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I. Introduction

In the *Commission Statement in Support of Convergence and Global Accounting Standards*,¹ the U.S. Securities and Exchange Commission (“SEC” or “Commission”) directed the staff of the Office of the Chief Accountant of the SEC, with consultation with other Divisions and Offices of the Commission (collectively, “Staff” or “we”), to develop and execute a work plan (“Work Plan”).² The Work Plan was published in February 2010. The purpose of the Work Plan is to consider specific areas and factors relevant to a Commission determination as to whether, when, and how the current financial reporting system for U.S. issuers should be transitioned to a system incorporating International Financial Reporting Standards (“IFRS”).³

The Work Plan is divided into six areas of focus. The first area involves an assessment of whether there is “sufficient development and application of IFRS for the U.S. domestic reporting system.” This area was designed to respond to Commission statements that, in further considering IFRS, it would need to “consider whether those accounting standards are of high quality and sufficiently comprehensive”⁴ and that “[a] necessary element for a set of global accounting standards ... is that they must be high-quality ...”⁵ The Commission has described high-quality standards as requiring “consistent, comparable, relevant and reliable information that is useful for investors, lenders and creditors, and others who make capital allocation decisions.”⁶

In the Work Plan, the Staff noted that its evaluation of the sufficient development and application of IFRS would include inventorying areas in which IFRS does not provide guidance or where it provides less guidance than U.S. GAAP. The manner in which the Staff intended to perform the inventory was further explained in the Staff’s October 2010 Progress Report⁷ as an analysis of the text of IFRS as issued by the IASB as compared to the text of U.S. GAAP. In this paper, the Staff summarizes the results of its analysis.

¹ See SEC Release No. 33-9109 (Feb. 24, 2010), Commission Statement in Support of Convergence and Global Accounting Standards (“2010 Statement”).

² The Work Plan is included as an appendix to the 2010 Statement.

³ As used in this Staff Paper, the term “IFRS” refers to “IFRS as issued by the International Accounting Standards Board (‘IASB’),” unless otherwise noted. Further, the term “IFRS” refers to the authoritative text of IFRS, which, according to the IFRS Foundation Constitution, is published in English. See “International Financial Reporting Standards (IFRSs) as issued at 1 January 2010, Preface to International Financial Reporting Standards.” The “IASB” is the International Accounting Standards Board. “IFRSs” refers to more than one International Financial Reporting Standard.

⁴ See SEC Release No. 33-8982 (Nov. 14, 2008) [73 FR 70816 (Nov. 21, 2008)], Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers.

⁵ 2010 Statement.

⁶ See SEC Release No. 33-7801 (Feb. 16, 2000) [65 FR 8896 (Feb. 23, 2000)], International Accounting Standards (“2000 Concept Release”).

⁷ See U.S. Securities and Exchange Commission, Office of the Chief Accountant and Division of Corporation Finance, Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers, Progress Report (October 29, 2010).

II. Methodology

The Staff used a comparative approach to provide a context in which to frame its evaluation of IFRS, rather than to establish a minimum threshold of development that must be met for the incorporation of IFRS into the financial reporting system for U.S. issuers. The Staff used U.S. GAAP specifically as its reference point because: (1) it is the body of standards that currently applies to U.S. issuers and from which investors would be required to adjust their analyses of U.S. issuers' financial statements, and (2) it enables the Staff to minimize its consideration of areas in which IFRS currently has the same or similar accounting requirements as U.S. GAAP, as those IFRS requirements are presumably of sufficiently high quality.⁸ As a result, our review was focused on identifying areas in which the requirements of IFRS and U.S. GAAP differ. This review did not include an analysis of the impact that those differences, individually or collectively, may have on the quality of IFRS.

A. Scope of the Analysis

The Staff reviewed U.S. GAAP accounting requirements and compared those requirements to equivalent or corresponding IFRS requirements, as applicable. The Staff omitted from its review any U.S. GAAP requirements and the IFRS equivalents that are subject to the ongoing joint standard-setting efforts either through the Memorandum of Understanding (“MoU”) joint standard-setting projects (“Joint Projects”) of the FASB and the IASB (together with the FASB, the “Boards”) or other efforts by the Boards to work together, as further explained below.⁹ Having excluded the areas of U.S. GAAP and IFRS subject to the ongoing Joint Projects, we analyzed the remaining U.S. GAAP Accounting Standards Codification (“ASC”) Topics and their corresponding or equivalent IFRS requirements.

This paper summarizes our observations at a principles level for each ASC Topic that we evaluated. We then supplement those high-level observations with more specific examples of differences between U.S. GAAP and IFRS. The differences discussed do not comprise a comprehensive population of differences. We endeavored to provide examples that we believe could have a more significant or widespread financial reporting impact. However, we are aware that differences between IFRS and U.S. GAAP will affect individual preparers and investors to different extents.

⁸ The Staff believes U.S. GAAP is a set of high-quality standards because the SEC currently recognizes the financial accounting and reporting standards of the Financial Accounting Standards Board (“FASB”) as generally accepted for purposes of the federal securities laws under Section 19(b) of the Securities Act. See SEC Release No. 33-8221 (April 25, 2003), Policy Statement: Reaffirming the Status of the FASB as a Designated Private-Sector Standard Setter.

⁹ The Boards are working on (or have finalized, as noted) joint standard-setting projects related to financial instruments, revenue recognition, leases, presentation of other comprehensive income, fair value measurement (finalized in 2011), balance sheet netting of derivative and other financial instruments, financial instruments with characteristics of equity, financial statement presentation, presentation of discontinued operations, consolidation of voting interest entities, derecognition (finalized in 2010), and insurance contracts. Some of these projects are pursuant to the MoU (entered into in 2006 and subsequently updated in 2008) that sets forth the scope of the Boards' joint work program to improve and promote convergence of their accounting standards.

The ASC Topics and IFRSs within the scope of our analysis generally are those that were finalized and incorporated into the respective bodies of authoritative accounting guidance at the time of the analysis (generally, U.S. GAAP standards finalized by June 30, 2010 and IFRSs finalized by January 1, 2010). Appreciating that the Boards have continued to finalize new standards or amend existing standards since our analysis began, we have updated the sections in this paper for which the revised guidance had a more significant effect (either decreasing or increasing differences between the two sets of standards) on our comparison between U.S. GAAP and IFRS. For example, section III.G. *Other Investments* is updated to reflect the IASB's issuance of IFRS 11, *Joint Arrangements*, and IFRS 12, *Disclosure of Interests in Other Entities*, and section III.S. *Compensation – Excluding Share-based Payments* is updated to reflect the IASB's amendments to IAS 19, *Employee Benefits*.

B. MoU and Other Joint Projects

The FASB and IASB jointly issued the MoU in 2006 (updated in 2008) and, in that document, identified the standard-setting projects that the Boards considered to be most in need of improvement in the near-term. The Boards agreed to develop a plan to address each of the identified projects, primarily through the development of new standards in an effort to improve the quality of both sets of standards and achieve greater convergence between U.S. GAAP and IFRS. The MoU included short-term projects, some of which have been completed or are close to completion, and longer-term projects. The results of the short-term projects, in terms of the general similarities between U.S. GAAP and IFRS, both as amended by the projects, and any significant differences not resolved by the Boards, are reflected in this paper in the relevant parts of section III. Of the longer-term projects, three are of a greater priority—financial instruments, revenue recognition and leasing—for which the Boards have yet to finalize the technical decisions. The following table provides a listing of the longer-term projects, the current status of each project, related milestones, and the extent of inclusion of the project in this paper.

