

# IFRS Considerations for Audit Committees.



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## Introduction

Although the notion of achieving a single set of high-quality accounting standards is not new, momentum behind the effort has been increasing over the past few years. International Financial Reporting Standards (IFRSs), as published by the IASB, have become the global financial reporting standards of choice, and over 110 countries, including those in the European Union, have switched to IFRSs. Other countries, such as Brazil, Canada, India, Mexico, and South Korea, will be transitioning over the next two years.

In the United States, the SEC currently accepts IFRSs as a reporting basis for foreign private issuers without reconciliation to U.S. GAAP. Further, in November 2008, the SEC proposed a roadmap outlining steps toward a mandatory conversion to IFRSs that would begin in 2014 for certain domestic issuers and continue through 2016 for other domestic issuers. The roadmap also proposes an option for early adoption, beginning in 2009, for issuers meeting certain criteria.

For many U.S.-based multinational companies, IFRS statutory reporting is already a reality at some non-U.S. subsidiaries as IFRSs have replaced local GAAP or are an option for reporting in many countries. A company that adopts IFRS policies (to the extent possible) to satisfy statutory reporting requirements around the world can obtain a number of significant advantages, including increased efficiency and cost savings from centralization and standardization, more effective use of people and resources, streamlined processes, and better cash management.

The strong global movement toward IFRSs and recent SEC activity have created a need for audit committees and company management to discuss the potential costs, benefits, and other effects of a transition to IFRSs. Because audit committees have a fiduciary responsibility to protect the interest of shareholders and oversee the integrity of the company's financial reporting process, their involvement in the transition to IFRSs is essential. A key step toward a successful transition is the development of a carefully considered implementation plan. Accordingly, in preparing for the transition to IFRSs, audit committee members should consider:

- The company's readiness for a new basis of accounting that involves fewer rules and therefore a greater reliance on management's judgment.
- The time needed to prepare for a transition.
- Management of implementation costs.
- The need for audit committee and board education.

The significance of the responsibility of audit committee and board members to "lead from the top" during a transition to IFRSs cannot be overstated. To ensure that you and your company are ready, start asking questions today.

## Using This Publication

This publication is designed to assist audit committee members in preparing for meaningful and effective conversations about IFRSs with company management, independent auditors, and others. For each of several accounting topics, it presents:

- A high-level overview of IFRS accounting requirements and potential IFRS–U.S. GAAP differences.
- Implementation considerations.
- Key questions audit committees should ask.

## More Information

For more information about IFRSs, please see [Deloitte's Center for Corporate Governance](#) as well as the list of resources in [Appendix B](#).

### Key Questions for the Audit Committee to Raise

- Has the company inventoried its current IFRS reporting requirements, if any?
- What is the level of IFRS knowledge in the company, both domestically and globally?
- Are the company's competitors already reporting under IFRSs, or is there an expectation that they would switch to IFRSs if given the choice in the United States?
- What would be the impact on the company of a possible IFRS requirement in the United States?
- Has the company assessed the costs and benefits of adopting IFRSs?

(From "IFRS: What the Board Needs to Know," published in *Directors Monthly* by the NACD)

## Significant Accounting Topics

### Inventory

#### IFRS Overview and Potential IFRS–U.S. GAAP Differences

- IAS 2 prescribes the general recognition and measurement guidance for inventories. Other standards cover the accounting for specific types of inventories: IAS 11 (work-in-process under construction contracts), IAS 32 and 39 (financial instruments), and IAS 41 (biological assets).
- Entities can measure the cost of inventory by using either the first-in, first-out (FIFO) method or the weighted average cost method. The standard cost or retail method is also allowed if it approximates cost. Under U.S. GAAP, entities may also use the last-in, first-out (LIFO) method as a measurement basis of inventory.
- Entities must use the same cost formula for all inventories that have a similar nature and use. Under U.S. GAAP, this is not a requirement and differing cost formulas are acceptable.
- The subsequent measurement of inventory is based on the lower of cost or “net realizable value” (NRV). NRV is the estimated selling price of the inventory in the ordinary course of business less the estimated costs of completion and selling. Under U.S. GAAP, subsequent measurement is based on the lower of cost or “market,” which may be a lower amount than NRV.
- If certain criteria are met, impairment charges on inventory must be reversed for subsequent increases in value. Under U.S. GAAP, reversal of impairment charges is prohibited.
- An asset retirement obligation that is created during the production of inventory may be included as part of the inventory cost basis. Under U.S. GAAP, an asset retirement obligation is added to the carrying amount of the property, plant, and equipment used to produce the inventory.
- Inventory can be measured at NRV even if it is above cost for (1) producers’ inventories of agricultural, forest product, and mineral ores or (2) broker-dealers’ inventories of commodities. Under U.S. GAAP, measurement of inventory above cost is permitted, but only for specific products (i.e., precious metals).

#### Implementation Considerations

- Data capture may be more or less detailed, which could lead to inventory system changes.
- Cost formulas for inventories whose nature and use are similar may need to be aligned throughout the entity.
- NRV will need to be calculated and tracked.
- Processes and controls will need to be developed for monitoring whether inventory impairment should be subsequently reversed.
- Changes in the measurement basis of inventory may affect income taxes, particularly if LIFO is currently used as a measurement basis.

#### Key Questions

- Will the basis of inventory measurement change?
- What processes are in place to monitor the reversal of inventory impairment?
- Have tax implications been assessed relating to potential changes in accounting for inventory?
- Has the cost formula been adjusted to include capitalized inventory costs, such as those associated with asset retirement obligations?

## Consolidation

### IFRS Overview and Potential IFRS–U.S. GAAP Differences

- IAS 27 (revised 2008) prescribes the general guidance on the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent. IAS 27 (revised 2008) also sets out the accounting for investments in subsidiaries, jointly controlled entities, and associates (equity method investees) when an entity elects, or is required by local regulations, to present separate (nonconsolidated) financial statements.
- The basis for consolidation is whether “control” exists. Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities. This definition incorporates both governance and economics (i.e., benefits and risks), and IAS 27 (revised 2008) notes several indicators of control.
- The overall consolidation approach is based on a single control model that takes into account both governance and economic factors and applies to all entities. Under U.S. GAAP, either of two distinct consolidation models is applied depending on the type of entity: for voting interest entities, enterprises look to which party holds a majority of the voting rights; for variable interest entities, enterprises look to risks and rewards.
- All controlled entities must be consolidated. However, if certain criteria are met, nonpublic entities may be exempt from presenting consolidated financial statements. Under U.S. GAAP, only qualifying special-purpose entities (QSPEs) are exempt from the consolidation requirements, and there are no available exemptions to the presentation of consolidated financial statements for parent entities.
- Entities must consider potential voting rights, such as put or call options, when assessing whether control exists if such voting rights are currently exercisable or convertible and do not lack economic substance. Under U.S. GAAP, entities would generally not consider potential voting rights when determining whether control is present.
- Entities holding less than a majority of voting rights may still consolidate if the other interests are widely dispersed and the other shareholders are not organized such that they actively vote (commonly referred to as de facto control). Under U.S. GAAP, de facto control is not permitted as a basis for consolidation.
- The accounting policies of all subsidiaries must be conformed to those used by the parent for consolidation purposes. Under U.S. GAAP, accounting policies are not required to be conformed as long as they are in accordance with U.S. GAAP.
- If a subsidiary’s reporting date is different from that of its parent, adjustments are required for significant transactions and events in the intervening period, which is not to exceed three months. Under U.S. GAAP, entities are not required to adjust for the effects of any significant intervening transactions or events; however, if adjustments are not made, then they must be disclosed.

