

# US GAAP versus IFRS

The basics

January 2021



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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.

## Key updates

Our analysis generally reflects guidance effective in 2020 and finalized by the FASB and the IASB as of 30 June 2020, or Codification. We have assumed adoption of *Definition of a Business (Amendments to IFRS 3)*; Accounting Standards Update (ASU) 2018-07, *Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*, ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*; ASC 842, *Leases*; IFRS 16, *Leases*; ASC 606, *Revenue from Contracts with*

*Customers*; and IFRS 15, *Revenue from Contracts with Customers*, and therefore we have not included differences before the adoption these standards. Please refer to the **January 2019** edition of the tool for information before the adoption of the IFRS 3 amendments and ASU 2018-07; 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.

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

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

\* \* \* \* \*

Our US GAAP/IFRS Accounting Differences Identifier Tool publication provides a more in-depth review of differences between US GAAP and IFRS generally as of 30 June 2020. 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.

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January 2021

# 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 (balance sheet), a statement of profit or loss (income statement) and of other comprehensive income (in either a single continuous statement of comprehensive income 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 stockholders' or 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 or it is probable that the covenant violation will be cured within the grace period specified in the lender agreement.	Debt associated with a covenant violation must be presented as current unless the lender agreement was reached prior to the balance sheet date.

	US GAAP	IFRS
Income statement – classification of expenses	There is no general requirement within US GAAP to classify income statement items by function or nature. However, SEC registrants are required to present expenses in specific line items that are based on function (e.g., restructuring costs).	Entities may present expenses based on either function or nature (e.g., salaries, depreciation). However, if function is selected, certain disclosures about the nature of expenses must be included in the notes.
Income statement – 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	Changes in restricted cash and restricted cash equivalents are 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, entities are required to reconcile 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.	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.	IFRS requires 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

### *Debt classification as current and noncurrent*

In January 2020, the IASB amended International Accounting Standards (IAS) 1 *Presentation of Financial Statements*, to clarify its requirements for classifying liabilities as current or noncurrent. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. Therefore, entities need to determine whether the new guidance will require them to reconsider the terms of their existing loan agreements.

After the adoption of the amendments, certain differences will remain for the classification of debt arrangements. For example, the treatment of waivers for covenant violations and share settlement features may result in different classification conclusions.

The FASB currently has a project to simplify its guidance for determining whether to classify debt as current or noncurrent on the balance sheet. The FASB proposed replacing its rules-based guidance with a principles-based approach in January 2017 and then issued a revised proposal in September 2019. Under the proposal, entities would only consider contractual rights that exist as of the balance sheet date when classifying debt as current or noncurrent, with an exception provided for waivers of debt covenant violations received after the balance sheet date but before the financial statements are issued, provided certain conditions are met. The FASB continues to deliberate on this project.

### *Primary financial statements*

In December 2019, the IASB proposed issuing a new IFRS standard on presentation of financial statements that would effectively replace IAS 1. The proposed guidance would include new disclosure requirements and new presentation requirements for the statement of financial performance, along with limited changes to the statement of financial position and the statement of cash flows. It would remove several current presentation options for items in the primary financial statements to make it easier for investors to compare entities' performance and future prospects. The proposed guidance aims to enhance comparability and decision-usefulness and is designed to remove inconsistencies in entities' current reporting.

The FASB has a project on its agenda focusing on the disaggregation of performance information through either presentation in the income statement or disclosure in the notes to the financial statements. However, the project is currently on hold to allow the FASB to monitor progress of its project on segment reporting and the IASB's primary financial statements project.

The FASB continues working on a project to determine whether and how amended SEC disclosure requirements referred to the FASB by the SEC should be incorporated into the Codification. The SEC referred these disclosure requirements to the FASB because they were believed to be duplicative or overlapping. The FASB proposed incorporating a number of the referred disclosures into the Codification in May 2019. The FASB is redeliberating exposure draft feedback.

### *Principles of disclosure*

In August 2019, the IASB proposed amending IAS 1 to require entities to disclose their material accounting policies rather than their significant accounting policies and amending IFRS Practice Statement 2 *Making Materiality Judgements* to help entities apply the concept of materiality in making decisions about accounting policy disclosures. The proposed amendments aim to improve the relevance of information provided to users of the financial statements.

Separately, the IASB decided to amend IAS 8 *Accounting Policies, Changes to Accounting Estimates and Errors* to help distinguish the difference between "accounting policies" and "accounting estimates" and clarify how the two terms are related and how companies can determine whether a change in a valuation or estimation technique is a change in an accounting estimate. These amendments (i.e., to IAS 1, IFRS Practice Statement 2 and IAS 8) are expected to be issued in the first quarter of 2021 and be effective for annual reporting periods beginning on or after 1 January 2023. They will be applied on a prospective basis, and early adoption will be permitted.

# 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*). An investor is generally presumed to have significant influence when it holds 20% or more of the voting interest in an investee. Further, the equity method of accounting for such investments generally is consistent under US GAAP and IFRS.

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

## Significant differences

	US GAAP	IFRS
Consolidation model	<p>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.</p> <p>Potential voting rights are generally not included in either evaluation. The notion of “de facto control” is not considered.</p>	<p>IFRS provides a single control model for all entities, including structured entities (the definition of a structured entity under IFRS 12 <i>Disclosure of Interests in Other Entities</i> is similar to the definition of a VIE in US GAAP). An investor controls an investee when it is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.</p> <p>Potential voting rights are considered. The notion of “de facto control” is also considered.</p>
Preparation of consolidated financial statements – general	<p>Consolidated financial statements are required, although certain industry-specific exceptions exist (e.g., investment companies).</p>	<p>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.</p>

	US GAAP	IFRS
Preparation of consolidated financial statements – investment companies	<p>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.</p> <p>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.</p>	<p>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.</p> <p>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.</p>
Preparation of consolidated financial statements – different reporting dates of parent and subsidiaries	<p>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.</p>	<p>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.</p> <p>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 are adjusted to reflect significant transactions and events.</p>
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.

	US GAAP	IFRS
Loss of control of a subsidiary	<p>For certain transactions that result in a loss of control of a subsidiary, any retained noncontrolling investment in the former subsidiary is remeasured to fair value on the date the control is lost, with the gain or loss included in income along with any gain or loss on the ownership interest sold.</p> <p>This accounting applies 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 or a transfer of a good or service in a contract with a customer in the scope of ASC 606) 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.</p>	<p>Consistent with US GAAP, except that this guidance applies to all subsidiaries, including those that are not businesses or nonprofit activities and those that involve conveyance of oil and gas mineral rights.</p> <p>Whether an entity needs to apply IFRS 10 or IFRS 15 to the sale or transfer of interests in a separate entity (i.e., sale of a corporate wrapper) to a customer depends on facts and circumstances and may require significant judgment.</p> <p>In addition, recognition of a full or partial gain or loss resulting from the loss of control of a subsidiary in a transaction involving an associate or a joint venture that is accounted for using the equity method depends on whether the subsidiary constitutes a business and whether the entity has adopted <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, Amendments to IFRS 10 and IAS 28</i>.<sup>1</sup></p>
Loss of control of a group of assets that meet the definition of a business	<p>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.</p>	<p>IFRS 10 does not address transactions resulting in the loss of control of non-subidiaries that are businesses or nonprofit activities. IFRS 10 also does not address the derecognition of assets outside the loss of control of a subsidiary.</p>
Equity method investments	<p>When determining significant influence, potential voting rights are generally not considered.</p> <p>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.</p> <p>ASC 825-10, <i>Financial Instruments</i>, gives entities the option to account for certain equity method investments at fair value. If management does not elect to use the fair value option, the equity method of accounting is required.</p> <p>Conforming accounting policies between investor and investee is generally not permitted.</p>	<p>When determining significant influence, potential voting rights are considered if currently exercisable.</p> <p>When an investor has an investment in a limited partnership, LLC, trust or similar entity, the determination of significant influence is made using the same general principle of significant influence that is used for all other investments.</p> <p>Investments in associates held by venture capital organizations, mutual funds, unit trusts and similar entities are exempt from using the equity method, and the investor may elect to measure their investments in associates at fair value.</p> <p>Uniform accounting policies between investor and investee are required.</p>

