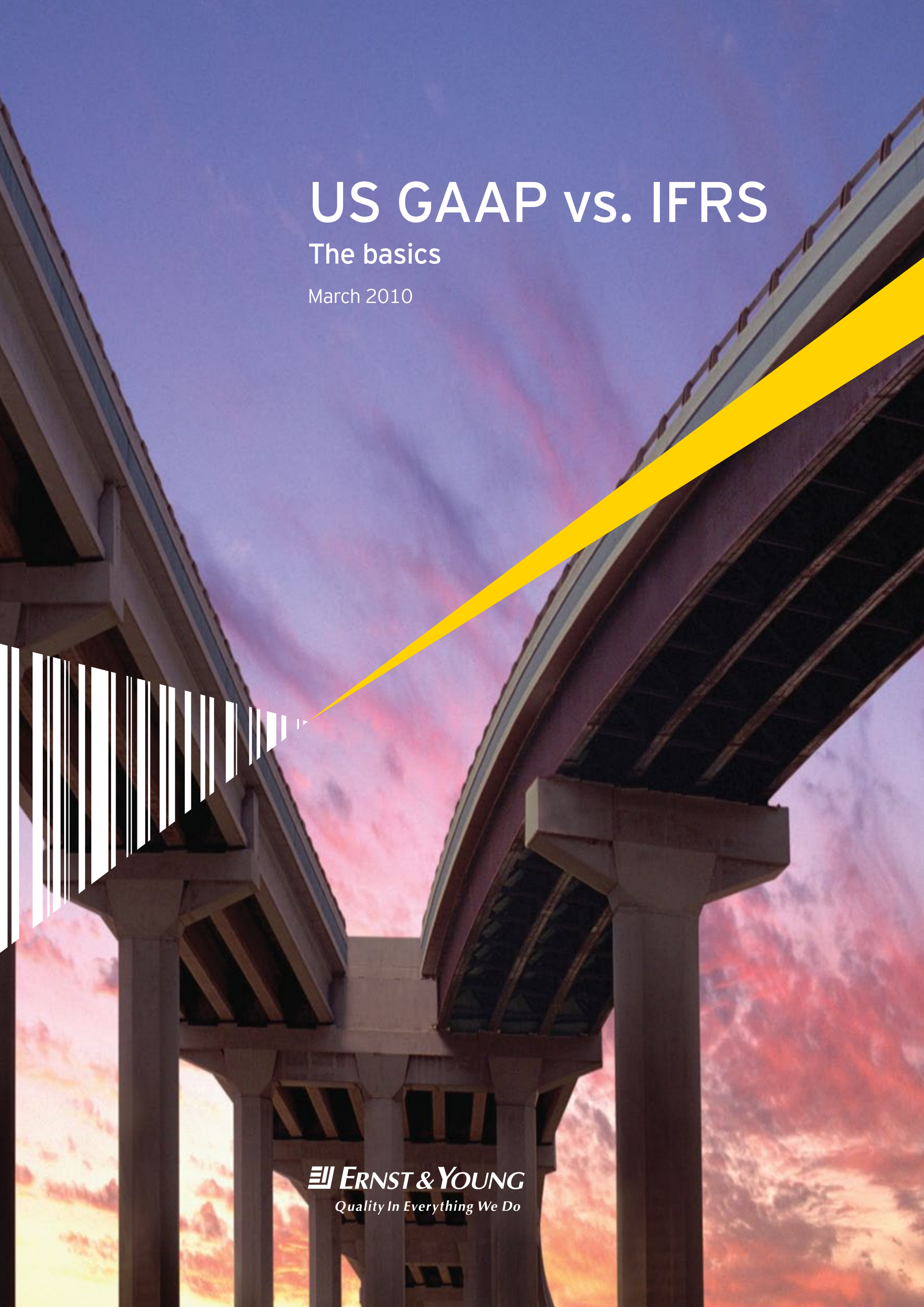

US GAAP vs. IFRS

The basics

March 2010

Ernst & Young
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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 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, the detailed transactions it enters into, 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, when applicable, provides an overview of how and when those differences are expected to converge. This publication does not, however, address the accounting differences between US GAAP and IFRS for SMEs — the international standard for "small or medium-sized entities" that meet the defined scope of that standard.

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 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 broader 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 the US market 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, including formally updating their agreement in 2008. In addition, the United States Securities and Exchange Commission (SEC) has been very active in this area. For example, within the past few years, the SEC eliminated the requirement for foreign private issuers to reconcile their IFRS results to US GAAP and proposed an updated "Roadmap" addressing the future use of IFRS in the United States.

In February 2010, the SEC voted unanimously to publish a statement reaffirming its longstanding commitment to the goal of a single set of high-quality global accounting standards and expressing its continued support for the convergence of US GAAP and IFRS. The SEC Commissioners generally agreed that timely completion of the convergence efforts, among other things, would best position IFRS to serve as the single set of global accounting standards.

To aid the Commissioners in the evaluation, the SEC staff will execute a comprehensive work plan that addresses specific factors and areas of concern that were highlighted in comment letters submitted in response to the SEC's proposed IFRS Roadmap. The SEC staff expects to provide public progress reports on the work plan beginning in October 2010. The SEC further stated that it believes the execution of the work plan will position it in 2011 to make an informed determination regarding the further incorporation of IFRS into US financial reporting system for US issuers. The SEC Chief Accountant suggested US issuers would be provided with adequate time to make the transition, and the move to IFRS could be made in "approximately 2015 or 2016".

Convergence efforts alone will not eliminate all differences between US GAAP and IFRS. In fact, differences continue to exist in standards for which convergence efforts already have been completed, and for which no additional convergence work is planned. And for those standards currently on the Boards' convergence agenda, unless the words of the standards are totally conformed, interpretational differences almost certainly will continue to arise.

The success of a uniform set of global accounting standards also will depend on the willingness of national regulators and industry groups to cooperate. They need to avoid issuing local interpretations of IFRS and guidance that provides exceptions to IFRS principles, which would threaten the achievement of international harmonization.

In planning a possible move to IFRS, it is important that US companies monitor progress on the Boards' convergence agenda to avoid spending time now analyzing differences that most likely will be eliminated in the near future. At present, it is not possible to know the exact extent of convergence that will exist at the time US public companies may be required to adopt the international standards. However, that should not stop preparers, users and auditors from gaining a general understanding of the similarities and key differences between IFRS and US GAAP, as well as the areas presently expected to converge. We hope you find this guide a useful tool for that purpose.

Key updates to the November 2009 edition

This publication has been updated for key developments through February 2010. Key updates to the November 2009 of US GAAP vs. IFRS — The basics include:

- Revisions to the consolidations chapter for differences related to changes in ownership interest in a subsidiary without a loss of control and related to the loss of control of a subsidiary
- Revisions to the income taxes project to reflect the withdrawal of the IASB's exposure draft
- Revisions throughout the book to the update the status of convergence activities of the FASB and IASB.

We will continue to update this publication periodically for new developments of the FASB and the IASB as well as for convergence activities of the Boards.

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

To learn more about the Identifier Tool, please contact your local Ernst & Young professional.

Ernst & Young LLP

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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, cash flows and accompanying notes to the financial statements. Further, both US GAAP and IFRS require that the financial statements be prepared on the accrual basis of accounting (with the exception of the cash flow statement) except for rare circumstances. Both standards have similar concepts regarding materiality and consistency 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 typically require balance sheets for the two most recent years, while all other statements must cover the three-year period ended on the balance sheet date.	Comparative information must be disclosed 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 *Presentation of Financial Statements* does not prescribe a standard layout, but includes a list of minimum items. These minimum items are less prescriptive than the requirements in Regulation S-X.
Presentation of debt as current versus non-current in the balance sheet	Debt for which there has been a covenant violation may be presented as non-current if a lender agreement to waive the right to demand repayment for more than one year exists prior to the issuance of the financial statements.	Debt associated with a covenant violation must be presented as current unless the lender agreement was reached prior to the balance sheet date.
	Deferred taxes are presented as current or non-current based on the nature of the related asset or liability.	Deferred taxes are presented as non-current. (Note: If the recently issued Exposure Draft on income taxes is adopted as a final standard, IFRS would converge with US GAAP.)
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.