### Implementation Considerations

- Determining whether entities should be consolidated will require increased judgment.
- Processes and controls will need to be developed for monitoring potential voting rights and whether they are currently exercisable or convertible.
- Processes for the capture of financial data related to all controlled entities will need to be developed, and accounting policies and reporting dates will need to be conformed.
- Changes in the reporting entity as a result of more or fewer entities consolidated may affect income taxes.

### Key Questions

- Will more or fewer entities be consolidated, and how will that affect existing transactions between or among entities within the consolidated group?
- What processes are in place for making judgments about consolidation policy?
- Do the reporting dates or accounting policies of any entities within the consolidated group differ?
- Are the current information systems capable of capturing the information needed to reflect changes in the reporting entity?

## Investments in Associates

### IFRS Overview and Potential IFRS–U.S. GAAP Differences

- IAS 28 prescribes the accounting for investments in which an investor has significant influence. Investments not subject to IAS 28 include those that are held by a venture capital organization, mutual fund, unit trust, or similar entity that (by election or requirement) are accounted for under IAS 39 upon initial recognition at fair value with changes recognized in profit or loss, as well as investments that are held for sale. Associates that are held for sale are recognized pursuant to IFRS 5 at the lower of fair value less costs to sell or carrying amount. Under U.S. GAAP, investors must apply equity method accounting to investments that are held for sale until significant influence is lost.
- Entities must determine whether they have “significant influence” over the investment. Significant influence is defined as the power to participate in the financial and operating policy decisions of the entity, but does not result in control (subsidiary) or joint control (jointly controlled entity).
- Entities must consider potential voting rights, such as put or call options, when assessing whether significant influence exists if such rights are currently exercisable or convertible and do not lack economic substance. Under U.S. GAAP, an entity would generally not consider potential voting rights when determining whether significant influence is present.
- Entities in which significant influence exists are considered “associates” and are accounted for using the equity method. Under the equity method, the net investment in an associate is initially recognized at cost with the subsequent carrying amount increased or decreased according to the investor’s share of profit or loss of the associate. Distributions received from an associate reduce the carrying amount.
- The equity method of accounting should be applied prospectively from the date significant influence is obtained. Under U.S. GAAP, when an additional interest in an entity is acquired such that significant influence is obtained, the equity method should be applied retrospectively to all periods presented in which the initial interest was held.
- An investor should generally discontinue recognition of losses that exceed the investor’s interest as long as there is no obligation for additional funding. Under U.S. GAAP, investors should continue to recognize losses when the imminent return to profitable operations of the investee appears to be assured (even if the investment has not (1) guaranteed obligations of the investee or (2) otherwise committed to provide further financial support to the investee).
- An investor must assess whether an impairment indicator, as described under IAS 39, exists and if so, measure impairment as the excess of the carrying amount of the investment over its recoverable amount (see IAS 36). Under U.S. GAAP, investors must determine whether a decrease in the value of an equity method investment is other than temporary and if so, the investor must measure the impairment as the excess of the investment’s carrying amount over the fair value of the investment.
- The accounting policies of an associate must be conformed to those of its investor. Under U.S. GAAP, accounting policies are not required to be conformed as long as they are in accordance with U.S. GAAP.
- If an associate’s reporting date is different from that of the investor, adjustments are required for significant transactions or events in the intervening period, which is not to exceed three months. Under U.S. GAAP, entities are not required to adjust for the effects of any significant intervening transactions or events; however, if adjustments are not made, then they must be disclosed.

### Implementation Considerations

- Determining whether entities should be considered associates will require increased judgment.
- Processes and controls will need to be developed for monitoring potential voting rights and whether they are currently exercisable or convertible.
- Processes for the capture of financial data for all entities being accounted for as associates will need to be developed, and accounting policies and reporting dates will need to be conformed.
- Changes in the reporting entity as a result of more or fewer entities being accounted for as associates may affect income taxes.

### Key Questions

- Will more or fewer entities be accounted for under the equity method of accounting?
- What processes are in place for making judgments related to the accounting for associates?
- Do the reporting dates or accounting policies of any investments in associates differ?
- Are the current information systems capable of capturing the information needed to account for investments in associates?

## Investments in Joint Ventures

### IFRS Overview and Potential IFRS–U.S. GAAP Differences

- IAS 31 prescribes the accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, income, and expenses. Investments not subject to IAS 31 include those that are held by a venture capital organization, mutual fund, unit trust, and similar entities that (by election or requirement) are accounted for at fair value with changes recognized in profit or loss in accordance with IAS 39, as well as investments that are held for sale. Investments in joint ventures that are held for sale are recognized pursuant to IFRS 5 at the lower of fair value less costs to sell or carrying amount. Under U.S. GAAP, investors must apply equity method accounting to investments in joint ventures held for sale until joint control is lost.
- IAS 31 describes three different forms of joint ventures: jointly controlled assets, jointly controlled operations, and jointly controlled entities. Under U.S. GAAP, guidance refers generally to jointly controlled entities. Limited guidance is provided for other types of arrangements (i.e., collaborative arrangements).
- Entities must determine whether “joint control” exists. Joint control exists when the financial and operating policy decisions require the consent of all venturers through the contractual sharing of control.
- Entities must consider potential voting rights, such as put or call options, when assessing whether joint control exists if such rights are currently exercisable or convertible and do not lack economic substance. Under U.S. GAAP, an entity would generally not consider potential voting rights when determining whether joint control is present.
- Venturers with investments in jointly controlled assets or operations account for their share of the assets, liabilities, income, and expense of the joint venture.
- Investments in jointly controlled entities may be accounted for under either the equity method of accounting or the “proportionate consolidation” method. Under U.S. GAAP, the equity method of accounting is used with an exception for construction and extractive industries, in which the proportionate consolidation method is permitted. (Because the IASB has proposed to eliminate the use of proportionate consolidation, the methods will probably not continue to differ under the two sets of standards, except that under U.S. GAAP there is an exemption for construction and extractive industries.)
- A venturer can, in certain circumstances, recognize a gain on nonmonetary contributions even without the receipt of cash or near-cash consideration. Under U.S. GAAP, a venturer would generally recognize a gain if cash or near-cash consideration is received.
- The accounting policies of a joint venture must be conformed to those used by the venturer. Under U.S. GAAP, accounting policies are not required to be conformed as long as they are in accordance with U.S. GAAP.
- If a joint venture’s reporting date is different from that of the venturer, adjustments are required for significant transactions and events in the intervening period, which is not to exceed three months. Under U.S. GAAP, a venturer is not required to adjust for the effects of any significant intervening transactions; however, if adjustments are not made, then they must be disclosed.

