontinuation of the equity method), it is accounted for under IFRS 9, and the fair value of the investment is considered the fair value of the financial asset on initial recognition. ASC Topic 323 requires that the carrying amount of the remaining investment be unchanged. If the investor loses significant influence through sale of a portion of its investment, a gain or loss is recognized in an amount representing the difference between the carrying amount of the investment and the selling price. However, if the investment is an equity security within the scope of ASC Topic 320, it may be required to be accounted for subsequently at fair value. The same inconsistencies between IFRS and U.S. GAAP generally apply to accounting for loss of joint control of joint ventures.

*Recognition of additional losses in investees* – ASC Topic 323 requires that investors making additional investments in equity method investees with unrecognized losses (i.e., losses for which recognition was suspended due to lack of investment basis) consider whether the additional investment is the funding of previously incurred losses and, if so, recognize the previously suspended losses. ASC Topic 323 contains a number of indicators to aid investors in their assessment of the additional investment. ASC Topic 323 also requires that additional losses are recognized when an imminent return to profitability is expected.

IAS 28 does not contain explicit guidance on the recognition of additional investments in an associate when unrecognized losses exist or losses when a return to profitability is imminent. IAS 28 contains a general requirement that an investor recognize a liability (i.e., additional losses) to the extent that the investor has incurred legal or constructive obligations or made a payment on behalf of the associate.

## **H. Inventory**

IAS 2, *Inventories*, and ASC Topic 330, *Inventory*, both generally require that inventories initially are recorded at cost and subsequently are tested for impairment by reference to a market-based value. However, neither standard includes comprehensive, detailed requirements regarding the amounts to be included in the cost of inventory.

The most significant differences arise in the areas of allowable valuation methodologies, calculation of impairment and recognition of impairment reversals, and the accounting for

inventories resulting from agricultural activities. Examples of specific differences between IFRS and U.S. GAAP include the following:

- IFRS permits the use of first-in, first-out or weighted average cost inventory valuation methodologies; U.S. GAAP permits the same methodologies as IFRS. U.S. GAAP also permits the use of the last-in, first-out (LIFO) method, which IFRS does not permit.
- IFRS requires that an entity “use the same formula for all inventories having a similar nature and use to the entity;”<sup>16</sup> U.S. GAAP does not contain such a restriction.
- IFRS requires that inventory is carried at the lower of cost or net realizable value; U.S. GAAP requires that inventory is carried at the lower of cost or market (with market defined as current replacement cost, provided market is not greater than net realizable value and is not less than net realizable value reduced by a normal sales margin). Accordingly, required write-downs may be for different amounts under U.S. GAAP compared to IFRS.
- IFRS requires reversal of inventory impairments in the period in which an impairment condition reverses (with the reversal limited to the amount of the original write-down); U.S. GAAP precludes a reversal of previous inventory write-downs (unless the recovery of inventory occurs within the same annual reporting period in which the write-down occurred).
- IFRS generally requires pre-harvest inventories of agricultural producers (e.g., growing crops and production animals) to be measured at fair value less selling costs; U.S. GAAP generally requires those inventories to be valued at cost unless certain criteria are met.

## **I. Other Assets and Deferred Costs**

ASC Topic 340, *Other Assets and Deferred Costs*, addresses the accounting for and reporting of certain assets and costs that are not addressed in other ASC Topics, including capitalized advertising costs (specifically allowing for the capitalization of direct-response advertising) and software to be sold.

IFRS has no specific standard on these subjects; however, generally similar requirements are included in broader standards under IFRS (e.g., the asset guidance contained in IAS 38, *Intangible Assets*, generally would be applicable to the accounting for software to be sold and advertising costs). The accounting for direct-response advertising differs between IFRS and U.S. GAAP because IAS 38 requires expenditures on advertising costs to be expensed as incurred (unless payments are made in advance of the entity receiving a right to access the goods or services and thus can record an asset for the prepayment amount) and does not provide any exception to allow for the capitalization of direct-response advertising as provided in U.S. GAAP.

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<sup>16</sup> See IAS 2 paragraph 25.

Further, U.S. GAAP provides industry-specific guidance in certain areas including the following:

- Rate-regulated operations
- Capitalization and amortization of costs incurred to produce and distribute films for film production and distribution entities
- Costs of issuing certain Government National Mortgage Association securities
- Other assets and deferred costs for health care entities
- Other assets and deferred costs in connection with real estate projects
- Real estate time-sharing deferred cost recognition

## **J. Intangibles**

IAS 38, *Intangible Assets*, and ASC Topic 350, *Intangibles—Goodwill and Other*, address the accounting for intangible assets, unless the intangible asset is subject to the scope of a different standard. Both IFRS and U.S. GAAP require initial capitalization of acquired intangibles and preclude the recognition of most internally-generated intangibles.<sup>17</sup>

Under IFRS, for capitalized acquired intangibles, an entity must make an accounting policy election to use either the cost model or the revaluation model for subsequent measurement. Under the cost model, intangible assets are recorded at historical cost less accumulated amortization (for finite-lived intangibles) and impairment losses. Under the revaluation model, intangible assets are accounted for at a revalued amount, which is the fair value of the asset at the date of revaluation less any subsequent accumulated amortization and impairment losses. The criteria for applying the revaluation model are restrictive (fair value needs to be determined by reference to an “active market,” as defined in IAS 38, and the revaluation must be kept sufficiently up-to-date so that “the carrying amount of the asset does not differ materially from its fair value”). Given these restrictions, we understand that application of the revaluation model is limited in practice. Under U.S. GAAP, the cost model is required to be applied to all intangible assets within the scope of ASC Topic 350; the revaluation model is not permitted.

Both IFRS and U.S. GAAP require the performance of impairment tests when there is an indicator of impairment, though the methodologies differ. ASC Topic 350 contains guidance for testing for impairment of indefinite-lived intangible assets and goodwill. Finite-lived intangible assets are subject to the impairment model prescribed in ASC Topic 360, *Property, Plant and Equipment*. IAS 36, *Impairment of Assets*, contains impairment guidance for most intangible assets, except for impairments of specific types of assets (e.g., deferred tax assets, assets arising from employee benefits, intangible assets arising from insurance contracts) that are addressed in other standards. Certain differences between IAS 36 and ASC Topic 350 are described in the remainder of this subsection.

Under IFRS, goodwill is allocated to cash-generating units for purposes of performing impairment testing. Cash-generating units are the smallest groups of assets that generate cash inflows that are largely independent from those of other assets or groups of assets (i.e., a bottom-

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<sup>17</sup> See section III.V. *Research and Development* for a discussion of research or development costs requiring capitalization under IFRS or U.S. GAAP.

up approach). A cash-generating unit is not to be larger than an operating segment. Under U.S. GAAP, goodwill is allocated to reporting units. A reporting unit is an operating segment or a component thereof (i.e., a top-down approach), and components with similar economic characteristics are aggregated.

Further, the goodwill impairment testing methodologies differ between IFRS and U.S. GAAP. Under IAS 36, a one-step impairment test is applied, in which the carrying amount of the cash generating unit (or group thereof), including goodwill, is compared to its recoverable amount (which is the higher of (1) fair value less costs to sell and (2) “value in use”<sup>18</sup>). Any impairment loss is allocated first to reduce goodwill, until goodwill is reduced to zero, and then to reduce other assets in the unit on a pro-rata basis, subject to certain limitations.

ASC Topic 350 contains a two-step goodwill impairment test. The fair value of the reporting unit initially is compared to its carrying amount. If the carrying amount exceeds fair value, the goodwill impairment loss is the amount by which the carrying amount exceeds the implied fair value of the goodwill, determined by assigning the fair value of the reporting unit to all of its assets and liabilities (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination. The amount of the impairment loss is limited to the carrying amount of goodwill. ASC Topic 350 provides guidance on determining the fair value of the reporting unit and on whether the fair value should be based on a sale in a taxable or nontaxable transaction.

U.S. GAAP provides different impairment models for finite-lived and indefinite-lived intangible assets. For finite-lived intangible assets, reference is made to the impairment model contained in ASC Topic 360, which follows a two-step approach. In the first step, entities are required to perform a recoverability test by comparing the expected undiscounted future cash flows to be derived from the asset with its carrying amount. If the asset fails the recoverability test, the second step is triggered, under which the entity must record an impairment loss calculated as the excess of the asset’s carrying amount over its fair value. ASC Topic 350 provides separate impairment guidance for indefinite-lived intangible assets. For such assets, an impairment test is performed by comparing the fair value of the asset with its carrying amount. An impairment loss is recognized in an amount equal to the excess of the carrying amount above the fair value. IAS 36 requires that, for both finite-lived and indefinite-lived intangible assets, an impairment loss is calculated as the excess of the asset’s carrying amount over its recoverable amount. The recoverable amount is the higher of the asset’s (1) fair value less costs to sell and (2) value in use.

Under IFRS, intangible assets, other than goodwill, must be reviewed for any indication that a previously recognized impairment loss no longer exists or has decreased. If an impairment loss has decreased, it should be reversed up to the newly estimated recoverable amount, not to exceed the initial carrying amount adjusted for amortization. Under U.S. GAAP, reversal of impairment losses is prohibited.

