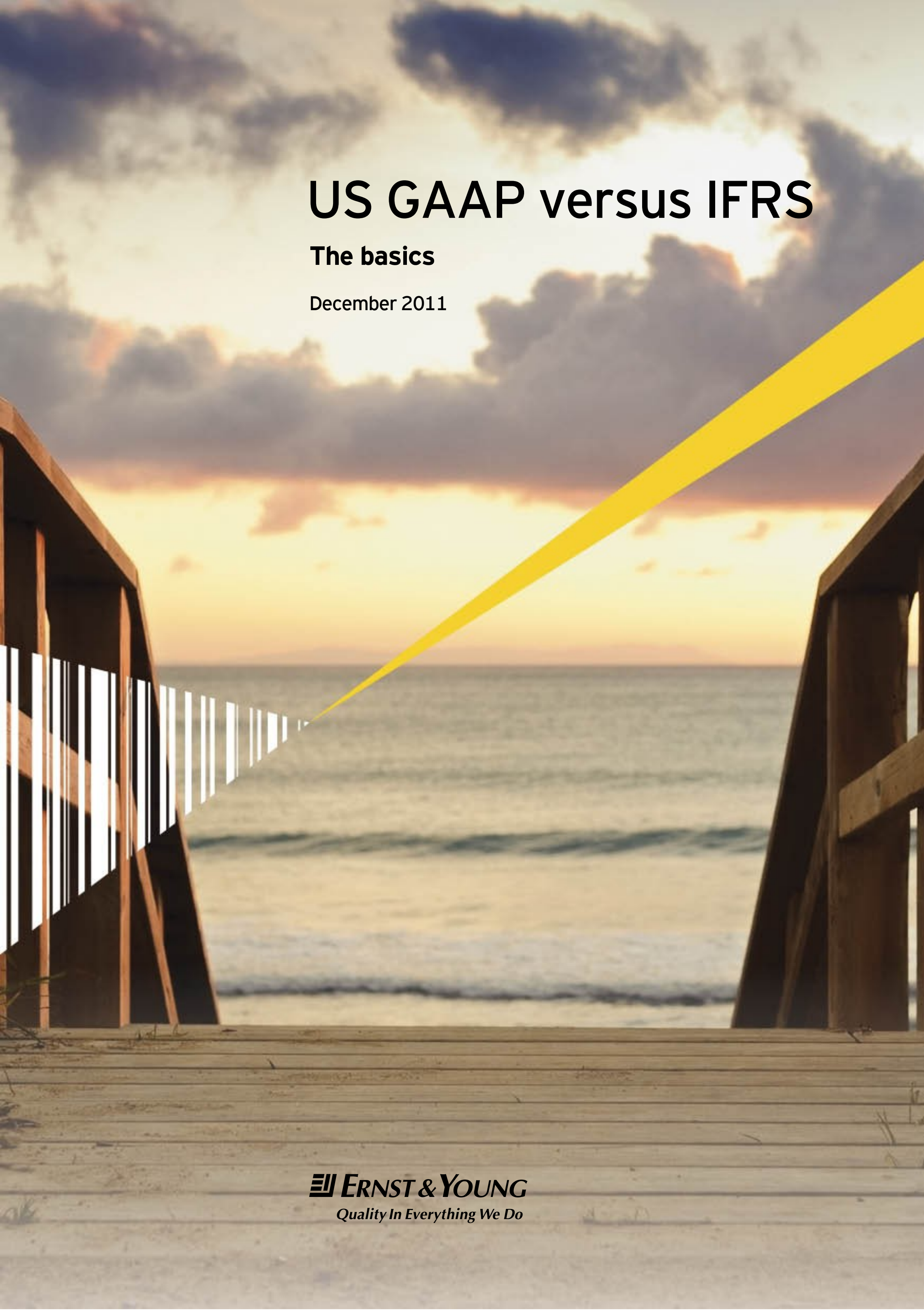

US GAAP versus IFRS

The basics

December 2011

Ernst & Young
Quality In Everything We Do

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Introduction

Convergence continued to be a high priority on the agendas of both the US Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) (collectively, the Boards) in 2011. However, the convergence process is designed to address only the most significant differences and/or areas that the Boards have identified as having the greatest need for improvement. While the converged standards will be more similar, differences will continue to exist between US GAAP as promulgated by the FASB and International Financial Reporting Standards (IFRS) as promulgated by the IASB.

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

Will the differences ever be eliminated?

The FASB and the IASB have made significant strides toward their stated goal of converging US GAAP and IFRS, but they have yet to finalize three of the priority projects they identified in their 2008 Memorandum of Understanding: financial instruments, revenue recognition and leases. The Boards are also working on other major joint projects, including one involving insurance contracts.

However, convergence efforts alone will not eliminate all differences between US GAAP and IFRS. In fact, differences continue to exist in standards for which convergence efforts already have been completed, and for which no additional convergence work is planned.

The US Securities and Exchange Commission (SEC) has for many years been committed to the goal of a single set of high-quality global accounting standards. In this regard, the SEC has strongly supported the efforts of the FASB and the IASB to align their standards, noting that "execution of the convergence projects and the results of that work are important as the staff considers the issue of incorporation of IFRS." The SEC had been expected to decide whether and, if so, how to incorporate IFRS into the US financial reporting system in 2011, but delayed that decision because the Boards' convergence projects were not yet complete and the SEC staff had not yet produced a final report on its work plan to prepare the Commission for a decision. Support nevertheless seems to be growing for an approach that would retain US GAAP but use IFRS as a basis for future standards. That approach would be similar to the one outlined in a May 2011 SEC Staff Paper.

At the December 2011 AICPA conference, SEC Chief Accountant James Kroeker emphasized that the speed of convergence efforts and potential incorporation of IFRS into the US financial reporting system was less important than the quality of standard setting and/or the framework of incorporation. While no decision had been made when we issued this publication, we recommend that stakeholders continue to monitor the SEC's deliberations and, as appropriate, provide feedback to the SEC staff as it prepares its final report and recommendations for the Commission.

We believe that the success of a uniform set of global accounting standards also will depend on the willingness of national regulators and industry groups to cooperate. Local interpretations of IFRS and guidance that provides exceptions to IFRS principles would threaten the achievement of international harmonization. Consistency in interpretation, application and regulation of IFRS is crucial to achieving a single set of high-quality global standards.

Key updates

This publication has been updated for key developments through December 2011. Our analysis generally reflects guidance finalized by the FASB and the IASB before 31 December 2011, even if those standards are effective in subsequent periods. However, we have not included final standards for which the standard setters have delayed effective dates, such as IFRS 9, which is not effective for IFRS reporters until 2015, except in our discussion of convergence.

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

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The Ernst & Young "US GAAP-IFRS Differences Identifier Tool" provides a more in-depth review of differences between US GAAP and IFRS. The Identifier Tool was developed as a resource for companies that are beginning to analyze the numerous accounting decisions and changes inherent in a conversion to IFRS. Conversion is of course more than just an accounting exercise, and identifying accounting differences is only the first step in the process. Successfully converting to IFRS also entails ongoing project management, systems and process change analysis, tax considerations and a review of all company agreements that are based on financial data and measures. Ernst & Young's assurance, tax and advisory professionals are available to share their experiences and to assist companies in analyzing all aspects of the conversion process, from the earliest diagnostic stages through ultimate adoption of the international standards.