	US GAAP	IFRS
Income statement — extraordinary items	Restricted to items that are both unusual and infrequent.	Prohibited.
Income statement — discontinued operations presentation	Discontinued operations classification is for components held for sale or to be disposed of, provided that there will not be significant continuing cash flows or involvement with the disposed component.	Discontinued operations classification is for components held for sale or to be disposed of that are either a separate major line of business or geographical area or a subsidiary acquired exclusively with an intention to resell.
Disclosure of performance measures	SEC regulations define certain key measures and require the presentation of certain headings and subtotals. Additionally, public companies are prohibited from disclosing non-GAAP measures in the financial statements and accompanying notes.	Certain traditional concepts such as "operating profit" are not defined; therefore, diversity in practice exists regarding line items, headings and subtotals presented on the income statement when such presentation is relevant to an understanding of the entity's financial performance.
Third balance sheet	Not required.	A third balance (and related notes) are required as of the beginning of the earliest comparative period presented when an entity restates its financial statements or retrospectively applies a new accounting policy.

Convergence

The Boards have undertaken a joint project on financial statement presentation. Each Board issued an initial discussion document in October 2008 addressing the more fundamental issues for presentation of information on the face of the financial statements that may ultimately result in significant changes in the current presentation format of the financial statements under both US GAAP and IFRS. The Boards expect to issue an exposure draft in the second quarter of 2010.

In September 2008, the Boards issued proposed amendments to ASC 205-20 *Presentation of Financial Statements, Discontinued Operations* (formerly FAS 144) and IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* to converge the definition of discontinued operations. In redeliberations, the Boards tentatively have decided that the definition of discontinued operations will be consistent with the current definition in IFRS 5, i.e., a separate major line of business or geographic area. The definition no longer will consider the criteria that (a) the cash flows of the component are eliminated after disposal and (b) there is no significant continuing involvement with the component), but will require disclosure of those items. The Boards will require increased disclosures for discontinued operations and for components that are disposed of but are not classified as discontinued operations. The Boards will re-expose the proposals in 2010.

Interim financial reporting

Similarities

ASC 270 *Interim Reporting* (formerly APB 28) and IAS 34 *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 purpose 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 its 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.

Consolidations, joint venture accounting and equity method investees

Similarities

The principal guidance for consolidation of financial statements, including variable interest entities, under US GAAP is ASC 810 *Consolidations*, while IAS 27 (Amended) *Consolidated and Separate Financial Statements* and SIC 12 *Consolidation — Special Purpose Entities* contains the IFRS guidance.

Under both US GAAP and IFRS, the determination of whether or not entities are consolidated by a reporting enterprise is based on control, although differences exist in the definition of control. Generally, under both GAAPs all entities subject to the control of the reporting enterprise 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 consolidated group, with certain exceptions under US GAAP (for example, 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. However, under IFRS a subsidiary's financial statements should be as of the same date as the financial statements of the parent unless it is impracticable to do so.

An equity investment that gives an investor significant influence over an investee (referred to as "an associate" in IFRS) is considered an equity-method investment under both US GAAP (ASC 323 *Investments — Equity Method and Joint Ventures*, formerly APB 18) and IFRS (IAS 28 *Investments in Associates*) if the investee is not consolidated. Further, the equity method of accounting for such investments, if applicable, generally is consistent under both US GAAP and IFRS.

Significant differences

	US GAAP	IFRS
Consolidation model	Focus is on controlling financial interests. All entities are first evaluated as potential variable interest entities (VIEs). If a VIE, the applicable guidance in ASC 810 is followed (below). Entities controlled by voting rights are consolidated as subsidiaries, but potential voting rights are not included in this consideration. 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 is presumed to exist if parent owns more 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)	The guidance in ASC 810 requires the primary beneficiary (determined based on the consideration of power and benefits) 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, although certain industry-specific exceptions exist (for example, investment companies).	Generally required, but there is a limited exemption from preparing consolidated financial statements for a parent company that is itself a wholly-owned subsidiary, or is a partially-owned subsidiary if certain conditions are met.
Preparation of consolidated financial statements — different reporting dates of parent and subsidiary(ies)	The effects of significant events occurring between the reporting dates when different dates are used are disclosed in the financial statements.	The effects of significant events occurring between the reporting dates when different dates are used are adjusted for in the financial statements.
Changes in ownership interest in a subsidiary without loss of control	Transactions that result in decreases in a partner's ownership interest in a subsidiary in either of the following situations without a loss of control are accounted for as equity transactions in the consolidated entity (that is, no gain or loss is recognized): (1) a subsidiary that is a business or a nonprofit activity, except for either of the following — (a) a sale of in substance real estate and (b) a conveyance of oil and gas mineral rights; (2) a subsidiary that is not a business or a nonprofit activity if the substance of the transaction is not addressed directly by other ASC Topics.	Consistent with US GAAP, except that this guidance applies to al subsidiaries under IAS 27(R), even those that are not businesses or nonprofit activities, those that involve sales of in substance real estate or conveyance of oil and gas mineral rights. In addition, IAS 27(R) does not address whether that guidance should be applied to transactions involving non-subsidiaries that are businesses or nonprofit activities.
Loss of control of a subsidiary	In certain transactions that result in a loss of control of a subsidiary of a group of assets, any retained non-controlling investment in the former subsidiary of group of assets is re-measured to fair value on the date control is lost. The gain or loss on re-measurement is included in income along with any gain or loss on the ownership interest sold. This accounting is limited to the following transactions: (1) loss of control of a subsidiary that is a business or a nonprofit activity, except for either of the following — (a) a sale of in substance real estate, (b) a conveyance of oil and gas mineral rights; (2) loss of control of a subsidiary that is not a business or a nonprofit activity if the substance of the transaction is not addressed directly by other ASC Topics; (3) the derecognition of a group of assets that is a business or a nonprofit activity, except for either of the following — (a) a sale of in substance real estate and (b) a conveyance of oil and gas mineral rights.	Consistent with US GAAP, except that this guidance applies to all subsidiaries under IAS 27(R), even those that are not businesses or nonprofit activities or those that involve sales of in substance real estate or conveyance of oil and gas mineral rights. In addition, IAS 27(R) does not address whether that guidance should be applied to transactions involving non-subsidiaries that are businesses or nonprofit activities. IAS 27(R) does not address the derecognition of assets outside the loss of control of a subsidiary.

	US GAAP	IFRS
Equity-method investments	ASC 825-10 *Financial Instruments* (formerly FAS 159) gives entities the option to account for equity-method investments at fair value. 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 generally requires investors (other than venture capital organizations, mutual funds, unit trusts, and similar entities) to use the equity-method of accounting for their investments in associates in consolidated financial statements. If separate financial statements are presented (that is, those presented by a parent or investor), subsidiaries and associates can be accounted for at either cost or fair value.
	Uniform accounting policies between investor and investee are not required.	Uniform accounting policies between investor and investee are required.
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 *Investments in Joint Ventures* permits either the proportionate consolidation method or the equity method of accounting.

Convergence

In September 2007, the IASB issued Exposure Draft 9 *Joint Arrangements* that would amend IAS 31 to eliminate proportionate consolidation of jointly controlled entities. The IASB is expected to publish a final standard in the first quarter of 2010.

