

# US GAAP vs. IFRS

The basics: Telecommunications

May 2009





# Contents

Inventory.....	1
Long-lived assets.....	3
Mass asset accounting.....	5
Decommissioning liabilities.....	6
Intangible assets.....	8
Impairment of long-lived assets, goodwill and intangible assets.....	11
Leases.....	13
Revenue recognition.....	15
Indefeasible right of use.....	19
Financial statement presentation.....	21
Interim financial reporting.....	23
Consolidation, joint venture accounting and equity method investees.....	24
Business combinations.....	26
Financial instruments.....	27
Foreign currency matters.....	31
Income taxes.....	32
Provisions and contingencies.....	34
Share-based payments.....	35
Employee benefits other than share-based payments....	37
Earnings per share.....	39
Segment reporting.....	40
Subsequent events.....	41
Related parties.....	42
First-time adoption.....	43
Appendix – The evolution of IFRS.....	44

This and many of the publications produced by our US Professional Practice Group, are available free on AccountingLink at [ey.com/us/accountinglink](http://ey.com/us/accountinglink)

# Introduction



**While the convergence of US GAAP and IFRS continues to be a high priority on the agendas of both the US Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB), there are still significant differences between the two GAAPs.**

Understanding the similarities and differences between US GAAP and IFRS on an industry basis can be challenging because while the principles and conceptual frameworks for US GAAP and IFRS are generally similar, US GAAP has more detailed, industry-based guidance than IFRS.

In this guide, “US GAAP vs. IFRS – The basics: Telecommunications,” we take a top level look at the accounting and reporting issues most relevant to reporting entities in the telecommunications (telecom) industry and provide an overview, by accounting area, of where the standards are similar, where they diverge and any current convergence projects. The following areas contain the most significant similarities and differences that are relevant to telecom operators:

- ▶ Inventory
- ▶ Long-lived assets
- ▶ Mass asset accounting
- ▶ Decommissioning liabilities
- ▶ Intangible assets
- ▶ Impairment of long-lived assets, goodwill and intangible assets
- ▶ Leases
- ▶ Revenue recognition
- ▶ Indefeasible right of use

Following these sections, we have included similar analyses for other accounting areas that will affect telecom operators but are not specific to the industry.

No publication that compares two broad sets of accounting standards can include all differences that could arise in accounting for the myriad of potential business transactions. 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.

In planning a possible move to IFRS, it is important that reporting entities in the telecom industry 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 US GAAP and IFRS, as well as the areas presently expected to converge. We hope you find this guide a useful tool for that purpose.

*Ernst & Young LLP*

May 2009



# Inventory



**The type and significance of inventory varies by telecom operator.** Fixed line operators' inventory generally consists of customer premise equipment, supplies and spare parts for network equipment and is typically not significant when compared to the carrying values of their property, plant and equipment. Wireless operators' inventory generally consists of wireless equipment, such as handsets and accessories, and may be significant. The following section focuses on wireless equipment inventories.

## Similarities

ARB 43 Chapter 4 *Inventory Pricing* and IAS 2 *Inventories* are both based on the principle that the primary basis of accounting for inventory is cost. As a result, the recognition and initial measurement of wireless equipment inventories is similar under both US GAAP and IFRS. For example, wireless equipment is initially measured at cost generally using a weighted average cost method. Cost includes all direct expenditures to ready the wireless equipment for sale and excludes selling, storage and administrative costs.

The subsequent measurement of wireless equipment inventories is also similar under both GAAPs and can be complex. Handset vendors continually develop new handsets or update prior versions of handsets, resulting in relatively short product lives for handsets. As a result, wireless operators under both US GAAP and IFRS frequently perform lower of cost or market and net realizable value analyses for handset inventories and recognize inventory reserves to write down particular slow-moving or obsolete handsets to market and net realizable value. Net realizable value is similarly defined under both GAAPs as the estimated selling price less the estimated costs of completion and sale. The estimated selling price used to determine the net realizable value generally excludes any discount provided to a customer and instead represents the standalone value of the product.

A practical application of this concept to the telecom industry concerns the determination of a handset's standalone value. It is customary business practice in the US, as well as many other countries, for a new or renewing customer to pay a fraction of the cost of the handset or nothing at all. Telecom operators provide handset subsidies as part of their strategy to acquire new customers and generate sufficient revenues through the provision of telecom services over the life of the customer contract to offset the losses realized on the handsets. When handsets are sold separately from telecom services (for example, when a customer replaces a lost or damaged handset during the contract), telecom operators generally charge full price (that is, cost plus a margin). Because telecom operators have the ability to sell handsets at a profit (but this assumption must be continually evaluated) and a combined

handset and telecom service arrangement is profitable, the full (unsubsidized) price is considered to represent standalone value. Consequently, under both US GAAP and IFRS, handset subsidies are not generally factored into lower of cost or market and net realizable value analyses and thus, do not give rise to inventory write-downs.

## 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. The 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 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 (this amount may or may not equal fair value).
Reversal of inventory write-downs	Any write-downs of inventory are a new cost basis that subsequently cannot be reversed.	Previously recognized impairment losses are reversed up to the amount of the original impairment loss when the reasons for the impairment no longer exist.

## Convergence

In November 2004, the FASB issued FAS 151 *Inventory Costs* to address a narrow difference between US GAAP and IFRS related to the accounting for inventory costs, in particular, abnormal amounts of idle facility expense, freight, handling costs and spoilage. At present, there are no other ongoing convergence efforts with respect to inventory.

# Long-lived assets



**Property, plant and equipment is typically one of the largest asset categories on a telecom operator's balance sheet.** The complexity in accounting for property, plant and equipment varies by telecom operator and largely depends on whether assets are purchased or constructed. Some telecom operators apply mass asset accounting (see "Mass asset accounting" for further details).

## Similarities

Although US GAAP does not have a comprehensive standard that addresses long-lived assets, the composition of items that are included in 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 capitalized as part of the cost of the asset if future economic benefits are probable and can be reliably measured. However, neither model provides specific guidance in determining the unit of account to be used in capitalizing long-lived assets. The determination of a unit of account is based on management's judgment, which factors in the intended use of the asset, as well as materiality. For example, major spare parts may qualify as property, plant and equipment, while minor spare parts are often classified in inventory.

Both US GAAP- and IFRS-reporting telecom operators typically have a variety of units of account that are determined based on the type of asset. For example, they may individually identify an asset, such as a computer, or they may aggregate a small number of individual assets that comprise one large asset, such as a cell site. However, some US telecom operators group an entire population of assets, which is not permitted under IFRS (see "Mass asset accounting" for further details).

The costs to be capitalized under both models are similar. For telecom operators, such costs include (i) materials, (ii) supplies and (iii) labor and benefits, including directly attributable professional fees, for network planning and design, construction (including cell site preparation), installation and turn-up testing activities. Both models also require the costs of dismantling an asset and restoring its site to be included in the cost of an asset (see "Decommissioning liabilities" for further details). Neither model allows the capitalization of start-up costs, general administrative and overhead costs (unless directly attributable to network construction) or regular maintenance. For example, network planning costs incurred as part of an initial feasibility study are not eligible for capitalization.

## Depreciation

Under both accounting models, depreciation of long-lived assets begins when an asset is placed in service and is ready for its intended use. The depreciable amount of an asset represents its cost (or valuation, if the revaluation policy is elected under IFRS) less its residual or salvage value. Residual or salvage value generally is not significant for telecom operators, as they typically keep property, plant and equipment for their useful lives. Depreciation is required on a systematic basis over the useful life of the asset. Neither model prescribes a depreciation method, but instead both require that the method selected reflect the pattern of consumption of the benefits provided by the asset. Typically, telecom operators use the straight-line method of depreciation, although some US telecom operators use a group composite method (see “Mass asset accounting” for further details).

Changes in the depreciation method, residual value or useful life of an asset are accounted for as a change in accounting estimate requiring prospective treatment under both FAS 154 *Accounting Changes and Error Corrections* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Error Corrections*.

Depreciation ceases at the end of an asset’s useful life, or when an asset is disposed of, retired from service or held for sale.

## Assets held for sale

Assets held for sale are discussed in FAS 144 *Accounting for the Impairment or Disposal of Long-Lived Assets* and IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*, with both standards having similar held for sale criteria. Under both standards, the asset is measured at the lower of its carrying amount or fair value less costs to sell; the assets are not depreciated and are presented separately on the face of the balance sheet. Exchanges of nonmonetary similar productive assets are also treated similarly under APB 29 *Accounting for Nonmonetary Exchanges* as amended by FAS 153 *Accounting for Nonmonetary Transactions* and IAS 16, both of which allow gain/loss recognition if the exchange has commercial substance and the fair values of the asset(s) exchanged can be reliably measured.