To learn more about the Identifier Tool, please contact your local Ernst & Young 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 frameworks, the components of a complete set of financial statements include: balance sheet, income statement, other comprehensive income, cash flows and notes to the financial statements. Both US GAAP and IFRS also 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. Both sets of standards 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 financial statements.
Layout of balance sheet and income statement	No general requirement within US GAAP to prepare the balance sheet and income statement in accordance with a specific layout; however, public companies must follow the detailed requirements in Regulation S-X.	IAS 1, *Presentation of Financial Statements*, does not prescribe a standard layout, but includes a list of minimum items. These minimum items are less prescriptive than the requirements in Regulation S-X.
Presentation of debt as current versus non-current in the balance sheet	Debt for which there has been a covenant violation may be presented as non-current if a lender agreement to waive the right to demand repayment for more than one year exists prior to the issuance of the financial statements.	Debt associated with a covenant violation must be presented as current unless the lender agreement was reached prior to the balance sheet date.
Classification of deferred tax assets and liabilities in balance sheet	Current or non-current classification, based on the nature of the related asset or liability, is required.	All amounts classified as non-current in the balance sheet.
Income statement — classification of expenses	SEC registrants are required to present expenses based on function (e.g., cost of sales, administrative).	Entities may present expenses based on either function or nature (e.g., salaries, depreciation). However, if function is selected, certain disclosures about the nature of expenses must be included in the notes.

	US GAAP	IFRS
Income statement — extraordinary items	Restricted to items that are both unusual and infrequent.	Prohibited.
Income statement — discontinued operations presentation	Discontinued operations classification is for components held for sale or disposed of, provided that there will not be significant continuing cash flows or involvement with the disposed component.	Discontinued operations classification is for components held for sale or disposed of that are either a separate major line of business or geographical area or a subsidiary acquired exclusively with an intention to resell.
Disclosure of 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, as the presentation is based on what is relevant to an understanding of the entity's financial performance.
Third balance sheet	Not required.	A third balance sheet (and related notes) are required as of the beginning of the earliest comparative period presented when an entity restates its financial statements or retrospectively applies a new accounting policy.

Convergence

The Boards' joint project on financial statement presentation may ultimately result in significant changes to the format of the financial statements under both US GAAP and IFRS, but further action is not expected in the near term. The Boards have delayed this project so they can focus on priority convergence projects. Before putting the project on hold, the Boards issued a staff draft of the proposed standards and engaged in a targeted outreach program.

The Boards have also delayed work on their efforts to converge presentation of discontinued operations. In September 2008, they issued proposed amendments to ASC 205-20, *Presentation of Financial Statements — Discontinued Operations,* and IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*. In redeliberations, the Boards tentatively decided that the definition of discontinued operations would be consistent with the current definition in IFRS 5 and that certain requirements in existing US GAAP for discontinued operations classification (i.e., elimination of cash flows of the component and prohibition of significant continuing involvement) would be eliminated, although disclosure of those and additional items would be required. The FASB plans to re-expose the proposal before issuing a final standard. The IASB will discuss whether re-exposure is necessary. This project has been assessed as lower priority, and further action is not expected in the near term.

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. 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. Income taxes are accounted for based on an annual effective tax rate (similar to US GAAP).

Convergence

As part of the joint financial statement presentation project, the FASB will address presentation and display of interim financial information in US GAAP and the IASB may reconsider the requirements of IAS 34. This phase of the project has not started.

Consolidation, joint venture accounting and equity method investees

Similarities

The principal guidance for consolidation of financial statements, including variable interest entities (VIEs), under US GAAP is ASC 810, *Consolidation*. IAS 27 (as revised), *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation — Special Purpose Entities*, contain 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 differences exist in the definition of control. Generally, all entities subject to the control of the reporting entity must be consolidated (although there are limited exceptions in US GAAP in certain industries). Further, uniform accounting policies are used for all of the entities within a consolidated group, with certain exceptions under US GAAP (e.g., a subsidiary within a specialized industry may retain the specialized accounting policies in consolidation). Under both sets of standards, the consolidated financial statements of the parent and its subsidiaries may be based on different reporting dates as long as the difference is not greater than three months. However, under IFRS, a subsidiary's financial statements should be as of the same date as the financial statements of the parent unless it is impracticable to do so.

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*) if the investee is not consolidated. Further, the equity method of accounting for such investments, if applicable, generally is consistent under both US GAAP and IFRS.

Significant differences

	US GAAP	IFRS
Consolidation model	Focus is on controlling financial interests. All entities are first evaluated as potential VIEs. If a VIE, the applicable guidance in ASC 810 is followed (below). Entities controlled by voting rights are consolidated as subsidiaries, but potential voting rights are not included in this consideration.	Focus is on the power to control, with control defined as the parent's ability to govern the financial and operating policies of an entity to obtain benefits. Control is presumed to exist if the parent owns more than 50% of the votes, and potential voting rights must be considered. Notion of "de facto control" must also be considered.

	US GAAP	IFRS
Special purpose entities (SPE) / VIEs	The guidance in ASC 810 requires the primary beneficiary (determined based on the consideration of power and benefits) to consolidate the VIE. For certain specified VIEs, the primary beneficiary is determined quantitatively based on a majority of the exposure to variability.	Under SIC-12, SPEs (entities created to accomplish a narrow and well-defined objective) are consolidated when the substance of the relationship indicates that an entity controls the SPE.
Preparation of consolidated financial statements — general	Required, although certain industry-specific exceptions exist (e.g., investment companies).	Generally required, but there is a limited exemption from preparing consolidated financial statements for a parent company that is itself a wholly owned subsidiary, or is a partially owned subsidiary, if certain conditions are met.
Preparation of consolidated financial statements — different reporting dates of parent and subsidiary(ies)	The effects of significant events occurring between the reporting dates when different dates are used are disclosed in the financial statements.	The effects of significant events occurring between the reporting dates when different dates are used are adjusted for in the financial statements.
Changes in ownership interest in a subsidiary without loss of control	In either of the following situations, transactions that result in decreases in ownership interest in a subsidiary without a loss of control are accounted for as equity transactions in the consolidated entity (that is, no gain or loss is recognized): (1) subsidiary is a business or nonprofit activity (with two exceptions: (a) a sale of in substance real estate and (b) a conveyance of oil and gas mineral rights); (2) 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 under IAS 27(R), even those that are not businesses or nonprofit activities, those that involve sales of in substance real estate or conveyance of oil and gas mineral rights. In addition, IAS 27(R) does not address whether that guidance should be applied to transactions involving non-subsidiaries that are businesses or nonprofit activities.