In addition, in December 2008, the IASB issued Exposure Draft 10 *Consolidated Financial Statements* which would replace IAS 27 and SIC 12 and, if adopted, would provide a single consolidation model within IFRS. The FASB and IASB have agreed to jointly deliberate their respective consolidation projects. The joint deliberations are likely to address differences between US GAAP and IFRS with respect to scope related to investment companies, the consideration of kick-out rights, principal vs. agency relationships, de facto control, options and potential voting rights.

The FASB aims to publish an Exposure Draft in the second quarter of 2010. Concurrently, the IASB will also seek views on the FASB's Exposure Draft. Both Boards aim to issue a final standard in the second half of 2010.

Business combinations

Similarities

The guidance in ASC 805 *Business Combinations* (formerly FAS 141(R)) and IFRS 3(R) (both entitled *Business Combinations*) represents the culmination of the first major collaborative convergence project between the IASB and the FASB. Pursuant to ASC 805 and IFRS 3(R), all business combinations are accounted for using the acquisition method. Under the acquisition method, upon obtaining control of another entity, the underlying transaction should be measured at fair value, and this should be the basis on which the assets, liabilities and noncontrolling interests of the acquired entity are measured (as described in the table below, IFRS 3(R) provides an alternative to measuring noncontrolling interest at fair value), with limited exceptions. Even though the new standards are substantially converged, certain differences still exist.

The revised standards are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 15 December 2008 and 1 July 2009 for companies applying US GAAP and IFRS, respectively. Unlike ASC 805, early adoption of IFRS 3 (R) is permitted if certain criteria are met.

Significant differences

	US GAAP	IFRS
Measurement of noncontrolling interest	Noncontrolling interest is measured at fair value, which includes the noncontrolling interest's share of goodwill.	Noncontrolling interest is measured either at fair value including goodwill or at its proportionate share of the fair value of the acquiree's identifiable net assets, exclusive of goodwill.
Acquiree's operating leases	If the terms of an acquiree operating lease are favorable or unfavorable relative to market terms, the acquirer recognizes an intangible asset or liability, respectively, regardless of whether the acquiree is the lessor or the lessee.	Separate recognition of an intangible asset or liability is required only if the acquiree is a lessee. If the acquiree is the lessor, the terms of the lease are taken into account in estimating the fair value of the asset subject to the lease — separate recognition of an intangible asset or liability is not required.

	US GAAP	IFRS
Assets and liabilities arising from contingencies	*Initial Recognition* Assets and liabilities arising from contingencies are recognized at fair value in accordance with ASC 820 *Fair Value Measurement and Disclosures* (formerly FAS 157), if the fair value can be determined during the measurement period. If the fair value of a contingent asset or liability cannot be determined during the measurement period, that asset or liability should be recognized at the acquisition date in accordance with ASC 450 *Contingencies* (formerly FAS 5 and FIN 14) if it meets the criteria for recognition in that guidance. Contingent assets and liabilities that do not meet the recognition criteria at the acquisition date are subsequently accounted for pursuant to other literature, including ASC 450. (See "Provisions and Contingencies" for differences between ASC 450 and IAS 37).	*Initial Recognition* Liabilities subject to contingencies are recognized as of the acquisition date if there is a present obligation that arises from past events and its fair value can be measured reliably. Contingent assets are not recognized.
	Subsequent Measurement If contingent assets and liabilities are initially recognized at fair value, an acquirer should develop a systematic and rational basis for subsequently measuring and accounting for assets and liabilities arising from contingencies depending on their nature. If amounts are initially recognized and measured under the contingencies guidance in ASC 450, the subsequent accounting and measurement should be based on the same guidance.	*Subsequent Measurement* Liabilities subject to contingencies are subsequently measured at the higher of (i) the amount that would be recognized in accordance with IAS 37, or (ii) the amount initially recognized less, if appropriate, cumulative amortization recognized in accordance with IAS 18.
Combination of entities under common control	The receiving entity records the net assets at their carrying amounts in the accounts of the transferor (historical cost).	Outside the scope of IFRS 3(R). In practice, either follow an approach similar to US GAAP or apply the acquisition method if there is substance to the transaction (policy election).

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

Convergence

No further convergence is planned at this time.

Inventory

Similarities

ASC 330 *Inventory* (formerly ARB 43 Chapter 4) and IAS 2 *Inventories*are based on the principle that the primary basis of accounting for inventory is cost. Both define inventory as assets held for sale in the ordinary course of business, in the process of production for such sale, or to be consumed in the production of goods or services. The permitted techniques for cost measurement, such as standard cost method or retail 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 net amounts inventories are expected to realize. 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.
Permanent inventory markdowns under the retail inventory method (RIM)	Permanent markdowns do not affect the gross margins used in applying the RIM. Rather, such markdowns reduce the carrying cost of inventory to net realizable value, less an allowance for an approximately normal profit margin, which may be less than both original cost and net realizable value.	Permanent markdowns affect the average gross margin used in applying RIM. Reduction of the carrying cost of inventory to below the lower of cost or net realizable value is not allowed.

Convergence

No further convergence is planned at this time.

Long-lived assets

Similarities

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

Cost

Both accounting models have similar recognition criteria, requiring that costs be included in the cost of the asset if future economic benefits are probable and can be reliably measured. 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 ASC 410-20 *Asset Retirement Obligations* (formerly FAS 143) 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

ASC 835-20 *Capitalization of Interest* (formerly FAS 34) 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 and both standards require interest costs to be capitalized as part of the cost of a qualifying asset. However, there are differences between US GAAP and IFRS in the measurement of eligible borrowing costs for capitalization.

Depreciation

Depreciation of long-lived assets is required on a systematic basis under both accounting models. ASC 250 *Accounting Changes and Error Corrections* (formerly FAS 154) 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 the *Impairment or Disposal of Long-Lived Assets* subsections of ASC 360-10 *Property, Plant and Equipment* (formerly 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 ASC 845 *Nonmonetary Transactions* (formerly APB 29, as amended by FAS 153) 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 is a permitted accounting policy election for an entire class of assets, requiring revaluation to fair value on a regular basis.
Depreciation of asset components	Component depreciation permitted but not common.	Component depreciation required if components of an asset have differing patterns of benefit.
Measurement of borrowing costs	Eligible borrowing costs do not include exchange rate differences. Interest earned on the investment of borrowed funds generally cannot offset interest costs incurred during the period. For borrowings associated with a specific qualifying asset, borrowing costs equal to the weighted average accumulated expenditures times the borrowing rate are capitalized.	Eligible borrowing costs include exchange rate differences from foreign currency borrowings. Borrowing costs are offset by investment income earned on those borrowings. For borrowings associated with a specific qualifying asset, actual borrowing costs are capitalized.
Costs of a major overhaul	Multiple accounting models have evolved in practice, including: expense costs as incurred, capitalize costs and amortize through the date of the next overhaul, or follow the IFRS approach.	Costs that represent a replacement of a previously identified component of an asset are capitalized if future economic benefits are probable and the costs can be reliably measured.
Investment property	Investment property is not separately defined and, therefore, is accounted for as held for use or held for sale.	Investment property is separately defined in IAS 40 *Investment Property* as an asset held to earn rent or for capital appreciation (or both) and may include property held by lessees under a finance/operating lease. Investment property may be accounted for on a historical cost basis or on a fair value basis as an accounting policy election. Capitalized operating lease classified as investment property must be accounted for using the fair value model.

Other differences include: (i) hedging gains and 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.

Intangible assets

Similarities

The definition of intangible assets as non-monetary assets without physical substance is the same under both US GAAP's ASC 805 *Business Combinations* (formerly FAS 141(R)) and ASC 350 *Intangibles — Goodwill and Other* (formerly FAS 142) and the IASB's IFRS 3(R) 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 ASC 805 and IFRS 3(R). With the exception of development costs (addressed in the following table), internally developed intangibles are not recognized as an asset under either ASC 350 or IAS 38. Moreover, internal costs related to the research phase of research and development are expensed as incurred under both accounting models.

