

# US GAAP vs. IFRS

The basics

 **ERNST & YOUNG**  
Quality In Everything We Do

# Table of contents

2	Introduction
5	Financial statement presentation
7	Consolidations, joint venture accounting and equity method investees
9	Business combinations
12	Intangible assets
14	Inventory
15	Long-lived assets
18	Impairment of assets
20	Leases
23	Financial instruments
26	Foreign currency matters
28	Income taxes
30	Provisions and contingencies
32	Revenue recognition
34	Share-based payments
36	Employee benefits other than share-based payments
38	Segment reporting
40	Earnings per share
41	Interim financial reporting
42	Subsequent events
43	Related parties
44	Appendix – The evolution of IFRS

# Introduction

It is not surprising that many people who follow the development of worldwide accounting standards today might be confused. Convergence is a high priority on the agendas of both the US Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) – and “convergence” is a term that suggests an elimination or coming together of differences. Yet much is still made of the many differences that exist between US GAAP as promulgated by the FASB and the International Financial Reporting Standards (IFRS) as promulgated by the IASB, suggesting that the two GAAPs continue to speak languages that are worlds apart. This apparent contradiction has prompted many to ask just how different are the two sets of standards? And where differences exist, why do they exist, and when, if ever, will they be eliminated?

In this guide, “US GAAP v. IFRS: The Basics,” we take a top level look into these questions and provide an overview, by accounting area, both of where the standards are similar and also where they diverge. While the US and international standards do contain differences, the general principles, conceptual framework, and accounting results between them are often the same or similar, even though the areas of divergence seem to have disproportionately overshadowed these similarities. 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.

No publication that compares two broad sets of accounting standards can include all differences that could arise in accounting for the myriad of business transactions that could possibly occur. 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, its interpretation of the more general IFRS principles, its industry practices, and its accounting policy elections where US GAAP and IFRS offer a choice. This guide focuses on those differences most commonly found in present practice and, where applicable, provides an overview of how and when those differences are expected to converge.

## Why do differences exist?

As the international standards were developed, the IASB and its predecessor, the International Accounting Standards Committee (IASC), had the advantage of being able to draw on the latest thinking of standard setters from around the world. As a result, the international standards contain elements of accounting standards from a variety of countries. And even where an international standard looked to an existing US standard as a starting point, the IASB was able to take a fresh approach to that standard. In doing so, the IASB could avoid some of the perceived problems in the FASB standard – for example, exceptions to the standard’s underlying principles that had resulted from external pressure during the exposure process, or practice difficulties that had emerged subsequent to the standard’s issuance – and attempt to improve them.

Further, as part of its annual “Improvements Project,” the IASB reviews its own existing standards to enhance their clarity and consistency, again taking advantage of more current thinking and practice.

For these reasons, some of the differences between US GAAP and IFRS are embodied in the standards themselves—that is, they are *intentional* deviations from US requirements.

Still other differences have emerged through *interpretation*. As a general rule, IFRS standards are more broad and “principles-based” than their US counterparts, with limited interpretive guidance. The IASB has generally avoided issuing interpretations of its own standards, preferring to instead leave implementation of the principles embodied in its standards to preparers and auditors, and its official interpretive body, the International Financial Reporting Interpretations Committee (IFRIC). While US standards contain underlying principles as well, the strong regulatory and legal environment in US markets has resulted in a more prescriptive approach—with far more “bright lines,” comprehensive implementation guidance, and industry interpretations.

Therefore, while some might read the broader IFRS standard to require an approach similar to that contained in its more detailed US counterpart, others might not. Differences also result from this divergence in interpretation.

## Will the differences ever be eliminated?

Both the FASB and IASB (the Boards) publicly declared their commitment to the convergence of IFRS and US GAAP in the “Norwalk Agreement” in 2002, and since that time have made significant strides toward that goal. In its 2005 “Roadmap,” the United States Securities and Exchange Commission (SEC) declared continuing convergence a critical factor in eliminating the IFRS to US GAAP reconciliation for foreign private issuers, ultimately issuing a rule amendment eliminating the reconciliation in late 2007. Also in 2007, the SEC issued a Concept Release and hosted two roundtables seeking feedback on the possibility of giving US issuers the option to file their financial statements in accordance with IFRS. With all of this attention on convergence, some wonder if all differences between US GAAP and IFRS will eventually be eliminated.

While convergence is an admirable goal with many potential benefits, particularly for entities that are listed in more than one jurisdiction, it is a goal that may not be easily or quickly achieved. The success of convergence will depend not only on the ability of the FASB and IASB to work together, but also on the willingness of national regulators and industry groups to cooperate and to avoid issuing local interpretations of IFRS and guidance that provides exceptions to IFRS principles. Some examples of this have already begun to emerge and could threaten the achievement of international harmonization.

At this time, it is not possible to speculate with any certainty when and if complete convergence between the two sets of accounting standards will ever occur, regardless of how worthy the goal. In the meantime, many preparers, users, and auditors – particularly those involved with multiple global jurisdictions – will be interested in understanding the similarities and key differences between IFRS and US GAAP. We hope you find this guide a useful tool for that purpose.

*Ernst + Young LLP*

April 2008

# Financial statement presentation

## Similarities

There are many similarities between US GAAP and IFRS relating to financial statement presentation. For example, under both frameworks, the components of a complete set of financial statements include: balance sheet, income statement, other comprehensive income for US GAAP or statement of recognized income and expense (SORIE) for IFRS, statement of cash flows,

and accompanying notes to the financial statements. Further, both frameworks require that the financial statements be prepared on the accrual basis of accounting (with the exception of the cash flows statement) except for rare circumstances. Both GAAPs have similar concepts regarding materiality and consistency requirements that entities have to consider in preparing their financial statements. Differences between the two tend to arise in the level of specific guidance.

## 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 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 in respect of 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 <i>Presentation of Financial Statements</i> 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 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 or modify the violated item exists prior to the issuance of the financial statements.  Deferred taxes are presented as current or non-current based on the nature of the related asset or liability.	Debt associated with a covenant violation must be presented as current unless the lender agreement was reached prior to the balance sheet date.  Deferred taxes are presented as non-current. (Note: In the joint convergence project on income taxes, IFRS is expected to converge with US GAAP.)

	US GAAP	IFRS
Income statement – classification of expenses	SEC registrants are required to present expenses based on function (for example, cost of sales, administrative).	Entities may present expenses based on either function or nature (for example, salaries, depreciation). However, if function is selected, certain disclosures about the nature of expenses must be included in the notes.
Income statement – extraordinary items	Restricted to items that are both unusual and infrequent. Negative goodwill is always treated as extraordinary.	Prohibited.
Income statement – significant items (unusual or infrequently occurring)	Presented separately on the face of the income statement as a component of continuing operations.	Separate disclosure of the nature and amount is required, but can be done in the income statement or in the notes.
Changes in equity	Present all changes in each caption of stockholders' equity in either a footnote or a separate statement.	At a minimum, present components related to "recognized income and expense" as part of a separate statement (referred to as the SORIE if it contains no other components). Other changes in equity either disclosed in the notes, or presented as part of a single, combined statement of all changes in equity (in lieu of the SORIE).
Disclosure of performance measures	SEC regulations define certain key measures and provide requirements and limitations on the ability of public companies to disclose non-GAAP measures within the financial statements. Any non-GAAP measures presented must be reconciled to the corresponding GAAP measurement.	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 when such presentation is relevant to an understanding of the entity's financial performance.

