US GAAP/IFRS accounting differences identifier tool

February 2023

Overview

The US GAAP/IFRS Accounting Differences Identifier Tool (the DIT or tool) is designed to help entities identify some of the more common accounting differences between US GAAP and IFRS that may affect their financial statements when converting from US GAAP to IFRS (or vice versa); however, there is no resource that can identify all the differences existing between the two sets of standards. Many differences depend on an entity's specific industry, the nature and extent of its transactions and its accounting policy elections. Accordingly, the tool should be viewed as a starting point for analyzing potential accounting differences rather than as a comprehensive checklist. Using the tool is not a substitute for a careful reading of the appropriate US GAAP and IFRS literature,[1] or the guidance contained in our US Financial reporting developments (FRD) publications or our annual publication, International GAAP®.

IFRS standards often are more "principles-based" with less interpretive and application guidance than their US counterparts. Because of this, some might read an IFRS standard as requiring an approach similar to the one contained in its more detailed US counterpart, while others may not. Since the more principles-based IFRS standards are not always interpreted similarly by entities in the same or similar circumstances, not everyone will agree on whether an accounting difference actually exists.

Tool organization

The sections of the tool are organized by accounting topics that consist of an overview and questions. We believe that any discussion of differences should not lose sight of the fact that the two sets of standards are often grounded in the same basic principles, so each topic's overview begins with a discussion of the similarities between US GAAP and IFRS. A list of the relevant primary accounting literature generally as of 30 June 2022 is presented for each topic. Although the authoritative guidance for many topics will change as a result of ongoing standard setting by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB), knowledge of current differences is more relevant for transaction-driven conversions. An understanding of current differences will help entities follow the projects of the FASB and IASB (collectively, the Boards) in a more meaningful way so the entities can provide the Boards with constructive comments on the direction of those projects. Each topic's overview section contains a brief description of standard setting efforts undertaken by the FASB and the IASB. These standard setting activities are generally limited to those that may create or converge accounting differences. For example, the tool generally does not discuss disclosure-only differences. Because the Boards are actively discussing the projects and updating the related timetables, entities should periodically refer to the websites of the FASB and the IASB, as well as other EY resources for current developments and more details.

The overview for each accounting topic also includes a discussion of IFRS 1 *First-time Adoption of International Financial Reporting Standards,* which is a complex, rules-based standard that contains the accounting requirements a reporting entity must follow when converting to IFRS, including a number of elective exemptions and mandatory exceptions. While the tool discusses some of the more significant provisions of IFRS 1 that may affect a reporting entity's conversion, the complexity of IFRS 1 requires such reporting entities to conduct a thorough examination and analysis.

Each topic includes a series of questions designed to identify accounting differences based on the literature. A "yes" response to a question indicates a situation or transaction that could result in a potential accounting difference and therefore requires additional evaluation. The tool provides a summary of key US GAAP and IFRS literature relevant to the question, as well as key implications that might be drawn from the differences in the literature. Based on this information, users should answer "Identified difference?" with a "Yes" if a difference exists or a "No" if it does not. In some circumstances, the existence of an accounting difference will depend on the entity's election of a US GAAP or an IFRS policy choice, in which case the answer "Depends on policy election" should be selected. The "Describe" section of the tool should be completed to document the rationale in reaching a conclusion.

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[1] IFRS literature includes IFRS Interpretations Committee (IFRS IC) agenda decisions. To the extent that an IFRS IC agenda decision requires a change to an entity's accounting policies, the August 2020 IASB and IFRS IC *Due Process Handbook* states that an entity is entitled to "sufficient time" for implementation of any such change. Determining how much time is sufficient is a matter of judgment that depends on an entity's particular facts and circumstances. However, any changes should be made on a timely basis. If an entity has not yet applied an agenda decision, it should disclose such fact if the agenda decision is expected to require a significant change to its accounting policies.

IFRS 1 implications generally are discussed only when they are supplemental to the discussion in the topic overview. Therefore, information described in both the overview and individual question sections must be considered in determining any convergence ramifications or possible opening balance sheet adjustments.

Updates to the tool

This edition of the DIT has generally been updated to reflect new standards and interpretations issued by the FASB and the IASB as of 30 June 2022. We have assumed adoption of Accounting Standards Update (ASU) 2020-06, *Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*. Therefore, we have not included differences before the adoption of this standard. Please refer to the **January 2021** edition of the tool for differences before the adoption of ASU 2020-06.

The tool generally does not include any guidance related to IFRS for Small- and Medium-Sized Entities (SMEs) or Private Company Council alternatives that are embedded in US GAAP.

The Appendix provides a summary of significant changes to the questions within each accounting topic.

Ernst & Young LLP

February 2023

DIT summary of significant changes — February 2023 edition

This edition of the DIT has been updated for the effects of new standards and interpretations issued by the FASB and the IASB and standard setting developments of both Boards generally as of 30 June 2022. We have not included differences before the adoption of ASU 2020-06. Please refer to the **January 2021** edition of the tool for differences before the adoption of ASU 2020-06.

This Appendix provides a summary of significant changes to the questions in each accounting topic from the December 2021 edition of the tool. This list does not include changes to the sections on standard setting activities and IFRS 1.

Financial statement presentation

- Question 1 was updated to enhance our discussions of comparative information and classified versus unclassified balance sheet in a complete set of financial statements.

Joint ventures and joint operations

- Question 1 was updated to enhance our discussions of joint operations and proportionate consolidation.

Equity method investments/associates

- Question 1 was added to discuss equity interests in an investee that is a corporation.

Business combinations

- Question 3 was updated to reflect the adoption of *Updating a Reference to the Conceptual Framework (Amendments to IFRS 3).*
- Question 10 was added for the issuance of ASU 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers.*

Financial instruments — Recognition and measurement

- Question 4 was updated to discuss exceptions to the presentation requirements for financial instruments for which the US GAAP fair value option was elected.

Financial instruments – Derivatives and hedging

- Question 26 was updated for the issuance of ASU 2022-01, *Derivatives and Hedging (Topic 815): Fair Value Hedging – Portfolio Layer Method.*

Fair value measurements

- Question 3 was added for the issuance of ASU 2022-03, *Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions.*

Leases

- Question 8 was updated for the issuance of ASU 2021-09, *Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities.*
- Questions 9 and 14 were updated to address consideration of changes in the timing of lease payments.
- Question 11 was updated to include discussions of reassessment of lease classification and sale of lease receivables when the lessor retains an interest in the unguaranteed residual asset.
- Question 15 was updated to add a discussion of sale and leaseback reassessment.
- Question 21 (in the December 2021 edition) was deleted because transition guidance in relation to Accounting Standards Codification (ASC) 842, *Leases*, and IFRS 16 *Leases* is no longer applicable.

Share-based payments

- Question 17 was updated for the issuance of ASU 2021-07, *Compensation — Stock Compensation (Topic 718): Determining the Current Price of an Underlying Share for Equity-Classified Share-Based Awards*.

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Financial statement presentation

Similarities:

There are many similarities between US GAAP and IFRS relating to financial statement presentation. Under both sets of standards, the components of a complete set of financial statements include a statement of financial position (balance sheet), a statement of profit or loss (income statement) and of other comprehensive income (in either a single continuous statement of comprehensive income or two consecutive statements), a statement of cash flows, and accompanying notes to the financial statements. Both also require the changes in (shareholders' or stockholders') equity to be presented. However, US GAAP allows the changes in shareholders' equity to be presented in the notes to the financial statements while IFRS requires the changes in shareholders' equity to be presented as a separate statement. Further, both require that the financial statements be prepared on the accrual basis of accounting with the exception of the cash flow statement and in other rare circumstances (e.g., when liquidation basis of accounting is appropriate). IFRS and the conceptual framework in US GAAP also have similar concepts regarding materiality and consistency that entities have to consider in preparing their financial statements.

Interim financial reporting

ASC 270, *Interim Reporting* (including ASC 740-270, *Income Taxes – Interim Reporting*), and International Accounting Standard (IAS) 34 *Interim Financial Reporting* are substantially similar except for the treatment of certain costs described in question 11. Both require an entity to apply the accounting policies that were in effect in the prior annual period, subject to the adoption of new policies that are disclosed. Both standards provide similar minimum disclosure requirements when entities prepare condensed interim financial statements. Under both US GAAP and IFRS, income taxes are accounted for based on an estimated average annual effective tax rate. Neither standard requires entities to present interim financial information. That is the purview of securities regulators such as the Securities and Exchange Commission (SEC), which requires US public companies to comply with Regulation S-X.

Primary US GAAP	Primary IFRS
► ASC 205, *Presentation of Financial Statements* ► ASC 210, Balance Sheet ► ASC 220, *Comprehensive Income* ► ASC 250, *Accounting Changes and Error Corrections* ► ASC 270, *Interim Reporting* ► ASC 470, *Debt* ► ASC 815, *Derivatives and Hedging* ► ASC 940, *Financial Services – Brokers and Dealers* ► SEC Regulation S-X (SEC registrants only)	► IAS 1 *Presentation of Financial Statements* ► IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* ► IAS 32 *Financial Instruments: Presentation* ► IAS 34 *Interim Financial Reporting*

Standard setting activities:

Classification of liabilities as current or noncurrent

In January 2020, the IASB issued amendments to IAS 1 to clarify the criteria for classifying liabilities as current or noncurrent. After issuance, stakeholders raised concerns about the outcomes and potential consequences of the 2020 amendments. In response to these concerns, the IASB

tentatively decided, in June 2021, to defer the effective date of the amendments to IAS 1 to annual periods no earlier than beginning on or after 1 January 2024 (from 1 January 2023) and, in November 2021, issued an exposure draft, *Non-current Liabilities with Covenants, Proposed Amendments to IAS 1,* that proposed several amendments to the 2020 amendments. In October 2022, the IASB finalized these amendments. The 2022 amendments are effective for annual reporting periods beginning on or after 1 January 2024 and need to be applied retrospectively in accordance with IAS 8. Early adoption is permitted. The IASB also deferred the effective date of the 2020 amendments to align with the effective dates for the 2022 amendments. The 2020 amendments must also be applied retrospectively, and early adoption is permitted. However, an entity that adopts the 2020 amendments early is also required to apply the 2022 amendments at the same time, and vice versa. Due to the delayed effective date and late 2022 standard setting activity, differences related to these amendments are not reflected in the questions below.

Primary financial statements

In December 2019, the IASB proposed issuing a new IFRS standard on presentation of financial statements that would effectively replace IAS 1. The proposed guidance would include new disclosure requirements and new presentation requirements for the statement of profit and loss, along with limited changes to the statement of financial position and the statement of cash flows. It would remove several current presentation options for items in the primary financial statements to make it easier for investors to compare entities' performance and future prospects. The proposed guidance aims to enhance comparability and decision usefulness and is designed to remove inconsistencies in entities' current reporting. The comment letter period for this exposure draft ended in September 2020. Currently, the IASB is redeliberating the proposals in light of the comment letters received.

The FASB has a project on its agenda focusing on the disaggregation of income statement expenses to improve the decision usefulness of business entities' income statements through the disaggregation of certain expense captions. The project is in its early stages and no final decisions have been made beyond those on objective and scope.

Principles of disclosure

In February 2021, the IASB issued *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2*). The amendments to IAS 1 require entities to disclose their *material* accounting policies rather than their *significant* accounting policies, as well as help entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful. The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Early adoption is permitted.

In February 2021, the IASB also issued *Definition of Accounting Estimate (Amendments to IAS 8)*. The amendments to IAS 8 clarify the distinction between changes in "accounting policies and the correction of errors" and "accounting estimates." The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Early adoption is permitted.

These amendments are not expected to result in a difference between IFRS and US GAAP.

Interim financial reporting

In November 2021, the FASB proposed to amend ASC 270 to require disclosure at interim periods when a significant event or transaction that has a material effect on an entity has occurred since the prior year-end. The proposal would also clarify (1) the form and content of interim financial statements and notes in accordance with US GAAP and (2) when comparative disclosures are required. The comment letter period for this exposure draft ended in January 2022. This project is in redeliberation. Readers should monitor the project for developments.

Discussion of IFRS 1:

There are no exemptions under IFRS 1 to presentation and disclosure requirements. Accordingly, all periods should be presented in accordance with IFRS. Entities should be aware of the differences discussed in this section so that any classification differences between US GAAP and IFRS can be presented correctly in the first IFRS financial statements and the comparative periods to be presented.

Differences:

1. Is the entity required to present a complete set of financial statements?	Yes ☐	No ☐

US GAAP — ASC 205-10-45-1 through 45-4, ASC 205-10-50-1, ASC 210-10-5-4, ASC 210-10-45-1 through 45-7 and SEC Regulation S-X	**IFRS — IAS 1.38 through 44, IAS 1. 60 through 63, and IFRS 1.21**
Comparative information ASC 205-10-45 notes that the presentation of comparative financial statements in annual and other reports enhances the usefulness of such reports. In any one year, it is ordinarily desirable that the statement of financial position (balance sheet), the income statement and the statement of changes in equity (if presented) be presented for one or more preceding years, as well as for the current year. Also, notes to financial statements, explanations and accountants' reports containing qualifications that appeared on the statements from the preceding years should be repeated, or at least referred to, in the comparative statements to the extent that they continue to be of significance. SEC Regulation S-X (Rules 3-01, 3-02 and 3-04) requires two years of balance sheets, three years of statements of comprehensive income (or, if not one continuous statement, statements of profit or loss and statements of other comprehensive income), cash flows and disclosure of changes in shareholders' equity, which may be included as a financial statement or in the notes.[2] For smaller reporting companies,[3] SEC Regulation S-X (Rule 8-02) requires only two years of balance sheets,	*Comparative information* IAS 1 requires comparative information for the previous period for all amounts reported in the current period's financial statements (except when IFRS permits or requires otherwise). At a minimum, an entity should present two statements of financial position, two statements of profit or loss and other comprehensive income (either as separate statements or as a combined statement of comprehensive income), two statements of cash flows and two statements of changes in equity and related notes.

[2] An emerging growth company (as defined in Rule 405 of the Securities Act and Rule 12b-2 of the Exchange Act) is not required to provide more than two years of statements of comprehensive income, cash flows and changes in shareholders' equity in a registration statement for its initial public offering (IPO).

[3] Smaller reporting company is defined in Regulation S-K, Item 10.f(1), as an issuer, excluding an investment company, an asset-backed issuer or a majority-owned subsidiary whose parent is not a smaller reporting company that (1) had a public float of less than $250 million or (2) had annual revenues of less than $100 million and either no public float (e.g., registrants whose share are not traded) or public float of less than $700 million.

statements of comprehensive income and cash flows and disclosure of changes in shareholders' equity.	
Classified vs. unclassified balance sheet While ASC 210-10-05-4 notes that most entities present a classified balance sheet, it is not required. Rather, ASC 210 provides guidance on how to classify assets and liabilities as current or noncurrent. Article 5 of SEC Regulation S-X (Rule 5-02) generally requires classification of assets and liabilities as current and noncurrent. Article 5 generally applies to commercial and industrial entities while Articles 6, 7 and 9 apply to registered investment companies, insurance companies and banks, respectively. Those Articles have different requirements with respect to financial statement presentation (e.g., entities that apply Articles 6, 7 and 9 are not required to present a classified balance sheet).	*Classified vs. unclassified balance sheet* IAS 1 requires an entity to present a classified statement of financial position, unless a presentation in increasing or decreasing order of liquidity would be reliable and more relevant. IAS 1 indicates that a presentation in order of liquidity is likely to be more relevant for an entity that does not supply goods or services within a clearly identifiable operating cycle.

Implications:
Under US GAAP, comparative financial statements generally are presented although not required. Under IFRS, at a minimum, comparative information must be disclosed for the previous period for all amounts reported in the financial statements. All US-listed public companies, regardless of whether they report under US GAAP or IFRS, must provide two or three years of financial statements under SEC rules depending on size. SEC Regulation S-X requires the presentation of a classified statement of financial position for certain public companies, and ASC 210-10-5-4 notes that most entities present a classified balance sheet. Under IFRS, an entity must present either a classified statement of financial position or one based on liquidity.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

IFRS 1 requires presentation of a third statement of financial position (balance sheet) for the beginning of the earliest comparative period when an entity first applies IFRS. See question 2 for instances in which a third statement of financial position may be required by IAS 1.

2. Did the entity apply an accounting policy retrospectively, or make a retrospective restatement or reclassification of items in its financial statements?	Yes ☐	No ☐

US GAAP — ASC 250-10-45	**IFRS — IAS 1.10(f), IAS 1.40A through 42 and IAS 8.49**
ASC 250 does not require a statement of financial position as of the beginning of the earliest comparative period when an entity retrospectively applies a new accounting principle, retrospectively applies a change in reporting entity or restates prior period financial statements for a correction of an error.	IAS 1 requires a statement of financial position at the beginning of the preceding period when an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification that has a material effect on the balances at the beginning of the preceding period. An entity is not required to present the related notes to the opening statement of financial position. When there is not a material effect on the comparative statement of financial position at the beginning of the preceding period, there is no need to present an additional statement of financial position. However, in such cases, an entity includes a statement in the notes that the retrospective restatement had no effect on the comparative statement of financial position. When an entity is required to present an additional statement of financial position as of the beginning of the preceding period, it must disclose information about the nature, amount and reason for the reclassification in accordance with IAS 1.41 and IAS 8.

Implications:
IFRS requires a third statement of financial position (balance sheet) to be presented in certain circumstances while US GAAP does not require any additional periods to be presented.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

3. Did the entity refinance any short-term borrowings after the reporting period but before issuance of the financial statements?	Yes ☐	No ☐

Refinancing a short-term obligation on a long-term basis means either replacing it with a long-term obligation or with equity securities or renewing/extending/replacing it with short-term obligations for an uninterrupted period extending beyond one year from the date of the entity's statement of financial position.

US GAAP — ASC 470-10-45-12A through 45-21	**IFRS — IAS 1.72 through 73**
A short-term obligation should be excluded from current liabilities if the entity has the intent to refinance the obligation on a long-term basis and the intent to refinance the short-term obligation on a long-term basis is supported by the ability to consummate the refinancing in the following ways: ► After the date of the entity's statement of financial position but before the statement of financial position is issued or available to be issued, a long-term obligation or equity securities have been issued for the purpose of refinancing the short-term obligation on a long-term basis. ► Before the statement of financial position is issued or available to be issued, the entity has entered into a financing agreement that permits the entity to refinance on a long-term basis on readily determinable terms and: ► The agreement does not expire within one year from the statement of financial position date and during that period the agreement is not cancelable by the lender (except for violation of a provision with which compliance is objectively determinable or measurable). ► No violation of any provision in the agreement exists at the statement of financial position date or thereafter but prior to issuance of the statement of financial position (or if one exists a waiver has been obtained). ► The lender is expected to be financially capable of honoring the agreement.	If at the end of the reporting period, the entity expects, and has the discretion, to refinance or roll over the obligation for at least 12 months after the reporting period under an existing loan facility, it classifies the obligation as noncurrent. However, when refinancing or rolling over the obligation is not at the discretion of the entity (e.g., there is no arrangement for refinancing), it is classified as current even if an agreement to refinance on a long-term basis is completed after the reporting period but before the financial statements are authorized for issue.

Implications:
US GAAP allows borrowings to be classified as noncurrent if a refinancing that meets specific criteria is completed after the statement of financial position date but before issuance of the financial statements. IFRS requires that if at the end of the reporting period the entity expects, and has the discretion, to refinance or roll over the obligation for at least 12 months after the reporting period under an existing loan facility, it should classify the obligation as noncurrent.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

4. Was debt callable at the balance sheet date due to a covenant violation for which the entity received a waiver or loan modification after the balance sheet date?	Yes	No
	☐	☐

US GAAP — ASC 470-10-45-1, ASC 470-10-45-11 and ASC 470-10-55-2 through 55-6	**IFRS — IAS 1.74 and IAS 1.75**
Debt that is callable at the balance sheet date must be classified as current unless: (1) the creditor has waived or subsequently lost the right to demand repayment (e.g., the entity received a waiver or cured the violation after the balance sheet date and the obligation is not callable when the financial statements are issued or are available to be issued) for more than one year from the statement of financial position date, or (2) for long-term debt that contains a grace period within which the borrower may cure the violation, it is probable that the violation will be cured within that period, thus preventing the debt from becoming callable. If the debt is callable at the balance sheet date due to a covenant violation at the balance sheet date or a covenant violation would have occurred absent a loan modification, *and* it is probable that the borrower will not be able to cure the default (i.e., comply with the covenant) at measurement dates that are within the next 12 months, the debt should be classified as current.	When an entity breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed after the reporting period but before authorization of the financial statements for issue not to demand payment as a consequence of the breach. However, if the lender agreed *before* the end of the reporting period to provide a grace period ending at least 12 months after the reporting period during which an entity can rectify the breach and the lender cannot demand immediate repayment, an entity classifies the liability as noncurrent.

Implications:
Under US GAAP, debt for which there has been a covenant violation may be presented as noncurrent in certain circumstances if a lender agreement to waive or modify the violated item exists before the financial statements are issued or available to be issued. IFRS requires that the debt be presented as current unless the lender agreement was reached before the balance sheet date.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

5. Does the entity have components of other comprehensive income (OCI)?	Yes	No
	☐	☐

US GAAP — ASC 220-10-45-1C, ASC 220-10-45-14 and ASC 220-10-45-14A	**IFRS — IAS 1.81A and IAS 1.82A**
The total of accumulated other comprehensive income (AOCI) is reported separately from retained earnings and additional paid-in capital (APIC) in a statement of financial position. An entity should present, either in a single continuous statement of comprehensive income or in a statement of net income and statement of other comprehensive income, all items that meet the definition of comprehensive income for the period in which those items are recognized. Components included in OCI should be classified based on their nature. An entity presents on the face of the financial statement or in a separate disclosure in the notes to the financial statements the changes in the accumulated balances for each component of OCI included in that separate component of equity. In addition to the presentation of changes in accumulated balances, an entity presents separately for each component of OCI, current period reclassifications out of AOCI and other amounts of current-period OCI.	IAS 1 does not require the presentation or disclosure of AOCI in the statement of financial position. The OCI section of the statement of profit or loss and other comprehensive income should present line items for amounts of OCI in the period, classified by nature (excluding the share of the OCI of associates and joint ventures accounted for using the equity method) and grouped into those that, in accordance with other IFRSs: ► Will not be reclassified subsequently to profit or loss ► Will be reclassified subsequently to profit or loss when specific conditions are met Additionally, the share of the OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, classified between those items that will not be subsequently reclassified to profit or loss and those items that will be reclassified subsequently to profit or loss when specific conditions are met.

Implications:
US GAAP requires the display of total AOCI in the statement of financial position. IFRS does not specifically require the same presentation. IFRS requires that components of OCI that will be reclassified to profit or loss at some point in the future be presented separately from items that will never be reclassified. US GAAP does not have a similar requirement because US GAAP does not provide for components of AOCI to be transferred directly to, or immediately reported in, retained earnings without being recycled through net income. Accordingly, an IFRS reporting entity will have to determine if it has items that will never be reclassified out of AOCI and report those items separately.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

6. Does the entity have equity method investees/associates?	Yes	No
	☐	☐

US GAAP — ASC 323-10-45-1 through 45-2 and SEC Regulation S-X (Rule 5-03)	**IFRS — IAS 1.82 and IAS 1.86**
Under US GAAP, the investor's share of earnings or losses of an investee(s) should ordinarily be shown in the income statement as a single amount. (Note, however, that the investor's share of accounting changes reported in the financial statements of the investee should be classified separately in the investor's financial statements in accordance with ASC 323-10-45-2.) For entities not subject to other Articles in SEC Regulation S-X (e.g., registered investment companies, insurance companies, banks), Rule 5-03 indicates that the equity in earnings of unconsolidated subsidiaries and 50% or less owned persons should be presented below income tax expense and above income or loss from continuing operations. It does indicate however, that if justified by the circumstances, this item may be presented in a different position and a different manner.	Under IFRS, the share of the profit or loss of associates and joint ventures accounted for using the equity method is a required line item in the statement of comprehensive income (or separate income statement, i.e., as a component of profit or loss, if two statements are being presented). In general, IAS 1 indicates that an entity amends the ordering of items when this is necessary to explain the elements of financial performance.

Implications:
Earnings or losses of an equity method investee/associate are presented as a required line item under both US GAAP and IFRS. Under SEC Rules, however, it is generally presented below the income tax expense line, while under IFRS there is no specific guidance as to whether the line item is presented before or after the income tax line.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

7. Does the entity classify its expenses solely by function without additional disclosure of certain expenses by nature (e.g., depreciation and amortization expense, employee benefits expense)?	Yes ☐	No ☐

IAS 1 provides a discussion of the classification of expenses by function or nature. Function refers to the primary activities in which an entity is engaged, such as selling goods, providing services, manufacturing, advertising, marketing, business development or administration. Nature refers to the economic characteristics or attributes that distinguish assets, liabilities, income and expense items that do not respond equally to similar economic events. Examples of an analysis by nature include separating revenues into wholesale and retail revenues or separating total cost of sales into materials, labor, transport and energy costs.

US GAAP — ASC 220-10 and SEC Regulation S-X (Rule 5-03)	**IFRS — IAS 1.99 through 105**
US GAAP does not require classification of income statement items by function or by nature. For SEC registrants not subject to other Articles in SEC Regulation S-X (e.g., registered investment companies, insurance companies, banks), Rule 5-03 requires that certain amounts be separately stated (e.g., net sales of tangible products, income from rentals, cost of tangible goods sold, expenses applicable to rental income, other operating costs and expenses, selling, general and administrative expenses).	An entity must present an analysis of expenses recognized in profit or loss using a classification based on either the nature or the function of the expenses within the entity, whichever provides information that is reliable and more relevant. Because information on the nature of expenses is useful in predicting future cash flows, additional disclosure is required when expenses are classified based on function.

Implications:
US GAAP does not require classification of income statement items by function or by nature. However, SEC registrants are required to present expenses in specific line items that are based on function (e.g., cost of sales). IFRS requires an entity to present expenses using either a classification by nature or function, whichever is reliable and more relevant, which may lead to differences in presentation. IFRS requires entities that present expenses classified by function to disclose additional information on the nature of expenses including depreciation and amortization expense and employee benefits expense, so entities that currently report expenses by function will be required to make additional disclosures of certain expenses by nature.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

IFRS 1 implications:

Entities should consider whether the systems are in place to collect relevant information on the nature of expenses for periods to be presented in their first reporting under IFRS in order to comply with the disclosure requirements discussed above, or to facilitate a change to presenting expenses by nature in the income statement, if desired.

8. Does the entity disclose changes in equity in the notes to the financial statements?	Yes ☐	No ☐

US GAAP — ASC 505-10-50-2	**IFRS — IAS 1.106**
When both financial position and results of operations are presented, disclosure of changes in the separate accounts comprising shareholders' equity (in addition to retained earnings) and of the changes in the number of shares of equity securities during at least the most recent annual fiscal period and any subsequent interim period presented is required to make the financial statements sufficiently informative. Disclosure of such changes may take the form of separate statements or may be made in the basic financial statements or notes thereto.	A statement of changes in equity is required for a complete set of financial statements. The statement must include: ► Total comprehensive income for the period showing total amounts attributable to owners of the parent and to noncontrolling interest ► For each component of equity, the effects of retrospective application/retrospective restatement recognized in accordance with IAS 8 ► For each component of equity, a reconciliation between the carrying amount at the beginning and end of the period, separately disclosing changes resulting from profit or loss, OCI and transactions with owners in their capacity as owners (showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control)

Implications:
While US GAAP does not require a statement of changes in equity, it does require that changes in each caption of shareholders' equity be presented in either a footnote or a separate statement. In contrast, IFRS requires a statement of changes in equity which presents specific line items.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

9. Are any additional line items, headings or subtotals presented by an entity because they are relevant to an understanding of the entity's financial performance?	Yes ☐	No ☐

US GAAP — various ASC Topics, SEC Regulation S-K (Item 10) and SEC Regulation S-X (Rules 5-02 and 5-03)	**IFRS — IAS 1.54 through 59 and IAS 1.77 through 86**
Various accounting standards require specific presentation of financial statement line items, but there is no comprehensive standard that addresses presentation requirements for the statement of financial position or income statement in their entirety. For public companies, SEC Regulation S-X (Rule 5-02) indicates the various line items and certain additional disclosures that, if applicable, should appear on the face of the balance sheets or related notes. Rule 5-03 provides this information for items that should appear on the face of the income statements. Additionally, SEC Regulation S-K (Item 10) defines a non-GAAP measure as a numerical measure of a company's historical or future financial performance, financial position or cash flows that excludes (includes) amounts, or is subject to adjustments that have the effect of excluding (including) amounts, that are included (excluded) in the most directly comparable measure calculated in accordance with US GAAP or IFRS. SEC Regulation S-K (Item 10) expressly prohibits non-GAAP measures in the financial statements and notes.	IAS 1 provides a list of line items that, at a minimum, must be presented in both the statement of financial position and statement of comprehensive income (or, if not a single continuous statement, a statement of profit or loss and a statement of other comprehensive income). In addition, IAS 1 requires an entity to present additional line items, headings and subtotals in each of these statements when such presentation is relevant to an understanding of either the entity's financial position or performance, respectively. If additional subtotals are presented because such presentation is relevant to an understanding of the entity's financial performance, IAS 1 has requirements on how the subtotals should be presented.

Implications:
US GAAP has no general requirement to prepare the statement of financial position and income statement in accordance with a specific layout; however, public companies must follow the detailed requirements in SEC Regulation S-X. IAS 1 does not prescribe a standard layout, but does include a list of minimum items. These minimum items are less prescriptive than the requirements in SEC Regulation S-X. While US GAAP does not address the presentation of non-GAAP financial measures, SEC Regulation S-K (Item 10) expressly prohibits non-GAAP measures in the financial statements and notes. Despite these restrictions, the SEC staff has noted that the non-GAAP measures rule was not intended to prohibit additional useful captions and subtotals that are consistent with the underlying financial reporting basis.

The SEC staff has indicated that it will evaluate the compliance of foreign private issuers with IAS 1 and challenge whether any additional line items or measures are in compliance with that standard. If a line item or measure is deemed not in compliance with IAS 1, it would be subject to the SEC's non-GAAP rules, including the provision that prohibits inclusion in the financial statements or notes prepared in accordance with US GAAP or IFRS.

SEC regulations also place limitations on the presentation of non-GAAP financial measures in other parts of filings with the SEC. When a non-GAAP measure is presented outside the financial statements, the entity must:

- Present, with equal or greater prominence, the most directly comparable financial measure calculated and presented in accordance with GAAP
- Numerically reconcile the non-GAAP financial measure, by schedule or other clearly understandable format, to the most directly comparable GAAP measure (starting with the GAAP measure)
- Disclose the reasons why management believes the non-GAAP financial measure provides useful information to investors regarding the company's financial condition and results of operations, and to the extent material, any additional purposes for which management uses the non-GAAP financial measure.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

10. Does the entity have both receivables and payables with the same counterparty and a right of setoff?	Yes ☐	No ☐

As a general principle of financial reporting, assets and liabilities are reported separately, representing either resources or obligations of the company. However, both US GAAP and IFRS provide for certain assets and liabilities to be offset (i.e., reported on a net basis on the balance sheet) when a right of setoff exists and certain other conditions are met.

A right of setoff is a debtor's legal right, by contract or otherwise, to settle or otherwise eliminate all or a portion of an amount due to a creditor by applying against that amount all or a portion of an amount due from the creditor.