## Significant differences

	US GAAP	IFRS
Costs of a major overhaul	Costs that represent a replacement of part of an asset are generally capitalized by telecom operators if they increase the future service potential of an asset (often referred to as substantial betterments or improvements). The capitalized replacement is depreciated over the remaining useful life of the asset.	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. The capitalized replacement is depreciated over its estimated useful life, which may differ from the remaining useful life of the replaced part or related assets. The carrying amount of those parts that were replaced is derecognized, to the extent that they are not already depreciated.
Revaluation of assets	Revaluation is not permitted.	Revaluation is a permitted accounting policy election for an entire class of assets, requiring revaluation to fair value on a regular basis.
Depreciation of asset components	While component depreciation is permitted, telecom operators generally do not use this method of depreciation.  The requirement to use component depreciation will have a significant effect on telecom operators that apply mass asset accounting (see “Mass asset accounting” for further details).	Component depreciation is required for all property, plant and equipment. Under IAS 16, each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately. Components of an asset that have the same useful life and depreciation method may be grouped and depreciated together, whereas components with different useful lives must be depreciated separately.

## Convergence

No convergence is planned at this time.



# Mass asset accounting



As mentioned in the long-lived assets section, accounting for property, plant and equipment can be complex given the capital intensive nature of the industry. Further, larger telecom operators typically construct the majority of their network assets. Accounting for each network asset once it is placed into service can be time consuming and difficult to track, particularly for fixed line operators given the significant quantity of assets placed in service each month and the longevity of such assets.

These complexities have led US fixed line telecom operators to apply a composite group depreciation methodology (this methodology is generally not applied by wireless telecom operators). Commonly referred to as “mass asset accounting,” large numbers of homogeneous assets are grouped and depreciated over the average useful life of the group. Mass asset accounting does not contemplate actual physical usage of individual assets, but instead estimates the expected usage of an asset group taken as a whole.

A method comparable to mass asset accounting does not exist under IFRS. IFRS requires component depreciation, and therefore, mass asset accounting in its current form may no longer be appropriate once telecom operators adopt IFRS. As a result, accounting for property, plant and equipment will be an area of particular focus for those telecom operators that follow mass asset accounting as they contemplate adopting IFRS.

## Significant differences

	US GAAP	IFRS
Depreciation of assets	Like assets are grouped and depreciated over the useful life of the group, determined from complex calculations based on depreciation studies and statistically-determined survivor curves. A composite depreciation rate is developed on an annual basis and factors in the current accumulated depreciation balance and the average remaining useful life of the asset group. This rate is applied to the weighted average gross asset balance at the end of the reporting period to calculate depreciation for that reporting period.	Component depreciation is required for all property, plant and equipment. Under IAS 16, each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately. Components of the same asset that have the same useful life and depreciation method may be grouped and depreciated together, whereas components with a different useful life must be depreciated separately.
Gain or loss on derecognition of assets	No gains or losses on derecognition of assets are recognized in earnings. Instead, the difference between the sales proceeds and the net book value of the property, plant and equipment is recorded to accumulated depreciation.	Gains or losses arising from the derecognition of an item of property, plant and equipment are included in earnings when the item is derecognized.

## Convergence

No convergence is planned at this time.

# Decommissioning liabilities

Telecom operators have various legal obligations related to the retirement, removal and disposal of their fixed assets, referred to as decommissioning liabilities under IFRS, or as asset retirement obligations (AROs) under US GAAP. Examples of AROs common in the telecom industry include disposal costs for telephone poles, batteries and asbestos, costs to return leased properties to their original state and decommissioning costs associated with cell towers, underwater cable and satellites.



## Similarities

Both US GAAP and IFRS require that the costs of dismantling an asset and restoring its site (that is, the costs of asset retirement under FAS 143 *Accounting for Asset Retirement Obligations* or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*) be included in the cost of the asset. Both models require a provision for asset retirement costs to be recorded when there is a legal obligation, although IFRS requires a provision in other circumstances as well. Uncertainty around the timing and/or method of settling an ARO (often referred to as a conditional ARO) does not preclude recognition of an ARO under both models, although US GAAP has a standard (FIN 47 *Accounting for Conditional Asset Retirement Obligations*) that explicitly addresses conditional AROs. When an ARO is remeasured due to changes in assumptions, both GAAPs (FAS 143 and IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*) require that the depreciation on the related asset be adjusted prospectively over the remaining useful life.



## Significant differences

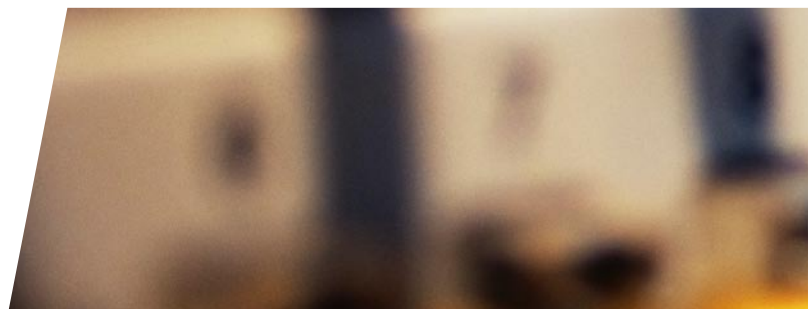
	US GAAP	IFRS
Identification of AROs	Only legal obligations give rise to AROs. Under FAS 143, a legal obligation can result from a law, statute, ordinance, an agreement between entities (written or oral) or a promise that imposes a reasonable expectation that becomes an enforceable promise.	Both legal and constructive obligations give rise to decommissioning liabilities under IAS 37. A constructive obligation arises when an entity has created a valid expectation, based on past practice or published policies, that it will discharge the obligation and may or may not be enforceable.
Initial measurement	AROs and the related capitalized costs are measured at fair value in accordance with FAS 157 <i>Fair Value Measurements</i> , such that the estimated costs should reflect marketplace participant assumptions. ARO liabilities are discounted using a risk-free interest rate adjusted for the effects of an entity's own credit standing.	Decommissioning liabilities and the related capitalized costs are measured at the best estimate of the costs required to settle the decommissioning liability or to transfer it to a third party. Decommissioning provisions are discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.
Subsequent recognition and measurement - change in estimates	AROs may be remeasured due to revisions in the amounts or timing of the original estimated cash flows. An upward revision to the original estimated cash flows gives rise to a new obligation measured using current market assumptions and is recognized as an additional "layer" to the ARO asset and liability. A downward revision to the original estimated cash flows is measured using the original assumptions and recognized as a reduction to the ARO asset and liability.	Decommissioning liabilities may be remeasured due to revisions in the amounts or timing of the original estimated cash flows and due to changes in the current market-based discount rate, if applicable. If the related amount is measured at cost, changes in the decommissioning liability, whether due to revised cash flow estimates or discount rates, are added to or deducted from the cost of the related asset, with any reductions in excess of the carrying amount of the asset recognized as a gain in the current period.
Subsequent recognition and measurement - accretion of obligation	Changes to the liability as a result of the passage of time are recorded as accretion expense. FAS 143 requires that accretion expense be classified as an operating item in the statement of income.	Changes to the liability as a result of the passage of time are recorded as borrowing costs.
Deferred income taxes	Deferred taxes are recognized upon initial recognition of the ARO asset and liability and consist of a deferred tax asset (timing difference in expense recognition) and a deferred tax liability (the book-to-tax basis difference on the ARO asset). Similar to the ARO asset and liability, the deferred tax asset and liability are equal at initial measurement.	No deferred taxes are recognized at initial recognition of the decommissioning liability because there is no profit and loss effect. See "Income taxes" for further details.

## Convergence

No further convergence is planned.

# Intangible assets

**Intangible assets are significant to telecom operators and commonly include wireless licenses and internally developed software, as well as customer relationships and trademarks arising from business combinations.**



## Similarities

The definition of and recognition criteria for intangible assets is the same under both US GAAP's FAS 141(Revised) *Business Combinations* and FAS 142 *Goodwill and Other Intangible Assets* and the IASB's IFRS 3(Revised) *Business Combinations* and IAS 38 *Intangible Assets*. An intangible asset is a non-monetary asset without physical substance. The requirements for recognition criteria include the existence of probable future economic benefits and costs that can be reliably measured.

Wireless licenses are typically acquired through Federal Communications Commission (FCC) auctions or in connection with business combinations. When wireless licenses are acquired in an FCC auction, the costs capitalized under both accounting models includes the purchase price and any directly attributable costs, such as legal and professional fees. Conversely, when wireless licenses are acquired in business combinations, they are recognized at fair value under both US GAAP and IFRS.

Because FCC auctions are not frequent, telecom operators may incur debt to bid on a large quantity of wireless spectrum. In many cases, the wireless spectrum is not ready for immediate use (for example, telecom operators may have to build the supporting network). As a result, the wireless license intangible asset would meet the definition of a qualifying asset in accordance with both FAS 34 *Capitalization of Interest* and IAS 23 *Borrowing Costs*, which address the capitalization of borrowing costs (for example, interest costs) directly attributable to the acquisition, construction or production of a qualifying asset. Borrowing costs for wireless license intangible assets are capitalized once (i) expenditures for the wireless license intangible asset are being incurred, (ii) borrowing costs are being incurred and (iii) activities that are necessary to prepare the wireless spectrum for its intended use are in progress. Capitalization ceases once the wireless spectrum is ready for its intended use.