## Convergence

In April 2004, the FASB and the IASB (the Boards) agreed to undertake a joint project on financial statement presentation. As part of "Phase A" of the project, the IASB issued a revised IAS 1 in September 2007 (with an effective date for annual reporting periods ending after January 1, 2009) modifying the requirements of the SORIE within IAS 1 and bringing it largely

in line with the FASB's statement of other comprehensive income. "Phase B" of the project addresses the more fundamental issues for presentation of information on the face of the financial statements, and may ultimately result in significant changes in the current presentation format of the financial statements. The Boards are expected to issue an initial discussion document in the second quarter of 2008.

# Consolidations, joint venture accounting and equity method investees

## Similarities

The principle guidance for consolidated financial statements under US GAAP is ARB 51 *Consolidated Financial Statements and FAS 94 Consolidation of all Majority-Owned Subsidiaries*; while IAS 27 *Consolidated and Separate Financial Statements* provides the guidance under IFRS. Special purpose entities are addressed in FIN 46 (Revised) *Consolidation of Variable Interest Entities and SIC 12 Consolidation – Special Purpose Entities* in US GAAP and IFRS respectively. Under both US GAAP and IFRS, the determination of whether or not subsidiaries are consolidated by the parent company is based on control, although differences exist in the consideration/definition of control. Generally, under both GAAPs all subsidiaries subject to the control of the parent company must be consolidated (note that there are limited exceptions in US GAAP in certain specialized industries). Further, uniform accounting policies are used

for all of the entities within a group, with the exception that under US GAAP a subsidiary within a specialized industry may retain the specialized accounting policies in consolidation. Under both GAAPs, 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.

An equity investment (referred to as “an associate” in IFRS) over which the investor has significant influence (generally, a 20% or more interest by an investor provides a presumption of significant influence) but is not consolidated is considered an equity method investment under both US GAAP (APB 18 *The Equity Method of Accounting for Investments in Common Stock*) and IFRS (IAS 28 *Investments in Associates*). Further, the equity method of accounting for such investments, if applicable, is consistent under both GAAPs.

## Significant differences

	US GAAP	IFRS
Consolidation model	Focus is on controlling financial interests. All entities are first evaluated as potential variable interest entities (VIE). If a VIE, FIN 46 (Revised) guidance is followed (below). Entities controlled by voting rights are consolidated as subsidiaries, but potential voting rights are not included in this consideration. The concept of “effective control” exists, but is rarely employed in practice.	Focus is on the concept of the power to control, with control being the parent’s ability to govern the financial and operating policies of an entity to obtain benefits. Control presumed to exist if parent owns greater than 50% of the votes, and potential voting rights must be considered. Notion of “de facto control” must also be considered.
Special purpose entities (SPE)	FIN 46 (Revised) requires the primary beneficiary (determined based on the consideration of economic risks and rewards) to consolidate the VIE.	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.

	US GAAP	IFRS
Preparation of consolidated financial statements—general	Required.	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.
Presentation of noncontrolling or “minority” interest	Presented outside of equity on the balance sheet.	Presented as a separate component in equity on the balance sheet.
Equity method investments	FAS 159 <i>The Fair Value Option for Financial Assets and Financial Liabilities</i> gives entities the option to account for their equity method investments at fair value (FAS 159 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted, subject to certain conditions). For those equity method investments for which management does not elect to use the fair value option, the equity method of accounting is required.	IAS 28 requires investors (other than venture capital organizations, mutual funds, unit trusts, and similar entities) to use the equity method of accounting for such investments in consolidated financial statements.  If separate financial statements are presented (that is, those presented by a parent or investor), subsidiaries and associates can be accounted for at either cost or fair value.
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 <i>Investments in Joint Ventures</i> permits either the proportionate consolidation method or the equity method of accounting.

## Convergence

As part of their joint project on business combinations, the FASB issued FAS 160 *Noncontrolling Interests in Consolidated Financial Statements* and the IASB amended IAS 27, thereby eliminating substantially all of the differences between US GAAP and IFRS

pertaining to noncontrolling interests, outside of the initial accounting for the noncontrolling interest in a business combination (see the Business Combinations section). In addition, the IASB recently issued an exposure draft that proposes the elimination of proportionate consolidation for joint ventures.

# Business combinations

## Similarities

Pursuant to FAS 141 and IFRS 3 (both entitled *Business Combinations*), all business combinations are accounted for using the purchase method. Under both GAAPs, the acquiring entity is the entity that obtains control, and the cost of the business combination is the fair value of the consideration transferred plus any acquisition-related transaction costs. For a 100% acquisition, the acquirer recognizes the acquiree's net identifiable assets (including any intangible assets) at fair value at the acquisition date and also recognizes goodwill, which represents the excess of the purchase price over the acquirer's interest in the fair value of the identifiable net assets of the acquiree. Further, goodwill is subject to an annual impairment test.

## Significant differences and convergence

Both Boards recently issued virtually converged standards. While the new standards will require significant changes to both US GAAP and IFRS, they eliminate many, but not all, of the differences that currently exist. The new standards will be effective for annual periods beginning after 1 January 2009 and 1 July 2009 for companies following US GAAP and IFRS, respectively.

The table below highlights both the significant differences existing under the current guidance and, where applicable, the revised requirements resulting from the new converged business combinations standards.

	US GAAP	IFRS	Converged standards
Determining the measurement date for the market price of acquirer marketable equity securities	If certain criteria are met, reasonable period of time before and after the terms of the acquisition are agreed to and announced (for fixed exchange ratios) or a reasonable period of time before and after the date of the last change in the exchange ratio (for floating exchange ratios). Otherwise, the acquisition date.	Acquisition date (date on which the acquirer obtains control of the acquiree).	Acquisition date (date on which the acquirer obtains control of the acquiree).
Contingent consideration	Generally recognized when the contingency is resolved beyond a reasonable doubt.	Recognized when probable (that is more likely than not under IFRS) that the contingency will occur and can be measured reliably.	Recognized at fair value at the acquisition date, with subsequent changes in fair value generally reflected in earnings.

	US GAAP	IFRS	Converged standards
Negative goodwill	Allocated on a pro rata basis to reduce the carrying amount of certain acquired assets with any excess recognized as an extraordinary gain.	After reassessing the purchase price allocation, recognized immediately as income.	After reassessing the purchase price allocation, recognized immediately as income.
Acquired in-process research and development	Determine fair value and expense immediately if no alternative future use.	Recognized as a finite-lived intangible asset separately from goodwill if the definition of an intangible asset is met and the fair value can be measured reliably.	Recognized as an indefinite-lived intangible asset separately from goodwill at their acquisition-date fair values.
Restructuring liabilities	Recognized only if the restructuring relates to the acquired business and certain conditions are met.	Recognized only if the criteria for liability recognition have been met at the acquiree level as of the acquisition date.	Recognized only if the criteria for liability recognition have been met at the acquiree level as of the acquisition date.
Acquisition of less than 100% of acquiree	<p>Net identifiable assets of acquiree are recognized partly at fair value (to the extent of the acquirer's ownership interest) and partly at historical book value (to the extent of the minority's ownership interest).</p> <p>Minority interest is measured at its proportionate share of the historical book value of the acquiree's net identifiable assets.</p>	<p>Net identifiable assets of acquiree are recognized at their full fair value.</p> <p>Minority interest is measured at its proportionate share of the fair value of the acquiree's net identifiable assets, exclusive of goodwill.</p>	<p>Net identifiable assets of acquiree are recognized at their full fair value.</p> <p>US GAAP– Noncontrolling interest is measured at fair value, including goodwill.</p> <p>IFRS– Companies have a choice of measuring non-controlling interest at either fair value including goodwill or at its proportionate share of the fair value of the acquiree's net identifiable assets, exclusive of goodwill.</p>

	US GAAP	IFRS	Converged standards
Acquisition of minority interest	Accounted for as a step acquisition using the purchase method.	Not a business combination. Diversity in practice exists.	Not a business combination. Accounted for as an equity transaction.
Combination of entities under common control	Accounted for in a manner similar to a pooling of interests (historical cost) .	Outside the scope of IFRS 3. In practice, either follow an approach similar to US GAAP or apply the purchase method if there is substance to the transaction.	No changes to existing literature (will remain a difference) .

