



US GAAP versus IFRS

The basics

October 2016

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Introduction

Convergence in several important areas – namely, revenue (mainly implementation of recently issued standards), leasing and financial instruments – was a high priority on the agendas of both the US Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) (collectively, the Boards) at the beginning of 2016. However, in certain cases the Boards reached different conclusions during their deliberations. Therefore, even after those projects are complete, differences will continue to exist between US GAAP as promulgated by the FASB and International Financial Reporting Standards (IFRS) as promulgated by the IASB.

In this guide, we provide an overview by accounting area of where the standards are similar and where differences exist. We believe that any discussion of this topic should not lose sight of the fact that the two sets of standards are generally more alike than different for most commonly encountered transactions, with IFRS being largely, but not entirely, grounded in the same basic principles as US GAAP. The general principles and conceptual framework are often the same or similar in both sets of standards, leading to similar accounting results. The existence of any differences – and their materiality to an entity's financial statements – depends on a variety of specific factors, including the nature of the entity, the details of the transactions, interpretation of the more general IFRS principles, industry practices and accounting policy elections where US GAAP and IFRS offer a choice. This guide focuses on differences most commonly found in present practice and, when applicable, provides an overview of how and when those differences are expected to converge.

Key updates

Our analysis generally reflects guidance effective in 2016 and finalized by the FASB and the IASB as of 31 May 2016; however, we have not included differences related to IFRS 9, *Financial Instruments*, Accounting Standards Update (ASU) 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, IFRS 15, *Revenue from Contracts with customers*, ASU 2014-09, *Revenue from Contracts with Customers*, IFRS 16, *Leases*, and ASU 2016-02, *Leases*, because of the delayed effective date of these standards. These standards will affect wide range of topics. For example, IFRS 15 and ASU 2014-09 will affect revenue from contracts with customers, sale of certain nonfinancial assets and capitalization of certain costs (e.g., advertisement costs), among other items.

Our analysis does not include any guidance related to IFRS for Small and Medium-sized Entities (IFRS for SMEs) as well as Private Company Council (PCC) alternatives that are embedded within US GAAP.

We will continue to update this publication periodically for new developments.

* * * * *

The EY “US GAAP-IFRS Differences Identifier Tool” provides a more in-depth review of differences between US GAAP and IFRS as of 31 May 2016. The Identifier Tool was developed as a resource for companies that need to analyze the numerous accounting decisions and changes inherent in a conversion to IFRS. Conversion is of course more than just an accounting exercise, and identifying accounting differences is only the first step in the process. Successfully converting to IFRS also entails ongoing project management, systems and process change analysis, tax

Introduction

considerations and a review of all company agreements that are based on financial data and measures. EY assurance, tax and advisory professionals are available to share their experiences and to assist companies in analyzing all aspects of the conversion process, from the earliest diagnostic stages through ultimate adoption of the international standards.

To learn more about the Identifier Tool, please contact your local EY professional.

Ernst + Young LLP

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Financial statement presentation

Similarities

There are many similarities in US GAAP and IFRS guidance on financial statement presentation. Under both sets of standards, the components of a complete set of financial statements include: a statement of financial position, a statement of profit and loss (i.e., income statement) and a statement of comprehensive income (either a single continuous statement or two consecutive statements), a statement of cash flows and accompanying notes to the financial statements. Both standards also require the changes in shareholders' equity to be presented. However, US GAAP allows the

changes in shareholders' equity to be presented in the notes to the financial statements while IFRS requires the changes in shareholders' equity to be presented as a separate statement. Further, both require that the financial statements be prepared on the accrual basis of accounting (with the exception of the cash flow statement) except for rare circumstances. IFRS and the Conceptual Framework in US GAAP have similar concepts regarding materiality and consistency that entities have to consider in preparing their financial statements. Differences between the two sets of standards tend to arise in the level of specific guidance provided.

Significant differences

| | US GAAP | IFRS |
|---|---|---|
| Financial periods required | Generally, comparative financial statements are presented; however, a single year may be presented in certain circumstances. Public companies must follow SEC rules, which typically require balance sheets for the two most recent years, while all other statements must cover the three-year period ended on the balance sheet date. | Comparative information must be disclosed with respect to the previous period for all amounts reported in the current period's financial statements. |
| Layout of balance sheet and income statement | No general requirement within US GAAP to prepare the balance sheet and income statement in accordance with a specific layout; however, public companies must follow the detailed requirements in Regulation S-X. | IFRS does not prescribe a standard layout, but includes a list of minimum line items. These minimum line items are less prescriptive than the requirements in Regulation S-X. |
| Balance sheet – presentation of debt as current versus noncurrent | Debt for which there has been a covenant violation may be presented as noncurrent if a lender agreement to waive the right to demand repayment for more than one year exists before the financial statements are issued or available to be issued. | Debt associated with a covenant violation must be presented as current unless the lender agreement was reached prior to the balance sheet date. |

Financial statement presentation

| | US GAAP | IFRS |
|---|--|--|
| Balance sheet – classification of deferred tax assets and liabilities | <p>Prior to the adoption of ASU 2015-17, <i>Balance Sheet Classification of Deferred Taxes</i>, deferred taxes are classified as current or noncurrent, generally based on the nature of the related asset or liability.</p> <p>Following the adoption of ASU 2015-17, all deferred tax assets and liabilities will be classified as noncurrent. (ASU 2015-17 is effective for public business entities (PBEs) in annual periods beginning after 15 December 2016, and interim periods within those annual periods. For non-PBEs, it is effective for annual periods beginning after 15 December 2017, and interim periods within annual periods beginning after 15 December 2018. Early adoption is permitted.)</p> | All amounts classified as noncurrent in the balance sheet. |
| Income statement – classification of expenses | No general requirement within US GAAP to classify income statement items by function or nature. However, SEC registrants are generally required to present expenses based on function (e.g., cost of sales, administrative). | Entities may present expenses based on either function or nature (e.g., salaries, depreciation). However, if function is selected, certain disclosures about the nature of expenses must be included in the notes. |
| Income statement – extraordinary items criteria | <p>Prior to the adoption of ASU 2015-01, <i>Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items</i>, the presentation of extraordinary items was restricted to items that are both unusual and infrequent.</p> <p>ASU 2015-01 which prohibits the presentation of extraordinary items, was issued in 2015. (ASU 2015-01 is effective in annual periods, and interim periods within those annual periods, beginning after 15 December 2015.)</p> | Prohibited. |

Financial statement presentation

| | US GAAP | IFRS |
|---|--|--|
| Income statement – discontinued operations criteria | <p>Prior to the adoption of ASU 2014-08, <i>Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity</i>, discontinued operations classification is for components held for sale or disposed of, provided that there will not be significant continuing cash flows or involvement with the disposed component.</p> <p>Following the adoption of ASU 2014-08, discontinued operations classification is for components that are held for sale or disposed of and represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results. Also, a newly acquired business or nonprofit activity that on acquisition is classified as held for sale qualifies for reporting as a discontinued operation. (ASU 2014-08 is applied prospectively and effective for annual periods beginning on or after 15 December 2014.)</p> | <p>Discontinued operations classification is for components held for sale or disposed of and the component represents a separate major line of business or geographical area, is part of a single coordinated plan to dispose of a separate major line of business or geographical area of or a subsidiary acquired exclusively with an intention to resell.</p> |
| Disclosure of performance measures | <p>No general requirements within US GAAP that address the presentation of specific performance measures. SEC regulations define certain key measures and require the presentation of certain headings and subtotals. Additionally, public companies are prohibited from disclosing non-GAAP measures in the financial statements and accompanying notes.</p> | <p>Certain traditional concepts such as "operating profit" are not defined; therefore, diversity in practice exists regarding line items, headings and subtotals presented on the income statement. IFRS permits the presentation of additional line items, headings and subtotals in the statement of comprehensive income when such presentation is relevant to an understanding of the entity's financial performance. IFRS has requirements on how the subtotals should be presented when they are provided,</p> |
| Third balance sheet | Not required. | <p>A third balance sheet is required as of the beginning of the earliest comparative period when there is a retrospective application of a new accounting policy, or a retrospective restatement or reclassification, that have a material effect on the balances of the third balance sheet. Related notes to the third balance sheet are not required. A third balance sheet is also required in the year an entity first applies IFRS.</p> |

Convergence

No further convergence is planned at this time.

Interim financial reporting

Similarities

ASC 270, *Interim Reporting*, and IAS 34, *Interim Financial Reporting*, are substantially similar except for the treatment of certain costs described below. Both require an entity to apply the accounting policies that were in effect in the prior annual period, subject to the adoption of new policies that are disclosed. Both standards allow for condensed interim financial statements

and provide for similar disclosure requirements. Under both US GAAP and IFRS, income taxes are accounted for based on an estimated average annual effective tax rates. Neither standard requires entities to present interim financial information. That is the purview of securities regulators such as the SEC, which requires US public companies to comply with Regulation S-X.

Significant differences

| | US GAAP | IFRS |
|---|--|--|
| Treatment of certain costs in interim periods | Each interim period is viewed as an integral part of an annual period. As a result, certain costs that benefit more than one interim period may be allocated among those periods, resulting in deferral or accrual of certain costs. | Each interim period is viewed as a discrete reporting period. A cost that does not meet the definition of an asset at the end of an interim period is not deferred, and a liability recognized at an interim reporting date must represent an existing obligation. |

Convergence

No further convergence is planned at this time.

Consolidation, joint venture accounting and equity method investees/associates

Similarities

ASC 810, *Consolidation*, contains the main guidance for consolidation of financial statements, including variable interest entities (VIEs), under US GAAP. IFRS 10, *Consolidated Financial Statements*, contains the IFRS guidance.

Under both US GAAP and IFRS, the determination of whether entities are consolidated by a reporting entity is based on control, although there are differences in how control is defined. Generally, all entities subject to the control of the reporting entity must be consolidated (although there are limited exceptions for a reporting entity that meets the definition of an investment company).

An equity investment that gives an investor significant influence over an investee (referred to as “an associate” in IFRS) is considered an equity method investment under both US GAAP (ASC 323, *Investments – Equity Method and Joint Ventures*) and IFRS (IAS 28, *Investments in Associates and Joint Ventures*). Further, the equity method of accounting for such investments generally is consistent under US GAAP and IFRS.

The characteristics of a joint venture in US GAAP (ASC 323) and IFRS (IFRS 11, *Joint Arrangements*) are similar but certain differences exist. Both US GAAP and IFRS also generally require investors to apply the equity method when accounting for their interests in joint ventures.

Significant differences

| | US GAAP | IFRS |
|---------------------|---|---|
| Consolidation model | <p>Provides for primarily two consolidation models (variable interest model and voting model). The variable interest model evaluates control based on determining which party has power and benefits. The voting model evaluates control based on existing voting rights. All entities are first evaluated as potential variable interest entities (VIEs). If an entity is not a VIE, it is evaluated for control pursuant to the voting model.</p> <p>Potential voting rights are generally not included in either evaluation. The notion of “de facto control” is not considered.</p> | <p>Provides a single control model for all entities, including structured entities (the definition of a structured entity under IFRS 12, <i>Disclosure of Interests in Other Entities</i>, is similar to the definition of a VIE in US GAAP). An investor controls an investee when it is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.</p> <p>Potential voting rights are considered. Notion of “de facto control” is also considered.</p> |

Consolidation, joint venture accounting and equity method investees/associates

| | US GAAP | IFRS |
|---|--|---|
| Preparation of consolidated financial statements – general | Required, although certain industry-specific exceptions exist (e.g., investment companies). | Required, although certain industry-specific exceptions exist (e.g., investment entities), and there is a limited exemption from preparing consolidated financial statements for a parent company that is itself a wholly owned or partially owned subsidiary, if certain conditions are met. |
| Preparation of consolidated financial statements – Investment companies | Investment companies do not consolidate entities that might otherwise require consolidation (e.g., majority-owned corporations). Instead, equity investments in these entities are reflected at fair value as a single line item in the financial statements. A parent of an investment company is required to retain the investment company subsidiary's fair value accounting in the parent's consolidated financial statements. | Investment companies ("investment entities" in IFRS) do not consolidate entities that might otherwise require consolidation (e.g., majority-owned corporations). Instead, these investments are reflected at fair value as a single line item in the financial statements. However, a parent of an investment company consolidates all entities that it controls, including those controlled through an investment company subsidiary, unless the parent itself is an investment company. |
| Preparation of consolidated financial statements – different reporting dates of parent and subsidiaries | The reporting entity and the consolidated entities are permitted to have differences in year-ends of up to three months. The effects of significant events occurring between the reporting dates of the reporting entity and the controlled entities are disclosed in the financial statements. | The financial statements of a parent and its consolidated subsidiaries are prepared as of the same date. When the parent and the subsidiary have different reporting period end dates, the subsidiary prepares (for consolidation purposes) additional financial statements as of the same date as those of the parent, unless it is impracticable. If it is impracticable, when the difference in the reporting period end dates of the parent and subsidiary is three months or less, the financial statements of the subsidiary may be adjusted to reflect significant transactions and events, and it is not necessary to prepare additional financial statements as of the parent's reporting date. |
| Uniform accounting policies | Uniform accounting policies between parent and subsidiary are not required. | Uniform accounting policies between parent and subsidiary are required. |