<sup>1</sup> *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
Joint ventures	<p>Joint ventures are defined as entities whose operations and activities are jointly controlled by their equity investors and have certain other characteristics. The purpose of the entity should be consistent with the definition of a joint venture.</p> <p>Joint control is not defined, but it is commonly interpreted to exist when all of the equity investors unanimously consent to each of the significant decisions of the entity.</p> <p>An entity can be a joint venture, regardless of the rights and obligations the parties sharing joint control have with respect to the entity's underlying assets and liabilities. The investors generally account for their interests in joint ventures using the equity method of accounting. They also can elect to account for their interests at fair value.</p> <p>Proportionate consolidation may be permitted to account for interests in unincorporated entities in certain limited industries (i.e., in the construction and extractive industries) and certain undivided interests.</p>	<p>Joint ventures are separate vehicles in which the parties that have joint control of the separate vehicle have rights to the net assets. In contrast with US GAAP, an entity can qualify as a joint venture if certain parties participate in decision-making through a means other than equity.</p> <p>Joint control is defined as existing when two or more parties must unanimously consent to each of the significant decisions of the entity.</p> <p>In a joint venture, the parties cannot have direct rights and obligations with respect to the underlying assets and liabilities of the entity. The investors generally account for their interests in joint ventures using the equity method of accounting. Investments in associates held by venture capital organizations, mutual funds, unit trusts and similar entities are exempt from using the equity method and the investor may elect to measure its investment at fair value.</p> <p>Proportionate consolidation is not permitted, regardless of industry. However, when a joint arrangement meets the definition of a joint operation instead of a joint venture under IFRS, an investor would recognize its share of the entity's assets, liabilities, revenues and expenses and not apply the equity method.</p>

## Standard setting activities

In October 2018, the FASB issued ASU 2018-17, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities*, which allows private companies to make an accounting policy election not to apply the Variable Interest Model to common control arrangements if certain criteria are met. ASU 2018-17 also changes how all entities evaluate decision-making fees under the Variable Interest Model. To determine whether decision-making fees represent a variable interest, an entity considers indirect interests held through related parties under common control on a proportionate basis rather than in their entirety, as was the case under previous US GAAP. For all entities other than private companies, ASU 2018-17 became effective for annual and interim periods beginning after 15 December 2019. For private companies, it is effective for annual periods beginning after 15 December 2020, and interim periods beginning after 15 December 2021. Early adoption is permitted for annual and interim periods. Depending on whether an entity applies the alternative, and how it has previously applied IFRS and US GAAP, these amendments may cause prior conclusions to further diverge or converge.

# Business combinations

## Similarities

The principal guidance for business combinations in US GAAP and IFRS is largely converged. Pursuant to ASC 805, *Business Combinations*, and IFRS 3 *Business Combinations*, all business combinations are accounted for using the acquisition method. Under the acquisition method, upon

obtaining control of another entity, the underlying transaction should be measured at fair value, and this should be the basis on which the assets, liabilities and noncontrolling interests of the acquired entity are measured, with limited exceptions. Even though the standards are substantially converged, certain differences remain.

## 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	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	<p><i>Initial recognition and measurement</i></p> <p>Assets and liabilities arising from contingencies are recognized at fair value if the fair value can be determined during the measurement period. Otherwise, those assets or liabilities are recognized at the acquisition date in accordance with ASC 450, <i>Contingencies</i>, if those criteria for recognition are met.</p> <p><i>Subsequent measurement</i></p> <p>If contingent assets and liabilities are initially recognized at fair value, an acquirer should develop a systematic and rational basis for subsequently measuring and accounting for those assets and liabilities depending on their nature.</p> <p>If amounts are initially recognized and measured in accordance with ASC 450, the subsequent accounting and measurement should be based on that guidance.</p>	<p><i>Initial recognition and measurement</i></p> <p>Liabilities arising from contingencies are recognized as of the acquisition date if there is a present obligation that arises from past events and the fair value can be measured reliably,<sup>2</sup> even if it is not probable that an outflow of resources will be required to settle the obligation. If the fair value cannot be measured reliably, the contingent liability is not recognized. Contingent assets are not recognized.</p> <p><i>Subsequent measurement</i></p> <p>Liabilities subject to contingencies are subsequently measured at the higher of (1) the amount that would be recognized in accordance with IAS 37 or (2) the amount initially recognized less, if appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15.</p>

<sup>2</sup> After the adoption of *Reference to the Conceptual Framework*, IFRS 3 requires an acquirer to apply the criteria in IAS 37 or IFRIC 21 to determine whether a present obligation exists at the acquisition date (if those liabilities and contingent liabilities would be in the scope of IAS 37 or IFRIC 21 if incurred separately).

	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, therefore, it is unclear whether pushdown accounting is acceptable under IFRS. However, the general view is that entities may not use the hierarchy in IAS 8 to refer to US GAAP and apply pushdown accounting in the separate financial statements of an acquired subsidiary because the application of pushdown accounting will result in the recognition and measurement of assets and liabilities in a manner that conflicts with certain IFRS standards and interpretations. For example, the application of pushdown accounting generally will result in the recognition of internally generated goodwill and other internally generated intangible assets at the subsidiary level, which conflicts with the guidance in IAS 38 <i>Intangible Assets</i> .
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	<p><i>Mandatory threshold test</i></p> <p>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.</p> <p>If that threshold is not met, the entity must further evaluate whether it meets the definition of a business.</p>	<p><i>Optional threshold test</i></p> <p>An entity may elect to apply the threshold test on a transaction-by-transaction basis.</p> <p>If an entity elects to apply the threshold test, it first evaluates 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.</p> <p>If that threshold is not met or if the entity elects to not apply the test, the entity must evaluate whether it meets the definition of a business.</p>

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 on the accounting for business combinations 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, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, 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 became effective for public business entities (PBEs) for annual periods beginning after 15 December 2017, and interim periods within those years. For all other entities, it became effective for annual periods beginning after 15 December 2018, and interim periods within annual periods beginning after 15 December 2019. The ASU is applied prospectively to any transactions occurring within the period of adoption.

In October 2018, the IASB issued *Definition of a Business (Amendments to IFRS 3)* to narrow and clarify the definition of a business as a result of concerns raised in its post-implementation review about the complexity of its application. The amendments are effective for transactions that occur on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. With these amendments, the definition of a business under US GAAP and IFRS is substantially converged, except that the threshold test introduced by the IFRS amendment is optional (whereas it is required under US GAAP).

In May 2020, the IASB issued *Reference to the Conceptual Framework* to align the definitions of assets and liabilities in IFRS 3 with the 2018 *Conceptual Framework*. As the amendments were not intended to significantly change the requirements of IFRS 3, the Board added an exception to the recognition principle in IFRS 3 that requires an acquirer to apply IAS 37 or International Financial Reporting Interpretations Committee (IFRIC) 21 to identify the obligations it has assumed in a business combination (if those liabilities and contingent liabilities would be in the scope of IAS 37 or IFRIC 21 if incurred separately). The amendments are effective for annual reporting periods beginning on or after 1 January 2022. Early adoption is permitted if, at the same time or earlier, an entity also applies all of the amendments contained in *Amendments to References to the Conceptual Framework in IFRS Standard*, which was issued at the same time as the 2018 *Conceptual Framework*.

In addition, the IASB issued a discussion paper on business combinations of entities under common control in November 2020. The comment period for the discussion paper ends on 1 September 2021.

# 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. The permitted 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 and 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 reasonably predictable costs of completion, disposal and transportation) and not less than net realizable value reduced by a normal profit margin.	Inventory is carried at the lower of cost and net realizable value under all permitted methods. 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, unless there is a recovery in value during the same annual reporting period that the write-down occurred.	Previously recognized write-downs are reversed up to the amount of the original write-down when the reasons for the write-down 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	The service cost component of net periodic pension cost and net periodic postretirement benefit cost are the only components 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.	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, ASC 360, *Property, Plant, and Equipment*, serves as the primary guidance for property, plant and equipment (PP&E). The definition of PP&E under US GAAP is similar to that in IAS 16 *Property, Plant and Equipment*, which addresses tangible assets that are held for use in more than one reporting period. Other concepts that are similar include the following:

### Recognition

Both accounting models have similar recognition criteria, requiring that costs be included in the cost of the asset if the 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 of use (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 a 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 depreciation method, 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 (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 (or asset group) is measured at the lower of its carrying amount or fair value less costs to sell, the asset (or asset group) is not depreciated, and it is 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. For borrowings associated with a specific qualifying asset, borrowing costs equal to the weighted average accumulated expenditures times the borrowing rate are capitalized. Interest earned on the investment of borrowed funds generally cannot offset interest costs incurred during the period.	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	Although ASC 908, <i>Airlines</i> , provides specific guidance on airframe and engine overhauls for the airline industry, US GAAP does not provide guidance for other industries. As a result, repair and maintenance costs outside the scope of ASC 908 are generally expensed as incurred. ASC 908 permits the following accounting methods: (1) expensing overhaul costs as incurred, (2) capitalizing costs and amortizing through the date of the next overhaul or (3) following 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 or costs of a major inspection are capitalized if the entity expects to use it during more than one period, future economic benefits are probable and the costs can be reliably measured. Otherwise, these costs are expensed as incurred. The carrying amount of the part that was replaced or any remaining carrying amount of the cost of a previous inspection should be written off.
Investment property	Investment property is not separately defined in US GAAP and, therefore, is accounted for as held and used or held for sale (like other PP&E).	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. After initial recognition, 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. Investment property, if carried at fair value, is not depreciated, and changes in fair value are reflected in income.