Other differences prior to convergence include:

(i) determining the acquisition date of the business combination, (ii) the accounting for business combinations achieved in stages, (iii) the accounting for pre-acquisition loss contingencies of the acquiree, (iv) the accounting for adjustments to the preliminary purchase price allocation, (v) the accounting for a change in the acquirer's tax position as a result of the business combination, (vi) the accounting for the subsequent recognition of a deferred tax asset by the acquiree, (vii) the accounting for operating leases when the acquiree is the lessee and (viii) the application of push down accounting in the separate financial statements of a "substantially wholly-owned" purchased subsidiary. All of these differences have been eliminated in the new converged standards, except for items (iii), (vii) and (viii).

Additionally, other differences in the new standards, beyond those highlighted above, may arise due to different accounting requirements of other existing US GAAP-IFRS literature (for example, replacement of share-based payment awards, definition of control, definition of fair value, and subsequent measurement of contingent assets and liabilities).

# Intangible assets

## Similarities

The definition of intangible assets as non-monetary assets without physical substance is the same under both US GAAP's FAS 141 *Business Combinations* and FAS 142 *Goodwill and Other Intangible Assets* and the IASB's IFRS 3 *Business Combinations* and IAS 38 *Intangible Assets*. The recognition criteria for both accounting models require that there be probable future economic benefits and costs that can be reliably measured. However, some costs are never capitalized as intangible assets under both models, such as start-up costs. Goodwill is recognized only in a business combination in accordance with FAS 141 and IFRS 3. In general, intangible assets that are acquired outside of a business combination are recognized at fair value. With the exception of development costs (addressed in the following table), internally

developed intangibles are not recognized as an asset under either FAS 142 or IAS 38. Moreover, internal costs related to the research phase of research and development are expensed as incurred under both accounting models.

Amortization of intangible assets over their estimated useful lives is required under both US GAAP and IFRS, with one minor exception in FAS 86 *Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed* related to the amortization of computer software assets. In both, 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 a separate standard. Development costs related to computer software developed for external use are capitalized once technological feasibility is established in accordance with specific criteria (FAS 86). In the case of software developed for internal use, only those costs incurred during the application development stage (as defined in SOP 98-1 <i>Accounting for the Costs of Computer Software Developed or Obtained for Internal Use</i> ) may be capitalized.	Development costs are capitalized when technical and economic feasibility of a project can be demonstrated in accordance with specific criteria. Some of the stated criteria include: demonstrating technical feasibility, intent to complete the asset, and ability to sell the asset in the future, as well as others. There is no separate guidance addressing computer software development costs.

	US GAAP	IFRS
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 SOP 93-07 <i>Reporting on Advertising Costs</i> 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's having access to the goods or receiving the services.
Revaluation	Revaluation is not permitted.	Revaluation to fair value of intangible assets other than goodwill is an allowable alternative treatment. Because revaluation requires reference to an active market for the specific type of intangible, this is relatively uncommon in practice.

## Convergence

The FASB and the IASB have agreed to converge their standards on intangible assets. However, neither Board has an active project on its agenda.

# Inventory

## Similarities

ARB 43 and IAS 2 (both entitled *Inventories*) are both 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. The permitted techniques for cost

measurement, such as standard cost method or retail margin method, are similar under both US GAAP and IFRS. Further, under both GAAPs 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 as long as market is not greater than net realizable value (estimated selling price less reasonable costs of completion and sale) and is not less than net realizable value reduced by a normal sales margin.	Inventory is carried at the lower of cost or net realizable value (best estimate of the amounts inventories are expected to realize, taking into consideration the purpose for which the inventory is held. This amount may or may not equal fair value).
Reversal of inventory write-downs	Any write-downs of inventory to the lower of cost or market create 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.

## Convergence

In November 2004, the FASB issued FAS 151 *Inventory Costs* to address a narrow difference between US GAAP and IFRS related to the accounting for inventory costs, in particular,

abnormal amounts of idle facility expense, freight, handling costs, and spoilage. At present, there are no other convergence efforts with respect to inventory in process.

# 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. The costs to be capitalized under both models are similar. Neither model allows the capitalization of start-up costs, general administrative and overhead costs, or regular maintenance. However, both US GAAP and IFRS require that the costs of dismantling an asset and restoring its site (that is, the costs of asset retirement under FAS 143 *Accounting for Asset Retirement Obligations* or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*) be included in the cost of the asset. Both models require a provision for asset retirement costs to be recorded when there is a legal obligation, although IFRS requires provision in other circumstances as well.

## Capitalized interest

FAS 34 *Capitalization of Interest* and IAS 23 *Borrowing Costs* address the capitalization of borrowing costs (for example, 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 significant differences between US GAAP and IFRS in the specific costs and assets that are included within these categories as well as the requirement to capitalize these costs.

## Depreciation

Depreciation of long-lived assets is required on a systematic basis under both accounting models. FAS 154 *Accounting Changes and Error Corrections* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Error Corrections* both treat changes in depreciation method, residual value, and useful economic life as a change in accounting estimate requiring prospective treatment.

## Assets held for sale

Assets held for sale are discussed in FAS 144 and IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*, with both standards having similar held for sale criteria. 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 are presented separately on the face of the balance sheet. Exchanges of nonmonetary similar productive assets are also treated similarly under APB 29 *Accounting for Nonmonetary Exchanges* as amended by FAS 153 *Accounting for Nonmonetary Transactions* and IAS 16, both of which allow gain/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 model may be applied to 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.
Capitalization of borrowing costs	<p>Requires interest costs to be capitalized as part of the cost of a qualifying asset.</p> <p>Qualifying assets include certain equity method investments but do not include inventories that are routinely manufactured repetitively in large quantities.</p>	<p>Policy choice to capitalize or expense must be applied consistently to all qualifying assets. (Note: this policy choice will be eliminated in 2009 with the adoption of IAS 23 (Revised) and amounts will have to be capitalized.)</p> <p>Qualifying assets do not include equity method investments but include inventories that require a substantial period of time to get ready for sale, including routinely manufactured repetitively in large quantities. (Note: with the adoption of IAS 23 (Revised) such inventories are not required to be included as qualifying assets.)</p>
Measurement of borrowing costs	<p>Eligible borrowing costs do not include exchange rate differences. Interest earned on borrowings generally cannot offset interest costs incurred during the period.</p> <p>For borrowings associated with a specific qualifying asset, borrowing costs equal to the weighted average accumulated expenditures times the borrowing rate are capitalized.</p>	<p>Eligible borrowing costs include exchange rate differences from foreign currency borrowings. Borrowing costs are offset by investment income earned on those borrowings.</p> <p>For borrowings associated with a specific qualifying asset, actual borrowing costs are capitalized.</p>
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.