U.S. GAAP includes more detailed guidance for accounting for intangible assets than IFRS in several areas. For example, U.S. GAAP contains more prescriptive requirements than IFRS for

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<sup>18</sup> See IAS 36 paragraph 6. “Value in use” is defined as “the present value of the future cash flows expected to be derived from an asset or cash-generating unit.”

the amortization of amounts capitalized relating to computer software. Further, ASC Topic 350 requires that a defensive intangible asset is accounted for as a separate unit of accounting and states that it would be rare for such an asset to have an indefinite life. IFRS does not contain corresponding guidance.

U.S. GAAP also includes guidance specific to certain industries and transactions, including:

- Rate-regulated operations
- Internal use software
- Take-off and landing slots
- Accounting and reporting by a broadcaster licensee for the rights acquired under a license agreement for program material
- Costs incurred by entities in the cable television industry, such as programming costs and franchise application costs
- Accounting for title plant

## **K. Property, Plant, and Equipment**

IAS 16 and ASC Topic 360, both titled *Property, Plant and Equipment*, require initial capitalization of property, plant, and equipment (“PP&E”) at an amount based on cost and generally require subsequent depreciation of the capitalized asset. Both IFRS and U.S. GAAP require the performance of impairment tests when there is an indicator of impairment. In addition, some of the definitions in U.S. GAAP and IFRS are different (e.g., residual value and salvage value).

While there is general consistency between the principles of IFRS and U.S. GAAP, several differences exist in the respective detailed guidance. Examples of some of the potentially more significant differences include:

*Asset depreciation* – IAS 16 requires that each part of an item of PP&E with a cost that is significant in relation to the total cost of the item shall be depreciated separately (i.e., as if each part was a separate asset). Under U.S. GAAP, an item of PP&E with multiple parts is generally depreciated over a useful life attributed to the item as a whole, regardless of the significance of the cost of the individual parts in relation to the total asset. While an entity applying U.S. GAAP may be permitted to calculate depreciation in a manner similar to the method required under IFRS, such an approach is not explicitly required.

*Remeasurement of residual value of PP&E* – Under IFRS, if expectations of the residual value of an asset differ from what was previously estimated, the change in residual value is accounted for prospectively as a change in estimate, whether the change in residual value is upward or downward. Under U.S. GAAP, there is no explicit guidance on this issue. However, the Staff has noted that practice appears to have developed such that a change in residual value generally is recorded only if the residual value has decreased (which would result in an increase in depreciation expense in future periods because of a corresponding increase in the depreciable amount of the asset).

*Option for revaluation* – After initial recognition, IAS 16 permits two measurement alternatives: at cost less accumulated depreciation; or, if fair value can be measured reliably, at a revalued amount that equals its fair value at the date of the revaluation less any subsequent accumulated depreciation. An entity must make an accounting policy choice to use either the cost model (that would be consistent with U.S. GAAP) or the revaluation model to measure each class of PP&E. The accounting policy that is selected must be applied to the entire class of PP&E. U.S. GAAP does not permit use of a revaluation model.

*Impairment* – IAS 36, *Impairment of Assets*, requires that an impairment loss is calculated as the excess of the asset's carrying amount over its recoverable amount. The recoverable amount is the higher of the asset's (1) fair value less costs to sell and (2) value in use. U.S. GAAP requires that entities use a two-step approach to measure impairment. In the first step, entities are required to perform a recoverability test by comparing the expected undiscounted future cash flows to be derived from the asset with its carrying amount. If the asset fails the recoverability test, the second step is triggered, under which the entity must record an impairment loss calculated as the excess of the asset's carrying amount over its fair value.

*Impairment reversals* – Under IFRS, long-lived assets (other than goodwill) must be reviewed for any indication that a previously recognized impairment loss no longer exists or has decreased. If an impairment loss has decreased, the impairment loss should be reversed up to the newly estimated recoverable amount, not to exceed the initial carrying amount adjusted for depreciation. Under U.S. GAAP, reversal of impairment losses is prohibited for all long-lived assets held and used.

IAS 40, *Investment Property*, represents an area of IFRS that could result in differences from U.S. GAAP depending on the accounting policy election made by preparers. Pursuant to IAS 40, an entity needs to make an election to adopt either the fair value model or the cost model to account for investment property.<sup>19</sup> With limited exceptions, the policy that is elected must be applied to all investment property. Under the fair value model, the gain or loss due to a change in the fair value of the investment property is recognized in profit or loss. Under the cost model, investment property is measured at historical cost less accumulated depreciation and any accumulated impairment losses, and the fair value is required to be disclosed. U.S. GAAP only allows for the cost model, unless the entity meets the criteria of an investment company and thus measures its assets at fair value.<sup>20</sup>

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<sup>19</sup> IAS 40 defines investment property as “property (land or a building—or part of a building—or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for: (a) use in the production or supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business.”

<sup>20</sup> The FASB currently has a standard setting project that was initiated to obtain convergence in this area. However, if the FASB's project were finalized consistent with deliberations to date, differences would remain between IAS 40 and U.S. GAAP, including, for example, the definition of an investment property.

U.S. GAAP also provides specific guidance for the following industries and activities:

- Rate-regulated activities<sup>21</sup>
- Oil and gas<sup>22</sup>
- Real estate
- Plant and equipment held for investment purposes by health care entities
- Insurance entities
- Mining
- Cable television industry
- Airlines

#### **L. Liabilities**

ASC Topic 405, *Liabilities*,<sup>23</sup> (in ASC Subtopic 405-20) and IAS 39, *Financial Instruments: Recognition and Measurement*, and IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*, provide broadly consistent accounting guidance for the extinguishment of liabilities. Generally, extinguishment occurs upon settlement of or release from an obligation by, for example, delivery of cash, goods, services, or other assets, or by legal release by the creditor. In addition to providing general guidance, ASC Subtopic 405-20 contains application guidance for the extinguishment of liabilities for the following circumstances: in-substance defeasance transactions, transfers of noncash financial assets in settlement of a creditor's receivable, and extinguishment via legal defeasance. IAS 39 contains less or no corresponding application guidance in these areas.

#### **M. Asset Retirement and Environmental Obligations**

Under IFRS, decommissioning (asset retirement) liabilities and environmental obligations are accounted for in accordance with the general principles in IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. U.S. GAAP provides specific models for such liabilities and obligations in ASC Topic 410, *Asset Retirement and Environmental Obligations*.

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<sup>21</sup> IFRS does not contain guidance specific to rate-regulated operations. In 2009, the IASB published an exposure draft addressing rate-regulated activities. In September 2010, the Board concluded that it could not resolve the matter quickly and decided to develop an agenda proposal for consideration for its future agenda in 2011.

<sup>22</sup> IFRS 6, *Exploration for and Evaluation of Mineral Resources*, permits a broad choice of accounting alternatives for activities associated with the exploration for and evaluation of mineral resources while a more comprehensive standard is developed. In October 2010, the IASB staff presented to the IASB a summary of comments received on the discussion paper on extractive activities prepared for it by national standard-setters from Australia, Canada, Norway, and South Africa. The IASB is expected to evaluate the feedback on the discussion paper to help it assess whether to add a project to its agenda when it considers its future agenda in 2011.

<sup>23</sup> ASC Topic 405 also includes guidance for insurance-related assessments (in ASC Subtopic 405-30). For purposes of this paper, the Staff only focused on the extinguishment of liabilities aspects of ASC Topic 405 because the accounting for insurance contracts is currently being addressed by the Boards' Joint Projects.

### *Decommissioning Liabilities (Asset Retirement Obligations)*

A decommissioning liability is recognized under IFRS when (1) there is a present obligation as a result of a past event, (2) outflow of economic resources is probable, and (3) a reliable estimate of the amount of the obligation can be made. Such a liability (referred to as an asset retirement obligation in U.S. GAAP) is recognized under U.S. GAAP when an asset retirement liability exists<sup>24</sup> and a reasonable estimate of fair value can be made. The probability of an outflow of economic resources (including uncertainty around timing or method of settlement) is factored into *measurement* for U.S. GAAP, whereas the probability of outflow is factored into *recognition* for IFRS. This difference between the standards could delay the recognition of a decommissioning liability under IFRS in situations in which the certainty of a future outflow increases over time. Conversely, if the certainty of outflows decreased over time and ultimately it was determined that a liability did not exist, a liability that was never recorded under IFRS may have been required to be recorded and subsequently reversed under U.S. GAAP. Present obligations that are not recognized under IFRS because they are not probable of resulting in an economic outflow are subject to disclosure requirements, including a requirement to disclose management's estimate of the financial effect of the contingent liability.

IFRS requires a decommissioning liability to be initially measured at the best estimate of the expenditure required to settle the obligation. U.S. GAAP requires such liabilities to be measured at fair value. Therefore, there may be differences in the initial measurement of decommissioning liabilities under IFRS and U.S. GAAP (e.g., best estimate might not include a third party profit margin in all circumstances as would be necessary in a fair value measure).

Subsequent measurement of a decommissioning obligation is accounted for differently under IFRS and U.S. GAAP. Under IFRS, a decommissioning obligation is remeasured each reporting period giving consideration to changes in the amount or timing of cash flows and changes in the discount rate. Under U.S. GAAP, the obligation is adjusted only for changes in the amount or timing of cash flows (i.e., the obligation continues to be measured using the rate when the decommissioning obligation was incurred). If incremental cash flows are required to be included in the measurement of the liability recorded under U.S. GAAP, those cash flows are included using the current discount rate. This may result in a "layering" of a decommissioning obligation at different discount rates if the obligation is incurred over time.