Amortization of intangible assets over their estimated useful lives is required under both US GAAP and IFRS, with one minor exception in ASC 985-20 *Costs of Computer Software to be Sold, Leased or Marketed* (formerly FAS 86) related to the amortization of computer software sold to others. 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 (ASC 985-20). In the case of software developed for internal use, only those costs incurred during the application development stage (as defined in ASC 350-40 *Internal Use Software* (formerly SOP 98-1) 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. Although application of these principals may be largely consistent with ASC 985-20 and ASC 350-40, there is no separate guidance addressing computer software development costs.
Advertising costs	Advertising and promotional costs are either expensed as incurred or expensed when the advertising takes place for the first time (policy choice). Direct response advertising may be capitalized if the specific criteria in ASC 340-20 *Capitalized Advertising Costs* (formerly SOP 93-7) are met.	Advertising and promotional costs are expensed as incurred. A prepayment may be recognized as an asset only when payment for the goods or services is made in advance of the entity' having access to the goods or receiving the services.

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

Convergence

While the convergence of standards on intangible assets was part of the 2006 "Memorandum of Understanding" (MOU) between the FASB and the IASB, both boards agreed in 2007 not to add this project to their agendas. However, in the 2008 MOU, the FASB indicated that it will consider in the future whether to undertake a project to eliminate differences in the accounting for research and development costs by fully adopting IAS 38 at some point in the future.

Impairment of long-lived assets, goodwill and intangible 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 and more frequently if impairment indicators are present. Long-lived assets are not tested annually, but rather when there are indicators of impairment. The impairment indicators in US GAAP and IFRS are similar. In addition, both GAAPs require that an asset found to be impaired be written down and an impairment loss recognized. ASC 350 *Intangibles — Goodwill and Other* (formerly FAS 142) and the *Impairment or Disposal of Long-Lived Assets* subsections of ASC 360-10 *Property, Plant and Equipment* (formerly FAS 144) and IAS 36 *Impairment of Assets* apply to most long-lived and intangible assets, although some of the scope exceptions listed in the standards differ. Despite the similarity in overall objectives, differences exist in the way in which impairment is reviewed, recognized and measured.

Significant differences

	US GAAP	IFRS
Method of determining impairment — long-lived assets	Two-step approach requires 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, impairment testing must be performed.	One-step approach requires that impairment testing be performed if impairment indicators exist.
Impairment loss calculation — long-lived assets	The amount by which the carrying amount of the asset exceeds its fair value, as calculated in accordance with ASC 820 (formerly FAS 157).	The amount by which the carrying amount of the asset exceeds its recoverable amount; recoverable amount is the higher of: (1) fair value less costs to sell, and (2) value in use (the present value of future cash flows in use including disposal value). (Note that the definition of fair value in IFRS has certain differences from the definition in ASC 820.)
Allocation of goodwill	Goodwill is allocated to a reporting unit, which is an operating segment or one level below an operating segment (component).	Goodwill is allocated to a cash-generating unit (CGU) or group of CGUs which represents the lowest level within the entity at which the goodwill is monitored for internal management purposes and cannot be larger than an operating segment as defined in IFRS 8 *Operating Segments*.

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

Convergence

Impairment is one of the short-term convergence projects agreed to by the FASB and IASB in their 2006 MOU. However, as part of their 2008 MOU, the boards agreed to defer work on completing this project until their other convergence projects are complete.

Financial instruments

Similarities

The US GAAP guidance for financial instruments is contained in several standards, including, among others: ASC 310-10-35 *Receivables — Subsequent Measurement* (formerly FAS 114); ASC 320 *Investments — Debt and Equity Securities* (formerly FAS 115); ASC 470 *Debt* (formerly a variety of authoritative guidance); ASC 480 *Distinguishing Liabilities from Equity* (formerly FAS 150); ASC 815 *Derivatives and Hedging* (formerly FAS 133); ASC 820 *Fair Value Measurements and Disclosures* (formerly FAS 157); ASC 825-10-25 *Financial Instruments — Recognition* (formerly FAS 159); ASC 825-10-50 *Financial Instruments — Disclosures* (formerly FAS 107); ASC 860 *Transfers and Servicing* (formerly FAS 140); and ASC 948 *Financial Services — Mortgage Banking* (formerly FAS 65).

IFRS guidance for financial instruments, on the other hand, is limited to IAS 32 *Financial Instruments: Presentation*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures* and IFRS 9 *Financial Instruments*. IFRS 9 addresses classification and measurement of financial assets. IFRS 9, which was issued in November 2009, is not effective until annual periods beginning on or after 1 January 2013, although early application is permitted. This publication does not address the differences between US GAAP an IFRS resulting from IFRS 9 because of the delayed effective date.

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

Significant differences

	US GAAP	**IFRS**
Debt vs. equity		
Classification	US GAAP specifically identifies certain instruments with characteristics of both debt and equity that must be classified as liabilities.	Classification of certain instruments with characteristics of both debt and equity focuses on the contractual obligation to deliver cash, assets or an entity's own shares. Economic compulsion does not constitute a contractual obligation.
	Certain other contracts that are indexed to, and potentially settled in, a company's own stock may be classified as equity if they: (1) require physical settlement or net-share settlement, or (2) give the issuer a choice of net-cash settlement or settlement in its own shares.	Contracts that are indexed to, and potentially settled in, a company's own stock are classified as equity if settled by delivering a fixed number of shares for a fixed amount of cash.

	US GAAP	IFRS
Compound (hybrid) financial instruments	Compound (hybrid) financial instruments (for example, convertible bonds) are not split into debt and equity components unless certain specific conditions are met, but they may be bifurcated into debt and derivative components, with the derivative component subjected to fair value accounting.	Compound (hybrid) financial instruments are required to be split into a debt and equity component and, if applicable, a derivative component. The derivative component may be subjected to fair value accounting.
Recognition and measurement		
Impairment recognition — Available for Sale (AFS) debt instruments	Declines in fair value below cost may result in an impairment loss being recognized in the income statement on an AFS debt instrument due solely to a change in interest rates (risk-free or otherwise) if the entity has the intent to sell the debt instrument or it is more likely than not that it will be required to sell the debt instrument before its anticipated recovery. In this circumstance, the impairment loss is measured as the difference between the debt instrument's amortized cost basis and its fair value. When a credit loss exists, but the entity does not intend to sell the debt instrument, nor is it more likely than not that the entity will be required to sell the debt instrument before the recovery of the remaining cost basis, the impairment is separated into (i) the amount representing the credit loss and (ii) the amount related to all other factors. The amount of the total impairment related to the credit loss is recognized in the income statement and the amount related to all other factors is recognized in other comprehensive income, net of applicable taxes.	Generally, only evidence of credit default results in an impairment being recognized in the income statement for an AFS debt instrument. The impairment loss is measured as the difference between the debt instrument's amortized cost basis and its fair value. Impairment losses for debt instruments classified as available-for-sale may be reversed through the income statement if the fair value of the instrument increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognized.
	When an impairment loss (for both debt and equity instruments) is recognized in the income statement, a new cost basis in the instrument is established equal to the previous cost basis less the impairment recognized in earnings. Impairment losses recognized in the income statement cannot be reversed for any future recoveries.	Impairment losses for debt instruments classified as available-for-sale may be reversed through the income statement if the fair value of the instrument increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognized.