Consolidation, joint venture accounting and equity method investees/associates

| | US GAAP | IFRS |
|---|---|--|
| Changes in ownership interest in a subsidiary without loss of control | Transactions that result in decreases in the ownership interest of a subsidiary without a loss of control are accounted for as equity transactions in the consolidated entity (i.e., no gain or loss is recognized) when: (1) the subsidiary is a business or nonprofit activity (except in a sale of in substance real estate or a conveyance of oil and gas mineral rights) or (2) the subsidiary is not a business or nonprofit activity, but the substance of the transaction is not addressed directly by other ASC Topics. | Consistent with US GAAP, except that this guidance applies to all subsidiaries, including those that are not businesses or nonprofit activities and those that involve sales of in substance real estate or the conveyance of oil and gas mineral rights. |
| Loss of control of a subsidiary | <p>For certain transactions that result in a loss of control of a subsidiary, any retained noncontrolling investment in the former subsidiary is remeasured to fair value on the date the control is lost, with the gain or loss included in income along with any gain or loss on the ownership interest sold.</p> <p>This accounting is limited to the following transactions: (1) loss of control of a subsidiary that is a business or nonprofit activity (except for a sale of in substance real estate or a conveyance of oil and gas mineral rights); (2) loss of control of a subsidiary that is not a business or nonprofit activity if the substance of the transaction is not addressed directly by other ASC Topics. This guidance also does not apply if a parent ceases to control a subsidiary that is in substance real estate as a result of default on the subsidiary's nonrecourse debt.¹</p> | <p>Consistent with US GAAP, except that this guidance applies to all subsidiaries, including those that are not businesses or nonprofit activities and those that involve sales of in substance real estate or conveyance of oil and gas mineral rights.</p> <p>In addition, the gain or loss resulting from the loss of control of a subsidiary that does not constitute a business in a transaction involving an associate or a joint venture that is accounted for using the equity method is recognized only to the extent of the unrelated investors' interests in that associate or joint venture.²</p> |

¹ ASU 2014-09 *Revenue from Contracts with Customers*, amended this guidance in part. The FASB has proposed further amendments. Readers should monitor developments in this area.

² *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, Amendments to IFRS 10 and IAS 28* was issued by the IASB in September 2014. In December 2015, the IASB indefinitely deferred the effective date of this amendment. However, early adoption of this amendment is still available.

Consolidation, joint venture accounting and equity method investees/associates

| | US GAAP | IFRS |
|---|---|--|
| Loss of control of a group of assets that meet the definition of a business | For certain transactions that result in a loss of control of a group of assets that meet the definition of a business or nonprofit activity, any retained noncontrolling investment in the former group of assets is remeasured to fair value on the date control is lost, with the gain or loss included in income along with any gain or loss on the ownership interest sold. There are two exceptions: a sale of in substance real estate, or a conveyance of oil and gas mineral rights. ¹ | For transactions that result in a loss of control of a group of assets that meet the definition of a business, any retained noncontrolling investment in the former group of assets is remeasured to fair value on the date control is lost, with the gain or loss included in income with any gain or loss on the ownership interest sold. ² |
| Equity method investments | <p>An investment of 20 % or more of the voting common stock of an investee leads to a presumption that an investor has the ability to exercise significant influence over an investee, unless this presumption can be overcome based on facts and circumstances.</p> <p>When determining significant influence, potential voting rights are generally not considered.</p> <p>When an investor in a limited partnership, LLC, trust or similar entity with specific ownership accounts has an interest greater than 3% to 5% in an investee, normally it accounts for its investment using the equity method.</p> <p>ASC 825-10, <i>Financial Instruments</i>, gives entities the option to account for certain equity method investments at fair value. If management does not elect to use the fair value option, the equity method of accounting is required.</p> <p>Conforming accounting policies between investor and investee is generally not permitted.</p> | <p>An investment of 20% or more of the equity of an investee (including potential rights) leads to a presumption that an investor has the ability to exercise significant influence over an investee, unless this presumption can be overcome based on facts and circumstances.</p> <p>When determining significant influence, potential voting rights are considered if currently exercisable.</p> <p>When an investor has an investment in a limited partnership, LLC, trust or similar entity, the determination of significant influence is made using the same general principle of significant influence that is used for all other investments.</p> <p>Investments in associates held by venture capital organizations, mutual funds, unit trusts and similar entities are exempt from using the equity method, and the investor may elect to measure their investments in associates at fair value.</p> <p>Uniform accounting policies between investor and investee are required.</p> |

Consolidation, joint venture accounting and equity method investees/associates

| | US GAAP | IFRS |
|----------------|--|--|
| Joint ventures | <p>Joint ventures are generally defined as entities whose operations and activities are jointly controlled by their equity investors.</p> <p>Joint control is not defined, but it is commonly interpreted to exist when all of the equity investors unanimously consent to each of the significant decisions of the entity.</p> <p>An entity can be a joint venture, regardless of the rights and obligations the parties sharing joint control have with respect to the entity's underlying assets and liabilities.</p> <p>The investors generally account for their interests in joint ventures using the equity method of accounting. They also can elect to account for their interests at fair value.</p> <p>Proportionate consolidation may be permitted to account for interests in unincorporated entities in certain limited industries when it is an established practice (i.e., in the construction and extractive industries).</p> | <p>Joint ventures are separate vehicles in which the parties that have joint control of the separate vehicle have rights to the net assets. These rights could be through equity investors, certain parties with decision-making rights through a contract.</p> <p>Joint control is defined as existing when two or more parties must unanimously consent to each of the significant decisions of the entity.</p> <p>In a joint venture, the parties cannot have direct rights and obligations with respect to the underlying assets and liabilities of the entity (In this case the arrangement would be classified as a joint operation).</p> <p>The investors generally account for their interests in joint ventures using the equity method of accounting. Investments in associates held by venture capital organizations, mutual funds, unit trusts and similar entities are exempt from using the equity method and the investor may elect to measure its investment at fair value</p> <p>Proportionate consolidation is not permitted, regardless of industry. However, when a joint arrangement meets the definition of a joint operation instead of a joint venture under IFRS, an investor would recognize its share of the entity's assets, liabilities, revenues and expenses and not apply the equity method.</p> |

Convergence

The FASB issued final guidance that eliminates the deferral of FAS 167 and makes changes to both the variable interest model and the voting model. While the ASU is aimed at asset managers, all reporting entities will have to re-evaluate limited partnerships and similar entities for consolidation and revise their documentation. It also may affect reporting entities that evaluate certain corporations or similar entities for consolidation. For PBEs, the guidance is effective for annual periods beginning after 15 December 2015 and interim periods therein. Certain differences between consolidation guidance between IFRS and US GAAP (e.g., effective control, potential voting rights) will continue to exist. In June 2016, the FASB proposed additional amendments to the primary beneficiary determination related to interests held through related parties that are under common control. A final ASU is expected in Q4 2016.

In March 2016, the FASB issued ASU 2016-07, *Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting*. ASU 2016-07 eliminates the requirement that an investor retrospectively apply equity method accounting *when an investment that it had accounted for by another method initially qualifies for the equity method. By eliminating retrospective application of the equity method, ASU 2016-07 converges US GAAP with IFRS. However, measurement differences may still exist.*

In June 2016, the FASB issued an exposure draft that is intended to clarify the accounting for sales of in-substance nonfinancial assets after an entity has adopted ASC 606, *Revenue from Contracts with Customers*, which could affect the scope of ASC 810, the initial measurement of a joint venture or equity method investment and the elimination of profit in certain transactions.

In June 2016, the IASB issued an exposure draft to eliminate diversity in practice in accounting for previously held interests in the assets and liabilities of a joint operation that meets the definition of a business for transactions in which an entity obtains control or maintaining joint control of the joint operation.

Business combinations

Similarities

The principal guidance for business combinations in US GAAP (ASC 805, *Business Combinations*) and IFRS (IFRS 3, *Business Combinations*) represents the culmination of the first major convergence project between the IASB and the FASB. Pursuant to ASC 805 and IFRS 3, all business combinations are accounted for using the acquisition method.

Upon obtaining control of another entity, the underlying transaction is measured at fair value, establishing the basis on which the assets, liabilities and noncontrolling interests of the acquired entity are measured. As described below, IFRS 3 provides an alternative to measuring noncontrolling interest at fair value with limited exceptions. Although the new standards are substantially converged, certain differences still exist.

Significant differences

| | US GAAP | IFRS |
|--|--|---|
| Measurement of noncontrolling interest | Noncontrolling interest is measured at fair value, including goodwill. | Noncontrolling interest components that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net asset in the event of liquidation may be measured at: (1) fair value, including goodwill, or (2) the noncontrolling interest's proportionate share of the fair value of the acquiree's identifiable net assets, exclusive of goodwill. All other components of noncontrolling interest are measured at fair value unless another measurement basis is required by IFRS. The choice is available on a transaction-by-transaction basis. |
| Acquiree's operating leases | If the terms of an acquiree operating lease are favorable or unfavorable relative to market terms, the acquirer recognizes an intangible asset or liability, respectively, regardless of whether the acquiree is the lessor or the lessee. | Separate recognition of an intangible asset or liability is required only if the acquiree is a lessee. If the acquiree is the lessor, the terms of the lease are taken into account in estimating the fair value of the asset subject to the lease. Separate recognition of an intangible asset or liability is not required. |

Business combinations

| | US GAAP | IFRS |
|---|--|---|
| Assets and liabilities arising from contingencies | <p><i>Initial recognition and measurement</i></p> <p>Assets and liabilities arising from contingencies are recognized at fair value (in accordance with ASC 820, <i>Fair Value Measurement and Disclosures</i>) if the fair value can be determined during the measurement period. Otherwise, those assets or liabilities are recognized at the acquisition date in accordance with ASC 450, <i>Contingencies</i>, if those criteria for recognition are met.</p> <p>Contingent assets and liabilities that do not meet either of these recognition criteria at the acquisition date are subsequently accounted for in accordance with other applicable literature, including ASC 450, <i>Contingencies</i>. (See Provisions and contingencies" for differences between ASC 450 and IAS 37).</p> <p><i>Subsequent measurement</i></p> <p>If contingent assets and liabilities are initially recognized at fair value, an acquirer should develop a systematic and rational basis for subsequently measuring and accounting for those assets and liabilities depending on their nature.</p> <p>If amounts are initially recognized and measured in accordance with ASC 450, <i>Contingencies</i>, the subsequent accounting and measurement should be based on that guidance.</p> | <p><i>Initial recognition and measurement</i></p> <p>Liabilities arising from contingencies are recognized as of the acquisition date if there is a present obligation that arises from past events and the fair value can be measured reliably. Contingent assets are not recognized.</p> <p><i>Subsequent measurement</i></p> <p>Liabilities subject to contingencies are subsequently measured at the higher of: (1) the amount that would be recognized in accordance with IAS 37, <i>Provisions, Contingent Liabilities and Contingent Assets</i> or (2) the amount initially recognized less, if appropriate, cumulative amortization recognized in accordance with IAS 18, <i>Revenue</i>.</p> |
| Combination of entities under common control | <p>The receiving entity records the net assets at their carrying amounts in the accounts of the transferor (historical cost).</p> | <p>Outside the scope of IFRS 3, <i>Business Combinations</i>. In practice, either follow an approach similar to US GAAP (historical cost) or apply the acquisition method (fair value) if there is substance to the transaction (policy election).</p> |

Business combinations

| | US GAAP | IFRS |
|--|--|--|
| Pushdown accounting | An acquired entity can choose to apply pushdown accounting in its separate financial statements when an acquirer obtains control of it or later. However, an entity's election to apply pushdown accounting is irrevocable. | No guidance exists, and it is unclear whether pushdown accounting is acceptable under IFRS. However, the general view is that entities may not use the hierarchy in IAS 8 to refer to US GAAP and apply pushdown accounting in the separate financial statements of an acquired subsidiary, because the application of pushdown accounting will result in the recognition and measurement of assets and liabilities in a manner that conflicts with certain IFRS standards and interpretations. For example, the application of pushdown accounting generally will result in the recognition of internally generated goodwill and other internally generated intangible assets at the subsidiary level, which conflicts with the guidance in IAS 38. |
| Adjustments to provisional amounts within the measurement period | An acquirer recognizes measurement-period adjustments during the period in which it determines the amounts, including the effect on earnings of any amounts it would have recorded in previous periods if the accounting had been completed at the acquisition date. | An acquirer recognizes measurement-period adjustments on a retrospective basis. The acquirer revises comparative information for any prior periods presented, including revisions for any effects on the prior-period income statement. |

Other differences may arise due to different accounting requirements of other existing US GAAP and IFRS literature (e.g., identifying the acquirer, definition of control, replacement of share-based payment awards, initial classification and subsequent measurement of contingent consideration, initial recognition and measurement of income taxes, initial recognition and measurement of employee benefits).