Project	Status	Milestone
<p><i>Financial instruments</i></p>	<p>Various for the different project elements.</p>	<p>The financial instruments project includes the following elements: classification and measurement, impairment, hedge accounting, and balance sheet offsetting. Although the Boards continue to have the objective of issuing converged standards, project timing and the phasing of the project has differed for each Board. A summary of each Board’s activities is as follows:</p> <p>The IASB considers each element (listed above) as a separate phase. Accordingly, the Board issued IFRS 9, <i>Financial Instruments</i>, in November 2009, which contained requirements for financial assets. Requirements for financial liabilities were added to IFRS 9 in October 2010. IFRS 9 is not yet effective, but early adoption is permitted. The IASB (together with the FASB) issued a supplementary document, <i>Financial Instruments: Impairment</i>, in January 2011. The comment period closed in April 2011 and redeliberations are on-going. The IASB issued the exposure draft, <i>Hedge Accounting</i>, in December 2010. The comment period closed in March 2011 and redeliberations are on-going.</p> <p>The FASB initially scoped the financial instruments project as two phases—1) classification and measurement, impairment, and hedging and 2) balance sheet offsetting. In May 2010, the Board issued a proposed Accounting Standards Update (“ASU”), <i>Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities</i>. The comment period ended in September 2010. In January 2011, the FASB (together with the IASB) proposed a common solution for impairment accounting, Supplementary Document—<i>Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities—Impairment</i>. The comment period ended in April 2011. In February 2011, the FASB issued a Discussion Paper—Invitation to Comment—<i>Selected Issues about Hedge Accounting</i>, to solicit input on the IASB’s exposure draft in order to improve, simplify, and converge the financial reporting requirements for hedging activities. The comment period ended in April 2011. Redeliberations are ongoing for all aspects of this project.</p> <p>The balance sheet offsetting portion of the project has followed a consistent timeline for both Boards. In January 2011, the Boards jointly issued the exposure draft, <i>Balance Sheet Offsetting</i> (titled by the IASB as, <i>Offsetting Financial Assets and Financial Liabilities</i>), which proposed changes to address the differences between IFRS and U.S. GAAP. In June 2011, in the light of feedback received on the exposure draft, the Boards decided to move forward with different offsetting models. The Boards noted that users consistently asked that information be provided to help reconcile differences in the offsetting requirements between IFRS and U.S. GAAP. Therefore, the Boards decided to work on converging disclosure requirements to assist users in comparing financial statements prepared in accordance with IFRSs and US GAAP. Such deliberations are ongoing.</p> <p>Note: Because this project was an active on-going MoU project at the time of our analysis, a comparison of the existing FASB and IASB standards related to this project has been excluded from this paper.</p>

Project	Status	Milestone
<i>Revenue recognition</i>	Re-exposure of proposals.	<p>The Boards published a joint discussion paper, <i>Preliminary Views on Revenue Recognition in Contracts with Customers</i>, in December 2008 and a joint exposure draft, <i>Revenue from Contracts with Customers</i>, in June 2010. In June 2011, the Boards concluded that, although their due process requirements made it clear that re-exposure was not required, they would re-expose the proposals because of the special nature of revenue.</p> <p>Note: Because this project was an active on-going MoU project at the time of our analysis, a comparison of the existing FASB and IASB standards related to this project has been excluded from this paper.</p>
<i>Leases</i>	Redeliberation of exposure draft; re-exposure of proposals.	<p>The Boards published a joint discussion paper, <i>Leases: Preliminary Views</i>, in March 2009 and a joint exposure draft, <i>Leases</i>, in August 2010. In July 2011, the Boards agreed to re-expose the revised proposals because the decisions taken to date were sufficiently different from those published in the exposure draft to warrant re-exposure. The Boards expect to continue re-deliberations through 2011.</p> <p>Note: Because this project was an active on-going MoU project at the time of our analysis, a comparison of the existing FASB and IASB standards related to this project has been excluded from this paper.</p>
<i>Consolidations</i>	Ongoing (re: investment companies).	<p>The IASB issued IFRS 10, <i>Consolidated Financial Statements</i>, and IFRS 12, <i>Disclosure of Interests in Other Entities</i>, in May 2011. IFRS 12 includes disclosure requirements about off balance sheet risks. The issuance of IFRS 10 resulted in substantial convergence of IFRS with U.S. GAAP on consolidation of structured investment vehicles and other special purpose entities as well as related disclosures, although differences between IFRS 10 and ASC Topic 810, <i>Consolidation</i>, remain. The Boards continue to jointly consider issues related to the consolidation of investment companies and plan to issue converged standards in the future.</p> <p>Note: Because this project was an active on-going MoU project at the time of our analysis, a comparison of the existing FASB and IASB standards related to this project has been excluded from this paper.</p>
<i>Fair value measurement</i>	Completed.	<p>The FASB issued FASB Statement No. 157, <i>Fair Value Measurements</i>, (codified in ASC Topic 820, <i>Fair Value Measurements and Disclosures</i>) in 2006. The FASB has issued several ASUs in 2009-2011 (including the most recent amendment: ASU No. 2011-04, <i>Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs</i>, that was released to coincide with the IASB's issuance of IFRS 13, <i>Fair Value Measurement</i>). The IASB issued IFRS 13 in May 2011. The recent guidance issued by the Boards is converged.</p> <p>Note: Because this project was an active on-going MoU project at the time of our analysis, a comparison of the existing FASB and IASB standards related to this project has been excluded from this paper.</p>

Project	Status	Milestone
<i>Financial statement presentation</i>	Reassessed as a lower priority project.	<p>The Boards published a joint discussion paper, <i>Preliminary Views on Financial Statement Presentation</i>, in October 2008. After considering the 220 comment letters and the results of field tests, the FASB and IASB staff published staff drafts reflecting the Boards' tentative decisions to date. The Boards used that draft as the basis for additional outreach.</p> <p>The outreach indicated that some participants had concerns about aspects of the proposals but supported others. The Boards concluded that significant additional work would be required to develop a viable exposure draft. In the light of other priorities, the Boards decided to consider returning to the project once the other MoU projects had been completed.</p> <p>The Boards did, however, decide to align how other comprehensive income is reported. The Boards published an exposure draft, <i>Statement of Comprehensive Income</i>, in May 2010 and issued amendments in June 2011.</p> <p>Note: This project remains on the FASB/IASB technical plan; however, the project was reassessed as a lower priority project. The standards related to this project have been excluded from this paper.</p>
<i>Derecognition</i>	Project scope reassessed.	<p>Through separate standard setting efforts completed by the end of 2010, the Boards reduced differences between IFRS and U.S. GAAP relating to the derecognition of financial assets and liabilities and substantially aligned the related disclosure requirements.</p> <p>Note: Because this project was an active on-going MoU project at the time of our analysis, a comparison of the existing FASB and IASB standards related to this project has been excluded from this paper.</p>
<i>Post-employment benefits</i>	Completed.	<p>In April 2010, the IASB published an exposure draft, <i>Defined Benefit Plans</i>. The IASB finalized amendments to IAS 19, <i>Employee Benefits</i>, in June 2011.</p> <p>Note: The changes resulting from the amendments to IAS 19 have been incorporated into our analysis and included in this paper (see sections III.N. <i>Exit or Disposal Cost Obligations</i> and III.S. <i>Compensation – Excluding Share-based Payments</i>).</p>
<i>Business combinations</i>	Completed.	<p>The Boards issued joint requirements for business combination accounting and noncontrolling interests in 2008—IFRS 3, <i>Business Combinations</i>, and amended IAS 27, <i>Consolidated and Separate Financial Statements</i>, and FASB Statement No. 141 (revised), <i>Business Combinations</i>, codified in ASC Topic 805.</p> <p>Note: Because this project was finalized before our comparison analysis was performed, a comparison of the FASB and IASB standards related to this project has been included in this paper (see section III.X. <i>Business Combinations</i>).</p>