With respect to disclosure, U.S. GAAP explicitly requires quantification of the fair value of assets that are legally restricted for purposes of settling an asset retirement obligation. While IFRS has no explicit corresponding requirement, it generally requires disclosure of pledged assets and collateral given.

### *Environmental Obligations*

Both IFRS and U.S. GAAP contain a "probable" threshold for the recognition of an environmental liability. Probable within IFRS is defined as more likely than not (i.e., more than

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<sup>24</sup> For purposes of recognizing an asset retirement obligation, a liability is considered to exist if the definition of a liability in paragraph 35 of FASB Concepts Statement No. 6, *Elements of Financial Statements*, is met. See ASC paragraphs 410-20-25-1 through 25-3A.

50%), whereas probable is not as clearly defined under U.S. GAAP (but is interpreted in this context to be a percentage somewhat greater than 50%). Therefore, an environmental liability generally would be recognized earlier under IFRS than under U.S. GAAP if the certainty of a future outflow increased over time. Conversely, if that certainty decreased over time, a liability that was not recorded under U.S. GAAP may be required to be recorded and subsequently reversed under IFRS.

U.S. GAAP provides additional guidance on assessing whether the “probable” threshold has been achieved. This guidance indicates that the probability criterion is met if:

- litigation has commenced or a claim or an assessment has been asserted, or commencement of litigation or assertion of a claim or assessment is probable, and
- it is probable that an unfavorable outcome will occur. There is a rebuttable presumption that the outcome of litigation will be unfavorable if the reporting entity is associated with the site (i.e., arranged for the disposal of hazardous substances found at a site or transported hazardous substances to the site or is the current or previous owner or operator of the site).

Differences between IFRS and U.S. GAAP also may occur in the timing of recognition of reimbursements or recoveries related to costs incurred for environmental remediation. Under IFRS, a reimbursement is recognized only when it is virtually certain that amounts will be received, such that the reimbursement is no longer considered a contingent asset. Under U.S. GAAP, a reimbursement is recognized when receipt is deemed probable, which is an exception to the general model for accounting for contingent gains under U.S. GAAP.

U.S. GAAP also provides application guidance for particular areas, for example, regarding the ability to reasonably estimate an environmental liability, the types of cost to be included when measuring the obligation, and the subsequent measurement of the environmental liability. IFRS does not provide corresponding application guidance. The assessments made from applying the specific U.S. GAAP application guidance and the general IFRS principles often may be broadly consistent. However, U.S. GAAP is more prescriptive in particular areas and different judgments may be made under IFRS resulting in a different amount recognized.

With respect to the disclosure of environmental obligations, U.S. GAAP provides incremental recommended, but not required, disclosures. IFRS has broad disclosure requirements for provisions but does not have requirements specific to disclosure of environmental obligations. Further, U.S. GAAP requires environmental remediation costs to be classified as operating expense, whereas IFRS is not specific as to the classification of such costs.

## **N. Exit or Disposal Cost Obligations**

IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, IAS 19, *Employee Benefits*, and ASC Topic 420, *Exit or Disposal Cost Obligations*, address the accounting for exit and disposal (“restructuring”) costs. The scope of IAS 37 and IAS 19, combined, is broader than ASC Topic 420 because the IFRSs address all restructuring activities including, for example,

voluntary and involuntary termination benefits. Further, IAS 37 and IAS 19 are not limited to exit and disposal costs—several other types of provisions or employee benefits also are addressed in those standards. ASC Topic 420 addresses exit or disposal obligations for one-time involuntary termination benefits, contract termination costs, and other associated costs. Other types of employee termination benefits (e.g., special or contractual benefits, benefits subject to individual deferred compensation plans, and benefits related to ongoing pension or other post-employment benefit plans) are outside the scope of ASC Topic 420 (e.g., the accounting for pensions is addressed in ASC Topic 715, *Compensation—Retirement Benefits*).

Generally, the accounting under IFRS focuses on the entire restructuring plan, whereas U.S. GAAP focuses on assessing the individual components of a restructuring plan. Under IAS 37, exit costs (other than employee benefits) are recognized when a constructive obligation exists as demonstrated by (1) the existence of a detailed, formal plan and (2) implementation of the restructuring or announcement of the plan to those affected by the plan. Under IAS 19, employee termination benefits are recognized at the earlier of (a) when an entity can no longer withdraw an offer of those benefits and (b) when an entity recognizes restructuring costs (i.e., the entity has a present obligation that is probable and a reliable estimate of the obligation can be made). The obligations under both standards are measured at management's best estimate of the amount required to settle the obligation. Under ASC Topic 420, an obligation for a cost associated with exit or disposal activities generally is recognized in the period in which the liability is incurred (i.e., when a present obligation exists resulting from a past transaction or event) and a reliable estimate of that obligation can be made. The obligation is measured at fair value. The accounting for employee termination benefits is determined based on the nature of the arrangement (e.g., one-time, special, voluntary, etc.). One-time involuntary termination benefits are recognized upon a formal plan being communicated to employees and measured at fair value.

In addition to general differences regarding the measurement and recognition of exit and disposal costs between IFRS and U.S. GAAP, the following examples illustrate more specific differences:

*Subsequent measurement of restructuring costs* – Under IFRS, restructuring obligations are remeasured each reporting period using the current discount rate. Under U.S. GAAP, subsequent changes in restructuring liabilities that result from changes in the amount or timing of estimated cash flows are remeasured using the credit-adjusted risk-free rate used initially to measure the liability. Thus, a change in the current discount rate will affect the measurement of a restructuring obligation under IFRS but not under U.S. GAAP.

*Onerous contracts* – IAS 37 contains a general requirement that a provision and a related expense or cost is recognized when a contract is onerous. ASC Topic 420 is narrower in scope such that it only addresses contract terminations and costs incurred without economic benefit after a cease-use date in an exit or disposal transaction (most commonly operating leases). Thus, losses on onerous contracts generally are not recognized under U.S. GAAP unless specifically addressed by industry- or transaction-specific requirements. Under U.S. GAAP, a liability is recognized when the contract is terminated or a cease-use date is reached. IFRS does not have a notion similar to cease-use date, which can lead to earlier recognition of a provision for these types of costs under IFRS.

## O. Commitments

Both IFRS and U.S. GAAP require disclosure of certain types of commitments that are intended to provide users with an understanding of certain future cash flows expected to result from existing arrangements. Under IFRS, the disclosure requirements for commitments are included in the standard that addresses the underlying transaction, whereas the U.S. GAAP requirements are contained in ASC Topic 440, *Commitments*, (albeit with several references to standards applicable to the underlying transactions).

IFRS requires disclosure of commitments in the following areas: leases (IAS 17, *Leases*); pension plans (IAS 19, *Employee Benefits*); acquisitions of property, plant, and equipment (IAS 16, *Property, Plant and Equipment*); and financial assets pledged as collateral (IFRS 7, *Financial Instruments: Disclosures*). Under U.S. GAAP, disclosure requirements in these areas are included in ASC Topic 440. ASC Topic 440 also requires certain additional disclosures for commitments relating to unconditional purchase obligations; obligations to reduce debts, maintain working capital, or restrict dividends; and unused letters of credit.

U.S. GAAP also contains guidance specific to the disclosure of certain types of commitments in particular industries and for some transactions, including:

- Entertainment – broadcasting
- Entertainment – artist advances and royalty guarantees
- Franchisors
- Health care entities – continuing care retirement communities

IFRS does not have specific requirements in these areas.

## P. Contingencies

IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and ASC Topic 450, *Contingencies*, both require that loss contingencies are recorded when a future economic outflow is probable. However, the term “probable” is defined differently between the two standards. IAS 37 defines “probable” as “more likely than not to occur,”<sup>25</sup> which we understand is widely understood to be anything more than 50%. ASC Topic 450 defines “probable” as “the future event or events are likely to occur,”<sup>26</sup> which generally is interpreted to be a percentage somewhat greater than 50%.

If a loss contingency is to be recorded, the measurement requirements under IFRS and U.S. GAAP differ in some regards. Specifically, IFRS requires that the “best estimate” of the expenditure is recorded, while U.S. GAAP requires that “if some amount ... appears ... to be a better estimate than any other amount ..., that amount shall be accrued.”<sup>27</sup> Both IFRS and U.S.

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<sup>25</sup> See IAS 37 paragraph 23.

<sup>26</sup> See ASC Section 450-20-20.

<sup>27</sup> See ASC paragraph 450-20-30-1.

GAAP provide guidance for circumstances in which a range of possible outcomes exists. IAS 37 defines “best estimate” as “expected value,” which is the midpoint of the range for situations in which a continuous range of equally possible outcomes exist. In similar situations, U.S. GAAP requires that the minimum amount in the range is accrued when no amount within the range is a better estimate than any other amount. The approach required under U.S. GAAP is based on the fact that “even though the minimum amount in the range is not necessarily the amount of loss that will be ultimately determined, it is not likely that the ultimate loss will be less than the minimum amount.”<sup>28</sup>

IFRS also contains requirements related to contingencies for which there are no explicit requirements under U.S. GAAP. For example, IFRS requires that liabilities are discounted at a pre-tax rate that encompasses risks specific to the liability; U.S. GAAP generally does not allow discounting. IFRS also has an explicit requirement to recognize a provision for an onerous contract. U.S. GAAP generally does not allow such provisions to be recognized—although the revenue and lease joint standard setting projects may result in standards that require liabilities to be recorded for some onerous contracts. Further, IFRS contains more detailed disclosure requirements than U.S. GAAP.