Convergence

The FASB and IASB issued substantially converged standards in December 2007 and January 2008, respectively. Both boards have completed post-implementation reviews (PIRs) of their respective standards and separately discussed several narrow-scope projects.

In November 2015, the FASB issued an exposure draft to clarify certain aspects of the definition of a business. While the definition of a business is currently converged, the application of the definition by US GAAP and IFRS reporters is often different. The FASB intends for the clarifications to more closely align the interpretations of what constitutes a business. In June 2016, the IASB also issued an exposure draft on the definition of a business as a result of concerns raised in its PIR about the complexity of its application. Although this is not a joint project, the FASB and IASB proposals are substantially converged.

In addition, the IASB has a research project on business combinations of entities under common control.

The accounting for leases (e.g., unfavorable or favorable components) will be affected by the implementation of ASU 2016-02 and IFRS 16.

Inventory

Similarities

ASC 330, *Inventory*, and IAS 2, *Inventories*, are based on the principle that the primary basis of accounting for inventory is cost. Both define inventory as assets held for sale in the ordinary course of business, in the process of production for such sale or to be consumed in the production of goods or services.

Permissible techniques for cost measurement, such as retail inventory method, are similar under both US GAAP and IFRS. Further, under both sets of standards, the cost of inventory includes all direct expenditures to ready inventory for sale, including allocable overhead, while selling costs are excluded from the cost of inventories, as are most storage costs and general administrative costs.

Significant differences

| | US GAAP | IFRS |
|---|--|--|
| Costing methods | Last in, first out (LIFO) is an acceptable method. Consistent cost formula for all inventories similar in nature is not explicitly required. | LIFO is prohibited. Same cost formula must be applied to all inventories similar in nature or use to the entity. |
| Measurement | <p>Prior to the adoption of ASU 2015-11, <i>Inventory (Topic 330): Simplifying the Measurement of Inventory</i>, inventory is carried at the lower of cost or market. Market is defined as current replacement cost, but not greater than net realizable value (estimated selling price less reasonable costs of completion, disposal and transportation) and not less than net realizable value reduced by a normal sales margin.</p> <p>Following the adoption of ASU 2015-11, inventory other than that accounted for under the LIFO or retail inventory method (RIM) is carried at the lower of cost and net realizable value.</p> | Inventory is carried at the lower of cost or net realizable value. Net realizable value is defined as the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale. |
| Reversal of inventory write-downs | Any write-down of inventory to the lower of cost or market creates a new cost basis that subsequently cannot be reversed. | Previously recognized impairment losses are reversed up to the amount of the original impairment loss when the reasons for the impairment no longer exist. |
| Permanent inventory markdowns under the retail inventory method (RIM) | Permanent markdowns do not affect the gross margins used in applying the RIM. Rather, such markdowns reduce the carrying cost of inventory to net realizable value, less an allowance for an approximately normal profit margin, which may be less than both original cost and net realizable value. | Permanent markdowns affect the average gross margin used in applying the RIM. Reduction of the carrying cost of inventory to below the lower of cost or net realizable value is not allowed. |

Convergence

In July 2015 the FASB issued ASU 2015-11, which requires that inventories, other than those accounted for under the LIFO method or RIM, be measured at the lower of cost and net realizable value. The guidance is effective for PBEs for fiscal years beginning after 15 December 2016, and interim periods within those fiscal years. For all other entities, it is effective for fiscal years beginning after 15 December 2016, and interim periods within fiscal years beginning after 15 December 2017. Early adoption is permitted as of the beginning of an interim or annual reporting period. This ASU will generally result in convergence in the subsequent measurement of inventories other than those accounted for under the LIFO method or RIM.

Long-lived assets

Similarities

Although US GAAP does not have a comprehensive standard that addresses long-lived assets, its definition of property, plant and equipment is similar to IAS 16, *Property, Plant and Equipment*, which addresses tangible assets held for use that are expected to be used for more than one reporting period. Other concepts that are similar include the following:

Cost

Both accounting models have similar recognition criteria, requiring that costs be included in the cost of the asset if future economic benefits are probable and can be reliably measured. Neither model allows the capitalization of start-up costs, general administrative and overhead costs or regular maintenance. Both US GAAP and IFRS require that the costs of dismantling an asset and restoring its site (i.e., the costs of asset retirement under ASC 410-20, *Asset Retirement and Environmental Obligations – Asset Retirement Obligations* or IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*) be included in the cost of the asset when there is a legal obligation, but IFRS requires provision in other circumstances as well.

Capitalized interest

ASC 835-20, *Interest – Capitalization of Interest*, and IAS 23, *Borrowing Costs*, require the capitalization of borrowing costs (e.g., interest costs) directly attributable to the acquisition, construction or production of a qualifying asset. Qualifying assets are generally defined similarly under both accounting models. However, there are differences between US GAAP and IFRS in the measurement of eligible borrowing costs for capitalization.

Depreciation

Depreciation of long-lived assets is required on a systematic basis under both accounting models. ASC 250, *Accounting Changes and Error Corrections*, and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, both treat changes in residual value and useful economic life as a change in accounting estimate requiring prospective treatment.

Assets held for sale

Assets held for sale criteria are similar in the *Impairment or Disposal of Long-Lived Assets* subsections of ASC 360-10, *Property, Plant and Equipment* (and in ASC 205-20, *Presentation of Financial Statements – Discontinued Operations*), and IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*. Under both standards, the asset is measured at the lower of its carrying amount or fair value less costs to sell, the assets are not depreciated and they are presented separately on the face of the balance sheet. Exchanges of nonmonetary similar productive assets are also treated similarly under ASC 845, *Nonmonetary Transactions*, and IAS 16, *Property, Plant and Equipment*, both of which allow gain or loss recognition if the exchange has commercial substance and the fair value of the exchange can be reliably measured.

Long-lived assets

Significant differences

| | US GAAP | IFRS |
|----------------------------------|---|--|
| Revaluation of assets | Revaluation not permitted. | Revaluation is a permitted accounting policy election for an entire class of assets, requiring revaluation to fair value on a regular basis. |
| Depreciation of asset components | Component depreciation permitted but not common. | Component depreciation required if components of an asset have differing patterns of benefit. |
| Measurement of borrowing costs | Eligible borrowing costs do not include exchange rate differences. Interest earned on the investment of borrowed funds generally cannot offset interest costs incurred during the period. For borrowings associated with a specific qualifying asset, borrowing costs equal to the weighted-average accumulated expenditures times the borrowing rate are capitalized. | Eligible borrowing costs include exchange rate differences from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. For borrowings associated with a specific qualifying asset, actual borrowing costs are capitalized offset by investment income earned on those borrowings. |
| Costs of a major overhaul | Multiple accounting models have evolved in practice for entities in the airline industry, including expense costs as incurred, capitalize costs and amortize through the date of the next overhaul, or follow the built-in overhaul approach (i.e., a type of composite depreciation). | Costs that represent a replacement of a previously identified component of an asset are capitalized if future economic benefits are probable and the costs can be reliably measured. Otherwise, these costs are expensed as incurred. |
| Investment property | Investment property is not separately defined and, therefore, is accounted for as held and used or held for sale. | Investment property is separately defined in IAS 40, <i>Investment Property</i> , as property held to earn rent or for capital appreciation (or both) and may include property held by lessees under a finance or operating lease. Investment property may be accounted for on a historical cost basis or on a fair value basis as an accounting policy election. Capitalized operating leases classified as investment property must be accounted for using the fair value model. |

Other differences include: hedging gains and losses related to the purchase of assets, constructive obligations to retire assets, the discount rate used to calculate asset retirement costs and the accounting for changes in the residual value.

Convergence

No further convergence is planned at this time.

Intangible assets

Similarities

Both US GAAP (ASC 805, *Business Combinations*, and ASC 350, *Intangibles – Goodwill and Other*) and IFRS (IFRS 3(R), *Business Combinations*, and IAS 38, *Intangible Assets*) define intangible assets as nonmonetary assets without physical substance. The recognition criteria for both accounting models require that there be probable future economic benefits from costs that can be reliably measured, although some costs are never capitalized as intangible assets (e.g., start-up costs). Goodwill is recognized only in a business combination. With the exception of development costs (addressed below), internally developed intangibles are not recognized as assets under either ASC 350 or IAS 38. Moreover, internal costs related to the

research phase of research and development are expensed as incurred under both accounting models.

Amortization of intangible assets over their estimated useful lives is required under both US GAAP and IFRS, with one US GAAP minor exception in ASC 985-20, *Software – Costs of Software to be Sold, Leased or Marketed*, related to the amortization of computer software sold to others. In both sets of standards, if there is no foreseeable limit to the period over which an intangible asset is expected to generate net cash inflows to the entity, the useful life is considered to be indefinite and the asset is not amortized. Goodwill is never amortized under either US GAAP or IFRS.

Significant differences

| | US GAAP | IFRS |
|-------------------|--|---|
| Development costs | Development costs are expensed as incurred unless addressed by guidance in another ASC Topic. Development costs related to computer software developed for external use are capitalized once technological feasibility is established in accordance with specific criteria (ASC 985-20). In the case of software developed for internal use, only those costs incurred during the application development stage (as defined in ASC 350-40, <i>Intangibles – Goodwill and Other – Internal-Use Software</i>) may be capitalized. | Development costs are capitalized when technical and economic feasibility of a project can be demonstrated in accordance with specific criteria, including: demonstrating technical feasibility, intent to complete the asset and ability to sell the asset in the future. Although application of these principles may be largely consistent with ASC 985-20 and ASC 350-40, there is no separate guidance addressing computer software development costs. |
| Advertising costs | Advertising and promotional costs are either expensed as incurred or expensed when the advertising takes place for the first time (policy choice). Direct response advertising may be capitalized if the specific criteria in ASC 340-20, <i>Other Assets and Deferred Costs – Capitalized Advertising Costs</i> , are met. | Advertising and promotional costs are expensed as incurred. A prepayment may be recognized as an asset only when payment for the goods or services is made in advance of the entity having access to the goods or receiving the services. |

Intangible assets

| | US GAAP | IFRS |
|-------------|-------------------------------|---|
| Revaluation | Revaluation is not permitted. | Revaluation to fair value of intangible assets other than goodwill is a permitted accounting policy election for a class of intangible assets. Because revaluation requires reference to an active market for the specific type of intangible, this is relatively uncommon in practice. |

Convergence

In May 2016, the FASB proposed simplifying the accounting for goodwill impairment to reduce the cost and complexity of the goodwill impairment test. The FASB is deliberating a separate project to further reduce the cost and complexity of the subsequent accounting for goodwill (e.g., considering an amortization approach). The FASB also is deliberating a project on accounting for identifiable intangible assets in a business combination with the objective of evaluating whether certain identifiable intangible assets acquired in a business combination should be subsumed into goodwill.

The IASB has a similar project on its research agenda to consider improvements to the impairment requirements for goodwill that was added in response to the findings in its PIR of IFRS 3. Currently, these are not joint projects and generally are not expected to converge the guidance on accounting for goodwill impairment. In the IASB's research project on goodwill and impairment, the IASB plans to similarly consider the subsequent accounting for goodwill. The IASB also is considering which intangible assets should be recognized apart from goodwill, as part of the research project on goodwill and impairment. The IASB and FASB have tentatively planned to make joint decisions on joint papers on both of these projects

(subsequent accounting for goodwill and identifiable intangible assets).

The accounting for certain intangible assets transactions (e.g., advertisement costs) will be affected by the implementation of ASU 2014-09 and IFRS 15.

Impairment of long-lived assets, goodwill and intangible assets

Similarities

Under both US GAAP and IFRS, long-lived assets are not tested annually, but rather when there are similarly defined indicators of impairment. Both standards require goodwill and intangible assets with indefinite useful lives to be tested at least annually for impairment and more frequently if impairment indicators are present. In addition, both US GAAP and IFRS require that the impaired asset be written

down and an impairment loss recognized. ASC 350, *Intangibles – Goodwill and Other, Impairment or Disposal of Long-Lived Assets* subsections of ASC 360-10, *Property, Plant and Equipment*, and IAS 36, *Impairment of Assets*, apply to most long-lived and intangible assets, although some of the scope exceptions listed in the standards differ. Despite the similarity in overall objectives, differences exist in the way impairment is tested, recognized and measured.