### Implementation Considerations

- Determining whether entities should be considered jointly controlled entities will require increased judgment.
- Processes and controls will need to be developed for monitoring potential voting rights and whether they are currently exercisable or convertible.
- Processes for the capture of financial data for jointly controlled entities will need to be developed, and accounting policies and reporting dates will need to be conformed.
- Changes in the reporting entity as a result of more or fewer entities being accounted for as jointly controlled entities may affect income taxes.

### Key Questions

- Will more or fewer entities be considered joint ventures?
- What changes will need to be made to the joint venture arrangements?
- What processes are in place for making judgments related to the accounting for joint ventures?
- Do the reporting dates or accounting policies of any investments in jointly controlled entities differ?
- Are the current information systems capable of capturing the information needed to account for investments in joint ventures?

## Property, Plant, Equipment, and Other Assets

### IFRS Overview and Potential IFRS–U.S. GAAP Differences

- IAS 16, IAS 23, IAS 40, and IAS 41 prescribe the accounting for property, plant, equipment, and other assets.
- Long-lived assets are initially recognized at cost, which includes the purchase price, all costs directly attributable to preparing the asset for use (i.e., delivery, installation, borrowing costs), and the initial estimate of costs for dismantling the asset.
- Residual value is measured as the current net selling price under the assumption that the property, plant, and equipment (PP&E) is already at the end of its useful life and may be adjusted upwards or downwards. Under U.S. GAAP, residual value is generally the discounted present value of expected future proceeds on future disposal and may be only adjusted downwards.
- Entities may subsequently measure PP&E (using the “revaluation model”) or investment property at fair value. If the revaluation model is used for an item of PP&E, it must be used for all items within that asset class. If a fair value model is used for an investment property, it must be used for all investment properties, unless fair value cannot be determined reliably. Under U.S. GAAP, the revaluation model is prohibited.
- Investment property is land or a building (or part of a building) held to earn rentals or for capital appreciation or both. A property interest that is held under an operating lease may be considered by the lessee to be an investment property. Under U.S. GAAP, property interests held under an operating lease are not recognized by the lessee.
- Biological assets and agricultural products at the point of harvest must be measured at fair value less estimated point of sale costs unless fair value cannot be determined reliably. Subsequent changes in fair value for biological assets are recorded through profit or loss. Agricultural products after the point of harvest are accounted for under IAS 2. Under U.S. GAAP, biological assets are generally measured at historical cost with exceptions for harvested crops and livestock held for sale.
- Depreciation is based on the “components approach,” meaning that each part of an asset that is significant in relation to the total value that has a differing pattern of benefits or useful life is depreciated separately. Under U.S. GAAP, component accounting is not required.
- The costs associated with any major inspection or overhaul should generally be accounted for as part of the cost of an asset and depreciated over the period until the next overhaul. Under U.S. GAAP, major inspection or overhaul costs are either expensed as incurred, deferred and amortized over the period until the next overhaul, or accounted for as part of the cost of the asset.
- The estimated cost of an asset retirement obligation (ARO) includes the best estimate of the expenditure to settle the obligation and may include internal cost estimates. Entities should subsequently remeasure the entire ARO for any changes in estimate or discount rate by using the current risk-adjusted rate as of that reporting date. Under U.S. GAAP, entities should estimate costs of an ARO on the basis of third-party external costs estimates and should only use current discount rates to measure the adjusted portion of the obligation.
- Asset exchanges are recognized at fair value if they have “commercial substance.”

### Implementation Considerations

- Asset valuation and depreciation will require increased judgment.
- Processes and controls may need to be developed for determining the fair value of certain assets if the fair value option is selected.
- Data capture for asset componentization may be detailed, which could lead to information system challenges.
- Residual value changes will need to be tracked.
- Changes in the measurement basis of long-lived assets and depreciation may affect income taxes.

### Key Questions

- What will be the measurement basis of long-lived assets?
- Would the revaluation model be considered and is it possible to determine fair values of certain assets?
- Will depreciation amounts change as a result of the components approach?
- Are the current information systems able to capture the information necessary for asset componentization?
- Do any properties under operating leases qualify as investment properties?



## Asset Impairment

### IFRS Overview and Potential IFRS–U.S. GAAP Differences

- IAS 36 prescribes the accounting for when an impairment indicator exists, for measuring an impairment loss, and for reversal of impairment losses. It applies to all assets, including goodwill, except those covered by other standards.
- The level of impairment testing is based on the “cash generating unit” (CGU), which is the smallest identifiable group of assets that generates cash inflows independently of other assets. Under U.S. GAAP, impairment testing is based on an asset group level.
- Entities use a single approach to recognize and measure an impairment loss as the excess of the carrying value over the asset’s or CGU’s recoverable amount (higher of (1) fair value less costs to sell and (2) value-in-use). Under U.S. GAAP, a two-step approach is used to measure impairment: (step 1) entities perform a recoverability test by comparing the expected undiscounted future cash flows to be derived from the asset with its carrying amount and (step 2) if the carrying amount is greater than the undiscounted cash flows, entities record an impairment loss as the excess of the asset’s carrying amount over its fair value.
- For goodwill testing, CGUs may be aggregated; however, the aggregation cannot be larger than an operating segment. Under U.S. GAAP, goodwill impairment is tested at the “reporting unit” level, which is either an operating segment or one level below.
- Entities use a one-step model to test goodwill for impairment. Goodwill impairment loss is recognized if the CGU’s carrying amount exceeds its recoverable amount. The loss is allocated first to the goodwill and then pro rata to other assets on the basis of carrying amounts. Under U.S. GAAP, the following two-step approach to calculating goodwill impairment is used: (step 1) entities compare the fair value of the reporting unit with its carrying amount including goodwill, and if fair value is greater than the carrying amount, then there is no impairment (and step 2 is skipped) and (step 2) entities compare the “implied fair value” of goodwill (which is determined on the basis of a hypothetical acquisition accounting method) with its carrying amount, recording an impairment loss for the difference.
- Entities calculate impairment of indefinite-lived intangible assets (other than goodwill) by comparing the recoverable amount to the carrying amount. Under U.S. GAAP, entities calculate such impairment by comparing the fair value to the carrying amount.
- Impairment losses should be recorded in a contra-account to the asset and either recognized in the income statement or offset against a revaluation reserve in equity to the extent that surpluses were previously recognized under the revaluation method under IAS 16. Under U.S. GAAP, impairment charges should be recorded in the income statement and directly against the asset, which will create a new cost basis for the asset.
- Impairment losses must be subsequently reversed for all assets, other than goodwill, if certain criteria are met. Under U.S. GAAP, subsequent reversals of impairment losses are prohibited.

### Implementation Considerations

- Determining the level at which assets are tested for impairment will require increased judgment.
- Data capture for an asset’s recoverable amount may be detailed, which could lead to information system changes.
- Processes and controls for the reversal of impairment charges will need to be developed.
- Changes in the timing and amount of impairment charges may affect income taxes.