## Q. Guarantees

U.S. GAAP and IFRS both provide guidance for accounting for guarantees based on either the nature of the arrangement or the nature of the obligated entity. Under IFRS, guarantees first are evaluated under IAS 39, *Financial Instruments: Recognition and Measurement*, to evaluate if the guarantee is a “financial guarantee contract,” as defined in that standard. This evaluation will lead to accounting for the guarantee in one of the following ways, which may be limited or required based upon the specific nature of the arrangement or the nature of the obligated entity:

- as a derivative under IAS 39
- as an insurance contract under IFRS 4, *Insurance Contracts*,
- as a *revenue-producing contract* under IAS 18, *Revenue*, or
- as a contingent liability under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

Under U.S. GAAP, guarantees are accounted for in one of the following ways, provided other authoritative guidance is not applicable:

- as a derivative under ASC Topic 815, *Derivatives and Hedging*,
- as an insurance contract under ASC Topic 944, *Financial Services—Insurance*, if the contract is issued by an insurance entity,
- as a contingency under ASC Topic 450, *Contingencies*, or
- as a guarantee under ASC Topic 460, *Guarantees*.

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<sup>28</sup> Id.

The accounting for a guarantee may differ between IFRS and U.S. GAAP because of differences in the initial scoping assessment (e.g., a derivative under one set of standards and an insurance contract under the other) or as a result of differences in the accounting requirements for a given category of instrument (e.g., differences between IAS 39 and ASC Topic 815).

## **R. Debt**

IAS 39, *Financial Instruments: Recognition and Measurement*, and ASC Topic 470, *Debt*, have generally similar requirements for accounting for debt. Both standards require most financial liabilities (including debt) to be measured at amortized cost on the balance sheet, although a fair value option is available for qualifying instruments (which may differ slightly between U.S. GAAP and IFRS). Further, interest expense accrues similarly under both standards, although debt issuance costs and hybrid instruments (e.g., debt with characteristics of equity) are accounted for differently. The Staff expects that the Boards' ongoing financial instrument joint project may have an effect on nearly all aspects of accounting for debt instruments and related costs; however, it is unclear at this time whether the financial instruments project will result in fully converged standards that will eliminate all differences between IFRS and U.S. GAAP.

Despite the commonalities in the principles between IFRS and U.S. GAAP in accounting for debt and related costs, certain differences exist. Examples of such differences include the following:

*Arrangement-specific guidance* – U.S. GAAP provides specific guidance for recognition, measurement, derecognition, presentation, and disclosure of financing arrangements, including participating mortgage debt (arrangements in which the lender participates in the appreciation of the market value of the project, the results of operations of the project, or both) and product financing arrangements (transactions in which an entity sells and agrees to repurchase inventory with the repurchase price equal to the original sale price, plus carrying and financing costs (or similar transactions)). IFRS does not have corresponding guidance for these specific types of arrangements.

*Debt modifications and extinguishments* – The accounting models in IAS 39 and ASC Topic 470 require an exchange of debt instruments with “substantially different terms” to be treated as an extinguishment. In both standards, this threshold generally is met if there is a change in the present value of cash flows before and after the modification of at least 10%. However, if the change is less than 10%, ASC Topic 470 requires the use of qualitative considerations and professional judgment to consider the effects of contingent payments or unusual interest rates and the addition or elimination of substantive conversion factors in assessing whether a modification or extinguishment has occurred. IAS 39 does not contain corresponding incremental considerations.

ASC Topic 470 requires that a modification of an existing debt instrument is evaluated for accounting as an extinguishment using the same threshold and other factors as required for an exchange of an instrument. IFRS requires a “substantial modification” of the terms of an existing debt instrument to be accounted for as an extinguishment. The Staff understands that there is diversity in views among practitioners as to whether the assessment under IAS 39 of a “substantial modification” should use the same quantitative threshold that is used to determine

whether there are “substantially different terms” in an exchange (i.e., a 10% threshold), or alternatively, if the assessment under IFRS is based on qualitative considerations and professional judgment.

U.S. GAAP contains specific guidance for applying many aspects of the debt modification and extinguishment model, including:

- loan fees related to lines of credit and revolving credit arrangements upon modification of the credit arrangement;
- troubled debt restructurings;
- rights and privileges exchanged;
- debt extinguishments with related parties;
- actions of third-party intermediaries (which may constitute a principal or agent transaction with the debtor); and
- cash flows from puttable or callable features of the debt.

IFRS does not contain explicit requirements for any of these areas.

*Refinancing of current obligations* – Under IAS 1, *Presentation of Financial Statements*, if an entity expects and has the discretion (e.g., there is an arrangement in place) at the reporting period date to refinance or roll over an obligation under an existing loan facility for at least 12 months after the reporting period, it classifies the obligation as noncurrent. IAS 1 does not permit an entity to consider the potential to refinance the obligation in its assessment if there is no arrangement in place. Under U.S. GAAP, an entity with the intent and ability to refinance on a long-term basis at the balance sheet date (which may be demonstrated, for example, by the refinancing of the debt after the balance sheet date) is permitted to classify the debt as noncurrent.

*Classification of debt with covenant violations* – Under IAS 1, debt is classified as current if a borrower does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period. Following this guidance, if a violation of a debt covenant occurs on or before the end of the reporting period, the debt is classified as current unless the lender agrees on or before the reporting date to waive repayment for at least 12 months. IFRS differs from U.S. GAAP because U.S. GAAP does not limit a borrower’s consideration of the classification of the debt to the status of default at the end of the reporting period, but rather indicates that entities should classify debt as noncurrent if the lender waives repayment for a period greater than a year after the reporting date, unless certain conditions exist that would require current classification.

IFRS 7, *Financial Instruments: Disclosures*, requires entities to make disclosures about financial instruments (including debt), such as the existence of any defaults or breaches in loan terms and a maturity analysis showing remaining contractual maturities. U.S. GAAP has more specific and detailed disclosure requirements, including requirements to disclose specific terms of individual debt instruments and information about short-term borrowings. IFRS contains broader disclosure principles that encourage disclosure of this type of information.

U.S. GAAP contains industry guidance for the following industries, which is not included in IFRS:

- Oil and gas – examples of conveyances treated as borrowings as opposed to contributions;
- Depository institutions – incremental requirements for disclosure and presentation of borrowings;
- Insurance – guidance on surplus notes;
- Healthcare entities – accounting for tax-exempt or similar debt instruments;
- Real estate – guidance for tax increment financing entities; and
- Regulated entities – guidance on accounting for the impact of early extinguishments of debt for rate-making purposes.

### **S. Compensation – Excluding Share-based Payments**

IFRS and U.S. GAAP both contain requirements for the accounting and reporting of various compensation arrangements that are intended to allocate the costs of such arrangements to the appropriate periods and provide users with an understanding of the arrangements. IFRS requirements are contained in IAS 19, *Employee Benefits*, as amended in June 2011, and U.S. GAAP requirements are contained in ASC Topic 710, *Compensation–General*, Topic 712, *Nonretirement Postemployment Benefits*, and Topic 715, *Compensation–Retirement Benefits*.

While the principle-level objectives of IFRS and U.S. GAAP are generally similar for these types of arrangements, there are differences in the detailed requirements. Certain of those differences are discussed below, according to their nature and the types of compensation arrangements to which they relate.

#### Compensation – General

ASC Topic 710 addresses the accounting for compensated absences, deferred compensation arrangements, and lump-sum payments under union contracts.

*Compensated absences* – ASC Topic 710 distinguishes between sabbatical leave that is granted only to perform service to benefit the employer, and that which is not. In the case of the former, compensation is not attributable to services already rendered and no liability is accrued in advance of such leave; a liability may be required to be accrued in the case of the latter. IFRS requires that obligations other than long-term employee benefits, including sabbatical leave, are accounted for following a simplified method, under which remeasurements are recognized in the income statement and disclosure requirements are generally limited. Differences also exist in the treatment of sick pay: IFRS requires that the cost of accumulating entitlement to paid sick leave is recognized as service is rendered; U.S. GAAP allows for optional accounting, allowing, but not requiring, such treatment (provided certain criteria are met).

*Deferred compensation arrangements* – U.S. GAAP provides guidance for four types of arrangements that involve rabbi trusts. The guidance addresses accounting for employer stock in

trust, classification of obligations, and accounting for changes in the fair value of amounts owed to employees. IFRS does not have guidance specific to rabbi trusts.

*Lump-sum payments* – IFRS does not contain specific guidance similar to the U.S. GAAP requirements relating to lump-sum payments under union contracts. IFRS does contain specific guidance relating to profit-sharing and bonus plans, whereas U.S. GAAP does not contain specific guidance for such arrangements.

### Post-employment Benefits

ASC Topic 712 addresses termination benefits and other post-employment benefits (“OPEBs”) payable after employment but before retirement.

U.S. GAAP differentiates between special termination benefits (which are offered for a short period of time in exchange for employees’ voluntary termination of service) and contractual termination benefits. Special termination benefits are recognized when the employee irrevocably accepts the termination offer and the amount can be estimated. Costs pursuant to an ongoing benefit arrangement or contractual termination benefit are recognized when it is probable the specified event that will trigger the termination will occur and the amount is reasonably estimable.

Under IFRS, a liability for termination benefits is recognized at the earlier of 1) when the entity can no longer withdraw their offer of those benefits and 2) when it is probable the termination will occur and the amount can be reliably estimated. The liability is discounted if payments are due more than twelve months after the reporting period.