Other differences include hedging gains and losses related to the purchase of assets, constructive obligations to retire assets, and the discount rate used to calculate asset retirement obligations.

### Standard setting activities

In May 2020, the IASB issued *Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16*. The amendments prohibit an entity from deducting from the cost of PP&E amounts received from selling items produced while the entity is preparing the asset for its intended use. Instead, an entity will recognize such sales proceeds and related costs in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022. Early adoption is permitted.

# 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 finite-lived 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<sup>3</sup> under either US GAAP or IFRS.

## Significant differences

	US GAAP	IFRS
Development costs	<p>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 in ASC 985-20. In the case of software developed for internal use, only those costs incurred during the application development stage (as defined in ASC 350-40, <i>Intangibles – Goodwill and Other – Internal-Use Software</i>) may be capitalized.</p> <p>After the adoption of ASU 2018-15, <i>Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract</i>, a customer in a hosting arrangement that is a service contract is required to apply ASC 350-40 to determine whether to capitalize implementation costs related to the arrangement or to expense them as incurred.</p>	<p>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.</p> <p>IFRS standards do not contain explicit guidance on a customer’s accounting for cloud computing arrangements or the costs to implement them. Therefore, an entity will need to apply judgment to account for these costs and may need to apply various IFRS standards.</p>
Advertising costs	<p>Advertising and promotional costs are generally either expensed as incurred or expensed when the advertising takes place for the first time (policy choice), with limited exceptions.</p>	<p>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.</p>

<sup>3</sup> US GAAP includes an accounting alternative that allows private companies and not-for-profit entities to amortize goodwill acquired in a business combination or in an acquisition by a not-for-profit entity.

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

### Standard setting activities

In August 2018, the FASB issued ASC 2018-15, which requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in ASC 350-40 to determine which implementation costs to capitalize as assets or expense as incurred. No separate guidance exists in IFRS for internal-use software (i.e., the general guidance in IAS 38 applies). For PBEs, the guidance became effective for fiscal years beginning after 15 December 2019 and interim periods within those fiscal years. For all other entities, the guidance is effective for annual reporting periods beginning after 15 December 2020 and interim periods within annual periods beginning after 15 December 2021. Early adoption is permitted, including adoption in any interim period. Entities have the option to apply the guidance prospectively to all implementation costs incurred after the date of adoption or retrospectively in accordance with ASC 250-10-45-5 through 45-10. We have included potential differences related to this standard above.

In July 2019, the FASB issued an Invitation to Comment (ITC) to solicit feedback on whether it should, and if so, how to, simplify the subsequent accounting for goodwill and the accounting for intangible assets for PBEs, including whether it should require or allow PBEs to amortize goodwill (with or without impairment testing), simplify the goodwill impairment test and allow PBEs to subsume intangible assets into goodwill. In July 2020, the FASB discussed feedback received from the ITC and directed the staff to continue research and to perform outreach on the goodwill amortization approach, including the amortization method and period, other changes to the goodwill impairment model and the accounting for identifiable intangible assets. The project is in initial deliberations, and readers should monitor the project for developments.

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 March 2020, the IASB published a Discussion Paper *Business Combinations: Disclosures, Goodwill and Impairment* to solicit feedback on its proposal that would improve disclosures for business combinations to help investors assess the company's initial investment to acquire the business and the performance of the acquired business after the acquisition. The comment period for the discussion paper ended on 31 December 2020. Readers should monitor the project for developments.

# Impairment of long-lived assets, goodwill and intangible assets

## Similarities

Both US GAAP and IFRS require a long-lived asset's recoverability to be tested if similarly defined indicators exist that it may be impaired. Both standards also 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 an asset found to be

impaired 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.<sup>4</sup>

## 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 (asset group) 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 (asset group) 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 (or cash-generating unit (CGU)) 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 expected to be derived from the asset's use and eventual disposal at the end of its useful life).
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 CGU or group of CGUs that represents the lowest level within the entity at which the goodwill is monitored for internal management purposes and cannot be larger than an operating segment (before aggregation) as defined in IFRS 8 <i>Operating Segments</i> .

<sup>4</sup> US GAAP includes an accounting alternative that allows private companies and not-for-profit entities to amortize goodwill acquired in a business combination or in an acquisition by a not-for-profit entity.

	US GAAP	IFRS
Method of determining impairment – goodwill	<p>For the annual impairment test, 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 performing a quantitative impairment test. Before the adoption of ASU 2017-04, <i>Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment</i>, 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 an impairment test under a two-step approach at the reporting unit level to determine the implied fair value of goodwill (described below).</p> <p>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.</p>	<p>Qualitative assessment is not permitted. The one-step approach requires that an impairment test be done annually at the CGU level by comparing the CGU's carrying amount, including goodwill, with its recoverable amount.</p>
Method of determining impairment – indefinite-lived intangibles	<p>For the annual impairment test, 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.</p>	<p>Qualitative assessment is not permitted for the annual impairment test. The one-step approach requires that an impairment test be done for each indefinite-lived intangible asset (or CGU to which it belongs) by comparing the asset's (or CGU's) carrying amount, including goodwill, with its recoverable amount.</p>
Impairment loss calculation – goodwill	<p>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.</p> <p>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.</p>	<p>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.</p>

	US GAAP	IFRS
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	Reversal of impairment losses is not permitted (except for assets held for sale).	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 amortization or depreciation.

## Standard setting activities

In January 2017, the FASB issued ASU 2017-04 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, excluding smaller reporting companies, and (2) 15 December 2022 for all other entities.

In July 2019, the FASB issued an ITC to solicit feedback on whether it should, and if so, how to, simplify the subsequent accounting for goodwill and the accounting for intangible assets for PBEs, including whether it should require or allow PBEs to amortize goodwill (with or without impairment testing), simplify the goodwill impairment test and allow PBEs to subsume intangible assets into goodwill. In July 2020, the FASB discussed feedback received from the ITC and

directed the staff to continue research and to perform outreach on the goodwill amortization approach, including the amortization method and period, other changes to the goodwill impairment model and the accounting for identifiable intangible assets. The project is in initial deliberations, and readers should monitor the project for developments.

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 March 2020, the IASB published a discussion paper to solicit feedback on its proposal that would improve disclosures for business combinations to help investors assess the company's initial investment to acquire the business and the performance of the acquired business after the acquisition. The comment period for the discussion paper ended on 31 December 2020. Readers should monitor the project for developments.

# 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 325-40, *Investments – Other, Beneficial Interests in Securitized Financial Assets*; ASC 326, *Financial Instruments – Credit Losses*; ASC 470, *Debt*; ASC 480, *Distinguishing Liabilities from Equity*; ASC 815, *Derivatives and Hedging*; ASC 825, *Financial Instruments*; ASC 860, *Transfers and Servicing*; ASC 848, *Reference Rate Reform*; and ASC 948, *Financial Services – Mortgage Banking*.

The IFRS guidance for financial instruments is limited to IAS 32 *Financial Instruments: Presentation*, IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*.