	US GAAP	IFRS
Impairment recognition — Available for Sale (AFS) equity instruments	For an AFS equity instrument, an impairment is recognized in the income statement if the equity instrument's fair value is not expected to recover sufficiently in the near-term to allow a full recovery of the entity's cost basis. An entity must have the intent and ability to hold an impaired equity instrument until such near-term recovery; otherwise an impairment loss must be recognized in the income statement. The impairment loss is measured as the difference between the equity instrument's cost basis and its fair value.	For an AFS equity instrument, an impairment is recognized in the income statement when there is objective evidence that the AFS equity instrument is impaired and the cost of the investment in the equity instrument may not be recovered. The impairment is measured as the difference between the equity instrument's cost basis and its fair value. A significant or prolonged decline in the fair value of an equity instrument below its cost is considered evidence of an impairment.
Impairment recognition — Held-to-Maturity (HTM) debt instruments	The impairment loss of an HTM instrument is measured as the difference between its fair value and amortized cost basis. Because an entity has asserted its intent and ability to hold an HTM instrument to maturity (that is, the entity does not intend to sell the debt instrument and it is not more likely than not the entity will be required to sell the debt instrument before recovery of its amortized cost basis), the amount of the total impairment related to the credit loss is recognized in the income statement and the amount related to all other factors is recognized in other comprehensive income. The carrying amount of an HTM investment after the recognition of an impairment is the fair value of the debt instrument at the date of the impairment. The new cost basis of the debt instrument is equal to the previous cost basis less the impairment recognized in the income statement. The impairment recognized in other comprehensive income is accreted to the carrying amount of the HTM instrument through other comprehensive income over its remaining life.	The impairment loss of an HTM instrument is measured as the difference between the carrying amount of the instrument and the present value of estimated future cash flows discounted at the instrument's original effective interest rate. The carrying amount of the instrument is reduced either directly or through use of an allowance account. The amount of impairment loss is recognized in the income statement.
Hedging		
Hedge effectiveness — shortcut method for interest rate swaps	Permitted.	Not permitted.

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

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

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

Convergence

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

Debt vs. Equity
Both Boards are working toward issuing an Exposure Draft in the first half of 2010 that will address financial instruments with characteristics of equity. The Boards continue to discuss and develop principles to classifying financial instruments as liabilities or equity.

Recognition and Measurement
The Boards currently are engaged in a joint project on recognition and measurement of financial instruments which will address classification and measurement, impairment, and hedge accounting. In connection with this joint project, the IASB issued IFRS 9 in November 2009 representing finalized guidance on classification and measurement of financial assets, and an Exposure Draft on impairment, *Financial Instruments: Amortized Cost and Impairment*. The IASB expects to issue and exposure draft on hedge accounting in the first half of 2010.

The FASB expects to issue an exposure draft early in the second quarter of 2010 that will address comprehensively the recognition and measurement of financial instruments.

Although this project is considered a joint project, both Boards are separately deliberating the issues. This has resulted in different conclusions being reached on similar issues; however, the Boards continue to have a stated commitment to achieve a converged solution for financial instruments that will provide comparability and transparency as well as reduced complexity of financial instruments accounting.

Derecognition
In June 2009, the FASB issued FAS 166, *Accounting for Transfers of Financial Assets — an Amendment to FASB Statement No. 140*. FAS 166, which was codified in ASC 860 and is effective for annual periods that begin after 15 November 2009. This revised guidance improves convergence by eliminating the concept of a qualifying special-purpose entity.

In March 2009, the IASB issued an exposure draft that proposed a derecognition model based on control. The proposal was not well received, although there was qualified support for an alternative model the IASB also included in the Exposure Draft. The IASB plans to continue developing derecognition requirements based on that model. The Boards have agreed to assess in the first half of 2010 the differences between IFRS and US GAAP and will then consider together the model that the IASB has been developing.

Fair Value
In the US, the guidance in ASC 820 established a common framework for measuring fair value for all financial instruments, though it did not address the circumstances in which fair value accounting should be used. In May 2009 the IASB published an Exposure Draft with proposed guidance regarding how fair value would be measured when it is already required by existing standards. It does not extend the use of fair value, but rather, like ASC 820, would establish a single source of guidance for all fair value measurements under existing IFRS.

The proposed guidance in the Exposure Draft is largely consistent with the principles in ASC 820 and would eliminate most of the differences between US GAAP and IFRS in this area. However, certain proposals in the Exposure Draft differ from US GAAP as the IASB believes changes to ASC 820 are warranted to improve the guidance in some areas. In order to address these differences, the Boards are committed to work on a joint project focused on eliminating all substantive differences between the guidance in the IASB Exposure Draft and ASC 820. The Boards are currently in the process of jointly deliberating certain aspects of their respective fair value measurement guidance and expect to complete this project and issue new guidance in the second half of 2010.

Foreign currency matters

Similarities

ASC 830 *Foreign Currency Matters* (formerly FAS 52) and IAS 21 *The Effects of Changes in Foreign Exchange Rates* are similar in their approach to foreign currency translation. Although the criteria to determine an entity's functional currency are different under US GAAP and IFRS, both ASC 830 and IAS 21 generally result in the same determination (that is, the currency of the entity's primary economic environment). In addition, although there are differences in accounting for foreign currency translation in hyperinflationary economies under ASC 830 and IAS 29 *Financial Reporting in Hyperinflationary Economies*, both US GAAPs require the identification of hyperinflationary economies and generally consider the same economies to be hyperinflationary.

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

Significant differences

	US GAAP	IFRS
Translation/functional currency of foreign operations in a hyperinflationary economy	Local functional currency financial statements are remeasured as if the functional currency was the reporting currency (US dollar in the case of a US parent) with resulting exchange differences recognized in income.	IFRS requires that the functional currency be maintained. However, local functional currency financial statements (current and prior period) are indexed using a general price index (i.e., restated in terms of the measuring unit current at the balance sheet date with the resultant effects recognized in income), and then translated to the reporting currency at the current rate.

	US GAAP	IFRS
Consolidation of foreign operations	A "bottoms-up" approach is required in order to reflect the appropriate foreign currency effects and hedges in place. As such, an entity should be consolidated by the enterprise that controls the entity. Therefore, the "step-by-step" method of consolidation is used whereby each entity is consolidated into its immediate parent until the ultimate parent has consolidated the financial statements of all the entities below it.	The method of consolidation is not specified and, as a result, either the "direct" or the "step-by-step" method of consolidation is used. Under the "direct" method, each entity within the consolidated group is directly translated into the functional currency of the ultimate parent and then consolidated into the ultimate parent (i.e., the reporting entity) without regard to any intermediate parent. The choice of consolidation method used could affect the cumulative translation adjustments deferred within equity at intermediate levels, and therefore the recycling of such exchange rate differences upon disposal of an intermediate foreign operation.
Net investment denominated in currencies other than the functional currencies of the entities that are parties to the monetary items	Intercompany foreign currency transactions between the entities within the consolidated group, for which settlement is neither planned nor likely to occur in the foreseeable future, may be considered a part of the net investment if the monetary items are denominated in the functional currencies of the entities that are parties to the monetary items.	IFRS does not require monetary items to be denominated in functional currencies of the entities that are parties to the monetary item in order for it to be accounted for as a part of the reporting entity's net investment in those entities.

Convergence

No further convergence is planned at this time.

Leases

Similarities

The overall accounting for leases under US GAAP and IFRS (ASC 840 *Accounting for Leases* (formerly FAS 13) and IAS 17 Leases, respectively) is similar, although US GAAP has more specific application guidance than IFRS. Both focus on classifying leases as either capital (IAS 17 uses the term "finance") or operating, and both separately discuss lessee and lessor accounting.

Lessee accounting (excluding real estate)

Both US GAAP and IFRS require the party that bears substantially all the risks and rewards of ownership of the leased property to recognize a lease asset and corresponding obligation, and specify criteria (ASC 840) or indicators (IAS 17) to make this determination (that is, whether a lease is capital or operating). The criteria or indicators of a capital lease are similar in that both standards include the transfer of ownership to the lessee at the end of the lease term and a purchase option that, at inception, is reasonably expected to be exercised. Further, ASC 840 requires capital lease treatment if the lease term is equal to or greater than 75% of the asset's economic life, while IAS 17 requires such treatment when the lease term is a "major part" of the asset's economic life. ASC 840 specifies capital lease treatment if the present value of the minimum lease payments exceeds 90% of the asset's fair value, while IAS 17 uses the term "substantially all" of the fair value. In practice, while ASC 840 specifies bright lines in certain instances (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 ASC 840 and IAS 17.