	US GAAP	IFRS
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 as an asset held to earn rent or for capital appreciation (or both) and may include property held by lessees under a finance/operating lease. Investment property may be accounted for on a historical cost basis or on a fair value basis (capitalized operating lease classified as investment property must be accounted for using the fair value model).

Other differences include: (i) hedge gains/losses related to the purchase of assets, (ii) constructive obligations to retire assets, (iii) the discount rate used to calculate asset retirement costs, and (iv) the accounting for changes in the residual value.

## Convergence

No further convergence is planned at this time.

# Impairment of assets

## Similarities

Both US GAAP and IFRS contain similarly defined impairment indicators for assessing the impairment of long-lived assets. Both standards require goodwill and intangible assets with indefinite lives to be reviewed at least annually for impairment regardless of the existence of impairment indicators. Additionally, both GAAPs require that an asset found to be

impaired be written down and an impairment loss recognized. FAS 142, FAS 144 *Accounting for the Impairment of Disposal of Long-Lived Assets*, 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
Review for impairment indicators—long-lived assets	Performed whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.	Assessed at each reporting date.
Method of determining impairment—long-lived assets	Two-step approach requires a recoverability test be performed first (carrying amount of the asset is compared to the sum of future undiscounted cash flows generated through use and eventual disposition). If it is determined that the asset is not recoverable, an impairment loss is calculated.	One-step approach requires that impairment loss be calculated 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 FAS 157.	The amount by which the carrying amount of the asset exceeds its recoverable amount; recoverable amount is the higher of: (i) fair value less costs to sell, and (ii) value in use (the present value of future cash flows in use including disposal value). (Note that the definition of fair value in IFRS has certain differences from the definition in FAS 157.)
Method of determining impairment—goodwill	Two-step approach requires a recoverability test to be performed first at the reporting unit level (carrying amount of the reporting unit is compared to the reporting unit fair value), then an impairment loss is calculated.	One-step approach requires that an impairment test be done at the cash generating unit (CGU) level by comparing the CGU's carrying amount, including goodwill, with its recoverable amount.

	US GAAP	IFRS
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 the carrying amount of other assets in the CGU are reduced pro rata, based on the carrying amount of each asset.
Impairment loss calculation – indefinite life 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.	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

Impairment is one of the short-term convergence projects agreed to by the FASB and IASB in their 2006 “Memorandum of Understanding.” The staff research has begun on this project.

# Leases

## Similarities

The overall accounting for leases under US GAAP and IFRS (FAS 13 *Accounting for Leases* and IAS 17 *Leases* respectively) is similar, although US GAAP has more specific rules 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 standards require that the party that bears substantially all the risks and rewards of ownership of the leased property recognize a lease asset and corresponding obligation, and specify criteria (FAS 13) or indicators (IAS 17) used to make this determination (that is, whether a lease is capital or operating). The criteria or indicators of a capital lease in the standards are similar in that both 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. Further, FAS 13 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. FAS 13 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 FAS 13 specifies bright lines in certain instances (for example, 75% of economic life), IAS 17's general principles are interpreted similarly to the bright line tests. As a result, lease classification is often the same under FAS 13 and IAS 17.

Under both GAAPs, 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 FAS 13 and IAS 17 is similar and uses the above tests to determine whether a lease is a sales-type/direct financing lease or an operating lease. FAS 13 specifies two additional criteria (that is, 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 have. Although not specified in IAS 17, it is reasonable to expect that if these conditions exist, the same conclusion would be reached under each standard. If a lease is a sales-type/direct financing lease, the leased asset is replaced with a lease receivable. If it 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 land and building	<p>A lease for 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.</p> <p>If the fair value of the land at inception represents 25% or more of the total fair value of the lease, 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.)</p>	<p>The land and building elements of the lease are considered separately for purposes of evaluation of 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 for purposes of evaluation of certain indicators.</p>
Recognition of a gain or loss on a sale and leaseback when the leaseback is an operating leaseback	<p>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.)</p>	<p>Gain or loss is recognized immediately, subject to adjustment if the sales price differs from fair value.</p>
Recognition of gain or loss on a sale leaseback when the leaseback is a capital leaseback	<p>Generally, same as above for operating leaseback where the seller does not relinquish the right to use the asset.</p>	<p>Gain or loss deferred and amortized over the lease term.</p>

Other differences include: (i) the treatment of a leveraged lease by a lessor under FAS 13 (IAS 17 does not have such classification), (ii) real estate sales leasebacks, (iii) real estate sales-type leases, and (iv) the rate used to discount minimum lease payments to the present value for purposes of determining lease classification and subsequent recording of a capital lease, including in the event of a renewal.

## Convergence

The Boards are jointly working on a long-term convergence project on lease accounting with an overall objective of comprehensively reconsidering the existing guidance issued by both standard setters. A discussion paper is planned to be issued in the first quarter of 2009, with the Boards then moving towards publication of an exposure draft.

# Financial instruments

## Similarities

The US GAAP guidance for financial instruments is contained in several standards. Those standards include, among others, FAS 115 *Accounting for Certain Investments in Debt and Equity Securities*, FAS 133 *Accounting for Derivative Instruments and Hedging Activities*, FAS 140 *Accounting for the Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, FAS 150 *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, and FAS 157 *Fair Value Measurements*. IFRS guidance for financial instruments, on the other hand, is limited to

three standards (IAS 32 *Financial Instruments: Presentation*, IAS 39 *Financial Instruments: Recognition and Measurement*, and IFRS 7 *Financial Instruments: Disclosures*). Both GAAPs 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, and require the recognition of all derivatives on the balance sheet. Hedge accounting is permitted under both. Each GAAP also requires detail disclosures in the notes to financial statements with regard to the financial instruments reported in the balance sheet.

## Significant differences

	US GAAP	IFRS
Fair value measurement	<p>One measurement model whenever fair value is used. Fair value is based on an exit price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.</p> <p>Fair value is not based on the transaction (entry) price.</p>	<p>Various IFRS standards use slightly varying wording to define fair value. Generally fair value is neither an exit nor an entry price, but represents the amount that an asset could be exchanged, or a liability settled between willing parties.</p> <p>At inception date, transaction (entry) price generally is considered fair value.</p>
Use of fair value option	<p>Financial instruments can be measured at fair value with changes in fair value reported through net income, except for specific ineligible financial assets and liabilities.</p>	<p>Financial instruments can be measured at fair value with changes in fair value reported through net income provided that certain criteria, which are more restrictive than under US GAAP, are met.</p>
Day one profits	<p>Entities may recognize day one gains on financial instruments reported at fair value even when all inputs to the measurement model are not observable.</p>	<p>Day one gains are recognized only when all inputs to the measurement model are observable.</p>

