The basics

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Introduction

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

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

Key updates

Our analysis generally reflects guidance effective in 2017 and finalized by the FASB and the IASB as of 31 May 2017. We updated this guide to include Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*,[1] (largely codified in Accounting Standards Codification (ASC) 606); IFRS 15, *Revenue from Contracts with Customers*; ASU 2016-02, *Leases* (largely codified in ASC 842); IFRS 16, *Leases*; ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*; and IFRS 9, *Financial Instruments*. We have not included differences before the adoption of ASC 606, IFRS 15, ASU 2016-01 and IFRS 9. Please refer to the October 2016 edition of the tool for these differences. This update doesn't include differences related to ASU 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, because of the standard's delayed effective date.

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

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

[1] The guide also includes subsequent amendments in ASU 2015-14, *Deferral of the Effective Date*; ASU 2016-08, *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*; ASU 2016-10, *Identifying Performance Obligations and Licensing*; ASU 2016-12, *Narrow-Scope Improvements and Practical Expedients*; ASU 2016-20, *Technical Corrections and Improvements to Topic 606*; and ASU 2017-05, *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*.

* * * * *

Our US GAAP/IFRS Accounting Differences Identifier Tool publication provides a more in-depth review of differences between US GAAP and IFRS as of 31 May 2017. The tool was developed as a resource for companies that need to analyze the accounting decisions and changes involved in a conversion to IFRS. Conversion is more than just an accounting exercise, and identifying accounting differences is only the first step in the process. Successfully converting to IFRS also entails ongoing project management, systems and process change analysis, tax considerations and a review of all company agreements that are based on financial data and measures. EY assurance, tax and advisory professionals are available to share their experiences and assist companies in analyzing all aspects of the conversion process, from the earliest diagnostic stages through the adoption of the international standards.

To learn more about the US GAAP/IFRS Accounting Differences Identifier Tool, please contact your local EY professional.

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Financial statement presentation

Similarities

There are many similarities in US GAAP and IFRS guidance on financial statement presentation. Under both sets of standards, the components of a complete set of financial statements include: a statement of financial position, a statement of profit and loss (i.e., income statement) and a statement of comprehensive income (either a single continuous statement or two consecutive statements), a statement of cash flows and accompanying notes to the financial statements. Both US GAAP and IFRS also require the changes in shareholders' equity to be presented. However, US GAAP allows the changes in shareholders' equity to be presented in the notes to the financial statements, while IFRS requires the changes in shareholders' equity to be presented as a separate statement. Further, both require that the financial statements be prepared on the accrual basis of accounting (with the exception of the cash flow statement) except for rare circumstances. IFRS and the conceptual framework in US GAAP have similar concepts regarding materiality and consistency that entities have to consider in preparing their financial statements. Differences between the two sets of standards tend to arise in the level of specific guidance provided.

Significant differences

	US GAAP	IFRS
Financial periods required	Generally, comparative financial statements are presented; however, a single year may be presented in certain circumstances. Public companies must follow SEC rules, which typically require balance sheets for the two most recent years, while all other statements must cover the three-year period ended on the balance sheet date.	Comparative information must be disclosed with respect to the previous period for all amounts reported in the current period's financial statements.
Layout of balance sheet and income statement	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 debt as current versus noncurrent	Debt for which there has been a covenant violation may be presented as noncurrent if a lender agreement to waive the right to demand repayment for more than one year exists before the financial statements are issued or available to be issued.	Debt associated with a covenant violation must be presented as current unless the lender agreement was reached prior to the balance sheet date.

Financial statement presentation

	US GAAP	IFRS
Balance sheet — classification of deferred tax assets and liabilities	Before the adoption of ASU 2015-17, *Balance Sheet Classification of Deferred Taxes,* deferred taxes are classified as current or noncurrent, generally based on the nature of the related asset or liability. After the adoption of ASU 2015-17, all deferred tax assets and liabilities will be classified as noncurrent. (ASU 2015-17 is effective for public business entities (PBEs) in annual periods beginning after 15 December 2016, and interim periods within those annual periods. For other entities, it is effective for annual periods beginning after 15 December 2017, and interim periods within annual periods beginning after 15 December 2018. Early adoption is permitted.)	All amounts classified as noncurrent in the balance sheet.
Income statement — classification of expenses	No general requirement within US GAAP to classify income statement items by function or nature although there are requirements based on the specific cost incurred (e.g., restructuring charges, shipping and handling costs). However, SEC registrants are generally required to present expenses based on function (e.g., cost of sales, administrative).	Entities may present expenses based on either function or nature (e.g., salaries, depreciation). However, if function is selected, certain disclosures about the nature of expenses must be included in the notes.
Income statement — 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 held for sale or disposed of and the component represents a separate major line of business or geographical area, is part of a single coordinated plan to dispose of a separate major line of business or geographical area of or a subsidiary acquired exclusively with an intention to resell.

Financial statement presentation

	US GAAP	IFRS
Statement of cash flows — restricted cash	After the adoption of ASU 2016-18, *Statement of Cash Flows (Topic 230) — Restricted Cash*, changes in restricted cash and restricted cash equivalents will be shown in the statement of cash flows. In addition, when cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one line item on the balance sheet, ASU 2016-18 requires a reconciliation of the totals in the statement of cash flows to the related captions in the balance sheet. This reconciliation can be presented either on the face of the statement of cash flows or in the notes to the financial statements. (ASU 2016-18 is effective for PBEs in annual periods beginning after 15 December 2017, and interim periods within those annual periods. For all other entities, it is effective for annual periods beginning after 15 December 2018, and interim periods within annual periods beginning after 15 December 2019. Early adoption is permitted.)	There is no specific guidance about the presentation of changes in restricted cash and restricted cash equivalents on the statement of cash flows.
Disclosure of performance measures	There is no general requirements within US GAAP address the presentation of specific performance measures. SEC regulations define certain key measures and require the presentation of certain headings and subtotals. Additionally, public companies are prohibited from disclosing non-GAAP measures in the financial statements and accompanying notes.	Certain traditional concepts such as "operating profit" are not defined; therefore, diversity in practice exists regarding line items, headings and subtotals presented on the income statement. IFRS permits the presentation of additional line items, headings and subtotals in the statement of comprehensive income when such presentation is relevant to an understanding of the entity's financial performance. IFRS has requirements on how the subtotals should be presented when they are provided,

	US GAAP	IFRS
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 have a material effect on the balances of the third balance sheet. Related notes to the third balance sheet are not required. A third balance sheet is also required in the year an entity first applies IFRS.

Standard-setting activities

The FASB currently has a simplification project to amend today's guidance for determining whether to classify debt as current or noncurrent on the balance sheet. The FASB issued an exposure draft in January 2017 that would replace today's rules-based guidance with a principle-based approach, and in June 2017 it discussed comments received on the proposals. In November 2017, the FASB completed a maintenance update to locate all guidance related to the income statement and the statement of comprehensive income in one place. The guidance that was previously in ASC 225, *Comprehensive Income Statement*, was relocated to ASC 220, *Income Statement — Reporting Comprehensive Income*.

The IASB currently has a project on its agenda to amend IAS 1, *Presentation of Financial Statements*, to clarify the criteria for classifying a liability as either current or noncurrent. The IASB issued its exposure draft, *Classification of Liabilities*, in February 2015, and in December 2015 it discussed comment letters received on that proposal. The IASB has decided to defer making a decision about whether to finalize the proposals until it has redeliberated the definitions of assets and liabilities in the conceptual framework exposure draft.

Interim financial reporting

Similarities

ASC 270, *Interim Reporting*, and IAS 34, *Interim Financial Reporting*, are substantially similar except for the treatment of certain costs described below. Both require an entity to apply the accounting policies that were in effect in the prior annual period, subject to the adoption of new policies that are disclosed. Both standards allow for condensed interim financial statements and provide for similar disclosure requirements. Under both US GAAP and IFRS, income taxes are accounted for based on an estimated average annual effective tax rates. Neither standard requires entities to present interim financial information. That is the purview of securities regulators such as the SEC, which requires US public companies to comply with Regulation S-X.

Significant differences

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

Standard-setting activities

There is currently no 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 for a reporting entity that meets the definition of an investment company).

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

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

Significant differences

	US GAAP	IFRS
Consolidation model	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 rights. All entities are first evaluated as potential VIEs. If an entity is not a VIE, it is evaluated for control pursuant to the voting model. Potential voting rights are generally not included in either evaluation. The notion of "de facto control" is not considered.	IFRS provides a single control model for all entities, including structured entities (the definition of a structured entity under IFRS 12, *Disclosure of Interests in Other Entities,* is similar to the definition of a VIE in US GAAP). An investor controls an investee when it is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Potential voting rights are considered. Notion of "de facto control" is also considered.
Preparation of consolidated financial statements — general	Consolidated financial statements are required, although certain industry-specific exceptions exist (e.g., investment companies).	Consolidated financial statements are required, although certain industry-specific exceptions exist (e.g., investment entities), and there is a limited exemption from preparing consolidated financial statements for a parent company that is itself a wholly owned or partially owned subsidiary, if certain conditions are met.