With the exception of development costs, such as internally developed software (addressed in the following table), internally developed intangibles are not recognized as an asset under either FAS 142 or IAS 38. Moreover, internal costs related to the research phase of research and development are expensed as incurred under both accounting models.



Amortization of intangible assets over their estimated useful lives is required under both US GAAP and IFRS. In both sets of GAAP, 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. In the US, wireless licenses are generally considered indefinite-lived assets and are not amortized. Goodwill is never amortized.

## Significant differences

	US GAAP	IFRS
Internally developed software	<p>Only those costs incurred during the application development stage (as defined in SOP 98-1 <i>Accounting for the Costs of Computer Software Developed or Obtained for Internal Use</i>) may be capitalized. Those costs incurred during the preliminary project and post-implementation/operation stages are expensed as incurred. Only upgrades and enhancements that result in additional functionality may be capitalized.</p> <p>SOP 98-1 does not provide specific classification guidance for internally developed software. There is divergent practice in the telecom industry for classifying capitalized internally developed software. Some telecom operators classify internally developed software as intangible assets, while others classify it as property, plant and equipment.</p>	<p>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 principles may be largely consistent with US GAAP, there is no separate guidance addressing computer software development costs.</p> <p>Research and training costs are expensed as incurred, which is a similar model to SOP 98-1. Upgrades, enhancements and maintenance costs may be eligible for capitalization if these costs will generate probable future economic benefits.</p> <p>Capitalized internally developed software should be classified as an intangible asset.</p>
Measurement of borrowing costs	<p>Interest earned on the investment of borrowed funds generally cannot offset interest costs incurred during the period.</p> <p>For borrowings associated with a specific qualifying asset, borrowing costs equal to the weighted average accumulated expenditures times the borrowing rate are capitalized.</p>	<p>Borrowing costs are offset by investment income earned on those borrowings.</p> <p>For borrowings associated with a specific qualifying asset, actual borrowing costs are capitalized.</p>
Subscriber acquisition costs	<p>Subscriber acquisition costs, which represent the direct costs of signing up a new wireless customer and generally include sales commissions and handset subsidies, are expensed as incurred.</p>	<p>Generally, subscriber acquisition costs do not meet the definition of an intangible asset under IAS 38. However, they can in rare circumstances be capitalized if they meet the definition of an intangible asset (identifiability, control over a resource and existence of future economic benefits) and the criteria for recognition (probable realization of future economic benefits and reliable measurement of costs). For example, subscriber acquisition costs that (a) can be reliably measured, (b) relate to a customer with a binding contract for a specified period of time and (c) are probable of being recovered through revenues generated by the contract or through collection of a penalty if the contract is terminated, may be capitalized (depending on the facts and circumstances) as an intangible asset.</p> <p>Capitalized subscriber acquisition costs are generally amortized on a straight-line basis over the customer contract period.</p>

	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 uncommon in practice.
Advertising costs	Advertising and promotional costs are either expensed as incurred or expensed when the advertising takes place for the first time (policy choice). Direct response advertising may be capitalized if the specific criteria in SOP 93-07 <i>Reporting on Advertising Costs</i> are met.	Advertising and promotional costs are expensed as incurred. A prepayment may be recognized as an asset only when payment for the goods or services is made in advance of the entity's having access to the goods or receiving the services.

## 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 agenda. 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

**FAS 142, FAS 144 and IAS 36 *Impairment of Assets* apply to most long-lived and intangible 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. Both US GAAP and IFRS contain similarly defined indicators for assessing the impairment of long-lived assets.

Examples of impairment indicators that may occur in the telecom industry include:

- ▶ *Technological obsolescence* – Technological obsolescence changes the extent or manner in which a long-lived asset is being used or in its physical condition. It is one of the most likely indicators a telecom operator may experience, particularly since there is rapid technological development

within the industry. For example, some telecom operators are moving to a fiber-based network, instead of the traditional copper-based network, which may represent an impairment indicator for the copper-based network.

- ▶ *Operating or cash flow loss* – The telecom industry as a whole has experienced contraction in the fixed line business as more customers migrate to wireless or dispose of excess fixed lines. Accordingly, telecom operators may begin to experience operating or cash flow losses in the fixed line business, which may indicate that the related network assets are impaired.
- ▶ *Expected costs* – Telecom operators may incur costs significantly in excess of the amount originally expected to construct an asset, which may indicate that the asset is impaired.

Additionally, both GAAPs require that an asset found to be impaired be written down and an impairment loss recognized. Despite the similarity in overall objectives, differences exist in the way in which impairment is reviewed, recognized and measured (summarized in the table below).

## Significant differences

	US GAAP	IFRS
Asset identification - long-lived assets	<p>Impairment losses should be recognized and measured for a long-lived asset that is grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.</p> <p>Generally, telecom operators group long-lived assets based on the type of network because it represents the lowest level for which cash flows are independent. For example, a telecom operator would separately group its fixed line and wireless assets.</p>	<p>Impairment losses should be recognized and measured for an individual asset (other than goodwill). In certain circumstances, an impairment loss cannot be measured for an individual asset because the recoverable amount cannot be determined (for example, when the asset does not generate cash inflows that are largely independent of those from other assets). In this case, the impairment loss should be recognized and measured based on the cash generating unit (CGU) to which the asset belongs. An asset's CGU is the smallest group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.</p> <p>Recognizing and measuring impairment losses based on the CGU may be complex if the structure of US telecom operators change. Traditionally, telecom operators have determined their operating segments based on fixed line and wireless businesses. However, international telecom operators are realigning their operating segments based on type of customer (residential or corporate). If US telecom operators move to the customer model for determining operating segments, the existing network assets would support multiple segments. In this case, the CGU used to recognize and measure impairment may not correspond to the operating segment and as a result, the impairment loss would require allocation to the appropriate segments.</p>

	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 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 FAS 157.)
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 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 <i>Operating Segments</i> .
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 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 life intangible assets	The amount by which the carrying value of the asset exceeds its fair value.	The amount by which the carrying value of the asset exceeds its recoverable amount.
Reversal of loss	Prohibited for all assets 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.



# Leases

Telecom operators often lease property and equipment including property for office space, central office space and cell sites, as well as network equipment and office equipment. Though less frequent, telecom operators act as lessors in leasing arrangements, for example in leveraged lease arrangements.



## Similarities

The overall accounting for leases under US GAAP and IFRS (FAS 13 *Accounting for Leases* and IAS 17 *Leases*, respectively) is similar, although US GAAP has more specific 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 standards 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 (FAS 13) 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, FAS 13 requires capital lease treatment if the lease term is equal to or greater than 75% of the asset’s economic life, while IAS 17 requires such treatment when the lease term is a “major part” of the asset’s economic life. FAS 13 specifies capital lease treatment if the present value of the minimum lease payments exceeds 90% of the asset’s fair value, while IAS 17 uses the term “substantially all” of the fair value. In practice, while FAS 13 specifies bright lines in certain instances (for example, 75% of economic life), IAS 17’s general principles are interpreted similarly to the bright line tests. As a result, lease classification is often the same under FAS 13 and IAS 17.

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

## Lessor accounting (excluding real estate)

Lessor accounting under FAS 13 and IAS 17 is similar and uses the above tests to determine whether a lease is a sales-type/ direct financing lease or an operating lease. FAS 13 specifies

two additional criteria (that is, collection of lease payments is reasonably expected and no important uncertainties surround the amount of unreimbursable costs to be incurred by the lessor) for a lessor to qualify for sales-type/direct financing lease accounting that IAS 17 does not have. Although not specified in IAS 17, it is reasonable to expect that if these

conditions exist, the same conclusion 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
Discount rate used by a lessee to present value minimum lease payments	The lower of the lessee's incremental borrowing rate or the rate implicit in the lease. The discount rate is determined as of lease commencement.	The rate implicit in the lease, if it is practicable to determine; otherwise, the lessee's incremental borrowing rate is used.
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.
Leveraged leases	Special accounting rules are provided for leveraged leases.	There are no special accounting rules for leveraged leases under IFRS. That is, leveraged leases are accounted for similar to all other leases.

Other differences include: (i) real estate sale-leasebacks and (ii) real estate sales-type leases.

## Convergence

The Boards are jointly working on a 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 in the statement of financial position. The Boards have published a discussion paper that sets out their preliminary views on accounting for leases by lessees and describes some of the issues that the Boards will need to resolve in developing a new standard on lessor accounting. An exposure draft of a new accounting standard for leases is expected to be published in the first half of 2010.

# Revenue recognition



**Revenue recognition is a complex issue in the telecom industry. Part of the complexity arises because of the different types of telecom services.** For example, fixed line (principally voice and data) services have recognition issues that may differ from wireless (principally mobile voice and data) services. Moreover, the industry is continuing to develop rapidly and it is likely that new business models will continue to be adopted by operators – in particular the convergence of fixed line voice services and broadband with wireless services – that will give rise to new revenue recognition challenges.