	US GAAP	IFRS
Debt vs. equity classification	<p>US GAAP specifically identifies certain instruments with characteristics of both debt and equity that must be classified as liabilities.</p> <p>Certain other contracts that are indexed to, and potentially settled in, a company's own stock may be classified as equity if they: (i) require physical settlement or net-share settlement, or (ii) give the issuer a choice of net-cash settlement or settlement in its own shares.</p>	<p>Classification of certain instruments with characteristics of both debt and equity focuses on the contractual obligation to deliver cash, assets, or an entity's own shares. Economic compulsion does not constitute a contractual obligation.</p> <p>Contracts that are indexed to, and potentially settled in, a company's own stock are classified as equity when settled by delivering a fixed number of shares for a fixed amount of cash.</p>
Compound (hybrid) financial instruments	Compound (hybrid) financial instruments (for example, convertible bonds) are not bifurcated into debt and equity components, but they may be bifurcated into debt and derivative components.	Compound (hybrid) financial instruments are required to be split into a debt and equity component and, if applicable, a derivative component.
Impairment recognition – Available-for-Sale (AFS) debt instrument	Declines in fair value below cost may result in an impairment loss on an AFS debt security due solely to a change in interest rates (risk-free or otherwise) if the entity does not have the positive ability and intent to hold the asset until it recovers or matures.	Generally, only evidence of credit default results in the impairment of an AFS debt instrument.
Hedge effectiveness – shortcut method	Permitted.	Not permitted.
Hedging a component of a risk in a financial instrument	The risk components that may be hedged are specifically defined by the literature, with no additional flexibility.	Allows entities to hedge components (portions) of risk that give rise to changes in fair value.
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.

Other differences include: (i) definitions of a derivative and embedded derivative, (ii) cash flow hedge – basis adjustment and effectiveness testing, (iii) normal purchase and sale exception, (iv) derecognition of financial assets, (v) foreign exchange gain and/or losses on AFS investments, (vi) recording of basis adjustments when hedging future transactions, (vii) macro hedging, (viii) hedging net investments, (ix) impairment criteria for equity investments, and (x) puttable minority interest.

## Convergence

In 2007, the IASB exposed a discussion paper to propose using one measurement model for fair value whenever fair value is required, which is consistent with the concepts in FAS 157. Both Boards appear to be moving towards ultimately measuring all financial instruments at fair value with changes in fair value reported through net income. More recently, the IASB issued a discussion paper on financial instruments with characteristics of equity, as well as a discussion paper on reducing complexity in reporting financial instruments. During the comment period for the discussion paper on financial instruments with characteristics of equity, the IASB will consider a project proposal to add the project to its active agenda. If the project is added, the IASB intends to undertake it jointly with the FASB.

# Foreign currency matters

## Similarities

FAS 52 *Foreign Currency Translation* and IAS 21 *The Effects of Changes in Foreign Exchange Rates* are quite similar in their approach to foreign currency translation. While the guidance provided by each for evaluating the functional currency of an entity is different, it generally results in the same determination (that is, the currency of the entity's primary economic environment). Both GAAPs generally consider the same economies to be hyperinflationary, although the accounting for an entity operating in such an environment can be very different.

Both GAAPs 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. Once a subsidiary's financial

statements are remeasured into its functional currency, both standards require translation into its parent's functional currency with assets and liabilities being translated at the period-end rate, and income statement amounts generally at the average rate, with the exchange differences reported in equity. Both standards also permit the hedging of that net investment with exchange differences from the hedging instrument offsetting the translation amounts reported in equity. The cumulative translation amounts reported in equity are reflected in income when there is a sale, or complete liquidation or abandonment of the foreign operation, but there are differences between the two standards when the investment in the foreign operation is reduced through dividends or repayment of long-term advances as indicated below.

## 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.	Local functional currency financial statements (current and prior period) are indexed using a general price index, and then translated to the reporting currency at the current rate.
Treatment of translation difference in equity when a partial return of a foreign investment is made to the parent	Translation difference in equity is recognized in income only upon sale (full or partial), or complete liquidation or abandonment of the foreign subsidiary. No recognition is made when there is a partial return of investment to the parent.	A return of investment (for example, dividend) is treated as a partial disposal of the foreign investment and a proportionate share of the translation difference is recognized in income.

	US GAAP	IFRS
Consolidation of foreign operations	The "step-by-step" method 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 is used. Under the "direct" method, each entity within the consolidated group is directly consolidated into the ultimate parent without regard to any intermediate parent. The choice of method 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 convergence activities are underway or planned for foreign currency matters.

# Income taxes

## Similarities

FAS 109 *Accounting for Income Taxes* and IAS 12 *Income Taxes* provide the guidance for income tax accounting under US GAAP and IFRS, respectively. Both pronouncements require entities to account for both current tax effects and expected future tax consequences of events that have been recognized (that is, deferred taxes) using an asset and liability approach. Further, deferred taxes for temporary differences arising from non-deductible goodwill are not recorded under either approach and tax effects of items accounted for directly to equity during the current year are also allocated directly to equity. Finally, neither GAAP permits the discounting of deferred taxes.

## Significant differences and convergence

The joint exposure draft from the FASB and the IASB expected to be published in 2008 will eliminate many of the differences that currently exist between both GAAPs. The table below highlights the significant differences in the current literature, as well as the expected proposed accounting under the joint exposure draft.

	US GAAP	IFRS	Joint exposure draft
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 FIN 48 <i>Accounting for Uncertainty in Income Taxes</i> .	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.	IFRS is expected to propose a new definition for tax basis that will eliminate consideration of management's intent in determination of the tax basis.
Uncertain tax positions	FIN 48 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. 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. Detection risk is precluded from being considered in the analysis.	No specific guidance; IAS 12 indicates tax assets/liabilities should be measured at the amount expected to be paid. In practice, the recognition principles in IAS 37 on provisions and contingencies are frequently applied. Practice varies regarding consideration of detection risk in the analysis.	IFRS is expected to address uncertain tax positions; however, the approach as currently drafted will be different from FIN 48. As drafted, the IFRS exposure draft does not include separate recognition criteria; instead it requires, based on the technical merits of the position, measurement of the benefit to be recognized to be based on the probability weighted average of the possible outcomes, including consideration of detection.

	US GAAP	IFRS	Joint exposure draft
Initial recognition exemption	No similar exemption 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 the amounts did not arise from a business combination <i>and</i> upon occurrence the transaction affects neither accounting nor taxable profit (for example, acquisition of non-deductible assets).	IFRS expected to converge with US GAAP requirements by eliminating the initial recognition exemption.
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 (under IFRS, similar to “more likely than not” under US GAAP) that they will be realized.	IFRS expected to converge with US GAAP requirements.
Calculation of deferred asset or liability	Enacted tax rates must be used.	Enacted or “substantively enacted” tax rates as of the balance sheet date must be used.	US GAAP expected to require operations outside the US taxing jurisdiction to apply an approach consistent with IFRS. IFRS expected to clarify definition of “substantively enacted” to indicate that for US jurisdictions, it equates to when tax laws are enacted.
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.	IFRS expected to converge with US GAAP requirements.
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 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.	IFRS is expected to converge with US GAAP.

# Provisions and contingencies

## Similarities

While the sources of guidance under US GAAP and IFRS differ significantly, the general recognition criteria for provisions are similar. For example, 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, FAS 5 *Accounting for Contingencies* and a number of other statements deal with specific types of provisions and contingencies (for example, FAS 143 for asset retirement obligations and FAS 146 for exit and disposal activities). Further, the guidance provided 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 GAAPs require recognition of a loss based on the probability of occurrence, although the definition of probability is different under US GAAP (where probable is interpreted as “likely”) and IFRS (where 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 GAAPs require information about a contingent liability, whose occurrence is more than remote but did not meet the recognition criteria, to be disclosed in the notes to the financial statements.