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) generally require the recognition of derivatives on the balance sheet at fair value 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
<i>Debt versus equity</i>		
Classification	<p>US GAAP specifically identifies certain instruments with characteristics of both debt and equity that must be classified as liabilities.</p> <p>Certain other contracts that are indexed to, and potentially settled in, an entity's own stock may be classified as equity if they either (1) require physical settlement or net-share settlement or (2) give the issuer a choice of net-cash settlement or settlement in its own shares.</p>	<p>Classification of certain instruments with characteristics of both debt and equity is largely based on the contractual obligation to deliver cash, assets or an entity's own shares.</p> <p>Contracts that are indexed to, and potentially settled in, an entity's own stock are classified as equity if settled only by delivering a fixed number of shares for a fixed amount of cash.</p>
Compound (hybrid) financial instruments	<p>Compound (hybrid) financial instruments (e.g., convertible bonds) are not split into debt and equity components unless certain specific requirements are met, but they may be bifurcated into debt and derivative components, with the derivative component accounted for using fair value accounting.</p>	<p>Compound (hybrid) financial instruments are required to be split into a debt and equity component or, if applicable, a derivative component. The derivative component is accounted for using fair value accounting.</p>
<i>Recognition and measurement</i>		
Measurement – debt securities, loans and receivables	<p>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.</p> <p>At acquisition, debt instruments that meet the definition of a security are classified in one of three categories and subsequently measured as follows:</p> <ul style="list-style-type: none"> <li>▶ Held-to-maturity (HTM) – amortized cost</li> <li>▶ Trading – fair value, with changes in fair value recognized in net income (FV-NI)</li> </ul>	<p>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.</p> <p>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.</p>

	US GAAP	IFRS
	<p>► Available-for-sale (AFS) – fair value, with changes in fair value recognized in other comprehensive income (FV-OCI)</p> <p>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 (lower of amortized cost basis or fair value, after the adoption of ASC 326).</p>	<p>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 or 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.</p>
Measurement – equity investments (except those accounted for under the equity method, those that result in consolidation of the investee or certain other investments)	<p>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. Under this alternative, investments may be measured at cost, less any impairment. If an entity identifies observable price changes in orderly transactions for the identical or a similar investment of the same issuer, it must measure its equity investment at fair value in accordance with ASC 820 as of the date that the observable transaction occurred.<sup>5</sup></p>	<p>Equity investments are generally 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 OCI are not recycled (i.e., reclassified to profit or loss) upon derecognition of those investments.</p>
Measurement – effective interest method	<p>The effective interest method is generally applied on the basis of contractual cash flows for financial assets. However, in some instances, estimated cash flows are used. US GAAP discusses three different approaches – catch-up, retrospective or prospective – to account for a change in estimated cash flows, depending on the type of instrument and the reason for the change.</p>	<p>The calculation of the effective interest rate is generally based on the estimated cash flows (without considering credit losses) over the expected life of the financial asset. 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.</p>
<b>Impairment</b>		
Impairment recognition – debt instruments measured at FV-OCI	<p><i>Before the adoption of ASC 326</i></p> <p>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 (even if the decline is solely due 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.</p> <p>When a credit loss exists, but (1) the entity does not intend to sell the debt instrument, or (2) it is not more likely than not that the entity will be required to sell the debt instrument before the recovery of the</p>	<p>Under IFRS, there is a single impairment model for all debt instruments not measured at FV-PL (i.e., measured at amortized cost or 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 losses (ECLs) recognized as a loss allowance depends on the extent of credit deterioration since initial recognition. Generally, there are two measurement bases:</p> <p>► In Stage 1, 12-month ECLs, which applies to all items (on initial recognition and thereafter) as long as there is no significant deterioration in credit risk.</p>

<sup>5</sup> This point was clarified by ASU 2019-04. See discussion of this ASU in “Standard setting activities” below.

US GAAP	IFRS
<p>remaining cost basis, the impairment is separated into the amount representing the credit loss and the amount related to all other factors.</p> <p>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.</p> <p>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.</p> <p><i>After the adoption of ASC 326</i></p> <p>For debt securities that are measured at FV-OCI, if the amortized cost of a debt security exceeds its fair value, the security is impaired.</p> <p>When an entity intends to sell an impaired debt security (or it is more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis), the entire impairment (i.e., the difference between amortized cost and fair value) is recognized as a direct reduction in the security's amortized cost basis with the impairment loss reported in earnings.</p> <p>When an entity does not intend to sell an impaired debt security (and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis), the entity must determine whether any impairment is attributable to credit-related factors. When evaluating an impairment, entities may not use the length of time a security has been in an unrealized loss position as a factor, either by itself or in combination with other factors, to conclude that a credit loss does not exist. This determination should be performed at the individual security level.</p> <p>Credit-related impairment is measured as the difference between the debt security's amortized cost basis and the present value of expected cash flows and is recognized as an allowance on the balance sheet with a corresponding adjustment to earnings. The allowance should not exceed the amount by which the amortized cost basis exceeds fair value.</p> <p>Both the allowance and the adjustment to net income can be adjusted if conditions change. Impairment that isn't credit-related is recognized in OCI.</p>	<ul style="list-style-type: none"> <li>▶ In Stages 2 and 3, lifetime ECLs, which applies whenever there has been a significant increase in credit risk. In Stage 2, interest income is calculated on the asset's gross carrying amount. 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).</li> </ul> <p>For financial assets that are debt instruments measured at FV-OCI, impairment gains and losses are recognized in profit or loss. 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 profit or loss.</p> <p>When a debt instrument measured at FV-OCI is derecognized, IFRS requires the cumulative gains and losses previously recognized in OCI to be reclassified to profit or loss.</p>

	US GAAP	IFRS
Impairment recognition – equity instruments	<p>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.</p> <p>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.</p>	<p>Equity instruments are measured at FV-PL or FV-OCI. That is, no measurement alternative is available. For equity instruments measured at FV-OCI, gains and losses recognized in OCI are never reclassified to profit or loss. Therefore, there is no impairment recognized for these instruments.</p>
Impairment recognition – financial assets measured at amortized cost	<p><i>Before the adoption of ASC 326</i></p> <p>The impairment model for loans and other receivables measured at amortized cost 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.</p> <p>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.</p> <p>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 not be required to sell, the debt security before the recovery of its amortized cost basis. This is because the entity has already asserted its intent and ability to hold an HTM debt security to maturity.</p> <p>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.</p>	<p>Under IFRS, as discussed above, there is a single impairment model for debt instruments not measured at FV-PL (i.e., measured 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.</p> <p>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.</p>

## US GAAP

## IFRS

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.

*After the adoption of ASC 326*

Financial assets measured at amortized cost, including loans, receivables and HTM securities (including beneficial interests accounted for under ASC 325-40), follow the current expected credit loss (CECL) model.

Under the CECL model, a lifetime expected credit loss is recorded upon initial recognition of assets in scope. The objective of the model is to recognize an allowance for credit losses that results in the financial statements reflecting the net amount expected to be collected. To determine the expected credit losses, entities must consider, among other things, available relevant information about the collectibility of cash flows (including information about past events, current conditions and reasonable and supportable forecasts). An expected credit loss estimate requires entities to reflect the risk of loss, even when that risk is remote. This is accomplished by pooling assets with similar risk characteristics. As a result of using pool-based assumptions, an estimate of zero credit loss may be appropriate only in limited circumstances.

Write-downs (charge-offs) of loans and other receivables are recorded when the entity deems all or a portion of a financial asset to be uncollectible. Additionally, when measuring the allowance for credit losses, entities should incorporate an estimate of expected recoveries.

	US GAAP	IFRS
<i>Derivatives and hedging</i>		
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	<p>Hedging of risk components of both financial and nonfinancial items is allowed, if certain criteria are met.</p> <p>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.</p> <p>If the hedged transaction is the forecasted purchase or sale of a nonfinancial asset, entities may separately hedge foreign exchange risk, the risk of changes for the entire purchase price or sales price, or any risk component that is contractually specified.</p>	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	<p>To qualify for hedge accounting the relationship must be “highly effective.”</p> <p>Ongoing prospective and retrospective assessments of hedge effectiveness are required on a periodic basis (at least quarterly).</p> <p>There is no requirement to separately measure and recognize hedge ineffectiveness. For highly effective cash flow and net investment hedges, 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).</p> <p>The shortcut method for interest rate swaps hedging recognized debt instruments is permitted.</p>	<p>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.</p> <p>Ongoing prospective assessments of effectiveness are required to be performed, at a minimum, at the time an entity prepares its annual or interim financial statements or upon a significant change in the circumstances affecting hedge effectiveness requirements, whichever occurs first.</p> <p>Ineffectiveness is measured and recognized through profit or loss each reporting period. For cash flow hedges and net investment hedges, the ineffectiveness recorded is limited to overhedges.</p> <p>The shortcut method for interest rate swaps hedging recognized debt instruments is not permitted.</p>

	US GAAP	IFRS
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 in the income statement.
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 AOCI. 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 AOCI and reclassified to profit and loss based on the nature of the hedged item (i.e., transaction-related or time period-related).
<b>Derecognition</b>		
Derecognition of financial assets	<p>Derecognition of financial assets (i.e., sales treatment) occurs when control over the financial asset has been surrendered. That is, when all of the following conditions are met:</p> <ul style="list-style-type: none"> <li>▶ The transferred financial assets are legally isolated from the transferor</li> <li>▶ 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)</li> <li>▶ The transferor does not maintain effective control over the transferred financial assets or beneficial interests (e.g., through a call option or repurchase agreement)</li> </ul> <p>The derecognition criteria may be applied to a portion of a financial asset only if it meets the definition of a participating interest.</p>	<p>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 <i>no</i> legal isolation test.</p> <p>The derecognition criteria may be applied to a portion of a financial asset if the cash flows are specifically identified or represent a pro rata share of the financial asset, or a pro rata share of specifically identified cash flows.</p>

Other differences include (1) normal purchase and sale exception, (2) foreign exchange gain and/or losses on AFS debt securities and certain equity investments, (3) recognition of basis adjustments when hedging future transactions, (4) hedging net investments, (5) cash flow hedge of intercompany transactions, (6) hedging with internal derivatives, (7) impairment criteria for equity investments, (8) puttable minority interest, (9) netting and offsetting

arrangements, (10) unit of account eligible for derecognition, (11) accounting for servicing assets and liabilities, and (12) the nature and extent of relief related to reference rate reform.