## Similarities

As a general, conceptual matter, 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, revenues represent actual or expected cash inflows that have occurred or will result from the entity’s ongoing major operations. 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. Because the fundamental revenue recognition principles are the same between US GAAP and IFRS, the amount and timing of revenue recognized for telecom services is generally similar, particularly for routine fixed line and wireless services.

## Significant differences

Despite the conceptual similarities, differences in telecom 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. Conversely, two standards (IAS 18 *Revenue* and IAS 11

*Construction Contracts*) and several interpretations (IFRIC 13 *Customer Loyalty Programmes* and IFRIC 18 *Transfer of Assets from Customers*) exist under IFRS, which contain general principles and illustrative examples of specific transactions. Following are the major differences in revenue recognition.

	US GAAP	IFRS
Sale of goods	Revenue is recognized under SAB 104 <i>Revenue Recognition</i> when 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 collectability is reasonably assured.	Revenue is recognized only when the risks and rewards of ownership have been transferred, the buyer has control of the goods, revenues can be measured reliably and it is probable that the economic benefits will flow to the company.
Rendering of services	Generally, service revenue should follow SAB 104. Provided all other revenue recognition criteria are met, service revenue should be recognized on a straight-line basis, unless evidence suggests that revenue is earned or obligations are fulfilled in a different pattern, over the contractual term of the arrangement or the expected period during which those specified services will be performed, whichever is longer. Application of long-term contract accounting (SOP 81-1, <i>Accounting for Performance of Construction-Type and Certain Production-Type Contracts</i> ) is not permitted for non-construction services.	Revenue may be recognized in accordance with long-term contract accounting, including considering the stage of completion, whenever revenues and costs can be measured reliably and it is probable that economic benefits will flow to the company. For practical purposes, when services are performed by an indeterminate number of acts over a specified period of time, such as telecom services, revenue is recognized on a straight-line basis over the specified period of time.
Multiple elements	Under EITF 00-21 <i>Revenue Arrangements with Multiple Deliverables</i> , specific criteria are required in order for each element to be a separate unit of accounting, such as (i) delivered elements must have standalone value and (ii) undelivered elements must have reliable and objective evidence of fair value. If those criteria are met, revenue for each element of the transaction can be recognized when the element is complete.	IAS 18 requires recognition of revenue on an element of a transaction if that element has commercial substance on its own; otherwise the separate elements must be linked and accounted for as a single transaction. IAS 18 does not provide specific criteria for making that determination.
Contingent revenue	Revenue is measured based on the fixed or determinable fee contained in an arrangement. EITF 00-21 restricts the amount of revenue recognized with respect to any component to the amount that is not contingent on the delivery of additional items or other specific performance criteria. For example, the amount of revenue recognized on wireless handsets is capped to the upfront cash consideration received due to the contingency to deliver future telecom services.	Revenue is measured based on the fair value of the consideration received or receivable. Contingent amounts may be included when allocating total revenues to the components of the transaction. For example, revenue could be allocated to the sale of a wireless handset based on the fair value of the consideration received or receivable (and therefore, could be greater than under US GAAP). However, industry practice generally applies a form of "residual method" to the amount of revenue taken for the sale of the handset, recognizing no more than the amount contractually payable for it. Effectively, the revenues allocated to wireless handsets are capped at the cash consideration received from the customer, similar to US GAAP.

	US GAAP	IFRS
Customer activation fees and related costs	SAB 104 requires that activation fees and the related costs are deferred and recognized on a straight-line basis over the contractual term of the arrangement or the expected period during which those specified services will be performed, whichever is longer.	IAS 18 does not explicitly address customer activation fees and related costs. However, telecom operators apply the multiple element principle in IAS 18. If the customer activation fee is determined to be bundled with the telecom service arrangement, it is recognized over the expected term of the related customer relationship (either the contract period or estimated average customer life). Alternatively, if the customer activation fee is determined to be a separate deliverable, it is recognized up-front. Related costs are generally expensed as incurred.  Additionally, telecom operators should consider IFRIC 18 to account for the cash received from customers (in the form of activation fees) in exchange for constructing property, plant and equipment used in connecting the customer to the telecom network and providing telecom services to the customer.
Prepaid calling cards	Revenue is deferred until the prepaid calling cards are used (delivered). Breakage generally is recognized in income using the redemption recognition method (that is, breakage is estimated and recognized based on historical trends). However, the delayed recognition and immediate recognition methods are also acceptable for estimating breakage.	Revenue is deferred until the prepaid calling cards are used. Breakage is estimated and recognized as revenue using only the redemption recognition method.
Gross versus net presentation	Amounts collected by telecom operators on behalf of others, such as distribution partners or governmental taxing authorities, are recognized as revenue on either a gross or net basis. EITF 99-19 <i>Reporting Revenue Gross as a Principal versus Net as an Agent</i> provides indicators to determine whether revenue should be recognized on a gross basis (because a company has acted as the principal in the sale of the goods or services) or on a net basis (because, in substance, a company has acted as an agent and earned a commission from the supplier of the goods or services sold). EITF 06-3 <i>How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (that Is, Gross versus Net Presentation)</i> allows telecom operators to make an accounting policy election to present taxes collected from customers and remitted to governmental taxing authorities on either a gross or net basis. Practice varies within the industry.	Amounts collected on behalf of the principal in an agency relationship are not revenue. Instead, revenue is the amount of the commission. IAS 18 currently provides no further guidance in terms of determining when it is appropriate to recognize revenue on a gross or net basis. However, the IASB intends to amend IAS 18 in the second quarter of 2009 as part of its annual improvements project to provide guidance in determining whether an entity is acting as a principal or as an agent.
Construction contracts	Construction contracts are accounted for under SOP 81-1 using the percentage-of-completion method if certain criteria are met. Otherwise completed contract method is used.  Construction contracts may be, but are not required to be, combined or segmented if certain criteria are met.	Construction contracts are accounted for under IAS 11 using the percentage-of-completion method if certain criteria are met. Otherwise, revenue recognition is limited to recoverable costs incurred. The completed contract method is not permitted.  Construction contracts are combined or segmented if certain criteria are met. Criteria under IFRS differ from those in US GAAP.

## Convergence

The FASB and the IASB are conducting a joint project to develop a standard for revenue recognition. The Boards issued a discussion paper in December 2008 that describes a contract-based revenue recognition approach. This model focuses on the asset or liability that arises from an enforceable arrangement with a customer. The proposed model allocates the customer consideration to the vendor's contractual performance obligations on a relative standalone selling price basis, and revenue is recognized based on the allocated amount as each performance obligation is satisfied.

The EITF is working on a project that is expected to supersede EITF 00-21, resulting in a model that is more consistent with the model discussed by the FASB and IASB in their revenue recognition discussion paper. The EITF reached a consensus-for-exposure on Issue 08-1 *Revenue Arrangements with Multiple Deliverables* at its 13 November 2008 meeting, in which the EITF tentatively concluded that the selling price threshold in EITF 00-21 for the undelivered item(s) in an arrangement should allow for an entity's use of its best estimate of selling price to a third party in situations where the entity does not have vendor-specific objective evidence (VSOE) or relevant third-party evidence of selling price. An entity could use its estimated selling price only after it determined that neither VSOE nor relevant third-party evidence of selling price exist. Subsequently, at its 19 March 2009 meeting, the EITF tentatively concluded to revise the consensus-for-exposure to require the relative selling price method when allocating arrangement consideration to the elements in an arrangement. The consensus-for-exposure originally required the use of the residual method in certain circumstances. Because of the change to require that arrangement consideration be allocated using the relative selling price method and revised disclosure requirements, the EITF concluded that it will issue another consensus-for-exposure, subject to a comment period. Readers should closely monitor the EITF's activities related to this issue.

# Indefeasible right of use



**The granting of the right to use network capacity (for example, conduit and fiber optic cables) is often referred to as an indefeasible right of use (IRU).** Under an IRU agreement, an entity has the exclusive right to use a specified capacity.

Telecom operators can be both providers and customers in IRU agreements. For example, Telecom A built a fiber optic network in an area where Telecom B only has a copper network. In order to provide services only available over a fiber optic network, Telecom B may enter into an IRU agreement with Telecom A to use 5 strands of Telecom A's fiber.

Accounting for IRUs can be complex and varies based on the facts and circumstances of individual agreements. As telecom operators continue to build out fiber optic networks, the use of IRUs, as well as the related accounting complexities, is likely to increase.

## Similarities

Under both US GAAP and IFRS, the first step in accounting for IRUs (from both a provider and customer perspective) is determining whether the IRU is a lease or a service contract. EITF 01-8 *Determining Whether an Arrangement Contains a Lease* and IFRIC 4 *Determining whether an Arrangement contains a Lease* both require that an arrangement that conveys the right to use a specific asset should be accounted for as a lease. Both GAAPs contain a similar concept that the right to use an asset conveys the right to control the use of the underlying asset and apply similar criteria in determining this concept. Additionally, both GAAPs provide guidance on separating lease and non-lease elements in a single arrangement and reassessing an arrangement. If an IRU is determined to be a lease, both GAAPs require the IRU lease to be accounted for under the applicable lease guidance (FAS 13 or IAS 17).