OPEBs include benefits provided to former or inactive employees, their beneficiaries, and covered dependents.<sup>29</sup> Under U.S. GAAP, such benefits are accounted for consistent with compensated absences if certain criteria are met. Otherwise, ASC Topic 450, *Contingencies*, applies, under which guidance a loss is accrued if it is probable and reasonably estimable.

Under IFRS, non-termination benefits that are payable after employment but before retirement are accounted for following whichever model is appropriate under IAS 19 based on the nature of the benefits (e.g., as post-retirement benefits or other long-term benefits). The accounting for post-retirement benefits is discussed below; the accounting for other long-term benefits under IFRS follows a simplified variant of the accounting required for post-retirement benefits.

IFRS contains explicit guidance on whether to discount the postemployment benefit liabilities, and if so, at what rate. U.S. GAAP does not provide corresponding guidance.

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<sup>29</sup> OPEBs may include any or all of the following: salary continuation, supplemental unemployment benefits, severance benefits, disability benefits, job training, and continuation of benefits such as health care benefits and life insurance coverage.

## Post-retirement Benefits

ASC Topic 715 addresses the accounting for pensions, other postretirement, and certain special or contractual termination benefits. While IFRS and U.S. GAAP contain a similar objective for entities to recognize the cost such benefits over the employee service period as the entity becomes obligated, there are several differences between IFRS and U.S. GAAP in this area, relating to recognition, measurement, presentation and disclosure. Such differences include the following:

- Distinguishing defined benefit from defined contribution plans
- Definition of defined contribution plans
- Accounting for employers with two or more plans
- Timing and frequency of valuation
- Specificity regarding the measurement of plan liability using the project unit credit method

The IASB issued an amendment to IAS 19 for post-retirement benefits in June 2011. The revised guidance is similar to U.S. GAAP with respect to the requirement for an entity to recognize a net pension asset or liability. However, differences remain regarding how the change in the pension asset or liability is recognized and the disaggregation of the defined benefit pension cost. There are also differences in the attribution of benefits and determination of plan assets in addition to transaction- or event-specific items such as accounting for changes in assumptions, plan amendments, funded status of plans, and over-funded plans. Examples of such differences include the following:

*Attribution of benefits to service periods* – U.S. GAAP and IFRS differ with respect to certain technical aspects of attribution, including that, for example, under IAS 19, attribution occurs from the date when service by the employee first leads to benefits under the plan until the date when further service will lead to no material amount of further benefits under the plan, other than from further salary increases. Under U.S. GAAP, the attribution period may continue through the date of retirement if further salary increases lead to incremental future benefits.

*Plan assets* – U.S. GAAP and IFRS differ in guidance regarding the determination as to what constitutes a plan asset, including, for example, under U.S. GAAP, insurance policies can be plan assets only when held by the plan. Under IFRS, plan assets include qualifying insurance policies, which are insurance policies issued to the entity by an unrelated entity, the proceeds from which (1) can be used solely to pay or fund employee benefits, (2) are not available to the employer's creditors (even in bankruptcy), and (3) cannot be returned to the entity except as reimbursement for employee benefits paid or when the fund is in surplus.

U.S. GAAP also contains detailed guidance on the treatment of certain plan assets (e.g., employer's own securities, life insurance policies with a cash surrender value, and assets of rabbi trusts) for which IFRS contains more general guidance.

## Presentation and Disclosure

*Statement of financial position* – U.S. GAAP requires an employer that presents a classified statement of financial position to classify the liability for an underfunded plan as a current liability, a noncurrent liability, or a combination of both. The current portion of the liability (determined on a plan-by-plan basis) is the amount by which the actuarial present value of benefits included in the benefit obligation payable in the next 12 months, or operating cycle if longer, exceeds the fair value of plan assets. The amount classified as a current liability is limited to the amount of the plan’s unfunded status recognized in the entity’s statement of financial position. The asset for an overfunded plan is classified as a noncurrent asset in a classified statement of financial position. IAS 19 does not specify whether an entity should disaggregate assets and liabilities arising from postemployment benefits into current and noncurrent portions.

*Income statement* – Under U.S. GAAP, all components of net pension or OPEB cost must be aggregated as a net amount. This aggregated amount may be allocated appropriately to different line items such as cost of goods sold or general and administrative expense. Under IFRS, there is no requirement to aggregate the components of net pension or OPEB cost as a single net amount. Entities may disaggregate the components of net pension or OPEB cost (such as net interest cost and service cost) and present those components separately.

There also are several differences in disclosure requirements between IFRS and U.S. GAAP in areas including:

- Investment policies and strategies
- Accumulated benefit obligations
- Reimbursement rights
- Assumptions used
- Future benefits to be paid
- Changes to defined contribution plans, such as to the rate in employer contributions
- Interim disclosure requirements

### **T. Stock Compensation**

IFRS 2, *Share-based Payment*, and ASC Topic 718, *Compensation—Stock Compensation*, contain similar share-based payment models that require the cost of share-based payment awards to be recognized in the financial statements using a fair-value-based measurement. The consistency in the models can be attributed to the collaboration between the IASB and FASB in developing the respective standards. Although IFRS 2 was developed separately from the FASB project resulting in SFAS 123(R), which was codified in ASC Topic 718, the Boards had the objective to work together to reach compatible conclusions in support of furthering the convergence of U.S. and international accounting standards.<sup>30</sup>

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<sup>30</sup> Statement of Financial Accounting Standards No. 123 (revised 2004) *Share-Based Payment* (“SFAS 123(R)”), paragraph B258.

In this regard, IFRS 2 and ASC Topic 718 provide guidance for a similar scope of transactions. However, IFRS provides a single model for employee and non-employee share-based payment awards whereas U.S. GAAP provides different guidance for non-employee awards in ASC Subtopic 505-50, *Equity—Equity-based Payments to Non-Employees*. Further, IFRS 2 requires employee stock ownership plans (ESOPs) and employee stock purchase plans (ESPPs) to be accounted for in accordance with the general principles of the standard, but ASC Topic 718 provides separate models for ESOPs and ESPPs.

The main elements of the two standards—initial measurement, recognition, expense attribution, modifications, and disclosures—are generally consistent in principle. Differences between IFRS 2 and ASC Topic 718 in these areas are primarily attributable to nuances in the standards, application guidance, or illustrations. However, more substantial differences exist between IFRS and U.S. GAAP with respect to the classification of share-based payment awards.

The initial measurement principle for share-based payment awards issued to employees is consistent between IFRS 2 and ASC Topic 718—both are based on the fair value of the equity instruments granted. However, ASC Topic 718 generally has more detailed implementation guidance for determining fair value model assumptions, including exceptions or accommodations to the general principles that may result in an award being assigned different values under U.S. GAAP as compared to IFRS. For example, U.S. GAAP permits valuing an award with graded vesting using a single set of assumptions, but IFRS requires each tranche of the same award to be valued separately (i.e., using expected terms, volatility, etc. that are specific to each tranche).

The recognition and pattern of expense attribution for share-based payment awards are similar in principle—expense is recognized in the periods in which goods or services are provided to the entity. However, differences exist between IFRS and U.S. GAAP that could affect the timing or amount of expense recognized. Examples of such differences include, but are not limited to, the following:

*Definitions* – Differences exist in defined terms (e.g., grant date) between U.S. GAAP and IFRS or there is a lack of defined terms (e.g., service inception date is defined in U.S. GAAP but not in IFRS).

*Grading vesting provisions* – IFRS requires graded attribution of expense recognition for such awards; U.S. GAAP provides entities a policy election of graded or straight-line attribution.

*Deferred taxes* – IFRS 2 requires deferred taxes to be measured based on an estimate of the future tax deduction that will be received, which must be assessed each reporting period. U.S. GAAP requires the measurement of deferred tax to be based on the amount of share-based compensation recognized, and that amount is adjusted to the actual tax deduction upon exercise or settlement of the award. Both IFRS and U.S. GAAP generally require excess tax deductions to be credited to equity. However, if the tax deduction is less than the cumulative compensation expense, deferred taxes are recorded in income under IFRS; whereas, under U.S. GAAP, such amounts are charged to equity until the “APIC pool” (accumulation of excess tax benefits over deferred tax assets) is fully depleted and thereafter charged to income.

Modifications of share-based payment awards are treated similarly under IFRS and U.S. GAAP. Both require determination of whether incremental value was given, require incremental value to be recognized as an expense, establish a minimum amount of expense to be recognized, and address cancellations and settlements. However, differences exist between the models related to, for example, the modification of an improbable award (to a probable award) and a modification that results in a change in classification of an award from equity to liability. To illustrate, under IFRS, if a vesting condition of an award is modified from improbable to probable, compensation cost is measured using the value of the original award plus any incremental value relating to the modification. Under U.S. GAAP, compensation cost is based on the value of the modified award (which may be less than the value of the original award).

Despite the similarities between IFRS 2 and ASC Topic 718, the guidance for the classification of awards differs between IFRS and U.S. GAAP. Generally, the classification of a share-based payment award as equity or a liability under IFRS 2 is based on broad principles and is determined based on the form of settlement (as either equity-settled or cash-settled). U.S. GAAP does not contain broad-based classification principles, and classification is largely determined by evaluating certain criteria and a number of exceptions to liability classification, rather than focusing on the legal form of settlement. For example, U.S. GAAP provides a practical accommodation to allow equity classification for the repurchase of shares to meet minimum statutory tax withholding requirements, which typically results in the entire award being classified as equity. IFRS does not provide for a similar exception and instead requires liability classification for such repurchases, which typically results in awards being bifurcated between liability (for cash-settled portions of the award) and equity (for equity-settled portions of the award) components.