US GAAP — ASC 210-20-45-1 through 45-17	**IFRS — IAS 32.42-50, IAS 32.AG38A through AG38F and IAS 32.AG39**
A company *may* (as a policy election) offset assets against liabilities on its balance sheet when a right of setoff exists. A right of setoff exists when: - Each of two parties owes the other determinable amounts - The reporting party has the right to set off the amount owed with the amount owed by the other party - The reporting party intends to set off	Financial assets are *required* to be offset against financial liabilities and the net amount is presented on the balance sheet when, and only when, an entity: - Currently has a legally enforceable right to set off the recognized amounts - Intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously

► The right of setoff is enforceable at law *Offsetting exceptions* US GAAP allows offsetting for some derivative and sale and repurchase (and reverse sale and repurchase) contracts even when the right of setoff is conditional, there is no intention to set off or such intention is conditional. See questions 10(a) and 10(b) for additional guidance. Additionally, US GAAP permits certain offsetting practices within the broker-dealer, construction, and depository and lending industries. See questions 10(c) and 10(d) for additional guidance.	When accounting for a transfer of a financial asset that does not qualify for derecognition, the entity must not offset the transferred asset and associated liability, even if it otherwise satisfies the offsetting criteria. IFRS does not permit any other exceptions to its offsetting requirements. AG38A though AG38D of IAS 32 clarifies the legally enforceable criterion. AG38F describes the characteristics of a gross settlement system that would meet the net settlement criterion.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

10(a). Does the entity currently offset fair value amounts related to derivative contracts subject to a master netting agreement and present a net amount on the balance sheet? Yes ☐ No ☐

A master netting agreement provides for the single net settlement of all financial instruments with a single counterparty in the event of default on, or termination of, any one contract. The accounting effect of the existence of a master netting agreement is analyzed differently under US GAAP and IFRS.

US GAAP — ASC 210-20-45 and ASC 815-10-45-1 through 45-7	**IFRS — IAS 32.42 through 50, IAS 32.AG38A through AG38F and IAS 32.AG39**
ASC 815-10-45 describes the offsetting requirements for derivative assets and liabilities, which are the same as those conditions in ASC 210-20-45-1 (see question 10), except that netting is permitted even if the reporting entity does not intend to settle net the derivative assets and liabilities in the ordinary course of business. This exception to the general offsetting requirements applies only to derivative contracts that are recognized at fair value and subject to an enforceable master netting arrangement. Similar to the offsetting guidance under ASC 210-20-45, presenting the fair value of derivative assets and liabilities on a net basis is an *election, not a requirement.* However, a reporting entity should not offset fair value amounts recognized for derivative instruments without also offsetting fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral, if any,	IFRS does not provide an exception for derivative contracts where there is no intent to settle net or simultaneously in all circumstances (i.e., during the ordinary course of business and in the event of default or bankruptcy of a party to the contract). Therefore, the mere existence of a master netting agreement is not a basis for net presentation. However, in situations where an entity can settle amounts in a manner that is equivalent to net settlement, the net settlement criterion in IAS 32.42(b) is met. Specifically, AG38F describes the characteristics of a gross settlement system that would meet the net settlement criterion.

arising from the same master netting arrangement as the derivatives.	

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

10(b). Does the entity offset amounts recognized as payables under repurchase agreements against amounts recognized as receivables under reverse repurchase agreements and present as a net amount in the balance sheet?	Yes	No
	☐	☐

In order to raise/invest short-term capital, entities (particularly financial institutions) enter into agreements for the sale/purchase of securities with the agreement to repurchase/resell the same securities from/to the same buyer/seller for an agreed-upon price on a certain day. These transactions are typically accounted for as borrowings with the securities serving as collateral.

For the party selling the security (and agreeing to repurchase it in the future) it is a repurchase agreement or repo; for the party on the other end of the transaction (purchasing the security and agreeing to sell in the future) it is a reverse repurchase agreement or reverse repo.

US GAAP — ASC 210-20-45-1 through 45-17	**IFRS — IAS 32.42 through 50, IAS 32.AG38A through AG38F and IAS 32.AG39**
Notwithstanding the “intent to settle net” criterion in ASC 210-20-45-1(c) (see question 10), an entity may, but is not required to, offset amounts recognized as payables under repos and amounts recognized as receivables under reverse repos if all of the following conditions are met: ► The repo and reverse repo agreements are executed with the same counterparty. ► The repo and reverse repo agreements have the same explicit settlement date specified at the inception of the agreement. ► The repo and reverse repo agreements are executed in accordance with a master netting arrangement. ► The securities underlying the repo and reverse repo agreements exist in book entry form and can be transferred only by means of entries in the records of the transfer system operator or securities custodian. ► The repo and reverse repo agreements will be settled on a securities transfer system that operates in the manner as described in ASC 210-20-45-14 through 45-17. Additionally, cash settlements are made	IFRS does not provide an exception for repurchase agreements where there is no intent to settle net or simultaneously in all circumstances (i.e., during the ordinary course of business and in the event of default or bankruptcy of a party to the contract). However, in situations where an entity can settle amounts in a manner that is equivalent to net settlement, the net settlement criterion in IAS 32.42(b) is met. Specifically, AG38F describes the characteristics of a gross settlement system that would meet the net settlement criterion.

under a banking arrangement that provides daylight overdraft or other intraday credit. ► The entity intends to use the same account at the clearing bank or other financial institution at the settlement date in transacting both the cash inflows resulting from the settlement of the reverse repo agreement and the cash outflows in settlement of the offsetting repo agreement.	

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

10(c). Is the entity a broker-dealer in securities that offsets payables against receivables arising from unsettled regular-way trades? Yes ☐ No ☐

The statement of financial condition of a broker-dealer registered with the SEC should reflect all regular-way trades on a trade-date basis.

Per the FASB ASC glossary, regular-way trades include the following: (a) all transactions in exchange-traded financial instruments that are expected to settle within the standard settlement cycle of that exchange (e.g., three days for US securities exchanges); and (b) all transactions in cash-market-traded financial instruments that are expected to settle within the timeframe prevalent or traditional for each specific instrument (e.g., one or two days for US government securities).

US GAAP — ASC 940-320-45-2 and ASC 940-32-45-3	**IFRS — IAS 32.42 through 50, IAS 32.AG38A through AG38F and IAS 32.AG39**
Payables and receivables arising from unsettled regular-way trades may be recorded net in an account titled net receivable (or payable) for unsettled regular-way trades. The accounting is unique to the transaction described and is available to entities that follow the specialized reporting guidance for brokers and dealers in securities. The offsetting criteria in ASC 210-20-45 and ASC 815-10-45 do not apply.	IFRS does not provide any exceptions or special application of the offsetting conditions for specific industries.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

10(d). Is the entity a bank or savings institution that offsets reciprocal account balances with other banks in the process of collection or payment?	Yes ☐	No ☐

Reciprocal balances arise when two depository institutions maintain deposit accounts with each other (i.e., when a reporting bank has both a “due from” and a “due to” balance with another depository institution).

US GAAP — ASC 942-210-45-3A	**IFRS — IAS 32.42 through 50, IAS 32.AG38A through AG38F and IAS 32.AG39**
Reciprocal account balances should be reported net if they will be offset in the process of collection or payment. Overdrafts of such accounts should be reclassified as liabilities, unless the financial institution has other accounts at the same financial institution against which such overdrafts can be offset. The accounting is unique to the arrangements described and is available to entities that follow the specialized reporting guidance for banks and savings institutions. The offsetting criteria in ASC 210-20-45 and ASC 815-10-45 do not apply.	IFRS does not provide any exceptions or special application of the offsetting conditions for specific industries.

Implications:

The US GAAP criteria and the IFRS criteria for offsetting are very similar. However, when the criteria are all met, net presentation is elective under US GAAP but mandatory under IFRS.

That difference alone would imply that net presentation under IFRS is more common. However, that is not necessarily the case because of key distinctions between US GAAP and IFRS relating to derivatives subject to master netting arrangements, certain repurchase and reverse repurchase arrangements and industry-specific offsetting guidance.

Because these exceptions do not exist in IFRS, there is notably less net presentation in IFRS balance sheets in comparison to US GAAP balance sheets. This is particularly true for companies that have large derivative portfolios comprising bilateral contracts that are not cleared through a settlement mechanism in a manner such that the outcome is, in effect, equivalent to net settlement.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

IFRS 1 implications:

Entities upon adoption will need to evaluate all financial assets and financial liabilities to determine whether the netting conditions are met. If so, net presentation of these financial assets and financial liabilities are required in the opening IFRS balance sheet. Notably however, many entities that are permitted to net and elect to net under ASC 210-20 and ASC 815-10 may find that IFRS will require a gross presentation.

11. Does the entity prepare interim financial information and have costs that benefit more than one interim period?	Yes ☐	No ☐

US GAAP — ASC 270-10-45-1, ASC 270-10-45-6, ASC 270-10-45-8 and ASC 270-10-45-9	**IFRS — IAS 34.29, IAS 34.30 and IAS 34.32**
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.	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.

Implications:
The treatment of certain costs in interim periods that are deferred or accrued under US GAAP may not qualify for deferral or accrual under IFRS. For example, under US GAAP, certain inventory cost variances (e.g., purchase price, wage rate, usage, efficiency or other variances) that are expected to be absorbed by year end should be deferred at the interim balance sheet date. However, under IFRS, it is not appropriate to defer inventory cost variances that are expected to be absorbed by year end.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

Consolidation

Similarities:

Under both US GAAP and IFRS, the underlying determination of whether entities are consolidated by a reporting entity is based on control, although differences exist in the consideration and definition of control.

Generally, under both US GAAP and IFRS, in consolidated financial statements, all entities subject to the control of the reporting entity must be consolidated (note that there are limited exceptions in both US GAAP and IFRS in certain specialized industries). Under IFRS, “group financial statements” has a similar meaning as “consolidated financial statements” under US GAAP.

In addition, the definitions of an investment company under US GAAP and IFRS are closely aligned; however, some differences exist (as discussed below). Under both US GAAP and IFRS, an investment company generally accounts for its controlled investments at fair value.

Primary US GAAP	Primary IFRS
► ASC 810, *Consolidation* ► SEC Regulation S-X (Rule 12-04), *Condensed Financial Information of Registrant* ► ASC 946, *Financial Services — Investment Companies*	► IAS 27 *Separate Financial Statements* ► IFRS 3 *Business Combinations* ► IFRS 10 *Consolidated Financial Statements* ► IFRS 12 *Disclosure of Interests in Other Entities* ► International Financial Reporting Interpretations Committee (IFRIC) 17 *Distributions of Non-cash Assets to Owners*

Standard setting activities:

In April 2022, the FASB chair added a project, *Consolidation for Business Entities*, to the FASB research agenda. This research project will explore whether a single consolidation model could be developed for business entities. Readers should monitor this project for developments.

Discussion of IFRS 1:

A first-time adopter may have consolidated an interest in another entity under US GAAP that does not meet the definition of a subsidiary under IFRS. In this case, the first-time adopter should first determine the appropriate classification of the interest under IFRS and then apply the applicable first-time adoption rules in IFRS 1.

Also, a first-time adopter may not have been consolidating an entity under US GAAP that now should be consolidated. If an entity was not consolidated previously, the reporting entity needs to identify assets and liabilities of the controlled entity as of the date of transition and adjust the carrying amount to the amount that IFRS would require in the controlled entity’s separate non-consolidated financial statements.

IFRS 1 also addresses various other aspects of consolidation and provides guidance on circumstances such as when controlled entities become a first-time adopter later than the parent as well as when a parent becomes a first-time adopter later than its controlled entities, and how a parent should account for its investments in consolidated entities when presenting separate non-consolidated financial statements upon adoption of IFRS.

In addition, IFRS 1 provides that a first-time adopter should apply the transition provision in IFRS 11 *Joint Arrangements* on the date of transition to IFRS. When changing the proportionate consolidation to the equity method, a first-time adopter tests the equity method investment for impairment as of the

date of transition, and any resulting impairment is recognized as an adjustment to retained earnings as of the date of transition.

Differences:

1. Does the reporting entity have VIEs or interests in other entities?	Yes ☐	No ☐

Under the “Variable Interest Entities” subsections in each of ASC 810-10’s sections, an entity is considered a VIE if: (1) it has an insufficient amount of equity at risk for the entity to carry on its principal operations without additional subordinated financial support provided by any of the parties, including equity holders, (2) as a group, the equity holders at risk lack the characteristics of a controlling financial interest, or (3) the entity is structured with non-substantive voting rights.

US GAAP — ASC 810-10	**IFRS — IFRS 10 and IFRS 12**
Under US GAAP, all entities in the scope of ASC 810-10’s VIE guidance are first evaluated for consolidation as potential VIEs under the “Variable Interest Entities” subsections within each of ASC 810-10’s sections. If an entity is determined to be a VIE, guidance applicable to VIEs in each of ASC 810-10’s sections is followed. Under this model, consolidation is determined based on the entity’s variable interests and not necessarily on its outstanding voting shares. Variable interests include equity investments, loans, leases, derivatives, guarantees, service and management contracts, and other interests that expose their holders to the risks and rewards of the entity. The party that has both (1) the ability to direct the activities of a VIE that most significantly impact the entity’s economic performance (power) and (2) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE (benefits) is the primary beneficiary and consolidates the VIE. The power and benefits analysis is performed qualitatively. If an entity is not determined to be a VIE or does not fall in the scope of the VIE guidance (including as a result of applying a private company accounting alternative), the entity is considered a voting interest entity and is evaluated for consolidation based on voting interests (or kick-out rights for limited partnerships and similar entities) to determine whether the reporting entity controls and therefore consolidates. Under US GAAP, in general, the majority voting interest holder of a voting interest entity (i.e., ownership of more than 50% of the outstanding voting shares of an entity) consolidates another entity. A single	Under IFRS, all entities, including structured entities, are evaluated for consolidation based on the single control model in IFRS 10. IFRS 10 states that “an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.” (Refer also to question 2, which describes the concept of potential voting rights and question 4, which describes the concept of de facto control.) IFRS 12 defines a structured entity as “an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.”

limited partner that is able to exercise substantive kick-out rights will consolidate a partnership.	

Implications:
IFRS 10 is expected to yield similar consolidation conclusions to US GAAP. However, because differences exist (e.g., de facto control, potential voting rights, guidance for related parties, private company accounting alternatives), it is possible that different consolidation conclusions may be reached under IFRS than are reached under US GAAP. Some of these differences are discussed further below.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

2. Does the reporting entity have an interest in another entity that is subject to potential voting rights?	Yes ☐	No ☐

Potential voting rights may be in the form of options, convertible instruments (debt or equity) and/or warrants. These potential voting rights may be held by the reporting entity or by other parties.

US GAAP — ASC 810-10-15-8 through 15-8A, ASC 810-10-15-10 and ASC 970-810-25-1	**IFRS — IFRS 10.B47 through B50 and IFRS 10.B22 through B24**
The determination of control is based on existing voting rights or in the case of VIEs, power and benefits as discussed in question 1. In general, potential voting rights are *not* considered in the determination of control.	When assessing control, an investor considers its potential voting rights, as well as potential voting rights held by other parties, to determine whether it has power. Potential voting rights are rights to obtain voting rights of an investee, such as those arising from convertible instruments or options, including forward contracts. Those potential voting rights are considered only if the rights are substantive. For example, the holder of potential voting rights in an investee should consider the exercise price and whether the right is currently exercisable or will become exercisable when the decisions about the relevant activities need to be made. The terms and conditions of potential voting rights are more likely to be substantive when the instrument is currently exercisable, in the money or the investor would benefit for other reasons (e.g., by realizing synergies between the investor and the investee) from the exercise or conversion of the instrument. When considering potential voting rights, an investor considers the purpose and design of the instrument, as well as the purpose and design of any other involvement the investor has with the

	investee. This includes an assessment of the various terms and conditions of the instrument as well as the investor's apparent expectations, motives and reasons for agreeing to those terms and conditions. If the investor also has voting or other decision-making rights relating to the investee's activities, the investor assesses whether those rights, in combination with potential voting rights, give the investor power. Substantive potential voting rights alone, or in combination with other rights, can give an investor the current ability to direct the relevant activities.

Implications:
Due to the difference between US GAAP and IFRS on how potential voting rights are considered in determining whether a reporting entity controls another entity, a different conclusion on consolidation may be reached.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

3. Is the reporting entity an investment company or does it have interests in investment companies?	Yes	No
	☐	☐

Venture capital organizations, mutual funds, unit trusts and similar entities are usually considered to be investment companies.

US GAAP — ASC 810-10-15-12, ASC 810-10-25-15 and ASC 946-810-45-2 through 45-3	**IFRS — IFRS 10.19 and IFRS 10.27 through 33**
An investment company in the scope of ASC 946 does not consolidate or apply ASC 805, *Business Combinations,* to an investee that is not an investment company. Instead, an investment company measures its equity investments at fair value through profit or loss. However, an exception occurs if the investment company has an investment in an operating entity that provides services to the investment company (e.g., an investment advisor or transfer agent). A parent of an investment company does not consolidate entities it controls through an investment company. Instead, a parent retains	IFRS uses the term “investment entity.” An investment entity does not consolidate its subsidiaries or apply IFRS 3 when it obtains control of another entity. Instead, an investment entity measures an investment in a subsidiary at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments*. However, if an investment entity has a subsidiary that is not an investment entity and whose main purpose and activities are providing services that relate to the investment entity's investment activities, it consolidates that subsidiary and applies the

the specialized industry accounting principles in consolidation. That is, a non-investment company parent of an investment company would retain the investment company subsidiary's fair value accounting in the parent's consolidated financial statements. US GAAP is silent on whether an investment company should consolidate an investee that is an investment company. Mixed practice exists but investment companies often consolidate wholly-owned investment companies. SEC registrants should also consider the views expressed by the SEC staff in the Division of Investment Management in October 2014.	requirements of IFRS 3 to the acquisition of any such subsidiary. A parent of an investment entity consolidates all entities that it controls, including those controlled through an investment entity subsidiary, unless the parent itself is an investment entity. That is, a non-investment entity parent of an investment entity does not get to retain the subsidiary's fair value accounting in its consolidated financial statements but should consolidate the subsidiary and all of its underlying controlled investments. Under IFRS, an entity must have at least one controlled investee to be in the scope of the investment entities guidance. However, an investment entity may still apply fair value to non-controlled investees through other IFRS guidance. For example, IAS 28 permits venture capitalists, venture capital organizations, mutual funds, unit trusts and similar entities to measure their investments at fair value. IFRS 9 also provides fair value measurement guidance for financial instruments.

Implications:

The assessment for determining whether an entity is an investment company under US GAAP is similar under IFRS, except, under IFRS, an investment company must measure and evaluate the performance of substantially all of its investments on a fair value basis and must have an exit strategy for investments without stated maturity dates. Also, under IFRS, an investment company may provide substantive investing-related services to third parties. Therefore, while the assessments are similar, these differences could result in different conclusions regarding whether an entity meets the definition of an investment company.

Another significant difference is the accounting retained by an investment company's parent. As described above, US GAAP does not prescribe different accounting depending on whether the parent is or is not an investment company. However, under IFRS, only a parent that also meets the definition of an investment entity retains its subsidiary's accounting, which generally is fair value accounting.

Identified difference?

Yes	No	Depends on policy election
☐	☐	☐

Describe:
Click here to enter text.

4. Does the reporting entity have de facto control over any non-consolidated entities?	Yes ☐	No ☐

De facto control means to be in a position to exercise control without legally having such power.

US GAAP — ASC 810-10-15-10	**IFRS — IFRS 10.B41 through B46**
The concept of de facto control does not exist under US GAAP and is not considered in assessing whether a reporting entity has a controlling financial interest in another entity. Under the voting interest model, all companies in which a reporting entity has a controlling financial interest are to be consolidated.	The concept of de facto control exists under IFRS and is considered by the reporting entity in determining the accounting policy with regard to the scope of the consolidated financial statements. Under the de facto control concept, an entity holding a noncontrolling interest may control another entity in the absence of any formal arrangements that would give it a majority of the voting rights. Two common examples of de facto control that may result in a conclusion that the reporting entity controls another entity are when other shareholdings are widely dispersed, or when a sufficient number of other shareholders regularly fail to exercise their rights as shareholders (e.g., to vote at general meetings) such that the noncontrolling interest shareholder wields the majority of votes actually cast.

Implications:
The notion of de facto control exists only under IFRS and may result in the consolidation of certain entities that are not consolidated under US GAAP.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

5. Can a gain or loss be recognized upon consolidation of an entity that is not a business?

Yes ☐ No ☐

In both US GAAP and IFRS, a business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.

An entity may reach different conclusions about whether an acquired set meets the definition of a business under US GAAP and IFRS. See question 9 in the "Business combinations" section of this publication for further details.

US GAAP — ASC 810-10-30-3 through 30-4	IFRS — IFRS 3.2(b)
If a reporting entity becomes the primary beneficiary of a VIE that is not a business, and consolidation of the VIE is required, the reporting entity initially measures and recognizes the assets (except for goodwill) and liabilities of the VIE in accordance with ASC 805. The reporting entity recognizes a gain or loss for the difference between: ► The sum of the fair value of any consideration paid, the fair value of any noncontrolling interests and the reported amount of any previously held interests ► The net amount of the VIE's identifiable assets and liabilities recognized No goodwill is recognized if the VIE is not a business.	If an entity is acquired that does not meet the definition of a business, the reporting entity should identify and recognize the individual identifiable assets acquired and liabilities assumed. The cost of the entity should be allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. No gain or loss is recognized. No goodwill is recognized upon the acquisition of an entity that is not a business.

Implications:

Upon the initial consolidation of an entity that is not a business, a gain or a loss may be required to be recognized under US GAAP while no such gain or loss would be recognized under IFRS since the entire cost of the acquisition is allocated to the individual identifiable assets acquired and liabilities assumed. This allocation under IFRS will likely result in different balance sheet and income statement amounts on the reporting entity's consolidated financial statements.

An entity may reach different conclusions about whether an acquired set meets the definition of a business under US GAAP and IFRS. See question 9 in the "Business combinations" section of this publication for further details.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

6. Do any consolidated entities apply different accounting policies from those of the reporting entity?	Yes ☐	No ☐

A reporting entity that reports under US GAAP and its consolidated entities may have different accounting policies, especially when the consolidated entity was recently acquired, the consolidated entity is a public company or the consolidated entity uses specialized industry accounting principles.

US GAAP — ASC 810-10-25-15	**IFRS — IFRS 10.B87**
The reporting entity and the consolidated entities are not required to have the same accounting policies.	The reporting entity and its consolidated entities are required to have the same accounting policies.

Implications:
Under IFRS, when the accounting policies of the reporting entity differ from those of the consolidated entities, consolidation adjustments are needed to conform the accounting policies. To make such adjustments, it is crucial that controls and procedures be in place to obtain necessary financial information accurately and timely to prepare the consolidated financial statements under uniform accounting policies.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

7. Do any consolidated entities have different reporting dates from those of the reporting entity?	Yes ☐	No ☐

A reporting entity that reports under US GAAP and its consolidated entities may not have the same reporting dates due to various circumstances. For example, as a result of different local regulatory filing requirements, a reporting entity in the US may have a 31 December year end while its consolidated subsidiary in another country (e.g., Japan) may have a 31 March year end.

US GAAP — ASC 810-10-45-12	**IFRS — IFRS 10.B92 through B93**
Under US GAAP, the reporting entity and the consolidated entities are permitted to have different year ends of up to about three months. The effects of significant events occurring between the reporting dates of the reporting entity and the controlled entities are disclosed in the financial statements.	Under IFRS, the financial statements of a parent and its consolidated subsidiaries are prepared as of the same date. When the end of the reporting period differs for the parent and its subsidiary, the subsidiary prepares (for consolidation purposes) additional financial information as of the same date as the financial statements of the parent unless it is impracticable to do so. IFRS 10 does not clarify what is meant by “impracticable” in this context but it may reasonably be assumed that the IASB intended the same meaning as in IAS 1 (i.e., that the entity cannot comply with the requirement after making every effort to do so).

	If it is determined that it is impracticable to prepare the consolidated financial statements as of the same year end and the difference between the end of the reporting period of the parent and subsidiary is three months or less, the financial statements of the subsidiary are adjusted for the effects of significant transactions and events.

Implications:

Under IFRS, different reporting dates between the reporting entity and its subsidiaries of up to three months are allowed only if it has been determined to be impracticable to prepare the consolidated financial statements as of the same date. Furthermore, even if it is determined that it is impracticable to prepare the consolidated financial statements as of the same year end, IFRS requires that adjustments (and not only the disclosures as is the case under US GAAP) be made for significant events occurring between the reporting dates of the reporting entity and the controlled entities. As a result, adequate controls and procedures should be in place to obtain quantifiable financial information to prepare the consolidated financial statements accurately and on a timely basis.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

8. Has there been a decrease in ownership interest in a subsidiary or the sale or transfer of a group of assets?

Yes ☐ No ☐

A parent's ownership interest in a subsidiary might decrease, for example, if the parent sells some of its ownership interest in its subsidiary or the subsidiary sells additional ownership interests.

A parent may sell or transfer a group of assets that constitutes a business in exchange for a noncontrolling interest in another entity.

US GAAP — ASC 810-10-40-3A through 40-5 and ASC 810-10-45-21A through 45-24	IFRS — IFRS 10.5, IFRS 10.B96 through B99A, IAS 28.28 through 31B and IFRIC 17.3 through 5
Without loss of control Transactions that result in decreases in a parent's ownership interest in a subsidiary without a loss of control are accounted for as equity transactions in the consolidated entity (i.e., no gain or loss is recognized) for either of the following: ► A subsidiary that is a business or a nonprofit activity, except for a conveyance of oil and gas mineral rights or a transfer of a good or service in a contract with a customer in the scope of ASC 606, *Revenue from Contracts with Customers*	*Without loss of control* The guidance is consistent with US GAAP, except that this guidance applies to all subsidiaries under IFRS 10, including those that are not businesses or nonprofit activities or those that involve conveyance of oil and gas mineral rights. IFRS 10 also does not address whether that guidance should be applied to transactions involving non-subsidiaries that are businesses or nonprofit activities.

► A subsidiary that is not a business or a nonprofit activity if the substance of the transaction is not addressed directly by other ASC Topics	

Loss of control
 	
In certain transactions that result in a loss of control of a subsidiary or a group of assets, any retained noncontrolling investment in the former subsidiary or group of assets is remeasured to fair value on the date control is lost. The gain or loss on remeasurement is included in income along with the gain or loss on the ownership interest sold.
 	
This accounting applies to the following transactions:
 	
► Loss of control of a subsidiary that is a business or a nonprofit activity, except for a conveyance of oil and gas mineral rights or a transfer of a good or service in a contract with a customer in the scope of ASC 606
► The derecognition of a group of assets that is a business or a nonprofit activity, except for either of the following:
  ► A conveyance of oil and gas mineral rights
  ► A transfer of a good or a service in a contract with a customer in the scope of ASC 606
► Loss of control of a subsidiary that is not a business or a nonprofit activity if the substance of the transaction is not addressed directly by other ASC Topics
	Loss of control
	
	The guidance on a loss of control of a subsidiary is consistent with US GAAP, except that this guidance applies to all subsidiaries under IFRS 10, including those that are not businesses or nonprofit activities or those that involve conveyance of oil and gas mineral rights.
	
	However, IFRS 10 does not address transactions resulting in the loss of control of non-subsidiaries that are businesses or nonprofit activities. IFRS 10 also does not address the derecognition of assets outside the loss of control of a subsidiary.
	
	In addition, if an entity has adopted *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)*[4] (the September 2014 amendments), the gain or loss resulting from the loss of control of a subsidiary that does not constitute a business in a transaction involving an associate or a joint venture that is accounted for using the equity method is recognized only to the extent of the unrelated investors' interests in that associate or joint venture. The remaining part of that gain is eliminated against the carrying amount of the investment retained in the former subsidiary.
	
	If an entity has not adopted the September 2014 amendments, refer to Chapter 7 of our International GAAP® publication for further discussion on the loss of control of a subsidiary in a transaction involving an associate or joint venture that is accounted for using the equity method.

Spinoffs	*Spinoffs* If a parent deconsolidates a subsidiary or derecognizes a group of assets through a nonreciprocal transfer to owners, such as a spinoff, the accounting guidance in IFRIC 17 applies. A pro rata spinoff of a business is accounted for at fair value.

[4] *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)* was issued by the IASB in September 2014. In December 2015, the IASB indefinitely deferred the effective date of these amendments. However, early adoption of these amendments is still available.

If a parent deconsolidates a subsidiary or derecognizes a group of assets through a nonreciprocal transfer to owners, such as a spinoff, the accounting guidance in ASC 845-10 applies. A pro rata spinoff of a business is recognized at carrying amount within equity. That is, no gain or loss is recognized.	However, IFRIC 17 does not apply to the distribution of a noncash asset (or business) that is ultimately controlled by the same party or parties before and after the distribution.

Implications:

IFRS guidance on accounting for decreases in ownership of subsidiaries generally is consistent with US GAAP. However, IFRS guidance applies to all subsidiaries, including those that are not businesses or nonprofit activities or those that involve conveyance of oil and gas mineral rights. IFRS 10 does not apply to the derecognition of a business or nonprofit activity outside the loss of control of a subsidiary. US GAAP guidance on accounting for decreases in ownership of subsidiaries (with or without the loss of control) also does not apply to a transfer of a good or a service in a contract with a customer in the scope of ASC 606, which may result in different accounting for the sale or transfer of an ownership interest in a separate entity to a customer (i.e., sale of a "corporate wrapper" or "single-asset entity") under US GAAP and IFRS. See question 11 in the "Revenue recognition" section of this publication for further details.

In addition, there are differences between the guidance in IFRS and US GAAP on how to account for the gain or loss resulting from the loss of control of a subsidiary in a transaction involving an associate or a joint venture that is accounted for using the equity method. See Chapter 7 of our International GAAP® publication for further discussion on loss of control of a subsidiary in a transaction involving an associate or joint venture that is accounted for using the equity method.

Differences also may arise in the accounting for a spinoff.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

9. Does the reporting entity present parent-only (i.e., separate or non-consolidated) financial statements?

Yes ☐ No ☐

Consolidated financial statements are generally the primary financial statements of a reporting entity under both IFRS and US GAAP. However, there may be circumstances in which an investor (parent) may choose or be required to present parent-only (i.e., separate or non-consolidated) financial information.

For example, when the transfer of assets from subsidiaries to the parent are restricted, pursuant to the SEC's Regulation S-X (Rule 5-04(c)), condensed non-consolidated financial information (Schedule I under Regulation S-X Rule 12-04) may be required with respect to the parent entity's financial position, cash flows and results of operations. Under IFRS, 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 criteria are met.

US GAAP —ASC 810-10-45-11	**IFRS — IFRS 10.4, IAS 27.9 through 10 and IAS 28.44**
Presentation of parent-only financial statements In some cases, parent-entity financial statements may be needed, in addition to consolidated	*Presentation of parent-only financial statements*

financial statements, to indicate adequately the position of bondholders and other creditors or preferred shareholders of the parent. Consolidating financial statements, in which one column is used for the parent and other columns for particular subsidiaries or groups of subsidiaries, often are an effective means of presenting the pertinent information.	A parent, other than a parent described below, presents consolidated financial statements in which it consolidates its investments in subsidiaries. A parent need not present consolidated financial statements if, and only if, all of the following are met: ► The parent is itself a wholly-owned subsidiary, or is a partially owned subsidiary of another entity, and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements
However, consolidated financial statements are the general-purpose financial statements of a parent having one or more subsidiaries; thus, parent-entity financial statements may not be issued as the primary financial statements of the reporting entity and are not a valid substitute for consolidated financial statements.	► The parent's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets) ► The parent did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market ► The ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with IFRS Unless the criteria above are met, an entity is required to present consolidated financial statements for the reporting period in which it has a subsidiary, regardless of whether it has any investments in subsidiaries at the end of the reporting period. This same principle applies to investments in associates and joint ventures.
Measurement of investments in non-consolidated financial statements When, in addition to consolidated financial statements, the reporting entity also presents separate parent company non-consolidated financial statements, investments in controlled entities are presented using the equity method.	*Measurement of investments in non-consolidated financial statements* When separate non-consolidated financial statements are prepared, investments in controlled entities that are not classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are accounted for: ► At cost ► At fair value in accordance with IFRS 9 Or ► Using the equity method in accordance with IAS 28

Implications:
Under US GAAP, the preparation of consolidated financial statements is required, with certain exceptions. Under IFRS, 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 criteria are met. Due to the different accounting methods by which the parent may account for and present its investment in controlled entities under US GAAP and IFRS, parent-only non-consolidated financial statements may result in different financial position, cash flows and results of operations. Furthermore, a parent will need to implement necessary controls and procedures to properly account for its investment in controlled entities on the cost or fair value basis, if it does not use the equity method. If investments in controlled entities are to be accounted for at fair value under IFRS, differences may exist in the measurement of fair value between US GAAP and IFRS. See the “Fair value measurements” section of this publication for further details.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

Under IFRS 1, in its separate opening IFRS non-consolidated financial statements, an entity can determine the cost of investments in subsidiaries, jointly controlled entities or associates using one of the following amounts: (1) cost determined in accordance with IAS 27, (2) at the fair value of the investment at the date of transition to IFRS or (3) the previous GAAP carrying amount of the investment at the date of transition to IFRS. This determination is to be made for each investment rather than being a policy decision.