### Key Questions

- How will potential changes to asset impairment recognition affect the timing of impairments?
- What are the tax consequences of potential changes in impairment?
- Are the current information systems able to capture the information needed for impairment testing and any subsequent reversals?

## Leasing

### IFRS Overview and Potential IFRS–U.S. GAAP Differences

- IAS 17 prescribes the accounting policies and disclosures for finance and operating leases for both lessees and lessors.
- The scope of IAS 17 includes leases of property, plant, and equipment, as well as certain intangible assets and concessionary arrangements accounted for under IFRIC 12. Under U.S. GAAP, leasing guidance only applies to leases involving property, plant, and equipment.
- The accounting for a lease depends on its classification as either an operating or finance (i.e., capital) lease. Leases are classified according to the substance of the transaction (specific indicators and examples are provided in IAS 17 for consideration). Generally, if a lease transfers “substantially all” of the risks and rewards of ownership, it is classified as a finance lease (i.e., “on balance sheet”). All other leases are operating leases and are therefore “off balance sheet.” Under U.S. GAAP, leases are classified according to specific criteria.
- There are no specific criteria for the classification of a lease as a sales-type lease by a lessor, nor is there special accounting for leveraged leases. Under U.S. GAAP, there are specific criteria for the classification of a sales-type lease involving real estate and for the accounting for leveraged leases.
- Leases of land and buildings are evaluated separately for lease classification unless the land element is not material. Under U.S. GAAP, land and building elements are generally accounted for as a single unit unless land represents more than 25 percent of the total fair value of the leased property.
- Lessees generally use the rate implicit in the lease, if it is known, to discount minimum lease payments. If the rate is not known, lessees use the incremental borrowing rate. Under U.S. GAAP, lessees generally would use the incremental borrowing rate to discount minimum lease payments unless the implicit rate is known and is the lower rate.
- Rental payments under operating leases are usually recognized on a straight-line basis.
- Whether gains or losses on a sale and leaseback transaction are recognized immediately depends on the classification of the leaseback and whether it is at, below, or above fair value. Under U.S. GAAP, the recognition of gains and losses on a sale and leaseback transaction depends on the extent of the seller’s retained interest in the asset.
- There is no difference in accounting between sale and leaseback transactions involving real estate and non–real estate assets. Under U.S. GAAP, there are specific requirements for sale and leaseback transactions involving real estate.

### Implementation Considerations

- Determining the classification of leases will require increased judgment because there are no strict classification criteria.
- Processes and controls for classifying leases may need to be enhanced.
- Data capture for leases may be more detailed, which could lead to information system changes.
- Changes in lease classification may affect income taxes or financing ratios (i.e., debt to equity).

### Key Questions

- Will there be changes to lease classification and, if so, what is the potential financial statement impact?
- Will debt covenants be affected?
- What is the effect on how lease arrangements are structured?
- What are the potential tax consequences?
- Are the current information systems able to capture any additional information needed to account for leases?

## Financial Instruments

### IFRS Overview and Potential IFRS–U.S. GAAP Differences

- IAS 32, IAS 39, and IFRS 7 prescribe the accounting and disclosure requirements for financial instruments.
- Financial instruments are classified as financial assets, financial liabilities, or equity depending on the substance of the underlying contractual arrangement. Financial instruments are recognized and measured on the basis of this classification. The guidance related to liability and equity accounting differs from that in U.S. GAAP, which may affect classification and the income statement.
- Instruments with both liability and equity elements are generally accounted for separately (referred to as “split accounting”). The liability component is measured initially at fair value, and any residual proceeds are allocated to the equity component. Under U.S. GAAP, convertible debt is generally treated entirely as debt unless it has a beneficial conversion feature that is present at the inception of the instrument, a bifurcated embedded derivative, or could be settled wholly or partly in cash by the issuer.
- Issued equity securities that are redeemable at the option of the holder or upon a contingent event are usually classified as liabilities. Under U.S. GAAP, issued equity securities are usually classified in equity (including temporary equity) unless they are mandatorily redeemable.
- Financial assets and liabilities must be offset for financial statement presentation if certain criteria are met (i.e., legal right and management intent). Under U.S. GAAP, entities are not required to offset financial assets and liabilities, but may do so if the criteria for offset are met (management intent is not a required criterion when master netting agreements are present).
- Entities evaluate derecognition of transferred financial assets by using a combination of a “risks and rewards” approach and a “control” approach, with partial derecognition allowed if certain criteria are met. Financial liabilities are derecognized when extinguished. Under U.S. GAAP, derecognition of financial assets occurs when the transferor has surrendered “control” over the assets and they are legally isolated (partial derecognition is prohibited).
- Impairment testing focuses on loss events that provide objective evidence of impairment. If certain criteria are met, reversal of impairment losses is required for some debt instruments, loans, and receivables. Under U.S. GAAP, impairment is only recognized when the decline in fair value is considered “other than temporary”; reversals of impairment losses for available-for-sale and held-to-maturity securities are prohibited, but required for loans.
- The recognition of interest on financial instruments is based on estimated cash flows over the expected life. Under U.S. GAAP, there are several different methods for recognizing interest.
- An initial fair value measurement is presumed to be on an “entry price” notion (i.e., price paid to acquire the asset or received to assume the liability) in the absence of market evidence to the contrary. Subsequent measurement depends on classification of the financial instrument; the use of the fair value option is allowed only if certain criteria are met. Fair value is determined on the basis of the most advantageous market to which the entity has access. Under U.S. GAAP, an entity determines the fair value measurement according to specific guidance on the basis of an “exit price” notion (i.e., price received to sell the asset or paid to transfer the liability) in an entity’s principal market, even upon initial measurement.
- The definition of a derivative does not require a notional amount, payment provision, or net settlement. There is a mandatory scope exception for “own use” contracts without required documentation. Under U.S. GAAP, these elements must be present to meet the definition of a derivative; the “normal purchases and normal sales” exemption is elective and requires documentation.
- Hedge accounting is allowed if certain criteria are met and are sufficiently documented. The “shortcut method” is not permitted for hedge accounting. All hedges must be assessed for effectiveness and documented. Under U.S. GAAP, fewer risks may be hedged, and the shortcut method is permitted.
- Several disclosures are required regarding risks related to financial instruments held. Under U.S. GAAP, not all such disclosures are required in the financial statements.

### Implementation Considerations

- Processes will need to be developed for the capture of data for additional disclosures, impairments (including reversals), differing offsetting, interest recognition, derecognition requirements, and “split accounting.”
- Valuation techniques used to determine fair value may need adjustment.
- Hedge documentation may need adjustment, and hedge effectiveness testing may require additional documentation.
- Different classification, recognition, and amounts of financial instruments may affect income taxes.

### Key Questions

- Are the appropriate processes available for the use of “split accounting”?
- Should debt covenants that are linked to the amount of liabilities and equity reported in the financial statements be renegotiated?
- What “off-balance-sheet” transactions exist, and will they now be “on balance sheet”?
- What fair value measurement techniques are being used and will they change?
- Will the hedging strategy be affected?
- What additional disclosures will be required related to financial instruments held?

