US GAAP versus IFRS

The basics

January 2019

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Introduction

There are two global scale frameworks of financial reporting: US GAAP, as promulgated by the Financial Accounting Standards Board (FASB), and IFRS, as promulgated by the International Accounting Standards Board (IASB) (collectively, the Boards).

In this guide, we provide an overview, by accounting area, of the similarities and differences between US GAAP and IFRS. We believe that any discussion of this topic should not lose sight of the fact that the two sets of standards generally have more similarities than differences for most common transactions, with IFRS being largely 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 and lead to similar accounting results. The existence of any differences — and their materiality to an entity's financial statements — depends on a variety of factors, including the nature of the entity, the details of the transactions, the 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 current 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 2018 and finalized by the FASB and the IASB as of 31 May 2018. We updated this guide to include Accounting Standards Update (ASU) 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities;* Accounting Standards Codification (ASC) 842, *Leases*; IFRS 16, *Leases;* ASC 606, *Revenue from Contracts with Customers*; and IFRS 15, *Revenue from Contracts with Customers*. We have not included differences before the adoption of ASU 2017-12, ASC 842, IFRS 16, ASC 606 and IFRS 15. Please refer to the February 2018 edition of the tool for information before the adoption of ASU 2017-12, ASC 842 and IFRS 16 and the October 2016 edition of the tool for information before the adoption of ASC 606 and IFRS 15. This update doesn't include differences related to ASU 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, because of the standard's delayed effective date.

Our analysis does not include any guidance related to IFRS for small and medium-sized entities or Private Company Council alternatives that are embedded within US GAAP.

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

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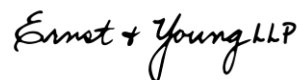
Our US GAAP/IFRS Accounting Differences Identifier Tool publication provides a more in-depth review of differences between US GAAP and IFRS as of 31 May 2018. The tool was developed as a resource for companies that need to identify some of the more common accounting differences between US GAAP and IFRS that may affect an entity's financial statements when converting from US GAAP to IFRS (or vice versa). To learn more about the US GAAP/IFRS Accounting Differences Identifier Tool, please contact your local EY professional.



January 2019

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 US GAAP and IFRS 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 and rare circumstances (e.g., when the liquidation basis of accounting is appropriate). 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 due to 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	There is 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 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 cannot be reclassified to long-term liabilities. However, short-term loans that the entity expects, and has the discretion, to refinance for at least 12 months after the balance sheet date under an existing loan facility are classified as noncurrent.
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.
Income statement — classification of expenses	No general requirement within US GAAP to classify income statement items by function or nature although there are requirements based on the specific cost incurred (e.g., restructuring charges). 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.

	US GAAP	IFRS
Income statement — discontinued operations criteria	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.	Discontinued operations classification is for components that have been disposed of or are classified as held for sale, and the component (1) represents a separate major line of business or geographical area of operations, (2) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or (3) is a subsidiary acquired exclusively with a view to resale.
Statement of cash flows — restricted cash	After the adoption of ASU 2016-18, *Statement of Cash Flows (Topic 230) — Restricted Cash*, changes in restricted cash and restricted cash equivalents will be shown in the statement of cash flows. In addition, when cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one line item on the balance sheet, ASU 2016-18 requires a reconciliation of the totals in the statement of cash flows to the related captions in the balance sheet. This reconciliation can be presented either on the face of the statement of cash flows or in the notes to the financial statements. (ASU 2016-18 is effective for public business entities (PBEs) in annual periods beginning after 15 December 2017, and interim periods within those annual periods. For all other entities, it is effective for annual periods beginning after 15 December 2018, and interim periods within annual periods beginning after 15 December 2019. Early adoption is permitted.)	There is no specific guidance about the presentation of changes in restricted cash and restricted cash equivalents in the statement of cash flows.
Disclosure of performance measures	There is no general requirement within US GAAP that addresses 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.	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.
Third balance sheet	Not required.	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 has 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.

Standard setting activities

The FASB currently has a simplification project to amend its guidance for determining whether to classify debt as current or noncurrent on the balance sheet. In January 2017, the FASB proposed replacing its rules-based guidance with a principle-based approach. The FASB expects to issue a final standard in 2019.

The IASB currently has a project on its agenda to amend IAS 1, *Presentation of Financial Statements*, to clarify the criteria for classifying a liability as either current or noncurrent. The IASB issued its exposure draft, *Classification of Liabilities*, in February 2015, and expects to issue final amendments in 2019. The proposals, if finalized, would result in increased convergence between US GAAP and IFRS. However, differences would still remain for the classification of debt arrangements with covenant violations.

The FASB also added a project to its agenda in September 2017 to improve the decision-usefulness of the income statement through the disaggregation of performance information through either presentation in the income statement or disclosure in the notes. The project is in initial deliberations and currently is focused on the disaggregation of lines that represent the cost of revenue and selling, general and administrative expenses using a principles-based approach.

The IASB also is exploring whether to make targeted improvements to the structure and content of the primary financial statements, with a focus on the statement of financial performance, to enhance comparability and decision-usefulness. The IASB has yet to decide whether to publish a discussion paper or an exposure draft.

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.

Standard setting activities

There is no significant standard setting activity in this area.

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 in certain specialized industries).

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	US GAAP 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 interests (or kick-out rights for limited partnerships and similar entities). All entities are first evaluated as potential VIEs. If an entity is not a VIE, it is evaluated for control pursuant to the voting model. Potential voting rights are generally not included in either evaluation. The notion of "de facto control" is not considered.	IFRS provides a single control model for all entities, including structured entities (the definition of a structured entity under IFRS 12, *Disclosure of Interests in Other Entities,* 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. Potential voting rights are considered. Notion of "de facto control" is also considered.
Preparation of consolidated financial statements — general	Consolidated financial statements are required, although certain industry-specific exceptions exist (e.g., investment companies).	Consolidated financial statements are 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.

	US GAAP	IFRS
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 about 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.
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 conveyance of oil and gas mineral rights or a transfer of a good or service in a contract with a customer in the scope of ASC 606) 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 the conveyance of oil and gas mineral rights.
Loss of control of a subsidiary	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. 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 conveyance of oil and gas mineral rights) and (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.	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 conveyance of oil and gas mineral rights. 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.[1]

[1] *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.

	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 conveyance of oil and gas mineral rights and a transfer of a good or service in a contract with a customer within the scope of ASC 606.	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.
Equity method investments	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. When determining significant influence, potential voting rights are generally not considered. When an investor in a limited partnership, limited liability company (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. ASC 825-10, *Financial Instruments,* 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. Conforming accounting policies between investor and investee is generally not permitted.	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. When determining significant influence, potential voting rights are considered if currently exercisable. 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. 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. Uniform accounting policies between investor and investee are required.
Joint ventures	Joint ventures are generally defined as entities whose operations and activities are jointly controlled by their equity investors. The purpose of the entity should be consistent with the definition of a joint venture. 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. 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. 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.	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. Joint control is defined as existing when two or more parties must unanimously consent to each of the significant decisions of the entity. 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). 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.

	US GAAP	IFRS
	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).	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.

Standard setting activities

In June 2017, the FASB proposed changes to the consolidation guidance, including allowing private companies to make an accounting policy election not to apply the VIE guidance for certain common control arrangements. It also proposed changing a decision maker's evaluation of whether its fees constitute a variable interest when indirect interests are held through related parties under common control. Readers should monitor this project for developments.