If the entity uses the equity method to account for its investments in subsidiaries, jointly controlled entities or associates, it has the option to apply the exemption for past business combinations to the acquisition of the equity method investment. See “Discussion of IFRS 1” in the “Business combinations” section of this publication for further details.

Joint ventures and joint operations

Similarities:

Under US GAAP, a joint venture is defined as an entity whose operations and activities are jointly controlled by its equity investors and has certain other characteristics. This concept is similar to the concept of a joint venture under IFRS. Under IFRS, a joint venture is a joint arrangement conducted through a separate vehicle (e.g., a legal entity, such as a corporation or a partnership) in which two or more parties share joint control and only have rights to the net assets of the arrangement.

While US GAAP only addresses the accounting for joint ventures, IFRS addresses two types of joint arrangements: (1) joint operations and (2) joint ventures. The common characteristics shared by the two types of arrangements are that two or more investors are bound by a contractual arrangement and the contractual arrangement establishes joint control.

Joint ventures are accounted for using the equity method of accounting under both US GAAP and IFRS. Therefore, the “Equity method investments/associates” section of this publication should also be completed with this section because duplicative items have not been included in this section.

Primary US GAAP	Primary IFRS
► ASC 323, *Investments — Equity Method and Joint Ventures* ► ASC 810, *Consolidation*	► IAS 28 *Investments in Associates and Joint Ventures* ► IFRS 11 *Joint Arrangements*

Standard setting activities:

In October 2022, the FASB issued proposed ASU, *Business Combinations – Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement.* The proposed guidance would require certain joint ventures to apply a new basis of accounting upon formation by recognizing and initially measuring most of their assets and liabilities at fair value. The proposal would apply to joint ventures that meet the definition in ASC 323, except those that may be proportionately consolidated by one or more investors and those that are not-for-profit entities or collaborative arrangements in the scope of ASC 808, *Collaborative Arrangements*. The proposal would not amend the definition of a joint venture or change the accounting by the investors in a joint venture. Joint ventures formed before the effective date of any final guidance would have the option to apply it retrospectively, while those formed after the effective date would be required to apply it prospectively. Readers should monitor this project for developments.

See the discussion of standard setting activities in the “Equity method investments/associates” section of this publication for details on other FASB and IASB projects related to equity method of accounting.

Discussion of IFRS 1:

A first-time IFRS adopter may have consolidated an investment under US GAAP that does not meet the definition of a subsidiary under IFRS. For example, an investor may have been required to consolidate an entity under the “Variable Interest Entities” subsection within each of ASC’s 810-10 sections that would not be consolidated under IFRS. In this case, the first-time adopter should first determine the appropriate classification of the investment under IFRS and then apply the first-time adoption rules in IFRS 1. If such previously consolidated investments should be accounted for as a joint venture under IFRS, first-time adopters applying the business combinations exemption (see “Discussion of IFRS 1” in the “Business combinations” section of this publication for further details) should also apply that exemption to past acquisitions of investments in joint ventures. If the business

combinations exemption was not applied or the entity did not acquire the investment in the joint venture, IFRS 11 should be applied retrospectively.

If an investor adopts IFRS later than its joint venture, the investor measures the assets and liabilities of the joint venture in its consolidated financial statements at the same carrying amounts as reported in the IFRS-based financial statements of the joint venture after adjusting for consolidation and equity accounting adjustments, unifying accounting policies and for the effects of the business combination in which the entity acquired the joint venture.

Investors with global operations that have not yet adopted IFRS may be affected by this exemption, because it is likely some of their foreign joint ventures have already adopted IFRS in their financial statements. In such situations, the investor cannot revise the amounts reported at the joint venture levels. Since the joint venture has already adopted IFRS, it cannot adopt IFRS a second time. Instead, except for uniform accounting policies, consolidation and equity accounting adjustments for the effect of business combinations, the investor continues to report the balances already being reported in the financial statements of the joint venture.

In addition, IFRS 1 provides that a first-time adopter should apply the transition provision in IFRS 11 on the date of transition to IFRS. When changing from proportionate consolidation to the equity method, a first-time adopter tests the equity method investment for impairment under IAS 36 *Impairment of Assets* as of the date of transition, regardless of whether there is any indication that it may be impaired, and any resulting impairment is recognized as an adjustment to retained earnings as of the date of transition.

Differences:

1. Has the investor entered into any contractual agreements with another party or parties that may provide for joint control over an activity or an entity?	Yes ☐	No ☐

IFRS addresses the financial reporting by entities that have joint arrangements with other parties. In a joint arrangement, two or more parties are bound by a contractual arrangement, and the contractual arrangement establishes joint control over the activities of the arrangement.

Joint arrangements are established for many purposes (e.g., as a way for parties to share costs and risks, or as a way to provide the parties with access to new technology or new markets) and use different structures and legal forms. The activities of a joint arrangement may be conducted through a separate vehicle (e.g., a legal entity, such as a corporation or a partnership).

IFRS addresses two categories of joint arrangements: (1) joint operations and (2) joint ventures. In a joint operation, the parties with joint control have direct rights to assets and obligations for liabilities of the arrangement. A joint operation may or may not be conducted through a separate vehicle. Conversely, in a joint venture, the parties with joint control only have rights to the net assets of the arrangement. Joint ventures are always conducted through separate vehicles. (The concept of a joint venture under IFRS is similar to the concept of a joint venture under US GAAP).

US GAAP — ASC 323 and ASC 810-10-45-14	**IFRS — IFRS 11**
Joint control Joint control is a key characteristic of joint ventures. Based on the definition of a joint venture in ASC 323, joint control is commonly interpreted to mean that all equity investors must	*Joint control* In IFRS, joint control is defined as the contractually agreed sharing of control, which exists only when decisions about the relevant activities of the arrangement require the unanimous consent of the parties sharing control.

unanimously consent to all of the significant decisions of the entity.	
We do not believe an entity would qualify as a joint venture in US GAAP if certain parties participate in joint decision-making through a means other than equity (e.g., through rights granted via a contract) or if certain equity holders do not participate in joint control (unless those equity interests are held publicly and are not significant).	In contrast with US GAAP, an entity can qualify as a joint venture if certain parties participate in decision-making through a means other than equity or if certain equity holders participate in, but do not have joint control of, the arrangement.
In US GAAP, we generally believe the effect of potential voting rights (e.g., share call options, convertible instruments) should be excluded from the evaluation of joint control until they are exercised. In rare circumstances, the effect of potential voting rights may need to be considered, if certain terms and conditions exist that could affect the evaluation of joint control (e.g., a fixed-price call option that is deep in the money and exercisable at any time with little economic outlay required).	Under IFRS, the effect of potential voting rights generally should be excluded when evaluating joint control, unless the rights are substantive. The following factors are considered to determine whether potential voting rights are substantive (and are consistent with the factors described in Appendix B of IFRS 10): ► Exercise or conversion price ► Financial ability of the holder to exercise the potential right ► Timing and length of exercise/conversion period (i.e., whether the rights are currently exercisable or convertible)
Purpose and design of the entity For an entity to be a joint venture under US GAAP, the entity's purpose should be to share the risks and rewards in developing a new market, product or technology; to combine complementary technological knowledge; or to pool resources in developing production or other facilities.	*Purpose and design of the entity* IFRS does not contain guidance on the purpose of a joint arrangement.
Joint ventures Under US GAAP, joint ventures generally are accounted for using the equity method. (Refer also to the "Equity method investments/ associates" section of this publication, which discusses differences between US GAAP and IFRS related to the application of the equity method, including use of the fair value option (FVO)). Proportionate consolidation is permitted only for the following: (1) investments in certain unincorporated legal entities in the extractive or construction industry that otherwise would be accounted for under the equity method of accounting (i.e., a controlling interest does not exist), and (2) ownership of an undivided interest when each owner is entitled only to its pro rata	*Joint ventures* Under IFRS, joint ventures generally are accounted for using the equity method. (Refer also to the "Equity method investments/ associates" section of this publication which discusses differences between US GAAP and IFRS related to the application of the equity method, including use of the FVO). Proportionate consolidation is not permitted under IFRS to account for interests in joint ventures.

share of income and expenses and is proportionately liable for its share of each liability (unless the undivided interest is in real property that is subject to joint control by the owners).	

Joint operations US GAAP does not have a concept of joint operations, as defined in IFRS. The accounting in US GAAP for interests in joint operations would depend on whether those arrangements are conducted through separate legal entities. Joint operations conducted through separate legal entities would first need to be evaluated to determine if one of the joint operators is required to consolidate the entity under the consolidation guidance in ASC 810 (beginning with the VIE model). If consolidation is not required, the interest in the entity may be accounted for as an equity method investment (and possibly a joint venture) under ASC 323. Other US GAAP may also apply. A joint operation that is conducted outside of a legal entity may be similar to a collaborative arrangement, as defined under ASC 808. ASC 808 does not provide guidance on the recognition or measurement for collaborative arrangements but does address presentation and disclosures. Proportionate consolidation is permitted only for the following: (1) investments in certain unincorporated legal entities in the extractive or construction industry that otherwise would be accounted for under the equity method of accounting (i.e., a controlling interest does not exist), and (2) ownership of an undivided interest when each owner is entitled only to its pro rata share of income and expenses and is proportionately liable for its share of each liability (unless the undivided interest is in real property that is subject to joint control by the owners). *Proportionate consolidation* Under proportionate consolidation, the investor presents its proportionate share of the investee's revenues and expenses in each major revenue and expense caption of the investor's income statement. Also, the investor may present its proportionate share of the investee's assets and liabilities separately in each major asset and liability caption of the investor's balance sheet.	*Joint operations* An investor that holds an interest in a joint operation is required to reflect in its financial statements (1) its assets, including its share of jointly held assets; (2) its liabilities, including its share of jointly incurred liabilities; (3) its revenue from the sale of its share of the output arising from the joint operation; (4) its share of the revenue from the sale of the output by the joint operation; and (5) its expenses, including its share of jointly incurred expenses. A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses. *Proportionate consolidation* The accounting for joint operations is not the same as proportionate consolidation. In a joint operation, the investor's rights and obligations to the operation's assets, liabilities, revenues and expenses form the basis for the accounting. These rights and obligations could differ from the investor's percentage ownership interest in the joint operation as a whole (which is the basis used for proportionate consolidation).

Implications:
Under IFRS, entities will need to identify whether they hold interests that would qualify as interests in joint arrangements and, if yes, carefully consider the structure of the joint arrangement, the rights and obligations of the parties, the contractual terms, and other facts and circumstances to determine whether it is a joint venture or a joint operation. Under US GAAP, an entity will need to identify whether an entity is a joint venture that would qualify to be accounted for using proportionate consolidation.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

Equity method investments/associates

Similarities:

Under both US GAAP and IFRS, the equity method of accounting is applied to equity interests in entities over which the investor has significant influence (i.e., the equity method investee or associate). IFRS defines significant influence as “the power to participate in the financial and operating policy decisions of the investee but not control over those policies.” The existence of significant influence by an investor over an investee is usually evidenced by one or more of the following: representation on the board or equivalent governing body; participation in policy-making processes, including dividend policy; material transactions between the investor and investee; interchange of management personnel; and provision of essential technical information. This is similar under US GAAP. Under US GAAP and IFRS, in general, there is a rebuttable presumption that a 20% or more voting interest results in significant influence.

Under both US GAAP and IFRS, investments accounted for under the equity method are generally initially recognized at cost. After the date of acquisition, the carrying amount of the investment is increased or decreased by the investor’s share of profit or loss of the investee, including basis differences as applicable.

Primary US GAAP	Primary IFRS
► ASC 323, *Investments — Equity Method and Joint Ventures* ► ASC 825, *Financial Instruments* ► ASC 946, *Financial Services — Investment Companies* ► ASC 810, *Consolidation* ► ASC 321, *Investments — Equity Securities* ► ASC 845, *Nonmonetary Transactions* ► ASC 272, *Limited Liability Entities* ► ASC 970, *Real Estate* ► SEC Regulation S-X (Rule 12-04), *Condensed Financial Information of Registrant*	► IAS 28 *Investments in Associates and Joint Ventures* ► IAS 36 *Impairment of Assets* ► IFRS 9 *Financial Instruments* ► IFRS 10 *Consolidated Financial Statements* ► IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* ► IAS 27 *Separate Financial Statements*

Standard setting activities:

The IASB has an equity method research project. The objective of the project is to assess whether application problems with the equity method can be addressed in consolidated and individual financial statements by identifying and explaining the principles of IAS 28. The scope of the project currently includes application questions in the following areas:

- Increases and decreases in an investor’s interest without a change in significant influence
- Recognition of losses
- Transactions between investor and associate
- Transactions between two associates
- Share of other changes in net assets
- Impairment
- Initial recognition

- Contingent consideration

Readers should monitor this project for developments.

In January 2020, the FASB issued ASU 2020-01, *Investments — Equity Securities (Topic 321), Investments — Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815.* This guidance clarifies that an entity that applies the measurement alternative in ASC 321 must consider all observable transactions, including those that require it to apply or discontinue the equity method of accounting under ASC 323. ASU 2020-01 is effective for public business entities (PBEs) for annual periods beginning after 15 December 2020 and interim periods therein. For all other entities, it is effective for annual periods beginning after 15 December 2021 and interim periods therein. Question 6 discusses adoption of this ASU.

Discussion of IFRS 1:

A first-time IFRS adopter may have consolidated an investment under its previous GAAP that does not meet the definition of a subsidiary under IFRS. In this case, the first-time adopter should first determine the appropriate classification of the investment under IFRS and then apply the first-time adoption rules in IFRS 1. If such previously consolidated investments should be accounted for as an associate under IFRS, first-time adopters applying the business combinations exemption (see "Discussion of IFRS 1" in the "Business combinations" section of this publication for further details) should also apply that exemption to past acquisitions of investments in associates. If the business combinations exemption was not applied, or the entity did not acquire the investment in the associate, IAS 28 should be applied retrospectively.

If an investor adopts IFRS later than its associate, the investor measures the assets and liabilities of the associate in its consolidated financial statements at the same carrying amounts as reported in the IFRS-based financial statements of the associate, after adjusting for consolidation and equity accounting adjustments, unifying accounting policies and for the effects of the business combination in which the entity acquired the associate.

Investors with global operations that have not yet adopted IFRS may be affected by this exemption, as it is likely some of their foreign associates have already adopted IFRS in their financial statements. In such situations, the investor cannot revise the amounts reported at the associate levels. Since the associate has already converted to IFRS, it cannot convert to IFRS a second time. Instead, except for uniform accounting policies, consolidation, and equity accounting adjustments for the effect of business combinations, the investor continues to report the balances already being reported in the financial statements of the associate.

Differences:

1. Does the investor hold an equity interest in an investee that is a corporation?	**Yes** ☐	**No** ☐

Equity interests may be in the form of common or preferred shares.

US GAAP— ASC 323-10-15-3 and ASC 323-10-15-13 through 15-15	**IFRS — IAS 28.2**
The scope of the equity method includes all interests in common stock and in substance common stock. It is not applied to interests in preferred stock, unless the preferred stock meets the criteria to be considered "in substance" common stock.	The equity method is applied to all equity interests in which the investor has the ability to exercise significant influence, regardless of whether that interest is common stock or preferred stock.

Implications:
Because of the differences in scope, there may be situations in which the equity method is applied under IFRS but not under US GAAP or vice versa. Each case would be analyzed based on its facts and circumstances.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

2. Does the investor have investments in limited partnerships, limited liability companies, trusts or similar entities? Yes ☐ No ☐

A limited partnership involves two or more partners that unite to conduct a business jointly and for which partners are generally liable only to the extent of their investment in the limited partnership.

A limited liability company (LLC) has characteristics of both a corporation and a partnership but is dissimilar from both in certain respects. An LLC is a business entity that offers limited liability protection and pass-through taxation. In general, the members (i.e., owners) may participate in the management of an LLC.

US GAAP — ASC 323-30-35-3, ASC 323-30-S99-1 and ASC 970-323-25-6	**IFRS — IAS 28.5**
The SEC staff expressed its position in ASC 323-30-S99-1 that investments in all limited partnerships should be accounted for pursuant to ASC 970-323-25-6, which requires the use of the equity method unless the investor's interest may be "so minor that the limited partner may have virtually no influence over partnership operating and financial policies." The SEC staff views investments of more than 3% to 5% to be more than minor and expects that the equity method be applied to such limited partnership investments. Pursuant to ASC 323-30-35-3, an investment in an LLC that maintains a "specific ownership account" for each investor — similar to a partnership capital account structure — should be viewed as similar to an investment in a limited partnership for purposes of determining whether a noncontrolling investment in an LLC should be accounted for using the equity method. Therefore, the 3% to 5% presumption also applies to such LLCs. This guidance should also be applied to trusts and similar entities.	Investments in associates over which the investor has significant influence are generally accounted for using the equity method. The determination of significant influence through investments in limited partnerships, LLCs, trusts and similar entities is made using the same general principle of significant influence that is used for all other investments.

Implications:
Because of the US GAAP specific rules for investments in limited partnerships and LLCs, there may be situations in which the equity method is applied under US GAAP but not under IFRS. However, there may be cases in which a 3% to 5% interest in a limited partnership or an LLC also results in significant influence under IFRS, even though no specific presumption to that effect exists under IFRS. Each case would be analyzed based on its facts and circumstances.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

3. Does the investor hold currently exercisable potential voting rights in investees or are such rights held by others?	Yes	No
	☐	☐

Potential voting rights may be in the form of options, convertible instruments (such as convertible preferred equity and debt) or warrants.

US GAAP — ASC 323-10-15-9	**IFRS — IAS 28.7 through 8**
Potential voting rights that may become available to holders of securities of an investee are generally disregarded in determining significant influence.	An investor may own share warrants, share call options, debt or equity instruments that are convertible into ordinary shares, or other similar instruments that have the potential, if exercised or converted, to give the investor additional voting power or reduce another party's voting power over another entity. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by others, are considered when assessing whether an investor has significant influence. Potential voting rights that cannot be exercised or converted until a future date or until the occurrence of a future event are not considered currently exercisable or currently convertible. In assessing whether potential voting rights contribute to significant influence, IAS 28 requires the investor to examine all facts and circumstances (including the terms of exercise of the potential voting rights and any other contractual arrangements whether considered individually or in combination) that affect potential voting rights. However, the intention of management and the financial ability to exercise or convert the potential voting rights is not considered in the assessment.

Implications:
Due to the difference between US GAAP and IFRS on how potential voting rights are considered in determining whether an investor has significant influence over the investee, a different conclusion may be reached on the application of equity method accounting.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

4. Does the investor have "held for sale" equity method investments/associates? Yes ☐ No ☐

Under IFRS, an entity should classify a noncurrent asset (including an investment in an associate) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

US GAAP — ASC 323-10-35-36	**IFRS — IAS 28.20 through 21, IFRS 5.8 and IFRS 5.15**
The investor applies equity method accounting until significant influence is lost.	The investor normally applies equity method accounting until significant influence is lost. However, the investor does not apply equity method accounting to investments in associates that qualify as "held for sale." For an asset to be classified as held for sale, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. IFRS 5.8 describes the criteria for determining whether a sale is highly probable. The investor measures a "held for sale" equity method investment at the lower of its: ► Fair value less costs to sell Or ► Carrying amount as of the date the investment is classified as held for sale

Implications:
Since application of equity method accounting is precluded when an investment in an investee/associate meets the definition of "held for sale" under IFRS, certain investments that are accounted for using the equity method under US GAAP may not qualify for equity method accounting under IFRS. In such circumstances, the carrying amount of investments in investees/associates may need to be adjusted to reflect the lower of (1) the fair value less costs to sell or (2) the carrying amount, as determined under IFRS.

If the investor measures a “held for sale” equity method investment at fair value (less costs to sell), it is important to note that differences may exist in the measurement of fair value between US GAAP and IFRS. See the “Fair value measurements” section of this publication for further details.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

5. Does the investor have any equity method investments/associates for which the fair value option has been selected?	Yes ☐	No ☐

ASC 825-10 permits entities to choose to measure many financial instruments and certain other items at fair value when certain specific events occur. Equity method investments are one of the items to which entities may choose to apply ASC 825-10.

US GAAP — ASC 825-10-15-4, ASC 825-10-25-7 and ASC 946-323-45-1	**IFRS — IAS 28.1 and IAS 28.18**
ASC 825-10-15-4 gives all entities the option to account for an equity method investment at fair value with subsequent changes in fair value reported in earnings, instead of using the equity method. If the FVO is applied to an investment that would otherwise be accounted for under the equity method, ASC 825 requires that the FVO be applied to all of the investor’s eligible interests in that investee (e.g., equity and debt, including guarantees). For those equity method investments for which the investor does not elect to use the FVO, the equity method of accounting is required. Investments held by investment companies generally are also accounted for at fair value with subsequent changes in fair value reported in earnings, instead of using the equity method.	The FVO is not available to all investors to account for their investments in associates. IAS 28 generally requires investors to use the equity method of accounting for their investments in associates in their consolidated financial statements (see IAS 27 for accounting in separate financial statements). However, investments in associates held by venture capital organizations, or mutual funds, unit trusts and similar entities including investment-linked insurance funds, are exempt from the requirement to use the equity method and the investor may elect to measure investments in those associates and joint ventures at fair value through profit and loss in accordance with IFRS 9.

Implications:

Since under US GAAP all investors have an option to account for an equity method investment at fair value through profit and loss instead of using the equity method, and such an option is only available to certain entities under IFRS, the investor’s industry may affect the investor’s ability to account for an equity method investment at fair value. As a result, the carrying amount and the related operating results relating to such investments may be different between US GAAP and IFRS.

For entities that qualify and choose to use fair value under both US GAAP and IFRS, differences may exist in the measurement of fair value between US GAAP and IFRS. See the “Fair value measurements” section of this publication for further details.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

6. Does the investor have an equity method investment/associate that it initially accounted for as a financial asset but later switched to using the equity method (e.g., due to a subsequent acquisition of an additional interest)?	Yes ☐	No ☐

An investment in an investee that was previously accounted for as a financial asset may later require the use of the equity method due to obtaining significant influence. For example, an investor may obtain significant influence as a result of an increase in the level of ownership through various means, such as an acquisition of additional voting stock by the investor, acquisition or retirement of voting stock by the investee, or other changes in facts or circumstances. When an investment qualifies for use of the equity method, the investor should adopt the equity method of accounting.

US GAAP — ASC 323-10-35-33	**IFRS — IAS 28**
The investor applies the equity method prospectively from the date the investment qualifies for the equity method. The investor adds the current basis of the existing investment to the cost of the additional investment to determine the initial cost basis of the equity method investment. Entities generally will measure equity investments in its scope at fair value and will recognize any changes in fair value in net income. For equity investments with no readily determinable fair value that are not eligible for the ASC 820, *Fair Value Measurement*, net asset value (NAV) practical expedient, a measurement alternative can be elected. Under this alternative, entities will measure these investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer (i.e., an observable transaction). After adopting ASU 2020-01, if a transaction occurs that results in the investment being accounted for as an equity method investment, the entity determines whether the transaction represents an observable transaction. If it is, the entity must remeasure the previously held investment to fair value in accordance with ASC 820 and add the remeasured amount to the	The investor applies the equity method prospectively from the date the investment qualifies for the equity method. However, IAS 28 is unclear on how an investor should measure existing investments that were initially accounted for as financial assets but subsequently become an associate that should be accounted for under the equity method. Consequently, there may be more than one acceptable alternative.

cost of the additional investment to determine the initial cost basis of the equity method investment.[5]	

Implications:

When facts and circumstances change resulting in an investor obtaining significant influence, the carrying amount and the operating results relating to the investment may be different between IFRS and US GAAP.

This difference is because US GAAP requires adding the current basis (refer also to the "Recognition and measurement" section of this publication, which discusses differences between US GAAP and IFRS related to the measurement of financial assets) of the existing investment — remeasured in accordance with ASC 321, as applicable, immediately before adopting the equity method of accounting — to the cost of the new investment to determine the cost basis of the equity method investment. Under IFRS, various options are used in practice.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

7. Are there disposals (e.g., partial, deemed) of equity method investments/associates that result in loss of significant influence?

Yes ☐ No ☐

An investor may have a partial or deemed disposal of an investment in an investee/associate resulting from various circumstances, such as from sale of a portion of an investment by the investor, sale of additional stock by an investee/associate or other transactions. This partial or deemed disposal may result in the loss of significant influence.

An investor should discontinue applying the equity method once it no longer has significant influence.

[5] We believe this approach also should be used before the adoption of ASU 2020-01.

US GAAP — ASC 323-10-35-35 through 35-36 and ASC 323-10-40-1	IFRS — IAS 28.22 through 24
If significant influence is lost, a gain or loss is recognized for the proportion of the investment sold. The gain or loss on disposal is the difference between the proceeds on disposal and the proportionate share of the carrying value sold. The retained interest in the investee is initially measured at its proportionate carrying amount. The retained interest is subsequently accounted for in accordance with other GAAP. If the retained investment is in the scope of ASC 321, the investor remeasures the retained investment under that guidance, as applicable.	If an investor loses significant influence over an associate, the investor recognizes a gain or loss on its entire investment. The gain or loss is computed as the difference between: ► The fair value of any retained investment and any proceeds from disposing of the partial interest in the associate ► The carrying amount of the investment on the date that significant influence is lost Any retained interest in the investee is recorded at fair value.

Implications:
When an investor ceases to have significant influence over the investee/associate, the carrying amount of the retained interest and the gain or loss relating to such investments may be different between IFRS and US GAAP. This is because IFRS requires the retained interest to be initially measured at fair value and the gain or loss to be calculated not only on the portion sold but also on the retained interest in the investment. Under US GAAP, the retained interest in the investee is initially measured at its proportionate carrying amount, then it is accounted for in accordance with other GAAP. Depending on the classification, the accounting for the retained interest may be the same. In determining the fair value of any retained investment that is not traded in a public market, differences may exist in the measurement of fair value between US GAAP and IFRS. See the "Fair value measurements" section of this publication for further details.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

8. Has there been an impairment in equity method investments/associates? Yes ☐ No ☐

Under both US GAAP and IFRS, equity method investments/associates are required to be evaluated for impairment.

US GAAP — ASC 323-10-35-32 through 35-32A	IFRS — IAS 28.40 through 43 and IAS 36.110
Under US GAAP, a current fair value of an equity method investment that is less than its carrying amount may indicate that the carrying amount of the investment may not be recoverable. All factors should be evaluated, including the quoted market price declining below the carrying amount, the existence of operating losses and the inability of the investee to sustain any earnings. However, an investor must evaluate	Under IFRS, after application of the equity method, the investor applies the impairment guidance in IAS 28 to determine whether to recognize any impairment loss in relation to its net investment, which includes any long-term interests in an associate (after the guidance in IFRS 9 is applied to measure them). Specifically, the investor recognizes an impairment loss if, and only if, there is "objective evidence" that one

whether the impairment is other-than-temporary. The investor should consider the length of time and the extent to which the fair value has been less than the carrying amount, the financial condition of the investee, and the intent and ability of the holder to retain its investment for a sufficient period to recover its investment in making that conclusion. When an other-than-temporary impairment (OTTI) exists, it is measured as the excess of the investment's carrying amount over its fair value. In determining whether OTTIs exist, the investor should not separately test an investee's underlying assets for impairment. An equity method investor recognizes its share of any impairment charges recorded by an investee and considers the effect, if any, of the impairment on the investor's basis difference in the assets giving rise to the investee's impairment charge. That is, an equity method investor may need to increase or decrease its pro rata share of an investee's impairment charge as a result of the investor's basis differences. OTTIs recognized are not reversed in future periods.	or more events occurring after the initial recognition of the asset ("a loss event") has had an impact on the estimated future cash flows of the net investment in the associate that can be reliably estimated. If it is necessary to record an impairment (i.e., a loss event (or events) has occurred), the impairment loss is measured in accordance with IAS 36. That is, the impairment of an investment in an associate is computed as the excess of the investment's carrying amount over the recoverable amount (i.e., higher of its (1) value in use or (2) fair value less costs to sell). In determining whether an impairment exists, the investor should not separately test an investee's underlying assets for impairment. An equity method investor recognizes its share of any impairment charges recorded by an associate and considers the effect, if any, of the impairment on the investor's basis difference in the assets giving rise to the associate's impairment charge. That is, an equity method investor may need to increase or decrease its pro rata share of an associate's impairment charge as a result of the investor's basis differences. Impairment losses previously recorded are reversed in future periods if the impairment conditions no longer exist.

Implications:

Since US GAAP and IFRS differ in impairment testing models for equity method investments and in subsequent accounting for impairments previously taken, the carrying amount and the operating results relating to equity method investments that are impaired may be different between IFRS and US GAAP.

In addition, when measuring an impairment, US GAAP requires the equity method investment to be measured at fair value, whereas IFRS requires the investment to be measured at the higher of: (1) its value in use and (2) fair value less costs to sell. Therefore, even if "fair value less costs to sell" is used under IFRS, differences will generally result from the inclusion of "costs to sell" in determining the impairment loss under IFRS, as compared to US GAAP.

In determining fair value of an equity method investment for an impairment test, differences may exist in the measurement of fair value between US GAAP and IFRS. See the "Fair value measurements" section of this publication for further details.

Identified difference?

Yes	No	Depends on policy election
☐	☐	☐

Describe:
Click here to enter text.

9. Have the equity method investees/associates experienced losses in excess of the investor's interest?	Yes ☐	No ☐

In general, an investment made by an investor constitutes the investor's interest in the equity method investee/associate. Under certain circumstances, an investor's share of losses of an investee may equal or exceed the carrying amount of an investment accounted for by the equity method plus advances made by the investor.

US GAAP — ASC 323-10-35-19 through 35-22 and ASC 323-10-35-24	**IFRS — IAS 28.14A and IAS 28.38 through 39**
The investor ordinarily should discontinue applying the equity method when the investment (and net advances) is reduced to zero and should not provide for additional losses unless the investor has guaranteed obligations of the investee or is otherwise committed to provide further financial support for the investee. The investor is required to allocate its share of the investee's losses to other investments in the investee before applying the guidance in ASC 310, *Receivables*, ASC 320, *Investments – Debt Securities*, or ASC 321 to the other investments, as applicable. If the investee subsequently reports net income, the investor should resume applying the equity method only after its share of that net income equals the share of net losses not recognized during the period the equity method was suspended. However, an investor should record additional losses when the imminent return to profitable operations by an investee appears to be assured. This would be the case even if the investor has not guaranteed the obligations of the investee or otherwise committed to provide further financial support to the investee. For example, a material, nonrecurring loss of an isolated nature may reduce an investment below zero even though the underlying profitable operating pattern of an investee is unimpaired.	The investor should generally discontinue loss recognition when its net investment is reduced to zero even if the associate's future profitability appears imminent and assured (i.e., even if it is likely that the investor will be able to recover the losses recognized in excess of the investor's interest) so long as the investor has not incurred legal or constructive obligations or made payments on behalf of the associate. The investor is required to apply IFRS 9 to long-term interests (a component of its net investment) in the investee before it allocates its share of the investee's losses to those interests. If the investee subsequently reports net income, the investor should resume applying the equity method only after its share of that net income equals the share of net losses not recognized during the period the equity method was suspended.

Implications:
Under US GAAP and IFRS, loss recognition may be discontinued at different dates. For example, this may occur if an investor has guaranteed obligations of the investee, or provided other commitments to provide further financial support for the investee, and these are not considered "legal or constructive obligations" or "payments" under IFRS. Loss recognition may also be discontinued at different dates if the imminent return to profitable operations by an investee appears to be assured. When loss recognition is discontinued at different dates, the carrying amount and the operating results relating to equity method investments may be different between US GAAP and IFRS. It is

possible that an investor would recognize higher losses on its equity method investment under US GAAP than under IFRS.