Project	Status	Milestone
<i>Financial instruments with characteristics of equity</i>	Reassessed as a lower priority project.	<p>In February 2008, the IASB published a discussion paper, <i>Financial Instruments with Characteristics of Equity</i>, to solicit input on a previously exposed FASB document. The IASB and FASB used the responses to help them develop a working draft of a proposal to replace existing guidance on these types of financial instruments, which they used to undertake focused outreach. In the light of comments received, the Boards decided to focus on other projects and not to publish an exposure draft in the near term as originally planned. The Boards will consider returning to this project at a later date.</p> <p>Note: This project remains on the FASB/IASB technical plan; however, the project was reassessed as a lower priority project. The standards related to this project have been excluded from this paper.</p>
<i>Intangible assets</i>	Reassessed as a lower priority project.	<p>The IASB considered an agenda proposal to add a project on intangible assets in December 2007. The IASB decided not to proceed with the project but will reconsider it when it sets its new agenda. The FASB has not added a project to its active agenda.</p> <p>Note: Because this project was not an active on-going MoU project at the time of our analysis, a comparison of the existing FASB and IASB standards related to this project has been included in this paper (see section III.J. <i>Intangibles</i>).</p>
<i>Insurance</i>	Redeliberation of exposure draft; re-exposure of proposals.	<p>The IASB published an exposure draft, <i>Insurance Contracts</i>, on July 30, 2010. The FASB published a discussion document of its own, which included alternative views, in September 2010. Most recently, the Boards have been considering together the feedback received on the IASB's exposure draft and the FASB discussion paper. The Boards are conducting targeted outreach, based on the decisions made, to a broad range of global constituents and will continue to do so on future decisions. The IASB is working to issue a review draft or revised ED by in the 1st half of 2012. The FASB will consider the feedback received on its exposure draft with a view to finalizing a standard in 2012. The Boards will then consider any differences that may have arisen and how best to address them.</p> <p>Note: Because this project was an active on-going joint project at the time of our analysis, a comparison of the existing FASB and IASB standards related to this project has been excluded from this paper.</p>

We are assessing the ongoing Joint Projects separate from the comparison analysis that is the subject of this paper. Our assessment of the Joint Projects includes monitoring the Boards' deliberations, reviewing exposure documents, and considering constituent comment letters, among other activities. The status of the Joint Projects and conclusions reached therein are factors, among many others, for the Commission to evaluate in its consideration of whether to incorporate IFRS into the financial reporting system for U.S. issuers.

To date, the Boards have reached substantially (if not fully) converged positions on certain of the ongoing projects (revenue recognition and leases), thereby increasing the probability that IFRS

and U.S. GAAP will be converged in these areas in the near-term. However, based on the deliberations and tentative conclusions reached thus far, it is unclear whether the Boards will be able to reach convergence on key aspects of all projects (e.g., on the various elements of the financial instruments project). Further, the Boards' reprioritization of certain Joint Projects (e.g., financial instruments with characteristics of equity) makes it unclear whether these projects would be completed in the foreseeable future and, if so, whether substantive progress towards convergence would be made before any Commission consideration of whether to incorporate IFRS into the financial reporting system for U.S. issuers. The Commission indicated in the 2010 Statement that development of high-quality standards through the Joint Projects is important, and such development is an area of focus for the Staff, regardless of any ultimate determination of whether to incorporate IFRS into the financial reporting system for U.S. issuers.

C. SEC Rules and Regulations

The scope of our analysis generally did not consider SEC rules and regulations or Staff guidance, other than in the limited instances noted in the paper. The purpose of this paper is to communicate a summary of the results of our evaluation of the similarities and differences between U.S. GAAP as recognized by the FASB and IFRS as issued by the IASB, without regard to additional requirements or interpretations provided by jurisdictionally-authoritative bodies, including securities regulators. National laws and regulations affect the application of IFRS across jurisdictions and, therefore, can affect the consistent application of IFRS across companies, industries, and countries. The 2010 Statement and the Work Plan both indicate the importance of considering the application of IFRS and the consistency of its application globally; however, consistency of application is a separate analysis from that which was conducted in connection with the preparation of this paper. Furthermore, SEC rules and regulations and Staff guidance would need to be evaluated separately to determine whether any recommendation would be appropriate to modify them as a result of any Commission decision to incorporate IFRS into the U.S. financial reporting system.

D. General Observations and Clarifications

In this paper, we discuss some of the detailed differences we noted in comparing the text of U.S. GAAP to that of IFRS. As described further below, we generally noted that U.S. GAAP contains more detailed, specific requirements than IFRS. In some instances, IFRS does not contain any corresponding guidance and, in others, IFRS contains higher-level or general guidance that is not directly comparable to the U.S. GAAP requirement. In other instances, IFRS contains topical guidance for which there is no corresponding guidance contained in U.S. GAAP (e.g., IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*); however, our analysis generally excludes discussion on such areas because U.S. GAAP does not have requirements against which to compare.

Our analysis allowed us to identify differences between IFRS and U.S. GAAP in terms of the existence (or absence) of guidance, but it was not informative as to the effect that the differences have or may have in practice. Some of the differences—whether in terms of the amount of guidance provided or actual language used in a standard—may not have significant practical

accounting implications or may affect some entities or industries but not result in differences in application for a larger subset of the population. Conversely, some of the differences may be of greater significance. The differences included in this paper may not necessarily be presumed to have a direct or consistent correlation to the quality of IFRS. Further, the differences (whether highlighted in this paper or not) between U.S. GAAP and IFRS are not meant to be determinative that their elimination would be necessary prior to any Commission consideration regarding the incorporation of IFRS into the U.S. financial reporting system. This paper is one component of extensive efforts, forming part of the Work Plan, to facilitate the Commission's consideration regarding incorporation of IFRS. Many areas of the Work Plan are related such that observations in one area may be influenced by observations in another area.

When reading the comparison of U.S. GAAP and IFRS in section III, we believe it is important for the reader to consider the following fundamental differences between U.S. GAAP and IFRS:

IFRS contains broad principles to account for transactions across industries, with limited specific guidance and stated exceptions to the general guidance

We often note in this paper that IFRS does not contain specific guidance that corresponds to a detailed U.S. GAAP requirement. However, while potentially noted as a difference in the text of the two sets of standards, the absence of specific IFRS guidance may not indicate a complete absence of guidance under IFRS. Often IFRS contains general principles for recognition, measurement and/or disclosure—either in a standard specific to that type of transaction, in a general standard such as IAS 1, *Presentation of Financial Statements*, or in the IFRS Framework—that may result in a particular transaction or activity being accounted for in a manner similar to U.S. GAAP or in a manner that differs from U.S. GAAP. Therefore, our identification of such differences is based on the fact that text exists in U.S. GAAP (perhaps providing more narrow or specific guidance for application) that does not exist in IFRS in an equally specific manner.

Many of the differences noted in this paper relate to industry- or transaction-specific guidance that exists in U.S. GAAP but not in IFRS. In many cases, the U.S. guidance was developed by one of the many legacy U.S. standard setters due to a perceived need for, or void in, guidance for a particular type of transaction. The specific guidance may have been developed to provide interpretations of pre-existing general principles of recognition or measurement that are tailored for a transaction or industry or to prevent abuse or to provide an exception to the general principles. The abundance of specific guidance in U.S. GAAP may contribute to consistency in application, for example, across entities operating in a particular industry but does not always result in comparability across industries. In contrast to historical U.S. standard setting, IFRS always has been developed by a single standard-setter (the IASB, or its predecessor, International Accounting Standards Committee) with one interpretative body. In the absence of industry- and transaction-specific guidance, preparers of IFRS financial statements follow the general principles of IFRS, which may help to promote broader consistency across industries. We believe it is important to acknowledge the specific guidance that exists in U.S. GAAP so that U.S. constituents can consider the current application of such guidance and the potential implications of any incorporation of IFRS.

We also note differences that relate to U.S. GAAP that has been developed to address certain U.S.-centric transactions or activities (e.g., accounting for rate regulated entities and certain aspects of contracts with the federal government). Although we have included examples of such differences, we have made no judgment as to the impact of such differences on the quality of IFRS. IFRS has been developed for a broad constituency without regard to jurisdiction- or regulator-specific considerations. In the absence of specific guidance, IFRS requires the application of general recognition and measurement guidance, which may result in the application of similar or significantly different recognition and measurement provisions to those applied under U.S. GAAP.

Fundamental differences exist between the FASB and IASB conceptual frameworks

The FASB's *Statements of Financial Accounting Concepts* ("Concepts Statements") and the IASB's *Framework for the Preparation and Presentation of Financial Statements* ("Conceptual Framework") differ with respect to the underlying concepts and the authority of the concepts in application. The Boards often are guided by the conceptual frameworks in their development of standards and in their review of existing standards and, thus, differences in the frameworks can contribute to differences in the recognition and measurement guidance incorporated at the standards level.