Consolidation, joint venture accounting and equity method investees/associates

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

Consolidation, joint venture accounting and equity method investees/associates

	US GAAP	IFRS
Loss of control of a subsidiary	For certain transactions that result in a loss of control of a subsidiary, any retained noncontrolling investment in the former subsidiary is remeasured to fair value on the date the control is lost, with the gain or loss included in income along with any gain or loss on the ownership interest sold. This accounting is limited to the following transactions: (1) loss of control of a subsidiary that is a business or nonprofit activity (except for a conveyance of oil and gas mineral rights) and (2) loss of control of a subsidiary that is not a business or nonprofit activity if the substance of the transaction is not addressed directly by other ASC Topics.	Consistent with US GAAP, except that this guidance applies to all subsidiaries, including those that are not businesses or nonprofit activities and those that involve conveyance of oil and gas mineral rights. In addition, the gain or loss resulting from the loss of control of a subsidiary that does not constitute a business in a transaction involving an associate or a joint venture that is accounted for using the equity method is recognized only to the extent of the unrelated investors' interests in that associate or joint venture.[2]
Loss of control of a group of assets that meet the definition of a business	For certain transactions that result in a loss of control of a group of assets that meet the definition of a business or nonprofit activity, any retained noncontrolling investment in the former group of assets is remeasured to fair value on the date control is lost, with the gain or loss included in income along with any gain or loss on the ownership interest sold. There are two exceptions: a conveyance of oil and gas mineral rights and a transfer of a good or service in a contract with a customer within the scope of ASC 606.	For transactions that result in a loss of control of a group of assets that meet the definition of a business, any retained noncontrolling investment in the former group of assets is remeasured to fair value on the date control is lost, with the gain or loss included in income with any gain or loss on the ownership interest sold.

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

	US GAAP	IFRS
Equity method investments	An investment of 20 % or more of the voting common stock of an investee leads to a presumption that an investor has the ability to exercise significant influence over an investee, unless this presumption can be overcome based on facts and circumstances.	An investment of 20% or more of the equity of an investee (including potential rights) leads to a presumption that an investor has the ability to exercise significant influence over an investee, unless this presumption can be overcome based on facts and circumstances.
	When determining significant influence, potential voting rights are generally not considered.	When determining significant influence, potential voting rights are considered if currently exercisable.
	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.	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.
	ASC 825-10, *Financial Instruments,* gives entities the option to account for certain equity method investments at fair value. If management does not elect to use the fair value option, the equity method of accounting is required.	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.
	Conforming accounting policies between investor and investee is generally not permitted.	Uniform accounting policies between investor and investee are required.
Joint ventures	Joint ventures are generally defined as entities whose operations and activities are jointly controlled by their equity investors.	Joint ventures are separate vehicles in which the parties that have joint control of the separate vehicle have rights to the net assets. These rights could be through equity investors, certain parties with decision-making rights through a contract.
	Joint control is 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.	Joint control is defined as existing when two or more parties must unanimously consent to each of the significant decisions of the entity.
	An entity can be a joint venture, regardless of the rights and obligations the parties sharing joint control have with respect to the entity's underlying assets and liabilities.	In a joint venture, the parties cannot have direct rights and obligations with respect to the underlying assets and liabilities of the entity (In this case the arrangement would be classified as a joint operation).

	US GAAP	IFRS
	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.	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.
	Proportionate consolidation may be permitted to account for interests in unincorporated entities in certain limited industries when it is an established practice (i.e., in the construction and extractive industries).	Proportionate consolidation is not permitted, regardless of industry. However, when a joint arrangement meets the definition of a joint operation instead of a joint venture under IFRS, an investor would recognize its share of the entity's assets, liabilities, revenues and expenses and not apply the equity method.

Standard-setting activities

The FASB issued ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*, which eliminates the deferral of FAS 167, *Amendments to FASB Interpretation No. 46(R)*, and makes changes to both the variable interest model and the voting model. While the ASU is aimed at asset managers, all reporting entities will have to re-evaluate limited partnerships and similar entities for consolidation and revise their documentation. It also may affect reporting entities that evaluate certain corporations or similar entities for consolidation. The guidance is now effective for PBEs. For all other entities, it is effective for annual periods beginning after 15 December 2016 and for interim periods within annual periods beginning after 15 December 2017. After issuing ASU 2015-02, the FASB amended the consolidation guidance two additional times. In October 2016, the FASB issued ASU 2016-17, *Consolidation (Topic 810): Issues Held through Related Parties That Are under Common Control*, to amend the primary beneficiary determination related to interests held through related parties under common control. For PBEs, the guidance is effective for annual periods beginning 15 December 2016, and interim periods therein. For all other entities, the effective date is consistent with that of ASU 2015-02.

In January 2017, the FASB issued ASU 2017-02, *Not-for-Profit Entities — Consolidation (Subtopic 958-810): Clarifying When a Not-for-Profit Entity That is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity*, to retain the presumption that a not-for-profit (NFP) entity that is a general partner in a for-profit limited partnership or similar entity controls the entity, unless that presumption can be overcome. For NFPs, the amendments on the presumption are effective for annual periods beginning after 15 December 2016,

and within interim periods after 15 December 2017. Early adoption is permitted for both ASU 2016-17 and ASU 2017-02, although entities that have not yet adopted ASU 2015-02 are required to adopt all ASUs at the same time. In June 2017, the FASB proposed more changes to the consolidation guidance, including allowing private companies to make an accounting policy election to not apply the VIE guidance for certain common control arrangements. It also proposed changing two aspects of the VIE model for related party groups. Readers should monitor this project for developments. Certain differences between the consolidation guidance in IFRS and that in US GAAP (e.g., effective control, potential voting rights) continue to exist.

In March 2016, the FASB issued ASU 2016-07, *Investments — Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting*. ASU 2016-07 eliminates the requirement that an investor retrospectively apply equity method accounting when an investment that it had accounted for by another method initially qualifies for the equity method. By eliminating retrospective application of the equity method, ASU 2016-07 converges US GAAP with IFRS. However, measurement differences may still exist. ASU 2016-07 is effective for all entities for annual periods, and interim periods within those annual periods, beginning after 15 December 2016. Early adoption is permitted.

In February 2017, the FASB issued ASU 2017-05. This guidance changed the measurement of transfers of nonfinancial assets and in substance nonfinancial assets in transactions that are not with customers and that are not businesses. It requires any noncontrolling interest retained or received to be measured at fair value. This aspect of ASU 2017-05 converges US GAAP with IFRS. However, the guidance also requires all transactions in the scope of ASC 610-20 (including sales to equity method investees or joint ventures) to result in a full gain or loss. That is, there will be no intra-entity profit elimination in a downstream transaction if the sale is in the scope of ASC 610-20. This aspect of ASU 2017-05 creates a difference between US GAAP and IFRS, because IFRS requires profit to be eliminated in all downstream transactions.

In June 2016, the IASB issued an exposure draft that would amend IFRS 3, *Business Combinations*, to clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. It also would amend IFRS 11 to clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. In April 2017, the IASB tentatively decided to finalize the amendments to IFRS 3 and IFRS 11 as proposed.

Business combinations

Similarities

The principal guidance for business combinations in US GAAP (ASC 805, *Business Combinations*) and IFRS (IFRS 3) are largely converged. Pursuant to ASC 805 and IFRS 3, all business combinations are accounted for using the acquisition method. When an entity obtains control of another entity, the underlying transaction is measured at fair value, establishing the basis on which the assets, liabilities and noncontrolling interests of the acquired entity are measured. As described below, IFRS 3 provides an alternative to measuring noncontrolling interest at fair value with limited exceptions. Although the standards (before the issuance of ASU 2017-01, *Clarifying the Definition of a Business*) are substantially converged, certain differences exist, including those with respect to the definition of a business as described below.

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

Significant differences

	US GAAP	IFRS
Measurement of noncontrolling interest	Noncontrolling interest is measured at fair value, including goodwill.	Noncontrolling interest components that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation may be measured at: (1) fair value, including goodwill, or (2) the noncontrolling interest's proportionate share of the fair value of the acquiree's identifiable net assets, exclusive of goodwill. All other components of noncontrolling interest are measured at fair value unless another measurement basis is required by IFRS. The choice is available on a transaction-by-transaction basis.
Acquiree's operating leases for a lessor (before and after the adoption of ASC 842, *Leases*, and IFRS 16)	If the terms of an acquiree operating lease are favorable or unfavorable relative to market terms, the acquirer recognizes an intangible asset or liability, 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.