In addition, the sequence in which the investor's share of losses are allocated to other interests it holds in the investee may cause the carrying amount and the operating results relating to equity method investments to differ under US GAAP and IFRS.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

10. Do any equity method investees/associates apply different accounting policies from those of the investor? Yes ☐ No ☐

The investor and the equity method investees/associates may not have the same accounting policies within their respective accounting framework, especially when the equity method investees/associates are public companies, or the equity method investees/associates have specialized industry accounting principles.

US GAAP — ASC 323-10-25-7	**IFRS — IAS 28.36**
US GAAP generally does not permit the investor to conform the accounting policies of its equity method investees (although they should also apply US GAAP).	Under IFRS, the accounting policies of the equity method investees/associates must be the same as those of the investor.

Implications:

Unlike IFRS, US GAAP generally does not permit the investor to conform the accounting policies of its equity method investees to those of the investor (although they should also apply US GAAP). Under IFRS, if the investor and the equity method associate do not apply the same IFRS accounting policies in their respective financial statements, adjustments to the financial statements of the investee to conform the accounting policies will be necessary. In such situations, it is crucial that controls and procedures be in place to obtain necessary financial information accurately and timely to prepare the equity method investee/associate's financial statements under accounting policies that are uniform with those of the investor. Because an investor does not control the entity but rather has only significant influence, requiring similar accounting policies may prove much more difficult to apply under the equity method than under consolidation.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

11. Do any equity method investees/associates have different reporting dates from that of the investor?

Yes ☐ No ☐

The investor and the equity method investee/associate may not have the same reporting dates due to various circumstances. For example, as a result of different local regulatory filing requirements, an investor in the US may have a 31 December year end while its equity method investee/associate in Japan may have a 31 March year end.

US GAAP — ASC 323-10-35-6 and ASC 810-10-45-12	IFRS — IAS 28.33 through 34
Under US GAAP, the investor and the equity method investee are permitted to have different year ends of up to three months. The effects of significant events occurring between the reporting dates of the investor and the equity method investee are disclosed in the financial statements.	Under IFRS, the financial statements of an investor and its equity method associate are prepared as of the same date. When the end of the reporting period differs for the investor and the equity method associate, the equity method associate prepares (for the use of the investor) the financial statements as of the same date as the financial statements of the parent unless it is impracticable to do so. When it is impracticable to prepare financial statements as of the same date, the difference between the end of the reporting period of the parent and the equity method associate cannot exceed three months in any circumstance. When there are different reporting dates, the financial statements of the equity method associate are required to be adjusted for the effects of significant transactions or events

Implications:

Under US GAAP, the investor and the equity method investee are permitted to have different year ends of up to three months. However, under IFRS, different reporting dates of up to three months are allowed only if it is impracticable to prepare the equity method associate's financial statements as of the same date. If it is determined that it is impracticable to prepare the equity method investee/associate's financial statements as of the same date, IFRS requires that adjustments (and not only disclosures as is the case under US GAAP) be made for significant events occurring between the reporting dates of the investor and the equity method investee/associate. As a result, adequate controls and procedures should be in place to monitor and obtain quantifiable financial information to prepare the equity method investee/associate's financial statements accurately and on a timely basis.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

12. Does the investor present its parent-only (i.e., separate or non-consolidated) financial statements?

Yes ☐ No ☐

Consolidated financial statements are generally the primary financial statements of a reporting entity under both IFRS and US GAAP. However, there may be circumstances in which an investor (parent) may choose or be required to present parent-only (i.e., separate or non-consolidated) financial information. See question 9 in the "Consolidation" section of this publication for additional considerations.

For example, when the transfer of assets from subsidiaries to the parent is restricted, pursuant to the SEC's Regulation S-X (Rule 5-04(c)), condensed non-consolidated financial information (Schedule I under Regulation S-X Rule 12-04) may be required with respect to the parent's financial position, cash flows and results of operations.

US GAAP —	**IFRS — IAS 28.44 and IAS 27.10**
When, in addition to consolidated financial statements, the investor (parent) also presents separate non-consolidated financial statements, investments in equity method investees are presented using the equity method.	When separate non-consolidated financial statements of the investor (parent) are prepared, investments in associates that are not classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5 are accounted for: ► At cost ► In accordance with IFRS 9 Or ► Using the equity method in accordance with IAS 28

Implications:

Due to the different accounting methods by which the investor (parent) may account for and present its investment in equity method investees/associates under US GAAP and IFRS, investor-only non-consolidated financial statements may result in different financial position, cash flows and results of operations. Furthermore, investors need to implement necessary controls and procedures to properly account for their investments in equity method investees/associates, if they use the cost or fair value basis under IFRS.

If investments in associates are to be accounted for at fair value under IFRS, differences may exist in the measurement of fair value between US GAAP and IFRS. See the "Fair value measurements" section of this publication for further details.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

IFRS 1 implications:

Under IFRS 1, in its separate opening IFRS non-consolidated financial statements, an entity can determine the cost of investments in subsidiaries, jointly controlled entities or associates as one of the following amounts: (1) cost determined in accordance with IAS 27, (2) fair value of the investment at the date of transition to IFRS or (3) the previous GAAP carrying amount of the investment at the date of transition to IFRS. This determination is to be made for each investment rather than being a policy decision that is applied consistently to all investments.

If the entity uses the equity method to account for its investments in subsidiaries, jointly controlled entities or associates, it has the option to apply the exemption for past business combinations to the acquisition of the equity method investment. See “Discussion of IFRS 1” in the “Business combinations” section of this publication for further details.

13. Upon acquisition of an investment in an investee/associate, did the consideration given include amounts contingent on future events?	Yes ☐	No ☐

The total cost of an investment in an equity method investee/associate may not be determinable at the acquisition date. The consideration may contain provisions that result in changes to the purchase price consideration as a result of the resolution of contingencies. An investor may promise to deliver cash, additional equity interests or other assets to other owners of the equity method investment/associate after the acquisition date, if certain specified events occur or conditions are met in the future. These contingencies frequently are based on earnings or instrument price changes over specified periods after the date of acquisition; however, they might be based on other factors (e.g., components of earnings, product development milestones, cash flow levels, the successful completion of contract negotiations). Buyers and sellers commonly use these arrangements when they cannot reach agreement on the consideration to be paid.

US GAAP — ASC 323-10-25-2A, ASC 323-10-30-2A through 30-2B and ASC 323-10-35-14A	**IFRS — IAS 28.10**
Contingent consideration arrangements related to equity method investments are accounted for in accordance with applicable GAAP. Contingent consideration is only included in the initial measurement of an equity method investment if it is required to be recognized under specific authoritative guidance other than ASC 805 (e.g., ASC 815, ASC 610-20, *Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets*). If the contingent consideration meets the definition of a derivative, it is recognized at fair value. The amount originally recognized becomes part of the cost basis in the investment acquired. Subsequent changes in the fair value of the contingent consideration are recorded in profit or loss. Payments made after the inception of the arrangement are not reflected in the cost of the investment but rather represent settlements of the derivative asset or liability.	When determining the cost of an associate, IAS 28 is not clear regarding the treatment of contingent consideration. We believe that a model similar to IFRS 3 (the business combination model) may be applied (i.e., the initial carrying amount of an investment in an associate includes the fair value of the contingent consideration arrangement). Refer to Chapter 11 of our International GAAP® publication for further discussion.

If the contingent consideration is not required to be recognized by specific authoritative guidance other than ASC 805, the contingent consideration arrangement is recognized only when the contingency is resolved and the consideration is paid or becomes payable. This amount is included in the cost basis of the investment. Subsequent changes in amount recorded are also included in the cost basis of the investment. When the initial cost of an equity method investment is less than the fair value of the net assets of the investee *and* the acquisition includes contingent consideration, a liability is recognized for the contingent consideration. The liability is measured at the lesser of the maximum amount of contingent consideration not initially recognized or the excess of the investor's share of the investee's net assets over the initial cost measurement.	

Implications:

If the consideration transferred to acquire an investment in an associate includes contingent consideration, the carrying amount may be different between IFRS and US GAAP.

If the contingent consideration is recorded at fair value, differences may exist in the measurement of fair value between US GAAP and IFRS. See the "Fair value measurements" section of this publication for further details.

Identified difference?

Yes	No	Depends on policy election
☐	☐	☐

Describe:
Click here to enter text.

14. Has the investor transferred any assets to an equity method investee/associate or joint venture?

Yes	No
☐	☐

At or following the acquisition of an equity method investment in an investee/associate (or formation of a joint venture), an investor may transfer a nonmonetary asset to the investee or joint venture in exchange for an interest in the investee/associate or joint venture.

Nonmonetary assets and liabilities are generally defined as assets and liabilities whose amounts are not fixed in terms of units of currency by contract or otherwise. Examples of nonmonetary assets include property, plant and equipment (PP&E) and intangible assets.

Upstream transactions are sales of assets from an associate to the investor. Downstream transactions are sales or contributions of assets from the investor to its associate. The elimination of gains and losses associated with transfers of assets between investors and investees may differ based on whether the transfer is an upstream or downstream transaction.

US GAAP — ASC 323-10-30-2, ASC 323-10-35-7 through 35-12, ASC 810-10-40-3A through 40-5 and ASC 845-10	IFRS — IFRS 10.25 through 26, IAS 28.28 and IAS 28.30 through 31
Intra-entity profits and losses are eliminated when the other party is considered a customer (i.e., the item sold is an output of the seller's ordinary activities) until they are realized in transactions with third parties. When an investor transfers nonmonetary assets to an investee (that is not a business and not a sale to a customer), the transfer may be in the scope of ASC 610-20. Under ASC 610-20, an entity that transfers a nonfinancial asset to a noncustomer first determines whether control has transferred under ASC 810 and ASC 606. The guidance requires the seller to recognize a full gain or loss (i.e., the difference between the consideration received and the carrying amount of the asset sold) when the derecognition criteria are met. As a result, any profit on downstream transfers of nonmonetary assets to investees in the scope of ASC 610-20 would not be eliminated by the investor.	Gains and losses resulting from downstream transactions between an investor and its associate or joint venture are recognized only to the extent of the equity interests of other unrelated investors in the associate or joint venture until they are realized in transactions with third parties. The investor's share in the associate's or joint venture's gains or losses resulting from these transactions is eliminated. The accounting is the same when the consideration received is equity in the entity. That is, in accordance with IAS 28, an investor recognizes a partial gain/loss (to the extent of the equity interests of the other unrelated investors) on contributions of nonmonetary assets that do not constitute a business to an associate or joint venture in exchange for an interest in that associate or joint venture, except when the transaction lacks commercial substance. For guidance on accounting for the loss of control of a subsidiary in a transaction involving an associate or joint venture that is accounted for using the equity method, see question 8 in the "Consolidation" section of this publication.

Implications:
As a result of the different methods under which the investor may account for transfers of nonmonetary assets that are not an output of the entity's ordinary activities and do not constitute a business to equity method investees/associates or joint ventures under US GAAP and IFRS, there may be a difference with respect to the gain or loss recognized at the time of the transfer and the carrying amount of the investment in the investee/associate.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

15. At the date the equity method investment was obtained, was the fair value of consideration transferred less than the investor's share of the fair value of the identifiable net assets of the investee?

Yes ☐ No ☐

In rare circumstances, the fair value of consideration transferred by an investor to acquire an equity method investment may be less than its share of the fair value of the identifiable net assets of the investee. Such a transaction results in an economic gain to the investor and is referred to as a bargain purchase.

US GAAP — ASC 323-10-35-13 and ASC 323-10-30-2	**IFRS — IAS 28.32(b)**
ASC 323 does not specifically address how to account for a bargain purchase of an equity method investment. Two approaches that are seen in practice are the bargain purchase gain approach and the negative basis difference approach. The bargain purchase gain approach is similar to that discussed for IFRS. Under the negative basis difference approach, the investor allocates the negative basis difference in the memo accounts on a relative fair value basis to all qualifying assets of the investee, including identifiable intangible assets and other long-lived assets, consistent with the approach used in an asset allocation.	Upon acquisition of an equity method investment, any excess of the investor's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included in the investor's equity method investment income in the period in which the investment is acquired. That is, an investor recognizes a bargain purchase gain.

Implications:

Because US GAAP does not specifically address how to account for a bargain purchase of an equity method investment, there are two approaches seen in practice. Therefore, if an investor accounts for a bargain purchase of an equity method investment using the negative basis difference approach, the carrying amount of the investment and the equity method income may be different between IFRS and US GAAP.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

Business combinations

Similarities:

The principal guidance for business combinations in US GAAP and IFRS is largely converged. Pursuant to ASC 805 and IFRS 3, 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, with limited exceptions. Even though the standards are substantially converged, certain differences remain.

Both ASC 805 and IFRS 3 require initial measurement of assets acquired, liabilities assumed and noncontrolling interests in a business combination, subject to certain exceptions, at fair value. There are certain differences between fair value measurements under ASC 820 and related measurement concepts in IFRS. These general differences are discussed further in the “Fair value measurements” section of this publication. All such differences must be considered when applying the fair value measurements required by ASC 805 and IFRS 3.

Primary US GAAP	Primary IFRS
► ASC 805, *Business Combinations* ► ASC 450, *Contingencies* ► ASC 450-20, *Contingencies – Loss Contingencies*	► IFRS 3 *Business Combinations* ► IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* ► IFRIC 21 *Levies*

Standard setting activities:

The FASB and IASB issued substantially converged standards on the accounting for business combinations in December 2007 and January 2008, respectively. Both Boards have completed post-implementation reviews of their respective standards and separately discussed several narrow-scope projects.

In May 2020, the IASB issued *Updating a Reference to the Conceptual Framework (Amendments to IFRS 3)* to align the definitions of assets and liabilities in IFRS 3 with the 2018 *Conceptual Framework*. As the amendments were not intended to significantly change the requirements of IFRS 3, the Board added an exception to the recognition principle in IFRS 3 that requires an acquirer to apply IAS 37 or IFRIC 21 to identify the obligations it has assumed in a business combination (if those liabilities and contingent liabilities would be in the scope of IAS 37 or IFRIC 21 if incurred separately). This exception is discussed in question 3. The amendments were effective for annual reporting periods beginning on or after 1 January 2022. Early adoption is permitted if, at the same time or earlier, an entity also applies all of the amendments contained in *Amendments to References to the Conceptual Framework in IFRS Standard*, which was issued at the same time as the 2018 *Conceptual Framework*.

The IASB issued a Discussion Paper, *Business Combinations under Common Control*, in November 2020. The comment period for the Discussion Paper ended in September 2021 and IASB began considering the feedback received. The IASB will continue its redeliberations and decide on the project’s direction at a future meeting. The IASB also has a research project on its agenda related to improving the disclosures about the subsequent performance of business combinations and expected synergies. Readers should monitor these projects for developments.

In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers,* on the accounting for acquired revenue contracts with customers in a business combination to address diversity in practice in this area. This guidance requires companies to apply ASC 606 to recognize and measure contract assets and contract liabilities related to contracts with customers that are acquired in a business combination,

creating another exception to the general recognition and measurement principle of ASC 805 that generally requires the acquirer in a business combination to recognize and measure the assets it acquires and liabilities it assumes at fair value under ASC 820 on the acquisition date. ASU 2021-08 is effective for PBEs for fiscal years beginning after 15 December 2022, and interim periods therein. For all other entities, it is effective for fiscal years beginning after 15 December 2023, and interim periods therein. Early adoption is permitted, including adoption in an interim period. The guidance is applied prospectively. Question 10 was added for this ASU.

Discussion of IFRS 1:

IFRS 1 requires that first-time adopters of IFRS restate only those business combinations occurring on or after the date of transition to IFRS to comply with IFRS 3. For business combinations that occurred prior to the transition date, IFRS 1 allows the first-time adopter to elect the option of not restating those prior business combinations to comply with IFRS 3. However, if the first-time adopter elects to restate any pre-transition date business combination, it must restate all subsequent business combinations and apply IFRS 10 from that date forward. We expect most first-time adopters to elect the option under IFRS 1 and not restate any pre-transition date business combination. This DIT focuses on the differences between ASC 805 and IFRS 3 and provides the implication, if any, of having to restate any post-transition date business combination to comply with IFRS 3. However, first-time adopters should be aware that even if they elect to not restate any pre-transition date business combinations, the requirements of IFRS 1 nonetheless may result in adjustments to their opening IFRS balance sheet. For example, when a first-time adopter applies the IFRS 1 exemption to a prior business combination, the carrying amount of assets acquired and liabilities assumed that were not recognized in the prior business combination may not always be zero in the opening IFRS balance sheet and goodwill must be tested for impairment as of the transition date.

Differences:

1. Does the entity have an obligation to transfer additional consideration to the former owners of the acquiree if specified future events occur or conditions are met?	Yes ☐	No ☐

Contingent consideration in a business combination generally represents an obligation of the acquirer to deliver cash, additional equity interests or other assets to former owners of an acquired entity after the acquisition date if specified events occur or conditions are met in the future. However, contingent consideration also may give the acquirer the right to the return of previously transferred consideration if specified conditions are met. These arrangements are commonly used when buyers and sellers cannot reach agreement on the value of the acquired business.

US GAAP — ASC 805-30-25-6	**IFRS — IFRS 3.39 through 40**
The acquirer must classify the obligation to pay contingent consideration as a liability or as equity in accordance with ASC 480, *Distinguishing Liabilities from Equity*; ASC 815-40, *Derivatives — Contracts in Entity's Own Equity*; or other applicable US GAAP.	The acquirer must classify the obligation to pay contingent consideration as a liability or as equity in accordance with IAS 32 or other applicable IFRS guidance.

Implications:
Both standards require an acquirer to classify contingent consideration as an asset, a liability or equity on the basis of other US GAAP or IFRS. Differences in the related US GAAP or IFRS guidance may cause differences in the initial classification and, therefore, the subsequent accounting for the contingent consideration. See the “Liabilities and equity” section of this publication for a discussion of the differences between ASC 480, ASC 815-40 and IAS 32.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

IFRS 1 implications:

If the contingent consideration would be classified differently under IFRS in a post-transition date business combination, the first-time adopter would be required to retrospectively restate the business combination to comply with the classification requirements of IFRS and then apply the relevant IFRSs to subsequently account for the contingent consideration.

2. Did the entity acquire less than 100% of the acquiree? Yes ☐ No ☐

If an acquirer acquires less than 100% of the acquiree, the acquirer must recognize, on the acquisition date, the noncontrolling interest representing the interest retained or held by the noncontrolling shareholders. Noncontrolling interest is the equity in a subsidiary not attributable, directly or indirectly, to a parent.

US GAAP — ASC 805-20-30-1	**IFRS — IFRS 3.19**
Noncontrolling interest is measured at fair value.	Noncontrolling interest components that are present ownership interests and entitle their holders to a proportionate share of the acquiree’s net assets in the event of liquidation may be measured at (1) fair value or (2) the noncontrolling interest’s proportionate share of the fair value of the acquiree’s identifiable net assets. All other components of noncontrolling interest are measured at fair value unless another measurement basis is required by IFRS. This choice is available on a transaction-by-transaction basis.

Implications:
Because of the alternative available under IFRS for certain components of noncontrolling interest (e.g., common stock), accounting differences may arise based on the IFRS election made for a particular business combination. When the noncontrolling interest is measured at fair value, all goodwill of the acquired entity, not just the acquirer’s share of the goodwill, is recognized (i.e., a “full-goodwill” approach). However, when the noncontrolling interest is measured at its share of the fair value of the acquiree’s net identifiable assets, the goodwill amount recorded in consolidation reflects only the acquirer’s share. Therefore, the IFRS alternative of measuring noncontrolling

interest at its share of the fair value of the acquiree's net identifiable assets will result in the recognition of a lesser amount of goodwill and noncontrolling interest.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

Because both standards permit noncontrolling interest to be measured at fair value, a first-time adopter would not be required to restate any post-transition date business combination to comply with IFRS 3. However, if the first-time adopter wanted to restate any post-transition date business combination to measure noncontrolling interest at the noncontrolling shareholder's share of the fair value of the acquiree's net identifiable assets, it would be permitted to do so.

3. Did the acquirer recognize assets and liabilities arising from pre-acquisition contingencies?	Yes	No
	☐	☐

A contingency is defined as an existing condition, situation or set of circumstances involving uncertainty as to a possible gain or loss to an entity that will ultimately be resolved when one or more future events occur or fail to occur. A pre-acquisition contingency can be a contingent asset or a contingent liability. Potential environmental liabilities, litigation losses, insurance claims or warranty obligations that exist and are associated with an acquired entity before and as of the date of acquisition are examples of pre-acquisition contingencies.

US GAAP — ASC 805-20-25-18A through 25-20A, ASC 805-20-35-3 and ASC 450-20-25-2	**IFRS — IFRS 3.21A through 21B, IFRS 3.22 through 23 and IFRS 3.56**
Initial recognition and measurement Pre-acquisition contingent assets and liabilities are recognized at the acquisition date at fair value if the acquisition-date fair value of the asset or liability can be determined during the measurement period. If the acquisition-date fair value of a pre-acquisition contingent asset or liability cannot be determined at the acquisition date or during the measurement period, that contingent asset or liability is recognized if: (1) information prior to the end of the measurement period indicates that it is probable that an asset existed or a liability had been incurred at the acquisition date and (2) the amount of the asset or liability can be reasonably estimated. The recognition and measurement guidance in ASC 450 should be used to determine whether criteria (1) and (2) have been met.	*Initial recognition and measurement* Generally, liabilities subject to contingencies are recognized as of the acquisition date if there is a present obligation that arises from past events and its fair value can be measured reliably, even if it is not probable that an outflow of resources will be required to settle the obligation. However, IFRS 3 has an exception to the recognition principle that requires an acquirer to apply IAS 37 and IFRIC 21 to identify the contingent liabilities it has assumed in a business combination (if those contingent liabilities would be in the scope of IAS 37 or IFRIC 21 if incurred separately). If the fair value cannot be measured reliably, the contingent liability is not recognized. Contingent assets are not recognized.

Subsequent measurement If contingent assets and liabilities are initially recognized at fair value, an acquirer should develop a systematic and rational basis for subsequently measuring and accounting for assets and liabilities arising from contingencies depending on their nature. If amounts are initially recognized and measured under ASC 450, the subsequent accounting and measurement should be based on that guidance.	*Subsequent measurement* Liabilities subject to contingencies must be measured at the higher of (1) the amount that would be recognized in accordance with IAS 37 or (2) the amount initially recognized less, if appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15 *Revenue from Contracts with Customers*.

Implications:

Because the initial recognition and measurement criteria differ between the two standards, this may result in differences in the accounting for pre-acquisition contingencies in a business combination. For example, because contingent assets are not recognized in a business combination under IFRS 3, a difference may arise if such contingent assets are recognized in a business combination under ASC 805. However, because the recognition of contingent assets under ASC 805 is not common, we generally would not expect this to result in a difference between the two standards. In addition, in the Basis for Conclusions to FASB Staff Position Financial Accounting Standards (FAS) 141(R)-1, the FASB indicated that the fair value of pre-acquisition contingencies often will not be determinable, particularly for legal contingencies. Therefore, the FASB believes that it is possible that fewer liabilities arising from contingencies will be initially measured at fair value under ASC 805 than under IFRS 3.

For contingent liabilities that are initially recognized and measured at fair value at the acquisition date, the subsequent accounting and measurement of such liabilities may differ because IFRS 3, unlike ASC 805, provides subsequent accounting and measurement guidance. In addition, for contingent liabilities that are initially recognized and measured at fair value under IFRS 3 but at an amount other than fair value under ASC 805 (using the probable and reasonably estimable criteria in ASC 450), such contingent liabilities may be derecognized earlier under US GAAP than under IFRS. This is because under US GAAP, contingent liabilities may be derecognized once it becomes remote that a liability exists. In contrast, under IFRS 3, contingent liabilities are subsequently accounted for at the higher of: (1) the amount that would be recognized in accordance with IAS 37 or (2) the amount recognized less any income (such liabilities may not be derecognized if it becomes remote that a liability exists). Furthermore, subsequent measurement differences may arise due to the differences between IAS 37 and ASC 450. For example, the meaning of “probable” under IAS 37 is “more likely than not” whereas the meaning of “probable” under ASC 450 is “the future event or events are likely to occur.”

Identified difference?

	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

If the first-time adopter recognized a contingent asset in its post-transition date business combination, then the first-time adopter must retrospectively restate that business combination to derecognize the contingent asset to comply with IFRS 3. In addition, if the first-time adopter recognized a contingent liability in its post-transition date business combination, then the first-time

adopter must review the subsequent accounting for that contingent liability to determine whether it is in compliance with IFRS.

4. Did the entity exchange its share-based payment awards for awards held by grantees of the acquired entity?	Yes ☐	No ☐

In a business combination, the acquirer frequently exchanges its share-based payment awards (e.g., stock, stock options or similar instruments) for awards held by grantees of the acquired entity. The share-based payment awards exchanged (of both the former awards in the acquiree and the new awards of the acquiring entity) may be either vested or unvested.

US GAAP — ASC 805-20-30-21, ASC 805-30-30-9 through 30-13, ASC 805-30-55-6 through 55-13 and ASC 805-30-55-17 through 55-24	**IFRS — IFRS 3.30, IFRS 3.B56 through B62 and IFRS 3.IE61 through IE71**
Exchanges of share options or other share-based payment awards in conjunction with a business combination are accounted for as modifications of share-based payment awards in accordance with ASC 718, *Compensation — Stock Compensation*. If the acquirer is obligated to replace the acquiree awards, either all or a portion of the fair value-based measure of the acquirer's replacement awards should be included in measuring the consideration transferred in the business combination.	Exchanges of share options or other share-based payment awards in conjunction with a business combination are accounted for as modifications of share-based payment awards in accordance with IFRS 2 *Share-Based Payment*. If the acquirer is obliged to replace the acquiree awards, either all or a portion of the market-based measure of the acquirer's replacement awards should be included in measuring the consideration transferred in the business combination.

Implications:
While the words in ASC 805 and IFRS 3 are similar, potential differences in the accounting for share-based payment awards exchanged in a business combination may arise due to differences between ASC 718 and IFRS 2. For example, if the share-based payment awards exchanged were subject to graded vesting requirements, the entity's US GAAP accounting policy for such awards may cause differences in the allocation of the cost of the replacement award to the consideration transferred and post-combination compensation cost. For awards subject to graded vesting, ASC 718 permits the use of the "accelerated" approach or the "straight-line" approach whereas IFRS 2 requires the use of the "accelerated" approach. See the "Share-based payments" section of this publication for a discussion of the differences between ASC 718 and IFRS 2.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

IFRS 1 implications:

For share-based payment awards exchanged in a post-transition date business combination, if the first-time adopter determines that the accounting as required by ASC 718 is not consistent with IFRS 2, an adjustment may be required to share-based payments exchanged in that business combination to comply with IFRS 3.

5. Did the entity acquire operating leases where the acquiree was the lessor?	Yes ☐	No ☐

US GAAP — ASC 805-20-25-12 and ASC 805-20-30-5	**IFRS — IFRS 3.B42**
An intangible asset or liability is recognized separately from the leased asset if the terms of the operating lease are favorable or unfavorable, respectively, relative to current market terms.	An intangible asset or liability is not recognized separately from the leased asset. The favorable or unfavorable terms of the operating lease, relative to current market terms, are included in the fair value measurement of the leased asset.

Implications:
Depending on whether the terms of the lease are favorable or unfavorable relative to current market terms, under US GAAP, the fair value of the leased asset as of the acquisition date will either be higher (if the lease terms are unfavorable relative to market) or lower (if the lease terms are favorable relative to market) when compared to IFRS. On the other hand, US GAAP requires the separate recognition of an intangible asset (for favorable lease terms relative to market) or liability (for unfavorable lease terms relative to market), which will not be recognized under IFRS. This may cause differences in future disclosure requirements, depreciation and amortization expense (if applicable), and the point in time in which an impairment loss is recognized.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

IFRS 1 implications:

If the first-time adopter acquired an operating lease in which the acquiree was the lessor in a post-transition date business combination, the first-time adopter must retrospectively restate that business combination to derecognize the intangible asset or liability related to the off-market terms and recalculate the fair value of the leased asset to include the favorable or unfavorable lease terms relative to current market terms to comply with IFRS 3.

6. Did any transactions occur between entities under common control?	Yes ☐	No ☐

Common control transactions are those in which all of the combining entities or businesses are controlled by the same party or parties both before and after the transaction, and that control is not transitory.

US GAAP — ASC 805-50-05-4 through 05-5, ASC 805-50-15-6, ASC 805-50-25-2, ASC 805-50-30-5 through 30-6 and ASC 805-50-45-2 through 45-5	**IFRS — IFRS 3.B1 through B4**
The receiving entity records the net assets at their carrying amounts in the accounts of the transferor (historical cost).	Common control transactions are outside the scope of IFRS 3. In practice, entities either follow an approach similar to US GAAP (historical cost)

	or apply the acquisition method (fair value) if there is substance to the transaction (policy election).

Implications:

Because of the mixed practice under IFRS, accounting differences may arise based on the IFRS policy election of applying the acquisition method to common control transactions that are considered to have substance. Therefore, the IFRS alternative will result in the transferred net assets being recorded at fair value instead of historical cost. Careful consideration of all facts and circumstances is required in assessing whether a common control transaction has substance.

If IFRS reporters follow the historical cost approach, we generally would expect the accounting to be similar to US GAAP because we believe that under IFRS, the receiving entity should record the transferred net assets at the carrying amounts in the accounts of the transferor. However, IFRS does permit the receiving entity to record the transferred assets at the carrying amounts of the transferee in certain circumstances. We believe the following factors should be carefully considered in assessing whether the receiving entity may record the transferred assets at the carrying amounts of the transferee:

- *Timing of the transaction in comparison to when the transferee was established by the group* — if there is a short period of time between the common control transaction and when the transferee was established by the group, then the carrying amounts of the transferee may be more relevant.
- *Grooming transaction* — if the transaction is not a "grooming transaction" in preparation for a spin-off, sale or similar transaction by the group, then the carrying amounts of the transferee may be more relevant.
- *Users of the financial statements* — if the users of the financial statements previously relied on the financial statements of the transferee (e.g., if there were significant noncontrolling shareholders), then the carrying amounts of the transferee may be more relevant.

In such circumstances, differences will arise to the extent there are basis differences (e.g., goodwill) between the carrying amounts in the accounts of the transferor and transferee.

Consider the following example:

- Entity A owns 100% of Entity B and Entity C.
- Entity B acquires 100% of Entity C from Entity A.
- Afterwards, Entity A (the transferor) owns 100% of Entity B and Entity B (the receiving entity) owns 100% of Entity C (the transferee).
- Entity B is required to prepare consolidated financial statements.

For purposes of preparing its consolidated financial statements, under US GAAP, Entity B must record the net assets of Entity C at their historical carrying amounts in the accounts of Entity A (the transferor). Under IFRS, we would also expect Entity B to record the net assets of Entity C at their historical carrying amounts in the accounts of Entity A (the transferor). However, if Entity B determines that it is acceptable to record the transferred net assets at their carrying amounts in the accounts of Entity C, differences will arise to the extent there are basis differences (e.g., goodwill) between the carrying amounts in the accounts of Entity A (the transferor) and Entity C (the transferee).

In addition, under US GAAP, comparative financial information must be restated for the periods that the entities were under common control. Under IFRS, companies may either follow the US GAAP approach or may elect not to restate comparative financial information.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

If the receiving entity is a first-time adopter, it would not be required to restate any post-transition date common control transaction because both US GAAP and IFRS permit the receiving entity to record the transferred net assets at their carrying amounts in the accounts of the transferor. However, if the receiving entity elected not to restate the common control transaction, then it has effectively made a policy election to account for all subsequent common control transactions by recording the transferred net assets at their carrying amounts in the accounts of the transferor.

7. Is pushdown accounting applied in the separate financial statements of an acquired subsidiary?	Yes	No
	☐	☐

Pushdown accounting is a basis of accounting that reflects the parent's cost in the separate financial statements of an acquired subsidiary. That is, the fair values assigned to the assets and liabilities of the acquired subsidiary and goodwill are reflected in the separate financial statements of the acquired subsidiary.