Prior to the development of the MoU and the onset of focused joint standard-setting efforts, the Boards understood the importance of aligning the conceptual frameworks of IFRS and U.S. GAAP. In 2004, the Boards added a joint project to their agendas to develop an improved, common conceptual framework that builds on their existing frameworks. The Boards intended to update and refine the existing concepts to reflect the changes in markets, business practices, and economic environment and use the revised concepts in the development of the Joint Projects. The Boards completed one¹⁰ of eight phases of the conceptual framework project in 2010 before deferring their efforts to converge the remaining phases because of the reprioritization of the Joint Projects.

Examples of the basic differences that currently exist between the conceptual frameworks include the following:

Level of authority – Under IFRS, the Conceptual Framework is authoritative guidance, and the concepts are applied when there is no standard or interpretation that specifically applies to a transaction, other event, or condition. Under U.S. GAAP, the Concept Statements were not included in the ASC and, thus, are not FASB authoritative guidance. The difference in the level of authority could negatively impact comparability of the accounting for transactions under U.S. GAAP and IFRS, even if the applicable concepts within the FASB and IASB frameworks are converged. For example, the Boards have reached tentative conclusions on the general concept of a reporting entity (i.e., one would consider the boundaries of economic activities to identify the reporting entity, which may result in the identification of boundaries that are consistent or inconsistent with those of

¹⁰ The FASB issued Concepts Statement No. 8, *Conceptual Framework for Financial Reporting*, comprising Chapter 1, "The Objective of General Purpose Financial Reporting", and Chapter 3, "Qualitative Characteristics of Useful Financial Information," and the IASB issued, *Conceptual Framework for Financial Reporting 2010*.

legal entities). If final consensuses are converged, that convergence may not impact accounting under U.S. GAAP because authoritative guidance at the standards level does not refer to or incorporate the definition of a reporting entity from the Concept Statements. Conversely, the application of IFRS could be affected by such convergence in situations when explicit guidance does not exist in a particular standard (e.g., in common control transactions).

Definition and recognition of assets and liabilities – The Concept Statements define an asset or a liability in terms of a “probable” future event (i.e., economic benefit for an asset and economic sacrifice for a liability) with “probable” defined in a general-use context, referring to that which can be reasonably expected or believed on the basis of available evidence. IFRS does not include the concept of probability in the definition of an asset or a liability, rather considering the probability of occurrence in the recognition requirements (i.e., recognize an asset when it is probable that future economic benefits will flow to the entity; a liability when probable that an outflow will result from settlement of a present obligation), though “probable” is not defined. IFRS has an additional recognition criterion that requires an entity to be able to measure reliably the cost or value before recognition. These differences may contribute to differences between current IFRS and U.S. GAAP and the Boards’ future standard setting.

III. Comparison of Requirements

Our analysis of accounting requirements is organized following the content of the ASC at a topical level, excluding ASC Topics subject to MoU projects as discussed in section II.B. Therefore, the analysis begins with ASC Topic 250, *Accounting Changes and Error Corrections*, and continues through ASC Topic 855, *Subsequent Events*. Industry-specific guidance included in ASC Topics 905 through 995 is discussed within the most applicable non-industry section and is not otherwise addressed comprehensively in this paper.

The organization of this paper is cause for a certain amount of repetition in those instances in which U.S. GAAP contains specific, transactional guidance throughout the ASC and the corresponding guidance in IFRS is located in one (or a limited number of) general, principle-based standard. To illustrate, U.S. GAAP addresses the accounting for contingencies in various ASC Topics—for example, ASC Topic 410, *Asset Retirement and Environmental Obligations*, Topic 420, *Exit or Disposal Cost Obligations*, and Topic 450, *Contingencies*—whereas the corresponding IFRS guidance for contingencies is primarily included in IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. In these instances, principle-level differences that are reflected as examples in more than one topical area may give the impression of a more pervasive level of overall difference between IFRS and U.S. GAAP than if our discussion were only at the level of differences in principles.

A. Accounting Changes and Error Corrections

IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, and ASC Topic 250, *Accounting Changes and Error Corrections*, both provide guidance on changes in accounting

principle (or policy), corrections of errors, and changes in estimates. IAS 8 provides incremental guidance (to that provided in U.S. GAAP) on the selection and application of accounting policies, including in instances for which no IFRS requirement specifically applies to the transaction, event, or condition. The more notable differences between IFRS and U.S. GAAP are described below.

Evaluating materiality – IFRS and U.S. GAAP both have limited guidance for evaluating materiality. IFRS guidance is limited to the definition of a material omission in IAS 8 that “omissions or misstatements of items are material if they could ... influence the economic decisions that users make” ASC Topic 250 indicates that the assessment of an error shall be related to the estimated income for the full fiscal year and also to the trend on earnings but does not otherwise provide materiality guidance. The Staff has observed that, in the absence of guidance from the Boards, some regulators (e.g., the SEC staff¹¹ and some foreign regulators) have established their own guidance on evaluating materiality.

Correction of errors – Under IFRS, an entity is required to correct for material prior period errors retrospectively in the first set of financial statements authorized for issuance after discovery of the error (without requiring revision and reissuance of previously issued financial statements). U.S. GAAP requires prior period financial statements previously issued to be revised and reissued to correct for the error.

Impracticability exception – IFRS provides an impracticability exception to full retrospective correction of prior period errors in the following circumstances: if the *period-specific effects* of the error are impracticable to determine, then the opening balance sheet for the earliest period for which retrospective restatement is practicable is restated; if the *cumulative effects* of the error are impracticable to determine, then the comparative information is restated prospectively from the earliest date practicable. U.S. GAAP requires the quantification and restatement of material errors without exception.

Retrospective presentation of statement of financial position – Under IFRS, if an entity applies an accounting policy retrospectively or makes a retrospective restatement of items, three years of statements of financial position are required to be presented. U.S. GAAP has no similar requirement.

U.S. GAAP provides guidance for certain aspects of accounting changes or error corrections for which corresponding guidance is not provided under IFRS. Examples of such guidance include:

¹¹ See, e.g., Staff Accounting Bulletin (“SAB”) Topic 1M, *Materiality*. In discussing the concept of “materiality,” the Staff guidance quotes FASB Concept Statement 2 as follows: “the omission or misstatement of an item in a financial report is material if, in the light of surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item,” and notes it is consistent with the Supreme Court decisions in *TSC Industries v. Northway, Inc.*, 426 U.S. 438, 449 (1976) and *Basic, Inc. v. Levinson*, 485 U.S. 224 (1988) that a fact is material if there is “a substantial likelihood that the ... fact would have been viewed by a reasonable investor as having significantly altered the ‘total mix’ of information made available.” SAB Topic 1M also addresses “rules of thumb,” factors to consider in evaluating a quantitatively small misstatement, aggregation and netting of misstatements, intentional immaterial misstatements, and effects of prior year (immaterial) misstatements when quantifying misstatements in the current year.

Indirect effects – U.S. GAAP specifies that retrospective application only includes the direct effect of a change in accounting principle, not indirect effects (i.e., any change to current or future cash flow as a result of the change, for example, change to a profit sharing plan). Indirect effects that are incurred are reported in the period of accounting change.

Change in reporting entity – U.S. GAAP specifies the circumstances in which a change in reporting entity occurs (i.e., an accounting change that results in the financial statements, in effect, of another entity) and requires that consequent changes are applied retrospectively to the financial statements of all prior periods presented.

Disclosure requirements – U.S. GAAP requires certain disclosures for accounting changes that are not required by IFRS, including: (1) a description of the indirect effects (which are not adjusted for under U.S. GAAP), including disclosures about current period and cumulative amounts and related per share effects; and (2) interim disclosures after the date of adoption that describe the impact of the change on income from continuing operations, net income, and related per share amounts.