## U. Other Expenses

ASC Topic 720, *Other Expenses*, provides accounting and reporting guidance for specific types of costs and expenses including start-up costs; insurance costs; contributions made; real and personal property taxes; advertising costs; electronic equipment waste obligations; and business and technology reengineering. IFRS provides varying levels of guidance on these topics (e.g., IFRIC 6, *Liabilities Arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment*, is consistent with the guidance provided in ASC Topic 720 for electronic equipment waste obligations; IAS 38, *Intangible Assets*, provides guidance for start-up and advertising costs; and no specific IFRS guidance exists for the other topics).

IAS 38 requires start-up costs<sup>31</sup> and advertising costs to be expensed as incurred. In this regard, IFRS and U.S. GAAP generally provide similar guidance. However, ASC Topic 720 permits the costs of advertising to be expensed either as incurred or the first time the advertising takes place. Further, the following advertising activities are excluded from the scope of ASC Topic 720 and thus eligible to be capitalized under U.S. GAAP but not IFRS:

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<sup>31</sup> See IAS 38 paragraph 69. Expenditures on start-up activities are recognized as expense when incurred unless the expenditure is included in the cost of an item of property, plant, and equipment in accordance with IAS 16, *Property, Plant and Equipment*.

*Direct-response advertising* – U.S. GAAP (ASC Topic 340, *Other Assets and Deferred Costs*) requires capitalization of costs of direct response advertising if certain restrictive criteria are met (e.g., customers can be shown to respond to the advertising).

*Costs of advertising conducted for others and indirect costs that are specifically reimbursable under contractual arrangements* – U.S. GAAP allows deferral of these costs so that the expense can be recognized in the same period as the reimbursement. The principles under IAS 38 may allow for a similar outcome.

U.S. GAAP also contains industry-specific cost and expense guidance in a number of areas, for which IFRS does not contain corresponding guidance. Examples of such areas include:

*Extractive Activities* – U.S. GAAP, ASC Topic 932, *Extractive Industries—Oil and Gas*, and SEC rules<sup>32</sup> address financial accounting and reporting for activities related to exploration and production of crude oil and natural gas, and production of condensate and natural gas liquids. Additionally, U.S. GAAP includes guidance related to production stripping costs for mining operations. IFRS lacks specific comprehensive guidance in this area; therefore, entities must apply the Framework and general IFRSs in developing relevant accounting policies without any relief from the general IFRS requirements. IFRS 6, *Exploration for and Evaluation of Mineral Resources*, was developed as an interim measure to allow (with some limitations) entities adopting IFRS to continue to apply their existing accounting policies for exploration and evaluation expenditures.<sup>33</sup>

*Broker-Dealers* – U.S. GAAP provides guidance for broker-dealers in ASC Topic 940, *Financial Services—Broker and Dealers*, related to balance sheet presentation, disclosure of contractual commitments, and the accounting for: transactions executed by broker-dealers as agents for customers; commissions; trading errors; conditional transactions; use of a floor broker; and shares that are firmly committed to purchase but that have not yet been subscribed to by customers. These examples represent a subset of broker-dealer guidance that exists under U.S. GAAP, for which no specific industry guidance exists under IFRS. As a result, the impact of applying IFRS principles versus industry specific U.S. GAAP guidance may result in financial reporting differences.

*Investment Companies* – U.S. GAAP provides guidance for investment companies in ASC Topic 946, *Financial Services—Investment Companies*, related to the accounting for and/or disclosure of: organization and offering expenses and selling commissions by limited partnerships trading in commodity futures; payments by affiliates; specific distribution costs; expense limitation agreements; brokerage service agreements; general partner advisory services; fee waivers; offering costs; capital share transactions; dividends; performance fees;

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<sup>32</sup> See Rule 4-10 of Regulation S-X.

<sup>33</sup> In April 2010, the IASB published a discussion paper entitled, *Extractive Activities*. In 2012, the IASB plans to decide on whether the Extractive Activities project should be added to its active agenda. If the IASB decides to add the project to its agenda, the project's objective would be to develop an IFRS on accounting for extractive activities that would supersede IFRS 6, *Exploration for and Evaluation of Mineral Resources*. Separately, the IFRS Interpretations Committee recently approved IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, to address the accounting for production phase stripping cost, which was ratified by the IASB.

and components of capital and distributable earnings. These examples represent a subset of investment company guidance that exists under U.S. GAAP, for which no corresponding current specific industry guidance exists under IFRS.<sup>34</sup>

## V. Research and Development

IAS 38, *Intangible Assets*, and ASC Topic 730, *Research and Development*, provide guidance on the accounting for research and development costs. IAS 38 requires capitalization of development costs once certain qualifying criteria are met. Costs incurred before the criteria are met (including research costs) are expensed as incurred. ASC Topic 730 generally requires that research and development costs are expensed as incurred, except for costs related to the development of computer software, for which capitalization is required once criteria similar to those contained in IAS 38 are met.

U.S. GAAP provides accounting guidance specific to certain types of research and development (e.g., arrangements involving other parties and activities in particular industries, such as extractive industries), for which IFRS does not contain explicit guidance. In certain instances, IFRS contains general guidance that can be applied to the transaction, as illustrated further below, and in other instances, no relevant guidance exists.

The acquisition of in-process research and development outside of a business combination is an example of a transaction for which U.S. GAAP and IFRS generally result in different accounting. Under IFRS, the guidance for acquired intangible assets is applicable, which requires that acquired in-process research and development initially is measured at cost provided that it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity. ASC Topic 730 requires amounts assigned to intangible assets acquired in a transaction other than a business combination that are to be used in a particular research and development project and that have no alternative future use to be charged to expense at the acquisition date.

Another example in which U.S. GAAP contains explicit guidance and IFRS requires the application of its overall principles guidance is the accounting by federal government contractors for best efforts research and development cost sharing arrangements. Under U.S. GAAP, if arrangements meet the scope criteria of ASC Subtopic 912-730, *Contractors—Federal Government—Research and Development*, such arrangements “shall be recognized as research and development expense as incurred in conformity with Topic 730. Because of the cost-sharing nature of these fixed-price, best-efforts-basis, research-and-development-cost-sharing arrangements, the amounts funded by the customer shall be recognized as an offset to the contractor’s aggregate research and development expense rather than as contract revenues.”

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<sup>34</sup> The IASB issued an exposure draft, *Investment Entities*, in August 2011 that defines an investment entity and requires investments to be measured at fair value through earnings. In addition, the exposure draft indicates that an investment entity should not consolidate entities that it controls. These proposed changes would align these aspects of IFRS with current U.S. GAAP industry guidance. However, the FASB is considering a proposal that would require investment companies to consolidate entities that are controlled. Therefore, financial reporting for investment companies under IFRS and U.S. GAAP differ currently and may remain divergent if current Board decisions are incorporated into final standard setting documents.

IFRS does not provide corresponding guidance relating to such arrangements. However, IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, may be applicable. IAS 20 paragraph 29 states: “Grants related to income are sometimes presented as a credit in the statement of comprehensive income, either separately or under a general heading such as ‘Other income’; alternatively, they are deducted in reporting the related expense.” IAS 20 paragraph 31 states: “Both methods are regarded as acceptable for the presentation of grants related to income. Disclosure of the grant may be necessary for a proper understanding of the financial statements.”

## **W. Income Taxes**

IAS 12 and ASC Topic 740, both titled *Income Taxes*, require income taxes to be accounted for using an asset and liability approach that recognizes current tax effects and expected future tax consequences of events that have been recognized for financial or tax reporting (i.e., deferred taxes) each period. Although the approaches to accounting for income taxes are similar under IFRS and U.S. GAAP, several differences exist, many of which principally relate to the exceptions granted under U.S. GAAP and IFRS. The following discussion highlights some of the differences that may be more significant to a greater number of U.S. issuers.

*Uncertain tax positions* – IAS 12 requires that tax assets and liabilities are measured at the amount expected to be paid. IAS 12 does not specifically address uncertain tax positions. We understand that practice as to measurement of uncertain tax positions under IFRS has evolved to include the following methods: (1) the expected-value/probability-weighted-average method and (2) the single-best-outcome/most-likely-outcome method. Under U.S. GAAP, uncertain tax positions are accounted for using a two step process: (1) an assessment is made to determine whether tax benefits from the uncertain tax position are more likely than not to be sustainable based on its technical merits and (2) the tax position is measured by using a cumulative probability model, which is the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement.

U.S. GAAP requires that uncertain tax positions are evaluated at the individual tax position level and that any change in judgment that results in subsequent recognition, derecognition, or change in measurement of a tax position taken in a prior annual period is recognized as a discrete item in the period in which the change occurs. IFRS does not contain corresponding guidance in either of these areas. In addition to general recognition and measurement guidance, ASC Topic 740 contains detailed requirements for the recognition and classification of interest and penalties, interim reporting, and disclosures. IAS 12 does not require specific disclosures for uncertain tax positions, although the general disclosure requirements of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, related to provisions and contingencies would be applicable.