US GAAP — ASC 805-50-25-4 through 25-9 and ASC 805-50-30-10 through 30-12	**IFRS — IAS 8.10 through 12**
An acquired entity can choose to apply pushdown accounting in its separate financial statements when an acquirer obtains control of it or later. However, an entity's election to apply pushdown accounting is irrevocable.	No guidance exists and, therefore, it is unclear whether pushdown accounting is acceptable under IFRS. However, the general view is that entities may not use the hierarchy in IAS 8 to refer to US GAAP and apply pushdown accounting in the separate financial statements of an acquired subsidiary because the application of pushdown accounting will result in the recognition and measurement of assets and liabilities in a manner that conflicts with certain IFRS standards and interpretations. For example, the application of pushdown accounting generally will result in the recognition of internally generated goodwill and other internally generated intangible assets at the subsidiary level, which conflicts with the guidance in IAS 38 *Intangible Assets*.

Implications:
If a US GAAP reporter applies pushdown accounting in the separate financial statements of an acquired subsidiary, the carrying amounts of the assets and liabilities in that subsidiary generally will be higher under US GAAP than under IFRS. This is because the parent's cost basis, which reflects the fair values assigned to the assets and liabilities of the acquired subsidiary and goodwill, is reflected in the separate statements of that subsidiary.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

Although business combinations do not need to be restated under IFRS 1, that exemption is available only to the acquirer in the business combination. If the first-time adopter is a subsidiary and its balance sheet reflects the effects of pushdown accounting from prior acquisitions, those amounts may have to be reversed upon adoption of IFRS. However, a previous revaluation done for purposes of pushdown accounting can be used as deemed cost for all assets and liabilities that were recognized at full fair value.

8. Did the acquirer recognize an adjustment to a provisional amount during the measurement period (i.e., a measurement period adjustment)?	Yes	No
	☐	☐

The measurement period is the time after the acquisition during which the acquirer obtains information necessary to identify and measure all aspects of the business combination. During the measurement period, the acquirer recognizes provisional amounts based on the acquirer's best estimates using information that it has obtained as of the reporting date. The acquirer adjusts provisional amounts only for adjustments resulting from facts and circumstances that existed as of the acquisition date.

US GAAP — ASC 805-10-25-13 and ASC 805-10-25-17	**IFRS — IFRS 3.45 and IFRS 3.49**
An acquirer recognizes measurement period adjustments in the period in which it determines the amounts, including the effect on earnings of any amounts it would have recorded in previous periods if the accounting had been completed at the acquisition date. The acquirer still must disclose the amounts and reasons for adjustments to the provisional amounts. The acquirer also must disclose, by line item, the amount of the adjustment reflected in the current-period income statement that would have been recognized in previous periods if the adjustment to provisional amounts had been recognized as of the acquisition date. Alternatively, an acquirer may present those amounts separately on the face of the income statement.	An acquirer recognizes measurement period adjustments on a retrospective basis. The acquirer revises comparative information for any prior periods presented, including revisions for any effects on the prior-period income statement.

Implications:
If a US GAAP reporter recognizes an adjustment to a provisional amount during the measurement period, the adjustment would be made in the period it is identified, including the effect on earnings of any amounts they would have recorded in previous periods if the accounting had been completed at the acquisition date. As such, any prior period comparative information presented will not reflect the effects of the adjustment as if it had been made at the acquisition date. This will not be the case for an IFRS reporter because IFRS 3 requires measurement period adjustments to be recognized

on a retrospective basis, including requiring revisions to comparative information (e.g., prior-period income statement).

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

If the first-time adopter recognized an adjustment to a provisional amount during the measurement period, the first-time adopter must retrospectively revise comparative information for any prior periods presented, including revisions for any effects on the prior-period income statement to comply with IFRS 3. The revised periods would include the reporting period that includes the business combination and any subsequent reporting period through the period the measurement period adjustment was recognized under US GAAP.

9. Does the acquired set of transferred assets and activities meet the definition of a business?	Yes	No
	☐	☐

Under both US GAAP and IFRS, a business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.

Although not identical, the overall framework that entities apply to determine whether a set is a business or a group of assets is similar under US GAAP and IFRS. Additionally, entities may apply an optional threshold test on a transaction-by-transaction basis under IFRS that is substantially the same as the required threshold test under US GAAP to determine whether an acquired set is not a business.

US GAAP — ASC 805-10-55-3A through 55-6 and ASC 805-10-55-8	**IFRS — IFRS 3 Appendix A (definition of a business) and Appendix B (B7 through B8A and B12A through B12D)**
Mandatory threshold test An entity is required to first evaluate whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If that threshold is met, the set is not a business and does not require further evaluation. Gross assets acquired should exclude cash and cash equivalents, deferred tax assets and any goodwill that would be created in a business combination from the recognition of deferred tax liabilities. If that threshold is not met, the entity is required to further evaluate whether it meets the definition of a business.	*Optional threshold test* An entity may elect to apply the threshold test on a transaction-by-transaction basis. If an entity elects to apply the threshold test, it first evaluates whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If that threshold is met, the set is not a business and does not require further evaluation. Gross assets acquired should exclude cash and cash equivalents, deferred tax assets and any goodwill that would be created in a business combination from the recognition of deferred tax liabilities.

	If that threshold is not met or if the entity elects to not apply the test, the entity must evaluate whether it meets the definition of a business.

Implications:
Since the threshold test is optional under IFRS, an entity may reach a different conclusion about whether an acquired set meets the definition of a business under US GAAP and IFRS.

Identified difference?
Describe: Click here to enter text.

Yes ☐ No ☐ Depends on policy election ☐

IFRS 1 implications:

A first-time adopter may elect not to apply IFRS 3 retrospectively to business combinations that occurred before the date of transition to IFRS. However, if a first-time adopter restates any business combination to comply with IFRS 3, it will restate all later business combinations and also apply IFRS 10 from the same date.

10. Did the business combination include the acquisition of contracts with customers?

Yes ☐ No ☐

A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (e.g., the entity's future performance).

A contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer.

US GAAP — ASC 805-20-25-28C and ASC 805-20-30-27	**IFRS — IFRS 3.18**
Initial recognition *After the adoption of ASU 2021-08* Contract assets and contract liabilities from contracts with customers in a business combination are recognized and measured in accordance with ASC 606. This also applies to other acquired contracts in which the provisions of ASC 606 apply.	*Initial recognition* Contract assets acquired and contract liabilities assumed are measured at fair value.

Implications:
Before the adoption of ASU 2021-08, under both US GAAP and IFRS, an acquirer generally recognizes assets acquired and liabilities assumed in a business combination, including contract

assets and contract liabilities arising from revenue contracts with customers and other similar contracts that are accounted for in accordance with ASC 606, at fair value, on the acquisition date.

However, the adoption of ASU 2021-08 creates an additional US GAAP exception to the general recognition and measurement principle in ASC 805 and, therefore, will be a difference compared with IFRS. Under ASU 2021-08, an acquirer is required to apply ASC 606 to the recognition and measurement of such contracts.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

If a first-time adopter acquired contract assets and assumed contract liabilities in its post-transition date business combination, then the first-time adopter must retrospectively restate those acquired contract assets and assumed contract liabilities that were recognized and measured under ASC 606 (i.e., pursuant to ASU 2021-08) to fair value to comply with IFRS 3.

Inventory

Similarities:

ASC 330, *Inventory,* and IAS 2 *Inventories* are based on the principle that the primary basis of accounting for inventory is cost. Both standards define inventory as assets held for sale in the ordinary course of business, in the process of production for such sale or to be consumed in the production of goods or services. The permitted techniques for cost measurement, such as the retail inventory method (RIM), are similar under both US GAAP and IFRS. Further, under US GAAP and IFRS, the cost of inventory includes all direct expenditures to ready inventory for sale, such as allocable overhead, while selling costs are excluded from the cost of inventories, as are most storage costs and general and administrative costs.

Primary US GAAP	Primary IFRS
► ASC 330*, Inventory* ► ASC 410, *Asset Retirement and Environmental Obligations* ► AICPA Issues Paper, *Identification and Discussion of Certain Financial Accounting and Reporting Issues Concerning LIFO Inventories (1984)* [non-authoritative guidance]	► IAS 2 *Inventories* ► IAS 16 *Property, Plant and Equipment* ► IAS 19 *Employee Benefits*

Standard setting activities:

There is no significant standard setting activity in this area.

Discussion of IFRS 1:

IFRS 1 provides no special exemptions or guidance for inventories.

Differences:

1. Does the reporting entity use the last-in, first-out (LIFO) method to value inventory?	Yes ☐	No ☐

US GAAP — ASC 330-10-30-9 and ASC 330-10-35-1B through 35-1C	IFRS — IAS 2.6, IAS 2.23 through 33 and IAS 2.BC9
LIFO is an acceptable method.	LIFO is prohibited.

Implications:
While LIFO is an acceptable method under US GAAP, it is prohibited under IFRS. In both US GAAP and IFRS, specific identification, first-in, first-out (FIFO) and weighted average cost methods are acceptable. RIM, as applicable, is also acceptable for both US GAAP and IFRS. Under US GAAP, inventory other than that accounted for under LIFO or RIM is carried at the lower of cost and net realizable value (NRV). NRV is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. LIFO and RIM are carried at the lower of cost or market. Market is defined as current replacement cost, but not greater than NRV (estimated selling price less reasonably predictable costs of completion,

disposal and transportation) and not less than NRV reduced by an allowance for an approximately normal profit margin. See question 4 for further discussion of RIM.

Under IFRS, inventory is carried at the lower of cost and NRV under all permitted methods. NRV is defined as the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. While IAS 2 provides detailed guidance on determining NRV, it does not specify or further define the "estimated costs necessary to make the sale." Judgment will be needed to determine which costs are necessary to sell inventories, and an entity should consider the specific facts and circumstances, including the nature of the inventory. An entity cannot limit the costs it includes to those that are only incremental (the incremental approach).

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

2. Have inventories that were written down below cost at the close of a fiscal year recovered in value during the reporting period?	Yes ☐	No ☐

US GAAP — ASC 330-10-35-14 and ASC 270-10-45-6	**IFRS — IAS 2.33 through 34**
Any write-downs of inventory below cost create a new cost basis that subsequently cannot be reversed, unless there is a recovery in value during the same fiscal year that the write-down occurred.	The amount of write-down is reversed (limited to the amount of the original write-down) when the reasons for the write-down no longer exist.

Implications:
While US GAAP prohibits reversing any inventory write-downs (unless the recovery of the inventory occurred during the same fiscal year in which the write-down occurred), IFRS permits reversing write-downs, up to the original amount of the write-down.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

3. Does the reporting entity use different costing methods for inventories that are similar in nature and use to the entity?	Yes ☐	No ☐

US GAAP — ASC 330-10-30-13	IFRS — IAS 2.25 through 26
The use of a consistent cost formula for all inventories similar in nature or use is not required and it is acceptable under certain circumstances to use different costing methodologies. ASC 330-10-30-13 states that a company's "business operations in some cases may be such as to make it desirable to apply one of the acceptable methods of determining cost to one portion of the inventory or components thereof and another of the acceptable methods to other portions of the inventory."	The same cost formula must be applied to all inventories similar in nature or use to the entity. IAS 2.25 requires the use of "the same cost formula for all inventories having similar nature and use to the entity." IAS 2.26 further states that differences in geographical location of inventories or different tax rules, by themselves, are not sufficient to justify the use of different cost formulas.

Implications:
While not a requirement under US GAAP, IFRS requires the use of the same costing method for inventories similar in nature and use.

Identified difference?
Describe: Click here to enter text.

Yes ☐ No ☐ Depends on policy election ☐

4. Has the reporting entity recorded a permanent inventory markdown under RIM?

Yes ☐ No ☐

US GAAP — ASC 330-10-35-1C through 35-7	IFRS — IAS 2.22
Permanent markdowns do not affect the gross margins used in applying RIM. Rather, such markdowns reduce the carrying cost of inventory to NRV, less an allowance for an approximately normal profit margin, which may be less than both original cost and NRV.	Permanent markdowns affect the average gross margin used in applying RIM. Reduction of the carrying cost of inventory to below the lower of cost and NRV is not allowed.

Implications:
Under US GAAP, because the permanent markdowns immediately reduce the carrying cost of inventory under RIM but do not affect the cost complement (i.e., future gross margins) used in applying RIM, it is possible that the carrying value of inventory can be reduced below both original cost and NRV, particularly for deeply discounted inventory items. Under IFRS, reduction of the carrying cost of inventory to below the lower of cost and NRV is not allowed.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

5. Does the reporting entity classify major spare parts as inventories?	Yes	No
	☐	☐

US GAAP	**IFRS — IAS 16.8**
US GAAP does not have any specific guidance. Some entities record major spare parts as inventory and some record them as PP&E or as other types of assets.	Items such as spare parts are recognized in accordance with IFRS 16 when they meet the definition of “property, plant and equipment.” Otherwise, such items are classified as inventory.

Implications:
US GAAP has no specific guidance on this issue, and as a result, diversity in practice exists. Major spare parts are commonly classified as part of PP&E, inventories or as a separately identified asset on the balance sheet. IFRS requires that major spare parts be included in PP&E when they meet the definition of “property, plant and equipment.” Otherwise, spare parts are classified as inventories.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

6. Has the entity recorded an asset retirement obligation (ARO) that was incurred during a particular period as a consequence of having used a long-lived asset to produce inventory during that period?	Yes	No
	☐	☐

US GAAP — ASC 410-20-25-5, ASC 410-20-35-2 and ASC 330-10-30-1 through 30-3	**IFRS — IAS 16.18, IAS 16.BC15 and IAS 2**
Upon initial recognition of an ARO, an entity must capitalize an asset retirement cost by increasing the carrying amount of the related long-lived asset by the same amount as the liability. The depreciation of the related long-lived asset may or may not qualify in the future as an inventoriable cost.	An entity applies IAS 2 to the costs of obligations for dismantling, removing or restoring the site on which an item (PP&E) is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period; therefore, an ARO that is created during the production of inventory is accounted for as a cost of the inventory and it is added to the carrying amount of the inventory.

Implications:
Under US GAAP, all ARO costs are capitalized as part of PP&E and depreciation of an asset used to produce inventory is allocated to inventory through the allocation of overhead. Under IFRS, the ARO costs should be considered an inventoriable cost in the period in which they are incurred if the costs relate to an asset that is used to produce inventory during the period. Accounting for these costs in accordance with IAS 2 should generally achieve a similar result as accounting for them under US GAAP. However, differences may arise in the timing and amount recognized in inventory as a result of the depreciation and allocation method, including impairment, applied under US GAAP. Additionally, there will be a difference in the gross PP&E balance as no amount is recorded in PP&E under IAS 2.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

7. Does the entity capitalize into inventory any pension or postretirement benefit costs in connection with the construction or production of an asset?	Yes	No
	☐	☐

US GAAP — ASC 330-10-55-6A	**IFRS — IAS 19.120 through 121**
The service cost component of net periodic pension cost and net periodic postretirement benefit cost are the only components directly arising from employees' services provided in the current period. Therefore, when it is appropriate to capitalize employee compensation in connection with the construction or production of an asset, the service cost component applicable to the pertinent employees for the period are the relevant amounts to be considered for capitalization.	Any post-employment benefit costs included in the cost of inventory include the appropriate proportion of the components of defined benefit cost (i.e., service cost, net interest on the net defined benefit liability (asset) and remeasurements of the net defined benefit liability (asset)).

Implications:
Under US GAAP, the amount of pension costs eligible to be included in the cost of inventory is limited to the service cost component of net periodic pension cost and net periodic postretirement benefit cost. Under IFRS, the appropriate proportion of all components of pension cost must be included. Consequently, when it is appropriate to capitalize employee compensation in connection with the construction or production of an asset, the relevant amount to be considered for capitalization will likely be different under IFRS than US GAAP. (See the "Employee benefits other than share-based payments" section of this publication for further discussion.)

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

Property, plant and equipment

Similarities:

ASC 360, *Property, Plant, and Equipment*, serves as the primary guidance for PP&E under US GAAP. However, it provides limited guidance on the recognition and measurement of PP&E. Under IFRS, IAS 16 serves as the primary guidance for the recognition and measurement of PP&E. IAS 16 *Property, Plant and Equipment* provides more specific guidance than US GAAP.

Under both US GAAP and IFRS, PP&E consists of tangible assets that are held for use in more than one reporting period. Other concepts that are similar include the following:

Recognition

Both US GAAP and IFRS have similar criteria for the initial recognition of an item of PP&E. That is, the costs to acquire an asset along with any costs directly attributable to bringing the asset to its location of use and condition necessary for it to be capable of operating in the manner intended by management are capitalized if the future economic benefits are probable and can be reliably measured. Additionally, repairs and maintenance costs are generally expensed as incurred under both US GAAP and IFRS. Neither model permits the capitalization of startup costs, general administrative and overhead costs, or regular maintenance. However, both US GAAP and IFRS require that the costs of dismantling an asset and restoring its site of use (i.e., the costs of asset retirement under ASC 410-20 or IAS 37) be included in the cost of the asset. Both US GAAP and IFRS require a provision for asset retirement costs to be recorded when a legal obligation exists, although IFRS requires a provision in other circumstances as well. (See the “Contingencies, exit or disposal costs, and asset retirement obligations” section of this publication for further discussion.)

Borrowing costs

ASC 835-20*, Interest – Capitalization of Interest*, and IAS 23 *Borrowing Costs* require that borrowing costs (e.g., interest costs) directly attributable to the acquisition, construction or production of a qualifying asset be capitalized. Qualifying assets are generally defined similarly under both accounting models. However, there are differences between US GAAP and IFRS in the measurement of eligible borrowing costs for capitalization. (See the “Borrowing costs” section of this publication for further discussion.)

Depreciation

Depreciation of long-lived assets is required to be recognized on a systematic basis under both US GAAP and IFRS.

Changes in depreciation methods

ASC 250 and IAS 8 both treat changes in depreciation method, residual value and useful economic life as a change in accounting estimate requiring prospective treatment.

Nonmonetary transactions

Exchanges of nonmonetary similar productive assets are treated similarly under ASC 845 and IAS 16, both of which allow gain or loss recognition if the exchange has commercial substance, and the fair value of the exchange can be reliably measured.

Primary US GAAP	Primary IFRS
► ASC 360, *Property, Plant, and Equipment* ► ASC 835-20*, Interest – Capitalization of Interest* ► ASC 250, *Accounting Changes and Error Corrections* ► CON 5, FASB Concepts Statement No. 5, *Recognition and Measurement in Financial*	► IAS 16 *Property, Plant and Equipment* ► IAS 23 *Borrowing Costs* ► IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* ► IAS 40 *Investment Property*

Statements of Business Enterprises [non-authoritative guidance]	

Standard setting activities:

In May 2020, the IASB issued *Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)*. The amendments prohibit an entity from deducting from the cost of PP&E amounts received from selling items produced while the entity is preparing the asset for its intended use. Instead, an entity will recognize such sales proceeds and related cost in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022. The amendment must be applied retrospectively only to items of PP&E made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. This amendment results in further convergence between IFRS and US GAAP.

Discussion of IFRS 1:

In connection with an entity's first-time adoption of IFRS, IFRS 1 allows the entity to elect to treat the fair value of PP&E at the date of transition as the deemed cost for IFRS. Alternatively, a company may also elect to use a previous revaluation of an item of PP&E at or before the transition date to IFRS as the deemed cost for IFRS, as long as the company appropriately depreciates the item of PP&E in accordance with IAS 16 from that previous measurement date forward. These exemptions also may be applied to investment property, right-of-use assets under IFRS 16 and certain intangible assets.

Given the significance of these assets (and the large number of transactions affecting PP&E), the IASB recognized that restatement may be difficult and could involve undue cost and effort for most first-time adopters. Nevertheless, a first-time adopter needs a cost basis for these assets in its opening IFRS balance sheet. Therefore, the IASB decided to introduce the notion of a deemed cost that is not the "true" IFRS compliant cost basis of an asset, but a surrogate that is deemed to be a suitable starting point.

IFRS 1 defines deemed cost as "an amount used as a surrogate for cost or depreciated cost at a given date." For example, a first-time adopter may have previously established a deemed cost under its previous GAAP for some or all of its assets by revaluing them at their fair value at a particular date, such as the values determined as part of a business combination or an impairment analysis. Subsequent depreciation or amortization assumes that the entity had initially recognized the asset at that particular date and that its cost was equal to the deemed cost.

It is important to note that the deemed cost exemption in IFRS 1 is intended to be applied on an item by item basis other than classes or categories of assets (e.g., land, buildings, equipment, vehicles). The same exemption is available for investment property, right-of-use assets under IFRS 16 and certain intangible assets. Thus, a first-time adopter may apply the deemed cost exemption to some, but not all, of its assets. For example, it could apply the exemption to a selection of investment properties, a part of a factory, or some of the right-of-use assets leased under a single lease agreement under IFRS 16.

In the absence of this exemption, the requirements of IAS 16 and IAS 40 would have to be applied as if the first-time adopter had always applied these standards. This could be onerous because of the long-lived nature of these assets. In order to conform the previous GAAP to IFRS, changes to capitalization and depreciation could be required that would likely involve extensive effort and possibly even situations in which the accounting records for the applicable period were no longer available.

Differences:

1. Does the reporting entity carry PP&E at a revalued amount?	Yes ☐	No ☐

US GAAP — CON 5.67	**IFRS — IAS 16.29 through 42**
An entity reports PP&E at historical cost, which is the amount of cash, or its equivalent, paid to acquire an asset, commonly adjusted after acquisition for depreciation or other allocations (e.g., impairment losses). Revaluation of the historical cost is not permitted.	After initial recognition, an entity should elect to carry PP&E either at (1) cost less any accumulated depreciation and accumulated impairment losses or (2) a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. When an item of PP&E is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways: ► Restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount (generally used when revaluation is by means of an index) ► Eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset The amount of the adjustment arising on the restatement or elimination of accumulated depreciation forms part of the increase or decrease in carrying amount. If an asset's carrying amount is increased as a result of a revaluation, the increase is recognized in OCI and accumulated directly to equity under the heading of revaluation surplus. However, the increase is recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss. If an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognized in profit or loss. However, the decrease is recognized in OCI reducing the amount accumulated in equity under the heading of revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset. Revaluations should be performed regularly to ensure that the carrying value of the asset is not materially different from its fair value.

Implications:
US GAAP requires capitalized PP&E to be carried at historical cost less accumulated depreciation and impairment losses. IAS 16 allows this approach or an alternative approach — the revaluation model (fair value less subsequent accumulated depreciation or accumulated impairment losses). When an IFRS entity elects the revaluation model, any revaluation must be applied to a class of PP&E. A class of PP&E is a grouping of assets of a similar nature and use in an entity's operations (e.g., land, ships, machinery, furniture and fixtures). If, for example, an entity owns two parcels of land, one in California for growing grapes and one in Connecticut for its corporate headquarters, each parcel of land could be in a different class of assets because the land is used differently. To avoid selective revaluation, the items within a class of PP&E are revalued simultaneously.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

IFRS 1 implications:

As noted above, under IFRS 1, a reporting entity can elect to report its PP&E at fair value upon adoption of IFRS using fair value as deemed cost. Using deemed cost could reduce an entity's time and effort relating to recalculating the carrying value of its assets as if IAS 16 had always been applied or estimating a fair value of its assets as of an earlier date when such a valuation may have been previously prepared (e.g., relating to an impairment or a business combination). Note that an entity that uses the deemed cost exemption for PP&E is not required to apply the revaluation model under IAS 16 for subsequent recognition.

2. Does the reporting entity depreciate PP&E using a composite estimated life for an entire asset as opposed to following a component approach?	Yes ☐	No ☐

Components are generally defined as the individual parts of the asset whose cost is material in relation to the entire cost of the asset (e.g., the engine and the body frame are two components of an airplane).

US GAAP — ASC 360-10-35-4 and ASC 908-360-30-2	**IFRS — IAS 16.43 through 48 and IAS 16.58 through 60**
Component depreciation is permitted but not common.	Each part of an item of PP&E with a cost that is significant in relation to the total cost of the item should be depreciated separately. Component depreciation is required if components of an asset have differing patterns of benefit.

Implications:
Although component depreciation is optional under US GAAP, most entities depreciate assets based on a composite estimated useful life of the asset as a whole (e.g., an airplane). However, component depreciation is required under IFRS. Accordingly, when an asset initially is recorded, an entity must evaluate the useful lives and related depreciation of each significant component of the asset separately. This could create differences in the carrying values of the assets as the significant components of the asset likely are depreciated over a longer life under US GAAP than under IFRS.

Under IFRS, as an example, the engine of an airplane likely will be depreciated over a different useful life than the body of an airplane.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

As noted above, under IFRS 1, a reporting entity can elect to report its PP&E at fair value upon adoption of IFRS using fair value as deemed cost thereby eliminating the need to identify the significant components of an asset and recalculate historical depreciation on each component as if IAS 16 always had been applied. If an entity uses a previous GAAP revaluation that occurred before the date of transition to IFRS as deemed cost, depreciation on that item of PP&E must be recalculated, under the component approach, from the date of the revaluation to the IFRS transition date.

3. Has the reporting entity incurred costs relating to a major inspection or overhaul of PP&E?	Yes	No
	☐	☐

US GAAP — ASC 360, ASC 908-360-25-2 and ASC 908-360-30-2 through 30-3	**IFRS — IAS 16.6 through 8, IAS 16.10 and IAS 16.13 through 14**
Although ASC 908, *Airlines*, provides specific guidance for the airline industry on airframe and engine overhauls, US GAAP does not provide guidance for other industries. As a result, repair and maintenance costs outside the scope of ASC 908 are generally expensed as incurred. For entities in the airline industry, ASC 908 permits the following accounting methods: (1) expensing costs as incurred, (2) capitalizing costs and amortizing through the date of the next overhaul or (3) following the built-in overhaul approach (i.e., an approach with certain similarities to composite depreciation).	Major spare parts and stand-by equipment qualify as PP&E when an entity expects to use them during more than one period, it is probable that the future economic benefits of the assets will flow to the entity and the costs of such items can be reliably measured. The carrying amount of the part that was replaced should be written off. Additionally, the cost of a major inspection of the PP&E is capitalized in the carrying amount of the item of PP&E as a replacement if the recognition criteria is satisfied and amortized over the period until the next inspection. Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognized. Otherwise, these costs are expensed as incurred.

Implications:
US GAAP only provides entities in the airline industry guidance for accounting for overhaul expenses. An entity in the airline industry must make an accounting policy election from one of the three methods noted above. With limited exceptions, IFRS provides guidance relating to major inspection or overhaul of PP&E for all industries. Under IFRS, the cost of the replaced or overhauled part is capitalized if the recognition criteria are met. In addition, as each major inspection is performed, the cost of such inspection is recognized and depreciated as part of the carrying amount of the item of PP&E as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognized. Differences will exist for entities that do not follow the airline industry guidance. For entities that follow the airline industry guidance, differences may exist depending on the accounting model used under US GAAP.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

IFRS 1 implications:

If an entity frequently performs overhauls and expects that the amount associated with the overhauls will be material, the entity may find it easier to use the deemed cost alternative (discussed above) upon conversion to IFRS in order to value PP&E upon conversion, rather than recalculate life-to-date depreciation on each significant component of these assets, including the cost of each inspection.

4. Does the reporting entity have PP&E that could be considered investment property?	Yes ☐	No ☐

Examples of investment property include land held for speculative purposes or a building leased under one or more leases. Property used in the production or supply of goods or services, or for sale in the ordinary course of business, would not qualify as investment property.

US GAAP — ASC 360	**IFRS — IAS 40.7 through 8, IAS 40.30 through 32C, IAS 40.35 and IAS 40.41**
Because investment property is not separately defined in US GAAP, PP&E that could be considered investment property is accounted for as either held and used or held for sale (like other PP&E).	Investment property is defined under IAS 40 as property (land or a building — or part of a building — or both) held to earn rent or held for capital appreciation (or both) and may include property held by lessees as right-of-use assets. After initial recognition, investment property may be accounted for on a historical cost or fair value basis as an accounting policy election. IFRS 16 requires a lessee to measure right-of-use assets arising from leased property in accordance with the fair value model of IAS 40 if the leased property meets the definition of investment property and the lessee elects the fair value model in IAS 40 as an accounting policy. Investment property, if carried at fair value, is not depreciated and changes in fair value are reflected in income.

Implications:
Under US GAAP, investment property is treated as PP&E as either assets held and used or as assets held for sale, whichever is appropriate. Assets held and used are carried at cost less accumulated depreciation and any impairment, and assets classified as held for sale (under the “Impairment or Disposal of Long-Lived Assets” subsections of ASC 360-10 or ASC 205-20) are carried at the lower of their carrying amount or fair value less costs to sell. Under IAS 40, investment property is accounted for separately from PP&E and, after initial recognition, may be accounted for on either a historical cost basis or a fair value basis based on an entity’s accounting policy election. If carried at fair value, investment property is not depreciated and changes to fair value are reflected in income. The cost model is similar under both US GAAP and IFRS, although there are differences in the impairment standards that could lead to differences in the carrying amounts of the assets. (See the “Impairment of long-lived assets held and used” section of this publication for further discussion.) Investment property that is reported using the cost method under IAS 40 and that is classified as held for sale is carried at the lower of carrying value or fair value less costs to sell under IFRS 5 if the investment property is part of a disposal group. The measurement requirements of IFRS 5 apply to the group (including the investment property) as a whole, so that the group is measured at the lower of its carrying amount and fair value less costs to sell. (See the “Noncurrent assets held for sale and discontinued operations” section of this publication for further discussion.)

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

An entity could elect to use fair value as deemed cost for its investment property, even if it plans to adopt the historical cost method under IFRS, thereby eliminating the need to recalculate historical depreciation. If the fair value as deemed cost exemption is used, the investment property would be depreciated under IFRS from the date of the valuation used to determine deemed cost to the IFRS transition date. Additionally, if an entity elects to carry its investment property at fair value under IFRS and a recent valuation of its investment property is available, for example, from a business combination or an impairment analysis, an entity may be able to avoid having a full valuation performed at the transition date. This would be the case only if the entity can demonstrate that the assumptions used in the valuation remain appropriate at the IFRS transition date.

Intangible assets

Similarities:

The definition of intangible assets as nonmonetary assets that lack physical substance is similar under both the FASB's ASC 805 and ASC 350, *Intangibles — Goodwill and Other*¸ and the IASB's IFRS 3 and IAS 38. In order to recognize an intangible asset, both accounting models require that probable future economic benefits will flow to the entity from costs that can be reliably measured. However, under either model, certain costs (e.g., startup costs) are never capitalized as intangible assets and goodwill is recognized only in a business combination. In general, intangible assets that are acquired outside of a business combination are recognized at cost. With the exception of development costs, internally developed intangibles are not recognized as an asset under either ASC 350 or IAS 38. Moreover, internal costs related to the research phase of research and development are expensed as incurred under both accounting models.

Amortization of finite-lived intangible assets over their estimated useful lives is required under both US GAAP and IFRS, with one minor exception in ASC 985, *Software*, related to the amortization of the capitalized costs of computer software sold to others (see question 2). In both, if there is no foreseeable limit to the period over which an intangible asset is expected to generate net cash inflows to the entity, the useful life is considered indefinite and the asset is not amortized. Goodwill is not subject to amortization[6] under either US GAAP or IFRS.

Primary US GAAP	Primary IFRS
► ASC 350, *Intangibles — Goodwill and Other* ► ASC 985, *Software* ► ASC 720-35, *Other Expense – Advertising Costs* ► ASC 730, *Research and Development* ► ASC 805, *Business Combinations*	► IAS 38 *Intangible Assets* ► IFRS 3 *Business Combinations*

Standard setting activities:

In June 2022, the FASB added a project to its technical agenda on accounting for and disclosure of software costs to address feedback from stakeholders. The objectives of the project are to (1) modernize the accounting for software costs and (2) enhance the transparency about an entity's software costs. The scope of the project is the recognition, measurement, presentation and disclosure of costs to internally develop or acquire software, which encompasses all of the software costs currently subject to the guidance in ASC 350-40, *Intangibles — Goodwill and Other — Internal-Use Software*, and ASC 985-20, *Software — Costs of Software to Be Sold, Leased, or Marketed*, for all entities. The project is in initial deliberations, and readers should monitor the project for developments.

[6] US GAAP includes an accounting alternative that allows private companies and not-for-profit entities to amortize goodwill acquired in a business combination or in an acquisition by a not-for-profit entity. IFRS reporters that apply IFRS for SMEs are required to amortize goodwill.