## 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 January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. Technical corrections, improvements and clarifications to that guidance were issued in ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*; ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*; and ASU 2020-01, *Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815*.

ASU 2016-01 and ASU 2018-03 are effective for all PBEs. For all other entities, ASU 2016-01 and ASU 2018-03 are effective for annual periods beginning after 15 December 2018 and interim periods beginning after 15 December 2019. The amendments to the recognition and measurement standard in ASU 2019-04 became effective for fiscal years beginning after 15 December 2019, including interim periods within those fiscal years. Early adoption is permitted. ASU 2020-01 is effective for PBEs for fiscal years beginning after 15 December 2020 and interim periods within those fiscal years. For all other entities, it is effective for fiscal years beginning after 15 December 2021 and interim periods within those fiscal years. Early adoption is permitted.

### *Liabilities and equity*

In August 2020, the FASB issued ASU 2020-06, *Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*. The ASU simplifies certain areas of the accounting for financial instruments with characteristics of liabilities and equity. The ASU eliminates the cash conversion and beneficial conversion feature models in ASC 470-20 to separately account for embedded conversion features. Only conversion features separated under the substantial premium model in ASC 470-20 and embedded conversion features bifurcated under ASC 815-15 are accounted for separately. For contracts in an entity's own equity, the guidance eliminates some of the conditions for equity

classification under ASC 815-40-25. For PBEs other than smaller reporting companies as defined by the SEC as of 5 August 2020, the guidance is effective for annual periods beginning after 15 December 2021 and interim periods therein. For all other entities, it is effective for annual periods beginning after 15 December 2023 and interim periods therein. Early adoption is permitted in fiscal years beginning after 15 December 2020. Certain differences between US GAAP and IFRS will remain after the adoption of ASU 2020-06.

In addition, the FASB issued a revised proposal for simplifying the balance sheet classification of debt in September 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. After evaluating feedback on its related discussion paper that sets out a 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 decide the direction of the project before the end of 2020.

In January 2020, the IASB issued amendments to IAS 1 to clarify the criteria for classifying a liability as either current or noncurrent. After the adoption of the amendments, certain differences between IFRS and US GAAP will remain for the classification of debt arrangements. For example, the treatment of waivers for covenant violations and share settlement features may result in different classification conclusions. The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023. The amendments must be applied retrospectively in accordance with IAS 8. Early adoption is permitted.

### *Impairment*

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 in IFRS 9, as discussed above. As amended, ASU 2016-13 became effective in 2020 for calendar-year entities that are SEC filers, excluding entities eligible to be smaller reporting companies as defined by the SEC, and effective for all other entities in fiscal years beginning after 15 December 2022 (i.e., 1 January 2023 for calendar-year entities), including interim periods within those fiscal years. Early adoption is permitted for all entities.

### *Hedge accounting*

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, to make certain targeted improvements to the hedge accounting model in ASC 815 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 became 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 2020, 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.

### *Reference rate reform*

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides temporary optional expedients and exceptions to the US GAAP guidance on contract modifications and hedge

accounting that will ease the financial reporting burdens related to reference rate reform. The guidance was effective upon issuance and generally can be applied through 31 December 2022.

In September 2019, the IASB issued *Interest Rate Benchmark Reform, Amendments to IFRS 9, IAS 39 and IFRS 7* (the Phase 1 amendments) to address issues affecting financial reporting prior to the replacement of an interest rate benchmark with an alternative risk-free interest rate (RFR). The Phase 1 amendments were effective for annual reporting periods beginning on or after 1 January 2020, with early adoption permitted. In addition, in August 2020, the IASB issued *Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16* (the Phase 2 amendments) to address issues that could affect financial reporting when a benchmark interest rate is replaced with an alternative RFR. The Phase 2 amendments are effective for annual reporting periods beginning on or after 1 January 2021, with early adoption permitted. The adoption of both sets of amendments is mandatory.

# Fair value measurements

## Similarities

ASC 820 and IFRS 13 *Fair Value Measurement*, both provide a framework for measuring fair value that is applicable under the various accounting topics that require (or permit) fair value measurements in US GAAP and IFRS, respectively. The measurement of fair value across US GAAP and IFRS is based on a single definition of fair value and a generally consistent framework for the application of that definition.

Like ASC 820, IFRS 13 defines fair value as an exit price. That is, the price to sell an asset or transfer a liability. Both ASC 820 and IFRS 13 acknowledge that the fair value of an asset or liability at initial recognition may not always be its transaction price, as exit and entry prices can differ. In addition, both US GAAP and IFRS indicate that when the transaction price differs from fair value, the reporting entity recognizes the resulting gain or loss in earnings unless the standard that requires or permits the fair value measurement specifies otherwise.

## Significant differences

	US GAAP	IFRS
"Day 1" gains and losses	The recognition of Day 1 gains and losses for assets and liabilities (including financial instruments) is required in instances in which the transaction price does not represent the fair value of an asset or liability at initial recognition, including when the fair value measurement is based on a valuation model with significant unobservable inputs (i.e., Level 3 measurements), unless the Topic that requires or permits the fair value measurement specifies otherwise. However, in all instances, evidence is required to substantiate the amount by which fair value is assumed to differ from the transaction price.	The recognition of Day 1 gains and losses for assets and liabilities (including financial instruments) is required in instances in which the transaction price does not represent the fair value of an asset or liability at initial recognition, unless the standard that requires or permits the fair value measurement specifies otherwise. Day 1 gains and losses on financial instruments are recognized <i>only</i> 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 alternative investments.

## Standard setting activities

There is no significant standard setting activity in this area.

# 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 differ 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). Although there are significant differences in accounting for foreign currency translation in hyperinflationary economies under ASC 830 and IAS 29 *Financial Reporting in Hyperinflationary Economies*, both standards require the identification of hyperinflationary economies and generally consider the same economies to be hyperinflationary.

Both ASC 830 and IAS 21 require foreign currency transactions be *remeasured* into the entity's functional currency with amounts resulting from changes in exchange rates reported in income. Similarly, both standards allow financial statements to be presented in a currency other than

the entity's functional currency (i.e., the reporting (US GAAP) or presentation (IFRS) currency), but this requires *translation* of an entity's financial statements from the functional currency to the reporting currency. Except for the translation of financial statements in hyperinflationary economies, the method used by both US GAAP and IFRS 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 standards require certain foreign exchange effects related to net investments in foreign operations to be accumulated in shareholders' equity (i.e., cumulative translation adjustment, or CTA). In general, these amounts are reclassified from equity into income when there is a sale (including the loss of a controlling financial interest) or 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 presentation 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 CTA 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.**

The overall accounting for leases under US GAAP (ASC 842, *Leases*) and IFRS (IFRS 16 *Leases*) 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 (as defined); not-for-profit entities that have issued or are conduit bond obligors for securities that are traded, listed or quoted on an exchange or an over-the-counter market and that have issued (or made available for issuance) financial statements that reflect the new standard as of 3 June 2020; and employee benefit plans that file or furnish financial statements with or to the SEC, ASC 842 became effective for annual periods beginning after 15 December 2018.

For not-for-profit entities that have issued or are conduit bond obligors for securities traded, listed or quoted on an exchange or over-the-counter market and that have not issued (or made available for issuance) financial statements that reflect the new standard as of 3 June 2020, ASC 842 is effective for annual periods beginning after 15 December 2019.

For all other entities, ASC 842 is effective for annual periods beginning after 15 December 2021. Early adoption is permitted for all entities.

For all entities, IFRS 16 became effective for annual reporting periods beginning on or after 1 January 2019. While the standards are similar in some respects, there are significant differences.