## Financial Statement Presentation

### IFRS Overview and Potential IFRS–U.S. GAAP Differences

- IAS 1, IAS 7, IAS 8, IAS 10, IAS 24, IAS 33, IAS 34, IFRS 5, and IFRS 8 prescribe the accounting for financial statement presentation. The guidance addresses the basic form and content of financial statements and sets out general considerations, such as fair presentation, going concern, accrual accounting, consistency of presentation, materiality, and offsetting. There is no specific industry guidance on financial statement presentation.
- A complete set of financial statements consists of a statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows, and notes to the financial statements that include a summary of significant accounting policies. Minimum line items and one year of comparative information must be presented in the financial statements. Financial statements may have a condensed presentation for interim reporting. Under U.S. GAAP, comparative information is not required; however, regulators such as the SEC impose specific financial statement requirements.
- Assets and liabilities or income and expenses should not be offset unless required or permitted by another standard. Cash flow activities should be presented gross, with limited exceptions.
- Classification of expenses may be based on function or nature, and alternative performance measures may be presented. Presentation of “extraordinary items” is prohibited. Under U.S. GAAP, the presentation of extraordinary items is permitted, and SEC regulations require the classification of expenses by function and do not allow inclusion of alternative performance measures.
- Events occurring after the reporting period do not affect classifications as of the end of the reporting period (i.e., refinancing of bank loans or debt covenant waivers). Under U.S. GAAP, if debt is refinanced or covenant waivers are obtained before the issuance of the financial statements, then the related debt may be presented as noncurrent as of the balance sheet date.
- The cash flow classifications of interest, dividends, income taxes, and bank overdrafts may differ from such classifications under U.S. GAAP. Separate disclosure of cash flow from discontinued operations is required in the statement of cash flows or notes to the financial statements for each category. Under U.S. GAAP, separate disclosure is not required.
- All public entities are required to present earnings per share (EPS). The two-class method applies only to participating securities that are equity instruments and is not required for participating debt securities. Year-to-date diluted EPS is determined independently. Under U.S. GAAP, presentation of EPS by investment companies and wholly owned subsidiaries is not required; the two class method applies to all participating securities and the year-to-date diluted EPS is the average of the individual interim period incremental shares.
- A discontinued operation is a reportable business or geographical segment, or a major component thereof. Under U.S. GAAP, a discontinued operation is more broadly defined (operating segment, reporting unit, a subsidiary or an asset group), and significant continuing involvement or continuing cash flows prohibits discontinued operations classification.
- Cumulative translation adjustments should not be included in the carrying amount of an investment in a foreign entity that is being evaluated for impairment. Under U.S. GAAP, these adjustments are included in the carrying amount for impairment calculations.
- Noncurrent assets within segment disclosures include intangible assets. Disclosure of segment liabilities is required if it is presented to the chief operating decision maker. Under U.S. GAAP, segment assets do not include intangible assets, and disclosure of segment liabilities is not required.
- Judgment must be applied in the determination of the operating segments in a matrix organization (i.e., an organization managed both by product or service lines and geographic regions). Under U.S. GAAP, the determination of operating segments is based on products and services.

### Implementation Considerations

- Data capture may be more or less detailed, which could lead to changes in the chart of accounts.
- The process of monitoring debt covenants or calculating EPS may need to be revisited.
- Disposals may result in more or less discontinued operations presentation.
- Management reporting may change as a result of different financial statement formats and the use of alternative performance measures.
- Communication with investors may be affected as financial statement formats change. Questions may be asked about accounting differences and how general principles were applied.

### Key Questions

- How would the presentation format change?
- What is the potential impact on EPS?
- What are the key performance measures and how will they change?
- How do the presentation formats compare with those of others in the industry?
- Is a communication strategy in place to address reporting under IFRSs?

## Revenue

### IFRS Overview and Potential IFRS–U.S. GAAP Differences

- IAS 11 and IAS 18 prescribe the general accounting for revenue recognition for the sale of goods and services, interest, royalties and dividends, and construction contracts.
- Principles related to the sale of goods focus on the transfer of “risks and rewards” and “control” over goods. Revenue from the sale of services is recognized as the work is performed and is based on the percentage of completion.
- Because there is limited detailed guidance on complex revenue transactions, increased judgment is required in the development of revenue recognition policies. Under U.S. GAAP, the guidance on certain complex revenue transactions is detailed, such as in those involving the timing of revenue recognition (e.g., arrangements with multiple elements and those involving up-front fees) and those related to certain industries (i.e., software, real estate).
- Revenue is generally measured at the fair value of the consideration received or receivable by the entity.
- Delivery may not be required for the sale of goods to be recognized, which may result in more frequent bill and hold sales. Under U.S. GAAP, certain criteria must be met for an entity to account for a transaction as a bill and hold sale, which may be deemed more restrictive.
- Customer loyalty programs are deemed multiple-element revenue transactions, and the fair value of the consideration received should be allocated between the award credits of the loyalty program and other components of the arrangement. The incremental cost approach (i.e., recognizing revenue on the basis of the cost incurred to date) is not acceptable. Under U.S. GAAP, there is no specific guidance on customer loyalty programs and therefore several methods may be acceptable, including the incremental cost approach.
- Revenue generated from others’ use of the entity’s assets (i.e., interest, royalties, and dividends) is recognized when it is probable and can be reliably measured. Entities measure interest income by using the effective yield method. Royalty income is recognized pursuant to the terms of the agreement on an accrual basis, and dividend income is recognized when the right to receive payment is acquired.
- Exchanges of goods or services do not generate revenue unless the exchange is related to dissimilar items. Under U.S. GAAP, transactions are generally recorded at fair value unless certain criteria are not met.
- Revenue related to construction contracts should be recognized under the percentage-of-completion method if the outcome of the contract can be estimated reliably. If the outcome cannot be estimated reliably, revenue should only be recognized to the extent that recoverable expenses have been incurred. The use of the completed-contract method (i.e., recognizing revenue when the contract is fully completed) is prohibited. Expected losses on construction contracts are to be recognized immediately as an expense. Under U.S. GAAP, the use of the completed-contract method is allowed.

### Implementation Considerations

- The selection of revenue recognition policies will require increased judgment. An overall approach for revenue recognition will need to be developed that focuses on a judgment framework.
- Data capture may be more or less detailed, which could lead to information system changes.
- Contract designs may be affected.
- Changes in the timing of revenue recognition may affect income taxes.

### Key Questions

- What is the overall approach to revenue recognition and how does it compare with that of others in the industry?
- What processes are in place for decision-making regarding revenue recognition, and are the appropriate resources involved?
- Are the revenue policy disclosures sufficient?