In February 2017, the FASB issued ASU 2017-05. This guidance changed the measurement of transfers of nonfinancial assets and in substance nonfinancial assets in transactions that are not with customers and that are not businesses. It requires any noncontrolling interest retained or received to be measured at fair value. This aspect of ASU 2017-05 converges US GAAP with IFRS. However, the guidance also requires all transactions in the scope of ASC 610-20 (including sales to equity method investees or joint ventures) to result in a full gain or loss. That is, there will be no intra-entity profit elimination in a downstream transaction if the sale is in the scope of ASC 610-20. This aspect of ASU 2017-05 creates a difference between US GAAP and IFRS, because IFRS requires profit to be eliminated in all downstream transactions. ASU 2017-05 has the same effective date as ASC 606. That is, it is effective for public entities (as defined) for annual reporting periods beginning after 15 December 2017 and interim periods therein. The ASU is effective for nonpublic entities for annual reporting periods beginning after 15 December 2018, and interim periods within annual reporting periods beginning after 15 December 2019. All entities can early adopt; however, ASC 606 and ASC 610-20 must be adopted concurrently.

In December 2017, the IASB finalized amendments to IFRS 3, *Business Combinations,* which clarified that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. It also amends IFRS 11, which clarifies that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. The amendments are effective for annual reporting periods beginning on or after 1 January 2019.

Business combinations

Similarities

The principal guidance for business combinations in US GAAP (ASC 805, *Business Combinations*) and IFRS (IFRS 3) are largely converged. Pursuant to ASC 805 and IFRS 3, all business combinations are accounted for using the acquisition method. When an entity obtains 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 standards (before the adoption of ASU 2017-01, *Clarifying the Definition of a Business*) are substantially converged, certain differences exist, including those with respect to the definition of a business as described below.

Significant differences

	US GAAP	IFRS
Measurement of noncontrolling interest	Noncontrolling interest is measured at fair value.	Noncontrolling interest components that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation may be measured at (1) fair value or (2) the noncontrolling interest's proportionate share of the fair value of the acquiree's identifiable net assets. 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 for a lessor (before and after the adoption of ASC 842, *Leases*, and IFRS 16)	If the terms of an acquiree operating lease are favorable or unfavorable relative to market terms, the acquirer recognizes an intangible asset or liability separately from the leased asset, respectively.	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.
Assets and liabilities arising from contingencies	*Initial recognition and measurement* Assets and liabilities arising from contingencies are recognized at fair value (in accordance with ASC 820, *Fair Value Measurement and Disclosures)* 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, *Contingencies*, if those criteria for recognition are met. 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. (See "Provisions and contingencies" for differences between ASC 450 and IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*). *Subsequent measurement* 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. If amounts are initially recognized and measured in accordance with ASC 450, the subsequent accounting and measurement should be based on that guidance.	*Initial recognition and measurement* 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, even if it is not probable that an outflow of resources will be required to settle the obligation. Contingent assets are not recognized. *Subsequent measurement* Liabilities subject to contingencies are subsequently measured at the higher of (1) the amount that would be recognized in accordance with IAS 37 or (2) the amount initially recognized less, if appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15.

	US GAAP	IFRS
Combination of entities under common control	The receiving entity records the net assets at their carrying amounts in the accounts of the transferor (historical cost).	The combination of entities under common control is outside the scope of IFRS 3. In practice, entities 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).
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, *Accounting Policies, Changes in Accounting Estimates and Errors*, 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, *Intangible Assets*.
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.
Definition of a business	After the adoption of ASU 2017-01, a business must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. An output is the result of inputs and processes applied to those inputs that provide goods or services to customers, investment income (such as dividends or interest, or other revenues. That is, the focus is on revenue-generating activities, which more closely aligns the definition with the description of outputs in ASC 606. An entity does not need to evaluate whether any missing elements could be replaced by a market participant.	A business consists of inputs and processes applied to those inputs that have the ability to create outputs. Although businesses usually have outputs, outputs are not required for an integrated set to qualify as a business. IFRS 3 does not address whether a process is required to be "substantive." An integrated set of activities and assets requires two essential elements — inputs and processes applied to those inputs, which together are or will be used to create outputs. However, a business does not have to include all of the inputs or processes that the seller used in operating that business if market participants are capable of acquiring the business and continuing to produce outputs, for example, by integrating the business with their own inputs and processes. Outputs are defined as the result of inputs and processes applied to those inputs that provide or have the ability to provide a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.

	US GAAP	IFRS
	Threshold test An entity must first evaluate whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If that threshold is met, the set is not a business and does not require further evaluation. Gross assets acquired should exclude cash and cash equivalents, deferred tax assets and any goodwill that would be created in a business combination from the recognition of deferred tax liabilities.	*Threshold test* There is no threshold test under IFRS 3.

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).

Standard setting activities

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

In January 2017, the FASB issued ASU 2017-01 to clarify certain aspects of the definition of a business to assist entities with evaluating whether a set of transferred assets and activities (set) is a business. The guidance is effective for PBEs for annual periods beginning after 15 December 2017, and interim periods within those years. For all other entities, it is effective for annual periods beginning after 15 December 2018, and interim periods within annual periods beginning after 15 December 2019. The ASU will be applied prospectively to any transactions occurring within the period of adoption.

In June 2016, the IASB issued an exposure draft on the definition of a business as a result of concerns raised in its post-implementation review about the complexity of its application.

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

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 standards 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 the retail inventory method (RIM), 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. A consistent cost formula for all inventories similar in nature is not explicitly required.	LIFO is prohibited. The same cost formula must be applied to all inventories similar in nature or use to the entity.
Measurement	Inventory other than that accounted for under LIFO or RIM is carried at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. LIFO and RIM are 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.	Inventory is carried at the lower of cost and 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 below cost 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 RIM	Permanent markdowns do not affect the gross margins (i.e., cost complement) 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 and net realizable value is not allowed.

	US GAAP	IFRS
Capitalization of pension costs	After the adoption of ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, the service cost component of net periodic pension cost and net periodic postretirement benefit cost is the only component directly arising from employees' services provided in the current period. Therefore, when it is appropriate to capitalize employee compensation in connection with the construction or production of an asset, the service cost component applicable to the pertinent employees for the period is the relevant amount to be considered for capitalization. (ASU 2017-07 is effective for PBEs in annual periods beginning after 15 December 2017, and interim periods within those annual periods. For all other entities, it is effective for annual periods beginning after 15 December 2018, and interim periods within annual periods beginning after 15 December 2019. Early adoption is permitted.)	Any post-employment benefit costs included in the cost of inventory include the appropriate proportion of the components of defined benefit cost (i.e., service cost, net interest on the net defined benefit liability (asset) and remeasurements of the net defined benefit liability (asset)).

Standard setting activities

There is no significant standard setting activity in this area.

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 startup 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) 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 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, 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.

Significant differences

	US GAAP	IFRS
Revaluation of assets	Revaluation is 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 is permitted, but it is not common.	Component depreciation is 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 and offset by investment income earned on those borrowings.

	US GAAP	IFRS
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., an approach with certain similarities to 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.	Before the adoption of IFRS 16, investment property is separately defined in IAS 40, *Investment Property*, 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. After the adoption of IFRS 16, investment property is separately defined in IAS 40 as property held to earn rent or for capital appreciation (or both) and may include property held by lessees as right-of-use assets. Investment property may be accounted for on a historical cost or fair value basis as an accounting policy election. IFRS 16 requires a lessee to measure right-of-use assets arising from leased property in accordance with the fair value model of IAS 40 if the leased property meets the definition of investment property and the lessee elects the fair value model in IAS 40 as an accounting policy.

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.

Standard setting activities

In June 2017, the IASB proposed amendments to IAS 16 that would prohibit deducting from the cost of an item of plant, property and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity would recognize those sales proceeds in profit or loss.

Intangible assets

Similarities

Both US GAAP (ASC 805 and ASC 350, *Intangibles — Goodwill and Other*) and IFRS (IFRS 3 and IAS 38) 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., startup 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[2] 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, *Intangibles — Goodwill and Other — Internal-Use Software)* 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).	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.
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.