## Significant differences

	US GAAP	IFRS
<i>Scope and measurement exemptions</i>		
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 <i>Intangible Assets</i> 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.
<i>Key concepts</i>		
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.

	US GAAP	IFRS
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.
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. IDCs incurred by a manufacturer or dealer lessor in connection with a finance lease are expensed.
<b>Classification</b>		
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 than 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 rather than the underlying asset subject to the sublease.
<b>Lessee accounting</b>		
Short-term leases – existence of a purchase option	A lease does not qualify as a short-term lease if it includes a purchase option that is reasonably certain to be exercised.	A lease does 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: <ul style="list-style-type: none"> <li>▶ 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</li> <li>▶ Whether the lessee is reasonably certain to exercise an option to purchase the underlying asset</li> </ul>	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.

	US GAAP	IFRS
Allocating variable consideration not dependent on an index or rate between lease and non-lease components of a contract	Lessees allocate variable consideration not dependent on an index or rate (e.g., performance- or usage-based payments) to the lease and non-lease components of a contract.	Lessees may allocate variable consideration not dependent on an index or rate entirely to a non-lease component of a contract.
Lease modifications that do not result in a separate contract and shorten the contractual lease term	Lease modifications that do not result in a separate contract and shorten the contractual lease term do not result in the recognition of a gain or loss. A lessee recognizes the amount of the remeasurement of the lease liability as an adjustment to the corresponding right-of-use asset without affecting profit or loss. However, if the right-of-use asset is reduced to zero, a lessee would recognize any remaining amount in profit or loss.	Lease modifications that do not result in a separate contract and shorten the contractual lease term may result in the recognition of a gain or loss for the difference between the decrease in the lease liability and the proportionate decrease in the right-of-use asset.
Componentization	Component depreciation is permitted, but not common.	A lessee applies the depreciation requirements in IAS 16 in depreciating right-of-use assets, which requires that each item of PP&E with a cost that is significant in relation to the total cost of the item be separately depreciated (i.e., a component approach).
<b>Lessor accounting</b>		
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.
Collectibility – sales-type leases and operating leases	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.

	US GAAP	IFRS
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). When the changes in facts and circumstances on which the variable payment is based occur, the lessor will allocate those payments to the lease and non-lease components of the contract. The allocation is on the same basis as the initial allocation of the consideration in the contract or the most recent modification not accounted for as a separate contract unless the variable payment meets the criteria in ASC 606-10-32-40 to be allocated only to the lease component(s).	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 in IFRS 15.73 through 90, which is to allocate the transaction price to each performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer.
<b>Sale and leaseback transactions</b>		
Assessing whether a transfer of an asset is a sale and purchase in a sale and leaseback transaction	<p>To determine whether an asset transfer is a sale and purchase, a seller-lessee and a buyer-lessor consider the following:</p> <ul style="list-style-type: none"> <li>▶ Whether the transfer meets sale criteria under ASC 606 (however, certain fair value repurchase options would not result in a failed sale)</li> <li>▶ 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)</li> </ul>	<p>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 in IFRS 15 (including those for repurchase agreements) to assess whether the buyer-lessor has obtained control of the asset.</p> <p>IFRS 16 does not contain the same lease classification criteria included in US GAAP, which precludes sale accounting if the leaseback would be classified as a sales-type lease by the buyer-lessor or a finance lease by the seller-lessee. However, entities should carefully consider the requirements in IFRS 15 (i.e., whether the buyer-lessor obtains control of the asset) to determine whether the transfer of an asset is accounted for as a sale and purchase. Entities may often reach similar conclusions on whether a sale and purchase have occurred under both standards.</p>
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 rate adjustments.

	US GAAP	IFRS
<b>Other considerations</b>		
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 <i>Related Party Disclosures</i> contains guidance on related party disclosures.
Identified asset – subsurface rights	When evaluating whether a contract that includes the right to use specified underground space to place an asset (i.e., subsurface rights) contains a lease, an entity would conclude the identified asset is either the land, including the specified underground space, or only the specified underground space.	When evaluating whether a contract that includes the right to use specified underground space to place an asset (i.e., subsurface rights) contains a lease, an entity would conclude the identified asset is the specified underground space.
Rent concessions related to the COVID-19 pandemic	In a Q&A document, <sup>6</sup> the FASB staff said that entities can elect to not evaluate whether a concession provided by a lessor due to COVID-19 is a lease modification. An entity that makes this election can then elect whether to apply the modification guidance (i.e., assume the concession was always contemplated by the contract or assume the concession was not contemplated by the contract). The FASB staff said both lessees and lessors could make these elections.	The IASB amended IFRS 16 to provide relief to lessees to elect not to assess whether a COVID-19-related rent concession from a lessor is a lease modification when certain conditions are met. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The practical expedient is not available to lessors.
<b>Transition</b>		
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 <i>Leases</i> .
Full retrospective transition	This is prohibited under US GAAP.	This is permitted under IFRS.
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.

<sup>6</sup> See [https://www.fasb.org/cs/ContentServer?c=FASBContent\\_C&cid=1176174459740&d=&pagename=FASB%2FFASBContent\\_C%2FGeneralContentDisplay](https://www.fasb.org/cs/ContentServer?c=FASBContent_C&cid=1176174459740&d=&pagename=FASB%2FFASBContent_C%2FGeneralContentDisplay).

## Standard setting activities

### *FASB effective date amendment*

In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, that deferred the effective date of the new leases standard for private companies; not-for-profit entities that have issued or are conduit bond obligors for securities traded, listed or quoted on an exchange or over-the-counter market and that have not issued (or made available for issuance) financial statements that reflect the new standard as of 3 June 2020; and other not-for-profit entities that have not issued (or made available for issuance) financial statements that reflect the new standard as of 3 June 2020.

### *Other FASB standard setting activity*

In March 2019, the FASB issued ASU 2019-01, *Leases (Topic 842): Codification Improvements*, which added guidance to ASC 842 that is similar to the guidance in ASC 840-10-55-44 and states that, for lessors that are not manufacturers or dealers, the fair value of the underlying asset is its cost, less any volume or trade discounts, as long as there isn't a significant amount of time between acquisition of the asset and lease commencement. These amendments are effective as of the same dates as the new leases standard (including the deferral as a result of ASU 2020-05 discussed above).

In April 2020, the FASB staff issued a question-and-answer document that says entities can elect not to evaluate whether a concession provided by a lessor to a lessee in response to the COVID-19 pandemic is a lease modification. Entities that make this election can then elect to apply the lease modification guidance to that relief or account for the concession as if it were contemplated in the existing contract. Entities may make these elections for any lessor-provided COVID-19-related relief (e.g., deferral of lease payments, cash payments, reduction of future lease payments) that does not result in a substantial increase in the rights of the lessor or the obligations of the lessee. Both lessees and lessors could make these elections.

In October 2020, the FASB proposed targeted amendments to ASC 842, in response to stakeholder feedback it received as part of its post-implementation review efforts. The proposed guidance would exempt lessees and lessors from applying the standard's modification guidance when one or more lease components are terminated before the end of the lease term but the economics of the remaining lease components stay the same. In addition, the proposal would provide lessees with an option to remeasure lease liabilities for changes in an index or rate, and lessors would be

required to classify leases with lease payments that are predominantly variable and are not based on an index or rate as operating leases.

The proposal would require entities that have not yet adopted ASC 842 as of the effective date of any final guidance to apply the guidance when they first adopt ASC 842 and follow the transition requirements of ASC 842. Entities that have adopted ASC 842 as of the effective date of any final guidance would be permitted to apply the amendments on lease modifications and lessor classification either retrospectively to their date of adoption of ASC 842 or prospectively to new or modified leases. However, a lessee that elects to apply the option to remeasure variable payments based on an index or rate prospectively would apply it to all leases that exist on or commence after the date the entity first applies the amendments.

### *IASB standard setting activity*

In May 2020, the IASB amended IFRS 16 to provide relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the certain conditions are met. The amendments do not apply to lessors and are effective for annual periods beginning on or after 1 June 2020. Lessees will apply the practical expedient retrospectively, recognizing the cumulative effect of initially applying the amendment as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the amendment is first applied. Early adoption is permitted.

In May 2020, the IASB tentatively decided to amend IFRS 16 to specify how a seller-lessee should apply the subsequent measurement requirements in IFRS 16 to the lease liability that arises in a sale and leaseback transaction. The IASB published an exposure draft of the proposed amendment in November 2020.