Consolidation, joint venture accounting and equity method investees

	US GAAP	IFRS
Loss of control of a subsidiary	For certain transactions that result in a loss of control of a subsidiary or a group of assets, any retained noncontrolling investment in the former subsidiary or group of assets is re-measured 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. This accounting is limited to the following transactions: (1) loss of control of a subsidiary that is a business or nonprofit activity or a group of assets that is a business or nonprofit activity (with two exceptions: (a) a sale of in substance real estate, (b) a conveyance of oil and gas mineral rights); (2) loss of control of a subsidiary that is not a business or nonprofit activity if the substance of the transaction is not addressed directly by other ASC Topics.	Consistent with US GAAP, except that this guidance applies to all subsidiaries under IAS 27(R), even those that are not businesses or nonprofit activities or those that involve sales of in substance real estate or conveyance of oil and gas mineral rights. In addition, IAS 27(R) does not address whether that guidance should be applied to transactions involving non-subsidiaries that are businesses or nonprofit activities. IAS 27(R) also does not address the derecognition of assets outside the loss of control of a subsidiary.
Equity method investments	Potential voting rights are generally not considered in the determination of significant influence. ASC 825-10, *Financial Instruments*, gives entities the option to account for equity method investments at fair value. If management does not elect to use the fair value option, the equity method of accounting is required.	In determining significant influence, potential voting rights are considered if currently exercisable. The fair value option is not available to investors to account for their investments in associates. IAS 28 generally requires investors (other than venture capital organizations, mutual funds, unit trusts, and similar entities) to use the equity method of accounting for their investments in associates in consolidated financial statements. If separate financial statements are presented (i.e., by a parent or investor), subsidiaries and associates can be accounted for at either cost or fair value.
	Uniform accounting policies between investor and investee are not required.	Uniform accounting policies between investor and investee are required.

	US GAAP	IFRS
Joint ventures	Generally accounted for using the equity method of accounting, with the limited exception of unincorporated entities operating in certain industries, which may follow proportionate consolidation.	IAS 31, *Interests in Joint Ventures*, permits either the proportionate consolidation method or the equity method of accounting.

Convergence

In May 2011, the IASB issued IFRS 10, *Consolidated Financial Statements*, which replaces IAS 27(R) and SIC-12 and provides a single control model. The FASB chose not to pursue a single consolidation model at this time and instead is making targeted revisions to the consolidation models within US GAAP. Similar to IFRS 10, the FASB proposed amendments to the consideration of kick-out rights and principal versus agent relationships. However, certain differences between consolidation guidance under IFRS and US GAAP (e.g., effective control, potential voting rights) will continue to exist. IFRS 10 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The FASB's exposure draft was issued on 3 November 2011 and comments were due on 15 February 2012.

In May 2011, the IASB also issued IFRS 11, *Joint Arrangements*, which replaces IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities — Non-monetary Contributions by Venturers*. IFRS 11 eliminates proportionate consolidation of jointly controlled entities and requires jointly controlled entities classified as joint ventures to be accounted for using the equity method. This change is expected to bring IFRS more in line with US GAAP. Jointly controlled assets and jointly controlled operations under IAS 31 are generally expected to be considered joint operations under IFRS 11 so that the accounting for those arrangements generally will be consistent with IAS 31. That is, those entities will continue to recognize their assets, liabilities, revenues and expenses, and relative shares thereof. IFRS 11 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

Note that this publication does not address the differences between US GAAP and IFRS resulting from IFRS 10 and 11 because of the delayed effective dates.

The FASB is addressing the accounting for equity method investments in the redeliberation of its May 2010 Exposure Draft, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*.

The FASB and the IASB have issued proposals to establish consistent criteria for determining whether an entity is an investment company (the IASB uses the term "investment entity"). While the Boards' proposals would largely converge the definitions of an investment company in US GAAP and IFRS, differences in accounting and reporting would remain.

Business combinations

Similarities

The principal guidance for business combinations in US GAAP (ASC 805, *Business Combinations*) and IFRS (IFRS 3(R), *Business Combinations*) represents the culmination of the first major convergence project between the IASB and the FASB. Pursuant to ASC 805 and IFRS 3(R), all business combinations are accounted for using the acquisition method. Upon obtaining control of another entity, the underlying transaction is measured at fair value, establishing the basis on which the assets, liabilities and noncontrolling interests of the acquired entity are measured. As described below, IFRS 3(R) provides an alternative to measuring noncontrolling interest at fair value with limited exceptions. Although the new standards are substantially converged, certain differences still exist.

Significant differences

	US GAAP	IFRS
Measurement of noncontrolling interest	Noncontrolling interest is measured at fair value, including the noncontrolling interest's share of goodwill.	Noncontrolling interest is measured either at fair value including goodwill, or at its proportionate share of the fair value of the acquiree's identifiable net assets, exclusive of goodwill.
Acquiree's operating leases	If the terms of an acquiree operating lease are favorable or unfavorable relative to market terms, the acquirer recognizes an intangible asset or liability, respectively, regardless of whether the acquiree is the lessor or the lessee.	Separate recognition of an intangible asset or liability is required only if the acquiree is a lessee. If the acquiree is the lessor, the terms of the lease are taken into account in estimating the fair value of the asset subject to the lease. Separate recognition of an intangible asset or liability is not required.
Assets and liabilities arising from contingencies	*Initial Recognition* Assets and liabilities arising from contingencies are recognized at fair value (in accordance with ASC 820, *Fair Value Measurement)* 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).	*Initial Recognition* Liabilities arising from contingencies are recognized as of the acquisition date if there is a present obligation that arises from past events and the fair value can be measured reliably. Contingent assets are not recognized.

	US GAAP	IFRS
	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 (i) the amount that would be recognized in accordance with IAS 37, or (ii) the amount initially recognized less, if appropriate, cumulative amortization recognized in accordance with IAS 18.
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).	Outside the scope of IFRS 3(R). In practice, either follow an approach similar to US GAAP or apply the acquisition method if there is substance to the transaction (policy election).

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, definition of fair value, replacement of share-based payment awards, initial classification and subsequent measurement of contingent consideration, initial recognition and measurement of income taxes, initial recognition and measurement of employee benefits).

Convergence

No further convergence is planned at this time.

Inventory

Similarities

ASC 330, *Inventory*, and IAS 2, *Inventories*, are based on the principle that the primary basis of accounting for inventory is cost. Both define inventory as assets held for sale in the ordinary course of business, in the process of production for such sale or to be consumed in the production of goods or services. Permissible techniques for cost measurement, such as retail inventory method, are similar under both US GAAP and IFRS. Further, under both sets of standards, the cost of inventory includes all direct expenditures to ready inventory for sale, including allocable overhead, while selling costs are excluded from the cost of inventories, as are most storage costs and general administrative costs.

Significant differences

	US GAAP	IFRS
Costing methods	LIFO is an acceptable method. Consistent cost formula for all inventories similar in nature is not explicitly required.	LIFO is prohibited. Same cost formula must be applied to all inventories similar in nature or use to the entity.
Measurement	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 and sale) and not less than net realizable value reduced by a normal sales margin.	Inventory is carried at the lower of cost or net realizable value. Net realizable value is defined as the best estimate of the net amount inventories are expected to realize.
Reversal of inventory write-downs	Any write-down of inventory to the lower of cost or market creates a new cost basis that subsequently cannot be reversed.	Previously recognized impairment losses are reversed up to the amount of the original impairment loss when the reasons for the impairment no longer exist.
Permanent inventory markdowns under the retail inventory method (RIM)	Permanent markdowns do not affect the gross margins used in applying the RIM. Rather, such markdowns reduce the carrying cost of inventory to net realizable value, less an allowance for an approximately normal profit margin, which may be less than both original cost and net realizable value.	Permanent markdowns affect the average gross margin used in applying the RIM. Reduction of the carrying cost of inventory to below the lower of cost or net realizable value is not allowed.

Convergence

No further convergence is planned at this time.