B. Earnings Per Share

IAS 33 and ASC Topic 260, both titled *Earnings Per Share*, contain generally similar requirements for calculating earnings per share (“EPS”). Both standards require the calculation of basic and diluted EPS for entities with publicly-traded shares (with an exception provided in U.S. GAAP for investment companies that follow separate requirements). Despite the similarities in principles between the standards, differences exist in the detailed requirements. Further, differences in the classification of financial instruments as debt or equity under IFRS and U.S. GAAP may limit the comparability between IFRS and U.S. GAAP reporting entities with similar capital structures that employ certain instruments. The more notable differences between IAS 33 and ASC Topic 260 include the following:

Diluted EPS year-to-date period shares calculation – IFRS requires dilutive potential ordinary shares to be determined independently for each period presented. The number of dilutive potential ordinary shares included in the year-to-date period is not a weighted average of the dilutive potential ordinary shares included in each interim computation, which is the case under U.S. GAAP.

Instruments with multiple settlement alternatives – For contracts that are permitted to be settled in either common stock or cash at the entity’s option, IAS 33 contains a presumption that the contract will be settled in ordinary shares if the effect is dilutive, and such presumption cannot be overcome. Under ASC Topic 260, a similar presumption exists if the effect is dilutive; however, the presumption can be overcome if an entity has an existing practice or stated policy that provides a reasonable basis to conclude that the contract will be settled partially or wholly in cash.

Convertible instruments and two-class method – Under ASC Topic 260, instruments that contain embedded conversion features that are contingently convertible or exercisable on the

basis of a market price trigger are included in diluted EPS (if dilutive) regardless of whether the market price trigger has been met. IFRS does not provide specific guidance for these types of instruments. IAS 33 requires that contingently issuable ordinary shares are treated as outstanding and included in the calculation of diluted EPS only if the conditions are satisfied (i.e., the contingent events have occurred).

For mandatorily convertible instruments, IAS 33 requires the ordinary shares that will be issued upon conversion to be considered outstanding in the basic EPS calculation from the date on which the contract is entered. Under ASC Topic 260, these mandatorily convertible instruments are not specifically addressed; however, an entity should consider whether or not the contract is considered participating¹² and, if so, apply the two-class method.¹³

Finally, IAS 33 requires application of the two-class method only to participating securities that are classified as equity. The two-class method is not required for participating debt instruments (e.g., participating convertible debt). Under ASC Topic 260, the two-class method applies to instruments that are participating, regardless of legal form or classification.

Tax effect on application of treasury stock method – Under the treasury stock method in U.S. GAAP, assumed proceeds include the excess tax effects, if any, that would be credited to additional paid-in capital assuming exercise of the options. The inclusion of tax effects in assumed proceeds is not addressed in IFRS.

Presentation of cash flow per share – U.S. GAAP specifically prohibits the presentation of cash flow per share, or similar information, in the financial statements. IFRS does not have a similar restriction.

C. Interim Reporting

IAS 34, *Interim Financial Reporting*, and ASC Topic 270, *Interim Reporting*, have similar objectives for interim reporting: to prescribe the form and content of interim financial statements and to provide recognition and measurement guidance for interim periods. Neither IFRS nor U.S. GAAP requires interim reporting; however, both provide guidance in situations when interim reporting is required (e.g., by a securities regulator) or when an entity elects to report on an interim basis. Both IFRS and U.S. GAAP generally require interim reporting to be based on the same accounting principles as are used to prepare annual financial statements; however, each provides different detailed guidance. Conceptually, IFRS tends to consider interim periods as discrete accounting periods, while U.S. GAAP generally considers interim periods as a component of an annual period.

¹² U.S. GAAP defines a participating security (in ASC Section 260-10-20) as: “A security that may participate in undistributed earnings with common stock, whether that participation is conditioned upon the occurrence of a specified event or not. The form of such participation does not have to be a dividend—that is, any form of participation in undistributed earnings would constitute participation by that security, regardless of whether the payment to the security holder was referred to as a dividend.”

¹³ U.S. GAAP describes the two-class method (in ASC paragraph 260-10-45-60) as: “an earnings allocation formula that treats a participating security as having rights to earnings that otherwise would have been available to common shareholders but does not require the presentation of basic and diluted EPS for securities other than common stock.”

Examples of the detailed differences between IFRS and U.S. GAAP include the following:

Allocation of costs – Under U.S. GAAP, certain costs that benefit more than one interim period may be allocated to those respective interim periods. For example, advertising costs maybe deferred and allocated within a fiscal year if the costs benefit more than one interim period. Under IFRS, the expense would be recognized entirely in the period incurred.

Materiality determination for correction of an error – Under IFRS, the assessment of materiality for correction of an error is performed in relation to the interim period financial data. Under U.S. GAAP, the same assessment is performed in relation to the estimated income for the entire fiscal year and to the effect on the trend of earnings. Further, under U.S. GAAP, correction of errors that are material to the interim period but not to the estimated income for the entire fiscal year or on earnings trends shall be separately disclosed in the interim period. As noted above, the SEC staff and some foreign regulators have established their own guidance for determining materiality.

Fourth quarter activity – IFRS generally requires that the nature and amount of a change in estimate are disclosed in a note to the annual financial statements, if a separate financial report related to fourth quarter activity is not published for the fourth quarter. U.S. GAAP is more explicit about the types of transactions that require specific disclosure related to fourth quarter activity. Specifically, in the absence of a separate fourth quarter report or disclosure of fourth quarter results in the annual report, ASC Topic 270 requires disclosure in a note to the annual financial statements of fourth quarter activity related to any change in accounting principle, disposals of components of an entity, and extraordinary, unusual, or infrequently occurring items recognized in the fourth quarter, as well as the aggregate effect of year-end adjustments that are material to the results of the fourth quarter.

Additionally, U.S. GAAP has certain explicit interim disclosure requirements, many of which are related to the valuation of financial assets and derivatives (e.g., information about the fair value of financial instruments, other-than-temporary impairments, and credit quality of financing receivables). IFRS does not contain the same explicit requirements but instead contains disclosure objectives and illustrative examples relating to specific events and transactions.

Further, IAS 34 contains requirements for the form and content of interim financial reports, for which corresponding requirements do not exist in U.S. GAAP. These requirements generally are addressed for U.S. issuers by certain SEC regulations, although differences exist between IFRS and the SEC regulations.

D. Risks and Uncertainties

IAS 1, *Presentation of Financial Statements*, and ASC Topic 275, *Risks and Uncertainties*, address the disclosure of certain risks and uncertainties. Although generally similar in principle, U.S. GAAP includes specific disclosure requirements that are not explicitly required in IFRS. Therefore, disclosures provided under IFRS and U.S. GAAP may differ depending on the nature

of the risks and uncertainties associated with the underlying transaction. The requirements for risks and uncertainties differ between IFRS and U.S. GAAP in the following aspects:

Vulnerabilities due to certain concentrations – U.S. GAAP requires disclosure of exposure to certain concentrations (e.g., individual customers, supply sources, or geographical areas) if the concentration exists at the date of the financial statements, the concentration makes the entity vulnerable to the risk of a near-term severe impact, and it is at least reasonably possible the events that could cause the severe impact will occur in the near term. Additional disclosure of labor subject to collective bargaining agreements is also required. IFRS contains no similar specific disclosure requirement, although this information may be viewed as an appropriate disclosure under IFRS as part of the segment disclosure requirements or to satisfy the general requirements of IAS 1.

Estimates and uncertainties – U.S. GAAP requires discussion of estimates when it is reasonably possible that the estimate will change materially in the next year. Disclosures should include an estimate of the effect of a change in a condition, situation, or set of circumstances that existed at the date of the financial statements and an indication that it is at least reasonably possible that a change in the estimate will occur in the near term. Disclosure of factors that cause the estimate to be sensitive to change is encouraged but not required.

IAS 1 requires disclosure of information about key assumptions concerning the future—and other key sources of estimation uncertainty at the balance sheet date—that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Disclosures shall include the nature of the assets and liabilities; the carrying amounts of those assets and liabilities; sensitivity to methods, assumptions, and estimates underlying the calculation of those assets and liabilities; expected resolution and the range of reasonably possible outcomes; and an explanation of changes made to past assumptions.