[2] Private companies can elect to amortize goodwill under a Private Company Council alternative in US GAAP.

Standard setting activities

The FASB is conducting research with the objective of further reducing the cost and complexity of the subsequent accounting for goodwill (e.g., considering an amortization approach). The FASB also is conducting research 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 post-implementation review of IFRS 3. Currently, these are not joint projects and generally are not expected to converge the guidance on accounting for goodwill impairment. In its 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.

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, subsections of ASC 360-10 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	The two-step approach requires that a recoverability test be performed first (the carrying amount of the asset is compared with the sum of future undiscounted cash flows using entity-specific assumptions generated through use and eventual disposition). If it is determined that the asset is not recoverable, an impairment loss calculation is required.	The one-step approach requires that an impairment loss calculation be performed if impairment indicators exist.
Impairment loss calculation — long-lived assets	An impairment loss is the amount by which the carrying amount of the asset exceeds its fair value using market participant assumptions, as calculated in accordance with ASC 820.	An impairment loss is the amount by which the carrying amount of the asset exceeds its recoverable amount, which 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, *Operating Segments*.
Method of determining impairment — goodwill	A company has 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. Before the adoption of ASU 2017-04, *Simplifying the Test for Goodwill Impairment*, the company performs a recoverability test under the two-step approach first at the reporting unit level (the carrying amount of the reporting unit is compared with the reporting unit's fair value). If the carrying amount of the reporting unit exceeds its fair value, the company performs impairment testing. After the adoption of ASU 2017-04, the company performs an impairment test under the one-step approach at the reporting unit level by comparing the reporting unit's carrying amount with its fair value.	Qualitative assessment is not permitted. The 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.

	US GAAP	IFRS
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. The 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	Before the adoption of ASU 2017-04, an impairment loss is the amount by which the carrying amount of goodwill exceeds the implied fair value of the goodwill within its reporting unit. After the adoption of ASU 2017-04, an impairment loss is the amount by which the reporting unit's carrying amount exceeds the reporting unit's fair value. The impairment loss will be limited to the amount of goodwill allocated to that reporting unit.	The impairment loss on the CGU (the 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 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.

Standard setting activities

In January 2017, the FASB issued ASU 2017-04, *Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, to eliminate the requirement to calculate the implied fair value (i.e., Step 2 of today's two-step impairment test under ASC 350) to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value (i.e., measure the charge based on today's Step 1). The guidance will be applied prospectively and is effective for annual and interim impairment tests performed in periods beginning after (1) 15 December 2019 for PBEs that meet the definition of an SEC filer, (2) 15 December 2020 for PBEs that are not SEC filers and (3) 15 December 2021 for all other entities.

The IASB has a project on its research agenda to consider improvements to the impairment requirements for goodwill that was added in response to the findings in its post-implementation review of IFRS 3.

Financial instruments

Similarities

The US GAAP guidance for financial instruments is located in numerous ASC Topics, including ASC 310, *Receivables*; ASC 320, *Investments — Debt Securities*; ASC 321, *Investments —Equity Securities*; ASC 470, *Debt*; ASC 480, *Distinguishing Liabilities from Equity*; ASC 815, *Derivatives and Hedging*; ASC 820; ASC 825, *Financial Instruments*; ASC 860, *Transfers and Servicing*; and ASC 948, *Financial Services — Mortgage Banking*.

The IFRS guidance for financial instruments, on the other hand, is limited to IAS 32, *Financial Instruments: Presentation*; IFRS 9, *Financial Instruments;* 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 versus equity		
Classification	US GAAP specifically identifies certain instruments with characteristics of both debt and equity that must be classified as liabilities. 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.	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. 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.
Compound (hybrid) financial instruments	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.	Compound (hybrid) financial instruments are required to be split into a debt and equity component or, if applicable, a derivative component. The derivative component is accounted for using fair value accounting.
Recognition and measurement		
Measurement — debt securities, loans and receivables	Classification and measurement depend largely on the legal form of the instrument (i.e., whether the financial asset represents a security or a loan) and management's intent for the instrument. At acquisition, debt instruments that meet the definition of a security are classified in one of three categories and subsequently measured as follows: ▸ Held to maturity (HTM) — amortized cost ▸ Trading — fair value, with changes in fair value recognized in net income (FV-NI)	Regardless of an instrument's legal form, its classification and measurement depend on its contractual cash flow (CCF) characteristics and the business model under which it is managed. The assessment of the CCF determines whether the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

	US GAAP	IFRS
	▸ Available for sale (AFS) — fair value, with changes in fair value recognized in other comprehensive income (FV-OCI) Unless the fair value option is elected, loans and receivables are classified as either (1) held for investment, and then measured at amortized cost, or (2) held for sale, and then measured at the lower of cost or fair value.	Financial assets that pass the cash flow characteristics test are subsequently measured at amortized cost, FV-OCI or fair value, with changes in fair value recognized in profit and loss (FV-PL), based on the entity's business model for managing them, unless the fair value option is elected. Financial assets that fail the cash flow characteristics test are subsequently measured at FV-PL.
Measurement — equity investments (except those accounted for under the equity method, those that result in consolidation of the investee or certain other investments)	Equity investments are measured at FV-NI. A measurement alternative is available for equity investments that do not have readily determinable fair values and do not qualify for the net asset value (NAV) practical expedient under ASC 820. These investments may be measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. The adjustments made under the measurement alternative for observable transactions should reflect the fair value of the security as of the date that the observable transaction for a similar security took place, rather than as of the current reporting date.	Equity investments are measured at FV-PL. An irrevocable FV-OCI election is available for non-derivative equity investments that are not held for trading. If the FV-OCI election is made, gains or losses recognized in other comprehensive income (OCI) are not recycled (i.e., reclassified to earnings) upon derecognition of those investments.
Measurement — effective interest method	US GAAP requires a catch-up approach, retrospective method or prospective method of calculating the interest for amortized cost-based assets (when estimated cash flows are used), depending on the type of instrument and the reason for the change in cash flows.	IFRS generally requires the original effective interest rate to be used throughout the life of the financial instrument. When estimated cash flows change, an entity follows an approach that is analogous to the catch-up method under US GAAP.
Impairment		
Impairment recognition —debt instruments measured at FV-OCI	Declines in fair value below cost may result in an impairment loss being recognized in the income statement on a debt instrument measured at FV-OCI due solely to a change in interest rates 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. 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 OCI, net of applicable taxes.	Under IFRS, there is a single impairment model for debt instruments recorded at amortized cost and at FV-OCI, including loans and debt securities. The guiding principle is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments. The amount of expected credit loss (ECL) recognized as a loss allowance depends on the extent of credit deterioration since initial recognition. Generally there are two measurement bases: ▸ In Stage 1, 12-month ECL, which applies to all items (on initial recognition and thereafter) as long as there is no significant deterioration in credit risk ▸ In Stages 2 and 3, lifetime ECL, which applies whenever there has been a significant increase in credit risk. In Stage 3, a credit event has occurred, and interest income is calculated on the asset's amortized cost (i.e., net of the allowance). In contrast, in Stage 2 interest income is calculated on the asset's gross carrying amount.