Discussion of IFRS 1:

In its opening IFRS balance sheet as of the transition date, a first-time adopter:

(1) Excludes all intangible assets that do not meet the criteria for recognition under IAS 38

(2) Includes all intangible assets that meet the recognition criteria in IAS 38 at that date, including intangible assets that were not recognized in a pre-transition date business combination (i.e., the intangible assets that were subsumed in goodwill)

In assessing whether an intangible asset qualifies for recognition as of the transition date, a first-time adopter should apply the guidance in IAS 38. Under IAS 38, an intangible asset qualifies for recognition only if it is probable that the future economic benefits attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. In addition, in assessing whether an internally generated intangible asset qualifies for recognition, IAS 38 does not permit the use of hindsight. Therefore, a first-time adopter may capitalize the costs of an internally generated intangible asset only if it:

(1) Concludes, based on an assessment made and documented at the date of that conclusion (in this case, the transition date), that it is probable that future economic benefits from the asset will flow to the entity

(2) Has a reliable system for accumulating the costs of internally generated intangible assets when, or shortly after, they are incurred

In other words, IFRS 1 does not permit the first-time adopter to reconstruct retrospectively the costs of internally generated intangible assets. Therefore, we believe that it would be rare for an internally generated intangible asset that was not previously recognized under the first-time adopter's previous GAAP to qualify for recognition as of the transition date because either: (1) the intangible asset did not meet the requirements for capitalization in IAS 38 or (2) capitalization would require the use of hindsight, which IAS 38 does not permit.

Generally, it will be easier to capitalize separately acquired intangible assets than internally generated intangible assets because contemporaneous documentation that was prepared to support the investment decision often exists.

A first-time adopter also will need to assess whether its previous GAAP amortization methods would be acceptable under IFRS. If the first-time adopter determines that its previous amortization methods would be acceptable under IFRS, then no adjustment to the carrying amount of the intangible assets would be required in the first-time adopter's opening IFRS balance sheet. Any subsequent change in the intangible asset's estimated useful life or amortization pattern would be accounted for prospectively. However, if the first-time adopter determines that its previous amortization methods would not be acceptable under IFRS, if material, the carrying amount of the intangible assets in the first-time adopter's opening IFRS balance sheet must be retrospectively restated to comply with IFRS.

IFRS 1 also permits a first-time adopter to elect to measure an intangible asset at the date of transition to IFRS at its fair value and use that fair value as its deemed cost at that date if: (1) the intangible asset qualifies for recognition under IAS 38, and (2) the intangible asset meets the criteria in IAS 38 for revaluation (including the existence of an active market). Because an active market does not exist for most intangible assets, in general, most first-time adopters will not be able to use this IFRS 1 election.

Differences:

1. Did the entity incur costs relating to research and development activities (other than software development costs)?	Yes ☐	No ☐

US GAAP — ASC 730-10-25	**IFRS — IAS 38.54 and IAS 38.57**
Costs relating to research and development activities are expensed as incurred, unless the costs relate to an item that has an alternative future use.	Costs relating to research activities are expensed as incurred. Costs relating to development activities are capitalized if an entity can demonstrate *all* of the following: ► The technical feasibility of completing the intangible asset so that it will be available for use or sale ► The intention to complete the intangible asset and use or sell it ► The ability to use or sell the intangible asset ► How the intangible asset will generate probable future economic benefits by demonstrating the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset ► The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset ► The ability to measure reliably development expenditures

Implications:
If an IFRS reporter can demonstrate that it has satisfied all of the conditions in IAS 38 for capitalization, differences between US GAAP and IFRS will arise because the IFRS reporter would be able to capitalize development costs that a US GAAP reporter would otherwise have expensed. However, if any of the conditions in IAS 38 have not been met, development costs generally will be accounted for similarly under both US GAAP and IFRS (i.e., expensed).

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

IFRS 1 implications:

IFRS 1 does not permit a first-time adopter to reconstruct retrospectively the costs of internally generated intangible assets. Therefore, we believe that it would be rare for an intangible asset that was not previously recognized by the first-time adopter to qualify for recognition as of the transition date because either: (1) the intangible asset did not meet the requirements for capitalization in IAS 38 or (2) capitalization would require the use of hindsight, which IAS 38 does not permit.

2. Did the entity incur costs relating to computer software that was sold, leased or otherwise marketed?	Yes ☐	No ☐

US GAAP — ASC 985-20-25 and ASC 985-20-35	**IFRS — IAS 38.57 and IAS 38.97 through 99**
Internal and external costs incurred after technological feasibility has been established are capitalized. Technological feasibility is established when an entity has completed all planning, designing, coding and testing activities necessary to establish that the product can be produced to meet its design specifications including functions, features and technical performance requirements. ASC 985 details certain activities that, at a minimum, must be completed to provide evidence that technological feasibility has been established. These activities differ slightly depending on whether a detailed program design or a working model of the software is used to establish technological feasibility. Capitalization of costs ceases when the product is available for general release to customers. Capitalized computer software costs are amortized on a product-by-product basis. The annual amortization is the greater of the computed amount using: ► The ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product Or ► The straight-line method over the remaining estimated economic life of the product including the current reporting period	No separate guidance exists for computer software costs (i.e., the general principles in IAS 38 apply). Therefore, computer software costs relating to development activities may be capitalized if all of the conditions in IAS 38.57 have been satisfied (see question 1). Capitalized computer software costs should be amortized on a systematic basis over its useful life. The amortization method used should reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight-line method should be used. A variety of amortization methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. However, there is a rebuttable presumption that an amortization method that is based on the pattern of expected revenues is not appropriate.

Implications:
Because the principles in ASC 985 and IAS 38 are similar, we generally would not expect significant differences in the capitalization of computer software costs that will be sold, leased or otherwise marketed. However, because the specific amortization method required by ASC 985 is not permitted under IAS 38, the amortization of computer software costs will differ from IFRS if the first approach above is used for any period under US GAAP.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

In preparing its opening IFRS balance sheet as of the transition date, the first-time adopter must assess whether the method used to amortize computer software costs under ASC 985 complies with the requirements of IAS 38. If the carrying amount of the computer software costs as of the transition date was determined pursuant to the first approach above, the carrying amount must be retrospectively restated to comply with IAS 38, if the difference is material.

3. Did the entity incur costs relating to computer software developed for internal use?	Yes	No
	☐	☐

Internal-use software is software that is acquired, internally developed or modified solely to meet an entity's internal needs.

US GAAP — ASC 350-40-25-2 through 25-5 and ASC 350-40-55-3	**IFRS — IAS 38.57**
Internal and external costs incurred during the application development stage are capitalized. All other costs are expensed as incurred. The activities during the application development stage include (1) design of chosen path, including software configuration and software interfaces, (2) coding, (3) installation to hardware and (4) testing, including the parallel processing phase.	No separate guidance exists for computer software costs (i.e., the general principles in IAS 38 apply). Therefore, computer software costs relating to development activities may be capitalized if all of the conditions in IAS 38.57 have been satisfied (see question 1).

Implications:
Because the principles in ASC 350-40 and IAS 38 are similar, we generally would not expect there to be differences in the capitalization of costs of software developed or licensed for internal use. However, it is possible that the costs incurred during activity (1) above of the application development stage (i.e., design of chosen path, including software configuration and software interfaces) may not be capitalized under IFRS since at that point in time it may be difficult to demonstrate that all of the conditions for capitalization in IAS 38 have been met. In addition, the classification of computer software developed for internal use may differ between US GAAP and IFRS. Under US GAAP, computer software developed for internal use may be classified as PP&E or intangible assets whereas under IFRS such assets are generally classified as intangible assets.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

In its opening IFRS balance sheet as of the transition date, a first-time adopter would be required to derecognize any costs that were capitalized under US GAAP that would not qualify for capitalization under IAS 38 as of that date.

4. Did the entity purchase computer software for its own use?	Yes ☐	No ☐

US GAAP — ASC 350-40 and ASC 805-20-55-38	**IFRS — IAS 38.4**
Purchased computer software is accounted for as an intangible asset.	Purchased computer software is accounted for as an intangible asset unless the software is an integral part of the related hardware. In such a case, purchased computer software is accounted for as PP&E under IAS 16. For example, computer software for a computer-controlled machine tool that cannot operate without that specific software would be considered an integral part of the related hardware and, therefore, accounted for under IAS 16.

Implications:
Purchased computer software that is integral to the related hardware may be classified differently under US GAAP than under IFRS and may result in different disclosure requirements. Also, because IAS 16 permits the use of the revaluation model to subsequently measure PP&E (see question 1 in the “Property, plant and equipment” section of this publication for further discussion), subsequent measurement differences may arise.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

IFRS 1 implications:

In preparing its opening IFRS balance sheet as of the transition date, the first-time adopter must assess whether any purchased computer software is integral to the related hardware. If the purchased computer software is integral and the computer software was previously classified as an intangible asset, the first-time adopter must reclassify the carrying amount of the purchased computer software as of the transition date to PP&E and assess whether its previous accounting under ASC 350 complies with the requirements of IAS 16.

5. Did the entity incur implementation costs as a customer in a cloud computing arrangement (i.e., hosting arrangement) that is a service contract?	Yes ☐	No ☐

US GAAP — ASC 350-40-25-1 through 25-11 and ASC 350-40-25-18	**IFRS**
A customer in a hosting arrangement that is a service contract is required to apply ASC 350-40 to determine whether to capitalize implementation costs related to the arrangement or to expense them as incurred. As discussed in question 3, the guidance in ASC 350-40 requires the capitalization of certain costs incurred only during the application development stage (e.g., costs of integration with on-premises software, coding, configuration, customization). All other costs (i.e., costs incurred during the preliminary and post-implementation stages) are expensed as incurred.	IFRS standards do not contain explicit guidance on a customer's accounting for cloud computing arrangements or the costs to implement them. Therefore, an entity will need to apply judgment to account for these costs and may need to apply various IFRS standards. The guidance in IAS 38 addresses how customers that obtain software licenses evaluate whether to capitalize or expense certain costs, but generally it does not apply when software is accounted for as a service (i.e., service arrangements that do not include a software license). Therefore, an entity should generally expense implementation costs unless they can be capitalized under other IFRS standards (e.g., as PP&E under IAS 16*)*.

Implications:
Because of the specific US GAAP guidance related to this issue, which does not exist under IFRS, we expect more implementation costs for cloud computing arrangements that are service contracts to be capitalized under US GAAP than under IFRS.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

IFRS 1 implications:

In its opening IFRS balance sheet as of the transition date, a first-time adopter would be required to derecognize any costs that were capitalized under US GAAP that would not qualify for capitalization under IAS 38 as of that date.

6. Does the entity account for intangible assets at cost?	Yes ☐	No ☐

This question relates to intangible assets that were (1) acquired separately, (2) acquired in a business combination or (3) internally developed.

US GAAP — ASC 350-30-35-6 through 35-19	**IFRS — IAS 38.72**
Intangible assets are subsequently accounted for at cost, less accumulated amortization and any impairment losses.	Intangible assets are subsequently accounted for at: ► Cost less accumulated amortization and any impairment losses Or ► Fair value (if an active market exists) less accumulated amortization and any impairment loss (referred to as the revaluation model)

Implications:
Because an active market does not exist for most intangible assets, the use of the IFRS revaluation model is rare and, therefore, the subsequent accounting for intangible assets generally will be similar under US GAAP and IFRS.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

IFRS 1 implications:

Because both standards permit intangible assets to be recorded at cost less accumulated amortization and any impairment losses, a first-time adopter generally will not be required to adjust the carrying amount of its intangible assets in its opening IFRS balance sheet as of the transition date. However, if the intangible asset meets the criteria in IAS 38 for revaluation, the first-time adopter may elect to measure the intangible asset at its fair value at the transition date and use that fair value as its deemed cost at that date. In this case, the first-time adopter must then determine whether it will subsequently account for the intangible asset using either the cost model or the revaluation model.

7. Did the entity incur advertising expenditures?	Yes ☐	No ☐

US GAAP — ASC 720-35-25-1 and ASC 270-10-45-9	**IFRS — IAS 38.67, IAS 38.69, IAS 38.70, IAS 34.21 and IAS 34.39**
Advertising and promotional costs are either: ► Expensed as incurred Or ► Expensed when the advertising takes place for the first time (policy election)	Advertising and promotional costs are expensed as incurred. A prepayment may be recognized as an asset only when payment for the goods or services is made in advance of the entity having access to the goods or receiving the services.

An exception to expensing advertising costs as incurred or the first time the advertisement is shown relates to “cooperative advertising.” Cooperative advertising involves an obligation assumed by a company to reimburse a customer for costs incurred to advertise the company’s products. Typically, the level of costs reimbursed is correlated to the level of revenue realized. For example, assume a pharmaceutical company sells its product through a network of distributors and agrees to pay the distributor for advertising costs based on a percentage of the amount of product a distributor purchases. Under ASC 720-35-25-1A, cooperative advertising obligations should be accrued and the costs expensed at the same time the related revenue is recognized, which could be before the advertising costs are actually incurred by the customer.	
Interim reporting For interim reporting, advertising costs may be deferred within a fiscal year if the benefits of an expenditure clearly extend beyond the interim period in which the expenditure is made. Advertising costs may be accrued and assigned to interim periods in relation to sales prior to the time the service is received if the advertising program is clearly implicit in the sales arrangement..	*Interim reporting* For interim reporting, costs that are incurred unevenly during an entity’s financial year are deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year. The standard does not allow the allocation of costs to individual interim periods in proportion to the expected activity levels for the year. Instead, if businesses are highly seasonal, the standard encourages entities wishing to provide a context to the reported results do so by providing additional year-to-date disclosures for costs incurred unevenly during the financial year.

Implications:
Because of the alternatives and certain exceptions available under US GAAP, accounting differences will arise if the entity’s accounting policy is to expense advertising costs when the advertising takes place for the first time. Furthermore, because ASC 270 permits entities to defer advertising costs within a fiscal year if the benefits of the expenditure clearly extend beyond the interim period in which the expenditure was made, accounting differences may arise within an interim reporting period even if the entity’s accounting policy was to expense advertising costs as incurred.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

If the first-time adopter's accounting policy was to expense advertising costs as incurred, no adjustment would be required to the first-time adopter's opening IFRS balance sheet as of the transition date. However, if the first-time adopter's accounting policy was to expense advertising costs when the advertising takes place for the first time, any amounts capitalized as of the transition date must be derecognized and recorded as an adjustment to retained earnings (before any related adjustment for income taxes) in the first-time adopter's opening IFRS balance sheet.

8. Did the entity acquire an assembled workforce as part of an asset acquisition?	Yes ☐	No ☐

An assembled workforce is a collection of employees that allows the acquirer to continue to operate the asset from the acquisition date. That is, the acquirer does not need to go through the process of finding, hiring and training the employees because they are already in place and operating on a continuous "business as usual" basis. For example, an entity may have acquired a piece of machinery along with the employees that are familiar with its operation.

US GAAP — ASC 350-30-25-4	**IFRS — IAS 38.15**
An assembled workforce that is acquired as part of an asset acquisition should be recognized as an intangible asset. For intangible assets that are acquired individually or within a group of assets, the FASB observed that the asset recognition criteria in CON 5 may be met even though the contractual-legal criterion or separability criterion has not been met. ASC 805 precludes the recognition of an assembled workforce as a separate acquired asset in a business combination.	An assembled workforce that is acquired as part of an asset acquisition generally is not recognized as an intangible asset because the entity usually has insufficient control over the expected future economic benefits of that assembled workforce. IFRS 3 precludes the recognition of an assembled workforce as a separate acquired asset in a business combination.

Implications:
Because US GAAP requires the recognition of an acquired assembled workforce that is part of an asset acquisition as an intangible asset, differences in the assignment of the purchase price to the individual identifiable assets and liabilities on the basis of their relative fair values may arise between US GAAP and IFRS, if under IFRS, the entity is unable to demonstrate sufficient control over the expected future economic benefits of that assembled workforce. In such cases, none of the purchase price would be allocated to the assembled workforce under IFRS. As described above, neither IFRS nor US GAAP allows the recognition of an assembled workforce in a business combination.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

IFRS 1 implications:

If the first-time adopter acquired an assembled workforce as part of a pre-transition date asset acquisition under US GAAP, the first-time adopter would have allocated the cost of the acquisition to the individual assets (including the assembled workforce) and liabilities acquired, on the basis of their relative fair values. If, under IFRS, the first-time adopter determines that the assembled workforce does not qualify for recognition under IAS 38, the first-time adopter must retrospectively restate the asset acquisition accounting to allocate the original cost of the acquisition to the individual identifiable assets (excluding the assembled workforce) and liabilities on the basis of their relative fair values. The first-time adopter must then apply the relevant IFRSs to the individual assets and liabilities to determine their appropriate carrying amounts in the first-time adopter's opening IFRS balance sheet as of the transition date.

However, if the asset acquisition would qualify as a business combination under IFRS 3, then the first-time adopter may apply the exemption in IFRS 1 and elect to not go back and account for that prior asset acquisition as a business combination. In that case, because the assembled workforce would not qualify for recognition when applying IAS 38 as of the transition date, the first-time adopter should reclassify the carrying amount of the assembled workforce to goodwill. When applying IAS 38, the first-time adopter should apply the provisions of IAS 38 that relate to the acquisition of intangible assets as part of a business combination.

Impairment of long-lived assets held and used

Similarities:

Both US GAAP and IFRS require an asset's recoverability to be tested if indicators exist that an asset may be impaired. Additionally, they require that an asset found to be impaired be written down and an impairment loss recognized. The "Impairment or Disposal of Long-Lived Assets" subsections of ASC 360-10 and IAS 36 apply to most long-lived assets, including finite-lived intangibles (herein referred to as long-lived assets), although some of the scope exceptions listed in the standards differ. Despite the similarity in overall objectives, differences exist in the way in which impairment is tested, recognized and measured.

Impairment indicators

The indicators of impairment are similar for both US GAAP and IFRS and include items such as:

- A significant decrease in the market price of a long-lived asset
- A significant adverse change in the extent or manner in which a long-lived asset is used (e.g., plans to idle or discontinue using an asset)
- Evidence of obsolescence or physical damage to a long-lived asset
- A significant adverse change in legal factors or in the business climate (e.g., technological, market or economic factors) that could affect the value of a long-lived asset, including an adverse action or assessment by a regulator
- A current-period operating or cash flow loss combined with a history of operating or cash flow losses, or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset

Note that although the standards identify certain indicators, the lists are not intended to be all inclusive.

Grouping of assets for evaluation

Although both US GAAP and IFRS contain specific guidelines for grouping long-lived assets, the underlying principle in both is that long-lived assets are grouped at the lowest level for which cash flows relating to the long-lived assets can be separately identified (inflows and outflows under US GAAP, inflows only under IFRS). If goodwill is included in an asset group (US GAAP) or a cash-generating unit (CGU) (IFRS), then both US GAAP and IFRS require an entity to test the non-goodwill assets for impairment first and recognize any impairment loss on those assets before carrying out the impairment test for the goodwill.

Long-lived assets to be abandoned

Long-lived assets to be abandoned are classified as held and used until actually abandoned under both US GAAP and IFRS.

Primary US GAAP	Primary IFRS
► ASC 360, *Property, Plant, and Equipment*	► IAS 36 *Impairment of Assets*

Standard setting activities:

There is no significant standard setting activity in this area.

Discussion of IFRS 1:

Upon the adoption of IFRS, a first-time adopter should evaluate its long-lived assets for impairment. If impairment indicators exist, an impairment test should be performed using IAS 36.

In preparing for the adoption of IFRS, a first-time adopter that is required to evaluate its long-lived assets for impairment under US GAAP also should evaluate such assets under IFRS. For example, an entity that plans to adopt IFRS on 31 December 20X7 will be required to present full financial statements for the years ending 31 December 20X7, 20X6 and 20X5. Therefore, during this three-year period leading up to the adoption of IFRS, an entity should consider evaluating its long-lived

assets for impairment under both US GAAP and IFRS in order to avoid the unnecessary burden of reperforming impairment analyses under IAS 36 several years later at the date of adoption of IFRS.

Differences:

1. Do impairment indicators of long-lived assets exist?	Yes ☐	No ☐

Although the types of assets falling in the scope of the "Impairment or Disposal of Long-Lived Assets" subsections of ASC 360-10 and IAS 36 generally are the same (i.e., long-lived tangible assets and intangible assets with finite lives), slight differences may exist as a result of the exclusions noted in each standard. Although both US GAAP and IFRS have similar objectives when assessing assets for impairments, differences in the application of the two models exist.

US GAAP — ASC 360-10-35-15 through 35-36	**IFRS — IAS 36.7 through 32, IAS 36.58 through 68, IAS 36.97 through 98 and IAS 36.104 through 108**
Review for impairment indicators Performed whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. *Asset grouping* A long-lived asset 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. Goodwill is included in an asset group only if the asset group is or includes a reporting unit. Goodwill is not included in a lower-level asset group that includes only part of a reporting unit. Estimates of future cash flows used to test that lower-level asset group for recoverability should not be adjusted for the effect of excluding goodwill from the group. Other than goodwill, the carrying amounts of any assets (such as accounts receivable and inventory) and liabilities (such as accounts payable, long-term debt and AROs) not covered by ASC 360 that are included in an asset group must be adjusted in accordance with other GAAP before testing the asset group for recoverability. ASC 350 requires that goodwill be tested for impairment only after the carrying amounts of the other assets of the reporting unit, including the long-lived assets covered by ASC 360, have been tested for impairment under other applicable accounting guidance. An impairment loss, if any, should reduce only the carrying amounts of a long-lived asset(s) of the group. The loss should be allocated to the long-lived assets of the group on a pro rata basis using the relative carrying amounts of those assets, except that the loss allocated to an individual long-lived asset of the group cannot reduce the	*Review for impairment indicators* Assessed at each reporting date. *Asset grouping* If it is not possible to estimate the recoverable amount (defined below) of an individual long-lived asset, the recoverable amount of a cash generating unit (CGU) to which the individual asset belongs is evaluated. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. If the recoverable amount of the individual asset is determinable, assets in a CGU are tested for impairment before the CGU containing goodwill. If the recoverable amount of an individual asset is not determinable, an impairment loss, if any, first reduces the carrying amount of any goodwill allocated to the CGU and then, to other assets of the unit on a pro rata basis using the relative carrying amounts of the assets. An entity cannot reduce the carrying amount of the asset below the highest of: ► Its fair value less cost of disposal ► Its value in use ► Zero

carrying amount of that asset below its fair value whenever that fair value is determinable without undue cost and effort.	
Method of determining if impairment exists The two-step approach requires that a recoverability test be performed first to determine whether the long-lived asset is recoverable. The recoverability test compares the carrying amount of the asset to the sum of its future undiscounted cash flows using entity-specific assumptions generated through the asset's use and eventual disposition. If the carrying amount of the asset is greater than the cash flows, the asset is not recoverable. If the asset is not recoverable, an impairment loss calculation is required. (See below for further details.) If the carrying amount of the asset is less than the cash flows, the asset is recoverable and an impairment cannot be recorded.	*Method of determining if impairment exists* The one-step approach requires an impairment loss calculation (see below) if impairment indicators exist.
Impairment loss calculation The impairment loss is recognized in income for the amount by which the carrying amount of the long-lived asset (asset group) exceeds its fair value using market participant assumptions, as calculated in accordance with ASC 820.	*Impairment loss calculation* An impairment loss is recognized in income for the amount by which the carrying amount of the long-lived asset (or CGU), including goodwill, exceeds its recoverable amount. The 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 expected to be derived from the asset's use and eventual disposal at the end of its useful life).

Implications:
Entities will frequently recognize impairment losses earlier under IFRS than under US GAAP because IFRS does not have a similar step to US GAAP's undiscounted cash flow recoverability test. While the guidance for asset grouping is similar under US GAAP and IFRS, differences may arise in how assets are grouped, which could affect the outcome of the impairment analysis (i.e., whether there is an impairment loss or the amount of the impairment loss). While US GAAP measures the impairment loss as the difference between the carrying amount of the asset or asset group and its fair value, IFRS measures the impairment loss as the difference between the carrying amount of the CGU and its recoverable amount. The recoverable amount is the greater of the CGU's fair value less costs to sell and its value in use. The value in use is the present value of the future cash flows expected to be derived from the continuing use of an asset or CGU and its eventual disposal at the end of its useful life. In contrast to a fair value measurement, value in use is determined using management's assumptions. Further, when determining the recoverable amount using fair value, IFRS considers the costs to dispose of the CGU, even when the CGU is being evaluated under a held and used model.

Impairment of assets using the revaluation alternative under IAS 16

Under IAS 16 an entity must make a policy election to carry its PP&E at historical cost or a revaluation amount (fair value). (See question 1 in the “Property, plant and equipment” section of this publication for further discussion.) The discussion above is based on the assumption that the entity elected to recognize its PP&E at *historical cost* under IAS 16.

An impairment loss on an asset that is accounted for using the *revaluation* approach is recognized directly against any revaluation surplus for the asset recognized in OCI to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset. An impairment loss that exceeds the amount in the revaluation surplus is recognized in profit or loss. For example, if an asset with an historical cost of $100 is subsequently revalued to $135, the additional $35 would be a debit to the asset and a credit to OCI. If, subsequently, that same asset’s fair value declines to $95, $35 of the impairment is debited to OCI and the remaining $5 is charged to profit and loss because a revaluation loss can be charged to OCI only to the extent of the cumulative revaluation surplus.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

At the date of transition to IFRS, an entity is required to perform an impairment test in accordance with IAS 36, if impairment indicators relating to its long-lived assets exist. As such, the carrying value of such assets will need to conform to IFRS at the date of adoption.

If impairment indicators do not exist at the IFRS transition date but an impairment loss was recognized under US GAAP before the transition date, the reporting entity will have to go back in time to recalculate the impairment loss under IFRS, in addition to depreciation that would have been recognized under IFRS, if the entity adopts IFRS retrospectively. Electing the deemed cost exemption will eliminate the need to recreate historical records for impairment charges and depreciation in this situation.

As noted in the “IFRS 1 implications” section within the “Property, plant and equipment” section of this publication, the deemed cost of an asset can be based upon a revaluation to fair value under another GAAP if the fair value as determined under such valuation is broadly comparable to fair value under IFRS. We believe that a revaluation of an impaired asset, when the fair values of individual assets are determined as part of an impairment analysis under the “Impairment or Disposal of Long-Lived Assets” subsections of ASC 360-10, is broadly comparable to fair value under IFRS for purposes of determining deemed cost. Therefore, the deemed cost of the asset at transition would be equal to the asset’s fair value as determined under ASC 360-10, adjusted for depreciation computed under IAS 16 from the date of the ASC 360-10 valuation to the IFRS opening balance sheet at adoption.

Furthermore, in preparing for the adoption of IFRS, a reporting entity should consider contemporaneously preparing US GAAP and IFRS impairment analyses of its long-lived assets to avoid the unnecessary burden of collecting or reconstructing prior period information at the date of adoption.

2. Are there indicators that long-lived assets held and used for which an impairment loss was recorded have recovered their value?	Yes ☐	No ☐

US GAAP — ASC 360-10-35-20	**IFRS — IAS 36.110 through 118**
Reversal of impairment losses is prohibited for all long-lived assets held and used.	Long-lived assets (other than goodwill) must be reviewed at the end of each reporting period for reversal indicators. If such indicators exist, the impairment loss should be reversed up to the newly estimated recoverable amount, not to exceed the initial carrying amount adjusted for depreciation.

Implications:
Under IFRS, entities must continue to evaluate assets on which an impairment loss has been reported to determine if there are indicators that an asset has recovered its value. IFRS requires that recognized impairments on long-lived assets (except goodwill) be reversed, if, and only if, a change in the estimates used to determine the asset's recoverable amount occurs since the last impairment loss was recognized. The reversal of an impairment loss, if any, should not exceed the carrying amount (cost less accumulated depreciation) that would have been determined had no impairment loss been recognized in the past. US GAAP does not allow for the reversal of a previously recognized impairment loss on a long-lived asset held and used. See question 4 in the "Noncurrent assets held for sale and discontinued operations" section of this publication for discussion of subsequent increases in the fair value of an asset or disposal group held for sale.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

IFRS 1 implications:

A US GAAP reporting entity that elects to retrospectively apply IFRS and that has recognized impairment losses on long-lived assets (except goodwill) may have to reinstate the carrying amount of its assets on transition to IFRS (i.e., recover a portion of the impairment loss), if the circumstances that led to the impairment no longer exist at the IFRS transition date and if the deemed cost exemption is not used. Electing the deemed cost exemption will eliminate the need for an entity to go back in time to determine if impairment indicators have been abated and recreate historical records to determine the carrying amounts of the assets at transition.

Impairment of goodwill and indefinite-lived intangible assets

Similarities:

Both US GAAP and IFRS require goodwill and intangible assets with indefinite useful lives to be tested at least annually for impairment and more frequently if impairment indicators are present. The impairment indicators in US GAAP and IFRS are similar. Additionally, both US GAAP and IFRS require that an asset found to be impaired be written down and an impairment loss recognized. ASC 350 and IAS 36 apply to most intangible assets, although some of the scope exceptions listed in the standards differ. Despite the similarity in overall objectives, differences exist in the way in which impairment is tested, recognized and measured.

Primary US GAAP	Primary IFRS
► ASC 350, *Intangibles — Goodwill and Other*	► IAS 36 *Impairment of Assets*

Standard setting activities:

In January 2017, the FASB issued ASU 2017-04, *Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,* to eliminate the requirement to calculate the implied fair value (i.e., Step 2 of the impairment test under legacy ASC 350) to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value (i.e., measure the charge based on legacy GAAP's Step 1). The guidance is applied prospectively and is effective for annual and interim impairment tests performed in periods beginning after (1) 15 December 2019 for PBEs that meet the definition of an SEC filer, excluding smaller reporting companies, and (2) 15 December 2022 for all other entities. Early adoption is permitted. We include a discussion of differences both before and after adoption of ASC 2017-04 below.

The IASB has a project on its research agenda to consider improvements to the impairment requirements for goodwill that was added in response to the findings in its post-implementation review of IFRS 3. Currently, the FASB does not have a similar project on its agenda. Readers should monitor this project for developments.

Discussion of IFRS 1:

Upon the adoption of IFRS, a first-time adopter must apply the provisions of IAS 36 as of the transition date to determine whether an impairment loss exists for goodwill and indefinite-lived intangible assets, measure any impairment loss and, for intangible assets other than goodwill, reverse any impairment loss that no longer exists. (See question 2 in the "Impairment of long-lived assets held and used" section of this publication for further information about the difference between US GAAP and IFRS regarding the reversal of prior impairment losses.) Regardless of whether there is any indication that goodwill may be impaired, the first-time adopter must test goodwill for impairment as of the transition date and recognize any resulting impairment loss in retained earnings. The remaining goodwill balance will be subsequently accounted for in accordance with IAS 36.

The underlying estimates (e.g., cash flow assumptions) used to determine whether a first-time adopter recognizes an impairment loss as of the transition date should be consistent with any impairment estimates made under US GAAP as of the transition date, unless there is objective evidence that those estimates were in error. If the first-time adopter needs to make estimates as of the transition date that were not necessary under US GAAP, such estimates and assumptions should reflect conditions that were present as of the date of transition to IFRS and should not reflect conditions that arose thereafter.

Differences:

1. Does the entity have goodwill?	Yes ☐	No ☐

US GAAP — ASC 350-20-35-3A through 35-13, ASC 350-20-35-28 and ASC 350-20-35-41	**IFRS — IAS 36.10, IAS 36.80, IAS 36.90 and IAS 36.104**
Assignment of goodwill Goodwill is assigned to a reporting unit, which is an operating segment or one level below an operating segment (component).	*Allocation of goodwill* Goodwill is allocated to a CGU or group of CGUs, which represents the lowest level within the entity at which goodwill is monitored for internal management purposes and cannot be larger than an operating segment (before aggregation) as defined in IFRS 8 *Operating Segments*. IAS 36 defines a CGU as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.
Qualitative assessment For the annual impairment test, companies may first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If a company concludes that is the case, it must perform the goodwill quantitative impairment test. If it concludes otherwise, it can stop. A company can elect to bypass the qualitative test and proceed directly to the quantitative test.	*Qualitative assessment* No optional qualitative assessment exists. Each CGU (or group of CGUs) must be tested annually for impairment, regardless of whether any impairment indicators exist.