*Deferred tax assets and related valuation allowances* – Under U.S. GAAP, deferred tax assets are recognized in full but are reduced by a valuation allowance to the extent that it is more likely than not that the deferred tax asset will not be realized. U.S. GAAP requires an entity to consider the relative impact of negative and positive evidence and provides examples of positive and negative evidence that should be considered in determining the realization of a

deferred tax asset. Under IFRS, deferred tax assets are recognized when it is considered probable (a term not defined in IAS 12 but commonly interpreted as “more likely than not” in practice) that sufficient taxable profits will be available to use the temporary difference (i.e., at a net amount that is considered realizable, not at a gross amount with a related allowance; valuation allowances are not recorded).

*Offsetting and classification* – IFRS and U.S. GAAP contain different guidance relating to offsetting of current and deferred tax assets and liabilities and classification of deferred tax assets and liabilities. Under IFRS, offsetting of current and deferred taxes is permitted when there is a legal enforceable right of offset, and the entity intends to apply offset or settle simultaneously. Under U.S. GAAP, a legally enforceable right of offset is the only requirement for offsetting of current taxes. Further, current deferred taxes are offset and presented as a single amount, and noncurrent deferred taxes are offset and presented as a single amount. With respect to classification, under IFRS, deferred tax assets and liabilities are classified as noncurrent; whereas, under U.S. GAAP, such assets and liabilities are classified as current or noncurrent based on the classification of the underlying nontax asset or liability.

*Deferred tax effects on outside basis of investments* – Under U.S. GAAP, deferred tax assets are recognized for the difference between the financial reporting carrying amount and the tax basis (i.e., the outside basis) of investments in subsidiaries and corporate joint ventures that are essentially permanent in duration only if it is apparent that the temporary difference will reverse in the foreseeable future. Under IFRS, a deferred tax asset is recorded for all deductible temporary differences arising from investments in subsidiaries, branches, associates, and interests in joint ventures to the extent it is probable that the temporary difference will reverse in the foreseeable future and there will be taxable profit against which the temporary difference can be used.

Under U.S. GAAP, deferred tax liabilities are recognized on the outside basis of investments as follows:

- Subsidiaries and corporate joint ventures that are permanent in duration
  - Foreign – recognize if the outside basis difference will reverse in the foreseeable future (ASC Topic 740 provides specific requirements that must be met in order to not recognize a deferred tax liability)
  - Domestic – recognize on undistributed profits arising after 1992 unless amounts can be recovered on a tax-free basis, and the entity anticipates utilizing that means.
- Limited life joint ventures and equity method investees – recognize on temporary differences, unless certain exceptions are met.

Under IFRS, deferred tax liabilities are recognized on the outside basis of investments except when a parent company (e.g., investor or venturer) is able to control the timing of reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. IFRS does not provide detailed guidance beyond this principle.

*Areas addressed by U.S. GAAP only* – U.S. GAAP provides guidance on specific areas of tax accounting for which IFRS does not contain guidance. Examples of such guidance include:

- Recognition of taxes resulting from alternative or parallel income tax systems;
- Attribution of income taxes to an entity or its owners/partners;
- Allocation of current and deferred taxes to entities within a consolidated group;
- Recognition of tax benefits from special deductions and tax holidays;
- Recognition of tax effects for a change in interest (equity method to consolidated or vice versa) in an equity method investee; and
- Recognition of investment tax credits.

*Disclosures* – U.S. GAAP differs from IFRS by requiring disclosure of components of tax expense related to investment tax credits and government grants and components of pre-tax income as either domestic or foreign. U.S. GAAP and IFRS also differ because of disclosure requirements that exist under IFRS but not under U.S. GAAP, including, for example: adjustments recognized in the period for current tax of prior periods; dividend-related disclosures; and the amount of a deferred tax asset and the nature of the evidence supporting its recognition in certain circumstances.

## **X. Business Combinations**

IFRS 3 and ASC Topic 805, both titled *Business Combinations*, contain similar requirements for accounting for business combinations. Both models require the acquisition method of accounting for business combinations, in which the assets, liabilities, and noncontrolling interests of the acquired entity are recognized and measured at fair value, with limited exceptions. The consistency in the guidance for applying the acquisition method can be attributed to the collaboration between the IASB and FASB in developing the current standards and the Boards' objective of reaching common conclusions for IFRS and U.S. GAAP. Even though the standards are substantially converged, we noted that certain differences remain between IFRS 3 and ASC Topic 805.

In certain cases, IFRS and U.S. GAAP have similar principles and requirements, but differences in definitions of terms that may result in different accounting. For example, aspects of IFRS 3 and ASC Topic 805 refer to "control," which is defined differently under IFRS as compared to U.S. GAAP. Additionally, both IFRS 3 and ASC Topic 805 exclude the formation of joint ventures from their scope; however, joint ventures are defined differently under IFRS and U.S. GAAP, which could result in different accounting for such ventures.

IFRS 3 and ASC Topic 805 differ with respect to certain recognition and measurement requirements, including:

*Contingencies* – Both IFRS and U.S. GAAP require acquired contingent liabilities to be recognized at fair value on the acquisition date if fair value can be determined. If fair value cannot be determined reliably, U.S. GAAP requires that the contingency is recognized at

acquisition pursuant to ASC 450, *Contingencies*. Under IFRS, if fair value cannot be measured reliably, the contingent liability is not recognized. U.S. GAAP also requires that contingent assets acquired in a business combination are recognized at fair value, whereas IFRS does not permit the recognition of contingent assets.

*Noncontrolling interests* – Under IFRS, entities have an option, on a transaction-by-transaction basis, to measure noncontrolling interests at fair value, including goodwill, or at the noncontrolling interest's proportionate share of the fair value of the identifiable net assets, excluding goodwill. Under U.S. GAAP, noncontrolling interests are measured at fair value.

*Contingent consideration* – Contingent consideration in a business combination is recognized at fair value as an asset, liability, or equity according to standards that differ under U.S. GAAP and IFRS. In addition, U.S. GAAP requires that existing contingent consideration arrangements of an acquiree that are assumed by an acquirer be recognized initially at fair value and subsequently measured in accordance with the guidance for contingent consideration under ASC Topic 805, whereas IFRS does not have explicit requirements.

*Combinations of entities under common control* – IFRS 3 and ASC Topic 805 are similar in that they both exclude combinations of entities under common control from the application of the acquisition method of accounting. U.S. GAAP provides guidance requiring that such combinations be accounted for at carryover basis, whereas IFRS does not provide guidance.

## **Y. Foreign Currency Matters and Inflation**

IAS 21, *The Effects of Changes in Foreign Exchange Rates*, and ASC Topic 830, *Foreign Currency Matters*, both require the financial statements of foreign operations to be translated into the reporting currency, with the effects of changes in exchange rates recognized in other comprehensive income. Both also require foreign currency transactions of an entity to be remeasured into its functional currency with amounts resulting from changes in exchange rates being reported in income. Further, both require special accounting for entities operating in hyperinflationary economies, but differ in the approaches to such accounting.

The potentially more notable differences between IFRS and U.S. GAAP with respect to inflation and foreign currency matters include the following:

*Exchange rates for translation* – ASC Topic 830 defines the exchange rate for translation as the rate applicable to conversion of a currency for purposes of dividend remittances, in the absence of unusual circumstances. If unsettled transactions between separate entities within a reporting entity are subject to and translated using preference or penalty rates, translation of foreign currency statements at the rate applicable to dividend remittances may cause a difference between intra-entity receivables and payables. Until that difference is eliminated by settlement of the intra-entity transaction, the difference is treated as a receivable or payable in the reporting entity's financial statements. In addition, under ASC Topic 830, if exchangeability between two currencies is temporarily lacking at the transaction date or reporting period end date, the first subsequent rate at which exchanges could be made is used.

IAS 21 includes guidance regarding multiple exchange rates and temporary lack of exchangeability in the context of reporting transactions in the functional currency (i.e., remeasurements) but not in the context of translations.

*Cumulative translation adjustment and impairment* – Under U.S. GAAP, the cumulative translation adjustment is included in the carrying amount when assessing whether an equity-method investee or subsidiary that the entity has committed to sell is impaired, unless sale will not result in realization of the cumulative translation adjustment. Under IFRS, the cumulative translation adjustment is not included in the carrying amount in such an impairment test.

*Translation of entities with multi-level organizational structures* – U.S. GAAP respects the ownership structure of a complex entity with differing functional currencies for purposes of performing the translation accounting to prepare the consolidated financial statements in the reporting currency. Consolidation occurs step-by-step. IFRS provides no corresponding guidance. An entity may perform “direct” translation of each subsidiary into the reporting currency, ignoring any intervening subsidiaries (even if their functional currency is different). The choice of consolidation method employed could affect the cumulative translation adjustments deferred within equity at intermediate levels and can therefore also affect the recycling of such exchange rate differences upon disposal of an intermediate foreign operation.

*Monetary items forming part of net investment in foreign operation* – Under U.S. GAAP, in order for a monetary item to form, in substance, part of the net investment in a foreign operation, certain criteria must be met. The monetary item must be in the functional currency of one of the parties to the transaction. Under IFRS, the transaction does not need to be in the functional currency of one of the parties to the transaction.

IFRS and U.S. GAAP both contain guidance for accounting for transactions in highly inflationary economies, but the guidance differs in certain respects.<sup>35</sup> U.S. GAAP guidance is contained in ASC Topic 830 and IFRS guidance is contained in IAS 29, *Financial Reporting in Hyperinflationary Economies*. Differences between IFRS and U.S. GAAP include:

*Application of highly inflationary accounting* – Under U.S. GAAP, when the functional currency of a foreign operation is highly inflationary, the foreign operation uses the reporting currency (i.e., that of the parent or investor) as its functional currency. The foreign operation’s financial statements are remeasured into the reporting currency.