Long-lived assets

Similarities

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

Cost

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

Capitalized interest

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

Depreciation

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

Assets held for sale

Assets held for sale criteria are similar in the *Impairment or Disposal of Long-Lived Assets* subsections of ASC 360-10, *Property, Plant and Equipment*, and 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 not permitted.	Revaluation is a permitted accounting policy election for an entire class of assets, requiring revaluation to fair value on a regular basis.
Depreciation of asset components	Component depreciation permitted but not common.	Component depreciation required if components of an asset have differing patterns of benefit.
Measurement of borrowing costs	Eligible borrowing costs do not include exchange rate differences. Interest earned on the investment of borrowed funds generally cannot offset interest costs incurred during the period. For borrowings associated with a specific qualifying asset, borrowing costs equal to the weighted-average accumulated expenditures times the borrowing rate are capitalized.	Eligible borrowing costs include exchange rate differences from foreign currency borrowings. Borrowing costs are offset by investment income earned on those borrowings. For borrowings associated with a specific qualifying asset, actual borrowing costs are capitalized.
Costs of a major overhaul	Multiple accounting models have evolved in practice, including: expense costs as incurred, capitalize costs and amortize through the date of the next overhaul, or follow the IFRS approach.	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.
Investment property	Investment property is not separately defined and, therefore, is accounted for as held for use or held for sale.	Investment property is separately defined in IAS 40, *Investment Property*, as an asset held to earn rent or for capital appreciation (or both) and may include property held by lessees under a finance or operating lease. Investment property may be accounted for on a historical cost basis or on a fair value basis as an accounting policy election. Capitalized operating leases classified as investment property must be accounted for using the fair value model.

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

Convergence

The FASB issued a proposal that would require an entity that meets certain criteria to measure its investment properties at fair value.

Intangible assets

Similarities

Both US GAAP (ASC 805, *Business Combinations*, and ASC 350, *Intangibles — Goodwill and Other*) and IFRS (IFRS 3(R), *Business Combinations*, and IAS 38, *Intangible Assets*) define intangible assets as nonmonetary assets without physical substance. The recognition criteria for both accounting models require that there be probable future economic benefits and 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 in accordance with ASC 805 and IFRS 3(R). With the exception of development costs (addressed below), internally developed intangibles are not recognized as assets under either ASC 350 or IAS 38. 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 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.

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). Direct response advertising may be capitalized if the specific criteria in ASC 340-20, *Other Assets and Deferred Costs — Capitalized Advertising Costs*, are met.	Advertising and promotional costs are expensed as incurred. A prepayment may be recognized as an asset only when payment for the goods or services is made in advance of the entity having access to the goods or receiving the services.

Intangible assets

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

Convergence

No further convergence is planned at this time.

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 lives to be reviewed at least annually for impairment and more frequently if impairment indicators are present. In addition, both US GAAP and IFRS require that the impaired asset be written down and an impairment loss recognized. ASC 350, *Intangibles — Goodwill and Other*, and the *Impairment or Disposal of Long-Lived Assets* subsections of ASC 360-10, *Property, Plant and Equipment*, and IAS 36, *Impairment of Assets*, apply to most long-lived and intangible assets, although some of the scope exceptions listed in the standards differ. Despite the similarity in overall objectives, differences exist in the way in which impairment is reviewed, recognized and measured.

Significant differences

	US GAAP	IFRS
Method of determining impairment — long-lived assets	Two-step approach requires that a recoverability test be performed first (carrying amount of the asset is compared with the sum of future undiscounted cash flows generated through use and eventual disposition). If it is determined that the asset is not recoverable, impairment testing must be performed.	One-step approach requires that impairment testing be performed if impairment indicators exist.
Impairment loss calculation — long-lived assets	The amount by which the carrying amount of the asset exceeds its fair value, as calculated in accordance with ASC 820.	The amount by which the carrying amount of the asset exceeds its recoverable amount; recoverable amount is the higher of: (1) fair value less costs to sell and (2) value in use (the present value of future cash flows in use, including disposal value).
Allocation of goodwill	Goodwill is allocated 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 as defined in IFRS 8, *Operating Segments*.

	US GAAP	IFRS
Method of determining impairment — goodwill	Companies have the option to qualitatively assess whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If so, a two-step approach requires a recoverability test to be performed first at the reporting unit level (carrying amount of the reporting unit is compared with the reporting unit fair value). If the carrying amount of the reporting unit exceeds its fair value, then impairment testing must be performed.	One-step approach requires that an impairment test be done at the CGU level by comparing the CGU's carrying amount, including goodwill, with its recoverable amount.
Impairment loss calculation — goodwill	The amount by which the carrying amount of goodwill exceeds the implied fair value of the goodwill within its reporting unit.	Impairment loss on the CGU (amount by which the CGU's carrying amount, including goodwill, exceeds its recoverable amount) is allocated first to reduce goodwill to zero, then, subject to certain limitations, the carrying amount of other assets in the CGU are reduced pro ratably, based on the carrying amount of each asset.
Impairment loss calculation — indefinite-lived intangible assets	The amount by which the carrying value of the asset exceeds its fair value.	The amount by which the carrying value of the asset exceeds its recoverable amount.
Reversal of loss	Prohibited for all assets to be held and used.	Prohibited for goodwill. Other long-lived assets must be reviewed annually for reversal indicators. If appropriate, loss may be reversed up to the newly estimated recoverable amount, not to exceed the initial carrying amount adjusted for depreciation.

Convergence

No further convergence is planned at this time.

The FASB has a project to simplify how an entity tests indefinite-lived intangible assets (other than goodwill) for impairment.

Financial instruments

Similarities

The US GAAP guidance for financial instruments is located in numerous ASC Topics, including ASC 310-10-35, *Receivables — Overall — Subsequent Measurement*; ASC 320, *Investments — Debt and Equity Securities*; ASC 470, *Debt*; ASC 480, *Distinguishing Liabilities from Equity*; ASC 815, *Derivatives and Hedging*; ASC 820, *Fair Value Measurement*; ASC 825-10-25, *Financial Instruments — Overall — Recognition*; ASC 825-10-50, *Financial Instruments — Overall — Disclosures*; ASC 860, *Transfers and Servicing*; and ASC 948, *Financial Services — Mortgage Banking*.

IFRS guidance for financial instruments, on the other hand, is limited to IAS 32, *Financial Instruments: Presentation*; IAS 39, *Financial Instruments: Recognition and Measurement;* IFRS 7, *Financial Instruments: Disclosures;* and, if early adopted, IFRS 9, *Financial Instruments*.

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

Significant differences

	US GAAP	IFRS
Debt vs. equity		
Classification	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 focuses 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, a company'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, a company's own stock are classified as equity if settled 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 conditions are met, but they may be bifurcated into debt and derivative components, with the derivative component subject to fair value accounting.	Compound (hybrid) financial instruments are required to be split into a debt and equity component and, if applicable, a derivative component. The derivative component may be subject to fair value accounting.
Recognition and measurement		
Impairment recognition — available-for-sale (AFS) debt instruments	Declines in fair value below cost may result in an impairment loss being recognized in the income statement on an AFS debt instrument due solely to a change in interest rates (risk-free or otherwise) if the entity has the intent to sell the debt instrument or it is more likely than not that it will be required to sell the debt instrument before its anticipated recovery. In this circumstance, the impairment loss is measured as the difference between the debt instrument's amortized cost basis and its fair value. When a credit loss exists, but (1) the entity does not intend to sell the debt instrument, or (2) it is not more likely than not that the entity will be required to sell the debt instrument before the recovery of the remaining cost basis, the impairment is separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total impairment related to the credit loss is recognized in the income statement and the amount related to all other factors is recognized in other comprehensive income, net of applicable taxes.	Generally, only evidence of credit default results in an impairment being recognized in the income statement for an AFS debt instrument. The impairment loss is measured as the difference between the debt instrument's amortized cost basis and its fair value.