	US GAAP	IFRS
	When an impairment loss is recognized in the income statement, a new cost basis in the instrument is established, which is the previous cost basis less the impairment recognized in earnings. As a result, impairment losses recognized in the income statement cannot be reversed for any future recoveries.	For financial assets that are debt instruments measured at FV-OCI, impairment gains and losses are recognized in net income. However, the ECLs do not reduce the carrying amount of the financial assets in the statement of financial position, which remains at fair value. Instead, impairment gains and losses are accounted for as an adjustment to the revaluation reserve accumulated in OCI (the "accumulated impairment amount"), with a corresponding charge to net income. When a debt security measured at FV-OCI is derecognized, IFRS requires the cumulative gains and losses previously recognized in OCI to be reclassified to net income. If the amount of ECLs decreases, the accumulated impairment amount in OCI is reduced, with a corresponding adjustment to net income.
Impairment recognition — equity instruments	Under US GAAP, equity investments are generally measured at FV-NI and therefore not reviewed for impairment. However, an equity investment without a readily determinable fair value for which the measurement alternative has been elected is qualitatively assessed for impairment at each reporting date. If a qualitative assessment indicates that the investment is impaired, the entity will have to estimate the investment's fair value in accordance with ASC 820 and, if the fair value is less than the investment's carrying value, recognize an impairment loss in net income equal to the difference between carrying value and fair value.	Equity instruments are measured at FV-PL or FV-OCI. For equity instruments measured at FV-OCI, gains and losses recognized in OCI are never reclassified to earnings. Therefore, equity instruments are not reviewed for impairment.
Impairment recognition — financial assets measured at amortized cost	Under US GAAP, the impairment model for loans and other receivables is an incurred loss model. Losses from uncollectible receivables are recognized when (1) it is probable that a loss has been incurred (i.e., when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the receivable) and (2) the amount of the loss is reasonably estimable. The total allowance for credit losses should include amounts for financial assets that have been measured for impairment, whether individually under ASC 310-10 or collectively (in groups of receivables) under ASC 450-20. Changes in the allowance are recognized in earnings. Write-downs (charge-offs) of loans and other receivables are recorded when the asset is deemed uncollectible. Recoveries of loans and receivables previously written down are recorded when received. For HTM debt securities the impairment analysis is the same as it is for debt securities measured at FV-OCI, except that an entity should not consider whether it intends to sell, or will more likely than	Under IFRS, there is a single impairment model for debt instruments recorded at amortized cost or FV-OCI, including loans and debt securities. Refer to "Impairment recognition — debt instruments measured at FV-OCI" above for a discussion of this model. Write-downs (charge-offs) of loans and other receivables are recorded when the entity has no reasonable expectation of recovering all or a portion of the CCFs of the asset. IFRS does not provide guidance on accounting for subsequent recoveries.

	US GAAP	IFRS
	not be required to sell, the debt security before the recovery of its amortized cost basis. That is because the entity has already asserted its intent and ability to hold an HTM debt security to maturity. When an investor does not expect to recover the entire amortized cost of the HTM debt security, the HTM debt security is written down to its fair value. 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 OCI. The carrying amount of an HTM debt security after the 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. The impairment recognized in OCI for an HTM debt security is accreted to the carrying amount of the HTM instrument over its remaining life. This accretion does not affect earnings.	
Derivatives and hedging		
Definition of a derivative and scope exceptions	To meet the definition of a derivative, an instrument must (1) have one or more underlyings, and, one or more notional amounts or payment provisions or both, (2) require no initial net investment, as defined, and (3) 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 risk components	Hedging of risk components of both financial and nonfinancial items is allowed if certain criteria are met. Entities can separately hedge the foreign exchange risk, credit risk or interest rate risk associated with a financial instrument. However, interest rate components that may be hedged are specifically defined by the literature as benchmark interest rates for fixed-rate financial instruments, and contractually specified interest rates for variable-rate financial instruments. If the hedged transaction is the forecasted purchase or sale of a nonfinancial asset, entities may separately hedge foreign exchange risk or any risk component that is contractually specified.	Hedging of risk components of both financial and nonfinancial items is allowed, provided that the risk component is separately identifiable and reliably measurable.
Hedge effectiveness	To qualify for hedge accounting the relationship must be "highly effective." Prospective and retrospective assessment of hedge effectiveness is required on a periodic basis (at least quarterly). There is no requirement to separately measure and recognize hedge ineffectiveness. For highly effective cash flow and net investment hedges,	To qualify for hedge accounting, there must be an economic relationship between the hedged item and the hedging instrument, the value changes resulting from that economic relationship cannot be dominated by credit risk, and the hedge ratio should generally be the same as the ratio management actually uses to hedge the quantity of the hedged item.

	US GAAP	IFRS
	the entire change in the fair value of the hedging instrument included in the assessment of hedge effectiveness is recorded in OCI (for cash flow hedges) or the CTA section of OCI (for net investment hedges) and reclassified to earnings when the hedged item affects earnings (or when it becomes probable that the forecasted transaction being hedged in a cash flow hedge will not occur in the required time period). The shortcut method for interest rate swaps hedging recognized debt instruments is permitted.	Only prospective assessment of effectiveness is required at each reporting period. Ineffectiveness is measured and recognized through earnings each reporting period. For cash flow hedges and net investment hedges, the ineffectiveness recorded is limited to overhedges. The shortcut method for interest rate swaps hedging recognized debt is not permitted.
Presentation of changes in the fair value of hedging instruments included in the effectiveness assessment	The entire change in fair value of the hedging instruments included in the assessment of hedge effectiveness is presented in the same income statement line item as the earnings effect of the hedged item.	There is no guidance specifying where the change in fair value of the hedging instrument included in the assessment of hedge effectiveness should be presented.
Excluded components	A hedging instrument's time value and the foreign currency basis spread can be excluded from the effectiveness assessment. The initial value of the excluded component is recognized in earnings using a systematic and rational method over the life of the hedging instrument. Any difference between the change in fair value of the excluded components and the amounts recognized in earnings under the systematic and rational approach is deferred in OCI. Alternatively, an entity may make a policy election to record the changes in the fair value of components excluded from the assessment of hedge effectiveness immediately in earnings.	A hedging instrument's time value and foreign currency basis spread can be excluded from the effectiveness assessment. The change in fair value of any excluded components is deferred in accumulated other comprehensive income and reclassified based on the nature of the hedged item (i.e., transaction-related or time-period related).
Derecognition		
Derecognition of financial assets	Derecognition of financial assets (i.e., sales treatment) occurs when effective control over the financial asset has been surrendered: ▸ 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) The derecognition criteria may be applied to a portion of a financial asset only if it meets the definition of a participating interest.	Derecognition of financial assets is based on a mixed model that considers both 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. 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.

	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, including 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 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 NAV or its equivalent.	There is no practical expedient for estimating fair value using NAV for 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 debt securities and certain equity investments, (5) recognition of basis adjustments when hedging future transactions, (6) hedging net investments, (7) cash flow hedge of intercompany transactions, (8) hedging with internal derivatives, (9) impairment criteria for equity investments, (10) puttable minority interest, (11) netting and offsetting arrangements, (12) unit of account eligible for derecognition and (13) accounting for servicing assets and liabilities.

Standard setting activities

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

Recognition and measurement

In July 2014, the IASB issued the final version of IFRS 9, which made significant changes to the guidance on the recognition and measurement of financial instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, and in February 2018, issued ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which clarifies certain aspects of the guidance in ASU 2016-01.

Because ASU 2016-01 made only targeted amendments to existing guidance, 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 PBEs in annual periods beginning after 15 December 2017, and interim periods within those annual periods. For all other entities, it is effective for annual periods beginning after 15 December 2018, and interim periods in annual periods beginning after 15 December 2019. Other entities can adopt the entire standard at the same time as PBEs, and all entities can early adopt certain provisions. ASU 2018-03 is effective for PBEs for annual periods beginning after 15 December 2017, and interim periods within those annual periods beginning after 15 June 2018. For all other entities, the amendments have the same effective date as ASU 2016-01. Early adoption is permitted.

Liabilities and equity

The FASB currently has a targeted improvements project to simplify certain areas of the accounting for financial instruments with characteristics of liabilities and equity. In June 2018, the FASB directed the staff to further research a potential accounting model for convertible instruments and two potential models that could determine whether a contract is indexed to an entity's own stock.