Under IFRS, the functional currency of the foreign operation is retained, but is required to first be “indexed” by restating it into a measuring unit currency at the balance sheet date.

*Cessation of highly inflationary accounting* – Under U.S. GAAP, the entity shall restate the functional currency accounting bases of nonmonetary assets and liabilities by translating the

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<sup>35</sup> IFRS makes reference to “hyperinflationary” rather than “highly inflationary” economies. However, the guidance in the two sets of standards addresses similar circumstances.

historical reporting currency amounts of nonmonetary items into the local currency at current exchange rates.

Under IFRS, the amounts expressed in the measuring unit currency at the end of the previous reporting period should become the opening balances for the period in which the economy ceases to be hyperinflationary.

## **Z. Nonmonetary Transactions**

ASC Topic 845, *Nonmonetary Transactions*, provides guidance on the accounting for nonmonetary transactions in general, requiring that such transactions are recognized if the usual risks and rewards of ownership are transferred and that, if recognized, such transactions are measured at fair value. ASC Topic 845 also provides guidance for specific aspects and types of nonmonetary transactions, including:

- The impact of monetary consideration (“boot”) on the accounting for nonmonetary transactions;
- Accounting for purchases and sales with the same counterparty;
- Transactions in which nonmonetary assets are exchanged for barter credits;
- Assessing the commercial substance of a nonmonetary transaction;
- Determinability of fair value in nonmonetary exchanges;
- Accounting for nonreciprocal transfers to owners;
- Accounting for reorganizations involving non-pro-rata split-offs of certain nonmonetary assets to owners; and
- Exchanges of nonfinancial assets for noncontrolling ownership interests.

IFRS does not contain general overarching guidance addressing the accounting for nonmonetary transactions; however, specific guidance is provided in several standards, which is generally similar to U.S. GAAP. The following are examples of IFRSs that contain guidance for nonmonetary transactions:

- IAS 18, *Revenue*, requires revenue to be recorded at the fair value of the goods or services received less any cash exchanged when dissimilar goods or services are exchanged (although when the exchange involves similar goods and services, the transaction is not considered a revenue transaction and thus beyond the scope of IAS 18).
- IAS 16, *Property, Plant and Equipment*, contains guidance that requires nonmonetary exchanges involving PP&E to be measured at fair value (unless the transaction lacks commercial substance).
- IFRIC 18, *Transfers of Assets from Customers*, discusses when recognition should be given to certain asset transfers and requires that, if recognition is appropriate, the transfer is measured at fair value.
- SIC-31, *Revenue – Barter Transactions Involving Advertising Services*, contains guidance on the determinability of fair value in such barter transactions.

- IFRIC 17, *Distributions of Non-cash Assets to Owners*, requires that nonreciprocal distributions of assets by an entity to owners acting in their capacity as owners are accounted for based on the fair value of the assets distributed.

ASC Topic 845 requires that entities that engage in nonmonetary transactions disclose:

- The nature of the transactions,
- The basis of accounting for the assets transferred, and
- Gains or losses recognized on the transfers.

IFRS does not contain disclosure requirements specific to nonmonetary transactions.

U.S. GAAP also contains guidance specific to the following industries and transactions:

- Airlines
- Broadcasters
- Film industry
- Nonmonetary exchanges to facilitate sales to customers that involve software

IFRS does not contain corresponding industry guidance.

#### **AA. Related Party Disclosures**

IAS 24 and ASC Topic 850, both titled *Related Party Disclosures*, have similar objectives and requirements for related party disclosures. Principally, both U.S. GAAP and IFRS require disclosures that provide users with an understanding of the reporting entity's related party and control relationships and inform users of the fact that the financial position and results of operations of the reporting entity may have been affected by such relationships. IAS 24 and ASC Topic 850 provide definitions of "related parties" that broadly address persons or entities that have significant influence or control over the reporting entity or are under significant influence or control of the reporting entity. Both standards also include entities under common control or influence in the related party definitions. There are some differences between the definitions in the respective standards, which the Staff believes could affect the identification of related parties, but likely only in limited circumstances.

Despite the similarities in the general requirements, certain differences exist between the specific disclosure requirements in IFRS and U.S. GAAP. For instance, IFRS requires incremental disclosure for outstanding balances, including commitments, with related parties and provisions for bad debts (including expense for the period) relating to such balances. IFRS also requires disclosure of key management personnel<sup>36</sup> compensation in total and for specific categories of

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<sup>36</sup> Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, including directors.

compensation, namely, short-term, post-employment, other long-term and termination benefits, and share-based payments. There is no similar disclosure requirement in U.S. GAAP.<sup>37</sup>

In addition to related party disclosures, IAS 24 and ASC Topic 850 also address control relationships. Specifically, IAS 24 requires disclosure of certain relationships irrespective of whether related party transactions occurred, including parent name and, if different, the ultimate controlling party, and related party relationships where control exists. The corresponding requirements of ASC Topic 850 are slightly more limited, requiring disclosure only in cases of common ownership or management control that could impact the reported results or financial position of the reporting entity and in such cases requiring disclosure only of the nature of the relationship and not of the parties involved.

## **BB. Reorganizations**

U.S. GAAP contains guidance in ASC Topic 852, *Reorganizations*, that is applicable during the course of and upon emergence from bankruptcy and to other corporate reorganizations. IFRS does not contain guidance related to these areas.

ASC Subtopic 852-10 provides guidance on fresh-start reporting that is applicable upon an entity's emergence from Chapter 11 bankruptcy,<sup>38</sup> if certain conditions are met. If fresh-start reporting is required, the reorganizational value of the entity is assigned to the entity's assets and liabilities in conformity with the procedures specified in ASC Subtopic 805-20, *Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest*.

ASC Subtopic 852-20, *Reorganizations—Quasi-Reorganizations*, addresses the accounting applicable to a corporate readjustment procedure in which, without the creation of a new corporate entity and without the intervention of formal court proceedings, an entity restates its balance sheet to fair value (with a limitation, under SEC staff guidance<sup>39</sup> that there may be no overall write-up of net assets).

## **CC. Subsequent Events**

IAS 10, *Events after the Reporting Period*, and ASC Topic 855, *Subsequent Events*, both require consideration of the effects on the financial statements of events that occur after the balance sheet date. Those events that provide evidence of conditions that existed at the balance sheet date require adjustment of the financial statements, whereas other events require disclosure only. The FASB's standard-setting efforts in recent years, primarily through the issuance of FASB

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<sup>37</sup> Item 402 of Regulation S-K requires extensive disclosure of executive compensation outside of the financials for certain individuals. In addition, Item 404 of Regulation S-K separately has disclosure requirements of certain related party transactions.

<sup>38</sup> Chapter 11 of the Bankruptcy Code is a federal statute, enacted October 1, 1979, as title 11 of the United States Code of the Bankruptcy Reform Act of 1978 that applies to all cases filed on or after its enactment and that provides the basis for the current federal bankruptcy system.

<sup>39</sup> See SAB Topic 5.S, Quasi-Reorganization.

Statement No. 165, *Subsequent Events*, (codified in ASC Topic 855) have resulted in a closer alignment of U.S. GAAP and IFRS; however, the two standards are not fully converged.

Subsequent events, and the evaluation period thereof, are defined similarly under IFRS and U.S. GAAP. Under IAS 10, subsequent events are described as events that occur after the end of the reporting period (i.e., the balance sheet date) but before the date when the financial statements are authorized for issue. Under U.S. GAAP, for SEC filers defined therein, subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued. Financial statements are “issued” as of the date that they are distributed for general use and reliance in a form and format that complies with U.S. GAAP, and for annual financial statements, contain an audit report. Therefore, ASC Topic 855 incorporates a potentially longer evaluation period for subsequent events in the event that the financial statements are authorized for issue on a date preceding the actual issuance, which may affect the recognition and measurement of subsequent events.<sup>40</sup>

Specific to the authorization of financial statements for issue, IFRS requires entities to disclose the date when the financial statements were authorized and who gave that authorization. U.S. GAAP does not contain either of these disclosure requirements.

ASC Topic 855 also includes specific guidance with respect to subsequent events and the reissuance of financial statements for which no corresponding guidance exists under IFRS. Under U.S. GAAP, an entity is not permitted to recognize events or transactions that occurred between the time the financial statements were issued and the time they are reissued, unless required by U.S. GAAP or regulatory requirements. Similarly, an entity is not permitted to recognize events or transactions that occurred between the time of original financial statement issuance and reissuance for comparative purposes unless required by U.S. GAAP or regulation. Examples of retrospective adjustments that may be required by U.S. GAAP or other regulation include reporting stock splits, presentation of discontinued operations, and application of a newly adopted accounting standard.

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<sup>40</sup> The Staff notes that, in practice, the effect of this difference may be minimized because of the overriding obligation for U.S. issuers to follow SEC requirements, such as Rule 12b-20 under the Securities Exchange Act of 1934, which states that “in addition to the information expressly required to be included in a statement or report, there shall be added such further material information, if any, as may be necessary to make the required statements, in the light of the circumstances under which they are made not misleading.” Further, we believe that, in practice, there likely will be little difference between the authorization date and the issuance date for U.S. issuers.