## 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 (for example, an asset retirement obligation under FAS 143). Discount rate to be used is dependent upon the nature of the provision, and may vary from that used under IFRS.	Provisions should be recorded at the estimated amount to settle or transfer the obligation taking into consideration the time value of money. 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.”
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 mid-point 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.

	US GAAP	IFRS
Restructuring Costs	Per FAS 146, 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 none. Other exit costs are expensed when incurred.	Once management has “demonstrably committed” (that is a legal or constructive obligation) to a detailed exit plan, the general provisions of IAS 37 apply. Costs typically recognized earlier than under US GAAP because IAS 37 focuses on 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 party to a contingent liability.

## Convergence

Both the FASB and the IASB have current agenda items dealing with this topic. An exposure draft proposing amendments to IAS 37 was issued in 2005, with a final standard expected no earlier than the second half of 2009. The IASB has indicated its intent to converge with US GAAP in the accounting for restructuring costs as part of this project.

# 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.” Under US GAAP, revenues represent actual or expected cash inflows that have occurred or will result from the entity’s ongoing major operations. Under both GAAPs, revenue is not recognized until it is both realized (or realizable) and earned. Ultimately, both GAAPs base revenue recognition on the transfer of risks and both attempt to determine when the earnings process is complete. Both GAAPs contain revenue recognition criteria that, while not identical, are similar. For example, under IFRS, one recognition criteria 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 industry transactions. For example, under US GAAP there are specific rules relating to 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. 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 <i>Revenue Recognition</i> 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.
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 104. Application of long-term contract accounting (SOP 81-1 <i>Accounting for Performance of Construction-Type and Certain Production-Type Contracts</i> ) 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.

	US GAAP	IFRS
Multiple elements	Specific criteria are required in order for each element to be a separate unit of accounting, including delivered elements that must have standalone value, and undelivered elements that must have reliable and objective evidence of fair value. If those criteria are met, revenue for each element of the transaction can be recognized when the element is complete.	IAS 18 requires recognition of revenue on 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; the IASB is currently developing further guidance for identifying separable components within revenue contracts.
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 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 concepts for revenue recognition and a standard based on those concepts. Currently, the Boards are focusing on an asset and liability model for revenue recognition, with the expectation of issuing a discussion paper in the second quarter

of 2008. The paper will explore two possible alternatives for revenue recognition under an assets and liabilities model: the fair value model (under which performance obligations would be measured at fair value) and the customer consideration model (performance obligations would be measured by allocating the customer consideration amount).

# Share-based payments

## Similarities

The guidance for share-based payments, FAS 123 (Revised) and IFRS 2 (both entitled *Share-Based Payment*), is largely convergent. Both GAAPs require a fair value-based approach in accounting for share-based payment arrangements whereby an entity (a) acquires goods or services in exchange for issuing share options or other equity instruments (collectively referred to as “shares” in this guide) or (b) 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 GAAPs, this guidance applies to transactions with both employees and non-employees, and is applicable to all companies. Both FAS 123 (Revised) 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, both GAAPs require, if applicable, the fair value of the shares to be measured based on market price (if available) or estimated using an option-pricing model. In the rare cases where fair value cannot be determined, both standards allow the use of intrinsic value. Additionally, the treatment of modifications and settlement of share-based payments is generally similar under both GAAPs. Finally, both GAAPs require similar disclosures in the financial statements to provide investors 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 non-employees	<p>Either the fair value of (1) the goods or services received, or (2) the equity instruments is used to value the transaction, whichever is more reliable.</p> <p>If using the fair value of the equity instruments, EITF 96-18 Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services requires measurement at 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.</p>	<p>Fair value of transaction should be based on the value of the goods or services received, and only on the fair value of the equity instruments if the fair value of the goods and services cannot be reliably determined.</p> <p>Measurement date is the date the entity obtains the goods or the counterparty renders the services. No performance commitment concept.</p>

	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—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 date equity is issued or vests.	Liability classification is required (no six-month consideration exists).
Deferred taxes	<p>Calculated based on the cumulative GAAP expense recognized and trued up or down upon realization of the tax benefit.</p> <p>If the tax benefit exceeds the deferred tax asset, the excess (“windfall benefit”) is credited directly to shareholder equity. Shortfall of tax benefit below deferred tax asset is charged to shareholder equity to extent of prior windfall benefits, and to tax expense thereafter. Requires considerable detailed recordkeeping.</p>	<p>Calculated based on the estimated tax deduction determined at each reporting date (for example, intrinsic value).</p> <p>If the tax benefit exceeds cumulative compensation expense, deferred tax based on the excess is credited to shareholder equity. If the tax benefit is less than or equal to cumulative compensation expense, deferred taxes are recorded in income.</p>

## Convergence

No significant convergence activities are underway or planned for share-based payments.

# Employee benefits other than share-based payments

## Similarities

Multiple standards apply under US GAAP, including FAS 87 *Employers' Accounting for Pensions*, FAS 88 *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, FAS 106 *Employers' Accounting for Postretirement Benefits Other than Pensions*, FAS 112 *Employers' Accounting for Postemployment Benefits*, FAS 132 (Revised) *Employers' Disclosures about Pensions and Other Postretirement Benefits*, and FAS 158 *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. Under

IFRS, IAS 19 *Employee Benefits* is the principal source of guidance for employee benefits other than share-based payments. Under both GAAPs, the periodic pension cost under 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 to that date, based on actuarial methods of calculation. Additionally, both US GAAP and IFRS provide for certain smoothing mechanisms in calculating the period pension cost.

## Significant differences

	US GAAP	IFRS
Actuarial method used for defined benefit plans	Different methods are required dependent on the characteristics of the benefit calculation of the plan.	Projected unit credit method is required in all cases.
Valuation of defined benefit plan assets	Valued at "market-related" value (which is either fair value or a calculated value that smoothes the effect of short-term market fluctuations over five years) within three months of the balance sheet date. (Note: for fiscal years ending after December 15, 2008, the valuation must be done as of the balance sheet date.)	Valued at fair value as of the balance sheet date.
Treatment of actuarial gains and losses for annual pension cost	May be recognized in income statement as they occur or deferred through either a corridor approach or other rational approach applied consistently from period to period.	May be recognized in the income statement as they occur or deferred through a corridor approach. If immediately recognized, can elect to present in either the income statement or the SORIE.
Amortization of deferred actuarial gains and losses	Over the future service lives of employees or, for inactive employees, over the remaining life expectancy of those participants.	Over the average remaining service period (that is immediately for inactive employees).
Amortization of prior service costs	Over the future service lives of employees or, for inactive employees, over the remaining life expectancy of those participants.	Over the average remaining service period; immediate recognition if already vested.