	US GAAP	IFRS
Assets and liabilities arising from contingencies	*Initial recognition and measurement* Assets and liabilities arising from contingencies are recognized at fair value (in accordance with ASC 820, *Fair Value Measurement and Disclosures)* if the fair value can be determined during the measurement period. Otherwise, those assets or liabilities are recognized at the acquisition date in accordance with ASC 450, *Contingencies,* if those criteria for recognition are met. Contingent assets and liabilities that do not meet either of these recognition criteria at the acquisition date are subsequently accounted for in accordance with other applicable literature, including ASC 450. (See "Provisions and contingencies" for differences between ASC 450 and IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*).	*Initial recognition and measurement* Liabilities arising from contingencies are recognized as of the acquisition date if there is a present obligation that arises from past events and the fair value can be measured reliably, even if it is not probable that an outflow of resources will be required to settle the obligation. Contingent assets are not recognized.
	Subsequent measurement If contingent assets and liabilities are initially recognized at fair value, an acquirer should develop a systematic and rational basis for subsequently measuring and accounting for those assets and liabilities depending on their nature. If amounts are initially recognized and measured in accordance with ASC 450, the subsequent accounting and measurement should be based on that guidance.	*Subsequent measurement* Liabilities subject to contingencies are subsequently measured at the higher of: (1) the amount that would be recognized in accordance with IAS 37 or (2) the amount initially recognized less, if appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15.
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).

	US GAAP	IFRS
Pushdown accounting	An acquired entity can choose to apply pushdown accounting in its separate financial statements when an acquirer obtains control of it or later. However, an entity's election to apply pushdown accounting is irrevocable.	No guidance exists, and it is unclear whether pushdown accounting is acceptable under IFRS. However, the general view is that entities may not use the hierarchy in IAS 8, *Accounting Polices, Changes in Accounting Estimates and Errors*, to refer to US GAAP and apply pushdown accounting in the separate financial statements of an acquired subsidiary, because the application of pushdown accounting will result in the recognition and measurement of assets and liabilities in a manner that conflicts with certain IFRS standards and interpretations. For example, the application of pushdown accounting generally will result in the recognition of internally generated goodwill and other internally generated intangible assets at the subsidiary level, which conflicts with the guidance in IAS 38, *Intangible Assets*.
Adjustments to provisional amounts within the measurement period	An acquirer recognizes measurement-period adjustments during the period in which it determines the amounts, including the effect on earnings of any amounts it would have recorded in previous periods if the accounting had been completed at the acquisition date.	An acquirer recognizes measurement-period adjustments on a retrospective basis. The acquirer revises comparative information for any prior periods presented, including revisions for any effects on the prior-period income statement.
Definition of a business after the adoption of ASU 2017-01	*Definition of a business* A business must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. An output is the result of inputs and processes applied to those inputs that provide goods or services to customers, investment income (such as dividends or interest, or other revenues. That is, the focus is on revenue-generating activities, which more closely aligns the definition with the description of outputs in the new revenue guidance in ASC 606.	*Definition of a business* A business consists of inputs and processes applied to those inputs that have the ability to create outputs. Although businesses usually have outputs, outputs are not required for an integrated set to qualify as a business. The term "substantive process" is not defined in IFRS 3. An integrated set of activities and assets requires two essential elements — inputs and processes applied to those inputs, which together are or will be used to create outputs. However, a business does not have to include all of the inputs or processes that the seller used in operating that business if market participants are capable of

	US GAAP	IFRS
	An entity does not need to evaluate whether any missing elements could be replaced by a market participant.	acquiring the business and continuing to produce outputs, for example, by integrating the business with their own inputs and processes. Outputs are defined as the result of inputs and processes applied to those inputs that provide or have the ability to provide a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.
	Threshold test An entity must first evaluate whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If that threshold is met, the set is not a business and does not require further evaluation. Gross assets acquired should exclude cash and cash equivalents, deferred tax assets and any goodwill that would be created in a business combination from the recognition of deferred tax liabilities.	*Threshold test* There is no threshold test under IFRS 3.

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

Standard-setting activities

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

In January 2017, the FASB issued ASU 2017-01 to clarify certain aspects of the definition of a business.

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

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

Inventory

Similarities

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

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

Significant differences

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

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

Standard-setting activities

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

Long-lived assets

Similarities

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

Cost

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

Capitalized interest

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

Depreciation

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

Assets held for sale

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

Significant differences

	US GAAP	IFRS
Revaluation of assets	Revaluation is not permitted.	Revaluation is a permitted accounting policy election for an entire class of assets, requiring revaluation to fair value on a regular basis.
Depreciation of asset components	Component depreciation is permitted, but it is not common.	Component depreciation is required if components of an asset have differing patterns of benefit.
Measurement of borrowing costs	Eligible borrowing costs do not include exchange rate differences. Interest earned on the investment of borrowed funds generally cannot offset interest costs incurred during the period. For borrowings associated with a specific qualifying asset, borrowing costs equal to the weighted-average accumulated expenditures times the borrowing rate are capitalized.	Eligible borrowing costs include exchange rate differences from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. For borrowings associated with a specific qualifying asset, actual borrowing costs are capitalized offset by investment income earned on those borrowings.
Costs of a major overhaul	Multiple accounting models have evolved in practice for entities in the airline industry, including expense costs as incurred, capitalize costs and amortize through the date of the next overhaul, or follow the built-in overhaul approach (i.e., an approach with certain similarities to composite depreciation).	Costs that represent a replacement of a previously identified component of an asset are capitalized if future economic benefits are probable and the costs can be reliably measured. Otherwise, these costs are expensed as incurred.
Investment property	Investment property is not separately defined and, therefore, is accounted for as held and used or held for sale.	Before the adoption of IFRS 16, investment property is separately defined in IAS 40, *Investment Property*, as property held to earn rent or for capital appreciation (or both) and may include property held by lessees under a finance or operating lease. Investment property may be accounted for on a historical cost basis or on a fair value basis as an accounting policy election. Capitalized operating leases classified as investment property must be accounted for using the fair value model.

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

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

Standard-setting activities

There is currently no standard-setting activity in this area.

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., start-up costs). Goodwill is recognized only in a business combination. With the exception of development costs (addressed below), internally developed intangibles are not recognized as assets under either ASC 350 or IAS 38. Moreover, internal costs related to the research phase of research and development are expensed as incurred under both accounting models.

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

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

Significant differences

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

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

Standard-setting activities

The FASB is conducting research with the objective of further reducing the cost and complexity of the subsequent accounting for goodwill (e.g., considering an amortization approach). The FASB also is conducting research on accounting for identifiable intangible assets in a business combination with the objective of evaluating whether certain identifiable intangible assets acquired in a business combination should be subsumed into goodwill.

The IASB has a similar project on its research agenda to consider improvements to the impairment requirements for goodwill that was added in response to the findings in its post-implementation review of IFRS 3. Currently, these are not joint projects and generally are not expected to converge the guidance on accounting for goodwill impairment. In its research project on goodwill and impairment, the IASB plans to similarly consider the subsequent accounting for goodwill. The IASB also is considering which intangible assets should be recognized apart from goodwill as part of the research project on goodwill and impairment.

Impairment of long-lived assets, goodwill and intangible assets

Similarities

Under both US GAAP and IFRS, long-lived assets are not tested annually, but rather when there are similarly defined indicators of impairment. Both standards require goodwill and intangible assets with indefinite useful lives to be tested at least annually for impairment and more frequently if impairment indicators are present. In addition, both US GAAP and IFRS require that the impaired asset be written down and an impairment loss recognized. ASC 350, subsections of ASC 360-10 and IAS 36, *Impairment of Assets*, apply to most long-lived and intangible assets, although some of the scope exceptions listed in the standards differ. Despite the similarity in overall objectives, differences exist in the way impairment is tested, recognized and measured.

Significant differences

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

	US GAAP	IFRS
Method of determining impairment — goodwill	A company has the option to qualitatively assess whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Before the adoption of ASU 2017-04, *Simplifying the Test for Goodwill Impairment*, the company performs a recoverability test under the two-step approach first at the reporting unit level (the carrying amount of the reporting unit is compared with the reporting unit's fair value). If the carrying amount of the reporting unit exceeds its fair value, the company performs impairment testing. After the adoption of ASU 2017-04, the company performs an impairment test under the one-step approach at the reporting unit level by comparing the reporting unit's carrying amount with its fair value. (ASU 2017-04 is effective for annual and interim impairment tests performed in periods beginning after (1) 15 December 2019 for PBEs that meet the definition of an SEC filer, (2) 15 December 2020 for PBEs that are not SEC filers, and (3) 15 December 2021 for all other entities. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates on or after 1 January 2017. The ASU will be applied prospectively.)	Qualitative assessment is not permitted. The one-step approach requires that an impairment test be done at the CGU level by comparing the CGU's carrying amount, including goodwill, with its recoverable amount.
Method of determining impairment — indefinite-lived intangibles	Companies have the option to qualitatively assess whether it is more likely than not that an indefinite-lived intangible asset is impaired. If a quantitative test is performed, the quantitative impairment test for an indefinite-lived intangible asset requires a comparison of the fair value of the asset with its carrying amount. If the carrying amount of an intangible asset exceeds its fair value, a company should recognize an impairment loss in an amount equal to that excess.	Qualitative assessment is not permitted. The one-step approach requires that an impairment test be done at the CGU level by comparing the CGU's carrying amount, including goodwill, with its recoverable amount.