## Business Combinations

### IFRS Overview and Potential IFRS–U.S. GAAP Differences

- IFRS 3 (revised 2008) prescribes the accounting for the recognition and measurement of assets acquired, liabilities assumed, and any noncontrolling interests obtained by an entity under the “acquisition method.”
- Business combinations are based on one entity obtaining “control” of another entity. Acquired identifiable assets, liabilities, and contingent liabilities are generally recorded at fair value as of the acquisition date. The difference between the fair value of the consideration transferred (including noncontrolling interests and previous equity interests held) and net assets acquired is recognized as goodwill. Acquisition-related costs are expensed, with the exception of costs to issue debt or equity securities.
- Noncontrolling interests can be measured either as a proportionate share of identifiable net assets acquired or at fair value. This accounting policy choice is made on an acquisition-by-acquisition basis. Under U.S. GAAP, noncontrolling interests are measured at fair value.
- Contingent liabilities are recognized at fair value if their fair values can be measured reliably. The contingent liability is subsequently measured at the higher of the amount originally recognized and the amount that would be recognized in accordance with IAS 37. Contingent assets are not recognized in a business combination. Under U.S. GAAP, contractual contingencies are recognized at fair value, and noncontractual contingencies are recognized only if it is more likely than not that they meet the definition of an asset or liability. Subsequently, contingent liabilities are measured at the higher of their acquisition date fair value and the amount under Statement 5, while contingent assets are measured at the lower of their acquisition date fair value and the best estimate of their future settlement amount.
- Favorable or unfavorable terms for operating leases relative to current market terms or prices are embedded in the fair value measurement of the related asset. Under U.S. GAAP, a separate asset or liability is presented for favorable or unfavorable terms.
- Restructuring costs are generally prohibited from being recognized as a liability assumed.
- Goodwill is not amortized and is tested for impairment at least annually.
- Bargain purchases (“negative goodwill”) are recognized immediately in earnings.
- Related pro forma financial information is required for all entities (public and nonpublic). Under U.S. GAAP, such disclosures are only required for public entities.

### Implementation Considerations

- Processes for the capture of financial information related to business combinations will need to be developed, particularly for fair value information related to contingent liabilities.
- Changes in the amount of certain items acquired or assumed in a business combination and the related goodwill may affect income taxes.

### Key Questions

- How will the terms and structuring of future business combination transactions be affected?
- What will be the effect of any changes in the valuation of assets acquired and liabilities assumed?
- How will any future exit strategies or other restructuring plans related to acquired businesses be affected?

## Intangible Assets

### IFRS Overview and Potential IFRS–U.S. GAAP Differences

- IAS 38 prescribes the accounting for intangible assets acquired separately or in a business combination and those generated internally.
- Intangible assets are initially measured at cost.
- Subsequent measurement is either at cost less accumulated amortization or fair value if fair value can be determined by reference to an active market (“revaluation model”). If the revaluation model is used for an intangible asset, it must be used for all assets within that class unless an active market does not exist. Under U.S. GAAP, the revaluation model is prohibited.
- Costs of internally generated intangible assets should be classified into one of two phases: research or development. Expenditures related to the research phase are expensed, and expenditures related to the development phase are capitalized as an intangible asset if specified criteria are met. Under U.S. GAAP, costs related to both phases are generally expensed (except for certain Web site development costs and certain costs associated with the development of software for internal use).
- Purchased computer software that is determined to be an integral part of the related hardware should be treated as property, plant, and equipment rather than as an intangible asset. Under U.S. GAAP, purchased computer software is classified as an intangible asset.
- Advertising and promotional costs are generally recognized as an expense as incurred, except for prepayments for which the benefit is yet to be received. Under U.S. GAAP, certain types of advertising and promotional costs are capitalized and amortized over their expected period of benefit (i.e., direct response advertising, reimbursable costs).

### Implementation Considerations

- Determining when intangible assets should be capitalized will require increased judgment.
- Processes and controls for determining fair value of certain intangible assets may need to be developed if the revaluation model is selected.
- Processes and controls for the capitalization of development costs will need to be developed. Further, data capture for the capitalized development costs may be more detailed, which could lead to information system changes.
- Capitalization of development costs may affect income taxes.

### Key Questions

- Should the revaluation model be considered, and are the fair values of certain intangible assets able to be determined?
- What amount of development costs will need to be capitalized?
- What are the tax consequences of capitalizing development costs?
- Are the current information systems able to capture the information needed for capitalizing development costs?
- Will capitalized advertising and promotional costs need to be expensed?

## Provisions and Contingencies

### IFRS Overview and Potential IFRS–U.S. GAAP Differences

- IAS 37 prescribes the accounting for provisions, contingent assets, and contingent liabilities.
- Provisions are liabilities whose timing or amount is uncertain.
- A provision is recognized if it is “probable” (i.e., more likely than not) that an outflow of resources will occur to settle the obligation. Under U.S. GAAP, the definition of probable is “likely to occur,” which is deemed to be a higher threshold than “more likely than not.”
- “Contingent” assets or liabilities are not recognized because their likelihood of occurring is not “probable”. Under U.S. GAAP, there is no similar distinction between a provision and a contingency.
- Entities measure provisions by using a “settlement notion” (i.e., the amount that the entity would pay to settle the obligation or to transfer it to a third party). For probable losses that involve a large population of items, it is appropriate for an entity to use an “expected value” method to arrive at a best estimate of an obligation by using probabilities to weigh all possible outcomes. Under U.S. GAAP, provisions are measured at the most probable outcome.
- When all points in a continuous range of possible outcomes are equally likely, a provision should be measured at the midpoint of the range. Under U.S. GAAP, the low end of a range of continuous possible outcomes would be recorded.
- Provisions must be discounted if such reduction would be material. Under U.S. GAAP, provisions are only discounted if the timing and the amount of future cash flows are fixed and determinable.
- Recognition of restructuring provisions is based on a holistic view of the plan and requires the entity to be “demonstrably committed” to act. This may be accomplished through the existence of a detailed formal plan that has either been announced or for which implementation has begun. Under U.S. GAAP, each individual aspect of a restructuring plan is separately evaluated for recognition. Items are recognized when a transaction or event occurs that leaves an entity with little or no discretion to avoid the future transfer or use of assets to settle the liability. An exit or disposal plan by itself does not create a present obligation to others. Therefore, recognition of restructuring provisions under IFRSs may occur earlier than under U.S. GAAP.
- Provisions related to “onerous” operating lease contracts should be recorded when there is a commitment, typically through communication to the landlord, to vacate the property. Under U.S. GAAP, a provision can only be recognized if the entity has terminated the lease in accordance with its terms or has ceased use of the property.
- Several disclosures are required, although prejudicial items are not required to be disclosed. Under U.S. GAAP, there is no disclosure exclusion for prejudicial items.

### Implementation Considerations

- Determining liability recognition and corresponding disclosures will require increased judgment.
- The legal department and outside counsel will need to be educated on the threshold for recognition of provisions.
- Processes and data capture for provisions may be more detailed, which could lead to information system changes.
- Changes in the timing and measurement of provisions may affect income taxes.