Significant differences

| | US GAAP | IFRS |
|--|---|---|
| Method of determining impairment – long-lived assets | Two-step approach requires that a recoverability test be performed first (carrying amount of the asset is compared with the sum of future undiscounted cash flows generated through use and eventual disposition). If it is determined that the asset is not recoverable, an impairment loss calculation is required. | One-step approach requires that impairment loss calculation be performed if impairment indicators exist. |
| Impairment loss calculation – long-lived assets | The amount by which the carrying amount of the asset exceeds its fair value, as calculated in accordance with ASC 820, <i>Fair Value Measurement</i> . | The amount by which the carrying amount of the asset exceeds its recoverable amount; recoverable amount is the higher of: (1) fair value less costs to sell and (2) value in use (the present value of future cash flows in use, including disposal value). |
| Assignment of goodwill | Goodwill is assigned to a reporting unit, which is defined as an operating segment or one level below an operating segment (component). | Goodwill is allocated to a cash-generating unit (CGU) or group of CGUs that represents the lowest level within the entity at which the goodwill is monitored for internal management purposes and cannot be larger than an operating segment (before aggregation) as defined in IFRS 8, <i>Operating Segments</i> . |

Impairment of long-lived assets, goodwill and intangible assets

| | US GAAP | IFRS |
|---|--|--|
| Method of determining impairment – goodwill | Companies have the option to qualitatively assess whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If so, a two-step approach requires a recoverability test to be performed first at the reporting unit level (carrying amount of the reporting unit is compared with the reporting unit fair value). If the carrying amount of the reporting unit exceeds its fair value, then impairment testing must be performed. | Qualitative assessment is not permitted. One-step approach requires that an impairment test be done at the CGU level by comparing the CGU's carrying amount, including goodwill, with its recoverable amount. |
| Method of determining impairment – indefinite-lived intangibles | Companies have the option to qualitatively assess whether it is more likely than not that an indefinite-lived intangible asset is impaired. If a quantitative test is performed, the quantitative impairment test for an indefinite-lived intangible asset requires a comparison of the fair value of the asset with its carrying amount. If the carrying amount of an intangible asset exceeds its fair value, a company should recognize an impairment loss in an amount equal to that excess. | Qualitative assessment is not permitted. One-step approach requires that an impairment test be done at the CGU level by comparing the CGU's carrying amount, including goodwill, with its recoverable amount. |
| Impairment loss calculation – goodwill | The amount by which the carrying amount of goodwill exceeds the implied fair value of the goodwill within its reporting unit. | Impairment loss on the CGU (amount by which the CGU's carrying amount, including goodwill, exceeds its recoverable amount) is allocated first to reduce goodwill to zero, then, subject to certain limitations, the carrying amount of other assets in the CGU are reduced pro rata, based on the carrying amount of each asset. |
| Level of assessment – indefinite-lived intangible assets | Indefinite-lived intangible assets separately recognized should be assessed for impairment individually unless they operate in concert with other indefinite-lived intangible assets as a single asset (i.e., the indefinite-lived intangible assets are essentially inseparable). Indefinite-lived intangible assets may not be combined with other assets (e.g., finite-lived intangible assets or goodwill) for purposes of an impairment test. | If the indefinite-lived intangible asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, then the indefinite-lived intangible asset should be tested for impairment as part of the CGU to which it belongs, unless certain conditions are met. |

Impairment of long-lived assets, goodwill and intangible assets

| | US GAAP | IFRS |
|--|--|--|
| Impairment loss calculation – indefinite-lived intangible assets | The amount by which the carrying amount of the asset exceeds its fair value. | The amount by which the carrying amount of the asset exceeds its recoverable amount. |
| Reversal of loss | Prohibited for all assets to be held and used. | Prohibited for goodwill. Other assets must be reviewed at the end of each reporting period for reversal indicators. If appropriate, loss should be reversed up to the newly estimated recoverable amount, not to exceed the initial carrying amount adjusted for depreciation. |

Convergence

Neither the IASB nor the FASB has any current plans to converge the guidance on impairment of long-lived assets.

In May 2016, the FASB proposed simplifying the accounting for goodwill impairment to reduce the cost and complexity of the goodwill impairment test. The FASB is deliberating a separate project to further reduce the cost and complexity of the subsequent accounting for goodwill (e.g., considering an amortization approach). The FASB also is deliberating a project on accounting for identifiable intangible assets in a business combination with the objective of evaluating whether certain identifiable intangible assets acquired in a business combination should be subsumed into goodwill.

The IASB has a similar project on its research agenda to consider improvements to the impairment requirements for goodwill that was added in response to the findings in its PIR of IFRS 3. Currently, these are not joint projects and generally are not expected to converge the guidance on accounting for goodwill impairment. In the IASB's research project on goodwill and impairment, the IASB plans to similarly consider the subsequent accounting for goodwill. The IASB also is considering which intangible assets should be recognized apart from goodwill, as part of the research project on goodwill and impairment. The IASB and FASB have tentatively planned to make joint decisions on joint papers on both of these projects (subsequent accounting for goodwill and identifiable intangible assets).

Financial instruments

Similarities

The US GAAP guidance for financial instruments is located in numerous ASC Topics, including ASC 310, *Receivables*; ASC 320, *Investments – Debt and Equity Securities*; ASC 470, *Debt*; ASC 480, *Distinguishing Liabilities from Equity*; ASC 815, *Derivatives and Hedging*; ASC 820, *Fair Value Measurement*; ASC 825, *Financial Instruments*; ASC 860, *Transfers and Servicing*; and ASC 948, *Financial Services – Mortgage Banking*.

IFRS guidance for financial instruments, on the other hand, is limited to IAS 32, *Financial Instruments: Presentation*; IAS 39, *Financial Instruments: Recognition and Measurement*;

IFRS 7, *Financial Instruments: Disclosures*; and IFRS 13, *Fair Value Measurement*.

Both US GAAP and IFRS (1) require financial instruments to be classified into specific categories to determine the measurement of those instruments, (2) clarify when financial instruments should be recognized or derecognized in financial statements, (3) require the recognition of all derivatives on the balance sheet and (4) require detailed disclosures in the notes to the financial statements for the financial instruments reported in the balance sheet. Both sets of standards also allow hedge accounting and the use of a fair value option.

Significant differences

| | US GAAP | IFRS |
|---|--|---|
| Debt vs. equity | | |
| Classification | <p>US GAAP specifically identifies certain instruments with characteristics of both debt and equity that must be classified as liabilities.</p> <p>Certain other contracts that are indexed to, and potentially settled in, an entity's own stock may be classified as equity if they either: (1) require physical settlement or net-share settlement, or (2) give the issuer a choice of net-cash settlement or settlement in its own shares.</p> | <p>Classification of certain instruments with characteristics of both debt and equity is largely based on the contractual obligation to deliver cash, assets or an entity's own shares. Economic compulsion does not constitute a contractual obligation.</p> <p>Contracts that are indexed to, and potentially settled in, an entity's own stock are classified as equity if settled only by delivering a fixed number of shares for a fixed amount of cash.</p> |
| Compound (hybrid) financial instruments | <p>Compound (hybrid) financial instruments (e.g., convertible bonds) are not split into debt and equity components unless certain specific requirements are met, but they may be bifurcated into debt and derivative components, with the derivative component accounted for using fair value accounting.</p> | <p>Compound (hybrid) financial instruments are required to be split into a debt and equity component and, if applicable, a derivative component. The derivative component is accounted for using fair value accounting.</p> |

| | US GAAP | IFRS |
|--|---|---|
| Recognition and measurement | | |
| Impairment recognition – available-for-sale (AFS) debt instruments | <p>Declines in fair value below cost may result in an impairment loss being recognized in the income statement on an AFS debt instrument due solely to a change in interest rates (risk-free or otherwise) if the entity has the intent to sell the debt instrument or it is more likely than not that it will be required to sell the debt instrument before its anticipated recovery. In this circumstance, the impairment loss is measured as the difference between the debt instrument's amortized cost basis and its fair value.</p> <p>When a credit loss exists, but (1) the entity does not intend to sell the debt instrument, or (2) it is not more likely than not that the entity will be required to sell the debt instrument before the recovery of the remaining cost basis, the impairment is separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total impairment related to the credit loss is recognized in the income statement and the amount related to all other factors is recognized in other comprehensive income, net of applicable taxes.</p> <p>When an impairment loss is recognized in the income statement, a new cost basis in the instrument is established equal to the previous cost basis less the impairment recognized in earnings, and therefore, impairment losses recognized in the income statement cannot be reversed for any future recoveries.</p> | <p>Generally, only objective evidence of one or more credit loss events result in an impairment being recognized in the statement of comprehensive income for an AFS debt instrument. The impairment loss is measured as the difference between the debt instrument's amortized cost basis and its fair value.</p> <p>Impairment losses for AFS debt instruments may be reversed through the statement of comprehensive income if the fair value of the instrument increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognized.</p> |

Financial instruments

| | US GAAP | IFRS |
|--|--|--|
| Impairment recognition – available-for-sale (AFS) equity instruments | Impairment of an AFS equity instrument is recognized in the income statement if the equity instrument's fair value is not expected to recover sufficiently in the near term to allow a full recovery of the entity's cost basis. An entity must have the intent and ability to hold an impaired equity instrument until such near-term recovery; otherwise an impairment loss must be recognized in the income statement. | Impairment of an AFS equity instrument is recognized in the statement of comprehensive income when there is objective evidence that the AFS equity instrument is impaired and the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an equity instrument below its cost is considered objective evidence of an impairment. |
| Impairment recognition – held-to-maturity (HTM) debt instruments | <p>The impairment loss of a HTM instrument is measured as the difference between its fair value and amortized cost basis. The amount of the total impairment related to the credit loss is recognized in the income statement, and the amount related to all other factors is recognized in other comprehensive income.</p> <p>The carrying amount of an HTM investment after recognition of an impairment is the fair value of the debt instrument at the date of the impairment. The new cost basis of the debt instrument is equal to the previous cost basis less the impairment recognized in the income statement.</p> <p>The impairment recognized in other comprehensive income is accreted to the carrying amount of the HTM instrument through other comprehensive income over its remaining life.</p> | <p>The impairment loss of an HTM instrument is measured as the difference between the carrying amount of the instrument and the present value of estimated future cash flows discounted at the instrument's original effective interest rate.</p> <p>The carrying amount of the instrument is reduced either directly or through the use of an allowance account.</p> <p>The amount of impairment loss is recognized in the statement of comprehensive income.</p> |

Financial instruments

| | US GAAP | IFRS |
|--|---|--|
| Derivatives and hedging | | |
| Definition of a derivative and scope exceptions | To meet the definition of a derivative, an instrument must have one or more underlyings, one or more notional amounts or payment provisions or both, must require no initial net investment, as defined, and must be able to be settled net, as defined. Certain scope exceptions exist for instruments that would otherwise meet these criteria. | The IFRS definition of a derivative does not include a requirement that a notional amount be indicated, nor is net settlement a requirement. Certain of the scope exceptions under IFRS differ from those under US GAAP. |
| Hedging a risk component of a financial instrument | The risk components that may be hedged are specifically defined by the literature, with no additional flexibility. | Allows risks associated with only a portion of the instrument's cash flows or fair value (such as one or more selected contractual cash flows or portions of them or a percentage of the fair value) provided that effectiveness can be measured: that is, the portion is separately identifiable and reliably measurable. |
| Hedge effectiveness | The shortcut method for interest rate swaps hedging recognized debt instruments is permitted. The long-haul method of assessing and measuring hedge effectiveness for a fair value hedge of the benchmark interest rate component of a fixed rate debt instrument requires that all contractual cash flows be considered in calculating the change in the hedged item's fair value even though only a component of the contractual coupon payment is the designated hedged item. | The shortcut method for interest rate swaps hedging recognized debt is not permitted. Under IFRS, assessment and measurement of hedge effectiveness considers only the change in fair value of the designated hedged portion of the instrument's cash flows, as long as the portion is separately identifiable and reliably measurable. |
| Hedge effectiveness – inclusion of option's time value | Permitted. | Not permitted. |