If an arrangement does not contain a lease (for example, because it does not contain a right to use a specified asset), the arrangement is likely to be accounted for as a service in accordance with SAB 104 and IAS 18 (from a provider perspective) or as a recurring operating expense (from a customer perspective).

## Significant differences

	US GAAP	IFRS
Scoping	Limited to arrangements involving property, plant and equipment, as used in FAS 13, which includes only land and / or depreciable assets. Inventory, natural resources, rights to explore natural resources and intangibles are excluded from the scope of EITF 01-8 because they are not depreciable (but amortizable) assets.	Applicable to all arrangements containing a right to use an asset that would be subject to a lease under the scope of IAS 17. IAS 17 scopes out natural resources and licensing agreements, as well as investment property and biological assets that are subject to IAS 40 and IAS 41, respectively.

## Convergence

The Boards are jointly working on a 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 in the statement of financial position. The Boards have published a discussion paper that sets out their preliminary views on accounting for leases by lessees and describes some of the issues that the Boards will need to resolve in developing a new standard, such as the scoping differences between FAS 13 and IAS 17. An exposure draft of a new accounting standard for leases is expected to be published in the first half of 2010.



# Financial statement presentation

## Similarities

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

financial statements. Further, both frameworks require that the financial statements be prepared on the accrual basis of accounting (with the exception of the cash flows statement) except for rare circumstances. Both GAAPs have similar concepts regarding materiality and consistency 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 <i>Presentation of Financial Statements</i> does not prescribe a standard layout, but includes a list of minimum items. These minimum items are less prescriptive than the requirements in Regulation S-X.
Presentation of 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.  Deferred taxes are presented as current or non-current based on the nature of the related asset or liability.	Debt associated with a covenant violation must be presented as current unless the lender agreement was reached prior to the balance sheet date.  Deferred taxes are presented as non-current. (Note: In the joint convergence project on income taxes, IFRS is expected to converge with US GAAP.)
Income statement – classification of expenses	SEC registrants are required to present expenses based on function (for example, cost of sales, administrative).	Entities may present expenses based on either function or nature (for example, salaries, depreciation). However, if function is selected, certain disclosures about the nature of expenses must be included in the notes.
Income statement – extraordinary items	Restricted to items that are both unusual and infrequent.	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 resale.
Changes in equity	Present all changes in each caption of stockholders' equity in either a footnote or a separate statement.	At a minimum, present components related to "recognized income and expense" as part of a separate statement (referred to as the SORIE if it contains no other components). Other changes in equity either disclosed in the notes or presented as part of a single, combined statement of all changes in equity (in lieu of the SORIE).
Disclosure of performance measures	SEC regulations define certain key measures and 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 that are relevant to an understanding of the entity's financial performance.

## **Convergence**

In April 2004, the FASB and the IASB (the Boards) agreed to undertake a joint project on financial statement presentation. As part of "Phase A" of the project, the IASB issued a revised IAS 1 in September 2007 (with an effective date for annual reporting periods ending after 1 January 2009) modifying the requirements of the SORIE within IAS 1 and bringing it largely in line with the FASB's statement of other comprehensive income. As part of "Phase B," the Boards each issued an initial discussion document in October 2008, with comments due by April 2009. This phase of the project addresses the more fundamental issues for presentation of information on the face of the financial statements and may ultimately result in significant changes in the current presentation format of the financial statements under both GAAPs.

In September 2008, the Boards issued proposed amendments to FAS 144 and IFRS 5 to converge the definition of discontinued operations. Under the proposals, a discontinued operation would be a component of an entity that is either (1) an operating segment (as defined in FAS 131 *Disclosures about Segments of an Enterprise and Related Information* and IFRS 8, respectively) held for sale or that has been disposed of or (2) a business (as defined in FAS 141(Revised) and IFRS 3 (Revised)) that meets the criteria to be classified as held for sale on acquisition.

# Interim financial reporting

## Similarities

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

statements (which are similar but not identical) and provide for comparable disclosure requirements. Neither standard mandates which entities are required to present interim financial information, that being the purview of local securities regulators. For example, US public companies must follow the SEC's Regulation S-X for the 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 their joint Financial Statement Presentation project, the FASB will address presentation and display of interim financial information in US GAAP, and the IASB may reconsider the requirements of IAS 34. This phase of the Financial Statement Presentation project has not commenced.

# Consolidation, joint venture accounting and equity method investees

## Similarities

The principal guidance for consolidation of financial statements under US GAAP is ARB 51 *Consolidated Financial Statements* (as amended by FAS 160 *Noncontrolling Interests in Consolidated Financial Statements*) and FAS 94 *Consolidation of All Majority-Owned Subsidiaries*, while IAS 27 (Amended) *Consolidated and Separate Financial Statements* provides the guidance under IFRS. Variable interest entities and special-purpose entities are addressed in FIN 46 (Revised) *Consolidation of Variable Interest Entities* and SIC 12 *Consolidation – Special Purpose Entities* in US GAAP and IFRS, respectively.

Under both US GAAP and IFRS, the determination of whether or not 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). While IFRS explicitly requires uniform

accounting policies for all of the entities within a consolidated group, US GAAP has exceptions (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's 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 (APB 18 *The Equity Method of Accounting for Investments in Common Stock*) 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 GAAPs.

## 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, FIN 46 (Revised) guidance is followed (below). Entities controlled by voting rights are consolidated as subsidiaries, but potential voting rights are not included in this consideration. The concept of "effective control" exists, but is rarely employed in practice.	Focus is on the concept of the power to control, with control being the parent's ability to govern the financial and operating policies of an entity to obtain benefits. Control presumed to exist if parent owns greater than 50% of the votes, and potential voting rights must be considered. Notion of "de facto control" must also be considered.
VIEs / Special-purpose entities (SPEs)	FIN 46 (Revised) requires the primary beneficiary (determined based on the consideration of economic risks and rewards, if any) 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.
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.

	US GAAP	IFRS
Equity method investments	<p>FAS 159 <i>The Fair Value Option for Financial Assets and Financial Liabilities</i> gives entities the option to account for their equity method investments at fair value, but the SEC staff believes careful consideration is required to determine whether this option is available. For those equity method investments for which management does not elect to use the fair value option, the equity method of accounting is required.</p> <p>Uniform accounting policies between investor and investee are not required.</p>	<p>IAS 28 requires investors (other than venture capital organizations, mutual funds, unit trusts and similar entities) to use the equity method of accounting for such investments in consolidated financial statements. If separate financial statements are presented (that is, those presented by a parent or investor), subsidiaries and associates can be accounted for at either cost or fair value.</p> <p>Uniform accounting policies between investor and investee are required.</p>
Joint ventures	Generally accounted for using the equity method of accounting.	IAS 31 <i>Investments in Joint Ventures</i> permits either the proportionate consolidation method or the equity method of accounting.

## Convergence

As part of their joint project on business combinations, the FASB issued FAS 160 (effective for fiscal years beginning on or after 15 December 2008) and the IASB amended IAS 27 (effective for fiscal years beginning on or after 1 July 2009, with early adoption permitted), thereby eliminating substantially all of the differences between US GAAP and IFRS pertaining to noncontrolling interests, outside of the initial accounting for the noncontrolling interest in a business combination (see the “Business combinations” section).

The IASB has issued Exposure Draft 9 *Joint Arrangements*, which would amend IAS 31 to eliminate proportionate consolidation of jointly controlled entities. The IASB is expected to publish a final standard in 2009.

The FASB has proposed amendments to FIN 46 (Revised), which are expected to be issued in a final standard in 2009. Additionally, the IASB issued Exposure Draft 10 *Consolidated Financial Statements*, which would replace IAS 27 (Amended) and SIC 12 and is expected to provide for a single consolidation model within IFRS. These projects may ultimately result in additional convergence. Future developments should be monitored.

# Business combinations

## Similarities

The issuance of FAS 141 (Revised) and IFRS 3 (Revised) (both entitled *Business Combinations*), represent the culmination of the first major collaborative convergence project between the IASB and the FASB. Pursuant to FAS 141 (Revised) and IFRS 3 (Revised), 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 (Revised) provides an alternative to measuring noncontrolling interest at fair value), with limited exceptions. Even though the new standards are substantially converged, certain differences will exist once the new standards become effective. The new standards will be effective for annual periods beginning on or after 15 December 2008, and 1 July 2009, for companies following US GAAP and IFRS, respectively.