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

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

	US GAAP	IFRS
Derecognition		
Derecognition of financial assets	Derecognition of financial assets (i.e., sales treatment) occurs when effective control over the financial asset has been surrendered: ▸ The transferred financial assets are legally isolated from the transferor ▸ Each transferee (or, if the transferee is a securitization entity or an entity whose sole purpose is to facilitate an asset-backed financing, each holder of its beneficial interests), has the right to pledge or exchange the transferred financial assets (or beneficial interests) ▸ The transferor does not maintain effective control over the transferred financial assets or beneficial interests (e.g., through a call option or repurchase agreement) The derecognition criteria may be applied to a portion of a financial asset only if it mirrors the characteristics of the original entire financial asset.	Derecognition of financial assets is based on a mixed model that considers both transfer of risks and rewards and control. Transfer of control is considered only when the transfer of risks and rewards assessment is not conclusive. If the transferor has neither retained nor transferred substantially all of the risks and rewards, there is then an evaluation of the transfer of control. Control is considered to be surrendered if the transferee has the practical ability to unilaterally sell the transferred asset to a third party without restrictions. There is no legal isolation test. The derecognition provisions 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 specifically identified cash flows.
Loans and receivables		
Measurement — effective interest method	Requires catch-up approach, retrospective method or prospective method of calculating the interest for amortized cost-based assets, depending on the type of instrument.	Requires the original effective interest rate to be used throughout the life of the instrument for all financial assets and liabilities, except for certain reclassified financial assets, in which case the effect of increases in cash flows are recognized as prospective adjustments to the effective interest rate.
Measurement — loans and receivables	Unless the fair value option is elected, loans and receivables are classified as either (1) held for investment, which are measured at amortized cost, or (2) held for sale, which are measured at the lower of cost or fair value.	Loans and receivables are carried at amortized cost unless classified into the “fair value through profit or loss” category or the “available for sale” category, both of which are carried at fair value on the balance sheet.

	US GAAP	IFRS
Fair value		
Measurement	One measurement model whenever fair value is used (with limited exceptions). Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is an exit price, which may differ from the transaction (entry) price.	Various IFRS standards use slightly varying wording to define fair value. Under IAS 39, fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. At inception, transaction (entry) price generally is considered fair value.
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. For example, a day one gain or loss may occur when the transaction occurs in a market that differs from the reporting entity's exit market.	Day one gains and losses are recognized only when all inputs to the measurement model are observable.
Bid-ask spread	The price within the bid-ask spread that is the most representative of fair value in the circumstances is used to measure fair value. However, entities are not precluded from using mid-market pricing as a practical expedient for measuring fair value.	The fair value of assets held (or liabilities to be issued) is generally determined using the current bid price, while liabilities held (or assets to be acquired) are measured using the current ask price. When an entity has assets and liabilities with offsetting market risks, it may use mid-market prices to determine the fair value of the offsetting positions, and apply the bid or ask price (as appropriate) to the net open position.

Other differences include: (i) application of fair value measurement principles, including use of prices obtained in "principal" versus "most advantageous" markets and estimating the fair value of certain alternative investments (e.g., investments in private equity funds) using net asset value of the investment as a practical expedient, (ii) definitions of a derivative and embedded derivative, (iii) cash flow hedge — basis adjustment and effectiveness testing, (iv) normal purchase and sale exception, (v) foreign exchange gain and/or losses on AFS investments, (vi) recognition of basis adjustments when hedging future transactions, (vii) macro hedging, (viii) hedging net investments, (ix) cash flow hedge of intercompany transactions, (x) hedging with internal derivatives, (xi) impairment criteria for equity investments, (xii) puttable minority interest, (xiii) netting and offsetting arrangements, (xiv) unit of account eligible for derecognition and (xv) accounting for servicing assets and liabilities.

Convergence

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

Recognition and measurement

The Boards' joint project on accounting for financial instruments is addressing classification and measurement, impairment and hedge accounting. The IASB finalized its classification and measurement guidance in IFRS 9, *Financial Instruments,* which is not effective until annual periods beginning on or after 1 January 2015, although early application is permitted. This publication does not address the differences between US GAAP and IFRS resulting from IFRS 9 because of the delayed effective date. The IASB issued separate exposure drafts on impairment and hedge accounting. In May 2010, the FASB issued an exposure draft that addresses classification and measurement, impairment and hedge accounting.

The FASB is redeliberating its classification and measurement guidance. The Boards are jointly developing an impairment model. The FASB issued a Discussion Paper (DP) requesting views from US constituents on the IASB's exposure draft on hedging. The IASB is close to finalizing its new hedging model.

Derecognition

In June 2010, the Boards reconsidered their strategies and plans for converging the requirements for derecognition, and agreed that their near-term priority would be on increasing the comparability of US GAAP and IFRS disclosure requirements for financial asset transfers. This was accomplished in October 2010 through the issuance of Amendments to IFRS 7, *Financial Instruments: Disclosures*, which are effective for annual periods beginning on or after 1 July 2011. The amendments broadly align the derecognition disclosure requirements, in particular for transfers of financial assets involving securitizations.

Fair value

In May 2011, the FASB and the IASB each issued new standards to promote the convergence of fair value measurement guidance. Consistent with US GAAP, IFRS 13, *Fair Value Measurement,* establishes a single source of guidance for all fair value measurements that are required or permitted by other IFRS. ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs,* clarifies and amends how certain existing principles in ASC 820 should be applied. Once effective, these standards will provide a uniform framework for applying fair value measurement principles for companies around the world.

IFRS 13 becomes effective for annual periods beginning on or after 1 January 2013. ASU 2011-04 is effective in the first quarter of 2012 for calendar year-end public companies and in annual periods beginning after 15 December 2011 for nonpublic companies. Limited differences between US GAAP and IFRS will continue to exist even after the adoption of IFRS 13. Note that the table above does not reflect adoption of IFRS 13 due to its delayed effective date.

Offsetting

In December 2011, the Boards issued guidance requiring new disclosures to help users of financial statements understand certain significant quantitative differences in balance sheets prepared under US GAAP and IFRS related to the offsetting of financial instruments. The IASB also amended the application guidance in IAS 32 to address inconsistencies in application.

Debt versus equity
The Boards' joint project to address financial instruments with characteristics of equity has been delayed due to resource constraints. No further action is expected in the near term.

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

Significant differences

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

	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.

Convergence

No further convergence is planned at this time.

In December 2011, the FASB proposed an EITF consensus that would require a parent that sells or transfers a group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a consolidated foreign entity to recognize a portion of the cumulative translation adjustment associated with the disposed group of assets in earnings.