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

Lessor accounting (excluding real estate)

Lessor accounting under ASC 840 and IAS 17 is similar and uses the above tests to determine whether a lease is a sales-type/direct financing lease or an operating lease. ASC 840 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 may be reached under both standards. If a lease is a sales-type/direct financing lease, the leased asset is replaced with a lease receivable. If a lease is classified as operating, rental income is recognized on a straight-line basis over the lease term and the leased asset is depreciated by the lessor over its useful life.

Significant differences

	US GAAP	IFRS
Lease of land and building	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. 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.)	The land and building elements of the lease are considered separately when evaluating all indicators unless the amount that would initially be recognized for the land element is immaterial, in which case they would be treated as a single unit for purposes of lease classification. There is no 25% test to determine whether to consider the land and building separately when evaluating certain indicators.
Recognition of a gain or loss on a sale and leaseback when the leaseback is an operating leaseback	If the seller does not relinquish more than a minor part of the right to use the asset, gain or loss is generally deferred and amortized over the lease term. If the seller relinquishes more than a minor part of the use of the asset, then part or all of a gain may be recognized depending on the amount relinquished. (Note: Does not apply if real estate is involved as the specialized rules are very restrictive with respect to the seller's continuing involvement and they may not allow for recognition of the sale.)	Gain or loss is recognized immediately, subject to adjustment if the sales price differs from fair value.
Recognition of gain or loss on a sale leaseback when the leaseback is a capital leaseback	Generally, same as above for operating leaseback where the seller does not relinquish more than a minor part of the right to use the asset.	Gain or loss deferred and amortized over the lease term.

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

Convergence

The Boards are jointly working on a long-term convergence project on lease accounting with an overall objective of creating a common standard on lease accounting to ensure that the assets and liabilities arising from lease contracts are recognized on the balance sheet. The Boards have published a discussion paper that sets out their preliminary views on accounting for leases by lessees and includes a high-level discussion of lessor accounting issues. An exposure draft of a new standard that addresses accounting for leases from the perspective of the lessor and the lessee is expected to be issued in 2010.

Income taxes

Similarities

ASC 740 *Income Taxes* (formerly FAS 109) 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 in equity during the current year also are allocated directly to equity. Finally, neither US GAAP nor IFRS permits the discounting of deferred taxes.

Significant differences

	US GAAP	IFRS
Tax basis	Tax basis is a question of fact under the tax law. For most assets and liabilities there is no dispute on this amount; however, when uncertainty exists it is determined in accordance with ASC 740-10-25 (formerly FIN 48)	Tax basis is generally the amount deductible or taxable for tax purposes. The manner in which management intends to settle or recover the carrying amount affects the determination of tax basis.
Taxes on intercompany transfers of assets that remain within a consolidated group	Requires taxes paid on intercompany profits to be deferred and prohibits the recognition of deferred taxes on differences between the tax bases of assets transferred between entities/tax jurisdictions that remain within the consolidated group.	Requires taxes paid on intercompany profits to be recognized as incurred and requires the recognition of deferred taxes on differences between the tax bases of assets transferred between entities/tax jurisdictions that remain within the consolidated group.
Uncertain tax positions	ASC 740-10-25 requires a two-step process, separating recognition from measurement. A benefit is recognized when it is "more likely than not" to be sustained based on the technical merits of the position. 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.	IFRS does not include specific guidance. IAS 12 indicates that tax assets and liabilities should be measured at the amount expected to be paid. Some adopt a "one-step" approach which recognizes all uncertain tax positions at an expected value. Others adopt a "two-step" approach which recognizes only those uncertain tax positions that are considered more likely than not to result in a cash outflow. Practice varies regarding the consideration of detection risk in the analysis.

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

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

Convergence

A joint convergence project on accounting for income taxes was included by the FASB and IASB in their 2006 MOU. While those joint efforts have been abandoned, the IASB may consider making near term improvements to IAS 12 as part of a limited scope project which may affect certain of the differences noted above.

Provisions and contingencies

Similarities

While the sources of guidance under US GAAP and IFRS differ significantly, the general recognition criteria for provisions are similar. IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* provides the overall guidance for recognition and measurement criteria of provisions and contingencies. While there is no equivalent single standard under US GAAP, ASC 450 *Contingencies* (formerly FAS 5) and a number of other standards deal with specific types of provisions and contingencies (for example, ASC 410 *Asset Retirements and Environmental Obligations* (formerly FAS 143 and SOP 96-1) and ASC 420 *Exit or Disposal Cost Obligations* (formerly FAS 146)). In addition, 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 US GAAP and IFRS require recognition of a loss based on the probability of occurrence, although the definition of probability is different under US GAAP (in which probable is interpreted as "likely") and IFRS (in which probable is interpreted as "more likely than not"). Both US GAAP and IFRS prohibit the recognition of provisions for costs associated with future operating activities. Further, both 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 ASC 410-20). Discount rate to be used is dependent upon the nature of the provision, and may vary from that used under IFRS. However, when a provision is measured at fair value, the time value of money and the risks specific to the liability should be considered.	Provisions should be recorded at the estimated amount to settle or transfer the obligation taking into consideration the time value of money. Discount rate to be used should be "a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability."

	US GAAP	IFRS
Measurement of provisions — range of possible outcomes	Most likely outcome within range should be accrued. When no one outcome is more likely than the others, the minimum amount in the range of outcomes should be accrued.	Best estimate of obligation should be accrued. For a large population of items being measured, such as warranty costs, best estimate is typically expected value, although 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.
Restructuring costs	Under ASC 420, once management has committed to a detailed exit plan, each type of cost is examined to determine when recognized. Involuntary employee termination costs are recognized over future service period, or immediately if there is none. Other exit costs are expensed when incurred.	Once management has "demonstrably committed" (that is, a legal or constructive obligation has been incurred) to a detailed exit plan, the general provisions of IAS 37 apply. Costs typically are recognized earlier than under US GAAP because IAS 37 focuses on 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, and an exposure draft on IAS 37's measurement provisions was issued in January 2010, with a final standard expected in 2010. The IASB has indicated its intent to converge with US GAAP in the accounting for restructuring costs as part of this project. In June 2008, the FASB issued proposed amendments to the disclosure requirements ASC 450. Many of the proposed changes are consistent with current disclosures under IAS 37. A final standard is expected in 2010.

Revenue recognition

Similarities

Revenue recognition under both US GAAP and IFRS is tied to the completion of the earnings process and the realization of assets from such completion. Under IAS 18 *Revenue*, revenue is defined as "the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity other than increases relating to contributions from equity participants." Under US GAAP (which is primarily included in ASC 605 *Revenue Recognition*), revenues represent actual or expected cash inflows that have occurred or will result from the entity's ongoing major operations. Under both US GAAP and IFRS, revenue is not recognized until it is both realized (or realizable) and earned. Ultimately, both 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 industries. For example, under US GAAP there are specific rules for the recognition of software revenue and sales of real estate, while comparable guidance does not exist under IFRS. In addition, the detailed US rules often contain exceptions for particular types of transactions. Further, public companies in the US must follow additional guidance provided by the SEC staff. Conversely, a single standard (IAS 18) exists under IFRS, which contains general principles and illustrative examples of specific transactions. Exclusive of the industry-specific differences between the two GAAPs, following are the major differences in revenue recognition.