In addition, in connection with a separate project, new guidance for simplifying the balance sheet classification of debt is expected to be issued in 2019.

The IASB continues its research project on potential improvements to (1) the classification of liabilities and equity in IAS 32, including potential amendments to the definitions of liabilities and equity in the Conceptual Framework and (2) the presentation and disclosure requirements for financial instruments with characteristics of equity, irrespective of classification. In June 2018, the IASB published a Discussion Paper that sets out the IASB's preferred approach to classification of a financial instrument, from the perspective of the issuer, as a financial liability or an equity instrument. The IASB is expected to continue its discussions on these initiatives at future meetings.

Impairment

The FASB initially worked with the IASB to develop new impairment 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*, issued in June 2016, differs significantly from the three-stage impairment model the IASB finalized as part of IFRS 9. Under ASU 2016-13, an entity will record an allowance for credit losses that reflects the portion of the amortized cost balance that the entity does not expect to collect over the contractual life of (1) all financial assets that are debt instruments measured at amortized cost, (2) net investments in leases and (3) off-balance sheet credit exposures. AFS 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 2020 for calendar-year entities that are SEC filers. Early adoption in 2019 is permitted for all calendar-year entities.

Hedge accounting

IFRS 9 introduced 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 August 2017, the FASB issued ASU 2017-12, *Targeted Improvements to Accounting for Hedging Activities*, to make certain targeted improvements to its hedge accounting model in an effort to more clearly portray an entity's risk management activities in its financial statements and reduce operational complexity in the application of certain aspects of the model. ASU 2017-12 is effective for PBEs for annual periods beginning after 15 December 2018, including interim periods within those years. For all other entities, it is effective in annual periods beginning after 15 December 2019, and interim periods within fiscal years beginning a year later. Early adoption is permitted in any interim period or fiscal year before the effective date.

Although the FASB and the IASB had similar objectives in their hedge accounting projects (i.e., to better align hedge accounting with an entity's risk management activities), there are a number of key principles that differ between ASU 2017-12 and IFRS 9.

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 accumulated 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.
Consolidation of foreign operations	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.	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.

Standard setting activities

There is no significant standard setting activity in this area.

Leases — after the adoption of ASC 842 and IFRS 16

Similarities

Note: For US GAAP/IFRS accounting similarities and differences before the adoption of ASC 842 and IFRS 16, please see the February 2018 edition of this publication.

In early 2016, the FASB and the IASB each issued a new lease accounting standard, ASC 842 and IFRS 16, respectively. The overall accounting for leases under US GAAP and IFRS is similar. Both require lessees to recognize right-of-use assets and lease liabilities on their balance sheets, unless certain recognition exemptions are elected. Both include specific classification and measurement models for lessors.

For PBEs and certain other entities, ASC 842 is effective for annual periods beginning after 15 December 2018. For other entities, ASC 842 is effective for annual periods beginning after 15 December 2019. Early adoption is permitted in all cases.

For all entities, IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of the initial application of IFRS 16. While the standards are similar in some respects, there are significant differences.

Significant differences

	US GAAP	IFRS
Scope and measurement exemptions		
Low-value asset exemption	There is no recognition exemption for leases based on the value of the underlying asset.	Lessees may elect, on a lease-by-lease basis, not to recognize leases when the value of the underlying asset is low (e.g., US$5,000 or less when new).
Scope exemption for intangible assets	All leases of intangible assets are excluded from the scope of ASC 842.	Lessees may apply IFRS 16 to leases of intangible assets other than rights held by a lessee under licensing agreements within the scope of IAS 38, *Intangible Assets*, for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights. Lessors are required to apply IFRS 16 to leases of intangible assets, except for licenses of intellectual property that are in the scope of IFRS 15.
Key concepts		
Lease liability — reassessment of variable lease payments	Changes in variable lease payments based on an index or rate result in a remeasurement of the lease liability when the lease liability is remeasured for another reason (e.g., a change in the lease term).	Changes in variable lease payments based on an index or rate result in a remeasurement of the lease liability whenever there is a change in the cash flows (i.e., when the adjustment to the lease payments takes effect).
Determination of the discount rate	Lessees and lessors determine the discount rate at the lease commencement date.	Lessees determine the discount rate at lease commencement but lessors determine the rate implicit in the lease at the lease inception date.
Determination of a lessee's incremental borrowing rate	A lessee may consider the effect of lease term options (e.g., purchase and renewal options) that are not included in the lease term.	IFRS 16 does not address whether a lessee may consider the effect of lease term options (e.g., purchase and renewal options) that are not included in the lease term.
Definition of initial direct costs (IDCs)	IDCs are incremental costs that would not have been incurred if the lease had not been obtained. Lessors expense IDCs for sales-type leases if the fair value of the underlying asset is different from the carrying amount of the underlying asset at lease commencement.	IDCs are incremental costs of obtaining a lease that would not have been incurred if the lease had not been obtained. However, costs incurred by a manufacturer or dealer lessor in connection with a finance lease are expensed.

	US GAAP	IFRS
Classification		
Lessee lease classification	Recognized leases are classified as either finance or operating. Lessees classify leases at the lease commencement date.	All recognized leases are accounted for similarly to finance leases under ASC 842.
Lessor lease classification	Leases are classified as operating, direct financing or sales-type leases at the lease commencement date.	Leases are classified as operating or finance leases at the inception date of the lease.
Lessor — lease classification criteria	Each classification criterion is determinative (i.e., if any single criterion is met, the lease will be a sales-type lease).	All classification criteria can be considered individually or in combination. IFRS 16 provides examples and indicators of situations that can be considered individually, or in combination, and would result in a lease being classified as a finance lease. Meeting a single criterion does not automatically result in the lease being classified as a finance lease.
Collectibility	Collectibility of the lease payments is considered when determining whether a lease is classified as a direct financing or an operating lease.	IFRS 16 does not include explicit guidance for considering collectibility of lease payments.
Subleases	When classifying a sublease, the sublessor classifies the sublease based on the underlying asset rather the right-of-use asset on the head lease.	When classifying a sublease, a sublessor classifies the sublease based on the right-of-use asset recognized as part of the head lease.
Lessee accounting		
Short-term leases — existence of a purchase option	A lease may not qualify as a short-term lease if it includes a purchase option that is reasonably certain to be exercised.	A lease may not qualify as a short-term lease if it includes a purchase option, regardless of whether the lessee is reasonably certain to exercise the option.
Short-term leases — change in lease term	A lease no longer qualifies as a short-term lease when there is a change in a lessee's assessment of either of the following: ▸ The lease term so that, after the change, the remaining lease term extends more than 12 months from the end of the previously determined lease term ▸ Whether the lessee is reasonably certain to exercise an option to purchase the underlying asset	A change in the terms of a short-term lease creates a new lease. If that new lease has a lease term greater than 12 months, it cannot qualify as a short-term lease.
Lessor accounting		
Recognition of selling profit for direct financing leases	Selling profit on direct financing leases is deferred at lease commencement and amortized into income over the lease term.	IFRS does not distinguish between sales-type and direct financing leases. Selling profit on finance leases is recognized at lease commencement.
Practical expedient to not separate lease and non-lease components	A lessor can elect, by class of underlying asset, to not separate lease and related non-lease components if certain criteria are met. Additionally, if the non-lease component is the predominant component of the combined component, the combined component is accounted for in accordance with ASC 606.	IFRS 16 does not include a similar practical expedient for lessors.