E. Segment Reporting

IFRS 8, *Operating Segments*, and ASC Topic 280, *Segment Reporting*, both require disclosures that are intended to provide information about the activities of an entity based on how management organizes the entity for making operating decisions and assessing performance. IFRS 8 resulted from an IASB project to converge segment reporting requirements under IFRS with U.S. GAAP. Therefore, the majority of the disclosure requirements are consistent between IFRS and U.S. GAAP. In some cases, U.S. GAAP includes explicit guidance, while IFRS provides a core disclosure principle without providing specific guidance. These areas include the following:

Matrix form of organizational structure – a matrix form of organizational structure is one in which managers are held responsible for two or more overlapping sets of components of an entity (e.g., certain managers are responsible for different product and service lines worldwide, while other managers are responsible for specific geographic areas). In these situations, IFRS 8 requires entities to determine which set of components constitutes the entity's operating segments by reference to the core principle (i.e., which disaggregation of

information—in this example, product and service lines or geographical—would enable investors to evaluate the nature and financial effects of the business activities in which the entity engages and the economic environments in which it operates). U.S. GAAP requires that an entity with a matrix form of organizational structure determine its operating segments using the components that are based on the products and services, rather than using geographical components or other bases.

Determination of an operating segment – Unlike U.S. GAAP, IFRS does not provide specific guidance for determining operating segments in certain circumstances (e.g., for equity method investees, certain corporate divisions, and divisions that do not have assets allocated for internal reporting purposes).

Aggregation of operating segments – IFRS does not provide application guidance to justify the aggregation of operating segments on a quantitative basis other than as specified in the standard (i.e., based on similar long-term gross margins). U.S. GAAP provides other quantitative considerations in implementation guidance and illustrations with respect to the aggregation of operating segments.

F. Cash and Cash Equivalents

Cash and cash equivalents are addressed under IFRS in IAS 7, *Statement of Cash Flows*, and under U.S. GAAP in ASC Topic 305, *Cash and Cash Equivalents*. Both standards contain similar principles that govern the accounting for cash and cash equivalents and both define cash equivalents similarly. Therefore, certain requirements, including that cash equivalent instruments be of short-duration, highly liquid, and readily convertible to cash, are consistent between IFRS and U.S. GAAP. However, IAS 7 articulates certain requirements in a less prescriptive manner than ASC Topic 305. As a result, certain types of instruments, such as money market funds, may be determined not to qualify as cash equivalents under IFRS, and certain investments with maturities greater than three months may be determined to qualify as cash equivalents under IFRS.

IAS 7 also provides guidance to the effect that cash equivalents are “held for the purpose of meeting short-term cash commitments rather than for investment or other purposes,” which could result in identical instruments being classified differently between entities based upon different cash management and investment strategies. U.S. GAAP does not provide similar guidance. There is also a difference between IFRS and U.S. GAAP in accounting for bank overdrafts. Under IFRS, bank overdrafts are permitted to be included in cash and cash equivalents if the overdraft balance is part of an integrated cash management strategy. Under U.S. GAAP, a net overdraft position with a financial institution is treated similar to a short-term loan and presented as a liability on the balance sheet (and, frequently, as a financing cash flow on the statement of cash flows).

G. Other Investments

IFRS 11, *Joint Arrangements*, and IAS 28, *Investments in Associates and Joint Ventures*, address the accounting for investments in entities that are not required to be consolidated and over which significant influence has been established, including joint ventures and joint operations. U.S. GAAP addresses similar investments in ASC Topic 323, *Investments—Equity Method and Joint Ventures*. The scope of the guidance and the general requirements for equity method accounting are similar in IFRS and U.S. GAAP. Under IFRS, investees over which an entity has significant influence are referred to as “associates,” which is similar in concept to an “equity method investee” under U.S. GAAP. Both IFRS and U.S. GAAP include a rebuttable presumption that significant influence exists when a 20% voting interest is owned. Despite the similarities, differences exist between the standards, as further discussed below.

The accounting for joint ventures under U.S. GAAP and IFRS has historically been substantially different. ASC Topic 323 generally requires equity method accounting for an investment in an entity that qualifies as a joint venture. Further, certain U.S. GAAP industry guidance permits the use of proportional consolidation. IFRS 11 defines two types of joint arrangements—joint ventures and joint operations. Joint ventures are required to apply equity method of accounting (except mutual funds, venture capital organizations, etc. with investments in associates that have the option to elect fair value). Joint operations are required to apply proportionate consolidation (in which an investor (referred to as a “venturer”) recognizes its proportion of the investee’s individual assets and liabilities in the investor’s respective financial statement line items). The previous IFRS guidance permitted the use of proportional consolidation more broadly and contained additional differences that have been eliminated with the recent issuance of IFRS 11 and amendments to IAS 28.

The potentially more significant differences between IFRS and U.S. GAAP with respect to equity method investment or joint venture accounting that remain subsequent to the issuance of IFRS 11 and the amendments to IAS 28 include the following:

Scope of investments accounted for under equity method – IAS 28 excludes from its scope venture capital organizations and mutual funds, unit trusts, and other similar entities when those investments are accounted for at fair value through profit or loss (in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*, and IFRS 9, *Financial Instruments*).¹⁴ Similarly, ASC Topic 323 excludes from its scope the accounting for common stock held by investment companies registered under the Investment Company Act of 1940 (or those that would meet this definition except that the number of stockholders is limited and the securities are not offered publicly) and nonbusiness entities (e.g., an estate, trust, or individual). Although the exclusions under IFRS and U.S. GAAP are similar, a venture capital organization is not defined in IFRS, which may result in diverse accounting by similar entities.

¹⁴ IAS 31 excludes these same types of entities (i.e., venture capital organizations and mutual funds, unit trusts, and other similar entities when those investments are accounted for at fair value through profit or loss) from its scope.

deferred tax asset. Under IFRS, deferred tax assets are recognized when it is considered probable (a term not defined in IAS 12 but commonly interpreted as “more likely than not” in practice) that sufficient taxable profits will be available to use the temporary difference (i.e., at a net amount that is considered realizable, not at a gross amount with a related allowance; valuation allowances are not recorded).

Offsetting and classification – IFRS and U.S. GAAP contain different guidance relating to offsetting of current and deferred tax assets and liabilities and classification of deferred tax assets and liabilities. Under IFRS, offsetting of current and deferred taxes is permitted when there is a legal enforceable right of offset, and the entity intends to apply offset or settle simultaneously. Under U.S. GAAP, a legally enforceable right of offset is the only requirement for offsetting of current taxes. Further, current deferred taxes are offset and presented as a single amount, and noncurrent deferred taxes are offset and presented as a single amount. With respect to classification, under IFRS, deferred tax assets and liabilities are classified as noncurrent; whereas, under U.S. GAAP, such assets and liabilities are classified as current or noncurrent based on the classification of the underlying nontax asset or liability.

Deferred tax effects on outside basis of investments – Under U.S. GAAP, deferred tax assets are recognized for the difference between the financial reporting carrying amount and the tax basis (i.e., the outside basis) of investments in subsidiaries and corporate joint ventures that are essentially permanent in duration only if it is apparent that the temporary difference will reverse in the foreseeable future. Under IFRS, a deferred tax asset is recorded for all deductible temporary differences arising from investments in subsidiaries, branches, associates, and interests in joint ventures to the extent it is probable that the temporary difference will reverse in the foreseeable future and there will be taxable profit against which the temporary difference can be used.

Under U.S. GAAP, deferred tax liabilities are recognized on the outside basis of investments as follows:

- Subsidiaries and corporate joint ventures that are permanent in duration
 - Foreign – recognize if the outside basis difference will reverse in the foreseeable future (ASC Topic 740 provides specific requirements that must be met in order to not recognize a deferred tax liability)
 - Domestic – recognize on undistributed profits arising after 1992 unless amounts can be recovered on a tax-free basis, and the entity anticipates utilizing that means.
- Limited life joint ventures and equity method investees – recognize on temporary differences, unless certain exceptions are met.