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

	US GAAP	IFRS
Rendering of services	Certain types of service revenue, primarily relating to services sold with software, have been addressed separately in US GAAP literature. All other service revenue should follow SAB Topic 13. Application of long-term contract accounting ASC 605-35 *Construction-Type and Production-Type Contracts*, (formerly SOP 81-1), is not permitted for non-construction services.	Revenue may be recognized in accordance with long-term contract accounting, including considering the stage of completion, whenever revenues and costs can be measured reliably, and it is probable that economic benefits will flow to the company.
Multiple elements	Specific criteria are required in order for each element to be a separate unit of accounting, including delivered elements 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. (Note, the FASB issued Accounting Standard Update 2009-13 *Multiple-Deliverable Revenue Arrangements* that revised this guidance, eliminating the requirement above pertaining to the undelivered elements.)	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.
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 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 may be, but are not required to be, combined or segmented if certain criteria are met.	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. The Boards issued a discussion paper in December 2008 that describes a contract-based revenue recognition approach using the customer consideration model. This model focuses on the asset or liability that arises from an enforceable arrangement with a customer. The customer consideration model allocates the customer consideration to the contractual performance obligations on a pro rata basis, and revenue is not recognized until a performance obligation is satisfied. The Boards plan to issue an exposure draft in 2010.

In October 2009, the FASB issued ASU 2009-13 *Multiple-Deliverable Revenue Arrangements*. This revised guidance is effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after 15 June 2010. Early adoption is permitted. The new guidance more closely aligns the accounting requirements for multiple-element arrangements in US GAAP and IFRS by eliminating the requirement for the undelivered elements to have reliable and objective evidence of fair value in order to treat the delivered elements as separate units of accounting.

Share-based payments

Similarities

The guidance for share-based payments, ASC 718 *Compensation — Stock Compensation* (formerly FAS 123 (Revised)), and IFRS 2 *Share-Based Payment* is largely converged. Both US GAAP and IFRS require a fair value-based approach in accounting for share-based payment arrangements whereby an entity (1) acquires goods or services in exchange for issuing share options or other equity instruments (collectively referred to as "shares" in this guide) or (2) incurs liabilities that are based, at least in part, on the price of its shares or that may require settlement in its shares. Under both GAAPs, this guidance applies to transactions with both employees and non-employees and is applicable to all companies. Both ASC 718 and IFRS 2 define the fair value of the transaction to be the amount at which the asset or liability could be bought or sold in a current transaction between willing parties. Further, both US GAAP and IFRS require the fair value of the shares to be measured based on a market price (if available) or estimated using an option-pricing model. In the rare cases in which fair value cannot be determined, both GAAPs allow the use of intrinsic value, which is remeasured until the settlement. In addition, the treatment of modifications and settlements of share-based payments is similar in many respects under both US GAAP and IFRS. Finally, both 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	The US GAAP definition of employee focuses mainly on the common law definition of an employee.	IFRS has a more general definition of an employee that includes individuals who provide services similar to those rendered by employees.
	Either the fair value of (1) the goods or services received, or (2) the equity instruments is used to value the transaction, whichever is more reliable.	Fair value of the transaction should be based on the fair value of the goods or services received, and only on the fair value of the equity instruments if, in the rare circumstance, the fair value of the goods and services cannot be reliably estimated.
	If using the fair value of the equity instruments, ASC 505-50 *Equity-Based Payments to Non-Employees* (formerly EITF 96-18), 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.	Measurement date is the date the entity obtains the goods or the counterparty renders the services. No performance commitment concept exists.

	US GAAP	IFRS
Measurement and recognition of expense — awards with graded vesting features	Entities make an accounting policy election to recognize compensation cost for awards containing only service conditions either on a straight-line basis or on an accelerated basis, regardless of whether the fair value of the award is measured based on the award as a whole or for each individual tranche.	Must recognize compensation cost on an accelerated basis — each individual tranche must be separately measured.
Equity repurchase features at employee's election	Does not require liability classification if employee bears risks and rewards of equity ownership for at least six months from the date the equity is issued or vests.	Liability classification is required (no six-month consideration exists).
Deferred taxes	Calculated based on the cumulative GAAP expense recognized and trued up or down upon realization of the tax benefit. If the tax benefit exceeds the deferred tax asset, the excess ("windfall benefit") is credited directly to shareholder equity. A shortfall of the tax benefit below the deferred tax asset is charged to shareholder equity to the extent of prior windfall benefits, and to tax expense thereafter.	Calculated based on the estimated tax deduction determined at each reporting date (for example, intrinsic value). If the tax deduction exceeds cumulative compensation cost, deferred tax based on the excess is credited to shareholder equity. If the tax deduction is less than or equal to cumulative compensation cost, deferred taxes are recorded in income.
Modification of vesting terms that are improbable of achievement	If an award is modified such that the service or performance condition, which was previously improbable of achievement, is probable of achievement as a result of the modification, the compensation cost is based on the fair value of the modified award at the modification date. Grant date fair value of the original award is not recognized.	Probability of achieving vesting terms before and after modification is not considered. Compensation cost is the grant-date fair value of the award, together with any incremental fair value at the modification date.

Convergence

No further convergence is planned at this time.

Employee benefits other than share-based payments

Similarities

ASC 715 *Compensation — Retirement Benefits* and ASC 712 *Compensation — Nonretirement Post-Employment Benefits* (formerly FAS 87, FAS 88, FAS 106, FAS 112, FAS 132 (Revised), FAS 158 and FSP FAS 132-R-1) and IAS 19 *Employee Benefits* are the principal sources of guidance for employee benefits other than share-based payments under US GAAP and IFRS, respectively. Under both GAAPs, the periodic postretirement benefit 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. In addition, 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 smooths the effect of short-term market fluctuations over five years) as of the balance sheet date.	Valued at fair value as of the balance sheet date.
Treatment of actuarial gains and losses for annual benefit cost	May be recognized in the 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 or other rational approach applied consistently from period to period. Entities can elect to recognize immediately in other comprehensive income. Gains or losses immediately recognized in other comprehensive income are not subsequently recognized in the income statement.
Amortization of deferred actuarial gains and losses	Over the average remaining service period of active employees and over the remaining life expectancy of inactive employees.	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 vesting period; immediate recognition if already vested.

	US GAAP	IFRS
Recognition of plan asset or liability in the balance sheet	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 pension plan obligation for pension plans and accumulated pension plan obligation for any other postretirement plans.	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.")
	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.	Balance sheet classification not addressed in IAS 19.
Settlements and curtailments	Settlement gain or loss recognized when obligation is settled. Curtailment losses recognized when curtailment is probable of occurring, while curtailment gains are recognized when the curtailment occurs.	Gain or loss from settlement or curtailment recognized when it occurs.
Multi-employer pension plans	Accounted for similar to a defined contribution plan.	Plan is accounted for as either a defined contribution or defined benefit plan based on the terms (contractual and constructive) of the plan. If a defined benefit plan, must account for the proportionate share of the plan similar to any other defined benefit plan unless insufficient information is available.

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 a result of the comments received on the discussion paper, the IASB has divided the project into two parts. Part 1 of the project addresses the recognition and presentation of changes in the defined benefit obligation and in plan assets, disclosures, and other related issues. Part 2 of the project addresses contribution-based promises, potentially as part of a comprehensive review of the accounting for pensions and other postretirement benefits. The IASB plans to issue an Exposure Draft on Part 1 during the first quarter of 2010, and an interim standard that would improve pension and other postretirement benefit accounting by 2011.

The FASB currently is monitoring the work of the IASB to determine its next steps on the project.