# 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, either for financial or tax reporting (i.e., deferred taxes), using an asset and liability approach. Deferred tax liabilities for temporary differences arising at the acquisition date from

nondeductible goodwill or the excess of financial reporting goodwill over tax goodwill for tax-deductible goodwill are not recorded under both US GAAP and IFRS. In addition, 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. Management's intent is not a factor.	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.  When an uncertain tax treatment exists, it is determined in accordance with IFRIC 23 <i>Uncertainty Over Income Tax Treatments</i> .
Taxes on intercompany transfers of assets that remain within a consolidated group	Income tax expense paid by the transferor on intercompany profits from the transfer or sale of inventory within a consolidated group are deferred in consolidation, resulting in the recognition of a prepaid asset for the taxes paid. US GAAP also 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 both the current and deferred income tax effects of intercompany sales and transfers of assets other than inventory in the income statement as income tax expense (benefit) in the period in which the sale or 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. First, a benefit is recognized when it is "more likely than not" to be sustained based on the technical merits of the position. Second, 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.  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. Detection risk is not considered in the analysis.	IFRIC 23 clarifies that 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, an entity will reflect the effect of the uncertainty for each uncertain tax treatment by using either the expected value or the most likely amount, whichever method better predicts the resolution of the uncertainty.

	US GAAP	IFRS
		Uncertain tax treatments may be considered separately or together based on which approach better predicts the resolution of the uncertainty. Detection risk is not considered in the analysis.
Initial recognition exemption	The initial recognition exemption that exists under IFRS is generally not provided under US GAAP. Deferred taxes are recognized for temporary differences arising on the initial recognition of an acquired asset or liability. If the amount paid when acquiring a single-asset differs from its tax basis, the consideration paid is allocated between the asset and deferred tax effect. In this case, a simultaneous equation is used to determine the amount of the deferred tax and the value of the asset acquired.	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 nondeductible assets). This is referred to as the initial recognition exemption.
Recognition of deferred tax assets	Deferred tax assets are recognized in full, but a separately recognized 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 (i.e., more likely than not) that they will be realized. A separate valuation allowance is not recognized.
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. A deferred tax liability is recognized for investment in a domestic subsidiary unless an entity can recover the investment in a tax-free manner and expects to use that means.	Recognition is not required if the reporting entity has control over the timing of the reversal of the temporary difference and it is probable (i.e., 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 (i.e., backward tracing), (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

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, that, among other things, simplifies the accounting for income taxes by eliminating some exceptions to the general approach in ASC 740 and clarifies certain aspects of

the existing guidance to promote more consistent application. For PBEs, the guidance is effective for fiscal years beginning after 15 December 2020 and interim periods within those fiscal years. For all other entities, the guidance is effective for fiscal years beginning after 15 December 2021 and interim periods within fiscal years beginning after 15 December 2022. Early adoption is permitted.

# 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; 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 “probable” is different. 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 when the amount of the liability and the timing of the payments are fixed or reliably determinable (i.e., by considering the guidance on environmental liabilities under ASC 410-30) 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. 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, if material. The discount rate used should be a pretax discount rate that reflects current market assessments of the time value of money and risks specific to the liability that have not been reflected in the best estimate of the expenditure. The increase in the provision due to the passage of time is recognized as an interest expense.
Measurement of provisions – range of possible outcomes	The most likely outcome within a range of possible outcomes 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 the amount to settle or transfer an 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.

	US GAAP	IFRS
Restructuring costs	Under ASC 420, once management has committed to a detailed exit plan, each type of cost is examined to determine when it should be recognized. Involuntary employee termination costs under a one-time benefit arrangement are recognized over the future service period, or immediately if there is no future service required. Other exit costs (e.g., costs to terminate a contract before the end of its term that will continue to be incurred under the contract for its remaining term without economic benefit to the entity) are expensed when incurred.	Once management has a legal or constructive obligation for 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.
Onerous contracts	Recording losses on executory contracts is generally not permitted under US GAAP, unless required by a specific accounting standard. The circumstances in which such a provision can be recorded generally are limited to a restructuring (or other exit activity) or a business combination.	IAS 37 requires that provisions be recorded when a contract is considered onerous. An onerous contract is a contract in which the unavoidable costs of meeting its obligations exceed the economic benefits expected to be received under the contract.

### Standard setting activities

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include in determining the cost of fulfilling a contract when assessing whether a contract is onerous. The amendments apply a “directly related cost approach.” The costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labor and materials) and an allocation of other costs directly related to fulfilling contracts (e.g., depreciation of equipment used to fulfill the contract). The amendments are effective for annual reporting periods beginning on or after 1 January 2022. Early adoption is permitted. The amendments should

be applied to contracts for which an entity has not yet fulfilled all its obligations as of the adoption date through a cumulative effect adjustment to retained earnings at the adoption date.

In January 2020, the IASB added a project to its agenda to make targeted improvements to IAS 37 to align the liability definition and requirements for identifying liabilities in IAS 37 with the IASB's Conceptual Framework, clarify which costs to include in the measurement of a provision and specify whether the rate at which an entity discounts a provision should reflect the entity's own credit risk. The IASB will decide on the project's direction at a future meeting. Readers should continue to monitor developments 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 PP&E, 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 entities to provide comprehensive disclosures and change the way they communicate information in the notes to the financial statements in both interim and annual periods.

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 became effective for public entities, as defined, for annual periods beginning after 15 December 2017 and for interim periods therein. All other entities were required to adopt the standard for annual periods beginning after 15 December 2018 and interim periods within annual periods beginning after 15 December 2019. However, the FASB deferred the effective date by one year for all other entities that had not yet issued (or made available for issuance) financial statements that reflected the standard as of 3 June 2020 (i.e., to annual reporting periods beginning after 15 December 2019 and interim reporting periods within annual reporting periods beginning after 15 December 2020). Early adoption is permitted.

The IASB's standard became effective for annual reporting periods beginning on or after 1 January 2018. IFRS does not distinguish between public and nonpublic entities so adoption was 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 significant 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 <i>all</i> 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.
Contract modifications practical expedient at transition	Under either transition method, for contracts modified before 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 <i>probable</i> that the entity will collect <i>substantially all</i> 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 <i>probable</i> 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 <i>after</i> 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.

	US GAAP	IFRS
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.
Consideration paid or payable to a customer – equity instruments	Equity instruments granted to a customer in conjunction with selling goods or services are a form of consideration paid or payable to a customer. After the adoption of ASU 2019-08, entities are required to initially measure such equity awards in accordance with ASC 718. That is, an entity must measure the equity instrument using the grant-date fair value for both equity- and liability-classified share-based payment awards. ASC 606 also includes guidance on how to measure variability of share-based payment awards granted to a customer in conjunction with selling goods or services.	IFRS 15 does not specify whether equity instruments issued by an entity to a customer are a type of consideration paid or payable to a customer nor does the standard address the accounting for the initial and subsequent measurement of equity instruments granted to customers in a revenue arrangement. IFRS 2 also does not specifically address such transactions. Depending on the facts and circumstances, several standards (or a combination of standards) may be applicable (e.g., IFRS 2, IFRS 15, IAS 32). According to IFRS 15.7, a contract with a customer may be partially within the scope of IFRS 15 and partially within the scope of other standards.
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.
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.

	US GAAP	IFRS
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 to noncustomers	<p>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.</p> <p>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 is generally consistent with that of a contract to sell a nonfinancial asset to a customer, except for financial statement presentation and disclosure.</p>	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).
Sale or transfer of interests in a separate entity (i.e., sale of a corporate wrapper) to a customer	The sale of a corporate wrapper to a customer generally will be in the scope of ASC 606.	Whether an entity needs to apply IFRS 10 or IFRS 15 to the sale of a corporate wrapper to a customer depends on facts and circumstances and may require significant judgment.

## Standard setting activities

In November 2019, the FASB issued ASU 2019-08, *Compensation – Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Codification Improvements – Share-Based Consideration Payable to a Customer*, which requires entities to measure and classify share-based payment awards (both equity- and liability-classified) that are granted to a customer in a revenue arrangement and are not in exchange for a distinct good or service in accordance with ASC 718. The amount recorded as a reduction in the transaction price is measured using the grant-date fair value of the share-based payment. After the grant date, entities are required to measure any changes in the fair value of an award that are due to the

form of the consideration (e.g., liability-classified awards that are measured until settlement) following the principles in ASC 718. These changes in fair value are not reflected in the transaction price; instead, they are recorded elsewhere in the grantor's income statement.

ASU 2019-08 became effective for PBEs and other entities that have adopted ASU 2018-07, *Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*, for fiscal years beginning after 15 December 2019, including interim periods in those fiscal years. For all other entities, it is effective for fiscal years beginning after 15 December 2019 and interim periods in the following fiscal year. Early adoption is permitted but not before an entity adopts ASU 2018-07.