Impairment of long-lived assets, goodwill and intangible assets

	US GAAP	IFRS
Impairment loss calculation — goodwill	Before the adoption of ASU 2017-04, an impairment loss is the amount by which the carrying amount of goodwill exceeds the implied fair value of the goodwill within its reporting unit. After the adoption of ASU 2017-04, an impairment loss is the amount by which the reporting unit's carrying amount exceeds the reporting unit's fair value. The impairment loss will be limited to the amount of goodwill allocated to that reporting unit.	The impairment loss on the CGU (the amount by which the CGU's carrying amount, including goodwill, exceeds its recoverable amount) is allocated first to reduce goodwill to zero, then, subject to certain limitations, the carrying amount of other assets in the CGU are reduced pro rata, based on the carrying amount of each asset.
Level of assessment — indefinite-lived intangible assets	Indefinite-lived intangible assets separately recognized should be assessed for impairment individually unless they operate in concert with other indefinite-lived intangible assets as a single asset (i.e., the indefinite-lived intangible assets are essentially inseparable). Indefinite-lived intangible assets may not be combined with other assets (e.g., finite-lived intangible assets or goodwill) for purposes of an impairment test.	If the indefinite-lived intangible asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, then the indefinite-lived intangible asset should be tested for impairment as part of the CGU to which it belongs, unless certain conditions are met.
Impairment loss calculation — indefinite-lived intangible assets	The amount by which the carrying amount of the asset exceeds its fair value.	The amount by which the carrying amount of the asset exceeds its recoverable amount.
Reversal of loss	Prohibited for all assets to be held and used.	Prohibited for goodwill. Other assets must be reviewed at the end of each reporting period for reversal indicators. If appropriate, loss should be reversed up to the newly estimated recoverable amount, not to exceed the initial carrying amount adjusted for depreciation.

Standard-setting activities

The FASB is conducting research with the objective of further reducing the cost and complexity of the subsequent accounting for goodwill (e.g., considering an amortization approach). The FASB also is conducting research on accounting for identifiable intangible assets in a business combination with the objective of evaluating whether certain identifiable intangible assets acquired in a business combination should be subsumed into goodwill.

The IASB has a similar project on its research agenda to consider improvements to the impairment requirements for goodwill that was added in response to the findings in its post-implementation review of IFRS 3. In its research project on goodwill and impairment, the IASB plans to similarly consider the subsequent accounting for goodwill. The IASB also is considering which intangible assets should be recognized apart from goodwill, as part of the research project on goodwill and impairment.

Financial instruments

Similarities

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

The IFRS guidance for financial instruments, on the other hand, is limited to IAS 32, *Financial Instruments: Presentation*; IFRS 9*;* IFRS 7, *Financial Instruments: Disclosures;* and IFRS 13, *Fair Value Measurement*.

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

Significant differences

	US GAAP	IFRS
Debt versus equity		
Classification	US GAAP specifically identifies certain instruments with characteristics of both debt and equity that must be classified as liabilities.	Classification of certain instruments with characteristics of both debt and equity is largely based on the contractual obligation to deliver cash, assets or an entity's own shares. Economic compulsion does not constitute a contractual obligation.
	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.	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.

Financial instruments

	US GAAP	IFRS
Compound (hybrid) financial instruments	Compound (hybrid) financial instruments (e.g., convertible bonds) are not split into debt and equity components unless certain specific requirements are met, but they may be bifurcated into debt and derivative components, with the derivative component accounted for using fair value accounting.	Compound (hybrid) financial instruments are required to be split into a debt and equity component or, if applicable, a derivative component. The derivative component is accounted for using fair value accounting.
Recognition and measurement		
Measurement — debt securities, loans and receivables	Classification and measurement depend largely on the legal form of the instrument (i.e., whether the financial asset represents a security or a loan) and management's intent for the instrument. At acquisition, debt instruments that meet the definition of a security are classified in one of three categories and subsequently measured as follows: ▸ Held to maturity (HTM) — amortized cost ▸ Trading — fair value, with changes in fair value recognized in net income (FV-NI) ▸ Available for sale (AFS) — fair value, with changes in fair value recognized in other comprehensive income (FV-OCI) Unless the fair value option is elected, loans and receivables are classified as either: (1) held for investment, and then measured at amortized cost, or (2) held for sale, and then measured at the lower of cost or fair value.	Regardless of an instrument's legal form, its classification and measurement depend on its contractual cash flow (CCF) characteristics and the business model under which it is managed. The assessment of the CCF determines whether the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets that pass the cash flow characteristics test are subsequently measured at amortized cost, FV-OCI or FV-NI, 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-NI.

	US GAAP	IFRS
Measurement — equity investments (except those accounted for under the equity method, those that result in consolidation of the investee and certain other investments)	Equity investments are measured at FV-NI. A measurement alternative is available for equity investments that do not have readily determinable fair values and do not qualify for the net asset value (NAV) practical expedient under ASC 820. These investments may be measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer.	Equity investments are measured at FV-NI. An irrevocable FV-OCI election is available for nonderivative equity investments that are not held for trading. If the FV-OCI election is made, gains or losses recognized in other comprehensive income (OCI) are not recycled (i.e., reclassified to earnings) upon derecognition of those investments.
Measurement — effective interest method	US GAAP requires a catch-up approach, retrospective method or prospective method of calculating the interest for amortized cost-based assets (when estimated cash flows are used), depending on the type of instrument.	IFRS requires the original effective interest rate to be used throughout the life of the financial instrument, except for certain reclassified financial assets. When estimated cash flows change, an entity follows an approach that is analogous to the catch-up method under US GAAP.
Impairment		
Impairment recognition — debt instruments measured at FV-OCI	Declines in fair value below cost may result in an impairment loss being recognized in the income statement on a debt instrument measured at FV-OCI due solely to a change in interest rates (risk-free or otherwise) if the entity has the intent to sell the debt instrument or it is more likely than not that it will be required to sell the debt instrument before its anticipated recovery. In this circumstance, the impairment loss is measured as the difference between the debt instrument's amortized cost basis and its fair value. When a credit loss exists, but (1) the entity does not intend to sell the debt instrument, or (2) it is not more likely than not that the entity will be required to sell the debt instrument before the recovery of the remaining cost basis, the impairment is separated into the amount representing the credit loss and the amount related to all other factors.	Under IFRS, there is a single impairment model for debt instruments recorded at amortized cost and at FV-OCI, including loans and debt securities. The guiding principle is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments. The amount of expected credit loss (ECL) recognized as a loss allowance depends on the extent of credit deterioration since initial recognition. Generally there are two measurement bases: ▸ In stage 1, 12-month ECL, which applies to all items (on initial recognition and thereafter) as long as there is no significant deterioration in credit risk ▸ In stages 2 and 3, lifetime ECL, which applies whenever there has been a significant increase in credit risk. In stage 3, a credit event has occurred, and interest income is calculated on the asset's amortized cost (i.e., net of the allowance). In contrast, in stage 2 interest income is calculated on the asset's gross carrying amount.

	US GAAP	IFRS
	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.	For financial assets that are debt instruments measured at FV-OCI, impairment gains and losses are recognized in net income. However, the ECLs do not reduce the carrying amount of the financial assets in the statement of financial position, which remains at fair value. Instead, impairment gains and losses are accounted for as an adjustment to the revaluation reserve accumulated in OCI (the "accumulated impairment amount"), with a corresponding charge to net income. When a debt security measured at FV-OCI is derecognized, IFRS requires the cumulative gains and losses previously recognized in OCI to be reclassified to net income.
	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.	If the amount of ECLs decreases, the accumulated impairment amount in OCI is reduced, with a corresponding adjustment to net income.
Impairment recognition — equity instruments	Under US GAAP, equity investments are generally measured at FV-NI and therefore not reviewed for impairment. However, an equity investment without a readily determinable fair value for which the measurement alternative has been elected is qualitatively assessed for impairment at each reporting date. If a qualitative assessment indicates that the investment is impaired, the entity will have to estimate the investment's fair value in accordance with ASC 820 and, if the fair value is less than the investment's carrying value, recognize an impairment loss in net income equal to the difference between carrying value and fair value.	Equity instruments are measured at FV-NI or FV-OCI. For equity instruments measured at FV-OCI, gains and losses recognized in OCI are never reclassified to earnings. Therefore, equity instruments are not reviewed for impairment.