## 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 its proportionate share of the fair value of the acquiree's identifiable net assets, exclusive of goodwill.
Assets and liabilities arising from contingencies	<p><i>Initial Recognition</i> Certain contingent assets and liabilities are recognized at the acquisition date at fair value if 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 with a liability should be recognized at the acquisition date in accordance with FAS 5, <i>Accounting for Contingencies</i> if certain criteria are met.</p> <p>Contingent assets and liabilities not meeting the recognition criteria at the acquisition date are subsequently accounted for pursuant to other literature, including FAS 5. (See "Provisions and contingencies" for differences between FAS 5 and IAS 37.)</p> <p><i>Subsequent Measurement</i> Contingent assets and liabilities recognized at the acquisition date are subsequently measured and accounted for on a systematic and rational basis, depending on their nature.</p>	<p><i>Initial Recognition</i> Contingent liabilities 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.</p> <p><i>Subsequent Measurement</i> Contingent liabilities are subsequently measured at the higher of their acquisition-date fair values less, if appropriate, cumulative amortization recognized in accordance with IAS 18 or the amount that would be recognized if applying IAS 37.</p>
Acquiree 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.
Combination of entities under common control	Accounted for in a manner similar to a pooling of interests (historical cost).	Outside the scope of IFRS 3 (Revised). In practice, either follow an approach similar to US GAAP or apply the purchase method if there is substance to the transaction.

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.

# Financial instruments

## Similarities

The US GAAP guidance for financial instruments is contained in several standards. Those standards include, among others, FAS 65 *Accounting for Certain Mortgage Banking Activities*, FAS 107 *Disclosures about Fair Value of Financial Instruments*, FAS 114 *Accounting by Creditors for Impairment of a Loan*, FAS 115 *Accounting for Certain Investments in Debt and Equity Securities*, FAS 133 *Accounting for Derivative Instruments and Hedging Activities*, FAS 140 *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, FAS 150 *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, FAS 155 *Accounting for Certain Hybrid*

*Financial Instruments*, FAS 157 and FAS 159. IFRS guidance for financial instruments, on the other hand, is limited to three standards (IAS 32 *Financial Instruments: Presentation*, IAS 39, and IFRS 7 *Financial Instruments: Disclosures*). Both GAAPs require financial instruments to be classified into specific categories to determine the measurement of those instruments, clarify when financial instruments should be recognized or derecognized in financial statements and require the recognition of all derivatives on the balance sheet. Hedge accounting and use of a fair value option is permitted under both. Each GAAP also requires detailed disclosures in the notes to financial statements for the financial instruments reported in the balance sheet.

## Significant differences

	US GAAP	IFRS
Fair value measurement	<p>One measurement model whenever fair value is used (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.</p> <p>Fair value is an exit price, which may differ from the transaction (entry) price.</p>	<p>Various IFRS standards use slightly varying wording to define fair value. Generally fair value represents the amount that an asset could be exchanged for, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.</p> <p>At inception, transaction (entry) price generally is considered fair value.</p>
Day one gains and losses	<p>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.</p>	<p>Day one gains and losses are recognized only when all inputs to the measurement model are observable.</p>
Debt vs. equity classification	<p>US GAAP specifically identifies certain instruments with characteristics of both debt and equity that must be classified as liabilities.</p> <p>Certain other contracts that are indexed to, and potentially settled in, a company's own stock may be classified as equity if they: (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.</p>	<p>Classification of certain instruments with characteristics of both debt and equity focuses on the contractual obligation to deliver cash, assets or an entity's own shares. Economic compulsion does not constitute a contractual obligation.</p> <p>Contracts that are indexed to, and potentially settled in, a company's own stock are classified as equity when settled by delivering a fixed number of shares for a fixed amount of cash.</p>
Compound (hybrid) financial instruments	<p>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.</p>	<p>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.</p>

	US GAAP	IFRS
Impairment recognition – Available-for-Sale (AFS) financial instruments	<p>Declines in fair value below cost may result in an impairment loss being recognized in the income statement on an AFS debt security due solely to a change in interest rates (risk-free or otherwise) if the entity has the intent to sell the debt security or it is more likely than not it will be required to sell the debt security before its anticipated recovery. The impairment loss is measured as the difference between the debt security's amortized cost basis and its fair value.</p> <p>When a credit loss exists, but the entity does not intend to sell the debt security and it is not more likely than not that the entity will be required to sell the debt security before the recovery of its remaining amortized cost basis, the impairment is separated into (a) the amount representing the credit loss and (b) 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 OCI, net of applicable taxes.</p> <p>For an AFS equity investment, an impairment is recognized in the income statement, measured as the difference between the equity security's cost basis and its fair value, if the equity security'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 security until such near-term recovery; otherwise an impairment must be recognized currently in the income statement.</p> <p>When an impairment is recognized in the income statement, a new cost basis in the investment is established equal to the previous cost basis less the impairment amount recognized in earnings. Impairment losses recognized through earnings cannot be reversed for any future recoveries.</p>	<p>Generally, only evidence of credit default results in an impairment being recognized in the income statement of an AFS debt instrument.</p> <p>For an AFS equity investment, an impairment is recognized in the income statement, measured as the difference between the equity security's cost basis and its fair value, when there is objective evidence that the AFS equity investment is impaired, and that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in fair value of an equity investment below its cost is considered objective evidence of an impairment.</p> <p>Impairment losses for AFS debt instruments may be reversed in the income statement if the fair value of the asset increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognized. Impairment losses on AFS equity instruments may not be reversed in the income statement.</p>
Impairment recognition – Held-to-Maturity (HTM) financial instruments	<p>The impairment loss of an HTM investment is measured as the difference between its fair value and amortized cost basis. Because of an entity's assertion with an HTM investment to hold it to recovery (i.e., the positive intent and ability to hold those securities to maturity), the amount of the total impairment related to the credit loss is recognized in the income statement and the impairment amount related to all other factors is recognized in equity (other comprehensive income).</p> <p>The new cost basis of the security is the fair value when the impairment is recognized. The impairment recognized in equity is accreted from other comprehensive income to the amortized cost of the HTM security over its remaining life.</p>	<p>The impairment loss of an HTM investment is measured as the difference between the carrying amount of the investment and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced either directly or through use of an allowance account. The amount of the impairment (credit) loss is recognized in the income statement.</p>
Hedge effectiveness – shortcut method for interest rate swaps	Permitted.	Not permitted.
Hedging a component of a risk in a financial instrument	The risk components that may be hedged are specifically defined by the literature, with no additional flexibility.	Allows entities to hedge components (portions) of risk that give rise to changes in fair value.



	US GAAP	IFRS
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.
Derecognition of financial assets	<p>Derecognition of financial assets (sales treatment) occurs when effective control has been surrendered over the financial assets. Control has been surrendered only if certain specific criteria have been met, including evidence of legal isolation.</p> <p>Special rules apply for transfers involving “qualifying” special-purpose entities.</p>	<p>Derecognition is based on a mixed model that considers both transfer of risks and rewards and control. 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.</p> <p>The concept of a qualifying special-purpose entity does not exist.</p>
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.

Other differences include: (i) application of fair value measurement principles, including use of prices obtained in ‘principal’ versus ‘most advantageous’ markets, (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 gains and/or losses on AFS investments, (vi) recognition of basis adjustments when hedging future transactions, (vii) macro hedging, (viii) hedging net investments, (ix) impairment criteria for equity investments, (x) puttable minority interest and (xi) netting and offsetting arrangements.

## Convergence

In the US, the issuance of FAS 157 established a common framework for measuring fair value for all financial instruments, although it did not expand the use of fair value accounting. The IASB is working on a project to establish a single source of guidance for all fair value measurements required or permitted by existing IFRSs to reduce complexity and improve consistency in their application. The IASB intends to issue an exposure draft of its fair value measurement guidance in Q2 of 2009.

Additionally, at a joint meeting in March 2009, the Boards agreed to work jointly and expeditiously towards common standards that deal with off-balance sheet activity, accounting for financial instruments and loan loss accounting. The Boards have agreed to issue proposals to replace their respective financial instruments standards with a common standard “in a matter of months, not years.”

To also address concerns by constituents about the current worldwide financial crisis and its effects on financial reporting, the Boards have established an advisory group - Financial Crisis Advisory Group (FCAG) – comprised of senior leaders with broad international experience in financial markets to assist in improving financial reporting standards in light of the global financial crisis and potential changes to the global regulatory environment. The FCAG will consider how improvements in financial reporting could help enhance investor confidence in financial markets. The advisory group also will help identify significant accounting issues that require the urgent and immediate attention of the Boards, as well as issues for long-term consideration. At the date of this publication, the activities of the FCAG are ongoing and the Boards have yet to announce any new joint projects. However,

it is anticipated after the FCAG's deliberations and issuance of any recommendations that such projects will be announced in the latter part of 2009.

The following two projects are ongoing, which are expected to result in more converged standards:

- ▶ Derecognition of financial assets and financial liabilities: In September 2008, FASB issued a proposed amendment to FAS 140. The proposed statement would remove (1) the concept of a qualifying SPE from FAS 140 and (2) the exceptions from applying FIN 46 (Revised). In April 2009, the IASB issued an exposure draft (ED) to improve and simplify the requirements as to when financial assets and liabilities are derecognized. The ED proposes a new derecognition model for financial instruments to replace the existing provisions of IAS 39 and the disclosure requirements of IFRS 7. The comment period for the ED ends in July 2009.
- ▶ Derivatives, hedging and financial instruments: The FASB and the IASB have separate, but related, projects on reducing complexity in accounting for derivatives and generally in reporting financial instruments. Additionally, the FASB and the IASB have a joint project to address the accounting for financial instruments with characteristics of equity.