	US GAAP	IFRS
Collectibility	Collectibility of the lease payments is assessed for purposes of initial recognition and measurement of sales-type leases. It is also evaluated to determine the income recognition pattern of operating leases.	IFRS 16 does not include explicit guidance for considering collectibility of lease payments.
Modification of a sales-type or direct financing lease (under US GAAP) or a finance lease (under IFRS) that does not result in a separate contract	If the modification of a sales-type or direct financing lease is not accounted for as a separate contract, the entity reassesses the classification of the lease as of the effective date of the modification based on the modified terms and conditions, and the facts and circumstances as of that date. ASC 842 then specifies how to account for the modified lease based on the classification of the modified lease.	If the modification of a finance lease is not accounted for as a separate contract, the accounting for the modification depends on whether the finance lease would have been classified as an operating lease had the modification been in effect at lease inception. IFRS 16 then specifies how to account for the modified lease based on that classification.
Allocating variable consideration not dependent on an index or rate between lease and non-lease components of a contract	If the terms of a variable payment that is not dependent on an index or rate relate, even partially, to the lease component, the lessor will recognize those payments (allocated to the lease component) as income in profit or loss in the period when the changes in facts and circumstances on which the variable payment is based occur (e.g., when the lessee's sales on which the amount of the variable payment depends occur).	IFRS 16 does not include similar guidance for variable consideration related to the lease component. Lessors would allocate the consideration in the contract based on the guidance IFRS 15.73 through 90.
Sale and leaseback transactions		
Assessing whether a transfer of an asset is a sale and purchase in a sale and leaseback transaction	To determine whether an asset transfer is a sale and purchase, a seller-lessee and a buyer-lessor consider the following: ▸ Whether the transfer meets sale criteria under ASC 606 (however, certain fair value repurchase options would not result in a failed sale) ▸ Whether the leaseback would be classified as a sales-type lease by the buyer-lessor or a finance lease by the seller-lessee (i.e., a sale and purchase does not occur when the leaseback is classified as a sales-type lease by the buyer-lessor or as a finance lease by the seller-lessee)	To determine whether the transfer of an asset is accounted for as a sale and purchase, a seller-lessee and a buyer-lessor apply the requirements for determining when a performance obligation is satisfied in IFRS 15.
Gain or loss recognition in sale and leaseback transactions	The seller-lessee recognizes any gain or loss, adjusted for off-market terms, immediately.	The seller-lessee recognizes only the amount of any gain or loss, adjusted for off-market terms, that relates to the rights transferred to the buyer-lessor.
Failed sales — seller/lessee	Asset transfers that do not qualify as sales should be accounted for as financings by the lessor and lessee. ASC 842 provides additional guidance on adjusting the interest rate in certain circumstances (e.g., to ensure there is not a built-in loss).	Asset transfers that do not qualify as sales should be accounted for as financings in accordance with IFRS 9 by the lessor and lessee. IFRS 16 does not provide additional guidance on interest rates.

	US GAAP	IFRS
Other considerations		
Related party transactions	Entities classify and account for related party leases (including sale and leaseback transactions) based on the legally enforceable terms and conditions of the lease. Disclosure of related party transactions is required.	IFRS 16 does not address related party lease transactions. IAS 24 contains guidance on related party disclosures.
Transition		
Modified retrospective transition — application to comparative periods	ASC 842 provides an option to apply the transition provisions as of the beginning of the earliest comparative period presented in the financial statements or as of the effective date. Comparative periods are adjusted when an entity elects to apply the transition provisions as of the earliest comparative period presented in the financial statements. Comparative periods are not adjusted when an entity elects to apply the transition provisions as of the effective date.	Comparative periods are not adjusted.
Modified retrospective transition — specific transition guidance	Specific transition guidance is provided for all leases depending on the lease classification before and after application of ASC 842.	Transition guidance primarily addresses lessees' leases previously classified as operating leases under IAS 17.
Leveraged leases	Leveraged lease accounting is eliminated for leases that commence on or after the effective date of ASC 842. However, leveraged leases that commenced prior to the effective date are grandfathered. If an existing leveraged lease is modified on or after the effective date, the lease would no longer be accounted for as a leveraged lease but would instead be accounted for under ASC 842.	Leveraged lease accounting is not permitted under IFRS 16.

Standard setting activities

The FASB continues to make targeted improvements to ASC 842, and therefore readers should monitor the standard for developments that may result in additional differences between the standards.

In August 2018, the FASB proposed allowing lessors to make an accounting policy election to exclude from the consideration in the contract and from variable payments not included in the consideration in the contract all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific lease revenue-producing transaction and collected by the lessor from a lessee (e.g., sales, use, value added, some excise taxes). The proposal also would require lessors to exclude certain other lessor costs from variable payments and would clarify the guidance for lessors about allocating certain variable payments to lease and non-lease components.

To finalize the changes, the FASB will need to issue a final ASU. This section has not been updated for these proposed changes. The IASB is not proposing similar amendments.

Income taxes

Similarities

ASC 740, *Income Taxes,* and IAS 12, *Income Taxes,* require entities to account for both current and expected future tax effects 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 the 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 the amount; however, when uncertainty exists, the amount is determined in accordance with ASC 740-10-25.	Tax basis is referred to as "tax base" under IFRS. Tax base 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 the tax base. After the adoption of IFRIC 23, *Uncertainty Over Income Tax Treatments*, when an uncertain tax treatment exists, it is determined in accordance with IFRIC 23.
Taxes on intercompany transfers of assets that remain within a consolidated group	Before the adoption of ASU 2016-16, *Intra-Entity Transfers of Assets Other Than Inventory*, US GAAP requires taxes paid on profits from intercompany sales and transfers of *assets* to be deferred and prohibits the recognition of deferred taxes for the increases in the tax bases due to an intercompany sale or transfer. The income tax effects of the intercompany sale or transfer of assets are recognized when the assets are sold to a party outside of the consolidated group or otherwise expensed (e.g., depreciation, amortization or impairment). After the adoption of ASU 2016-16, US GAAP requires taxes paid on profits from intercompany sales and transfers of *inventory* to be deferred and prohibits the recognition of deferred taxes for increases in the tax bases due to an intercompany sale or transfer of inventory. The income tax effects of the intercompany sale or transfer of inventory are recognized when the inventory is sold to a party outside of the consolidated group. Companies are required to recognize the income tax effects of intercompany sales and transfers of assets other than inventory in the period in which the transfer occurs.	IFRS 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.	Before the adoption of IFRIC 23, IFRS did not include specific guidance. IAS 12 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

	US GAAP	IFRS
	The unit of account for uncertain tax positions is based on the level at which an entity prepares and supports the amounts claimed in the tax return and considers the approach the entity anticipates the taxation authority will take in an examination.	considered more likely than not to result in a cash outflow. Practice varies regarding the consideration of detection risk in the analysis. After the adoption of IFRIC 23, when it is probable (similar to "more likely than not" under US GAAP) that the taxation authority will accept an uncertain tax treatment, taxable profit or loss is determined consistent with the tax treatment used or planned to be used in the income tax filings. When it is not probable that a taxation authority will accept an uncertain tax treatment, the amount of uncertainty to be recognized is calculated using either the expected value or the most likely amount, whichever method better predicts the resolution of the uncertainty. Uncertain tax treatments may be considered separately or together based on which approach better predicts the resolution of the uncertainty. Detection risk is precluded from being considered in the analysis.
Initial recognition exemption	There is no 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	Deferred tax assets are recognized in full (except for certain outside basis differences), but the valuation allowance reduces the asset to the amount that is more likely than not to be realized.	Amounts are recognized only to the extent it is probable (more likely than not) that they will be realized.
Calculation of deferred tax asset or liability	Enacted tax rates as of the balance sheet date must be used.	Enacted or "substantively enacted" tax rates as of the balance sheet date must be used.
Recognition of deferred tax liabilities from investments in subsidiaries or joint ventures (often referred to as outside basis differences)	Recognition is not required for an investment in a foreign subsidiary or foreign corporate joint venture that is essentially permanent in duration, unless it becomes apparent that the difference will reverse in the foreseeable future.	Recognition is not required if 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 from 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.