	US GAAP	IFRS
Impairment recognition — financial assets measured at amortized cost	Under US GAAP, the impairment model for loans and other receivables is an incurred loss model. Losses from uncollectible receivables are recognized when (1) it is probable that a loss has been incurred (i.e., when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the receivable) and (2) the amount of the loss is reasonably estimable. The total allowance for credit losses should include amounts that have been measured for impairment, whether individually under ASC 310-10 or collectively (in groups of receivables) under ASC 450-20. Changes in the allowance are recognized in earnings. Write-downs (charge-offs) of loans and other receivables are recorded when the asset is deemed uncollectible. 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. That is because the entity has already asserted its intent and ability to hold an HTM debt security to maturity. When an investor does not expect to recover the entire amortized cost of the HTM debt security, the HTM debt security is written down to its fair value. The amount of the total impairment related to the credit loss is recognized in the income statement, and the amount related to all other factors is recognized in OCI. The carrying amount of an HTM debt security after the recognition of an impairment is the fair value of the debt instrument at the date of the impairment. The new cost basis of the debt instrument is equal to the	Under IFRS, there is a single impairment model for debt instruments recorded at amortized cost or FV-OCI, including loans and debt securities. Refer to "Impairment recognition — debt instruments measured at FV-OCI" above for a discussion of this model. For financial assets measured at amortized cost, the carrying amount of the instrument is reduced through the use of an allowance account. In subsequent reporting periods, if the amount of ECLs decreases, the allowance is reduced with a corresponding adjustment to net income. 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.

	US GAAP	IFRS
	previous cost basis less the impairment recognized in the income statement. The impairment recognized in OCI for an HTM debt security is accreted to the carrying amount of the HTM instrument over its remaining life. This accretion does not affect earnings.	
Derivatives and hedging		
Definition of a derivative and scope exceptions	To meet the definition of a derivative, an instrument must (1) have one or more underlyings, and, one or more notional amounts or payment provisions or both, (2) require no initial net investment, as defined, and (3) be able to be settled net, as defined. Certain scope exceptions exist for instruments that would otherwise meet these criteria.	The IFRS definition of a derivative does not include a requirement that a notional amount be indicated, nor is net settlement a requirement. Certain of the scope exceptions under IFRS differ from those under US GAAP.
Hedging risk components	The risk components of financial instruments that may be hedged are specifically defined by the literature, with no additional flexibility. With the exception of foreign currency risk, a risk component associated with a nonfinancial item may not be hedged.	Hedging of risk components of both financial and nonfinancial items is allowed, provided that the risk component is separately identifiable and reliably measurable.
Hedge effectiveness	To qualify for hedge accounting the relationship must be "highly effective." Prospective and retrospective assessment of hedge effectiveness is required on a periodic basis (at least quarterly). The shortcut method for interest rate swaps hedging recognized debt instruments is permitted. The long-haul method of assessing and measuring hedge effectiveness for a fair value hedge of the benchmark interest rate component of a fixed rate debt instrument requires that all CCFs be considered in calculating the change in the hedged item's fair value even though only a component of the contractual coupon payment is the designated hedged item.	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. Only prospective assessment of effectiveness is required at each reporting period. The shortcut method for interest rate swaps hedging recognized debt is not permitted. Under IFRS, the assessment and measurement of hedge effectiveness for a fair value hedge of the benchmark interest rate component of a fixed rate debt instrument generally considers only the change in fair value of the designated benchmark cash flows.

	US GAAP	IFRS
Excluded components	A hedging instrument's time value can be excluded from the effectiveness assessment. The change in fair value of any excluded time value is recognized currently in earnings.	A hedging instrument's time value and foreign currency basis spread can be excluded from the effectiveness assessment. The change in fair value of any excluded components is deferred in accumulated other comprehensive income and reclassified based on the nature of the hedged item (i.e., transaction-related or time-period related).
Derecognition		
Derecognition of financial assets	Derecognition of financial assets (i.e., sales treatment) occurs when effective control over the financial asset has been surrendered: ▸ The transferred financial assets are legally isolated from the transferor ▸ Each transferee (or, if the transferee is a securitization entity or an entity whose sole purpose is to facilitate an asset-backed financing, each holder of its beneficial interests), has the right to pledge or exchange the transferred financial assets (or beneficial interests) ▸ The transferor does not maintain effective control over the transferred financial assets or beneficial interests (e.g., through a call option or repurchase agreement)	Derecognition of financial assets is based on a mixed model that considers transfer of risks and rewards and control. Transfer of control is considered only when the transfer of risks and rewards assessment is not conclusive. If the transferor has neither retained nor transferred substantially all of the risks and rewards, there is then an evaluation of the transfer of control. Control is considered to be surrendered if the transferee has the practical ability to unilaterally sell the transferred asset to a third party without restrictions. There is no legal isolation test.
	The derecognition criteria may be applied to a portion of a financial asset only if it mirrors the characteristics of the original entire financial asset.	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.
Fair value measurement		
Day one gains and losses	Entities are not precluded from recognizing day one gains and losses on financial instruments reported at fair value even when all inputs to the measurement model are not observable, including when the fair value measurement is based on a valuation model with significant unobservable inputs (i.e., level 3 measurements).	Day one gains and losses on financial instruments are recognized only when their fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a level 1input) or based on a valuation technique that uses only data from observable markets.

	US GAAP	IFRS
Practical expedient for alternative investments	Entities are provided a practical expedient to estimate the fair value of certain alternative investments (e.g., a limited partner interest in a Private Equity fund) using NAV or its equivalent.	There is no practical expedient for estimating fair value using NAV for certain alternative investments.

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

Standard-setting activities

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

Recognition and measurement

In January 2016, the FASB issued ASU 2016-01.

The FASB ultimately decided to make only targeted amendments to existing guidance. As a result, entities that report under US GAAP will use a significantly different model for classifying and measuring financial instruments than entities that report under IFRS.

ASU 2016-01 is effective for PBEs in annual periods beginning after 15 December 2017, and interim periods within those annual periods. For all other entities, it is effective for annual periods beginning after 15 December 2018, and interim periods in annual periods beginning after 15 December 2019. Other entities can adopt the entire standard at the same time as PBEs, and all entities can early adopt certain provisions. IFRS 9 is effective for annual periods beginning on or after1 January 2018.

In July 2014, the IASB issued the final version of IFRS 9, which made significant changes to the guidance on the recognition and measurement of financial instruments.

Impairment

The FASB initially worked with the IASB to develop new guidance, but the Boards ultimately were unable to reach a converged solution. The FASB's ASU 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* issued in June 2016, differs from the three-stage impairment model the IASB finalized as part of IFRS 9. Under the FASB's approach, an entity will record an allowance for credit losses that reflects the portion of the amortized cost balance the entity does not expect to collect over the contractual life of (1) all financial assets that are debt instruments measured at amortized cost, (2) net investments in leases and (3) off-balance sheet credit exposures. AFS debt securities will be subject to today's impairment model with a few modifications, including the use of an allowance to recognize credit losses, as opposed to a direct write-down of the amortized cost as is done today. The FASB's final standard has tiered effective dates starting in 2020 for calendar-year entities that are SEC filers. Early adoption in 2019 is permitted for all calendar-year entities.

Hedge accounting

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

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

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

Foreign currency matters

Similarities

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

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

Significant differences

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

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

Standard-setting activities

There is currently no standard-setting activity in this area.

Leases — before the adoption of ASC 842 and IFRS 16

Similarities

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

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

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

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

Significant differences

	US GAAP	IFRS
Lease of real estate	A lease of land and buildings that transfers ownership to the lessee or contains a bargain purchase option would be classified as a capital lease by the lessee, regardless of the relative value of the land.	The land and building elements of the lease are considered separately when evaluating all indicators unless the amount that would initially be recognized for the land element is immaterial, in which case they would be treated as a single unit for purposes of lease classification.
	If the fair value of the land at inception represents less than 25% of the total fair value of the lease, the lessee accounts for the land and building elements as a single unit for purposes of evaluating the 75% and 90% tests noted above. Otherwise, the lessee must consider the land and building elements separately for purposes of evaluating other lease classification criteria. (Note: Only the building is subject to the 75% and 90% tests in this case).	There is no 25% test to determine whether to consider the land and building separately when evaluating certain indicators.
Recognition of a gain or loss on a sale and leaseback when the leaseback is an operating leaseback (non-real estate)	If the seller-lessee retains only a minor portion of the remaining use of the leased asset through the sale-leaseback, the sale and leaseback are accounted for as separate transactions based on their respective terms (unless rentals are unreasonable in relation to market conditions). If a seller-lessee retains more than a minor part of the remaining use of the leased asset but less than substantially all of it, and the profit on the sale exceeds the present value of the minimum lease payments due under the operating leaseback, that excess is recognized as profit at the date of sale. All other profit is deferred and generally amortized over the lease term.	Gain or loss is recognized immediately, subject to adjustment if the sales price differs from fair value.
Recognition of gain or loss on a sale-leaseback when the leaseback is a capital leaseback	The seller-lessee is presumed to have retained substantially all of the remaining use of the leased asset when the leaseback is classified as a capital lease. In such cases, the profit on sale is deferred.	Gain or loss is deferred and amortized over the lease term.