	US GAAP	IFRS
Recognition of plan asset or liability in the balance sheet	<p>Effective for fiscal years ending after December 15, 2007, must recognize in balance sheet the over/under funded status as the difference between the fair value of plan assets and the benefit obligation. Benefit obligation is the PBO for pension plans, and APBO for any other postretirement plans.</p> <p>No portion of a plan asset can be classified as current; current portion of net postretirement liability is the amount expected to be paid in the next 12 months.</p>	<p>Must recognize a liability in 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 prior 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.")</p> <p>Balance sheet classification not addressed in IAS 19.</p>
Settlements and curtailments	<p>Settlement gain or loss recognized when obligation is settled. Curtailment losses recognized when curtailment is probable of occurring, while curtailment gains are recognized only to the extent they exceed any unrecognized actuarial losses at the curtailment date.</p>	<p>Gain or loss from settlement or curtailment recognized when it occurs.</p>
Multi-employer pension plans	<p>Accounted for similar to a defined contribution plan.</p>	<p>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 insufficient information is available.</p>
Postretirement benefits other than pensions	<p>Guidance in FAS 106 and FAS 158 applies. Measurement requirements are similar to pension plans except that the liability is based on the accumulated postretirement benefit obligation rather than the projected benefit obligation.</p>	<p>Principles of IAS 19 apply.</p>

## Convergence

The FASB and the IASB have agreed to a long-term convergence project that will 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 in the current model. The IASB issued a discussion paper in March 2008, as the first step of the IASB project, addressing a limited number of topics in this area.

# Segment reporting

## Similarities

Currently, the requirements for segment reporting under FAS 131 *Disclosures about Segments of an Enterprise and Related Information* and IAS 14 *Segment Reporting* are applicable to entities with public reporting requirements and are based on a “management

approach” in identifying the reportable segments, although there are some different considerations required as part of that assessment. Further, the two standards have similar quantitative thresholds in determining reportable segments (that is revenues, profit or loss, and assets).

## Significant differences (pre-convergence)

	US GAAP	IFRS
Definition of a segment	A component of an entity that engages in business activities from which it may earn revenues or expenses and whose operating results are regularly reviewed by the entity’s chief operating decision maker (CODM).	Management is required to identify both business and geographical segments. A business segment is defined as a “distinguishable component of an entity that is engaged in providing an individual product or service... and that is subject to risks and returns that are different from those of other business segments.” A geographical segment is similar, except that the focus is on economic environments in which the products or services are provided.
Enterprise wide disclosures	Limited geographical segment disclosures required if amounts were not already disclosed in the operating segment disclosures, including external revenues and long-lived assets for the entity’s country of domicile, all material foreign countries, and all foreign countries in total.	Entities must identify either their business or geographic segments as the primary format, the other as secondary. The assessment is based on risks and returns. The secondary segment has fewer disclosure requirements than that required for the primary segment.
Measurement of segments	Same accounting policies as are used for internal reporting to the CODM. Certain key subtotals have to be reconciled to the consolidated financial statement amounts. Symmetry in the amounts allocated to segments is not required, but asymmetrical allocations have to be disclosed.	Same accounting policies as are used for the consolidated financial statements. Certain key subtotals have to be reconciled to the consolidated financial statement amounts. Requires symmetry in the allocation of assets/liabilities and revenues/expenses to individual segments.

	US GAAP	IFRS
Disclosure (based on primary segment disclosure requirements for IFRS)	Factors used to identify segments.	Basis for identifying segments not required.
	Liabilities not required to be disclosed.	Liabilities required to be disclosed.
	Revenue on a consolidated basis required, and required on segment basis if included in internal reporting.	External revenue and inter-segment revenue required.
	Items required if included in information provided to the CODM: depreciation, significant non-cash expenses, extraordinary items, interest income and expense, income taxes, capital expenditures, and equity method investments.	Items not required: interest income and expense, extraordinary items (not applicable under IFRS), and income taxes.
	Revenues from significant external customers.	Revenues from significant external customers not required

## Convergence

On November 30, 2006, as part of the short-term convergence project, the IASB adopted IFRS 8 *Operating Segments* to replace IAS 14. IFRS 8 is effective for annual periods beginning on or after January 1, 2009, with earlier application encouraged. IFRS 8 eliminates

most of the differences between US GAAP and IFRS highlighted above by converging with the requirements outlined in FAS 131. Subsequent to the adoption of IFRS 8, only limited differences will remain between the two standards, as follows:

	US GAAP	IFRS
Determination of segments	Entities with a “matrix” form of organization (that is, business components are managed in more than one way and the 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.

# Earnings per share

## Similarities

Entities whose ordinary shares are publicly traded, or that are in the process of issuing such shares in the public markets, must disclose earnings per share (EPS) information pursuant to FAS 128 and IAS 33 (both entitled *Earnings Per Share* and which are substantially the same). Both require 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 on the diluted EPS calculation. Both GAAPs use similar methods of calculating EPS, although there are a few detailed application differences.

## Significant differences

	US GAAP	IFRS
Contracts that may be settled in shares or cash	Presumption that such contracts will be settled in shares unless evidence is provided to the contrary.	Such contracts are <i>always</i> 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 period with each of the prior periods).
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 the entity's share price.	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

Both Boards are jointly working on a short-term convergence project to resolve the differences in the standards with the plan to issue an exposure draft in the second quarter of 2008 and a final standard later in 2008. The Boards have tentatively decided to adopt the approaches used by IFRS to eliminate the significant differences noted above. Additionally, instruments that may be settled in cash or shares are classified as an asset or liability, and are measured at fair value with changes in fair value recognized in earnings

would no longer be included in diluted EPS. Other issues to be converged include the effect of options and warrants with a nominal exercise price on basic EPS (including the two-class method), and modifications of the treasury stock method to (a) require the use of the end-of-period share price in calculating the shares hypothetically repurchased rather than the average share price for the period and (b) for liabilities that are not remeasured at fair value, including the carrying amount of the liability within the assumed proceeds used to hypothetically repurchase shares.

# Interim financial reporting

## Similarities

APB 28 and IAS 34 (both entitled *Interim Financial Reporting*) are substantially similar with the exception of the treatment of certain costs as described below. Both require an entity to use the same accounting policies that were in effect in the prior year, subject to adoption of new policies that are disclosed. Both standards allow for condensed interim

financial statements (which are similar but not identical) and provide for comparable disclosure requirements. Neither standard mandates which entities are required to present interim financial information, that being the purview of local securities regulators. For example, US public companies must follow the SEC's Regulation S-X for the purposes of preparing interim financial information.

## Significant difference

	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. For example, certain inventory cost variances may be deferred on the basis that the interim statements are an integral part of an annual period.	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. For example, inventory cost variances that do not meet the definition of an asset cannot be deferred. However, income taxes are accounted for based on an annual effective tax rate (similar to US GAAP).

## Convergence

As part of their 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 Financial Statement Presentation project has not commenced.

# Subsequent events

## Similarities

Despite differences in terminology, the accounting for subsequent events under SAS 1 *Codification of Auditing Standards and Procedures* and IAS 10 *Events after the Balance Sheet Date* is largely similar. An event that occurs after the balance sheet date but before the financial statements have been issued 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 subsequent to the balance sheet date, the financial statements are not adjusted, but disclosure may be necessary in order to keep the financial statements from being misleading.

## Significant differences

	US GAAP	IFRS
Stock dividends declared after balance sheet date	SEC staff pronouncements require financial statements to be adjusted for a stock dividend declared after the balance sheet date.	Financial statements are not adjusted for a stock dividend declared after the balance sheet date.
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 <i>and</i> , prior to issuing the financial statements, the entity can demonstrate an ability to refinance the loan.	Short-term loans refinanced after the balance sheet date may qualify for disclosure, but would not result in reclassification of the loan to long-term liabilities.

## Convergence

No convergence activities are planned at this time.

# Related parties

## Similarities

Both FAS 57 and IAS 24 (both entitled *Related Party Disclosures*) have a similar reporting objective: to make financial statement users aware of the effect of related party transactions on the financial statements. The related party definitions 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. FAS 57 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 and Convergence

There are no significant differences between the two standards, nor are there any convergence initiatives.