Financial instruments

| | US GAAP | IFRS |
|---|---|--|
| Derecognition | | |
| Derecognition of financial assets | <p>Derecognition of financial assets (i.e., sales treatment) occurs when effective control over the financial asset has been surrendered:</p> <ul style="list-style-type: none"> ▶ The transferred financial assets are legally isolated from the transferor ▶ Each transferee (or, if the transferee is a securitization entity or an entity whose sole purpose is to facilitate an asset-backed financing, each holder of its beneficial interests), has the right to pledge or exchange the transferred financial assets (or beneficial interests) ▶ The transferor does not maintain effective control over the transferred financial assets or beneficial interests (e.g., through a call option or repurchase agreement) <p>The derecognition criteria may be applied to a portion of a financial asset only if it mirrors the characteristics of the original entire financial asset.</p> | <p>Derecognition of financial assets is based on a mixed model that considers transfer of risks and rewards and control. Transfer of control is considered only when the transfer of risks and rewards assessment is not conclusive. If the transferor has neither retained nor transferred substantially all of the risks and rewards, there is then an evaluation of the transfer of control. Control is considered to be surrendered if the transferee has the practical ability to unilaterally sell the transferred asset to a third party without restrictions. There is no legal isolation test.</p> <p>The derecognition criteria may be applied to a portion of a financial asset if the cash flows are specifically identified or represent a pro rata share of the financial asset or a pro rata share of specifically identified cash flows.</p> |
| Loans and receivables | | |
| Measurement – effective interest method | Requires catch-up approach, retrospective method or prospective method of calculating the interest for amortized cost-based assets, depending on the type of instrument. | Requires the original effective interest rate to be used throughout the life of the instrument for all financial assets and liabilities, except for certain reclassified financial assets, in which case the effect of increases in cash flows are recognized as prospective adjustments to the effective interest rate. |
| Measurement – loans and receivables | Unless the fair value option is elected, loans and receivables are classified as either: (1) held for investment, which are measured at amortized cost, or (2) held for sale, which are measured at the lower of cost or fair value. | Loans and receivables are carried at amortized cost unless classified into the “fair value through profit or loss” category or the “available for sale” category, both of which are carried at fair value on the balance sheet. |

| | US GAAP | IFRS |
|---|--|--|
| Fair value measurement | | |
| Day one gains and losses | Entities are not precluded from recognizing day one gains and losses on financial instruments reported at fair value even when all inputs to the measurement model are not observable. Unlike IFRS, US GAAP contains no specific requirements regarding the observability of inputs, thereby potentially allowing for the recognition of gains or losses at initial recognition of an asset or liability even when the fair value measurement is based on a valuation model with significant unobservable inputs (i.e., Level 3 measurements). | Day one gains and losses on financial instruments are recognized only when their fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a level 1 or level 2 input) or based on a valuation technique that uses only data from observable markets. |
| Practical expedient for alternative investments | Entities are provided a practical expedient to estimate the fair value of certain alternative investments (e.g., a limited partner interest in a Private Equity fund) using net asset value per share (NAV) or its equivalent. | No practical expedient to assume that NAV represents the fair value of certain alternative investments. |

Other differences include: (1) definitions of a derivative and embedded derivative, (2) cash flow hedge – basis adjustment and effectiveness testing, (3) normal purchase and sale exception, (4) foreign exchange gain and/or losses on AFS investments, (5) recognition of basis adjustments when hedging future transactions, (6) macro hedging, (7) hedging net investments, (8) cash flow hedge of intercompany transactions, (9) hedging with internal derivatives, (10) impairment criteria for equity investments, (11) puttable minority interest, (12) netting and offsetting arrangements, (13) unit of account eligible for derecognition and (14) accounting for servicing assets and liabilities.

Convergence

The FASB and the IASB have been engaged in projects to simplify and improve the accounting for financial instruments.

Classification and measurement

The IASB issued the final version of IFRS 9, *Financial Instruments* in July 2014. In January 2016, the FASB issued Accounting Standards Update (ASU) 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which will require entities to measure equity investments (except those accounted for under the equity method, those that result in consolidation of the investee and certain other investments) at fair value and recognize any changes in fair value in net income. A measurement alternative will be available for

Financial instruments

equity investments that lack a readily determinable fair value. The ASU does not change the guidance for classifying and measuring investments in debt securities.

The ASU will also require entities to record changes in instrument-specific credit risk for financial liabilities measured under the fair value option in other comprehensive income. It also makes other targeted amendments to certain disclosure requirements and other aspects of current US GAAP.

The FASB ultimately decided to make only targeted amendments in response to feedback it received on two earlier proposals, resulting in a significant departure from the joint model it developed with the IASB and the final version of IFRS 9. As a result, entities that report under US GAAP will use a significantly different model for classifying and measuring financial instruments than entities that report under IFRS.

ASU 2016-01 is effective for calendar-year PBEs beginning in 2018. For all other calendar-year entities, it is effective for annual periods beginning in 2019 and interim periods beginning in 2020. Non-PBEs can adopt the standard at the same time as PBEs, and both PBEs and non-PBEs can early adopt certain provisions.

Impairment

The FASB initially worked with the IASB to develop new guidance, but the Boards ultimately were unable to reach a converged solution. The FASB's ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* was issued in June 2016, and differs from the three-stage impairment model the IASB finalized as part of IFRS 9. Under the FASB's approach, an entity will record an

allowance for credit losses that reflects the portion of the amortized cost balance the entity does not expect to collect over the life of all financial assets that are debt instruments measured at amortized cost. Available-for-sale debt securities will be subject to today's impairment model with a few modifications, including the use of an allowance to recognize credit losses, as opposed to a direct write-down of the amortized cost as is done today. The FASB's final standard has tiered effective dates starting in 2019 for calendar-year entities. Early adoption in 2018 is permitted for all calendar-year entities.

Hedge accounting

IFRS 9 introduces a substantial overhaul of the hedge accounting model that aligns the accounting treatment with risk management activities. The aim of the new standard is to allow entities to better reflect these activities in their financial statements and provide users of the financial statements with better information about risk management and the effect of hedge accounting on the financial statements.

In September 2016 the FASB issued an exposure draft to make certain targeted improvements to its hedge accounting model in an effort to make the accounting easier for companies to apply and for users of the financial statements to understand.

This section has not been updated for IFRS 9, ASU 2016-01 or ASU 2016-13 because of their delayed effective dates.

Foreign currency matters

Similarities

ASC 830, *Foreign Currency Matters*, and IAS 21, *The Effects of Changes in Foreign Exchange Rates*, are similar in their approach to foreign currency translation. Although the criteria to determine an entity's functional currency are different under US GAAP and IFRS, both ASC 830 and IAS 21 generally result in the same determination (i.e., the currency of the entity's primary economic environment). In addition, although there are differences in accounting for foreign currency translation in hyperinflationary economies under ASC 830 and IAS 29, *Financial Reporting in Hyperinflationary Economies*, both sets of standards require the identification of hyperinflationary economies and generally consider the same economies to be hyperinflationary.

Both US GAAP and IFRS require foreign currency transactions to be remeasured into an entity's functional currency with amounts

resulting from changes in exchange rates reported in income. Except for the translation of financial statements in hyperinflationary economies, the method used to translate financial statements from the functional currency to the reporting currency generally is the same. In addition, both US GAAP and IFRS require remeasurement into the functional currency before translation into the reporting currency. Assets and liabilities are translated at the period-end rate and income statement amounts generally are translated at the average rate, with the exchange differences reported in equity. Both sets of standards also require certain foreign exchange effects related to net investments in foreign operations to be accumulated in shareholders' equity (i.e., the cumulative translation adjustment portion of other comprehensive income). In general, these amounts are reflected in income when there is a sale, complete liquidation or abandonment of the foreign operation.

Significant differences

| | US GAAP | IFRS |
|--|---|---|
| Translation/functional currency of foreign operations in a hyperinflationary economy | Local functional currency financial statements are remeasured as if the functional currency was the reporting currency (US dollar in the case of a US parent) with resulting exchange differences recognized in income. | The functional currency must be maintained. However, local functional currency financial statement amounts not already measured at the current rate at the end of the reporting period (current and prior period) are indexed using a general price index (i.e., restated in terms of the measuring unit current at the balance sheet date with the resultant effects recognized in income), and are then translated to the reporting currency at the current rate. |

Foreign currency matters

| | US GAAP | IFRS |
|-------------------------------------|--|--|
| Consolidation of foreign operations | <p>A “bottom-up” approach is required in order to reflect the appropriate foreign currency effects and hedges in place. As such, an entity should be consolidated by the enterprise that controls the entity. Therefore, the “step-by-step” method of consolidation is used, whereby each entity is consolidated into its immediate parent until the ultimate parent has consolidated the financial statements of all the entities below it.</p> | <p>The method of consolidation is not specified and, as a result, either the “direct” or the “step-by-step” method of consolidation is used. Under the “direct” method, each entity within the consolidated group is directly translated into the functional currency of the ultimate parent and then consolidated into the ultimate parent (i.e., the reporting entity) without regard to any intermediate parent. The choice of consolidation method used could affect the cumulative translation adjustments deferred within equity at intermediate levels, and therefore the recycling of such exchange rate differences upon disposal of an intermediate foreign operation.</p> |

Convergence

No further convergence is planned at this time.

Leases

Similarities

The overall accounting for leases under US GAAP and IFRS (ASC 840, *Leases* and IAS 17, *Leases*, respectively) is similar, although US GAAP has more specific application guidance than IFRS. Both focus on classifying leases as either capital (IAS 17 uses the term “finance”) or operating, and both separately discuss lessee and lessor accounting.

Lessee accounting (excluding real estate)

US GAAP provides criteria (ASC 840) and IFRS provides indicators (IAS 17) to determine whether a lease is capital or operating. The criteria or indicators of a capital lease are similar in that both standards include the transfer of ownership to the lessee at the end of the lease term and a purchase option that, at inception, is reasonably expected to be exercised. ASC 840 requires capital lease treatment if the lease term is equal to or greater than 75% of the asset’s economic life, while IAS 17 requires such treatment when the lease term is a “major part” of the asset’s economic life. ASC 840 specifies capital lease treatment if the present value of the minimum lease payments equals or exceeds 90% of the asset’s fair value, while IAS 17 uses the term “substantially all” of the fair value. In practice, while ASC 840 specifies bright lines in certain instances, IAS 17’s general principles are interpreted similarly to the bright-line tests. As a result, lease classification is often the same under ASC 840 and IAS 17.

Under both US GAAP and IFRS, a lessee would record a capital (finance) lease by recognizing an asset and a liability, measured at the lower of the present value of the minimum lease payments or fair value of the asset. A lessee would record an operating lease by recognizing expense generally on a straight-line basis over the lease term. Any incentives under an operating lease are amortized on a straight-line basis over the term of the lease.

Lessor accounting (excluding real estate)

Lessor accounting under ASC 840 and IAS 17 is similar and uses the above tests to determine whether a lease is a sales-type/direct financing lease (referred to as a finance lease under IAS 17) or an operating lease. ASC 840 specifies two additional criteria (i.e., collection of lease payments is reasonably predictable and no important uncertainties surround the amount of unreimbursable costs to be incurred by the lessor) for a lessor to qualify for sales-type/direct financing lease accounting that IAS 17 does not. Although not specified in IAS 17, it is reasonable to expect that if these conditions exist, the same conclusion may be reached under both standards. If a lease is a sales-type/direct financing (finance) lease, the leased asset is replaced with a lease receivable. If a lease is classified as operating, rental income is recognized generally on a straight-line basis over the lease term and the leased asset is depreciated by the lessor over its useful life.

Significant differences

| | US GAAP | IFRS |
|--|---|---|
| Lease of real estate | <p>A lease of land and buildings that transfers ownership to the lessee or contains a bargain purchase option would be classified as a capital lease by the lessee, regardless of the relative value of the land.</p> <p>If the fair value of the land at inception represents less than 25% of the total fair value of the lease, the lessee accounts for the land and building components as a single unit for purposes of evaluating the 75% and 90% tests noted above.</p> <p>Otherwise, the lessee must consider the land and building components separately for purposes of evaluating other lease classification criteria. (Note: Only the building is subject to the 75% and 90% tests in this case).</p> | <p>The land and building elements of the lease are considered separately when evaluating all indicators unless the amount that would initially be recognized for the land element is immaterial, in which case they would be treated as a single unit for purposes of lease classification.</p> <p>There is no 25% test to determine whether to consider the land and building separately when evaluating certain indicators.</p> |
| Recognition of a gain or loss on a sale and leaseback when the leaseback is an operating leaseback (non-real estate) | <p>If the seller-lessee retains only a minor use of the leased asset through the sale-leaseback, the sale and leaseback are accounted for as separate transactions based on their respective terms (unless rentals are unreasonable in relation to market conditions).</p> <p>If a seller-lessee retains more than a minor use of the leased asset but less than substantially all of it, and the profit on the sale exceeds the present value of the minimum lease payments due under the operating leaseback, that excess is recognized as profit at the date of sale. All other profit is deferred and generally amortized over the lease term.</p> <p>(Note: If real estate is involved, the specialized rules are very restrictive with respect to the seller's continuing involvement, and they may not allow for recognition of the sale).</p> | <p>Gain or loss is recognized immediately, subject to adjustment if the sales price differs from fair value.</p> |

Leases

| | US GAAP | IFRS |
|---|--|---|
| Recognition of gain or loss on a sale-leaseback when the leaseback is a capital leaseback | The seller-lessee is presumed to have retained substantially all of the remaining use of the leased asset when the leaseback is classified as a capital lease. In such cases, the profit on sale is deferred. | Gain or loss deferred and amortized over the lease term. |
| Sale and leaseback of real estate | If real estate is involved, while the above model generally applies, the specialized rules also must be applied. Those rules are very restrictive with respect to the seller's continuing involvement, and they may not allow for recognition of the sale. | There is no real estate specific guidance for sale and leaseback transactions under IFRS. |

Other differences include: (1) the treatment of a leveraged lease by a lessor under ASC 840 (IAS 17 does not have such classification), (2) real estate sale-leasebacks, (3) real estate sales-type leases, (4) leases of land and (5) the rate used to discount minimum lease payments to the present value for purposes of determining lease classification and subsequent recognition of a capital lease, including in the event of a renewal.