	US GAAP	IFRS
Sale and leaseback of real estate	If real estate is involved, while the above model generally applies, the specialized rules also must be applied. Those rules are very restrictive with respect to the seller's continuing involvement, and they may not allow for recognition of the sale.	There is no real estate specific guidance for sale and leaseback transactions under IFRS.

Examples of other differences include: (1) the treatment of a leveraged lease by a lessor under ASC 840 (IAS 17 does not have such classification), (2) real estate sale-leasebacks (as noted above), (3) real estate sales-type leases and (4) leases of land.

Standard-setting activities

In early 2016, the FASB and the IASB each issued a new lease accounting standard, ASC 842 and IFRS 16, respectively. Both standards require lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right-of-use assets. However, there are significant differences between the standards. See further discussion of these differences in "Leases — after the adoption of ASC 842 and IFRS 16."

Leases — after the adoption of ASC 842 and IFRS 16

Background

In early 2016, the FASB and the IASB each issued a new lease accounting standard, ASC 842 and IFRS 16 respectively. While the standards are similar in some respects, there are significant differences. The FASB continues to make targeted corrections to ASC 842, and therefore readers should monitor the standard for developments which may result in additional differences between the standards.

Similarities

The overall accounting for leases under US GAAP and IFRS is similar, although US GAAP has more specific application guidance than IFRS. 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.

Differences

	US GAAP	IFRS
Scope and measurement exemptions		
Low-value asset exemption	There is no recognition exemption for leases based on the value of the underlying asset.	Lessees may elect, on a lease-by-lease basis, not to recognize leases when the value of the underlying asset is low (e.g., US$5,000 or less when new).
Scope exemption for intangible assets	All leases of intangible assets are excluded from the scope of ASC 842.	Lessees may apply IFRS 16 to leases of intangible assets other than rights held by a lessee under licensing agreements within the scope of IAS 38 for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights. Lessors are required to apply IFRS 16 to leases of intangible assets, except for licenses of intellectual property that are in the scope of IFRS 15.
Key concepts		
Lease liability — reassessment of variable lease payments	Changes in variable lease payments based on an index or rate result in a remeasurement of the lease liability when the lease liability is remeasured for another reason (e.g., a change in the lease term). Lessors would only remeasure upon modification.	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).

	US GAAP	IFRS
Definition of initial direct costs (IDCs)	IDCs are incremental costs that would not have been incurred if the lease had not been obtained. Lessors expense IDCs for sales-type leases if the fair value is different than the carrying value of the underlying asset.	IDCs are incremental costs of obtaining a lease that would not have been incurred if the lease had not been obtained. However, costs incurred by a manufacturer or dealer lessor in connection with a finance lease are excluded.
Classification		
Lessee lease classification	Leases are classified as either finance or operating.	All leases are accounted for similarly to finance leases under ASC 842, unless a recognition exemption (e.g., the low-value asset exemption) is adopted.
Lessor lease classification	Leases are classified as operating, direct financing or sales-type leases.	Leases are classified as operating or finance leases.
Lessor — 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.
Subleases	When classifying a sublease, the sublessor classifies the sublease based on the underlying asset rather the right-of-use asset on the head lease.	When classifying a sublease, a sublessor classifies the sublease based on the right-of-use asset recognized as part of the head lease.
Lessor accounting		
Collectibility	Collectibility of the lease payments is assessed for purposes of initial recognition and measurement of sales-type leases. It is also evaluated to determine the income recognition pattern of operating leases. Collectibility of lease payments also affects classification of direct financing leases.	IFRS 16 does not include explicit guidance for considering collectibility of lease payments.

	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 as income in profit or loss in the period when the changes in facts and circumstances on which the variable payment is based.	IFRS 16 does not include specific guidance on the allocation of such consideration to the lease and non-lease components, as such, lessors would follow allocation guidance in IFRS 15.
Sale and leaseback transactions		
Determining whether a transfer of an asset is a sale in a sale/purchase and leaseback transaction	To determine whether an asset transfer is a sale and purchase, a seller-lessee and a buyer-lessor consider the following: ▸ Whether the transfer meets sale criteria under ASC 606 (however, certain fair value repurchase options would not result in a failed sale) ▸ A sale and purchase do not occur when the leaseback is classified as a sales-type lease by buyer-lessor or finance lease by seller-lessee	To determine whether the transfer of an asset is accounted for as a sale, a seller-lessee and a buyer-lessor apply the requirements for determining when a performance obligation is satisfied in IFRS 15.
Gain or loss recognition in sale and leaseback transactions	The seller-lessee recognizes any gain or loss, adjusted for off-market terms, immediately.	The seller-lessee recognizes only the amount of any gain or loss on sale 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 upon 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. IFRS 16 does not provide additional guidance on interest rates.
Other considerations		
Related party transactions	Entities classify and account for related party leases (including sale and leaseback transactions) based on the legally enforceable terms and conditions of the lease. Disclosure of related party transactions is required.	IFRS 16 does not address related party lease transactions. IAS 24 contains guidance on related party disclosures.

	US GAAP	IFRS
Effective date and transition		
Effective date	For PBEs and certain other entities, ASC 842 is effective for annual periods beginning after 15 December 2018. For other entities, ASC 842 is effective for annual periods beginning after 15 December 2019.	For all entities, IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019.
Early adoption	Early adoption is permitted in all cases.	Early adoption is permitted for entities that apply IFRS 15 at or before the date of the initial application of IFRS 16.
Modified Retrospective Transition — application to comparative periods	Transition provisions are applied as of the beginning of the earliest comparative period presented in the financial statements.	Comparative periods are not adjusted, rather a cumulative effect adjustment is recorded to the opening balance of retained earnings (or other component of equity, as appropriate).
Modified Retrospective Transition — specific transition guidance	Specific transition guidance is provided for all leases depending on the lease classification before and after application of ASC 842.	Transition guidance primarily addresses lessees' leases previously classified as operating leases under IAS 17.
Leveraged leases	Leveraged lease accounting is eliminated for leases that commence on or after the effective date of ASC 842. However, leveraged leases that commenced prior to the effective date are grandfathered. If an existing leveraged lease is modified on or after the effective date, the lease would no longer be accounted for as a leveraged lease but would instead be accounted for under ASC 842.	Leveraged lease accounting is not permitted under IFRS 16.

Examples of other differences include: (1) the determinations of discount rate for all entities other than PBEs, (2) the determination of a lessee's incremental borrowing rate, (3) the effect of purchase options and changes in lease term to the lessee accounting model and (4) elements of the lessor accounting model such as the recognition of direct selling profit for direct financing leases, modification guidance for sales-type or direct financing leases that do not result in a separate contract.

Income taxes

Similarities

ASC 740, *Income Taxes*, and IAS 12, *Income Taxes*, require entities to account for both current tax effects and expected future tax consequences of events that have been recognized (i.e., deferred taxes) using an asset and liability approach. Deferred taxes for temporary differences arising from non-deductible goodwill are not recorded under both US GAAP and IFRS, and tax effects of items accounted for directly in equity during the current year are allocated directly to equity. Neither US GAAP nor IFRS permits the discounting of deferred taxes.

Significant differences

	US GAAP	IFRS
Tax basis	Tax basis is a question of fact under the tax law. For most assets and liabilities, there is no dispute on this amount; however, when uncertainty exists, it is determined in accordance with ASC 740-10-25.	Tax basis is generally the amount deductible or taxable for tax purposes. The manner in which management intends to settle or recover the carrying amount affects the determination of tax basis. After the adoption of IFRIC 23, *Uncertainty Over Income Tax Treatments*, when an uncertain tax treatment exists, it is determined in accordance with IFRIC 23.
Taxes on intercompany transfers of assets that remain within a consolidated group	*Before the adoption of ASU 2016-16, Intra-Entity Transfers of Assets Other Than Inventory* Intercompany sales and transfers of **assets** — US GAAP requires taxes paid on intercompany profits to be deferred and prohibits the recognition of deferred taxes for the increases in the tax bases due to the intercompany sale or transfer. The income tax effects of the intercompany sale or transfer of assets is recognized when the assets are sold to a party outside of the consolidated group or otherwise expensed (e.g., depreciation, amortization or impairment). *After the adoption of ASU 2016-16* Intercompany sales and transfers of **inventory** — US GAAP requires taxes paid on intercompany profits to be deferred and prohibits the recognition of deferred taxes for the increases in the tax bases due to the intercompany	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.