Leases

Similarities

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

Lessee accounting (excluding real estate)

Both US GAAP and IFRS require the party that bears substantially all the risks and rewards of ownership of the leased property to recognize a lease asset and corresponding obligation, and provide criteria (ASC 840) or indicators (IAS 17) to determine whether a lease is capital or operating. The criteria or indicators of a capital lease are similar in that both standards include the transfer of ownership to the lessee at the end of the lease term and a purchase option that, at inception, is reasonably expected to be exercised. ASC 840 requires capital lease treatment if the lease term is equal to or greater than 75% of the asset's economic life, while IAS 17 requires such treatment when the lease term is a "major part" of the asset's economic life. ASC 840 specifies capital lease treatment if the present value of the minimum lease payments 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 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 expected 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 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. If the fair value of the land at inception represents less than 25% of the total fair value of the lease, the lessee accounts for the land and building components as a single unit for purposes of evaluating the 75% and 90% tests noted above. Otherwise, the lessee must consider the land and building components separately for purposes of evaluating other lease classification criteria. (Note: Only the building is subject to the 75% and 90% tests in this case.)	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. 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	If the seller does not relinquish more than a minor part of the right to use the asset, gain or loss is generally deferred and amortized over the lease term. If the seller relinquishes more than a minor part of the use of the asset, then part or all of a gain may be recognized depending on the amount relinquished. (Note: Does not apply if real estate is involved, as the specialized rules are very restrictive with respect to the seller's continuing involvement, and they may not allow for recognition of the sale.)	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	Generally, same as above for operating leaseback in which the seller does not relinquish more than a minor part of the right to use the asset.	Gain or loss deferred and amortized over the lease term.

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

Convergence

As part of their convergence efforts, the Boards are redeliberating their joint exposure draft on lease accounting that would create a common standard for lease accounting and require that assets and liabilities arising under most lease contracts be recognized on the balance sheet. The Boards plan to re-expose their proposals due to the significant changes made to the model during redeliberations.

Income taxes

Similarities

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

Significant differences

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

Income taxes

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

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

Convergence

While the Boards have abandoned plans for a joint convergence project, the IASB may consider a fundamental review of the accounting for income taxes as part of its agenda consultation process during 2012.

Provisions and contingencies

Similarities

While the sources of guidance under US GAAP and IFRS differ significantly, the general recognition criteria for provisions are similar. IAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* provides the overall guidance for recognition and measurement criteria of provisions and contingencies. While there is no equivalent single standard under US GAAP, ASC 450, *Contingencies,* and a number of other standards deal with specific types of provisions and contingencies (e.g., ASC 410, *Asset Retirement and Environmental Obligations*; ASC 420, *Exit or Disposal Cost Obligations*). In addition, although nonauthoritative, 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 (in which probable is interpreted as "likely") and IFRS (in which probable is interpreted as "more likely than not"). 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
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 that reflects 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	Most likely outcome within range should be accrued. When no one outcome is more likely than the others, the minimum amount in the range of outcomes should be accrued.	Best estimate of obligation should be accrued. For a large population of items being measured, such as warranty costs, best estimate is typically expected value, although midpoint in the range may also be used when any point in a continuous range is as likely as another. Best estimate for a single obligation may be the most likely outcome, although other possible outcomes should still be considered.
Restructuring costs	Under ASC 420, once management has committed to a detailed exit plan, each type of cost is examined to determine when recognized. Involuntary employee termination costs 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 individual cost components of the plan.
Disclosure of contingent liability	No similar provision to that allowed under IFRS for reduced disclosure requirements.	Reduced disclosure permitted if it would be severely prejudicial to an entity's position in a dispute with other parties.

Convergence

The IASB proposed amendments to IAS 37 in 2005 and then proposed amendments to IAS 37's measurement provisions in January 2010. The IASB is reviewing the project as part of its agenda consultation process in 2012.

In July 2010, the FASB proposed amendments to the disclosure requirements of ASC 450. Certain of the proposed changes are consistent with current disclosures under IAS 37 (e.g., tabular reconciliation of accrued loss contingencies), while other proposed changes may result in further differences (e.g., disclosure of certain remote loss contingencies). The FASB planned to begin redeliberations after reviewing filings for the 2010 calendar year-end reporting cycle to determine whether efforts to increase focus on compliance with existing rules have resulted in improved disclosures about loss contingences. The FASB has not had any formal discussions about this project since November 2010.

Revenue recognition

Similarities

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

Significant differences

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

	US GAAP	IFRS
Sale of goods	Public companies must follow SAB 104, *Revenue Recognition*, which requires that delivery has occurred (the risks and rewards of ownership have been transferred), there is persuasive evidence of the sale, the fee is fixed or determinable and collectibility is reasonably assured.	Revenue is recognized only when risks and rewards of ownership have been transferred, the buyer has control of the goods, revenues can be measured reliably and it is probable that the economic benefits will flow to the company.

	US GAAP	IFRS
Rendering of services	Certain types of service revenue, primarily relating to services sold with software, have been addressed separately in US GAAP literature. All other service revenue should follow SAB Topic 13. Application of long-term contract accounting (ASC 605-35, *Revenue Recognition — Construction-Type and Production-Type Contracts*) generally is not permitted for non-construction services.	Revenue may be recognized in accordance with long-term contract accounting, including considering the stage of completion, whenever revenues and costs can be measured reliably and it is probable that economic benefits will flow to the company.
Multiple elements	Specific criteria are required in order for each element to be a separate unit of accounting, including delivered elements must have standalone value. If those criteria are met, revenue for each element of the transaction may be recognized when the element is complete.	IAS 18 requires recognition of revenue related to an element of a transaction if that element has commercial substance on its own; otherwise, the separate elements must be linked and accounted for as a single transaction. IAS 18 does not provide specific criteria for making that determination.
Deferred receipt of receivables	Discounting to present value is required only in limited situations.	Considered to be a financing agreement. Value of revenue to be recognized is determined by discounting all future receipts using an imputed rate of interest.
Construction contracts	Construction contracts are accounted for using the percentage-of-completion method if certain criteria are met. Otherwise, the completed contract method is used. Construction contracts may be, but are not required to be, combined or segmented if certain criteria are met.	Construction contracts are accounted for using the percentage-of-completion method if certain criteria are met. Otherwise, revenue recognition is limited to recoverable costs incurred. The completed contract method is not permitted. Construction contracts are combined or segmented if certain criteria are met. Criteria under IFRS differ from those in US GAAP.

Convergence

The FASB and the IASB are currently conducting a joint project to develop a single revenue recognition standard for all contracts with customers. The Boards re-exposed their proposal in November 2011. The core principle is that an entity would recognize revenue to depict the transfer of goods or services to customers at an amount that reflects the consideration the entity expects to receive in exchange for those goods or services.

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 in accounting for share-based payment arrangements whereby an entity (1) acquires goods or services in exchange for issuing share options or other equity instruments (collectively referred to as "shares" in this guide) or (2) incurs liabilities that are based, at least in part, on the price of its shares or that may require settlement in its shares. Under both US GAAP and IFRS, this guidance applies to transactions with both employees and nonemployees and is applicable to all companies. Both ASC 718 and IFRS 2 define the fair value of the transaction to be 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 the settlement. In addition, the treatment of modifications and settlements of share-based payments is similar in many respects. Finally, both 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
Transactions with nonemployees	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.
	Either the fair value of (1) the goods or services received, or (2) the equity instruments granted is used to value the transaction, whichever is more reliably determinable.	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.