Convergence

In early 2016, the IASB and the FASB each issued a new lease accounting standard, IFRS 16, *Leases*, and ASC 842, *Leases*. Both standards require lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right-of-use assets. However, there are significant differences between the standards (e.g., lessees do not classify leases under IFRS and can elect to account for leases of low-value assets under a model similar to today's operating leases).

This section has not been updated for these standards and the related consequential amendments because of their delayed effective dates.

Income taxes

Similarities

ASC 740, *Income Taxes*, and IAS 12, *Income Taxes*, require entities to account for both current tax effects and expected future tax consequences of events that have been recognized (i.e., deferred taxes) using an asset and liability approach. Deferred taxes for

temporary differences arising from non-deductible goodwill are not recorded under both US GAAP and IFRS, and tax effects of items accounted for directly in equity during the current year are allocated directly to equity. Neither US GAAP nor IFRS permits the discounting of deferred taxes.

Significant differences

| | US GAAP | IFRS |
|---|--|--|
| Tax basis | Tax basis is a question of fact under the tax law. For most assets and liabilities, there is no dispute on this amount; however, when uncertainty exists, it is determined in accordance with ASC 740-10-25. | Tax basis is generally the amount deductible or taxable for tax purposes. The manner in which management intends to settle or recover the carrying amount affects the determination of tax basis. |
| Taxes on intercompany transfers of assets that remain within a consolidated group | Requires taxes paid on intercompany profits to be deferred and prohibits the recognition of deferred taxes on temporary differences between the tax bases of assets transferred between entities/tax jurisdictions that remain within the consolidated group. | Requires taxes paid on intercompany profits to be recognized as incurred and requires the recognition of deferred taxes on temporary differences between the tax bases of assets transferred between entities/tax jurisdictions that remain within the consolidated group. |
| Uncertain tax positions | ASC 740-10-25 requires a two-step process, separating recognition from measurement. A benefit is recognized when it is "more likely than not" to be sustained based on the technical merits of the position. Detection risk is precluded from being considered in the analysis. The amount of benefit to be recognized is based on the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement. | IFRS does not include specific guidance. IAS 12, <i>Income Taxes</i> indicates that tax assets and liabilities should be measured at the amount expected to be paid based on enacted or substantively enacted tax legislation. Some adopt a "one-step" approach that recognizes all uncertain tax positions at an expected value. Others adopt a "two-step" approach that recognizes only those uncertain tax positions that are considered more likely than not to result in a cash outflow. Practice varies regarding the consideration of detection risk in the analysis. |

Income taxes

| | US GAAP | IFRS |
|---|--|---|
| Initial recognition exemption | Does not include an exemption like that under IFRS for non-recognition of deferred tax effects for certain assets or liabilities. | Deferred tax effects arising from the initial recognition of an asset or liability are not recognized when: (1) the amounts did not arise from a business combination, and (2) upon occurrence, the transaction affects neither accounting nor taxable profit (e.g., acquisition of non-deductible assets). |
| Recognition of deferred tax assets | Recognized in full (except for certain outside basis differences), but valuation allowance reduces asset to the amount that is more likely than not to be realized. | Amounts are recognized only to the extent it is probable (similar to "more likely than not" under US GAAP) that they will be realized. |
| Calculation of deferred tax asset or liability | Enacted tax rates must be used. | Enacted or "substantively enacted" tax rates as of the balance sheet date must be used. |
| Classification of deferred tax assets and liabilities in balance sheet | <u>Prior to the adoption of ASU 2015-17:</u> Current or noncurrent classification, based on the nature of the related asset or liability, is required. <u>After the adoption of ASU 2015-17:</u> Deferred tax liabilities and assets must be classified as noncurrent in the balance sheet. | All amounts classified as noncurrent in the balance sheet. |
| Recognition of deferred tax liabilities from investments in subsidiaries or joint ventures (JVs) (often referred to as outside basis differences) | Recognition not required for investment in a foreign subsidiary or foreign corporate JV that is essentially permanent in duration, unless it becomes apparent that the difference will reverse in the foreseeable future. | Recognition required unless the reporting entity has control over the timing of the reversal of the temporary difference and it is probable (more likely than not) that the difference will not reverse in the foreseeable future. |

Other differences include: (1) the allocation of subsequent changes to deferred taxes to components of income or equity, (2) the calculation of deferred taxes on foreign nonmonetary assets and liabilities when the local currency of an entity is different than its functional currency, (3) the measurement of

deferred taxes when different tax rates apply to distributed or undistributed profits and (4) the recognition of deferred tax assets on basis differences in domestic subsidiaries and domestic joint ventures that are permanent in duration.

Convergence

The Boards have abandoned plans for a joint convergence project. However, the IASB and FASB have separately undertaken projects that have resulted in further alignment in various areas of accounting for income taxes.

In October 2015, the IFRS Interpretations Committee issued a proposed interpretation that would provide guidance on accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. Developments on this proposal should be monitored.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes*. ASU 2015-17 requires entities to classify all deferred tax assets and liabilities as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. For PBEs, ASU 2015-17 is effective for annual periods beginning after 15 December 2016, and interim periods within those annual periods. For non-PBEs, it is effective for annual periods beginning after 15 December 2017, and interim periods within annual periods beginning after 15 December 2018. Early adoption is permitted.

In an exposure draft released in January 2015, the FASB proposed requiring companies to immediately recognize income tax effects on intercompany transaction in their income statements, eliminating the current exception that requires companies to defer the income tax effects of certain intercompany transactions. In June 2016, the FASB decided it was determined that the current exception would be retained only for transfers of inventory within a consolidated group. A final standard is expected in 2016.

Provisions and contingencies

Similarities

While the sources of guidance under US GAAP and IFRS differ significantly, the general recognition criteria for provisions are similar. IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, provides the overall guidance for recognition and measurement criteria of provisions and contingencies. While there is no equivalent single standard under US GAAP, ASC 450, *Contingencies*, and a number of other standards deal with specific types of provisions and contingencies (e.g., ASC 410, *Asset Retirement and Environmental Obligations*; ASC 420, *Exit or Disposal Cost Obligations*). In addition, although

non-authoritative, the guidance in two Concept Statements in US GAAP (CON 5, *Recognition and Measurement in Financial Statements of Business Enterprises*, and CON 6, *Elements of Financial Statements*) is similar to the specific recognition criteria provided in IAS 37. Both US GAAP and IFRS require recognition of a loss based on the probability of occurrence, although the definition of probability is different under US GAAP and IFRS. Both US GAAP and IFRS prohibit the recognition of provisions for costs associated with future operating activities. Further, both US GAAP and IFRS require disclosures about a contingent liability whose occurrence is more than remote but does not meet the recognition criteria.

Significant differences

| | US GAAP | IFRS |
|------------------------|---|---|
| Recognition threshold | A loss must be “probable” (in which probable is interpreted as likely) to be recognized. While ASC 450 does not ascribe a percentage to probable, it is intended to denote a high likelihood (e.g., 70% or more). | A loss must be “probable” (in which probable is interpreted as “more likely than not”) to be recognized. More likely than not refers to a probability of greater than 50%. |
| Discounting provisions | Provisions may be discounted only when the amount of the liability and the timing of the payments are fixed or reliably determinable, or when the obligation is a fair value obligation (e.g., an asset retirement obligation under ASC 410-20). The discount rate to be used is dependent upon the nature of the provision, and may vary from that used under IFRS. However, when a provision is measured at fair value, the time value of money and the risks specific to the liability should be considered. | Provisions should be recorded at the estimated amount to settle or transfer the obligation taking into consideration the time value of money. The discount rate to be used should be “a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability.” |

Provisions and contingencies

| | US GAAP | IFRS |
|--|---|--|
| Measurement of provisions – range of possible outcomes | Most likely outcome within range should be accrued. When no one outcome is more likely than the others, the minimum amount in the range of outcomes should be accrued. | Best estimate of obligation should be accrued. For a large population of items being measured, such as warranty costs, best estimate is typically expected value, although midpoint in the range may also be used when any point in a continuous range is as likely as another. Best estimate for a single obligation may be the most likely outcome, although other possible outcomes should still be considered. |
| Restructuring costs | Under ASC 420, <i>Exit or Disposal Cost Obligations</i> once management has committed to a detailed exit plan, each type of cost is examined to determine when recognized. Involuntary employee termination costs under a one-time benefit arrangement are recognized over future service period, or immediately if there is no future service required. Other exit costs are expensed when incurred. | Once management has “demonstrably committed” (i.e., a legal or constructive obligation has been incurred) to a detailed exit plan, the general provisions of IAS 37, <i>Provisions, Contingent Liabilities and Contingent Assets</i> apply. Costs typically are recognized earlier than under US GAAP because IAS 37 focuses on the exit plan as a whole, rather than individual cost components of the plan. |

Convergence

No further convergence is planned at this time.

Revenue recognition

Similarities

Revenue recognition under both US GAAP and IFRS is tied to the completion of the earnings process and the realization of assets from such completion. Under IAS 18 *Revenue*, revenue is defined as “the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants.” Under US GAAP (which is primarily included in ASC 605, *Revenue Recognition*), revenues represent actual or expected cash inflows that have occurred or will result from the entity’s ongoing major operations. Under both US GAAP and IFRS, revenue is not recognized until it is both realized (or realizable) and earned. Ultimately, both US GAAP and IFRS base revenue recognition on the transfer of risks and rewards, and both attempt to determine when the earnings process is complete. Both sets of standards contain revenue recognition criteria that, while not identical, are conceptually similar. For example, under IFRS, one recognition criterion is that the amount of revenue can be measured reliably, while US GAAP requires that the consideration to be received from the buyer be fixed or determinable.

Significant differences

Despite the similarities, differences in revenue recognition may exist, in part, as a result of differing levels of specificity between the two GAAPs. There is extensive guidance under US GAAP, which can be very prescriptive and often applies only to specific industries. For example, under US GAAP, there are specific rules for the recognition of software revenue and sales of real estate, while comparable guidance does not exist under IFRS. In addition, the detailed US rules often contain exceptions for particular types of transactions. Further, public companies in the US must follow additional guidance provided by the SEC staff. Conversely, two primary standards (IAS 18 and IAS 11 *Construction Contracts*) and their related Interpretations exist under IFRS, which contains general principles and illustrative examples of specific transactions. Exclusive of the industry-specific differences between the two GAAPs, following are the major differences in revenue recognition.

Revenue recognition

| | US GAAP | IFRS |
|---------------------------------|---|--|
| Sale of goods | Public companies must follow SAB Topic 13, <i>Revenue Recognition</i> , which requires that delivery has occurred (the risks and rewards of ownership have been transferred), there is persuasive evidence of an arrangement, the fee is fixed or determinable and collectibility is reasonably assured. | Revenue is recognized only when risks and rewards of ownership have been transferred, the seller retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, revenues can be measured reliably, it is probable that the economic benefits will flow to the company and the costs incurred or to be incurred in respect of the transaction can be measured reliably. |
| Rendering of services | Certain types of service revenue, primarily relating to services sold with software, have been addressed separately in US GAAP literature. All other service revenue should follow SAB Topic 13. Application of long-term contract accounting (ASC 605-35, <i>Revenue Recognition – Construction-Type and Production-Type Contracts</i>) generally is not permitted for non-construction services. | Revenue may be recognized in accordance with long-term contract accounting whenever revenues, costs and the stage of completion can be measured reliably and it is probable that economic benefits will flow to the company. |
| Multiple elements | Specific criteria are required in order for each element to be a separate unit of accounting, including delivered elements must have standalone value. If those criteria are met, revenue for each element of the transaction may be recognized when the element is delivered. | IAS 18 requires recognition of revenue for each separately identifiable component of a single transaction if separation reflects the substance of the transaction; conversely, two or more transactions may be grouped together when their commercial effects are linked. IAS 18 does not provide specific criteria for making the determination on how to identify separate components in a single transaction. |
| Deferred receipt of receivables | Discounting to present value is required only in limited situations. | Considered to be a financing agreement. The value of revenue to be recognized is determined by discounting all future receipts using an imputed rate of interest. |

Revenue recognition

| | US GAAP | IFRS |
|------------------------|--|--|
| Construction contracts | <p>Construction contracts are accounted for using the percentage-of-completion method if certain criteria are met. Otherwise, the completed contract method must be used.</p> <p>Construction contracts may be, but are not required to be, combined or segmented if certain criteria are met.</p> | <p>Under IAS 11, construction contracts are accounted for using the percentage-of-completion method if certain criteria are met. Otherwise, revenue recognition is limited to recoverable costs incurred. The completed contract method is not permitted.</p> <p>Construction contracts are combined or segmented if certain criteria are met. Criteria under IFRS differ from those in US GAAP.</p> |

Convergence

The FASB and the IASB issued converged revenue recognition standards in May 2014 that will supersede virtually all existing revenue guidance under US GAAP and IFRS, which is described above. The core principle is that an entity would recognize revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. Recently, the Boards amended their respective standards to address several implementation issues raised by constituents. The Boards did not agree on the nature and breadth of all of the changes to their revenue standards; however, the Boards expect the amendments to result in similar outcomes in many circumstances.