### Key Questions

- Have all obligations been assessed for potential recognition as provisions?
- What is the effect on the timing of restructuring provisions and provisions relating to onerous contracts?
- Have the implications of the changes in recognition of provisions been discussed with the company’s legal advisors?
- Do any disclosures consist of prejudicial information?



## Income Taxes

### IFRS Overview and Potential IFRS–U.S. GAAP Differences

- IAS 12 prescribes the accounting for deferred income taxes. Deferred tax is not recognized for taxable temporary differences that result from the initial recognition of an asset or liability in a transaction that is (1) not a business combination and (2) does not affect accounting profit or taxable profit. However, deferred tax is recognized for deductible temporary differences related to investments in subsidiaries, branches and associates, and interests in joint ventures. Under U.S. GAAP, there is no similar initial recognition exception.
- Deferred tax items are recognized for (1) differences between the carrying amount of an asset or liability in the statement of financial position and its tax base and (2) operating loss and tax credit carryforwards.
- Deferred tax assets are recognized when their realization is “probable.” Probable is defined as more likely than not. Under U.S. GAAP, the full value of deferred tax assets is recognized and then adjusted for a valuation allowance. Other recognition differences between the limited scope exceptions under IFRSs and U.S. GAAP are possible. Further, in certain areas, the tax treatment differs under IFRSs and U.S. GAAP (i.e., share-based payments, leveraged leases, and uncertain tax positions).
- Deferred tax is recognized on the remeasurement from local currency to functional currency for foreign nonmonetary assets and liabilities. Under U.S. GAAP, deferred tax is not recognized on this remeasurement.
- Deferred tax items are measured on the basis of applicable tax rates (and tax laws) that are enacted or “substantively” enacted. Under U.S. GAAP, entities use the enacted rate to measure deferred tax items.
- Discounting of deferred tax assets and liabilities is prohibited.
- Entities must use the rate applicable to undistributed profits to measure deferred tax on undistributed earnings of a subsidiary. Under U.S. GAAP, the higher of the distributed and undistributed rates is generally used.
- Deferred tax items are classified as noncurrent for presentation purposes. Under U.S. GAAP, deferred tax items are classified as current or noncurrent on basis of the classification of the underlying asset or liability or the expected reversal of the items if it is not related to an asset or liability.
- Reconciliation of actual and expected tax rates is required for all entities. Under U.S. GAAP, this reconciliation is only required for public entities. Nonpublic entities must disclose the nature of the reconciling items, but not the amounts.

### Implementation Considerations

- The tax department should be educated on the tax accounting requirements and their effect on tax planning.
- Processes and data capture for deferred tax items may be more detailed, which could lead to information system changes.

### Key Questions

- Have the deferred tax effects of other changes in accounting under IFRSs been assessed?
- What is the overall effect on current tax structures and reporting?
- What is the effect on future tax planning?

## Employee Benefits

### IFRS Overview and Potential IFRS–U.S. GAAP Differences

- IAS 19 prescribes the accounting for all forms of employee benefits, other than share-based payments, that are based on either legal or constructive obligations.
- Short-term employee benefits should be recognized as expenses when the underlying services are provided by the employee. Other long-term benefits (i.e., profit-sharing and bonuses) are recognized when the entity incurs an obligation to pay the benefits. The accounting for postemployment benefits depends on the plan type (i.e., defined contribution, defined benefit, or multi-employer).
- Defined contribution plans involve payment of fixed amounts that are expensed as the employee provides services in exchange for the contributions. Individual accounts are not a requirement for defined contribution plan accounting. Under U.S. GAAP, the presence of individual accounts is a requirement for defined contribution plan accounting.
- For defined benefit plans, entities recognize a net benefit obligation in the statement of financial position by using an actuarial valuation method to measure the obligation, as follows:
  - Actuarial gains or losses as a result of changes in actuarial assumptions and fair value of plan assets are recognized either in income (on a deferred basis by using either the “corridor” approach or a more accelerated method) or in equity, on the basis of the policy choice elected. If an entity elects an accounting policy to defer the recognition of actuarial gains and losses under the corridor approach, the deferral is over the average remaining working lives of the employees in the plan. Under U.S. GAAP, all actuarial gains and losses are eventually recognized in income (either under the corridor approach or an accelerated method) because there is no election for permanent equity classification. If a corridor approach is elected under U.S. GAAP, the deferral is over the average remaining service period (unless plan participants are inactive, and then over average remaining life expectancy).
  - Prior service costs are recognized immediately if they are related to vested benefits; otherwise, they are recognized over the vesting period. Under U.S. GAAP, prior service costs are recognized over the remaining service period (or life expectancy, if plan participants are inactive).
  - Measurement of the expected rate of return on plan assets is based solely on the fair value of plan assets at the end of the reporting period. Insurance policies are accounted for as plan assets if certain criteria are met. Under U.S. GAAP, measurement of the expected rate of return on plan assets is based on the market-related value, which is either fair value or a calculated value that defers asset gains and losses. Insurance contracts are generally excluded from plan assets under U.S. GAAP.
  - A defined benefit asset is subject to a “ceiling.” Under U.S. GAAP, there is no limit to the amount recognized.
  - A liability must be recognized for minimum funding requirements when the obligation arises. Under U.S. GAAP, a liability need not be recognized for minimum funding requirements.
- Multi-employer and multiple-employer plans should be accounted for on the basis of their economic substance. However, a multi-employer plan should be accounted for as a defined contribution plan if the required defined benefit information is not available. Under U.S. GAAP, multi-employer plans are accounted for as defined contribution plans, and multiple-employer plans are accounted for as defined benefit plans.
- Termination benefits are recognized when the entity is “demonstrably committed” to the termination and is unable to withdraw from it. There is no distinction between special and other benefits. Under U.S. GAAP, (1) special termination benefits are generally recognized when they are communicated to employees unless employees render services beyond a “minimum retention period,” (2) contractual termination benefits are recognized when it is probable that the employees will be entitled to the benefits and the amount can be reasonably estimated, and (3) voluntary termination benefits are recognized when the employee accepts the offer.

### Implementation Considerations

- Current plans will need to be evaluated to ensure they are accounted for under the appropriate type of plan accounting.
- Determining actuarial gains and losses requires judgment.
- Processes and controls for the asset ceiling test will need to be developed.
- Data capture may be more detailed, which could lead to information system changes.
- Changes in the timing and amount of pension cost may affect income taxes.

### Key Questions

- How will the current accounting for employee benefits be affected?
- Will the employee benefit plan funding requirements be affected?
- Will future benefit plan structures be affected?