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 ASC 260 (formerly FAS 128) and IAS 33 (both entitled *Earnings per Share*) 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 US GAAP and IFRS 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 *always* assumed to be settled in shares.
Calculation of year-to-date diluted EPS for options and warrants using the treasury stock method and for contingently issuable shares	The number of incremental shares is computed using a year-to-date weighted average of the number of incremental shares included in each quarterly calculation.	The number of incremental shares is computed as if the entire year-to-date period were "the period" (that is, do not average the current 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

The Boards had been jointly working on a short-term convergence project to resolve the differences in the standards, with both Boards issuing exposure drafts in August 2008. In April 2009, the Boards decided to delay the EPS convergence project pending completion of other projects.

Segment reporting

Similarities

The requirements for segment reporting under ASC 280 *Segment Reporting* (formerly FAS 131) and IFRS 8 *Operating Segments* are both applicable to entities with public reporting requirements and are based on a "management approach" in identifying the reportable segments. These two standards are largely converged, and only limited differences exist between the two GAAPs.

Significant differences

	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 chief operating decision maker (CODM) reviews all of the information provided) must determine segments based on products and services.	All entities determine segments based on the management approach, regardless of form of organization.
Disclosure requirements	Entities are not required to disclose segment liabilities even if reported to the CODM.	If regularly reported to the CODM, segment liabilities are a required disclosure.

Convergence

No further convergence is planned at this time.

Subsequent events

Similarities

Despite differences in terminology, the accounting for subsequent events under ASC 855 *Subsequent Events* (formerly FAS 165) and IAS 10 *Events after the Reporting Period* is largely similar. An event that occurs during the subsequent events period that provides additional evidence about conditions existing at the balance sheet date usually results in an adjustment to the financial statements. If the event occurring after the balance sheet date but before the financial statements are issued relates to conditions that arose 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
Date through which subsequent events must be evaluated	Subsequent events are evaluated through the date the financial statements are issued or available to be issued. Financial statements are considered issued when they are widely distributed to shareholders or other users in a form that complies with US GAAP. For SEC registrants, financial statements are issued when the financial statements are filed with the SEC. Financial statements are considered available to be issued when they are in a form that complies with US GAAP and all necessary approvals have been obtained. SEC registrants and conduit-bond obligors evaluate subsequent events through the date the financial statements are issued, while all other entities evaluate subsequent events through the date that the financial statements were available to be issued.	Subsequent events are evaluated through the date that the financial statements are "authorized for issue." Depending on an entity's corporate governance structure and statutory requirements, authorization may come from management or a board of directors. Most US entities do not have a similar requirement.

	US GAAP	IFRS
Reissuance of financial statements	If the financial statements are reissued, events or transactions may have occurred that require disclosure in the reissued financial statements to keep them from being misleading. However, an entity cannot recognize events occurring between the time the financial statements were issued or available to be issued and the time the financial statements were reissued unless the adjustment is required by US GAAP or regulatory requirements (for example, stock splits, discontinued operations, or the effect of adopting a new accounting standard retrospectively would give rise to an adjustment). Entities must disclose both the date that the financial statements were originally issued and the date that they were reissued if the financial statements were revised due to an error correction or retrospective application of US GAAP.	IAS 10 does not specifically address the reissuance of financial statements and recognizes only one date through which subsequent events are evaluated, that is, the date that the financial statements are authorized for issuance, even if they are being reissued. If financial statements are reissued, the date the reissued statements are authorized for reissuance is disclosed. As a result, only one date will be disclosed with respect to the evaluation of subsequent events, and an entity could have adjusting subsequent events in reissued financial statements.
Short-term loans refinanced with long-term loans after balance sheet date	Short-term loans are classified as long-term if the entity intends to refinance the loan on a long-term basis *and*, prior to issuing the financial statements, the entity can demonstrate an ability to refinance the loan.	Short–term loans refinanced after the balance sheet date may not be reclassified to long-term liabilities.
Stock dividends declared after balance sheet date	Financial statements are 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.

Convergence

No further convergence is planned at this time.

Related parties

Similarities

Both ASC 850 (formerly 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. ASC 850 does not require disclosure of compensation of key management personnel as IAS 24 does, but the financial statement disclosure requirements of IAS 24 are similar to those required by the SEC outside the financial statements.

Significant differences

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

Convergence

No further convergence is planned at this time.

Appendix — The evolution of IFRS

This appendix 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 then 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.

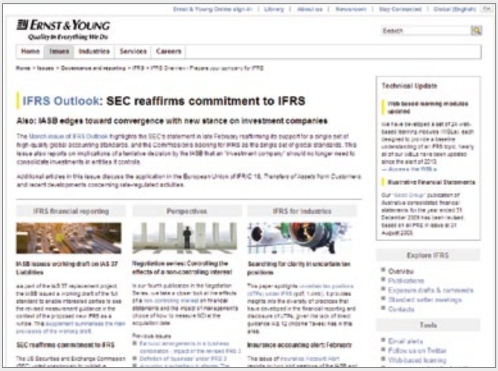
Phase III — 2006 to present

- **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 US GAAP and IFRS 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.
- **November 2007: the SEC eliminates the US GAAP reconciliation for foreign private issuers.** After hosting a roundtable discussion in March 2007 to discuss the effects the acceptance of IFRS would have on investors, issuers, and capital raising in the US capital markets and issuing a summary of its observations regarding foreign private issuers that adopted IFRS for the first time in 2005, the SEC determined that the milestones on its 2005 Roadmap had been sufficiently met to eliminate the reconciliation requirement.
- **Mid-2007, continuing into 2008: SEC explores the future use of IFRS by US companies.** Also in August 2007, the SEC issued a Concept Release asking the public to comment on the possible use of IFRS by US domestic registrants. In December 2007 and August 2008, the SEC held three additional roundtables on the topic of IFRS, with the roundtables focusing on the potential use of IFRS for US issuers. Further, in November 2008 the SEC issued for public comment an updated Roadmap which anticipated mandatory reporting under IFRS beginning in 2014, 2015 or 2016, depending on the size of the company.
- **February 2010: the SEC reaffirms its commitment to IFRS.** In February 2010, the SEC voted unanimously to publish a statement reaffirming its longstanding commitment to the goal of a single set of high-quality global accounting standards and expressing support for the continued convergence of US GAAP and IFRS. The SEC stated that the execution of a work plan to address certain specific factors will position it in 2011 to make an informed determination regarding the further incorporation of IFRS into the US financial reporting system for US companies.
- **Looking ahead:** The future remains uncertain, but the SEC has indicated that it should be in position to make the determination regarding the further incorporation of IFRS into the US financial reporting system for US Companies in 2011, with a possible transition date of approximately 2015 or 2016. The SEC staff stated that it will provide public progress reports on their work plan beginning in October 2010.

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.

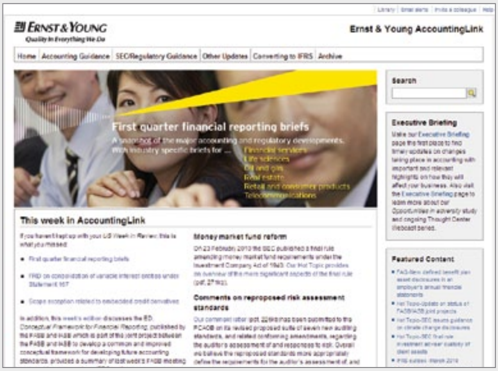
ey.com/ifrs



Ernst & Young's global 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 monthly client newsletter.
  - Technical publications—including 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.
  - Sector-specific guidance, including *Industry 360: IFRS*, an overview of our industry-related IFRS thought leadership
- From here you can also link to several country-specific IFRS pages, including Canada and the United States, and locate information about free web-based IFRS training and our Thought Center Webcast series.

AccountingLink



AccountingLink, at ey.com/us/accountinglink, is the site for Ernst & Young US client-oriented technical accounting guidance and related thought leadership. It provides easy access to many of the publications produced by our US Professional Practice Group. AccountingLink is available free of charge.

Global Accounting & Auditing Information Tool (GAAIT)

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

International GAAP®

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.

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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.

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