Note that this section has not been updated for these standards. Refer to the paragraphs above for the effective dates.

Share-based payments

Similarities

The US GAAP guidance for share-based payments, ASC 718, *Compensation – Stock Compensation*, and ASC 505-50, *Equity – Equity-Based Payments to Non-Employees*, is largely converged with the guidance in IFRS 2, *Share-Based Payment*. Both require a fair value-based approach for measuring and accounting for share-based payment arrangements whereby an entity (1) acquires goods or services in exchange for issuing share options or other equity instruments (collectively referred to as “shares” in this guide), or (2) incurs liabilities that are based, at least in part, on the price of its shares or that may require settlement in its shares. Under both US GAAP and IFRS, this guidance applies to transactions with both employees and non-employees and is applicable to all

companies. Both ASC 718 and IFRS 2 define the fair value of the transaction as the amount at which the asset or liability could be bought or sold in a current transaction between willing parties. Further, they require the fair value of the shares to be measured based on a market price (if available) or estimated using an option-pricing model. In the rare cases in which fair value cannot be determined, both sets of standards allow the use of intrinsic value, which is remeasured until settlement of the shares. In addition, the treatment of modifications and settlements of share-based payments is similar in many respects. Finally, both standards require similar disclosures in the financial statements to provide investors with sufficient information to understand the types and extent to which the entity is entering into share-based payment transactions.

Significant differences

| | US GAAP | IFRS |
|-------------|---|--|
| Forfeitures | Upon adopting ASU 2016-09, <i>Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting</i> , ³ entities will have to elect whether to account for forfeitures by (1) recognizing forfeitures of awards as they occur (e.g., when an award does not vest because the employee leaves the company) or (2) estimating the number of awards expected to be forfeited and adjusting the estimate when subsequent information indicates that the estimate is likely to change. | There is no accounting policy election under IFRS. Initial accruals of compensation cost are based on the estimated number of instruments for which the requisite service is expected to be rendered. That estimate should be revised if subsequent information indicates that the actual number of instruments is likely to differ from previous estimates. |

³ For PBEs, ASU 2016-09 is effective for fiscal years beginning after 15 December 2016, and interim periods within those years. For all other entities, it is effective for fiscal years beginning after 15 December 2017, and interim periods within fiscal years beginning after 15 December 2018. Early adoption is permitted, but all of the guidance must be adopted in the same period.

Share-based payments

| | US GAAP | IFRS |
|--|--|--|
| Performance period different from service period | A performance condition where the performance target affects vesting can be achieved after the employee's requisite service period. Therefore, the period of time to achieve a performance target can extend beyond the end of the service period. | A performance condition is a vesting condition that must be met while the counterparty is rendering service. The period of time to achieve a performance condition must not extend beyond the end of the service period. If a performance target can be achieved after the employee's requisite service period, it would be accounted for as a non-vesting condition that affects the grant date fair value of the award. |
| Transactions with non-employees | <p>The US GAAP definition of an employee focuses primarily on the common law definition of an employee.</p> <p>The fair value of: (1) the goods or services received, or (2) the equity instruments granted, whichever is more reliably measurable, is used to value the transaction.</p> <p>Measurement date is the earlier of: (1) the date at which a "commitment for performance" by the counterparty is reached, or (2) the date at which the counterparty's performance is complete.</p> | <p>IFRS has a more general definition of an employee that includes individuals who provide services similar to those rendered by employees.</p> <p>Fair value of the transaction should be based on the fair value of the goods or services received, and only on the fair value of the equity instruments granted in the rare circumstance that the fair value of the goods and services cannot be reliably estimated.</p> <p>Measurement date is the date the entity obtains the goods or the counterparty renders the services. No performance commitment concept exists.</p> |
| Measurement and recognition of expense – awards with graded vesting features | Entities make an accounting policy election to recognize compensation cost for awards containing only service conditions either on a straight-line basis or on an accelerated basis, regardless of whether the fair value of the award is measured based on the award as a whole or for each individual tranche. | Entities must recognize compensation cost on an accelerated basis and each individual tranche must be separately measured. |
| Equity repurchase features at employee's election | Liability classification is not required if employee bears risks and rewards of equity ownership for at least six months from the date the shares are issued or vest. | Liability classification is required (no six-month consideration exists). |

Share-based payments

| | US GAAP | IFRS |
|--|--|--|
| Deferred taxes | <p>Prior to the adoption of ASU 2016-09, calculated based on the cumulative GAAP expense recognized and trued up or down upon realization of the tax benefit.</p> <p>After the adoption of ASU 2016-09, calculated based on the cumulative GAAP expense recognized.</p> <p>Prior to the adoption of ASU 2016-09, if the tax benefit exceeds the deferred tax asset, the excess (windfall benefit) is credited directly to shareholders equity. Any shortfall of the tax benefit below the deferred tax asset is charged to shareholders equity to the extent of prior windfall benefits, and to tax expense thereafter.</p> <p>After the adoption of ASU 2016-09, entities will recognize all excess tax benefits and tax deficiencies by recording them as income tax expense or benefit in the income statement.</p> | <p>Calculated based on the estimated tax deduction determined at each reporting date (e.g., intrinsic value).</p> <p>If the tax deduction exceeds cumulative compensation cost for an individual award, deferred tax based on the excess is credited to shareholders' equity. If the tax deduction is less than or equal to cumulative compensation cost for an individual award, deferred taxes are recorded in income.</p> |
| Modification of vesting terms that are improbable of achievement | <p>If an award is modified such that the service or performance condition, which was previously improbable of achievement, is probable of achievement as a result of the modification, the compensation cost is based on the fair value of the modified award at the modification date. Grant date fair value of the original award is not recognized.</p> | <p>Compensation cost is the grant date fair value of the award, together with any incremental fair value at the modification date. The determination of whether the original grant date fair value affects the accounting is based on the ultimate outcome (i.e., whether the original or modified conditions are met) rather than the probability of vesting as of the modification date.</p> |

Convergence

In June 2016, the IASB issued three amendments to IFRS 2 on the effects of vesting conditions on the measurement of a cash-settled share-based payment, classification of a share-based payment settled net of withholding tax obligations, and accounting for a modification to a share-based payment that changes the classification from cash-settled to equity-settled. Two of these amendments would more closely align the guidance with US GAAP.

No further convergence is planned at this time.

Employee benefits other than share-based payments

Similarities

ASC 715, *Compensation – Retirement Benefits*, ASC 710, *Compensation – General*, ASC 712, *Compensation – Nonretirement Postemployment Benefits*, and IAS 19, *Employee Benefits*, are the principal sources of guidance in accounting for employee benefits other than share-based payments under US GAAP and IFRS, respectively. Under both US GAAP and IFRS, the cost recognized for defined contribution plans is based on the contribution due from the employer in each period. The accounting for

defined benefit plans has many similarities as well, most notably that the defined benefit obligation is the present value of benefits that have accrued to employees for services rendered through that date, based on actuarial methods of calculation. Both US GAAP and IFRS require the funded status of the defined benefit plan to be recognized on the balance sheet as the difference between the present value of the benefit obligation and the fair value of plan assets, although IAS 19 limits the net asset recognized for overfunded plans.

Significant differences

| | US GAAP | IFRS |
|--|---|--|
| Actuarial method used for defined benefit plans | Different methods are required depending on the characteristics of the plan's benefit formula. | Projected unit credit method is required in all cases. |
| Calculation of the expected return on plan assets | Calculated using the expected long-term rate of return on invested assets and the market-related value of the assets (based on either the fair value of plan assets at the measurement date or a "calculated value" that smooths changes in fair value over a period not to exceed five years, at the employer's election). | A concept of an expected return on plan assets does not exist in IFRS. A "net interest" expense (income) on the net defined benefit liability (asset) is recognized as a component of defined benefit cost, based on the discount rate used to determine the obligation. |
| Treatment of actuarial gains and losses | May be recognized in net income as they occur or deferred in other comprehensive income and subsequently amortized to net income through a corridor approach. | Must be recognized immediately in other comprehensive income. Gains and losses are not subsequently recognized in net income. |
| Recognition of prior service costs or credits from plan amendments | Initially deferred in other comprehensive income and subsequently recognized in net income over the average remaining service period of active employees or, when all or almost all participants are inactive, over the average remaining life expectancy of those participants. | Immediate recognition in net income. |

Employee benefits other than share-based payments

| | US GAAP | IFRS |
|--------------------------------------|---|--|
| Settlements and curtailments | Settlement gain or loss is recognized in net income when the obligation is settled. Curtailment loss is recognized in net income when the curtailment is probable of occurring and the loss is estimable, while curtailment gain is recognized in net income when the curtailment occurs. | Settlement gain or loss is recognized in net income when it occurs. Fewer events qualify as settlements under IFRS. Change in the defined benefit obligation from a curtailment is recognized in net income at the earlier of when it occurs or when related restructuring costs or termination benefits are recognized. |
| Multi-employer post-retirement plans | Accounted for similar to a defined contribution plan. | Accounted for as either a defined contribution or defined benefit plan based on the terms (contractual and constructive) of the plan. If a defined benefit plan, must account for the proportionate share of the plan similar to any other defined benefit plan unless sufficient information is not available. |

Convergence

No further convergence is planned at this time.

Earnings per share

Similarities

Entities whose common shares are publicly traded, or that are in the process of issuing such shares in the public markets, must disclose substantially the same earnings per share (EPS) information under ASC 260 and IAS 33 (both titled *Earnings Per Share*). Both standards require the presentation of basic and diluted EPS on the face of the income

statement, both use the treasury stock method for determining the effects of stock options and warrants in the diluted EPS calculation, and both use the if-converted method for determining the effects of convertible debt on the diluted EPS calculation. Although both US GAAP and IFRS use similar methods of calculating EPS, there are a few detailed application differences.

Significant differences

| | US GAAP | IFRS |
|--|---|--|
| Contracts that may be settled in shares or cash at the issuer's option | Such contracts are presumed to be settled in shares unless evidence is provided to the contrary (i.e., the issuer's past practice or stated policy is to settle in cash). | Such contracts are <i>always</i> assumed to be settled in shares. |
| Computation of year-to-date and annual diluted EPS for options and warrants (using the treasury stock method) and for contingently issuable shares | For year-to-date and annual computations when each period is profitable, the number of incremental shares added to the denominator is the weighted average of the incremental shares that were added to the denominator in each of the quarterly computations. | Regardless of whether the period is profitable, the number of incremental shares is computed as if the entire year-to-date period were "the period" (that is, do not average the current quarter with each of the prior quarters). |
| Treasury stock method | <p>Prior to the adoption of ASU 2016-09, assumed proceeds under the treasury stock method include the income tax effects, if any, on additional paid-in capital at exercise.</p> <p>After the adoption of ASU 2016-09, assumed proceeds under the treasury stock method exclude the income tax effects of share-based payment awards because they are no longer recognized in additional paid-in capital.</p> | For options, warrants and their equivalents, IAS 33 currently does not explicitly require assumed proceeds to include the income tax effects on additional paid-in capital. |
| Treatment of contingently convertible debt | Potentially issuable shares are included in diluted EPS using the "if-converted" method if one or more contingencies relate to a market price trigger (e.g., the entity's share price), even if the market price trigger is not satisfied at the end of the reporting period. | Potentially issuable shares are considered "contingently issuable" and are included in diluted EPS using the if-converted method only if the contingencies are satisfied at the end of the reporting period. |

Convergence

In March 2016-09, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which changes the accounting for the tax effects of share-based payments and will have a consequential effect on the calculation of assumed proceeds for share-based payments subsequent to adoption. Specifically, when calculating assumed proceeds in the computation of diluted EPS for share-based payments using the treasury stock method, companies will exclude excess tax benefits because they are no longer recognized in additional paid-in capital. IAS 33 currently does not explicitly require the income tax effects of such awards in the calculation of the treasury stock method. The guidance in the ASU is effective for PBEs for fiscal years beginning after 15 December 2016, and interim periods within those fiscal years. For all other entities, it is effective for fiscal years beginning after 15 December 2017, and interim periods within fiscal years beginning after 15 December 2018. This part of the ASU will be applied prospectively, and early adoption is permitted.

No further convergence is planned at this time.

Segment reporting

Similarities

The requirements for segment reporting under both ASC 280, *Segment Reporting*, and IFRS 8, *Operating Segments*, apply to entities

with public reporting requirements and are based on a “management approach” in identifying the reportable segments. The two standards are largely converged, and only limited differences exist.