Standard setting activities

The IASB and FASB have separately undertaken projects that have resulted in further alignment in various areas of accounting for income taxes.

IFRIC 23, issued in June 2017, provides guidance on accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. IFRIC 23 is effective for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

In October 2016, the FASB issued ASU 2016-16 to require companies to account for the income tax effects on intercompany transfers of assets other than inventory (e.g., intangible assets) when the transfer occurs. Companies still will be required to defer the income tax effects of intercompany inventory transactions in an exception to the income tax accounting guidance. For PBEs, ASU 2016-16 is effective for annual periods beginning after 15 December 2017, and interim periods within those annual periods. For other entities, it is effective for annual periods beginning after 15 December 2018, and interim periods in annual periods beginning after 15 December 2019. Early adoption is permitted only in the first interim period.

Provisions and contingencies

Similarities

IAS 37 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, 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, the guidance in two non-authoritative FASB Concept Statements (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" to be recognized. US GAAP defines "probable" as "the future event or events are likely to occur."	A loss must be "probable" to be recognized. IFRS defines "probable" as "more likely than not." That is a lower threshold than under US GAAP.
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."
Measurement of provisions — range of possible outcomes	The 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.	The best estimate of obligation should be accrued. For a large population of items being measured, such as warranty costs, the best estimate is typically the expected value, although the midpoint in the range may also be used when any point in a continuous range is as likely as another. The 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, 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 apply. Costs typically are recognized earlier than under US GAAP because IAS 37 focuses on the exit plan as a whole, rather than the plan's individual cost components.

Standard setting activities

There is no significant standard setting activity in this area.

Revenue recognition — after the adoption of ASC 606 and IFRS 15

Similarities

Note: For US GAAP/IFRS accounting similarities and differences before the adoption of ASC 606 and IFRS 15, please see the October 2016 edition of this publication.

The FASB and the IASB issued largely converged revenue recognition standards in May 2014 that supersede virtually all revenue guidance, including industry- and transaction-specific guidance, under US GAAP and IFRS.

The standards are broadly applicable to all revenue transactions with customers (with some limited scope exceptions, for example, for insurance contracts, financial instruments and leases).

The standards also specify the accounting for costs an entity incurs to obtain and fulfill a contract to provide goods and services to customers and provide a model for the measurement and recognition of gains and losses on the sale of certain nonfinancial assets, such as property and equipment, including real estate.

The core principle of both standards is that an entity recognizes 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 in exchange for those goods or services. The standards also require comprehensive disclosures and change the way entities communicate information in the notes to the financial statements.

The principles in the standards are applied using the following five steps:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

The FASB's standard is effective for public entities, as defined, for annual periods beginning after 15 December 2017, and for interim periods therein. Nonpublic entities are required to adopt the standard for annual periods beginning after 15 December 2018, and interim periods within annual periods beginning after 15 December 2019.

The IASB's standard is effective for annual reporting periods beginning on or after 1 January 2018. IFRS does not distinguish between public and nonpublic entities so adoption is not staggered for IFRS preparers.

The standards require retrospective adoption. However, they allow either a "full retrospective" adoption in which the standards are applied to all of the periods presented or a "modified retrospective" adoption in which the standards are applied only to the most current period presented in the financial statements.

Below, we discuss the differences in the standards for which US GAAP and IFRS preparers may reach different accounting conclusions.

Significant differences

	US GAAP	IFRS
Definition of a completed contract at transition	A completed contract is one for which all (or substantially all) of the revenue was recognized in accordance with revenue guidance that is in effect before the date of initial application.	A completed contract is one in which the entity has fully transferred all of the goods and services identified in accordance with legacy IFRS and related interpretations.
Full retrospective adoption method	An entity electing the full retrospective adoption method must transition *all* of its contracts with customers to ASC 606, subject to practical expedients created to provide relief, not just those contracts that are not considered completed as of the beginning of the earliest period presented under the standard.	IFRS 15 includes an additional practical expedient that US GAAP does not that allows an entity that uses the full retrospective adoption method to apply IFRS 15 only to contracts that are not completed as of the beginning of the earliest period presented.

	US GAAP	IFRS
Contract modifications practical expedient at transition	Under either transition method, for contracts modified prior to the beginning of the earliest reporting period presented under ASC 606, an entity can reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented under ASC 606 when identifying the satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price to the satisfied and unsatisfied performance obligations for the modified contract at transition.	An entity can apply this same practical expedient. However, when applying the full retrospective adoption method, the effect of this practical expedient depends on the number of comparative years included in the financial statements. When applying the modified retrospective adoption method, an entity can apply this practical expedient either to all contract modifications that occur before the beginning of the earliest period presented in the financial statements or to all contract modifications that occur before the date of initial application.
Collectibility threshold	An entity must assess whether it is *probable* that the entity will collect *substantially all* of the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. For purposes of this analysis, the term "probable" is defined as "the future event or events are likely to occur," consistent with its definition elsewhere in US GAAP.	An entity must assess whether it is *probable* that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. However, for purposes of this analysis, the term "probable" is defined as "more likely than not," consistent with its definition elsewhere in IFRS.
Shipping and handling activities	An entity can elect to account for shipping and handling activities performed *after* the control of a good has been transferred to the customer as a fulfillment cost (i.e., not as a promised good or service).	IFRS 15 does not include a similar policy election.
Presentation of sales (and other similar) taxes	An entity can elect to exclude sales (and other similar) taxes from the measurement of the transaction price.	IFRS 15 does not include a similar policy election.
Noncash consideration — measurement date	An entity is required to measure the estimated fair value of noncash consideration at contract inception.	IFRS 15 does not specify the measurement date for noncash consideration.
Noncash consideration — types of variability	When the variability of noncash consideration is due to both the form (e.g., changes in share price) of the consideration and for other reasons (e.g., a change in the exercise price of a share option because of the entity's performance), the constraint on variable consideration applies only to the variability for reasons other than its form.	IFRS 15 does not address how the constraint is applied when the noncash consideration is variable due to both its form and other reasons. The IASB noted that, in practice, it might be difficult to distinguish between variability in the fair value due to the form of the consideration and other reasons, in which case applying the variable consideration constraint to the whole estimate of the noncash consideration might be more practical.
Licenses of intellectual property (IP) — determining the nature of an entity's promise	An entity must classify the IP underlying all licenses as either functional or symbolic to determine whether to recognize the revenue related to the license at a point in time or over time, respectively.	IFRS 15 does not require entities to classify licenses as either functional or symbolic. IFRS 15 requires three criteria to be met to recognize the revenue related to the license over time. If the license does not meet those criteria, the related revenue is recorded at a point in time.