Method of determining and calculating impairment loss (before the adoption of ASU 2017-04) The two-step goodwill impairment test is performed as follows: ► *Step 1:* The fair value of the reporting unit is compared with its carrying amount. If the carrying amount of the reporting unit exceeds its fair value, then Step 2 is performed to measure the amount of impairment loss, if any. ► *Step 2:* The goodwill impairment loss is the amount by which the carrying amount of the goodwill exceeds the implied fair value of the goodwill determined by assigning the fair value of the reporting unit to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination. The amount of the impairment loss is limited to the carrying amount of the goodwill. *Method of determining and calculating impairment loss (after the adoption of ASU 2017-04)* The reporting unit's fair value is compared to its carrying amount. If the carrying amount of the reporting unit exceeds the fair value, the entity will record an impairment loss based on the difference. The impairment loss will be limited to the amount of goodwill allocated to that reporting unit.	*Method of determining and calculating impairment loss* A one-step goodwill impairment test is performed at the CGU level. The carrying amount of the CGU (or group of CGUs), including goodwill, is compared to its recoverable amount. The recoverable amount is the higher of (1) fair value less costs to sell and (2) value in use. Value in use is defined as the present value of the future cash flows expected to be derived from the asset or CGU. Any impairment loss (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.

Implications:
Based on the definition of a CGU, we believe there generally will be at least as many and possibly more CGUs than reporting units, which may result in goodwill being tested at a different level (generally lower) under IFRS than US GAAP. For example, an entity with a number of divisions may have grouped those divisions together under US GAAP for purposes of goodwill allocation and consideration of impairment, but under IFRS, it may, depending on the facts and circumstances, be required to allocate goodwill to each division individually and perform the impairment analysis at the individual division level. In addition, before and after the adoption of ASU 2017-04, even if goodwill is tested for impairment at the same level, the amount of the goodwill impairment loss may differ between US GAAP and IFRS due to the different requirements for measuring the goodwill impairment loss and the fact that the fair value of the reporting unit may differ from the recoverable amount of the CGU. (Note that general differences exist between fair value measurement in US GAAP and IFRS that could cause differences between the fair value of the reporting unit and the recoverable amount of the CGU, regardless of whether the recoverable amount is based on value in use or fair value less costs to sell. See the "Fair value measurements" section of this publication for a further discussion of these

general differences.) Furthermore, unlike US GAAP, IFRS does not limit the amount of the impairment loss to the carrying amount of the goodwill.

After the adoption of ASU 2017-04, if a reporting unit's carrying amount exceeds its fair value, the entity will record an impairment charge based on that difference. This requirement aligns US GAAP more closely with IFRS.

Although US GAAP permits the use of a qualitative screen for the annual goodwill impairment test, we do not believe this should change the timing or measurement of a goodwill impairment loss under US GAAP. Therefore, we would not expect to see additional differences in the timing or measurement of a goodwill impairment loss between US GAAP and IFRS as a result of the application of the qualitative screen for the annual impairment test.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

IFRS 1 implications:

Because IFRS 1 requires a goodwill impairment test to be performed as of the transition date, regardless of whether there is any indication that the goodwill may be impaired, differences between ASC 350 and IAS 36 may result in the recognition of an impairment loss, which would be recorded as an adjustment to retained earnings (before any related adjustment for income taxes).

2. Did the entity recognize a goodwill impairment charge on goodwill recognized in an acquisition of less than 100% of the acquiree?	Yes ☐	No ☐

If an entity acquires less than 100% of an acquiree, the acquirer must recognize, on the acquisition date, the noncontrolling interest representing the interest retained or held by the noncontrolling shareholders. Noncontrolling interest is the equity in a subsidiary not attributable, directly or indirectly, to a parent.

US GAAP — ASC 350-20-35-57A	**IFRS — IAS 36.C4 through C8**
In a business combination, ASC 805 requires entities to measure noncontrolling interest at fair value. When a noncontrolling interest exists in the reporting unit, any goodwill impairment loss is allocated to the controlling and noncontrolling interest on a rational basis.	In a business combination, IFRS 3 permits entities to measure the noncontrolling interest components that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net asset in the event of liquidation either at fair value, including goodwill, or at the noncontrolling interest's proportionate share of the fair value of the acquiree's identifiable net assets, exclusive of goodwill. All other components of noncontrolling interest are measured at fair value unless another measurement basis is required by IFRS. (See question 2 in the "Business combinations" section of this publication.) *Noncontrolling interest measured at fair value* When a noncontrolling interest exists in the CGU, any goodwill impairment loss is allocated to the controlling and noncontrolling interest either on a rational basis (consistent with

	US GAAP) or on the same basis as that on which profit or loss is allocated (generally based on relative ownership interests). *Noncontrolling interest measured at its share of the fair value of the acquiree's net identifiable assets* The recoverable amount of the CGU includes goodwill attributable to both the controlling and noncontrolling interests. However, because the entity measured its noncontrolling interest at its share of the fair value of the acquiree's net identifiable assets, the carrying amount of the CGU includes goodwill attributable only to the controlling interest. Therefore, the carrying amount of the CGU is adjusted to include the goodwill attributable to the noncontrolling interest. The adjusted carrying amount of the CGU is then compared to the recoverable amount to determine whether the CGU is impaired. Any goodwill impairment loss is allocated to the controlling and noncontrolling interest either on a rational basis, or on the same basis as that on which profit or loss is allocated (generally based on relative ownership interests). However, because goodwill is recognized only to the extent of the controlling interest, only the goodwill impairment loss allocated to the controlling interest is recognized.

Implications:
If both US GAAP and IFRS require a goodwill impairment loss, the amount of the impairment loss may differ depending on how the noncontrolling interest was measured under IFRS. If, under IFRS, the noncontrolling interest was measured at the noncontrolling shareholder's proportionate share of the fair value of the acquiree's net identifiable assets, the goodwill attributable to the noncontrolling interest is not recognized, which will likely cause a difference in the amount of any recognized goodwill impairment loss. This is because, under US GAAP, goodwill is recorded for both the controlling and noncontrolling interests; therefore, the impairment loss attributable to both the controlling and noncontrolling interests is recognized. However, under IFRS, while the goodwill impairment loss is attributed to both the controlling and noncontrolling interests, only the impairment loss attributed to the controlling interest goodwill is recognized. In addition, even if the noncontrolling interest was measured at fair value under both ASC 805 and IFRS 3, the amount (see question 1) and subsequent allocation of the goodwill impairment loss may differ if, under IFRS, the goodwill impairment loss is allocated to the controlling and noncontrolling interests based on their relative ownership interests (which does not include the effect of a control premium and, therefore, generally would not be considered to be a "rational basis" under US GAAP). Because a premium is often paid to obtain control of an entity, the controlling and noncontrolling interests' bases in the acquired goodwill may not be proportional to their ownership interests because the control premium is allocated only to the controlling interest. This may ultimately affect the amount of net income that is allocated to the controlling and noncontrolling interest on the face of the income statement as well as the amount of the gain or loss that is recognized if the parent loses control and deconsolidates the subsidiary.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

IFRS 1 implications:

Because IFRS 1 requires a goodwill impairment test to be performed as of the transition date, regardless of whether there is any indication that the goodwill may be impaired, differences between ASC 350 and IAS 36 may result in the recognition of an impairment loss (see question 1). In addition, when a noncontrolling interest exists in the reporting unit or CGU, the allocation of the impairment loss to the controlling and noncontrolling interests may be different.

3. Does the entity have indefinite-lived intangible assets?	Yes ☐	No ☐

US GAAP — ASC 350-30-35-18 through 35-26	**IFRS — IAS 36.10, IAS 36.22, IAS 36.24 and IAS 36.59**
Level of assessment for impairment testing Indefinite-lived intangible assets separately recognized should be assessed for impairment individually unless they operate in concert with other indefinite-lived intangible assets as a single asset (i.e., the indefinite-lived intangible assets	*Level of assessment for impairment testing* If the indefinite-lived intangible asset does not generate cash flows that are largely independent of those from other assets or groups of assets, then the indefinite-lived intangible asset should be tested for impairment as part of the CGU to which

are essentially inseparable). Indefinite-lived intangible assets may not be combined with other assets (e.g., finite-lived intangible assets or goodwill) for purposes of an impairment test.	it belongs, unless certain conditions are met.
Recognition and measurement of an impairment loss An impairment loss is recognized for the excess of the carrying amount of the indefinite-lived intangible asset over its fair value.	*Recognition and measurement of an impairment loss* An impairment loss is recognized for the excess of the carrying amount of the indefinite-lived intangible asset over its recoverable amount (defined as the higher of (1) fair value less costs to sell and (2) value in use).
Qualitative impairment assessment For the annual impairment test, similar to the goodwill guidance, companies may first assess qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible is less than its carrying amount. If a company concludes that is the case, it must perform an impairment test. If it concludes otherwise, it can stop.	*Qualitative impairment assessment* No optional qualitative assessment exists. Each indefinite-lived intangible asset (or CGU to which it belongs) must be tested annually for impairment, regardless of whether any impairment indicators exist.

Implications:
Because an indefinite-lived intangible asset may be tested for impairment at different levels (e.g., at the individual asset level under US GAAP versus the CGU level under IFRS), this may result in an impairment being recognized under one basis of accounting but not the other. In addition, even if an indefinite-lived intangible asset is tested for impairment at the same level, the amount of the impairment loss may differ because fair value under US GAAP may differ from the recoverable amount (i.e., the higher of fair value less costs to sell and value in use) under IFRS. See the “Fair value measurements” section of this publication for a further discussion of the general differences in measuring fair value between US GAAP and IFRS.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

If there is any indication that the indefinite-lived intangible asset may be impaired as of the transition date,[7] the first-time adopter must perform an impairment test and record any impairment loss as an adjustment to retained earnings (before any related adjustment for income taxes). This differs from the requirement that a first-time adopter must perform a goodwill impairment test as of the transition date, regardless of any impairment indicators. If the first-time adopter recognized an impairment loss under US GAAP in a period subsequent to the transition date, this will likely be an indication that the

[7] IAS 36.12 through 14 provides guidance on the indications of impairment an entity should consider when performing an impairment test.

indefinite-lived intangible asset may be impaired as of the transition date and, therefore, trigger an impairment test as of that date.

In addition, if an impairment loss that previously was recognized under US GAAP no longer exists as of the transition date (e.g., because the recoverable amount of the indefinite-lived intangible asset or CGU to which the asset belongs exceeds its carrying amount), the first-time adopter should reverse any previously recognized impairment loss as an adjustment to retained earnings (before any related adjustment for income taxes).

4. Are there indicators that indefinite-lived intangible assets for which an impairment loss was recorded have recovered their value?	Yes ☐	No ☐

US GAAP — ASC 350-30-35-20	**IFRS — IAS 36.110 through 117**
Reversal of impairment losses is not permitted (except for assets held for sale).	Assets (other than goodwill) must be reviewed at the end of each reporting period for reversal indicators. If such indicators exist, the impairment loss should be reversed up to the newly estimated recoverable amount, not to exceed the initial carrying amount adjusted for amortization or depreciation.

Implications:
Under IFRS, entities must continue to evaluate assets on which an impairment loss has been reported to determine if there are indicators that an asset has recovered its value. IFRS requires that recognized impairments on assets (except goodwill) be reversed, if, and only if, a change in the estimates used to determine the asset's recoverable amount occurs since the last impairment loss was recognized. The reversal of an impairment loss, if any, should not exceed the carrying amount that would have been determined had no impairment loss been recognized in the past. US GAAP does not permit the reversal of a previously recognized impairment loss on indefinite-lived intangible assets (except for assets held for sale). See question 4 in the "Noncurrent assets held for sale and discontinued operations" section of this publication for discussion of subsequent increases in the fair value of an asset or disposal group held for sale.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

IFRS 1 implications:

A US reporting entity that elects to retrospectively apply IFRS and has recognized impairment losses on indefinite-lived intangible assets may have to reinstate the carrying amount of its assets upon transition to IFRS (i.e., recover a portion of the impairment loss), if the circumstances that led to the impairment no longer exist at the IFRS transition date and if the deemed cost exemption is not used. Electing the deemed cost exemption will eliminate the need for an entity to go back in time to determine whether impairment indicators have been abated and recreate historical records to determine the carrying amounts of the assets at transition. See the "Discussion of IFRS 1" in the "Intangible assets" section of this publication for further discussion of the deemed cost exemption.

Financial instruments

Similarities:

Under both US GAAP and IFRS, financial instruments can be classified as assets, liabilities, equity or off-balance sheet. Financial instruments can be measured at amortized cost, fair value, or in the case of a bifurcated combined instrument, both. All financial instruments involve a promise between two parties to exchange cash or the equivalent, either once or multiple times. Financial instruments often begin as direct loans between two parties or can be legally structured as securities to allow investors to easily trade the instrument in the secondary market. Cash flows due from debtor to creditor can be transferred by that creditor to multiple secondary creditors and carved up into different pieces, or tranches, that themselves represent financial instruments. Financial instruments can also be created separately and merely reference the behavior of other financial instruments (e.g., derivatives).

The term “financial instrument” encompasses investments in debt and equity securities, loan receivables and payables, notes receivable and payable (issued debt), trade receivables and payables, derivative assets and liabilities, and ordinary equity shares and preference shares. To encompass all of these types of contracts, the definition of financial instrument is written broadly and similarly under both standards, as follows:

US GAAP — ASC 815-20-20	**IFRS — IAS 32.11**
A financial instrument is cash, evidence of an ownership interest in an entity or a contract that both: ► Imposes on one entity a contractual obligation either (1) to deliver cash or another financial instrument to a second entity or (2) to exchange other financial instruments on potentially unfavorable terms with the second entity ► Conveys to that second entity a contractual right either (1) to receive cash or another financial instrument from the first entity or (2) to exchange other financial instruments on potentially favorable terms with the first entity	A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. A financial asset is any asset that is (1) cash, (2) an equity instrument of another entity or (3) a contractual right to receive cash or another financial asset from another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity. A financial liability is any liability that is a contractual obligation (1) to deliver cash or another financial asset to another entity or (2) to exchange financial assets or financial liabilities with another entity that are potentially unfavorable to the entity. Included in the definition of financial assets and financial liabilities are contracts that will be settled in the entity’s own equity instruments but that are non-derivatives for which the entity is or may be obliged to receive or deliver a variable number of its own equity instruments. Also included are derivatives that can be settled other than by exchange of a fixed amount of cash or another financial asset for a fixed number of the entity’s own equity instruments. For this purpose, the entity’s “own equity instruments” do not include puttable instruments that are classified as equity instruments, instruments that impose

	on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Standard setting activities:

Both the FASB and the IASB have issued guidance to address the financial reporting implications related to reference rate reform with the aim of helping to facilitate the market transition from existing reference interest rates to alternatives. However, the approach taken by the Boards in their respective projects differed as noted below.

US GAAP

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, providing temporary optional expedients and exceptions to the US GAAP guidance on contract modifications and hedge accounting that will ease the financial reporting burdens related to reference rate reform. In January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848): Scope*, to clarify that all derivative instruments affected by changes to the interest rates used for discounting, margining or contract price alignment due to reference rate reform are in the scope of ASC 848.

Under the relief in ASC 848, entities can elect not to apply certain modification accounting requirements to contracts affected by reference rate reform, if certain criteria are met. An entity that makes this election would not have to remeasure the contracts at the modification date or reassess its previous accounting determinations related to these contracts.

The guidance also provides various optional expedients entities may elect that would allow them to continue applying hedge accounting for hedging relationships affected by reference rate reform if certain criteria are met. Other optional expedients provide relief from various hedge effectiveness requirements for both new and existing cash flow hedges affected by reference rate reform.

Entities are also allowed to make a one-time election to sell and/or transfer to available for sale or trading any held-to-maturity debt securities that refer to an interest rate affected by reference rate reform and were classified as held to maturity before 1 January 2020. The last date this election can be made is 31 December 2024.

The guidance became effective upon issuance and generally can be applied through 31 December 2024.

IFRS

The IASB provided relief relating to reference rate reform in two sets of mandatory amendments to IFRS.

Phase 1 amendments

In September 2019, the IASB issued *Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)* (the Phase 1 amendments) to address issues affecting financial reporting prior to the replacement of an interest rate benchmark with an alternative risk-free interest rate (RFR).

These amendments provide a number of temporary exceptions from applying certain hedge accounting requirements in IFRS 9 and IAS 39 *Financial Instruments: Recognition and Measurement*. They provide relief related to assessing (1) whether forecasted transactions are highly probable, (2) when to reclassify amounts in the cash flow hedge reserve to profit and loss and (3) the economic relationship between the hedged item and the hedging instrument. The guidance also states that an entity that is hedging a benchmark component of interest rate risk that is affected by reference rate reform is only required to determine that the risk component is separately identifiable at the inception of the hedging relationship. In addition, certain disclosure requirements were added to IFRS 7 *Financial Instruments: Disclosures*.

Application of the Phase 1 amendments is mandatory for all hedging relationships that are directly affected by uncertainties about the timing or amount of benchmark interest rate-based cash flows of the hedged item or hedging instrument due to reference rate reform (i.e., uncertainty about what the new benchmark will be and when it will take effect).

The Phase 1 amendments were effective for annual reporting periods beginning on or after 1 January 2020.

Phase 2 amendments

In August 2020, the IASB issued *Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)* (the Phase 2 amendments) to address issues that could affect financial reporting when a benchmark interest rate is replaced with an alternative RFR. The application of these amendments is also mandatory.

These amendments address changes to contractual cash flows that are directly required by reference rate reform and provide (1) a practical expedient to account for the modification of financial instruments and leases, (2) relief from discontinuing hedge relationships and (3) temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. Additional disclosures to enable users of financial statements to understand the effect of reference rate reform on an entity's financial instruments and risk management strategy are also required.

The Phase 2 amendments were effective for annual reporting periods beginning on or after 1 January 2021.

Discussion

Many aspects of the standards are similar in nature, and the relief provided would generally be comparable, regardless of whether an entity reports under US GAAP or IFRS. For instance, in a cash flow hedge where the designated hedged risk is the London Interbank Offered Rate (LIBOR) or another benchmark rate that is expected to be discontinued, the guidance under both US GAAP and IFRS allows an entity to assert that it remains probable that the hedged forecasted transaction will occur.

There are, however, a number of differences in the nature and extent of the relief provided, particularly for hedge accounting. For example, when there is a timing difference between when the reference interest rate is changed in a hedging instrument and when the reference interest rate is changed in the corresponding hedged item, US GAAP provides relief that would allow an entity to disregard this basis difference in its assessment of hedge effectiveness. In contrast, under IFRS, the basis difference would introduce a new source of hedge ineffectiveness that would have to be considered in the assessment of hedge effectiveness and recognized in earnings as appropriate, based on the requirements in IFRS 9 and IAS 39. Some of the differences in the relief provided reflect the differences between the hedge accounting models under IFRS 9 and ASC 815, which are described in the "Derivatives and hedging" section of this publication.

Beyond this discussion of the reference rate reform amendments and how they generally apply to financial instruments topics, we have not otherwise added (or amended existing) questions in the “Financial instruments” sections of this publication due to the temporary and transitional nature of these amendments.

Discussion of IFRS 1:

At the date of transition to IFRS, a first-time adopter must recognize and measure all financial assets and financial liabilities in its opening IFRS balance sheet in accordance with IFRS 9, unless a first-time adopter elects the short-term exemption discussed below. IFRS 1 requires a first-time adopter to apply the derecognition requirements in IFRS 9 prospectively to transactions occurring on or after the date of transition to IFRS and does not require retrospective application to transactions that had already been derecognized. The previous sentence notwithstanding, a first-time adopter may apply the derecognition requirements in IFRS 9 retrospectively from a date of the entity’s choosing, provided that the information needed to apply IFRS 9 to financial assets and financial liabilities derecognized as a result of past transactions was obtained at the time of initially accounting for those transactions.

For first-time adopters, there is short-term exemption from the requirement to restate comparative information for IFRS 9. If an entity’s first IFRS reporting period begins before 1 January 2019 and the entity applies the complete version of IFRS 9 (issued in 2014), the comparative information in the entity’s first IFRS financial statements need not comply with IFRS 7 or IFRS 9, to the extent that the disclosures required by IFRS 7 relate to items in the scope of IFRS 9. For such entities, references to the “date of transition to IFRS” should mean, in the case of IFRS 9 and IFRS 7 only, the beginning of the first IFRS reporting period. For example, a calendar-year US SEC filer that is adopting IFRS and whose first IFRS reporting period is 20X8 and elects this short-term exemption will apply IFRS 9 and IFRS 7 (as it relates to items under IFRS 9) to its 20X8 financial statements, but apply US GAAP reporting and disclosure requirements to items in the scope of IFRS 9 in its 20X6 and 20X7 financial statements. IFRS 1 provides the reporting and additional disclosure requirements for entities that apply this exemption.

For prior periods that are not restated, any transition adjustments between the statement of financial position at the latest comparative period’s reporting date and the statement of financial position at the start of the first IFRS reporting period should be recognized in the opening retained earnings (or other component of equity, as appropriate) of the first IFRS reporting period. For example, if an entity adopts IFRS 9 on 1 January 20X8 and does not restate prior-period financial statements for IFRS 9 and IFRS 7 for related items, it records the transition adjustments in its retained earnings, and, if applicable, in OCI, as of 1 January 20X8. On the other hand, if the entity presented three years of financial statements (20X6, 20X7 and 20X8) and restated the two comparative years (20X6 and 20X7), those adjustments will be recorded as of 1 January 20X6.

Additional IFRS 1 considerations related to specific financial instrument topics are included in the overview for each financial instrument topic.

Recognition and measurement

Similarities:

Both US GAAP and IFRS require financial instruments to be classified upon initial recognition into specific categories. Following initial recognition, the classification determines how the financial instrument is subsequently measured, including any profit or loss recognition. Once classified, both IFRS and US GAAP have restrictions on the ability to transfer a financial asset between categories. Detailed disclosures are required in the notes to the financial statements for financial instruments reported on the balance sheet.

Both US GAAP and IFRS require certain financial assets (depending on their classification) to be measured at fair value. ASC 820 and IFRS 13 *Fair Value Measurement* both provide a framework for measuring fair value that is applicable under the various accounting topics that require (or permit) fair value measurements in US GAAP and IFRS, respectively. See the “Fair value measurements” section of this publication for differences between these fair value standards.

Both US GAAP and IFRS require an entity to assess at each balance sheet date whether a financial asset is impaired. This assessment is required for all financial assets except those measured at fair value with changes in fair value reported in profit or loss (e.g., debt securities classified as trading under US GAAP or as financial assets at fair value through profit or loss under IFRS).

Both US GAAP and IFRS have a conditional FVO that permits a financial asset or a financial liability to be designated at fair value. Changes in the fair value of financial assets are reported in profit or loss. For financial liabilities, changes in an entity’s instrument-specific credit risk are generally recognized in OCI and all other changes are reported in profit or loss. However, the use of the FVO and the application of the instrument-specific credit risk guidance for financial liabilities are more restrictive in IFRS.

Both US GAAP and IFRS also require the use of the effective interest method to calculate amortized cost and to amortize discounts or premiums for certain financial assets. The effective interest method is based on the effective interest rate calculated at initial recognition of the financial instrument. Differences may exist in the manner in which changes in estimated cash flows are recognized.

Primary US GAAP	Primary IFRS
► ASC 825, *Financial Instruments* ► ASC 820, *Fair Value Measurement* ► ASC 830, *Foreign Currency Matters* ► ASC 320, *Investments — Debt Securities* ► ASC 321, *Investments — Equity Securities* ► ASC 310, *Receivables* ► ASC 325-40, *Investments — Other — Beneficial Interests in Securitized Financial Assets* ► ASC 326, *Financial Instruments — Credit Losses* ► ASC 948, *Financial Services — Mortgage Banking*	► IAS 32 *Financial Instruments: Presentation* ► IFRS 7 *Financial Instruments: Disclosures* ► IFRS 9 *Financial Instruments* ► IFRS 13 *Fair Value Measurement*

Standard setting activities:

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The FASB's credit loss model differs significantly from the three-stage impairment model under IFRS 9, as discussed below. In November 2019, the FASB issued ASU 2019-10, *Financial Instruments — Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, that delayed the effective date of ASU 2016-13 for certain entities. As amended, ASU 2016-13 became effective in 2020 for calendar-year entities that are SEC filers, excluding entities eligible to be smaller reporting companies as defined by the SEC, and effective for all other entities in fiscal years beginning after 15 December 2022 (i.e., 1 January 2023 for calendar-year entities), including interim periods within those fiscal years. Early adoption of ASU 2016-13 is permitted for all entities. This section discussed differences both before and after the adoption of ASC 326.

In January 2020, the FASB issued ASU 2020-01, *Investments — Equity Securities (Topic 321), Investments — Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815*. ASU 2020-01 was effective for PBEs for fiscal years beginning after 15 December 2020 and interim periods within those fiscal years. For all other entities, it was effective for fiscal years beginning after 15 December 2021 and interim periods within those fiscal years. This section assumes adoption of ASU 2020-01.

In October 2020, the FASB issued ASU 2020-08, *Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs*, which clarifies the guidance in ASU 2017-08, *Receivables — Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. It requires entities to reevaluate for each reporting period whether a callable debt security continues to be in the scope of certain guidance that requires any premium on the callable debt security to be amortized to the next call date. For PBEs, the amendments were effective for fiscal years beginning after 15 December 2020, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after 15 December 2021 and interim periods within fiscal years beginning after 15 December 2022. Early adoption is permitted for all other entities for fiscal years, and interim periods within those fiscal years, beginning after 15 December 2020. See question 7 for further discussion of this ASU.

In March 2022, the FASB issued ASU 2022-02, *Financial Instruments — Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. The ASU eliminates the recognition and measurement guidance on troubled debt restructurings for entities that have adopted ASU 2016-13 and enhances disclosures for certain loan restructurings to borrowers experiencing financial difficulty. It also requires PBEs to present current-period gross-write-offs, on a current year-to-date basis, by year of origination in their vintage disclosures. For entities that have adopted the amendments in ASU 2016-13, the guidance is effective for fiscal years beginning after 15 December 2022, and interim periods therein. For entities that have not adopted ASU 2016-13, the effective dates are the same as for that ASU. Early adoption of the amendments is permitted, including adoption in an interim period, provided the entity has adopted ASU 2016-13. Question 13(b) was updated for this ASU.

Please refer to the EY global publications, *Applying IFRS — Classification of financial instruments under IFRS 9* (EYG No. AU3134), and *Applying IFRS — Impairment of financial instruments under IFRS 9* (EYG No. 01858-183Gbl), and our FRD publications, *Certain investments in debt and equity securities* and *Credit impairment under ASC 326*, for additional discussion and examples.

Discussion of IFRS 1:

Classification and measurement of financial instruments under IFRS 9

IFRS 9 requires a financial asset to be measured at amortized cost, fair value through OCI, or fair value through profit or loss based on certain tests that deal with the nature of the business that holds the asset and the contractual cash flow (CCF) characteristics of that asset, as further discussed in the questions below. IFRS 1 requires a first-time adopter to assess whether a financial asset meets these conditions on the basis of the facts and circumstances that exist at the date of transition to IFRS (i.e., not as of the date of initial recognition).

However, if a first-time adopter is unable to assess certain criteria related to the nature of the business that holds the assets and the nature of the cash flows arising from those assets in the CCF test (specifically, relating to the time value of money element and the prepayment feature, if applicable) on the basis of the facts and circumstances that exist at the date of transition, the entity should assess the CCF characteristics of that financial asset on the basis of the facts and circumstances that existed at the date of transition without taking into account certain requirements or exceptions relating to these features. As a result, the asset most likely would be measured at fair value through profit or loss (FV-PL).

If it is impracticable for an entity to apply retrospectively the effective interest method in IFRS 9, the fair value of the financial asset or the financial liability at the date of transition to IFRS should be the new gross carrying amount of that financial asset or the new amortized cost of that financial liability at the date of transition.

IFRS 1 includes voluntary exemptions that permit a first-time adopter, at the date of transition to IFRS, to designate a previously recognized financial asset or financial liability as measured at FV-PL (i.e., FVO) or an equity instrument measured at fair value through OCI (FV-OCI), provided that certain criteria are met. For FV-PL designated financial liabilities, IFRS 1 requires the use of facts and circumstances at the date of transition to IFRS in determining whether the application of IFRS 9 would create an accounting mismatch in the profit or loss statement. Absent an exemption in IFRS 1, a first-time adopter would not have been permitted to designate a financial asset or liability as measured at FV-PL or an equity instrument as FV-OCI in its opening IFRS balance sheet if the financial instrument was acquired prior to the date of transition because those elections are otherwise required to be made at initial recognition.

Impairment

Generally, a first-time adopter must apply the impairment provisions of IFRS 9 retrospectively. At the date of transition to IFRS, an entity should use reasonable and supportable information that is available without undue cost or effort to determine the credit risk at the date that financial instruments were initially recognized and compare that to the credit risk at the date of transition to IFRS to assess whether credit risk has increased significantly since initial recognition.

IFRS 9 provides guidance for determining whether there has been a significant increase in credit risk since the initial recognition of a financial instrument. If this determination requires undue cost or effort, the entity generally must recognize an allowance equal to the amount of lifetime expected credit losses (ECLs) at each reporting date until that financial instrument is derecognized.

Differences:

1. Does the reporting entity have investments in equity securities?	Yes ☐	No ☐

US GAAP — ASC 321-10-15-5, ASC 321-10-35-1 through 35-2	**IFRS — IFRS 9.4.1.4, IFRS 9.5.7.5, IFRS 9.B5.2.3 and IFRS 9.B5.7.1**
Equity investments (except for those accounted for under the equity method, those that result in consolidation of the investee or certain other investments) are recorded at fair value through net income (FV-NI). For equity investments with no readily determinable fair value that are not eligible for the ASC 820 NAV practical expedient, a measurement alternative can be elected. An entity will have to make a separate election to use the measurement alternative for each eligible investment and apply the alternative consistently from period to period until the investment's fair value becomes readily determinable or an entity elects to change its measurement approach to an ASC 820 fair value method. Entities will have to reassess at each reporting period whether an investment qualifies for this alternative. Under this alternative, entities will measure these investments at cost, less any impairment. If an entity identifies observable price changes in orderly transactions for the identical or a similar investment of the same issuer, it must measure its equity investment at fair value in accordance with ASC 820 as of the date that the observable transaction occurred.	Equity instruments are generally measured at FV-PL. An entity may make an irrevocable election to measure non-derivative equity instruments that are not held for trading at FV-OCI. If FV-OCI is elected, gains or losses recognized in OCI are not recycled (i.e., reclassified to profit or loss) upon derecognition of those investments. There is no exception from fair value measurement for instruments that have no readily determinable fair value. In limited circumstances, cost may be an appropriate estimate of fair value for investments in equity instruments. However, cost is never the best estimate of fair value for investments in quoted equity instruments.