	US GAAP	IFRS
	sale or transfer of inventory. The income tax effects of the intercompany sale or transfer of inventory is recognized when the inventory is sold to a party outside of the consolidated group. Companies are required to recognize the income tax effects of intercompany sales and transfers of assets other than inventory in the period in which the transfer occurs.	
Uncertain tax positions	ASC 740-10-25 requires a two-step process, separating recognition from measurement. A benefit is recognized when it is "more likely than not" to be sustained based on the technical merits of the position. Detection risk is precluded from being considered in the analysis. The amount of benefit to be recognized is based on the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement. 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.	*Before the adoption of IFRIC 23* IFRS does not include specific guidance. IAS 12 indicates that tax assets and liabilities should be measured at the amount expected to be paid based on enacted or substantively enacted tax legislation. Some adopt a "one-step" approach that recognizes all uncertain tax positions at an expected value. Others adopt a "two-step" approach that recognizes only those uncertain tax positions that are considered more likely than not to result in a cash outflow. Practice varies regarding the consideration of detection risk in the analysis. *After the adoption of IFRIC 23* When it is probable (similar to "more likely than not" under US GAAP) that the taxation authority will accept an uncertain tax treatment, taxable profit or loss is determined consistent with the tax treatment used or planned to be used in the income tax filings. When it is not probable that a taxation authority will accept an uncertain tax treatment, the amount of uncertainty to be recognized is calculated using either the expected value or the most likely amount, whichever method better predicts the resolution of the uncertainty. Uncertain tax treatments may be considered separately or together based on which approach better predicts the resolution of the uncertainty.

Income taxes

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

Other differences include: (1) the allocation of subsequent changes to deferred taxes to components of income or equity, (2) the calculation of deferred taxes on foreign nonmonetary assets and liabilities when the local currency of an entity is different than its functional currency, (3) the measurement of deferred taxes when different tax rates apply to distributed or undistributed profits and (4) the recognition of deferred tax assets on basis differences in domestic subsidiaries and domestic joint ventures that are permanent in duration.

Standard-setting activities

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

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

In November 2015, the FASB issued ASU 2015-17, which requires entities to classify all deferred tax assets and liabilities as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts.

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

Provisions and contingencies

Similarities

IAS 37 provides the overall guidance for recognition and measurement criteria of provisions and contingencies. While there is no equivalent single standard under US GAAP, ASC 450, and a number of other standards deal with specific types of provisions and contingencies (e.g., ASC 410, *Asset Retirement and Environmental Obligations*; ASC 420, *Exit or Disposal Cost Obligations*). In addition, although non-authoritative, the guidance in two Concept Statements in US GAAP (CON 5, *Recognition and Measurement in Financial Statements of Business Enterprises*, and CON 6, *Elements of Financial Statements*) is similar to the specific recognition criteria provided in IAS 37. Both US GAAP and IFRS require recognition of a loss based on the probability of occurrence, although the definition of probability is different under US GAAP and IFRS. Both US GAAP and IFRS prohibit the recognition of provisions for costs associated with future operating activities. Further, both US GAAP and IFRS require disclosures about a contingent liability whose occurrence is more than remote but does not meet the recognition criteria.

Significant differences

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

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

Standard-setting activities

There is currently no standard-setting activity in this area.

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

Similarities

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

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

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

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

The core principle of both standards is that an entity will recognize revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration the entity expects to be entitled in exchange for those goods or services. The standards also require comprehensive disclosures and change the way entities communicate information in the notes to the financial statements.

The principles in the standards will be applied using the following five steps:

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

The FASB's standard is effective for public entities, as defined, for annual periods beginning after 15 December 2017, and for interim periods therein. Nonpublic entities are required to adopt the standard for annual periods beginning after 15 December 2018, and interim periods within annual periods beginning after 15 December 2019. Public and nonpublic entities will be permitted to adopt the standard as early as annual reporting periods beginning after 15 December 2016, and interim periods therein. Entities are required to adopt the standard in the first interim period of an annual period. That is, a calendar year-end entity that elects to adopt the standard for the annual period ending 31 December 2017 is required to do so in the first quarter of 2017. An entity cannot adopt in a later quarter in 2017 and restate the previous quarters to reflect the adoption of the standard.

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

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

Significant differences

The standards the Boards issued in 2014 were largely converged except for a handful of differences. Since then, the Boards have finalized some converged amendments to their standards (i.e., principal versus agent considerations and clarifying when a promised good or service is separately identifiable when identifying performance obligations), but they have also finalized different amendments.

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

	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 transition method	An entity electing the full retrospective adoption method must transition *all* of its contracts with customers to ASC 606, subject to practical expedients created to provide relief, not just those contracts that are not considered completed as of the beginning of the earliest period presented under the standard.	IFRS 15 includes a practical expedient that US GAAP does not that allows an entity that uses the full retrospective adoption method to apply the new standard 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 prior to the beginning of the earliest reporting period presented under ASC 606, an entity can reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented under ASC 606 when identifying the satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price to the satisfied and unsatisfied performance obligations for the modified contract at transition.	An entity can apply this same practical expedient. However, when applying the full retrospective adoption method, the effect of this practical expedient will depend 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.

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

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

	US GAAP	IFRS
Licenses of IP — applying the guidance to bundled performance obligations	If an entity is required to bundle a license of IP with other promised goods or services in a contract, it is required to consider the licenses guidance to determine the nature of its promise to the customer.	IFRS 15 does not explicitly state that an entity will need 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 license or as a modification of the existing contract.
Reversal of impairment losses	Reversal of impairment losses is prohibited for all costs to obtain and/or fulfill a contract.	IFRS 15 permits reversal of 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.

Standard-setting activities

There is currently no standard-setting activity in this area.

Share-based payments

Similarities

The US GAAP guidance for share-based payments, ASC 718, *Compensation — Stock Compensation*, and ASC 505-50, *Equity — Equity-Based Payments to Non-Employees*, is largely converged with the guidance in IFRS 2, *Share-Based Payment*. Both require a fair value-based approach for measuring and accounting for share-based payment arrangements whereby an entity (1) acquires goods or services in exchange for issuing share options or other equity instruments (collectively referred to as "shares" in this guide), or (2) incurs liabilities that are based, at least in part, on the price of its shares or that may require settlement in its shares. Under both US GAAP and IFRS, this guidance applies to transactions with both employees and non-employees and is applicable to all companies. Both ASC 718 and IFRS 2 define the fair value of the transaction as the amount at which the asset or liability could be bought or sold in a current transaction between willing parties. Further, they require the fair value of the shares to be measured based on a market price (if available) or estimated using an option-pricing model. In the rare cases in which fair value cannot be determined, both sets of standards allow the use of intrinsic value, which is remeasured until settlement of the shares. In addition, the treatment of modifications and settlements of share-based payments is similar in many respects. Finally, both standards require similar disclosures in the financial statements to provide investors with sufficient information to understand the types and extent to which the entity is entering into share-based payment transactions.

Significant differences

	US GAAP	IFRS
Forfeitures	After adopting ASU 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, entities will have to elect whether to account for forfeitures by (1) recognizing forfeitures of awards as they occur (e.g., when an award does not vest because the employee leaves the company) or (2) estimating the number of awards expected to be forfeited and adjusting the estimate when subsequent information indicates that the estimate is likely to change. (For PBEs, ASU 2016-09 is effective for annual periods beginning after 15 December 2016, and interim periods within those annual periods. For all other entities, it is effective for annual periods beginning after 15 December 2017, and interim periods within annual periods beginning after	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.

	US GAAP	IFRS
	15 December 2018. Early adoption is permitted, but all of the guidance must be adopted in the same period.)	
Performance period different from service period	A performance condition where the performance target affects vesting can be achieved after the employee's requisite service period. Therefore, the period of time to achieve a performance target can extend beyond the end of the service period.	A performance condition is a vesting condition that must be met while the counterparty is rendering service. The period of time to achieve a performance condition must not extend beyond the end of the service period. If a performance target can be achieved after the employee's requisite service period, it would be accounted for as a non-vesting condition that affects the grant date fair value of the award.
Transactions with non-employees	The US GAAP definition of an employee focuses primarily on the common law definition of an employee.	IFRS has a more general definition of an employee that includes individuals who provide services similar to those rendered by employees.
	The fair value of: (1) the goods or services received, or (2) the equity instruments granted, whichever is more reliably measurable, is used to value the transaction.	Fair value of the transaction should be based on the fair value of the goods or services received, and only on the fair value of the equity instruments granted in the rare circumstance that the fair value of the goods and services cannot be reliably estimated.
	Measurement date is the earlier of: (1) the date at which a "commitment for performance" by the counterparty is reached, or (2) the date at which the counterparty's performance is complete.	Measurement date is the date the entity obtains the goods or the counterparty renders the services. No performance commitment concept exists.
Measurement and recognition of expense — awards with graded vesting features	Entities make an accounting policy election to recognize compensation cost for awards containing only service conditions either on a straight-line basis or on an accelerated basis, regardless of whether the fair value of the award is measured based on the award as a whole or for each individual tranche.	Entities must recognize compensation cost on an accelerated basis and each individual tranche must be separately measured.