# Appendix – The evolution of IFRS

This appendix provides a high level overview of key milestones in the evolution of international accounting standards.

## Phase I – 2001 and prior

- ▶ **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 then current IASC standards and communicated its findings to the IASC.** The review identified areas that required improvement before IOSCO could consider recommending IAS for use in cross-border listings and offerings.
- ▶ **1994: Formation of IASC Advisory Council approved to provide oversight to 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 towards a broader international harmonization of accounting standards.
- ▶ **1997: Standing Interpretations Committee (SIC) established to provide interpretation of 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 from the IASC.** The IASB met with representatives from eight national standard-setting bodies to begin coordinating agendas and discussing convergence, and adopted the 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 critically important milestone that acted as a primary driver behind the expanded use of IFRS.
- ▶ **September 2002: Norwalk Agreement executed between the FASB and the IASB.** A “best efforts” convergence approach was documented in a Memorandum of Understanding in which the Boards agreed to use best efforts to make their existing financial reporting standards fully compatible as soon as practicable and to coordinate future work programs.
- ▶ **December 2004: EC issued its Transparency Directive.** This directive would require non-EU companies with listings on an EU exchange to use IFRS unless the Committee of European Securities Regulators (CESR) determined that the national GAAP was “equivalent” to IFRS. Although CESR advised in 2005 that US GAAP was “equivalent” subject to certain additional disclosure requirements, the final decision as to US GAAP equivalency, and what additional disclosures, if any, will be required, has not been reached.
- ▶ **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. The Roadmap laid out a series of milestones, which if achieved, would result in the elimination of the US GAAP reconciliation 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 for use in the world's capital markets, and further elaborated on the Norwalk Agreement. The Boards would proceed along two tracks for convergence: (1) a series of short-term standard setting projects designed to eliminate major differences in focused areas, and (2) the development of new common standards when accounting practices under both GAAPs are regarded as candidates for improvement.
- ▶ **August 2006: CESR/SEC published a joint work plan.** The regulators agreed that issuer-specific matters could be shared between the regulators, following set protocols, and that their regular reviews of issuer filings would be used to identify IFRS and US GAAP areas that raise questions in terms of high-quality and consistent application. The plan also provides for the exchange of technological information to promote the modernization of financial reporting and disclosure. Finally, the staff of both regulators agreed to dialogue on risk management practices.
- ▶ **Ongoing throughout 2007: SEC continued to meet milestones on its Roadmap.** In March 2007, the SEC hosted a roundtable to discuss the effects the acceptance of IFRS would have on investors, issuers, and capital raising in the US capital markets. Representatives from all parties to the financial reporting process overwhelmingly supported the elimination of the US GAAP reconciliation requirement. In July 2007, the SEC issued a summary of its observations regarding foreign private issuers that adopted IFRS for the first time in 2005. Also in July 2007, the SEC issued a proposed rule to eliminate the requirement for IFRS filers to reconcile to US GAAP, followed by a Concept Release in August 2007 that asks the public to comment on the possible use of IFRS by US domestic registrants. In November 2007, the SEC issued a final rule eliminating the requirement for IFRS filers to reconcile to US GAAP. In December 2007, the SEC held two additional roundtables on the topic of IFRS, with the roundtables focusing on the potential use of IFRS for US issuers.
- ▶ **Looking ahead: The future remains uncertain, but momentum continues to build for a single set of high quality global standards. The possible use of IFRS by US domestic registrants is a topic that remains active on the SEC's agenda for 2008.**

## 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.

The screenshot shows the Ernst & Young website with a search bar and navigation menu. The main content area features an article titled "IFRS: a strategic opportunity" with a sub-headline "The move to International Financial Reporting Standards (IFRS) is the single most important solution in the financial reporting world." The article text discusses the impact of IFRS on business decision-making and the benefits of EY's resources. A sidebar on the right contains a "Search" box and a "Print Email a Friend" link. Below the article is a "Share" section with social media icons for Facebook, Twitter, LinkedIn, and YouTube. At the bottom, there are links for "International GAAP 2008" and "Ernst & Young Chairman and CEO addresses IFRS".

## ey.com/ifrs

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

- ▶ Our five-step approach to IFRS conversion—diagnosis, design and planning, solution development, implementation, and post-implementation review.
- ▶ A variety of tools and publications:
  - ▶ *IFRS outlook*—access the online version and archived issues of our bi-monthly client newsletter (formerly known as *Global Eye on IFRS*).
  - ▶ Technical publications—including *IFRS Alert*, *Developments in IFRS for financial instruments* and a variety of publications focused on specific standards and industries.
  - ▶ International GAAP® Illustrative Financial Statements—these publications include the consolidated financial statements for a fictitious manufacturing company, bank and insurance company. The statements are updated annually.

## Ernst & Young Online

A private, global internet site for clients that provides continuous access to important International GAAP® information, including:

The screenshot shows the Ernst & Young Online website with a navigation menu and several news articles. The main content area features a "News, Alerts and Analysis" section with a sub-headline "IFRS is now available in the U.S." and a "Special Announcements" section with a sub-headline "View Client Testimonials". The website has a clean, professional design with a blue and white color scheme. The navigation menu includes "Home", "News, Alerts and Analysis", "Reference Library", "Tools", "EAY Perspectives", and "Links". The main content area is divided into several columns, each containing a news article with a headline and a brief summary.

## Global Accounting & Auditing Information Tool (GAAT)

A multinational GAAP research tool that includes the following subscription options:

- ▶ *International GAAP® online*—includes Ernst & Young's International GAAP® book, illustrative financial statements and disclosure checklists, all of the official IASB standards, exposure drafts and discussion papers, and full sets of IFRS reporting entities' annual reports and accounts.
- ▶ *International GAAP and GAAS*—contains IFRS, International Auditing Standards issued by the IFAC and Ernst & Young commentary, guidance and tools.
  - ▶ International GAAP® Disclosure Checklist—shows all the disclosures and presentation requirements under IFRS, along with relevant guidance on the scope and interpretation of certain disclosure requirements. Updated annually.
  - ▶ IFRS Web-based Learning—includes 24 modules that address basic accounting concepts and knowledge of IFRS. The modules represent 52 hours of baseline IFRS training.

## International GAAP® & GAAS Digest (Free)

- ▶ Continuous coverage of developments from the IASB and IFAC.
- ▶ Ernst & Young Insights.

## International GAAP®

This comprehensive book from Ernst & Young is updated annually and provides definitive and practical guidance for understanding and interpreting IFRS on a globally consistent basis.

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

### **About Ernst & Young**

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 130,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve potential.

For more information, please visit [www.ey.com](http://www.ey.com).

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients.

### **About Ernst & Young's International Financial Reporting Standards Group**

The move to International Financial Reporting Standards (IFRS) is the single most important initiative in the financial reporting world, the impact of which stretches far beyond accounting to affect every key decision you make, not just how you report it. We have developed the global resources—people and knowledge—to support our client teams. And we work to give you the benefit of our broad sector experience, our deep subject matter knowledge and the latest insights from our work worldwide. It's how Ernst & Young makes a difference.

© 2008 Ernst & Young LLP.  
All Rights Reserved.

**SCORE No. BB1513**

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither Ernst & Young LLP nor any other member of the global Ernst & Young organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.