# Foreign currency matters

## Similarities

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

Both GAAPs require foreign currency transactions of an entity to be remeasured into its functional currency with amounts resulting from changes in exchange rates being reported in income. Once a subsidiary's financial statements

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

## Significant differences

	US GAAP	IFRS
Translation/functional currency of foreign operations in a hyperinflationary economy	Local functional currency financial statements are remeasured as if the functional currency were the reporting currency (US dollar in the case of a US parent) with resulting exchange differences recognized in income.	Local functional currency financial statements (current and prior period) are indexed using a general price index and then translated to the reporting currency at the current rate.
Treatment of translation difference in equity when a partial return of a foreign investment is made to the parent	Translation difference in equity is recognized in income only upon sale (full or partial) or complete liquidation or abandonment of the foreign subsidiary. No recognition is made when there is a partial return of investment to the parent.	A return of investment (for example, dividend) is treated as a partial disposal of the foreign investment and a proportionate share of the translation difference is recognized in income.
Consolidation of foreign operations	The "step-by-step" method is used whereby each entity is consolidated into its immediate parent until the ultimate parent has consolidated the financial statements of all the entities below it.	The method of consolidation is not specified and, as a result, either the "direct" or the "step-by-step" method is used. Under the "direct" method, each entity within the consolidated group is directly consolidated into the ultimate parent without regard to any intermediate parent. The choice of method could affect the cumulative translation adjustments deferred within equity at intermediate levels and, therefore, the recycling of such exchange rate differences upon disposal of an intermediate foreign operation.

## Convergence

No convergence activities are underway or planned for foreign currency matters.

# Income taxes

## Similarities

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

## Significant differences and convergence

In March 2009, the IASB published an exposure draft to replace IAS 12 that will eliminate certain of the differences that currently exist between US GAAP and IFRS. The table below highlights the significant differences in the current literature, as well as the proposed accounting under the IASB's Exposure Draft. While initially participating in the deliberations on this proposed standard, the FASB decided to suspend deliberations on this project until the IASB issues its exposure document on the proposed replacement to IAS 12 for public comment. The FASB is expected to solicit input from US constituents regarding the IASB's proposed replacement to IAS 12 and then determine whether to undertake a project to fully eliminate the differences in the accounting for income taxes by adopting the revised IAS 12.

	US GAAP	IFRS	IASB Exposure Draft
Tax basis	Tax basis is a question of fact under the tax law. For most assets and liabilities there is no dispute on this amount; however, when uncertainty exists it is determined in accordance with FIN 48 <i>Accounting for Uncertainty in Income Taxes</i>	Tax basis is generally the amount deductible or taxable for tax purposes. The manner in which management intends to settle or recover the carrying amount affects the determination of tax basis.	The Exposure Draft proposes a new definition for tax basis that will eliminate consideration of management's intent in the determination of the tax basis.
Uncertain tax positions	FIN 48 requires a two-step process, separating recognition from measurement. A benefit is recognized when it is "more likely than not" to be sustained based on the technical merits of the position. The amount of benefit to be recognized is based on the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement. Detection risk is precluded from being considered in the analysis.	Does not include specific guidance. In practice, two approaches have been applied: (1) uncertain tax positions are recorded based on the recognition principles in IAS 37 and the measurement principles in IAS 12 or (2) uncertain tax positions are recorded based on the "expected value" approach.	IFRS addresses uncertain tax positions, but the approach is different from FIN 48. The Exposure Draft does not include separate recognition criteria; instead it requires, based on the technical merits of the position, measurement of the benefit to be recognized based on the probability weighted average of all possible outcomes. Detection risk is precluded from being considered in the analysis.
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).	The Exposure Draft eliminates the initial recognition exemption, but it proposes a new complex model that will create additional differences.

	US GAAP	IFRS	IASB Exposure Draft
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.	The Exposure Draft proposes to converge IFRS with US GAAP requirements.
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.	IFRS clarifies the definition of "substantively enacted" and indicates that for US jurisdictions, it equates to when tax laws are enacted.
Classification of deferred tax assets and liabilities in balance sheet	Current or non-current classification, based on the nature of the related asset or liability, is required.	All amounts classified as non-current in the balance sheet.	IFRS will converge with US GAAP requirements.
Recognition of deferred tax liabilities from investments in subsidiaries or joint ventures (JVs) (often referred to as outside basis differences)	Recognition not required for investment in foreign subsidiary or corporate JV that is essentially permanent in duration, unless it becomes apparent that the difference will reverse in the foreseeable future.	Recognition required unless the reporting entity has control over the timing of the reversal of the temporary difference and it is probable ("more likely than not") that the difference will not reverse in the foreseeable future.	The Exposure Draft proposes to converge IFRS with US GAAP requirements with respect to foreign subsidiaries and joint ventures.  Differences will remain with respect to the recognition of deferred tax assets on basis differences in domestic subsidiaries and domestic joint ventures that are permanent in duration.
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 permits the recognition of deferred taxes on differences between the tax bases of assets transferred between entities/tax jurisdictions that remain within the consolidated group.	The Exposure Draft does not propose to change current accounting, but it requires additional disclosures. Differences with US GAAP will continue to exist.

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 tax rate applicable to distributed or undistributed profits and (iv) deferred tax effects of intercompany transfers of assets.

# Provisions and contingencies

## Similarities

While the sources of guidance under US GAAP and IFRS differ significantly, the general recognition criteria for provisions are similar. For example, IAS 37 provides the overall guidance for recognition and measurement criteria of provisions and contingencies. While there is no equivalent single standard under US GAAP, FAS 5 and a number of other statements deal with specific types of provisions and contingencies (for example, FAS 146 *Accounting for Costs Associated with Exist or Disposal Activities*). Further, the guidance provided in two Concept Statements in US GAAP (CON 5 *Recognition and Measurement in Financial Statements of Business Enterprises*

and CON 6 *Elements of Financial Statements*) is similar to the specific recognition criteria provided in IAS 37. Both GAAPs require recognition of a loss based on the probability of occurrence, although the definition of probability is different under US GAAP (where probable is interpreted as “likely”) and IFRS (where probable is interpreted as “more likely than not”). Both US GAAP and IFRS prohibit the recognition of provisions for costs associated with future operating activities. Further, both GAAPs require information about a contingent liability, whose occurrence is more than remote but did not meet the recognition criteria, to be disclosed in the notes to the financial statements.

## Significant differences

	US GAAP	IFRS
Discounting provisions	Provisions may be discounted only when the amount of the liability and the timing of the payments are fixed or reliably determinable, or when the obligation is a fair value obligation (for example, an asset retirement obligation under FAS 143). Discount rate to be used is dependent upon the nature of the provision and may vary from that used under IFRS. 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.”
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 FAS 146, once management has committed to a detailed exit plan, each type of cost is examined to determine when recognized. Involuntary employee termination costs are recognized over future service period or immediately if there is none. Other exit costs are expensed when incurred.	Once management has “demonstrably committed” (that is a legal or constructive obligation 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, with a final standard expected no earlier than 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 in FAS 5. Many of the proposed changes are consistent with current disclosures under IAS 37. A final standard is expected in 2009.

# Share-based payments

## Similarities

The guidance for share-based payments, FAS 123 (Revised) and IFRS 2 (both entitled *Share-Based Payment*), is largely convergent. Both GAAPs require a fair value-based approach in accounting for share-based payment arrangements whereby an entity (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 FAS 123 (Revised) and IFRS 2 define the fair value of the transaction

to be the amount at which the asset or liability could be bought or sold in a current transaction between willing parties. Further, both GAAPs require, if applicable, the fair value of the shares to be measured based on market price (if available) or estimated using an option-pricing model. In the rare cases where fair value cannot be determined, both standards allow the use of intrinsic value. Additionally, the treatment of modifications and settlement of share-based payments is similar in many respects under both GAAPs. Finally, both GAAPs require similar disclosures in the financial statements to provide investors sufficient information to understand the types and extent to which the entity is entering into share-based payment transactions.

## Significant differences

	US GAAP	IFRS
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.
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 expense 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 expense is the grant-date fair value of the award, together with any incremental fair value at the modification date.
Equity repurchase features at employee's election	Does not require liability classification if employee bears risks and rewards of equity ownership for at least six months from date equity is issued or vests.	Liability classification is required (no six-month consideration exists).
Deferred taxes	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. Shortfall of tax benefit below deferred tax asset is charged to shareholder equity to 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 expense, deferred tax based on the excess is credited to shareholder equity. If the tax deduction is less than or equal to cumulative compensation expense, deferred taxes are recorded in income.