Under IFRS, deferred tax liabilities are recognized on the outside basis of investments except when a parent company (e.g., investor or venturer) is able to control the timing of reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. IFRS does not provide detailed guidance beyond this principle.

Areas addressed by U.S. GAAP only – U.S. GAAP provides guidance on specific areas of tax accounting for which IFRS does not contain guidance. Examples of such guidance include:

- Recognition of taxes resulting from alternative or parallel income tax systems;
- Attribution of income taxes to an entity or its owners/partners;
- Allocation of current and deferred taxes to entities within a consolidated group;
- Recognition of tax benefits from special deductions and tax holidays;
- Recognition of tax effects for a change in interest (equity method to consolidated or vice versa) in an equity method investee; and
- Recognition of investment tax credits.

Disclosures – U.S. GAAP differs from IFRS by requiring disclosure of components of tax expense related to investment tax credits and government grants and components of pre-tax income as either domestic or foreign. U.S. GAAP and IFRS also differ because of disclosure requirements that exist under IFRS but not under U.S. GAAP, including, for example: adjustments recognized in the period for current tax of prior periods; dividend-related disclosures; and the amount of a deferred tax asset and the nature of the evidence supporting its recognition in certain circumstances.

X. Business Combinations

IFRS 3 and ASC Topic 805, both titled *Business Combinations*, contain similar requirements for accounting for business combinations. Both models require the acquisition method of accounting for business combinations, in which the assets, liabilities, and noncontrolling interests of the acquired entity are recognized and measured at fair value, with limited exceptions. The consistency in the guidance for applying the acquisition method can be attributed to the collaboration between the IASB and FASB in developing the current standards and the Boards' objective of reaching common conclusions for IFRS and U.S. GAAP. Even though the standards are substantially converged, we noted that certain differences remain between IFRS 3 and ASC Topic 805.

In certain cases, IFRS and U.S. GAAP have similar principles and requirements, but differences in definitions of terms that may result in different accounting. For example, aspects of IFRS 3 and ASC Topic 805 refer to "control," which is defined differently under IFRS as compared to U.S. GAAP. Additionally, both IFRS 3 and ASC Topic 805 exclude the formation of joint ventures from their scope; however, joint ventures are defined differently under IFRS and U.S. GAAP, which could result in different accounting for such ventures.

IFRS 3 and ASC Topic 805 differ with respect to certain recognition and measurement requirements, including:

Contingencies – Both IFRS and U.S. GAAP require acquired contingent liabilities to be recognized at fair value on the acquisition date if fair value can be determined. If fair value cannot be determined reliably, U.S. GAAP requires that the contingency is recognized at

acquisition pursuant to ASC 450, *Contingencies*. Under IFRS, if fair value cannot be measured reliably, the contingent liability is not recognized. U.S. GAAP also requires that contingent assets acquired in a business combination are recognized at fair value, whereas IFRS does not permit the recognition of contingent assets.

Noncontrolling interests – Under IFRS, entities have an option, on a transaction-by-transaction basis, to measure noncontrolling interests at fair value, including goodwill, or at the noncontrolling interest’s proportionate share of the fair value of the identifiable net assets, excluding goodwill. Under U.S. GAAP, noncontrolling interests are measured at fair value.

Contingent consideration – Contingent consideration in a business combination is recognized at fair value as an asset, liability, or equity according to standards that differ under U.S. GAAP and IFRS. In addition, U.S. GAAP requires that existing contingent consideration arrangements of an acquiree that are assumed by an acquirer be recognized initially at fair value and subsequently measured in accordance with the guidance for contingent consideration under ASC Topic 805, whereas IFRS does not have explicit requirements.

Combinations of entities under common control – IFRS 3 and ASC Topic 805 are similar in that they both exclude combinations of entities under common control from the application of the acquisition method of accounting. U.S. GAAP provides guidance requiring that such combinations be accounted for at carryover basis, whereas IFRS does not provide guidance.

Y. Foreign Currency Matters and Inflation

IAS 21, *The Effects of Changes in Foreign Exchange Rates*, and ASC Topic 830, *Foreign Currency Matters*, both require the financial statements of foreign operations to be translated into the reporting currency, with the effects of changes in exchange rates recognized in other comprehensive income. Both also require foreign currency transactions of an entity to be remeasured into its functional currency with amounts resulting from changes in exchange rates being reported in income. Further, both require special accounting for entities operating in hyperinflationary economies, but differ in the approaches to such accounting.

The potentially more notable differences between IFRS and U.S. GAAP with respect to inflation and foreign currency matters include the following:

Exchange rates for translation – ASC Topic 830 defines the exchange rate for translation as the rate applicable to conversion of a currency for purposes of dividend remittances, in the absence of unusual circumstances. If unsettled transactions between separate entities within a reporting entity are subject to and translated using preference or penalty rates, translation of foreign currency statements at the rate applicable to dividend remittances may cause a difference between intra-entity receivables and payables. Until that difference is eliminated by settlement of the intra-entity transaction, the difference is treated as a receivable or payable in the reporting entity’s financial statements. In addition, under ASC Topic 830, if exchangeability between two currencies is temporarily lacking at the transaction date or reporting period end date, the first subsequent rate at which exchanges could be made is used.

IAS 21 includes guidance regarding multiple exchange rates and temporary lack of exchangeability in the context of reporting transactions in the functional currency (i.e., remeasurements) but not in the context of translations.

Cumulative translation adjustment and impairment – Under U.S. GAAP, the cumulative translation adjustment is included in the carrying amount when assessing whether an equity-method investee or subsidiary that the entity has committed to sell is impaired, unless sale will not result in realization of the cumulative translation adjustment. Under IFRS, the cumulative translation adjustment is not included in the carrying amount in such an impairment test.

Translation of entities with multi-level organizational structures – U.S. GAAP respects the ownership structure of a complex entity with differing functional currencies for purposes of performing the translation accounting to prepare the consolidated financial statements in the reporting currency. Consolidation occurs step-by-step. IFRS provides no corresponding guidance. An entity may perform “direct” translation of each subsidiary into the reporting currency, ignoring any intervening subsidiaries (even if their functional currency is different). The choice of consolidation method employed could affect the cumulative translation adjustments deferred within equity at intermediate levels and can therefore also affect the recycling of such exchange rate differences upon disposal of an intermediate foreign operation.

Monetary items forming part of net investment in foreign operation – Under U.S. GAAP, in order for a monetary item to form, in substance, part of the net investment in a foreign operation, certain criteria must be met. The monetary item must be in the functional currency of one of the parties to the transaction. Under IFRS, the transaction does not need to be in the functional currency of one of the parties to the transaction.

IFRS and U.S. GAAP both contain guidance for accounting for transactions in highly inflationary economies, but the guidance differs in certain respects.³⁵ U.S. GAAP guidance is contained in ASC Topic 830 and IFRS guidance is contained in IAS 29, *Financial Reporting in Hyperinflationary Economies*. Differences between IFRS and U.S. GAAP include:

Application of highly inflationary accounting – Under U.S. GAAP, when the functional currency of a foreign operation is highly inflationary, the foreign operation uses the reporting currency (i.e., that of the parent or investor) as its functional currency. The foreign operation’s financial statements are remeasured into the reporting currency.

Under IFRS, the functional currency of the foreign operation is retained, but is required to first be “indexed” by restating it into a measuring unit currency at the balance sheet date.

Cessation of highly inflationary accounting – Under U.S. GAAP, the entity shall restate the functional currency accounting bases of nonmonetary assets and liabilities by translating the

³⁵ IFRS makes reference to “hyperinflationary” rather than “highly inflationary” economies. However, the guidance in the two sets of standards addresses similar circumstances.

historical reporting currency amounts of nonmonetary items into the local currency at current exchange rates.

Under IFRS, the amounts expressed in the measuring unit currency at the end of the previous reporting period should become the opening balances for the period in which the economy ceases to be hyperinflationary.