	US GAAP	IFRS
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.	Must recognize compensation cost on an accelerated basis and each individual tranche must be separately measured.
Equity repurchase features at employee's election	Does not require liability classification if employee bears risks and rewards of equity ownership for at least six months from the date the equity is issued or vests.	Liability classification is required (no six-month consideration exists).
Deferred taxes	Calculated based on the cumulative GAAP expense recognized and adjusted upon realization of the tax benefit. If the tax benefit exceeds the deferred tax asset, the excess ("windfall benefit") is credited directly to shareholder equity. A shortfall of the tax benefit below the deferred tax asset is charged to shareholder equity to the extent of prior windfall benefits, and to tax expense thereafter.	Calculated based on the estimated tax deduction determined at each reporting date (e.g., intrinsic value). If the tax deduction exceeds cumulative compensation cost, deferred tax based on the excess is credited to shareholder equity. If the tax deduction is less than or equal to cumulative compensation cost, 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.	Probability of achieving vesting terms before and after modification is not considered. Compensation cost is the grant date fair value of the award, together with any incremental fair value at the modification date.

Convergence

No further convergence is planned at this time.

Employee benefits other than share-based payments

Similarities

ASC 715, *Compensation — Retirement Benefits*, and ASC 712, *Compensation — Nonretirement Post-Employment Benefits*, and IAS 19, *Employee Benefits*, are the principal sources of guidance for employee benefits other than share-based payments under US GAAP and IFRS, respectively. Under both US GAAP and IFRS, the net periodic benefit 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. The defined benefit obligation is the present value of benefits that have accrued to employees through services rendered up to that date, based on actuarial methods of calculation. Both US GAAP and IFRS provide for certain smoothing mechanisms in calculating the periodic benefit cost.

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.
Valuation of defined benefit plan assets (to calculate the expected return on plan assets)	Based on the market-related value (which is either the fair value or a "calculated value" that smoothes the effect of short-term market fluctuations over five years) as of the balance sheet date.	Based on the fair value of plan assets as of the balance sheet date.
Treatment of actuarial gains and losses for net periodic benefit cost	May be recognized in the income statement as they occur or deferred through a corridor approach.	May be recognized in the income statement as they occur or deferred through a corridor approach. However, entities can also elect to recognize gains and losses immediately in other comprehensive income. Gains or losses recognized immediately in other comprehensive income are not subsequently recognized in the income statement.
Amortization of deferred actuarial gains and losses	At minimum, amortize over the average remaining service period of active employees or over the remaining life expectancy of inactive employees (if all or almost all participants are inactive). Any other systematic method of amortization that is applied consistently from period to period may also be used, provided it results in a higher amount than the minimum described above.	Over the average remaining service period (i.e., immediately if participants are inactive). Any other systematic method of amortization that results in faster recognition and is applied consistently from period to period may also be used.

Employee benefits other than share-based payments

	US GAAP	IFRS
Amortization of prior service costs	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.	Over the average remaining vesting period; immediate recognition if already vested.
Recognition of plan asset or liability in the balance sheet	Must recognize on balance sheet the over/under funded status as the difference between the fair value of plan assets and the benefit obligation. The benefit obligation is the projected benefit obligation for pension plans and the accumulated postretirement benefit obligation for any other postretirement plans. No portion of a plan asset can be classified as current; however, the current portion of the net postretirement liability is the amount expected to be paid in the next 12 months.	Must recognize a liability on the balance sheet equal to the present value of the defined benefit obligation plus or minus any actuarial gains and losses not yet recognized, minus unrecognized past service costs, minus the fair value of any plan assets. (Note: If this amount is negative, the resulting asset is subject to a "ceiling test.") Balance sheet classification is not addressed in IAS 19.
Settlements and curtailments	Settlement gain or loss is recognized when the obligation is settled. Curtailment losses are recognized when curtailment is probable of occurring, while curtailment gains are recognized when the curtailment occurs.	Gain or loss from settlement or curtailment is recognized when it occurs.
Multi-employer pension plans	Accounted for similar to a defined contribution plan.	Plan is accounted for as either a defined contribution or defined benefit plan based on the terms (contractual and constructive) of the plan. If a defined benefit plan, must account for the proportionate share of the plan similar to any other defined benefit plan unless sufficient information is not available.

Convergence

The FASB and the IASB agreed to a long-term convergence project to comprehensively challenge the accounting for postretirement benefits. This project is expected to address many of the common concerns with the current accounting model, such as the smoothing and deferral mechanisms. The IASB project was divided into two parts. Part 1 of the project, addressing the recognition and presentation of changes in the defined benefit obligation and in plan assets, disclosures, and other related issues, was completed in June 2011 when the IASB issued amendments to IAS 19, *Employee Benefits*, which are effective 1 January 2013. Current differences between US GAAP and IFRS will be affected by the IASB's amendments to IAS 19. Note that this publication does not address the differences between US GAAP and IFRS resulting from the amendments to IAS 19 because of its delayed effective date.

The second phase of the project, which will focus on improving the measurement of defined benefit plans and contribution-based plans, has not yet begun. The FASB considers the project a lower priority and does not expect further action in the near term.

Earnings per share

Similarities

Entities whose common shares are publicly traded, or that are in the process of issuing such shares in the public markets, must disclose substantially the same earnings per share (EPS) information under ASC 260 and IAS 33 (both titled *Earnings Per Share*). Both standards require the presentation of basic and diluted EPS on the face of the income statement, and both use the treasury stock method for determining the effects of stock options and warrants in 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 intent or stated policy is to settle in cash).	Such contracts are *always* assumed to be settled in shares.
Calculation of year-to-date diluted EPS for options and warrants (using the treasury stock method) and for contingently issuable shares	The number of incremental shares is computed using a year-to-date weighted average of the number of incremental shares included in each quarterly calculation.	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).
Treatment of contingently convertible debt	Potentially issuable shares are included in diluted EPS using the "if-converted" method if one or more contingencies relate to a market price trigger (e.g., the entity's share price), even if the market price trigger is not satisfied at the end of the reporting period.	Potentially issuable shares are considered "contingently issuable" and are included in diluted EPS using the if-converted method only if the contingencies are satisfied at the end of the reporting period.

Convergence

The Boards previously began a short-term convergence project on earnings per share, but now consider the project a lower priority and do not expect further action in the near term.

Segment reporting

Similarities

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

Significant differences

	US GAAP	IFRS
Determination of segments	Entities with a "matrix" form of organization (i.e., business components are managed in more than one way and the chief operating decision maker (CODM) reviews all of the information provided) must determine segments based on products and services.	All entities determine segments based on the management approach, regardless of form of organization.
Disclosure requirements	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.

Convergence

No further convergence is planned at this time. However, the FASB is considering changes to segment disclosures in conjunction with the joint project on financial statement presentation. These changes could result in additional differences.

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 or available to be issued. 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. SEC registrants and conduit-bond obligors evaluate subsequent events through the date the financial statements are issued, while all other entities evaluate subsequent events through the date that the financial statements are available to be issued.	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. Most US entities do not have a similar requirement.