	US GAAP	IFRS
Licenses of IP — applying the guidance to bundled performance obligations	If an entity is required to bundle a license of IP with other promised goods or services in a contract, it is required to consider the licenses guidance to determine the nature of its promise to the customer.	IFRS 15 does not explicitly state that an entity needs to consider the licenses guidance to help determine the nature of its promise to the customer when a license is bundled with other goods or services. However, the IASB clarified in the Basis for Conclusions that an entity should consider the nature of its promise in granting the license if the license is the primary or dominant component (i.e., the predominant item) of a single performance obligation.
Licenses of IP — renewals	Revenue related to the renewal of a license of IP may not be recognized before the beginning of a renewal period.	IFRS 15 does not include similar requirements as US GAAP for renewals. When an entity and a customer enter into a contract to renew (or extend the period of) an existing license, the entity needs to evaluate whether the renewal or extension should be treated as a new contract or as a modification of the existing contract.
Reversal of impairment losses	Reversal of impairment losses is prohibited for all costs to obtain and/or fulfill a contract.	IFRS 15 permits the reversal of some or all of previous impairment losses when impairment conditions no longer exist or have improved. However, the increased carrying value of the asset must not exceed the amount that would have been determined (net of amortization) if no impairment had been recognized previously.
Sale or transfer of nonfinancial assets	ASC 610-20, which the FASB issued at the same time as ASC 606, provides guidance on how to account for any gain or loss resulting from the sale or transfer of nonfinancial assets or in substance nonfinancial assets to noncustomers that are not an output of an entity's ordinary activities and are not a business. This includes the sale of intangible assets and property, plant and equipment, including real estate, as well as materials and supplies. ASC 610-20 also includes guidance for a "partial sale" of nonfinancial assets and in substance nonfinancial assets held in a legal entity. ASC 610-20 requires entities to apply certain recognition and measurement principles of ASC 606. Thus, under US GAAP, the accounting for a contract that includes the sale of a nonfinancial asset to a noncustomer will generally be consistent with that of a contract to sell a nonfinancial asset to a customer, except for financial statement presentation and disclosure.	IAS 16, IAS 38 and IAS 40 require entities to use certain of the requirements of IFRS 15 when recognizing and measuring gains or losses arising from the sale or disposal of nonfinancial assets to noncustomers when it is not in the ordinary course of business. IFRS 15 does not contain specific requirements regarding the sale of in substance nonfinancial assets to noncustomers that are not a business. The applicable guidance for such disposals would depend on facts and circumstances (e.g., the sale or disposal of a subsidiary (i.e., loss of control) is accounted for under IFRS 10).

Standard setting activities

There is no significant standard setting activity in this area.

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* (before the adoption of ASU 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting*, discussed further below), is largely converged with the guidance in IFRS 2, *Share-Based Payment* (including the amendments that were effective 1 January 2018). Both require a fair value-based approach for 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 nonemployees 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	After adopting ASU 2016-09, *Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, 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 (the approach before the adoption of ASU 2016-09).	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 expected to vest is likely to differ from previous estimates.
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.

	US GAAP	IFRS
Transactions with nonemployees	The US GAAP definition of an employee focuses primarily on the common law definition of an employee. Before the adoption of ASU 2018-07, 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. After the adoption of ASU 2018-07, awards to nonemployees are measured at the fair value of the equity instruments to be issued. Before the adoption of ASU 2018-07, the measurement date of equity-classified awards 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. After the adoption of ASU 2018-07, the measurement date of equity-classified awards is generally the grant date.	IFRS has a more general definition of an employee that includes individuals who provide services similar to those rendered by employees. 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. Measurement date is the date the entity obtains the goods or the counterparty renders the services. No performance commitment concept exists.
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 the employee bears the 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).
Deferred taxes	Before the adoption of ASU 2016-09, deferred taxes are calculated based on the cumulative GAAP expense recognized and trued up or down upon realization of the tax benefit. After the adoption of ASU 2016-09, deferred taxes are calculated based on the cumulative GAAP expense recognized. Before 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. 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.	Deferred taxes are calculated based on the estimated tax deduction determined at each reporting date (e.g., intrinsic value). 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.

	US GAAP	IFRS
Modification of vesting terms that are improbable of achievement	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.	Compensation cost is based on 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.

Standard setting activities

In June 2018, the FASB issued ASU 2018-07 to simplify the accounting for share-based payments to nonemployees by aligning it with the accounting for share-based payments to employees, with certain exceptions. The new guidance expands the scope of ASC 718 so that today's measurement guidance for employee awards also applies to nonemployee awards. That is, the measurement date for equity awards to nonemployees is generally the grant date.

The guidance also aligns the post-vesting classification (i.e., debt versus equity) requirements for employee and nonemployee awards under ASC 718. That is, it eliminates the requirement under legacy GAAP to reassess a nonemployee award's classification in accordance with other applicable US GAAP (e.g., ASC 815) once performance is complete.

The ASU is effective for PBEs in annual periods beginning after 15 December 2018, and interim periods within those years. For all other entities, it is effective in annual periods beginning after 15 December 2019, and interim periods within annual periods beginning after 15 December 2020. Early adoption is permitted, including in an interim period, but not before an entity adopts ASC 606.

In March 2016, the FASB issued ASU 2016-09, which changes how companies account for certain aspects of share-based payments to employees. For PBEs, ASU 2016-09 was 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.

In addition, in June 2016, certain amendments were made to IFRS 2, *Share-based Payment*, that were effective 1 January 2018.

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	Actuarial gains and losses may be recognized in net income as they occur or deferred in OCI and subsequently amortized to net income through a corridor approach.	Actuarial gains and losses must be recognized immediately in OCI. Gains and losses are not subsequently recognized in net income.
Recognition of prior service costs or credits from plan amendments	Prior service costs or credits from plan amendments are initially deferred in OCI 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.	Prior service costs or credits from plan amendments are recognized immediately in net income.
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.
Multiemployer postretirement plans	A multiemployer postretirement plan is accounted for similar to a defined contribution plan.	A multiemployer postretirement plan is accounted for as either a defined contribution plan or a defined benefit plan based on the terms (contractual and constructive) of the plan. If it is accounted for as a defined benefit plan, an entity must account for the proportionate share of the plan similar to any other defined benefit plan unless sufficient information is not available.

Standard setting activities

In February 2018, the IASB amended IAS 19 to clarify that when a plan amendment, curtailment or settlement occurs, an entity is required to use the updated actuarial assumptions to determine the current service cost and net interest for the remainder of the annual reporting period after such an event. This amendment aligns IFRS with US GAAP. The IASB also clarified how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. The guidance is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted.

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which changes how employers that sponsor defined benefit pension and/or other postretirement benefit plans present the cost of the benefits in the income statement. ASU 2017-07 is effective for PBEs in annual periods beginning after 15 December 2017, and interim periods within those annual periods. For all other entities, it is effective for annual periods beginning after 15 December 2018, and interim periods within annual periods beginning after 15 December 2019. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. That is, early adoption must be within the first interim period if an employer issues interim financial statements.

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, *Earnings Per Share*, and IAS 33, *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 *always* 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	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.	For options, warrants and their equivalents, IAS 33 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.

Standard setting activities

There is no significant standard setting activity in this area.

Segment reporting

Similarities

The requirements for segment reporting under both ASC 280, *Segment Reporting,* and IFRS 8 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 must determine segments based on products and services. (e.g., in some public entities, certain segment managers are responsible for different product and service lines worldwide, while other segment managers are responsible for specific geographic areas; the chief operating decision maker (CODM) may regularly review the operating results of both sets of components and make key operating decisions for both).	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 (including goodwill).	If a balance sheet is classified according to liquidity, noncurrent assets are assets that include amounts expected to be recovered more than 12 months after the balance sheet date. These noncurrent assets often include 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.

Standard setting activities

In March 2017, the IASB proposed several changes to IFRS 8, which would have resulted in additional disclosures under IFRS 8 that are not required by US GAAP. In March 2018, the IASB determined that the proposals would not result in sufficient improvement in information to investors to justify the costs that stakeholders would incur if the IASB were to amend IFRS 8. Consequently, the IASB decided not to amend IFRS 8.

The FASB has been deliberating its project on segment reporting, which focuses on improvements to the segment aggregation criteria and disclosure requirements. The project was added to the FASB's agenda in September 2017. Readers should monitor this project for developments.

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). 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.	IAS 10 does not specifically address the reissuance of financial statements and recognizes only one date through which subsequent events are evaluated (i.e., 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. 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. 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.

Standard setting activities

There is no significant standard setting activity in this area.

IFRS resources

EY offers a variety of online resources that provide more detail about IFRS as well as things to consider as you research the potential impact of IFRS on your company.

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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.

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