# Share-based payments

**Note:** For US GAAP/IFRS accounting similarities and differences before the adoption of ASU 2018-07, *Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*, please see the [January 2019](#) edition of this publication.

## Similarities

The US GAAP guidance for share-based payments, ASC 718, *Compensation – Stock Compensation*, is largely converged with the guidance in IFRS 2 *Share-Based Payment*. 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. Both US GAAP and IFRS guidance apply to transactions with both employees and nonemployees and are 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 guidance 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 sets of guidance 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 (awards granted to employees)	Entities may elect to account for forfeitures related to service conditions 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. For awards with performance conditions, an entity will continue to follow ASC 718-10-25-20 and assess the probability that a performance condition will be achieved at each reporting period to determine whether and when to recognize compensation cost, regardless of its accounting policy election for forfeitures.	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 (awards granted to employees)	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 employee is rendering service. The period of time to achieve a performance condition must not extend beyond the end of the service period, but the commencement date may start (but not substantially) before the grantee begins providing service. If a performance target can be achieved after the employee’s requisite service period, it would be accounted for as a nonvesting condition that affects the grant date fair value of the award.

	US GAAP	IFRS
Transactions with nonemployees	<p>The US GAAP definition of an employee focuses primarily on the common law definition of an employee.</p> <p>Awards to nonemployees are measured based on the fair value of the equity instruments to be issued in exchange for goods or services received.</p> <p>The measurement date of equity-classified awards is generally the grant date.</p>	<p>IFRS has a more general definition of an employee that includes individuals who provide services similar to those rendered by employees.</p> <p>Fair value of the transaction should be based on the fair value of the goods or services received, and only on the fair value of the equity instruments granted in the rare circumstance that the fair value of the goods and services cannot be reliably estimated.</p> <p>Measurement date is the date the entity obtains the goods or the counterparty renders the services.</p>
Measurement and recognition of expense – employee awards with graded vesting features	<p>Entities make an accounting policy election to recognize compensation cost for employee awards with a graded vesting schedule and containing only service conditions on a straight-line basis over either (1) the requisite service period for each separately vesting portion of the award (i.e., accelerated method) or (2) the requisite service period for the entire award.</p> <p>US GAAP permits the total fair value of the award (regardless of the entity's expense attribution policy above) to be determined by estimating the value of the award subject to graded vesting as a single award using an average expected life or by estimating the value of each vesting tranche separately using a separate expected life.</p>	<p>Entities must recognize compensation cost using the accelerated method and each individual tranche must be separately measured.</p>
Equity repurchase features at grantee's election	<p>Liability classification is not required if the grantee bears the risks and rewards of equity ownership for six months or more from the date the shares are issued or vest.</p>	<p>Liability classification is required (i.e., no six-month consideration exists).</p>
Deferred taxes	<p>Deferred tax assets for awards that will result in a tax deduction are calculated based on the cumulative US GAAP expense recognized.</p> <p>Entities recognize all excess tax benefits and tax deficiencies by recording them as income tax expense or benefit in the income statement.</p>	<p>Deferred tax assets are calculated based on the estimated tax deduction determined at each reporting date (e.g., intrinsic value).</p> <p>If the tax deduction exceeds cumulative compensation cost for an individual award, the deferred tax effect 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, the deferred tax effect is recorded in income.</p>
Modification of vesting terms that were improbable of achievement	<p>If an award is modified such that the service or performance condition, which was previously improbable of achievement, is probable of achievement as a result of the modification, the compensation cost is based on the fair value of the modified award at the modification date. Grant date fair value of the original award is not recognized.</p>	<p>Compensation cost is 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.</p>

## **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 the measurement guidance for employee awards also applies to nonemployee awards, including awards granted as consideration paid or payable to a customer in exchange for a distinct good or service. Under the guidance, 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.

ASU 2018-07 became 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.

# 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	The use of either the projected unit credit method or the traditional unit credit method is 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).	The 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 immediately in net income or deferred in AOCI and subsequently amortized to net income through a "corridor approach."	Actuarial gains and losses must be recognized immediately in OCI and are not subsequently recognized in net income.
Recognition of prior (past) service costs or credits from plan amendments	Prior service costs or credits from plan amendments are initially deferred in AOCI and are subsequently generally recognized in net income on a prospective basis, typically 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.	Past service costs or credits from plan amendments are recognized immediately in net income.
Settlements and curtailments	A settlement gain or loss is recognized in net income when the obligation is settled. A curtailment loss is recognized in net income when the curtailment is probable of occurring and the loss is estimable, while a curtailment gain is recognized in net income when the curtailment occurs.	A settlement gain or loss is recognized in net income when it occurs. Fewer events qualify as settlements under IFRS. A change in the defined benefit obligation from a curtailment is recognized in net income at the earlier of when the curtailment occurs or when related restructuring costs or termination benefits are recognized.

## Employee benefits other than share-based payments

	US GAAP	IFRS
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

There is no significant standard setting activity in this area.

# 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, nonvested shares (restricted stock) 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 <sup>7</sup>	Such contracts are presumed to be settled in shares unless evidence is provided to the contrary (i.e., the issuer's past practice or stated policy is to settle in cash).	Such contracts are <i>always</i> assumed to be settled in shares.
Computation of year-to-date and annual diluted EPS for options and warrants (using the treasury stock method) and for contingently issuable shares	For year-to-date and annual computations when each period is profitable, the number of incremental shares added to the denominator is the weighted average of the incremental shares that were added to the denominator in each of the quarterly computations.	Regardless of whether the period is profitable, the number of incremental shares is computed as if the entire year-to-date period were "the period" (that is, do not average the current quarter with each of the prior quarters).
Treasury stock method	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

In August 2020, the FASB issued ASU 2020-06 that, among other things, requires entities to use the if-converted method for all convertible instruments in the diluted EPS calculation and include the effect of share settlement (if more dilutive) for instruments that may be settled in cash or shares, except for liability-classified share-based payment awards. The amendments result in increased convergence between US GAAP and IFRS. The

guidance is required for PBEs, other than smaller reporting entities as defined by the SEC, for annual periods beginning after 15 December 2021 and interim periods therein. For all other entities, it is effective for annual periods beginning after 15 December 2023 and interim periods therein. Early adoption is permitted in fiscal years beginning after 15 December 2020.

<sup>7</sup> After the adoption of ASU 2020-06, both US GAAP and IFRS will generally require an entity to presume share settlement for instruments that must be settled in shares or cash. That is, under the new guidance, an entity should include the effect of share settlement (if more dilutive) except for liability-classified share-based payment awards. Therefore, differences between US GAAP and IFRS related to contracts that may be settled in shares or cash after the adoption of the new guidance are expected to be limited.

# 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. For example, 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) regularly reviews the operating results of both sets of components, and financial information is available 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

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 some 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 generally 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	<p>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.</p> <p>Unless the entity is an SEC filer, it is required to disclose the dates through which it evaluated subsequent events, and whether that date is the date the financial statements were issued or the date the financial statements were available to be issued.</p> <p>Disclosure in the financial statements of the date through which subsequent events were evaluated is not required for SEC filers.</p>	<p>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.</p> <p>Entities are required to disclose the date when the financial statements were authorized for issue (i.e., the date through which subsequent events were evaluated), who gave that authorization and if the owners of the entity or others have the power to amend them after issue.</p>
Reissuance of financial statements	<p>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).</p>	<p>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 issue, 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.</p> <p>If financial statements are reissued as a result of adjusting subsequent events or an error correction, the date the reissued statements are authorized for reissuance is disclosed.</p>

## Subsequent events

US GAAP	IFRS
<p>Unless the entity is an SEC filer, it is required to disclose in the revised financial statements the dates through which it evaluated subsequent events in both the issued or available-to-be-issued financial statements and the revised financial statements (i.e., financial statements revised only for correction of an error or retrospective application of US GAAP). Disclosure in the revised financial statements of the date through which subsequent events were evaluated is not required for SEC filers.</p>	<p>IAS 10 does not address the presentation of re-issued financial statements in an offering document when the originally issued financial statements have not been withdrawn, but the re-issued financial statements are provided either as supplementary information or as a representation of the originally issued financial statements in an offering document in accordance with regulatory requirements.</p>

## Standard setting activities

There is no significant standard setting activity in this area.

# IFRS resources

The EY organization 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.

## [www.ey.com/ifrs](http://www.ey.com/ifrs)

The EY organization'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* – 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.

## **AccountingLink**

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SCORE no. 11560-211US

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