Share-based payments

	US GAAP	IFRS
Equity repurchase features at employee's election	Liability classification is not required if employee bears risks and rewards of equity ownership for at least six months from the date the shares are issued or vest.	Liability classification is required (no six-month consideration exists).
Deferred taxes	Before the adoption of ASU 2016-09, deferred taxes are calculated based on the cumulative GAAP expense recognized and trued up or down upon realization of the tax benefit. After the adoption of ASU 2016-09, deferred taxes are calculated based on the cumulative GAAP expense recognized.	Deferred taxes are calculated based on the estimated tax deduction determined at each reporting date (e.g., intrinsic value).
	Before the adoption of ASU 2016-09, if the tax benefit exceeds the deferred tax asset, the excess (windfall benefit) is credited directly to shareholders' equity. Any shortfall of the tax benefit below the deferred tax asset is charged to shareholders' equity to the extent of prior windfall benefits, and to tax expense thereafter. After the adoption of ASU 2016-09, entities will recognize all excess tax benefits and tax deficiencies by recording them as income tax expense or benefit in the income statement.	If the tax deduction exceeds cumulative compensation cost for an individual award, deferred tax based on the excess is credited to shareholders' equity. If the tax deduction is less than or equal to cumulative compensation cost for an individual award, deferred taxes are recorded in income.
Modification of vesting terms that are improbable of achievement	If an award is modified such that the service or performance condition, which was previously improbable of achievement, is probable of achievement as a result of the modification, the compensation cost is based on the fair value of the modified award at the modification date. Grant date fair value of the original award is not recognized.	Compensation cost is based on the grant date fair value of the award, together with any incremental fair value at the modification date. The determination of whether the original grant date fair value affects the accounting is based on the ultimate outcome (i.e., whether the original or modified conditions are met) rather than the probability of vesting as of the modification date.

Standard-setting activities

In March 2017, the FASB issued an exposure draft that would simplify the accounting for share-based payments to non-employees by aligning it with the accounting for share-based payments to employees, with certain exceptions. The proposal would expand the scope of ASC 718 so that today's measurement guidance for employee awards also would apply to non-employee awards. That is, the measurement date for equity awards to non-employees would generally be the grant date.

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

In June 2016, the IASB issued three amendments to IFRS 2 addressing the effects of vesting conditions on the measurement of a cash-settled share-based payment, classification of a share-based payment settled net of withholding tax obligations, and accounting for a modification to a share-based payment that changes the classification from cash-settled to equity-settled. Two of these amendments would more closely align the guidance with US GAAP. The amendments are effective for accounting periods beginning on or after 1 January 2018, but early adoption is permitted provided the entity discloses doing so.

Employee benefits other than share-based payments

Similarities

ASC 715, *Compensation — Retirement Benefits*, ASC 710, *Compensation — General*, ASC 712, *Compensation — Nonretirement Postemployment Benefits*, and IAS 19, *Employee Benefits*, are the principal sources of guidance in accounting for employee benefits other than share-based payments under US GAAP and IFRS, respectively. Under both US GAAP and IFRS, the cost recognized for defined contribution plans is based on the contribution due from the employer in each period. The accounting for defined benefit plans has many similarities as well, most notably that the defined benefit obligation is the present value of benefits that have accrued to employees for services rendered through that date, based on actuarial methods of calculation. Both US GAAP and IFRS require the funded status of the defined benefit plan to be recognized on the balance sheet as the difference between the present value of the benefit obligation and the fair value of plan assets, although IAS 19 limits the net asset recognized for overfunded plans.

Significant differences

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

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

Standard-setting activities

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which changes how employers that sponsor defined benefit pension and/or other postretirement benefit plans present the cost of the benefits in the income statement. ASU 2017-07 is effective for PBEs in annual periods beginning after 15 December2017, and interim periods within those annual periods. For all other entities, it is effective for annual periods beginning after 15 December 2018, and interim periods within annual periods beginning after 15 December 2019. Early adoption is permitted.)

Earnings per share

Similarities

Entities whose common shares are publicly traded, or that are in the process of issuing such shares in the public markets, must disclose substantially the same earnings per share (EPS) information under ASC 260, *Earnings Per Share*, and IAS 33, *Earnings Per Share*. Both standards require the presentation of basic and diluted EPS on the face of the income statement, both use the treasury stock method for determining the effects of stock options and warrants in the diluted EPS calculation, and both use the if-converted method for determining the effects of convertible debt on the diluted EPS calculation. Although both US GAAP and IFRS use similar methods of calculating EPS, there are a few detailed application differences.

Significant differences

	US GAAP	IFRS
Contracts that may be settled in shares or cash at the issuer's option	Such contracts are presumed to be settled in shares unless evidence is provided to the contrary (i.e., the issuer's past practice or stated policy is to settle in cash).	Such contracts are *always* assumed to be settled in shares.
Computation of year-to-date and annual diluted EPS for options and warrants (using the treasury stock method) and for contingently issuable shares	For year-to-date and annual computations when each period is profitable, the number of incremental shares added to the denominator is the weighted average of the incremental shares that were added to the denominator in each of the quarterly computations.	Regardless of whether the period is profitable, the number of incremental shares is computed as if the entire year-to-date period were "the period" (that is, do not average the current quarter with each of the prior quarters).
Treasury stock method	Before the adoption of ASU 2016-09, assumed proceeds under the treasury stock method include the income tax effects, if any, on additional paid-in capital at exercise. After the adoption of ASU 2016-09, assumed proceeds under the treasury stock method exclude the income tax effects of share-based payment awards because they are no longer recognized in additional paid-in capital.	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 March 2016, the FASB issued ASU 2016-09, which changes the accounting for the tax effects of share-based payments and will have a consequential effect on the calculation of assumed proceeds for share-based payments after adoption. Specifically, when calculating assumed proceeds in the computation of diluted EPS for share-based payments using the treasury stock method, companies will exclude excess tax benefits because they are no longer recognized in additional paid-in capital. This part of the ASU will be applied prospectively, and early adoption is permitted. IAS 33 does not explicitly require the income tax effects of such awards in the calculation of the treasury stock method.

Segment reporting

Similarities

The requirements for segment reporting under both ASC 280, *Segment Reporting*, and IFRS 8, *Operating Segments*, apply to entities with public reporting requirements and are based on a "management approach" in identifying the reportable segments. The two standards are largely converged, and only limited differences exist.

Significant differences

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

Standard-setting activities

In March 2017, the IASB proposed several changes to IFRS 8, including amendments to (1) clarify and emphasize the criteria that must be met before two operating segments may be aggregated, (2) require companies to disclose the title and role of the person or group that performs the function of the CODM and (3) require companies to provide information in the notes to the financial statements if the segments reported in those financial statements differ from the segments reported elsewhere in the annual report and in accompanying materials. The proposed amendments would result in disclosures under IFRS 8 that are not required by US GAAP.

Subsequent events

Similarities

Despite differences in terminology, the accounting for subsequent events under ASC 855, *Subsequent Events*, and IAS 10, *Events after the Reporting Period*, is largely similar. An event that occurs during the subsequent events period that provides additional evidence about conditions existing at the balance sheet date usually results in an adjustment to the financial statements. If the event occurring after the balance sheet date but before the financial statements are issued relates to conditions that arose after the balance sheet date, the financial statements are not adjusted, but disclosure may be necessary to keep the financial statements from being misleading.

Significant differences

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

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

Standard-setting activities

There is currently no standard-setting activity in this area.

Related parties

Similarities

The reporting objective of both ASC 850, *Related Party Disclosures*, and IAS 24, *Related Party Disclosures*, is to make financial statement users aware of the effect of related party transactions on the financial statements. The definitions of a related party are broadly similar, and both standards require that the nature of the relationship, a description of the transaction and the amounts involved (including outstanding balances) be disclosed for related party transactions. Neither standard contains any measurement or recognition requirements for related party transactions. ASC 850 does not require disclosure of compensation of key management personnel as IAS 24 does, but the financial statement disclosure requirements of IAS 24 are similar to those required by the SEC outside the financial statements.

Significant differences

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

Standard-setting activities

There is currently no standard-setting activity in this area.

IFRS resources

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

www.ey.com/ifrs
EY's global website contains a variety of free resources, including:

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

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

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

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