Significant differences

| | US GAAP | IFRS |
|-----------------------------------|--|---|
| Determination of segments | Entities with a “matrix” form of organization (i.e., in some public entities, the chief operating decision maker (CODM) is responsible for different product and service lines worldwide, while other CODMs are responsible for specific geographic areas) must determine segments based on products and services. | All entities determine segments based on the management approach, regardless of form of organization. |
| Disclosure of segment liabilities | Entities are not required to disclose segment liabilities even if reported to the CODM. | If regularly reported to the CODM, segment liabilities are a required disclosure. |
| Disclosure of long-lived assets | For the purposes of entity-wide geographic area disclosures, the definition of long-lived assets implies hard assets that cannot be readily removed, which would exclude intangible assets. | If a balance sheet is classified according to liquidity, non-current assets are assets that include amounts expected to be recovered more than 12 months after the balance sheet date. These non-current assets often includes intangible assets. |
| Disclosure of aggregation | Entities must disclose whether operating segments have been aggregated. | Entities must disclose whether operating segments have been aggregated and the judgments made in applying the aggregation criteria, including a brief description of the operating segments that have been aggregated and the economic indicators that have been assessed in determining economic similarity. |

Convergence

No further convergence is planned at this time.

Subsequent events

Similarities

Despite differences in terminology, the accounting for subsequent events under ASC 855, *Subsequent Events*, and IAS 10, *Events after the Reporting Period*, is largely similar. An event that occurs during the subsequent events period that provides additional evidence about conditions existing

at the balance sheet date usually results in an adjustment to the financial statements. If the event occurring after the balance sheet date but before the financial statements are issued relates to conditions that arose after the balance sheet date, the financial statements are not adjusted, but disclosure may be necessary to keep the financial statements from being misleading.

Significant differences

| | US GAAP | IFRS |
|--|---|--|
| Date through which subsequent events must be evaluated | Subsequent events are evaluated through the date the financial statements are issued (SEC registrants and conduit bond obligors) or available to be issued (all entities other than SEC registrants and conduit bond obligors). Financial statements are considered issued when they are widely distributed to shareholders or other users in a form that complies with US GAAP. Financial statements are considered available to be issued when they are in a form that complies with US GAAP and all necessary approvals have been obtained. | Subsequent events are evaluated through the date that the financial statements are “authorized for issue.” Depending on an entity’s corporate governance structure and statutory requirements, authorization may come from management or a board of directors. |
| Reissuance of financial statements | If the financial statements are reissued, events or transactions may have occurred that require disclosure in the reissued financial statements to keep them from being misleading. However, an entity should not recognize events occurring between the time the financial statements were issued or available to be issued and the time the financial statements were reissued unless the adjustment is required by US GAAP or regulatory requirements (e.g., stock splits, discontinued operations, or the effect of adopting a new accounting standard retrospectively would give rise to an adjustment). | IAS 10, <i>Events after the Reporting Period</i> , does not specifically address the reissuance of financial statements and recognizes only one date through which subsequent events are evaluated, that is, the date that the financial statements are authorized for issuance, even if they are being reissued. As a result, only one date will be disclosed with respect to the evaluation of subsequent events, and an entity could have adjusting subsequent events in reissued financial statements. |

Subsequent events

| | US GAAP | IFRS |
|---|--|--|
| | Entities must disclose both the date that the financial statements were originally issued and the date that they were reissued if the financial statements were revised due to an error correction, a Type I subsequent event or retrospective application of US GAAP. | <p>If financial statements are reissued as a result of adjusting subsequent events or an error correction, the date the reissued statements are authorized for reissuance is disclosed.</p> <p>IAS 10 does not address the presentation of re-issued financial statements in an offering document when the originally issued financial statements have not been withdrawn, but the re-issued financial statements are provided either as supplementary information or as a re-presentation of the originally issued financial statements in an offering document in accordance with regulatory requirements.</p> |
| Short-term loans refinanced with long-term loans after balance sheet date | Short-term loans are classified as long-term if the entity intends to refinance the loan on a long-term basis and, prior to issuing the financial statements, the entity can demonstrate an ability to refinance the loan by meeting specific criteria. | Short-term loans refinanced after the balance sheet date may not be reclassified to long-term liabilities unless the entity expected and had the discretion to refinance the obligation for at least 12 months at the balance sheet date. |

Convergence

No further convergence is planned at this time.

Related parties

Similarities

The reporting objective of both ASC 850 and IAS 24 (both titled *Related Party Disclosures*) is to make financial statement users aware of the effect of related-party transactions on the financial statements. The definitions of a related party are broadly similar, and both standards require that the nature of the relationship, a description of the transaction

and the amounts involved (including outstanding balances) be disclosed for related party transactions. Neither standard contains any measurement or recognition requirements for related-party transactions. ASC 850 does not require disclosure of compensation of key management personnel as IAS 24 does, but the financial statement disclosure requirements of IAS 24 are similar to those required by the SEC outside the financial statements.

Significant differences

| | US GAAP | IFRS |
|-------|--|--|
| Scope | ASC 850, <i>Related Party Disclosures</i> , requires disclosure of all material related party transactions, other than compensation arrangements, expense allowances and other similar items in the ordinary course of business. | IAS 24, <i>Related Party Disclosures</i> , provides a partial exemption from the disclosure requirements for transactions between government-related entities as well as with the government itself. |

Convergence

No further convergence is planned at this time.

Appendix – The evolution of IFRS

This appendix summarizes key events in the evolution of international accounting standards.

- ▶ **1973: International Accounting Standards Committee (IASC) formed.**
The IASC was founded to formulate and publish International Accounting Standards (IAS) that would improve financial reporting and that could be accepted worldwide. In keeping with the original view that the IASC's function was to prohibit undesirable accounting practices, the original IAS permitted several alternative accounting treatments.
- ▶ **1994: IOSCO (International Organization of Securities Commissions) completed its review of IASC standards and communicated its findings to the IASC.**
The review identified areas that required improvement before IOSCO would consider recommending IAS for use in cross-border listings and offerings.
- ▶ **1994: IASC Advisory Council formed to oversee the IASC and manage its finances.**
- ▶ **1995: IASC developed its Core Standards Work Program. IOSCO's Technical Committee agreed that the Work Program would result, upon successful completion, in IAS comprising a comprehensive core set of standards.** The European Commission (EC) supported this agreement between IASC and IOSCO and "associated itself" with the work of the IASC toward international harmonization of accounting standards.
- ▶ **1997: Standing Interpretations Committee (SIC) established to interpret IAS.**

Phase I – The early years

- ▶ **1999: IASC Board approved a restructuring that resulted in the current International Accounting Standards Board (IASB).** The constituted IASB structure comprises: (1) the IFRS Foundation, an independent organization with 22 trustees who appoint the IASB members, exercise oversight and raise the funds needed, (2) a Monitoring Board that provides a formal link between the trustees and public authorities, (3) the IASB (Board), which has 16 independent Board members, up to three of whom may be part-time members, with sole responsibility for setting accounting standards, (4) the IFRS Advisory Council and (5) the IFRS Interpretations Committee which is mandated with interpreting IFRS, and providing timely guidance on matters not addressed by current standards.
- ▶ **2000: IOSCO recommended that multinational issuers be allowed to use IAS in cross-border offerings and listings.**
- ▶ **April 2001: IASB assumed standard-setting responsibility.** The IASB met with representatives from eight national standard-setting bodies to coordinate agendas and discuss convergence, and adopted existing IAS standards and SIC Interpretations.
- ▶ **February 2002: IFRIC assumed responsibility for interpretation of IFRS.**

Phase II – 2002 to 2005

- ▶ **July 2002: EC required EU-listed companies to prepare their consolidated financial statements in accordance with IFRS as endorsed by the EC, generally from 2005 onward.** This was a critical milestone that drove the expanded use of IFRS.
- ▶ **September 2002: FASB and IASB execute the Norwalk Agreement and document a Memorandum of Understanding.** The Boards agreed to use best efforts to make their existing standards fully compatible as soon as practicable and to coordinate future work programs.
- ▶ **December 2004: EC issued its Transparency Directive.** This directive required non-EU companies with listings on an EU exchange to use IFRS unless the Committee of European Securities Regulators (CESR) determined that national GAAP was “equivalent” to IFRS. CESR said in 2005 that US GAAP was “equivalent,” subject to certain additional disclosure requirements.
- ▶ **April 2005: SEC published the “Roadmap.”** An article published by the SEC Chief Accountant discussed the possible elimination of the US GAAP reconciliation for foreign private issuers that use IFRS by 2009, if not sooner.

Phase III – 2006 to present

- ▶ **February 2006: FASB and IASB published a Memorandum of Understanding (MOU).** The MOU reaffirmed the Boards’ shared objective to develop high quality, common accounting standards, and further elaborated on the Norwalk Agreement. The Boards agreed to proceed along two tracks: (1) a series of short-term projects designed to eliminate major differences in focused areas and (2) the development of new common standards for accounting practices regarded as candidates for improvement.
- ▶ **August 2006: CESR/SEC published a joint work plan.** The regulators agreed that they could share issuer-specific matters, following set protocols, and that their regular reviews of issuer filings would be used to identify IFRS and US GAAP areas that raise questions about quality and consistent application.
- ▶ **November 2007: SEC eliminated the US GAAP reconciliation for foreign private issuers that use IFRS to file their financial statements with the SEC.**
- ▶ **Mid-2007, through 2008: SEC explored the use of IFRS by US companies.** The SEC issued a Concept Release seeking comment on the possible use of IFRS by US domestic registrants. In November 2008 the SEC issued for comment an updated proposed Roadmap.

Appendix – The evolution of IFRS

- ▶ **February 2010: SEC reaffirmed its commitment to a single set of high-quality global accounting standards.** In February 2010, the SEC voted unanimously to publish a statement reaffirming its commitment to the goal of a single set of high-quality global accounting standards and expressing support for the continued convergence of US GAAP and IFRS. The SEC said that after executing a Work Plan to address certain questions, it would be able to make an informed decision about whether and, if so, how and when to further incorporate IFRS into the US financial reporting system.
- ▶ **October 2010: SEC issued a Progress Report on its Work Plan.**
- ▶ **May 2011: SEC staff published a paper detailing a possible approach for incorporating IFRS into the US financial reporting system.** The SEC staff said the approach could achieve the goal of a single set of high-quality accounting standards and could minimize the cost and effort needed to incorporate IFRS into the US financial reporting system.
- ▶ **Spring through fall 2011: Convergence schedule delayed.** The FASB and the IASB extend their timetables for completing their priority convergence projects beyond their target of June 2011. The Boards decided to re-expose proposals on revenue recognition and leases.
- ▶ **July 2011: SEC staff sponsored a roundtable to discuss benefits or challenges in potentially incorporating IFRS into the financial reporting system for US issuers.** The participants discussed investors' understanding of IFRS, the impact on smaller public companies and on the benefits and challenges in potentially incorporating IFRS into the financial reporting system for US issuers.
- ▶ **November 2011: SEC staff issued two papers as part of its Work Plan: *An Analysis of IFRS in Practice and A Comparison of US GAAP and IFRS.*** The SEC staff papers provide additional information for the SEC to review before it makes its decision.
- ▶ **July 2012: SEC staff issued its final progress report on its Work Plan for the *Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers (The Final Report).*** The report summarized what the staff learned in carrying out the work plan.

The report does not include a recommendation to the Commission about whether or how to incorporate IFRS into the US financial reporting system.

The report notes that the Commission still needs to analyze and consider the threshold question – whether and, if so, how and when IFRS should be incorporated into the US financial reporting system.

As a result, we do not expect a decision from the Commission in the near term.
- ▶ **December 2014: SEC Chief Accountant expressed an interest in voluntary disclosure of IFRS information.** In his speech at the 2014 AICPA National Conference on Current SEC and PCAOB Developments, the SEC Chief Accountant said the SEC staff is exploring a new alternative that would allow US issuers to voluntarily disclose IFRS information as a supplement to their US GAAP financial statements without including reconciliation to the most directly comparable US GAAP measure.

IFRS resources

EY offers a variety of online resources that provide more detail about IFRS as well as

www.ey.com/ifrs

EY's global website contains a variety of free resources, including:

- ▶ *IFRS Developments* – announces significant decisions on technical topics that have a broad audience, application or appeal.
- ▶ *Applying IFRS* – Applying IFRS provides more detailed analyses of proposals, standards or interpretations and discussion of how to apply them.
- ▶ Other technical publications – including a variety of publications focused on specific standards and industries.
- ▶ International GAAP® Illustrative Financial Statements – a set of illustrative interim and annual financial statements that incorporates applicable presentation and disclosure requirements. Also provided is a range of industry-specific illustrative financial statements.
- ▶ International GAAP® Disclosure checklist – a checklist designed to assist in the preparation of financial statements in accordance with IFRS, as issued by the IASB, and in compliance with the disclosure requirements of IFRS.
- ▶ From here you can also locate information about free web-based IFRS training and our Thought center webcast series.

things to consider as you research the potential impact of IFRS on your company.

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Global Accounting & Auditing Information Tool (GAAIT)

GAAIT-Client Edition contains EY's comprehensive proprietary technical guidance, as well as all standard setter content. GAAIT-Client Edition is available through a paid subscription.

International GAAP®

Written by EY and updated annually, this is a comprehensive guide to interpreting and implementing IFRS and provides insights into how complex practical issues should be resolved in the real world of global financial reporting.

Please contact your local EY representative for information about any of these resources.

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