Z. Nonmonetary Transactions

ASC Topic 845, *Nonmonetary Transactions*, provides guidance on the accounting for nonmonetary transactions in general, requiring that such transactions are recognized if the usual risks and rewards of ownership are transferred and that, if recognized, such transactions are measured at fair value. ASC Topic 845 also provides guidance for specific aspects and types of nonmonetary transactions, including:

- The impact of monetary consideration (“boot”) on the accounting for nonmonetary transactions;
- Accounting for purchases and sales with the same counterparty;
- Transactions in which nonmonetary assets are exchanged for barter credits;
- Assessing the commercial substance of a nonmonetary transaction;
- Determinability of fair value in nonmonetary exchanges;
- Accounting for nonreciprocal transfers to owners;
- Accounting for reorganizations involving non-pro-rata split-offs of certain nonmonetary assets to owners; and
- Exchanges of nonfinancial assets for noncontrolling ownership interests.

IFRS does not contain general overarching guidance addressing the accounting for nonmonetary transactions; however, specific guidance is provided in several standards, which is generally similar to U.S. GAAP. The following are examples of IFRSs that contain guidance for nonmonetary transactions:

- IAS 18, *Revenue*, requires revenue to be recorded at the fair value of the goods or services received less any cash exchanged when dissimilar goods or services are exchanged (although when the exchange involves similar goods and services, the transaction is not considered a revenue transaction and thus beyond the scope of IAS 18).
- IAS 16, *Property, Plant and Equipment*, contains guidance that requires nonmonetary exchanges involving PP&E to be measured at fair value (unless the transaction lacks commercial substance).
- IFRIC 18, *Transfers of Assets from Customers*, discusses when recognition should be given to certain asset transfers and requires that, if recognition is appropriate, the transfer is measured at fair value.
- SIC-31, *Revenue – Barter Transactions Involving Advertising Services*, contains guidance on the determinability of fair value in such barter transactions.

- IFRIC 17, *Distributions of Non-cash Assets to Owners*, requires that nonreciprocal distributions of assets by an entity to owners acting in their capacity as owners are accounted for based on the fair value of the assets distributed.

ASC Topic 845 requires that entities that engage in nonmonetary transactions disclose:

- The nature of the transactions,
- The basis of accounting for the assets transferred, and
- Gains or losses recognized on the transfers.

IFRS does not contain disclosure requirements specific to nonmonetary transactions.

U.S. GAAP also contains guidance specific to the following industries and transactions:

- Airlines
- Broadcasters
- Film industry
- Nonmonetary exchanges to facilitate sales to customers that involve software

IFRS does not contain corresponding industry guidance.

AA. Related Party Disclosures

IAS 24 and ASC Topic 850, both titled *Related Party Disclosures*, have similar objectives and requirements for related party disclosures. Principally, both U.S. GAAP and IFRS require disclosures that provide users with an understanding of the reporting entity's related party and control relationships and inform users of the fact that the financial position and results of operations of the reporting entity may have been affected by such relationships. IAS 24 and ASC Topic 850 provide definitions of "related parties" that broadly address persons or entities that have significant influence or control over the reporting entity or are under significant influence or control of the reporting entity. Both standards also include entities under common control or influence in the related party definitions. There are some differences between the definitions in the respective standards, which the Staff believes could affect the identification of related parties, but likely only in limited circumstances.

Despite the similarities in the general requirements, certain differences exist between the specific disclosure requirements in IFRS and U.S. GAAP. For instance, IFRS requires incremental disclosure for outstanding balances, including commitments, with related parties and provisions for bad debts (including expense for the period) relating to such balances. IFRS also requires disclosure of key management personnel³⁶ compensation in total and for specific categories of

³⁶ Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, including directors.

compensation, namely, short-term, post-employment, other long-term and termination benefits, and share-based payments. There is no similar disclosure requirement in U.S. GAAP.³⁷

In addition to related party disclosures, IAS 24 and ASC Topic 850 also address control relationships. Specifically, IAS 24 requires disclosure of certain relationships irrespective of whether related party transactions occurred, including parent name and, if different, the ultimate controlling party, and related party relationships where control exists. The corresponding requirements of ASC Topic 850 are slightly more limited, requiring disclosure only in cases of common ownership or management control that could impact the reported results or financial position of the reporting entity and in such cases requiring disclosure only of the nature of the relationship and not of the parties involved.

BB. Reorganizations

U.S. GAAP contains guidance in ASC Topic 852, *Reorganizations*, that is applicable during the course of and upon emergence from bankruptcy and to other corporate reorganizations. IFRS does not contain guidance related to these areas.

ASC Subtopic 852-10 provides guidance on fresh-start reporting that is applicable upon an entity's emergence from Chapter 11 bankruptcy,³⁸ if certain conditions are met. If fresh-start reporting is required, the reorganizational value of the entity is assigned to the entity's assets and liabilities in conformity with the procedures specified in ASC Subtopic 805-20, *Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest*.

ASC Subtopic 852-20, *Reorganizations—Quasi-Reorganizations*, addresses the accounting applicable to a corporate readjustment procedure in which, without the creation of a new corporate entity and without the intervention of formal court proceedings, an entity restates its balance sheet to fair value (with a limitation, under SEC staff guidance³⁹ that there may be no overall write-up of net assets).

CC. Subsequent Events

IAS 10, *Events after the Reporting Period*, and ASC Topic 855, *Subsequent Events*, both require consideration of the effects on the financial statements of events that occur after the balance sheet date. Those events that provide evidence of conditions that existed at the balance sheet date require adjustment of the financial statements, whereas other events require disclosure only. The FASB's standard-setting efforts in recent years, primarily through the issuance of FASB

³⁷ Item 402 of Regulation S-K requires extensive disclosure of executive compensation outside of the financials for certain individuals. In addition, Item 404 of Regulation S-K separately has disclosure requirements of certain related party transactions.

³⁸ Chapter 11 of the Bankruptcy Code is a federal statute, enacted October 1, 1979, as title 11 of the United States Code of the Bankruptcy Reform Act of 1978 that applies to all cases filed on or after its enactment and that provides the basis for the current federal bankruptcy system.

³⁹ See SAB Topic 5.S, Quasi-Reorganization.

Statement No. 165, *Subsequent Events*, (codified in ASC Topic 855) have resulted in a closer alignment of U.S. GAAP and IFRS; however, the two standards are not fully converged.

Subsequent events, and the evaluation period thereof, are defined similarly under IFRS and U.S. GAAP. Under IAS 10, subsequent events are described as events that occur after the end of the reporting period (i.e., the balance sheet date) but before the date when the financial statements are authorized for issue. Under U.S. GAAP, for SEC filers defined therein, subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued. Financial statements are “issued” as of the date that they are distributed for general use and reliance in a form and format that complies with U.S. GAAP, and for annual financial statements, contain an audit report. Therefore, ASC Topic 855 incorporates a potentially longer evaluation period for subsequent events in the event that the financial statements are authorized for issue on a date preceding the actual issuance, which may affect the recognition and measurement of subsequent events.⁴⁰

Specific to the authorization of financial statements for issue, IFRS requires entities to disclose the date when the financial statements were authorized and who gave that authorization. U.S. GAAP does not contain either of these disclosure requirements.

ASC Topic 855 also includes specific guidance with respect to subsequent events and the reissuance of financial statements for which no corresponding guidance exists under IFRS. Under U.S. GAAP, an entity is not permitted to recognize events or transactions that occurred between the time the financial statements were issued and the time they are reissued, unless required by U.S. GAAP or regulatory requirements. Similarly, an entity is not permitted to recognize events or transactions that occurred between the time of original financial statement issuance and reissuance for comparative purposes unless required by U.S. GAAP or regulation. Examples of retrospective adjustments that may be required by U.S. GAAP or other regulation include reporting stock splits, presentation of discontinued operations, and application of a newly adopted accounting standard.

⁴⁰ The Staff notes that, in practice, the effect of this difference may be minimized because of the overriding obligation for U.S. issuers to follow SEC requirements, such as Rule 12b-20 under the Securities Exchange Act of 1934, which states that “in addition to the information expressly required to be included in a statement or report, there shall be added such further material information, if any, as may be necessary to make the required statements, in the light of the circumstances under which they are made not misleading.” Further, we believe that, in practice, there likely will be little difference between the authorization date and the issuance date for U.S. issuers.