## Share-Based Payments

### IFRS Overview and Potential IFRS–U.S. GAAP Differences

- IFRS 2 prescribes the accounting for transactions in which goods and services have been exchanged for share-based payments. The requirements for public and private entities are the same. The scope of IFRS 2 includes equity instruments that are issued by an employer and held by an employee stock ownership plan (ESOP). Under U.S. GAAP, nonpublic entities have different measurement alternatives, and ESOPs follow a separate accounting model.
- Transactions are generally measured on the basis of their grant date and are classified as equity if they are equity settled or as a liability if they are cash settled. Under U.S. GAAP, the requirements for determining classification are more detailed and may result in a different classification. There are also specific exceptions to liability classification for arrangements that include a cash settlement feature.
- No specific valuation model is required for determining share value; however, there is guidance requiring the inclusion of several inputs. Compensation expense is recognized on the basis of grant-date fair value over the period in which the shares vest.
- Measurement of equity-settled share-based payment transactions is based on the fair value of the goods or services received. If the fair value of the goods or services cannot be estimated reliably, the fair value of the equity instruments as of the grant date is used.
- Cash-settled share-based payments are measured at the fair value of the settlement liability and remeasured as of each reporting date and as of the date of settlement, with changes in value recognized in profit or loss.
- Awards with “graded vesting” features are measured as multiple awards, with compensation expense recognized on an accelerated basis as vesting occurs. Under U.S. GAAP, entities make an accounting policy choice whether to measure such awards singly (amortized on a straight-line basis) or as multiple awards.
- For share-based payment awards that were originally not expected to vest (i.e., improbable) but are now expected to vest as a result of a modification, compensation cost is the higher of the modified award’s fair value or the grant-date fair value of the original award. Under U.S. GAAP, compensation cost is based on the modified award’s fair value.
- Share-based payment awards granted by a subsidiary to employees of the subsidiary that are settled in the parent’s equity must be classified as liabilities in the stand-alone financial statements of the subsidiary. Under U.S. GAAP, such awards are classified as equity in the stand-alone financial statements of the subsidiary.
- Employee share purchase plans are generally deemed compensatory, with recognition of compensation expense required for the discount. Under U.S. GAAP, such purchase plans may qualify as noncompensatory if certain criteria are met.

### Implementation Considerations

- Processes and controls need to be developed for identifying all transactions that should be accounted for as share-based payments.
- Awards need to be evaluated for appropriate classification as a liability or equity.
- Judgment will be required in the measurement of share-based payments at fair value.
- Data capture may be more detailed, particularly regarding graded vesting, which could lead to information system changes.
- Income tax implications of share-based payments need to be understood.

### Key Questions

- Should compensation structures be changed?
- How does the accounting for existing share-based payment arrangements potentially change under IFRSs?
- What fair value techniques are being used and how will they change?
- Are the current information systems able to capture the information needed to account for share-based payments?

## **Appendix A: Glossary of Standards**

FASB Statement No. 5, *Accounting for Contingencies*

IFRS 8, *Operating Segments*

IFRS 7, *Financial Instruments: Disclosures*

IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*

IFRS 3 (revised 2008), *Business Combinations*

IFRS 2, *Share-based Payment*

IAS 41, *Agriculture*

IAS 40, *Investment Property*

IAS 39, *Financial Instruments: Recognition and Measurement*

IAS 38, *Intangible Assets*

IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*

IAS 36, *Impairment of Assets*

IAS 34, *Interim Financial Reporting*

IAS 33, *Earnings per Share*

IAS 32, *Financial Instruments: Presentation*

IAS 31, *Interests in Joint Ventures*

IAS 28, *Investments in Associates*

IAS 27 (revised 2008), *Consolidated and Separate Financial Statements*

IAS 24, *Related Party Disclosures*

IAS 23, *Borrowing Costs*

IAS 19, *Employee Benefits*

IAS 18, *Revenue*

IAS 17, *Leases*

IAS 16, *Property, Plant and Equipment*

IAS 12, *Income Taxes*

IAS 11, *Construction Contracts*

IAS 10, *Events After the Reporting Period*

IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*

IAS 7, *Statement of Cash Flows*

IAS 2, *Inventories*

IAS 1, *Presentation of Financial Statements*

IFRIC Interpretation No. 12, *Service Concession Arrangements*

## Appendix B: Resources

Information about U.S. GAAP and IFRSs can also be found in the following resources:	
www.deloitte.com	Includes an IFRS page that contains IFRS information geared toward U.S. companies.
www.iasplus.com	Updated daily, IAS Plus is your one-stop shop for information about IFRSs.
Deloitte Technical Library	Online library (paid subscription site) of accounting and financial disclosure literature, including all IASB and FASB standards and literature; SEC rules, regulations, and forms; AICPA accounting and auditing guides; and Deloitte's own accounting manuals and other interpretive guidance on U.S. GAAP and IFRSs. Updated every business day.
Deloitte's IFRS e-learning modules	E-learning IFRS training materials, one module for each IAS and IFRS and the Framework, with self-tests, available without charge at <a href="http://www.iasplus.com">www.iasplus.com</a> .
IFRSs in Your Pocket	Pocket guide includes a description of the IASB structure, biographies of IASB members, an IASC/IASB chronology, a table on use of IFRSs around the world, summaries of all IFRSs, overviews of all IASB projects, and more. Updated annually.
IFRS and US GAAP — A Pocket Comparison	Highlights and discusses some of the key differences between IFRSs and U.S. GAAP. Covers standards, interpretations, and other accounting literature issued as of June 30, 2008.
IFRS Insights	A monthly newsletter on IFRSs for U.S. companies.
IAS Plus Newsletter	A quarterly newsletter on recent developments in IFRSs and accounting updates for individual countries. In addition, special editions are issued for important developments. To <a href="#">subscribe</a> , visit the IAS Plus Web site.
Presentation and Disclosure Checklist	Checklist incorporating all the presentation and disclosure requirements of IFRSs.
Compliance Questionnaire	Questionnaire to assess compliance with the recognition and measurement principles in IFRSs.
Model Financial Statements	Model financial statements illustrating the presentation and disclosure requirements of IFRSs.
iGAAP 2009 — A Guide to IFRS Reporting	Guidance for the global application of IFRS.
iGAAP 2008 Financial Instruments: IAS 32, IAS 39 and IFRS 7 Explained	Fourth edition (June 2008). Guidance on applying IAS 32, IAS 39, and IFRS 7, including illustrative examples and interpretations.
First-time Adoption: A Guide to IFRS 1	Application guidance for IFRS 1, effective in 2005.
Share-based Payments: A Guide to IFRS 2	Guidance on applying IFRS 2 to many common share-based payment transactions.
Business Combinations and Changes in Ownership Interests: A Guide to the revised IFRS 3 and IAS 27	Supplements the IASB's own guidance for applying these standards.
Assets Held for Sale and Discontinued Operations: A Guide to IFRS 5	Supplements the IASB's own guidance for applying this standard.
Interim Financial Reporting: A Guide to IAS 34	Guidance on applying the interim reporting standard, including a model interim financial report and an IAS 34 compliance checklist.
Comparison of IFRSs and U.S. GAAP	Q&As in the U.S. Accounting Manual on the Deloitte Technical Library (paid subscription site) highlighting key differences between standards under U.S. GAAP and in IFRSs.
Gearing Up for Change: Why U.S. Companies Could Benefit From International Financial Reporting Standards	Deloitte Insights podcast covering readiness of U.S. companies for a transition to IFRSs.
SEC Comment Letters on Foreign Private Issuers Using IFRSs	Analysis of SEC focus areas related to IFRS filers over the past two years.

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