Subsequent events

	US GAAP	IFRS
Reissuance of financial statements	If the financial statements are reissued, events or transactions may have occurred that require disclosure in the reissued financial statements to keep them from being misleading. However, an entity should not recognize events occurring between the time the financial statements were issued or available to be issued and the time the financial statements were reissued unless the adjustment is required by US GAAP or regulatory requirements (e.g., stock splits, discontinued operations, or the effect of adopting a new accounting standard retrospectively would give rise to an adjustment). Entities must disclose both the date that the financial statements were originally issued and the date that they were reissued if the financial statements were revised due to an error correction or retrospective application of US GAAP.	IAS 10 does not specifically address the reissuance of financial statements and recognizes only one date through which subsequent events are evaluated, 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. If financial statements are reissued, the date the reissued statements are authorized for reissuance is disclosed.
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.

Convergence

No further convergence is planned at this time.

Related parties

Similarities

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

Significant differences

	US GAAP	IFRS
Scope	ASC 850 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 provides a partial exemption from the disclosure requirements for transactions between government-related entities as well as with the government itself.

Convergence

No further convergence is planned at this time.

Appendix — The evolution of IFRS

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

Phase I — The early years

- **1973: International Accounting Standards Committee (IASC) formed.** The IASC was founded to formulate and publish International Accounting Standards (IAS) that would improve financial reporting and that could be accepted worldwide. In keeping with the original view that the IASC's function was to prohibit undesirable accounting practices, the original IAS permitted several alternative accounting treatments.
- **1994: IOSCO (International Organization of Securities Commissions) completed its review of IASC standards and communicated its findings to the IASC.** The review identified areas that required improvement before IOSCO would consider recommending IAS for use in cross-border listings and offerings.
- **1994: IASC Advisory Council formed to oversee the IASC and manage its finances.**
- **1995: IASC developed its Core Standards Work Program. IOSCO's Technical Committee agreed that the Work Program would result, upon successful completion, in IAS comprising a comprehensive core set of standards.** The European Commission (EC) supported this agreement between IASC and IOSCO and "associated itself" with the work of the IASC toward international harmonization of accounting standards.
- **1997: Standing Interpretations Committee (SIC) established to interpret IAS.**
- **1999: IASC Board approved a restructuring that resulted in the current International Accounting Standards Board (IASB).** The newly constituted IASB structure comprises: (1) the IASC Foundation, an independent organization with 22 trustees who appoint the IASB members, exercise oversight and raise the funds needed, (2) the IASB (Board), which has 12 full-time, independent board members and two part-time board members with sole responsibility for setting accounting standards, (3) the Standards Advisory Council and (4) the International Financial Reporting Interpretations Committee (IFRIC) (replacing the SIC) and is mandated with interpreting existing IAS and IFRS standards, and providing timely guidance on matters not addressed by current standards.
- **2000: IOSCO recommended that multinational issuers be allowed to use IAS in cross-border offerings and listings.**
- **April 2001: IASB assumed standard-setting responsibility.** The IASB met with representatives from eight national standard-setting bodies to coordinate agendas and discuss convergence, and adopted existing IAS standards and SIC Interpretations.
- **February 2002: IFRIC assumed responsibility for interpretation of IFRS.**

Phase II — 2002 to 2005

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

Phase III — 2006 to present

- **February 2006: FASB and IASB published a Memorandum of Understanding (MOU).** The MOU reaffirmed the Boards' shared objective to develop high quality, common accounting standards, and further elaborated on the Norwalk Agreement. The Boards agreed to proceed along two tracks: (1) a series of short-term projects designed to eliminate major differences in focused areas and (2) the development of new common standards for accounting practices regarded as candidates for improvement.
- **August 2006: CESR/SEC published a joint work plan.** The regulators agreed that they could share issuer-specific matters, following set protocols, and that their regular reviews of issuer filings would be used to identify IFRS and US GAAP areas that raise questions about quality and consistent application.
- **November 2007: SEC eliminated the US GAAP reconciliation for foreign private issuers.**
- **Mid-2007, through 2008: SEC explored the use of IFRS by US companies.** The SEC issued a Concept Release seeking comment on the possible use of IFRS by US domestic registrants. In November 2008 the SEC issued for comment an updated Roadmap that anticipated mandatory reporting under IFRS beginning in 2014, 2015 or 2016, depending on the size of the company.

- **February 2010: SEC reaffirmed its commitment to IFRS.** In February 2010, the SEC voted unanimously to publish a statement reaffirming its commitment to the goal of a single set of high-quality global accounting standards and expressing support for the continued convergence of US GAAP and IFRS. The SEC said that after executing a Work Plan to address certain questions, it would be able to make an informed decision in 2011 about the further incorporation of IFRS into the US financial reporting system.
- **October 2010: SEC issued a Progress Report on its Work Plan.**
- **May 2011: SEC staff published a paper detailing a possible approach for incorporating IFRS into the US financial reporting system.** The SEC staff said the approach could achieve the goal of a single set of high-quality accounting standards and could minimize the cost and effort needed to incorporate IFRS into the US financial reporting system.
- **Spring through fall 2011: Convergence schedule delayed.** The FASB and the IASB extend their timetables for completing their priority convergence projects beyond their target of June 2011. The Boards decided to re-expose proposals on revenue recognition and leases, which will result in additional delays.
- **July 2011: SEC staff sponsored a roundtable to discuss benefits or challenges in potentially incorporating IFRS into the financial reporting system for US issuers.** The participants discussed investors' understanding of IFRS, the impact on smaller public companies and on the benefits and challenges in potentially incorporating IFRS into the financial reporting system for US issuers.
- **November 2011: SEC staff issued two papers as part of its Work Plan: *An Analysis of IFRS in Practice* and *A Comparison of US GAAP and IFRS*.** The SEC staff papers provide additional information for the SEC to review before it makes its decision.
- **Looking ahead:** At the 2011 AICPA conference, SEC Chief Accountant James Kroeker emphasized that the speed of convergence efforts and potential incorporation of IFRS into the US financial reporting system was less important than the quality of standard setting and any framework of incorporation. Mr. Kroeker also said the SEC staff has completed the majority of the "field work" related to the Work Plan but needs "a few additional months" to produce a final report. While the SEC has not yet made a decision, we recommend that stakeholders continue to monitor the SEC's deliberations.

IFRS resources

Ernst & Young 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
Ernst & Young's global website contains a variety of free resources, including:

- *IFRS Outlook* — a bimonthly magazine with articles that address matters such as Ernst & Young's views on activities of the IASB and IFRS Interpretations Committee, the political environment surrounding the current state of standard setting or the broader implications of IFRS.
- *IFRS Developments* — announces significant decisions on technical topics that have a broad audience, application or appeal.
- 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.
- From here you can also link to several country-specific IFRS pages, including Canada and the United States, and locate information about free web-based IFRS training and our Thought center webcast series.

AccountingLink
AccountingLink, at ey.com/us/accountinglink, is a virtual newsstand of US technical accounting guidance and financial reporting thought leadership. It is a fast and easy way to get access to the publications produced by Ernst & Young's US Professional Practice Group as well as the latest guidance proposed by the standard setters. AccountingLink is available free of charge.

Global Accounting & Auditing Information Tool (GAAIT)
GAAIT-Client Edition contains Ernst & Young's comprehensive proprietary technical guidance, as well as all standard setter content. GAAIT-Client Edition is available through a paid subscription.

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

Please contact your local Ernst & Young representative for information about any of these resources.

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