	US GAAP	IFRS
Transactions with non-employees	<p>Either the fair value of (1) the goods or services received or (2) the equity instruments is used to value the transaction, whichever is more reliable.</p> <p>If using the fair value of the equity instruments, EITF 96-18 <i>Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services</i> requires measurement at the earlier of (1) the date at which a “commitment for performance” by the counterparty is reached or (2) the date at which the counterparty’s performance is complete.</p>	<p>Fair value of transaction should be based on the value of the goods or services received and only on the fair value of the equity instruments if the fair value of the goods and services cannot be reliably determined.</p> <p>Measurement date is the date the entity obtains the goods or the counterparty renders the services. No performance commitment concept.</p>

## Convergence

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



# Employee benefits other than share-based payments

## Similarities

Multiple standards apply under US GAAP, including FAS 87 *Employers' Accounting for Pensions*, FAS 88 *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, FAS 106 *Employers' Accounting for Postretirement Benefits Other than Pensions*, FAS 112 *Employers' Accounting for Postemployment Benefits*, FAS 132 (Revised) *Employers' Disclosures about Pensions and Other Postretirement Benefits* and FAS 158 *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. Under IFRS, IAS 19

*Employee Benefits* is the principal source of guidance for employee benefits other than share-based payments. Under both GAAPs, the periodic 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. Additionally, both US GAAP and IFRS provide for certain smoothing mechanisms in calculating the period pension cost.

## Significant differences

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

	US GAAP	IFRS
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 the first step of the IASB project, addressing a limited number of topics in this area, and is expecting to issue an exposure draft in 2009.

# Earnings per share

## Similarities

Entities whose ordinary shares are publicly traded, or that are in the process of issuing such shares in the public markets, must disclose earnings per share (EPS) information pursuant to FAS 128 and IAS 33 (both entitled *Earnings Per Share*, which are substantially the same). Both require presentation

of basic and diluted EPS on the face of the income statement, and both use the treasury stock method for determining the effects of stock options and warrants on the diluted EPS calculation. Both GAAPs use similar methods of calculating EPS, although there are a few detailed application differences.

## Significant differences

	US GAAP	IFRS
Contracts that may be settled in shares or cash	Presumption that such contracts will be settled in shares unless evidence is provided to the contrary.	Such contracts are <i>always</i> assumed to be settled in shares.
Calculation of year-to-date diluted EPS for options and warrants using the treasury stock method and for contingently issuable shares	The number of incremental shares is computed using a year-to-date weighted average of the number of incremental shares included in each quarterly calculation.	The number of incremental shares is computed as if the entire year-to-date period were "the period" (that is, do not average the current period with each of the prior periods).
Treatment of contingently convertible debt	Potentially issuable shares are included in diluted EPS using the "if-converted" method if one or more contingencies relate to the entity's share price.	Potentially issuable shares are considered "contingently issuable" and are included in diluted EPS using the if-converted method only if the contingencies are satisfied at the end of the reporting period.

## Convergence

Both Boards are jointly working on a short-term convergence project to resolve the differences in the standards, with both Boards issuing exposure drafts in August 2008 and planning to issue a final standard in the second half of 2009. The Boards have tentatively decided to adopt the approaches used by IFRS to eliminate the significant differences noted above, with the exception of the treatment of contingently convertible debt. Additionally, instruments that may be settled in cash or shares are classified as an asset or liability and are measured at fair value with changes in fair value recognized in earnings, would no longer be included in diluted EPS. Other issues to be converged include the effect of options and warrants with a nominal exercise price on basic EPS (including the two-class method) and modifications of the treasury stock method to (1) require the use of the end-of-period share price in calculating the shares hypothetically repurchased rather than the average share price for the period and (2) for liabilities that are not remeasured at fair value, including the carrying amount of the liability within the assumed proceeds used to hypothetically repurchase shares under the treasury stock method.

# Segment reporting

## Similarities

The requirements for segment reporting under FAS 131 and IFRS 8 are 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 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 AU Section 560 *Subsequent Events* of the AICPA Codification of Statements on Auditing Standards and IAS 10 *Events after the Balance Sheet Date* is largely similar. An event 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 that the financial statements are issued. For public entities, this is the date that the financial statements are filed with the SEC.	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.
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.
Short-term loans refinanced with long-term loans after balance sheet date	Short-term loans are classified as long-term if the entity intends to refinance the loan on a long-term basis <i>and</i> , prior to issuing the financial statements, the entity can demonstrate an ability to refinance the loan.	Short-term loans refinanced after the balance sheet date may not be reclassified to long-term liabilities.

## Convergence

No convergence activities are planned at this time, although the FASB recently issued an exposure draft with the objective of incorporating into FASB literature the current guidance included in AU 560, with certain modifications.

# Related parties

## **Similarities**

Both FAS 57 and IAS 24 (both entitled *Related Party Disclosures*) have a similar reporting objective: to make financial statement users aware of the effect of related party transactions on the financial statements. The related party definitions are broadly similar and both standards require that the nature of the relationship, a description of the transaction and the amounts involved (including outstanding balances) be disclosed for related party transactions. Neither standard contains any measurement or recognition requirements for related party transactions. FAS 57 does not require disclosure of compensation of key management personnel as IAS 24 does, but the financial statement disclosure requirements of IAS 24 are similar to those required by the SEC outside the financial statements.

## **Significant Differences and Convergence**

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

# First-time adoption

Companies electing to adopt the financial reporting standards of the IASB are required to retrospectively apply the international standards that exist as of the company's first reporting date under IFRS, to all periods presented as if they had always been in effect. However, in deliberating how to account for transition to IFRS, the IASB recognized there were certain situations in which the cost of a full retrospective application of IFRS would exceed the potential benefit to investors and other users of the financial statements. In other situations, the Board noted that retrospective application

## **Voluntary exemptions**

- ▶ Business combinations
- ▶ The use of fair value or revaluation as deemed cost of property, plant and equipment, investment properties and certain intangible assets
- ▶ Financial instruments:
  - ▶ Designation of previously recognized financial instruments
  - ▶ Compound financial instruments
  - ▶ Fair value measurement of financial assets or financial liabilities at initial recognition
- ▶ Employee benefits
- ▶ Cumulative transition differences
- ▶ Share-based payment transactions
- ▶ Insurance contracts
- ▶ Assets and liabilities of subsidiaries, associates and joint ventures
- ▶ Service concessions
- ▶ Decommissioning liabilities included in the cost of property, plant and equipment
- ▶ Leases
- ▶ Investments in subsidiaries, jointly controlled entities and associates
- ▶ Borrowing costs

would require judgments by management about past conditions after the outcome of a particular transaction is already known. As a result, the IASB issued IFRS 1 *First-time Adoption of International Financial Reporting Standards*, which provides guidance that all companies must follow on their initial adoption of the international standards. IFRS 1 contains a number of voluntary exemptions and mandatory exceptions to the requirement for a full retrospective application of IFRS, which are listed below.

## **Mandatory exemptions**

- ▶ Financial instruments:
  - ▶ Derecognition of financial assets and liabilities
  - ▶ Hedge accounting
- ▶ Estimates
- ▶ Some aspects of accounting for non-controlling interests

Refer to our IFRS 1 FRD for further discussion and application of these exemptions (expected to be issued in May 2009).

# 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 GAAPs are regarded as candidates for improvement.
- ▶ **August 2006: CESR/SEC published a joint work plan.** The regulators agreed that issuer-specific matters could be shared between the regulators, following set protocols, and that their regular reviews of issuer filings would be used to identify IFRS and US GAAP areas that raise questions in terms of high-quality and consistent application. The plan also provides for the exchange of technological information to promote the modernization of financial reporting and disclosure. Finally, the staff of both regulators agreed to dialogue on risk management practices.
- ▶ **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 2009: 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 anticipates mandatory reporting under IFRS beginning in 2014, 2015 or 2016, depending on the size of the company. The comment period ended 20 April 2009.
- ▶ **Looking ahead:** The future remains uncertain, but momentum continues to build for a single set of high quality global standards. The possible use of IFRS by US domestic registrants is a topic that remains active on the SEC's agenda. **The updated proposed Roadmap identifies certain milestones to be considered in determining whether reporting under IFRS should be mandated for US companies, and calls for future SEC action in 2011 to make that assessment.**

## 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](http://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.



Ernst & Young

Assurance | Tax | Transactions | Advisory

**About Ernst & Young**

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 135,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

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

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

© 2009 Ernst & Young LLP.  
All Rights Reserved.

SCORE No. BB1765

This publication has been carefully prepared but it necessarily contains information in summary form and is therefore intended for general guidance only; it is not intended to be a substitute for detailed research or the exercise of professional judgment. The information presented in this publication should not be construed as legal, tax, accounting, or any other professional advice or service. Ernst & Young LLP can accept no responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. You should consult with Ernst & Young LLP or other professional advisors familiar with your particular factual situation for advice concerning specific audit, tax or other matters before making any decision.

[www.ey.com/accountinglink](http://www.ey.com/accountinglink)