Implications:
Because IFRS does not provide an exemption from fair value measurement for equity securities without readily determinable fair values, a reporting entity that has elected the measurement alternative for its eligible equity securities under US GAAP will need to have procedures in place to determine a reliable fair value at each reporting date for those securities under IFRS.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

2. Does the reporting entity have investments in debt securities?	Yes ☐	No ☐

US GAAP — ASC 320-10-35-1	**IFRS — IFRS 9.4.1.1 through 9.4.1.5, IFRS 9.4.3.2 and IFRS 9.5.2.1**
ASC 320 requires the use of three categories for the classification and measurement of debt securities based on the entity's investment intent: ► Held-to-maturity (HTM) — A debt security may be classified as HTM if the entity has the intent and ability to hold the security to maturity. However, if the security can be prepaid or settled in such a way that the holder would not recover substantially all of its recorded investment, the security should not be classified as HTM. HTM securities are measured at amortized cost. ► Trading — These debt securities include those acquired (and generally held for short periods) to make a profit from short-term movements in market prices. The classification of securities as trading is based on intent, but companies are not required to sell trading securities within specific time frames. Trading securities are measured at fair value through earnings. ► Available-for-sale (AFS) — This category tends to be a "catch all" for debt securities that are not classified as HTM or trading. AFS securities are measured at FV-OCI. Refer to question 6 for a discussion of the accounting for a change in fair value of a foreign currency-denominated debt security classified as AFS.	Debt instruments, including debt securities, are classified within financial assets at FV-PL, financial assets at amortized cost or financial assets at FV-OCI. The classification and measurement of debt instruments, including debt securities and loans, depends on the instrument's CCF characteristics and the business model under which they are managed. The assessment of the CCF determines whether the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Instruments that pass the CCF test are subsequently measured at amortized cost, FV-OCI or FV-PL based on the business model for managing them, unless the FVO is elected. Instruments that fail the CCF test are measured at FV-PL. A debt instrument is measured at amortized cost if it passes the CCF test and is managed with the objective to hold assets in order to collect CCF. A debt instrument is measured at FV-OCI if it passes the CCF test and is held with the objective of both collecting CCF and selling financial assets. If FV-OCI is elected, gains or losses recognized in OCI are recycled to profit or loss upon derecognition of those investments. The above requirements are applied to an entire financial asset, even if it contains an embedded derivative, because hybrid financial assets are not eligible for bifurcation. A debt instrument that is not measured at amortized cost or FV-OCI is measured at FV-PL.

Implications:
Generally, apart from limited circumstances, only relatively simple ("plain vanilla") debt instruments will qualify to be measured at amortized cost or at FV-OCI under IFRS 9. As a result, debt securities that were accounted for under US GAAP as HTM or AFS may require measurement at FV-PL under IFRS 9.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

3. Does the reporting entity have investments in loans or other receivables (either originated or acquired by the entity)?	Yes	No
	☐	☐

US GAAP — ASC 310-10-35-47 through 35-48 and ASC 948-310-25-1	**IFRS — IFRS 9.4.1.1 through 9.4.1.5, IFRS 9.4.3.2 and IFRS 9.5.2.1**
Loans and receivables do not meet the definition of a debt security and therefore cannot be accounted for under ASC 320 or at fair value, unless the entity elects the FVO under ASC 825-10. If an entity has both the ability and intent to hold a loan for the foreseeable future or until maturity, it may be classified as held-for-investment and measured at amortized cost. Loans that an entity has decided to sell are classified as held for sale and measured at the lower of cost or fair value (lower of amortized cost basis or fair value after the adoption of ASC 326). Under ASC 948, mortgage loans are classified as either held for sale or held as long-term investments.	Regardless of an instrument's legal form, classification and measurement depends on the instrument's CCF characteristics and the business model under which they are managed. Refer to question 2.

Implications:
Generally, a financial asset classified as a loan for US GAAP is measured at amortized cost, unless the FVO is elected. However, under IFRS 9, the classification and measurement model described in question 2 also applies to loans. Therefore, depending on the contractual terms of an entity's loans and the business model for managing them, they may be measured under IFRS at amortized cost, FV-OCI or FV-PL. If certain criteria are met, the FVO could also be elected.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

4. Does the reporting entity have a financial instrument for which the FVO was elected?	Yes ☐	No ☐

FVO permits an entity to measure financial instruments that meet certain conditions at fair value with subsequent changes in fair value reported in earnings (profit or loss), except for changes in fair value of financial liabilities related to changes in an entity's instrument-specific credit risk, which are recognized in OCI.

US GAAP — ASC 825-10-15-4 through 15-5, ASC 825-10-25-1 through 25-4 and ASC 825-10-45-4 through 45-7	**IFRS — IFRS 9.4.1.5, IFRS 9.4.2.2, IFRS 9.4.3.5, IFRS 9.5.7.7 through 9.5.7.9 and IFRS 9.B5.7.9**
Under ASC 825-10 an entity has the ability, upon initial recognition, to elect the FVO for most financial instruments on an instrument-by-instrument basis. Additionally, the FVO may be elected on the date when one of the following occurs: ► The entity enters into an eligible firm commitment. ► Financial assets that have been reported at fair value with unrealized gains and losses included in earnings because of specialized accounting principles cease to qualify for that specialized accounting (e.g., a transfer of assets from a subsidiary subject to ASC 946-10 to another entity within the consolidated reporting entity not subject to ASC 946-10). ► The investment becomes subject to the equity method of accounting (e.g., the investment may previously have been reported as an equity security accounted for under ASC 321). ► An event occurs that requires an eligible item to be measured at fair value at the time of the event but does not require fair value measurement at each reporting date after that, excluding the recognition of impairment under lower-of-cost-or-market accounting or OTTI or accounting for equity securities in accordance with ASC 321. An entity's decision to elect the FVO is irrevocable unless a new election date (as described above) occurs. Changes in instrument-specific credit risk (or own credit risk) related to financial liabilities measured under the FVO are recognized in OCI. Amounts accumulated in OCI are reclassified to net income upon settlement of the financial liability. The guidance on separately presenting in OCI the portion of the change in fair value of a financial liability that is attributable to instrument-specific credit risk does not apply to financial liabilities of	IFRS 9 allows financial instruments to be irrevocably designated, on an instrument-by-instrument basis, to be measured at FV-PL only upon initial recognition and only if doing so results in more relevant information because it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an accounting mismatch) that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. Additionally, financial liabilities may be designated at FV-PL when a group of financial liabilities, or a group of financial assets and financial liabilities, is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel (e.g., the board of directors, chief executive officer). Because financial assets that are managed on a fair value basis will always be classified at FV-PL, an option to designate financial assets at FV-PL under these circumstances is not needed. Changes in instrument-specific credit risk (or own credit risk) related to FV-PL-designated financial liabilities are recognized in OCI, unless doing so creates or increases an accounting mismatch in profit or loss, in which case the entire change in fair value is recognized in profit or loss. Unlike US GAAP, IFRS prohibits an entity from reclassifying changes in fair value attributable to its own credit risk presented in OCI to profit or loss upon settlement of the financial liability. Certain liability contracts with embedded derivatives may also be FV-PL-designated.

a consolidated collateralized financing entity accounted for using the measurement alternative under ASC 810-10-30-10 through 30-15 and ASC 810-10-35-6 through 35-8. This guidance also does not apply to nonrecourse financial liabilities for which payments on those liabilities are tied solely to the value of cash flows of assets pledged as collateral.	

The following tables list financial assets and liabilities that are excluded from the scope of the FVO under US GAAP and IFRS, respectively:

US GAAP — ASC 825-10-15-5	**IFRS — IFRS 9.2**
► An investment in a subsidiary that the entity is required to consolidate ► An interest in a VIE that the entity is required to consolidate ► Employers' and plans' obligations for pension benefits, other postretirement benefits, postemployment benefits, employee stock option and stock purchase plans, and other forms of deferred compensation arrangements, as defined in ASC 420*;* ASC 710, *Compensation;* ASC 712, *Compensation — Nonretirement Postemployment Benefits;* ASC 715, *Compensation — Retirement Benefits;* ASC 718; and ASC 960, *Plan Accounting — Defined Benefit Pension Plans* ► Financial assets and financial liabilities recognized under leases as defined in ASC 842, *Leases* ► Deposit liabilities, withdrawable on demand, of banks, savings and loan associations, credit unions, and other similar depository institutions ► Financial instruments that are, in whole or in part, classified by the issuer as a component of shareholder's equity (including "temporary equity") (e.g., a convertible debt security with a non-contingent beneficial conversion feature)	► Interests in subsidiaries, associates and joint ventures that are accounted for under IFRS 10, IAS 27 or IAS 28 (Note: Certain exceptions apply — e.g., holdings by venture capital organizations and mutual funds) ► Certain types of rights and obligations under leases to which IFRS 16 applies ► Employers' rights and obligations under employee benefit plans, to which IAS 19 applies ► Financial instruments issued by the entity that meet the definition of an equity instrument in IAS 32 (including options and warrants) or that are required to be classified as an equity instrument in accordance with IAS 32 ► Rights and obligations arising under certain types of insurance contracts as defined in IFRS 4 *Insurance Contracts*, including an issuer's rights and obligations under financial guarantee contracts, which the entity has elected to account for as insurance contracts under IFRS 4 (or IFRS 17 *Insurance Contracts* upon it becoming effective) ► Any forward contract between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination within the scope of IFRS 3 at a future acquisition date ► Certain types of loan commitments (see IFRS 9.2.3 for exceptions for which FVO is available) ► Certain types of financial instruments, contracts and obligations under share-based payment transactions to which IFRS 2 applies

	► Rights to payments to reimburse the entity for expenditure it is required to make to settle a liability that it recognizes as a provision in accordance with IAS 37 ► Certain rights and obligations that are in the scope of IFRS 15 that are financial instruments

Implications:
The criteria in IFRS 9 regarding the use of FV-PL are more restrictive than the criteria for using the FVO in ASC 825-10. Furthermore, IFRS allows an entity to designate a financial asset or financial liability as at FV-PL only upon initial recognition. Differences in the scope of financial assets and liabilities eligible for the FVO under US GAAP and IFRS also exist. For example, while equity method investments are generally eligible for the FVO under US GAAP, the ability to designate these investments as FV-PL in consolidated financial statements under IFRS is limited to equity method investments that are held by venture capital organizations, mutual funds, unit funds and similar entities that are consolidated.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

Upon adoption of IFRS, an entity may not be able to designate all financial instruments previously designated as FV-PL pursuant to the FVO described in ASC 825-10 as FV-PL-designated under IFRS. That is, an entity is permitted to designate, at the date of transition to IFRS, any financial asset or financial liability as at FV-PL-designated, only if the asset or liability meets certain criteria (see above) at that date. This election is permitted at the date of transition to IFRS whether or not the financial asset was previously designated as at FV-PL pursuant to the FVO described in ASC 825-10.

A first-time adopter wishing to designate a financial asset or financial liability as at FV-PL-designated as of the date of transition to IFRS that meets the criteria for such designation, must document that election as of the date of transition (i.e., as of the opening IFRS balance sheet date). A first-time adopter that previously used the FVO of ASC 825-10 in its US GAAP financial statements may be able to use its US GAAP designation documentation as documentation of their IFRS designations as of the date of transition to IFRS. When an entity chooses to simply carryover its US GAAP FVO designations (for those financial instruments that meet the criteria for FV-PL-designated under IFRS) and it uses its existing US GAAP documentation for those designations as FV-PL-designated for IFRS, then all financial instruments previously recorded at FV-PL for US GAAP pursuant to the FVO of ASC 825-10 that meet the criteria for FV-PL-designated for IFRS would continue with such classification at the date of transition, unless specifically “de-designated.” An entity will not have the opportunity to de-designate at a later date. Nevertheless, a first-time adopter is not required to designate as at FV-PL-designated in its opening IFRS balance sheet those financial assets and financial liabilities designated as at FV-PL pursuant to the FVO of ASC 825-10.

5. Has the entity transferred any debt securities out of one category into another?	Yes ☐	No ☐

Under US GAAP and IFRS, entities must classify, at acquisition, debt securities into specific categories. The guidelines in US GAAP and IFRS regarding subsequent transfers between categories are quite different.

Under US GAAP, investments in debt securities should be classified as HTM only if an entity has the positive intent and ability to hold those securities to maturity. Notwithstanding the above, certain sales of HTM securities due to events that are isolated, nonrecurring and unusual will not call into question (i.e., taint) the entity's intent to hold other debt securities to maturity. There is no similar tainting concept under IFRS 9.

US GAAP — ASC 320-10-25-1(a), ASC 320-10-25-5 through 25-18 and ASC 320-10-35-7 through 35-16	**IFRS — IFRS 9.4.4.1, IFRS 9.5.6.1 and IFRS 9.B4.1.2A**
Trading securities Transfers into or from the trading category should be rare. For a debt security transferred *from* the trading category, the unrealized holding gain or loss at the date of the transfer will have already been recognized in earnings and cannot be reversed. For a debt security transferred *into* the trading category, the portion of the unrealized holding gain or loss at the date of the transfer that has not been previously recognized in earnings is recognized in earnings immediately. *HTM securities* A sale or transfer of an HTM debt security, other than those that are attributable to certain specific circumstances, calls into question whether any remaining HTM securities should continue to be classified in that category. Generally, all securities that remain in the HTM category would be "tainted" and any remaining HTM securities should be reclassified to AFS. After securities are reclassified to AFS because they are "tainted," US GAAP does not specify a timeframe after which classification of a security as HTM would once again be permitted. Management must use judgment to determine when circumstances have changed such that it can assert with a greater degree of credibility that it now has the intent and ability to hold debt securities to maturity. However, the SEC staff has concluded that, in certain circumstances, sales of HTM securities preclude management from credibly asserting the entity's ability and intent to hold securities to maturity for up to two years.	In certain rare circumstances, non-derivative debt assets are required to be reclassified between the amortized cost, FV-OCI and FV-PL categories. That is, when (and only when) an entity changes its business model for managing financial assets, it should reclassify all affected financial assets (i.e., that were previously recognized) in accordance with the new business model. Changes in the business model are expected to be very infrequent. They must be determined by an entity's senior management as a result of external or internal changes and must be significant to the entity's operations and demonstrable to external parties. A change in the business model will occur only when an entity begins or ceases to carry on an activity that is significant to its operations. Generally, this will only be the case when the entity has acquired, disposed of or terminated a business line. As an example, an entity may decide to shut down its retail mortgage business, no longer accept new business and actively market its mortgage loan portfolio for sale. The reclassification should be applied prospectively from the "reclassification date," which is defined as "the first day of the first reporting period following the change in business model that results in an entity reclassifying financial assets." Accordingly, any previously recognized gains, losses or interest should not be restated. Reclassification on the basis of a change in a financial asset's CCF is not permitted, unless the asset is sufficiently modified that it is derecognized.

	There is no tainting concept in IFRS 9. If cash flows are realized in a way that is different from the entity's expectations at the date that the entity determined the business model (e.g., if the entity sells more or fewer financial assets than it expected when it classified the assets), this does not change the classification of the remaining financial assets held (i.e., that were previously recognized) in that business model, as long as the entity had considered all relevant information that was available at the time that it made the business model determination. However, when an entity assesses the business model for newly originated or newly purchased financial assets, it must consider information about how cash flows were realized in the past, along with all other relevant information. Accordingly, if there is a change in the way that cash flows are realized as compared with the entity's expectations at the date that it determined the business model, it may affect the classification of new assets when they are recognized in the future. As noted above, certain changes (e.g., the acquisition of a business line) will be considered changes in an entity's business model that will trigger reclassification of certain previously recognized financial assets under IFRS 9.

Implications:

Reclassification of previously recognized securities under IFRS 9 is not permitted unless the business model changes as described above.

While there is no tainting concept under IFRS 9 that is similar to US GAAP, the classification of newly purchased or originated assets could be affected by the way in which cash flows were realized in the past. That is, while a sale that is inconsistent with the criteria for a security's measurement category (and that does not trigger a change in the business model) under IFRS will not "taint" the remaining previously recognized assets in that category, the classification of new assets may be affected.

Identified difference?

Yes	No	Depends on policy election
☐	☐	☐

Describe:
Click here to enter text.

IFRS 1 implications:

As long as the first-time adopter continues to prepare US GAAP financial statements, that entity must continue to abide by the US GAAP HTM requirements for its US GAAP financial statements (i.e., if the entity sells or transfers a security out of the HTM category, it will taint its assertion that it has the intent and ability to hold the remaining portfolio to maturity, except in certain circumstances as permitted by ASC 320). For example, if an entity were to adopt IFRS for the first time in its 31 December 20X8 financial statements, and those financial statements are required to include three years of income statements (and other performance statements) for comparative purposes, the date of transition to IFRS would be 1 January 20X6. In this circumstance, the entity must still prepare financial statements in accordance with US GAAP for 20X6 and 20X7 and for the first three quarters of 20X8 and follow the US GAAP HTM requirements, until its first reporting date under IFRS of 31 December 20X8.

If a first-time adopter sells a financial asset after the transition date to IFRS in a manner that is inconsistent with its measurement category, then, if it is determined that there is no change in the business model that would require reclassification of previously recognized assets, the classification of new assets recognized subsequent to that date may be affected.

6. Does the reporting entity have an investment in a foreign currency-denominated financial asset that is measured at FV-OCI or using the measurement alternative?	Yes ☐	No ☐

For financial assets measured at FV-OCI (e.g., AFS debt securities under US GAAP and debt and equity instruments measured at FV-OCI for IFRS 9) or using the measurement alternative (e.g., certain equity investments) under US GAAP that are denominated in a foreign currency, the change in fair value expressed in an entity's functional currency comprises (1) the change in market price of the security as expressed in the foreign currency (e.g., for a debt instrument, due to factors such as changes in interest rates and credit risk) and (2) the change in the exchange rate between the foreign currency and the entity's functional currency.

US GAAP — ASC 320-10-35-1, ASC 320-10-35-36 through 35-37 and ASC 830-10-45-18	**IFRS — IFRS 9.5.7.10, IFRS 9.B5.7.2 and IFRS 9.B5.7.3**
Under ASC 320, the total change in unrealized holding gains and losses for AFS debt securities (including foreign currency translation adjustments (CTA) as noted in ASC 320-10-35-36) are excluded from earnings and reported in OCI until realized. Equity securities measured using the measurement alternative under ASC 321 are remeasured into an entity's functional currency using their historical exchange rates. Foreign currency-denominated equity investments that are measured using the measurement alternative are nonmonetary items that should be remeasured using their historical exchange rates. Entities should use the exchange rate on the later of the date the investment was acquired or the date on which its carrying value was adjusted, if applicable, to remeasure these investments. A carrying value adjustment to fair value is required either as a result of an observable price change or an impairment (see question 1). If the carrying	For debt instruments measured at FV-OCI, changes in unrealized foreign currency gains or losses are recognized in profit or loss. For equity instruments for which FV-OCI has been elected, unrealized holding gains and losses, including foreign exchange gains and losses, are recognized in OCI. Amounts presented in OCI are not subsequently transferred to profit or loss, even on derecognition.

amount is adjusted, the current exchange rate on the date of that adjustment must be used and the entire change in the carrying amount, including the unrealized foreign currency gain or loss, is recognized in earnings. Equity securities are not measured at FV-OCI under US GAAP.	

Implications:
Under IFRS, the treatment of foreign exchange gains and losses on debt securities measured at FV-OCI will create more income statement volatility. However, while equity securities are measured at FV-NI or using the measurement alternative under US GAAP, they may be eligible for measurement at FV-OCI under IFRS 9. If FV-OCI is elected, all changes in fair value, including foreign exchange gains and losses, are reported in OCI.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

For those debt securities that are classified as AFS under US GAAP and will continue to be measured at FV-OCI under IFRS 9, the portion of the change in fair value associated with foreign currency gains and losses that had been recognized in OCI should be reclassified into opening retained earnings at the date of transition. The remaining portion of the pre-IFRS 9 unrealized gains and losses should continue to be recognized in OCI.

7. Has the reporting entity originated or acquired any financial assets and is the entity amortizing the premium or discount using the effective interest method?	Yes	No
	☐	☐

A financial instrument may be issued or acquired at an amount that is different from its face amount or par value. The difference between the face amount or par value and its issuance or acquisition amount (i.e., discount or premium) is generally amortized over the term of the financial instrument. Under US GAAP, for certain callable debt securities, any premium (defined as the excess of the amortized cost basis over the amount repayable at the earliest call date) must be amortized to the earliest call date. After the adoption of ASU 2020-08, at each reporting period, entities should reevaluate whether the callable debt securities continue to be in the scope of guidance that requires any premium to be amortized to the next call date.

US GAAP — ASC 310-20-35, ASC 325-40-35-1 through 35-6, and ASC 320-10-35-41 through 35-42	**IFRS — IFRS 9.5.4 and IFRS 9 Appendix A**
An entity should apply the effective interest method based on contractual flows, the objective of which is to arrive at a periodic interest amount (including amortization of discount, premium, issuance costs, etc.) that will represent a level effective rate on the sum of the face amount of the	IFRS defines the effective interest rate as the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset or to the amortized cost of the financial liability. When calculating the effective

financial instrument plus or minus the unamortized items at the beginning of each period. For example, the effective interest rate of a loan is the rate of return implicit in the loan (i.e., the contractual interest rate adjusted for any net deferred loan fees or costs, premiums or discounts existing at the origination or acquisition of the loan). In some instances, interest is not recognized on the basis of contractual cash flows; rather, estimated cash flows are used: ► If an enterprise holds a large number of similar loans for which prepayments are probable and the timing and amount of prepayments can be reasonably estimated, the enterprise may consider estimates of future principal prepayments in the calculation of the constant effective yield necessary to apply the interest method. ► Before the adoption of ASC 326, if upon initial investment in a loan (or a debt security acquired in a transfer) there is evidence of credit deterioration, the effective interest method is applied on the basis of estimated cash flows in accordance with ASC 310-30. After the adoption of ASC 326, an entity would apply the effective interest method based on contractual flows, as noted above. ► Before the adoption of ASC 326, when an investment in a debt security represents a beneficial interest in a securitized financial asset that is not of high credit quality, the effective interest method is applied on the basis of estimated cash flows in accordance with ASC 325-40. After the adoption of ASC 326, for securities that are not purchased financial assets with credit deterioration (also known as purchased credit-deteriorated or PCD), the effective interest method is applied on the basis of estimated cash flows. For PCD securities, the effective interest method is applied on the basis of contractual cash flows. ► When an investment in a debt security is considered a structured note within the scope of ASC 320 and does not contain an embedded derivative that must be bifurcated, the effective interest method is applied on the basis of estimated cash flows.	interest rate, an entity should estimate cash flows considering all contractual terms of the financial instrument (e.g., prepayment, call and similar options) but should not consider expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

► If an enterprise holds certain callable debt securities, it must amortize any premium (defined as the amount by which the amortized cost basis of the security exceeds the amount repayable at the earliest call date) to the earliest call date. Otherwise, the difference between the face amount or par value and its issuance or acquisition amount (i.e., discount or premium) is generally amortized over the term of the financial instrument, as noted above. ► After the adoption of ASU 2020-08, at each reporting period, entities should reevaluate whether the callable debt security continues to be in the scope of certain guidance that requires any premium on the callable debt security to be amortized to the next call date. If there is no remaining premium or if there are no further call dates, the entity shall reset the effective yield using the payment terms of the debt security.	

Implications:

Under US GAAP, for financial assets, the effective interest method is generally applied on the basis of contractual cash flows.

Under IFRS, the calculation of the effective interest rate for such assets is generally based on the estimated cash flows (without considering credit losses) over the expected life of the asset. This may or may not be the same as *contractual* cash flows over the *contractual* lives as required under US GAAP.

The difference between the two accounting frameworks can affect the carrying values of financial assets and the timing of income recognition.

Interest income recognition differences also exist between US GAAP and IFRS for financial assets with credit deterioration. See question 14 for further discussion.

Identified difference?

	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

In determining the amortized cost basis of a financial asset measured at amortized cost or FV-OCI at the date of the IFRS opening balance sheet, estimated cash flows over the expected life of the asset will need to be used. That is, the effective interest rate must be used to calculate the amortized cost basis at the date of transition. Amortized cost determined according to the effective interest method required by IFRS may be different from that determined under US GAAP.

8. Has there been a change in the expectation of cash flows to be received related to a loan, debt security or debt issuance such that a change in interest income recognition may be required?	Yes ☐	No ☐

US GAAP — ASC 310-20-35, ASC 320-10-35-38 through 35-43, and ASC 325-40-35-1 through 35-6	**IFRS — IFRS 9.B5.4.5 through B5.4.6**
Interest income is generally recognized on the basis of contractual cash flows. US GAAP discusses three different approaches to account for a change in estimated cash flows for investments in loans or debt securities where interest income recognition is based on estimated cash flows (see question 7) rather than contractual cash flows: the catch-up, retrospective and prospective methods. The appropriate method to apply depends on the instrument type and reason for the change in cash flows. The *catch-up approach* adjusts the carrying amount to the present value of the revised estimated cash flows, discounted at the original effective interest rate. The *prospective approach* computes a new effective interest rate based on the carrying amount and remaining cash flows. This approach is used for an investment in a loan or debt security within the scope of ASC 310-30 (i.e., for loans acquired in a transfer where there is evidence of credit deterioration since origination - before the adoption of ASC 326), for accounting for debt securities subsequent to an OTTI under ASC 320-10-35 (before the adoption of ASC 326), and for investments in debt securities that represent beneficial interests in securitized assets within the scope of ASC 325-40 (both before and after the adoption of ASC 326). The *retrospective approach* computes a new effective interest rate based on the original carrying amount, actual cash flows to date, and remaining estimated cash flows. The new effective interest rate is then used to adjust the carrying amount to the present value of the revised estimated cash flows, discounted at the new effective interest rate. This is the method described in ASC 310-20 and is used when measuring interest income of a loan or an investment in a debt security that is part of a pool of prepayable financial assets. This is also the	When there are changes in the estimates used to calculate the effective interest rate of fixed rate assets under IFRS, an entity should recalculate the gross carrying amount of the financial instrument by calculating the present value of the revised remaining cash flows at the original effective interest rate. The adjustment to the carrying amount is recognized as income or expense in profit or loss. This method is analogous to the catch-up method under US GAAP. For floating rate assets, periodic re-estimation of cash flows that reflect the movements in the market rates of interest alter the effective interest rate. Such changes are applied prospectively.

method to be used for structured notes within the scope of ASC 320.	

Implications:
The requirement in IFRS to use the catch-up method to recognize changes in estimated cash flows is a significant difference from US GAAP since it will result in a more immediate effect on earnings compared with the prospective and retrospective methods.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

The amortized cost basis determined for financial assets that are measured at amortized cost and FV-OCI according to the effective interest method required by IFRS for the opening IFRS statement of financial position may be different from that determined under US GAAP, particularly if there have been changes in estimated cash flows.

9. Are transaction costs related to the purchase of debt or equity securities measured at fair value (either measured at FV-NI/PL or FV-OCI or accounted for under ASC 946-320) excluded as a part of the securities' cost basis at initial recognition?	Yes	No
	☐	☐

US GAAP — ASC 820-10-35-9B through 35-9C and ASC 946-320-30-1	**IFRS — IFRS 9.5.1.1**
ASC 320 is not explicit about whether transaction costs should be included in the cost basis of securities purchased. As a result, diversity in practice exists as it pertains to AFS debt securities, with some entities expensing transaction costs through earnings as incurred and others capitalizing these costs as part of the securities' cost basis (i.e., resulting in a Day 1 unrealized loss in OCI for AFS debt securities) and accounting for them as yield adjustments over the life of the related securities. Generally, transaction costs for trading debt securities and equity securities measured at FV-NI are recognized in net income in the reporting period of the acquisition as a result of the period-end adjustment to measure those securities at fair value. For equity securities that are measured using the measurement alternative, the investment's carrying amount will be adjusted to fair value at the time of the next observable price change for the identical or similar investment of the same issuer or when an impairment is recognized. If the	Under IFRS 9, financial assets (other than those measured at FV-PL) are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Transaction costs for financial assets measured at FV-PL are recognized in profit or loss as incurred.

investor accounts for the transaction costs at acquisition as part of the investment's carrying amount, the transaction costs will be recognized in net income when the carrying amount is adjusted. US GAAP provides industry-specific guidance on the treatment of transaction costs. For example, ASC 946-320-30-1 states that the transaction price of debt and equity securities should include commissions and other charges that are part of the purchase transaction. Under ASC 820, transaction costs represent incremental direct costs to transact in the principal (or most advantageous) market and are not an attribute of the asset or liability being measured. Therefore, they should not be included in the fair value measurement of the asset or liability. However, ASC 820-10 also does not provide any specific guidance on when transaction costs should be recognized or where they should be reported. ASC 820-10 simply states that these costs should be accounted for in accordance with the provisions of other accounting pronouncements.	

Implications:

Both US GAAP and IFRS exclude transaction costs from the measurement of fair value. Therefore, the potential differences identified below do not technically result from differences in the measurement of fair value between US GAAP and IFRS. Instead, they arise due to potential differences in the measurement objective at initial recognition for these securities.

Treatment of transaction costs related to securities measured at FV-OCI

While it is clear that the subsequent measurement objective for AFS and trading debt securities accounted for under ASC 320 is fair value, ASC 320 is silent whether a debt security's basis includes transaction costs. Diversity in practice exists as it pertains to AFS and HTM debt securities, with some entities expensing transaction costs through profit or loss as incurred and others capturing these unamortized costs for AFS securities in OCI (until the security is sold) because these costs were initially included in the cost basis of the security. As noted above, under IFRS 9, financial assets not measured at fair value through profit or loss (e.g., debt securities measured at FV-OCI) are initially recorded at fair value plus direct transaction costs. As a result, under IFRS, transaction costs associated with debt and equity securities measured at FV-OCI may not be expensed, but rather are captured in OCI upon subsequent measurement at fair value. For equity instruments for which FV-OCI has been elected, amounts presented in OCI are not reclassified to profit or loss.

Treatment of transaction costs incurred related to securities accounted for under the AICPA Audit and Accounting Guide for Investment Companies

While no specific guidance exists in ASC 320, there is authoritative guidance on the treatment of transaction costs incurred in the purchase of a security in ASC 946-320-30-1. Direct transaction costs are typically capitalized by investment companies as part of the cost of the security and then immediately recognized as an unrealized loss when the security is reported at fair value through earnings. Under IFRS, transaction costs associated with financial assets measured at FV-PL are expensed as incurred.

As a result, income statement classification differences under US GAAP versus IFRS may exist for transaction costs incurred by investment companies within the scope of ASC 946.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

10(a). Does the reporting entity have debt securities measured at amortized cost or FV-OCI that are impaired (before the adoption of ASC 326)?	Yes	No
	☐	☐

US GAAP — ASC 320-10-35 and ASC 325-40-35	**IFRS — IFRS 9.5.5.1 through 9.5.5.5 and IFRS 9.5.5.7 through 9.5.5.8**
Under US GAAP (before the adoption of ASC 326), an investment in a debt security classified as AFS or HTM is impaired if the fair value is less than cost. An analysis is performed to determine whether the impairment (i.e., the decline in fair value) is temporary or "other than temporary." An impaired AFS debt security is considered other-than-temporarily impaired if the entity (1) has the intent to sell the impaired debt security or (2) more likely than not will be required to sell the impaired debt security before recovery of its amortized cost basis. Additionally, regardless of whether there is an intention to sell or whether the entity will more likely than not be required to sell, if the entity does not expect recovery of the entire amortized cost basis of the security, the impaired debt security is considered other-than-temporarily impaired. An impairment is deemed other-than-temporary: ► If an entity intends to sell prior to recovery (or it is more likely than not that the entity will be required to sell prior to recovery), the entire difference between the security's cost and its fair value at the balance sheet date is recognized in earnings, even if the decline in fair value is solely due to a change in interest rates. ► If the entity does not intend to sell the security (and it is not more likely than not that the investor will be required to sell the security before recovery of its amortized cost basis), the OTTI is separated into:	Under IFRS, there is a single impairment model for debt instruments not measured at FV-PL (i.e., measured at amortized cost or FV-OCI), including loans and debt securities. The guiding principle is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments. The amount of ECLs recognized as a loss allowance (and provision for credit losses) depends on the extent of credit deterioration since initial recognition. Generally, there are two measurement bases: ► In Stage 1, 12-month ECLs, which applies to all items (on initial recognition and thereafter) as long as there is no significant deterioration in credit risk. ► In Stages 2 and 3, lifetime ECLs, which applies whenever there has been a significant increase in credit risk. In Stage 2, interest income is calculated on the asset's gross carrying amount. In Stage 3, a credit event has occurred, and interest income is calculated on the asset's net amortized cost (i.e., net of the allowance). In subsequent reporting periods, if the credit quality of the Stage 2 or 3 financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the entity reverts to Stage 1. A discounted cash flow approach is required when determining ECLs. ECLs must be discounted using a rate that approximates the

► The amount representing the credit loss, which is recognized in earnings ► The amount related to all other factors, which is recognized in OCI, net of applicable taxes To determine whether a credit loss exists under US GAAP (before the adoption of ASC 326), an entity must use its best estimate of the present value of cash flows expected to be collected from the debt security — for example, by measuring an impairment on the basis of the present value of expected future cash flows discounted at the effective interest rate implicit in the security at the date of acquisition. If the debt securities are beneficial interests in securitized financial assets and are in the scope of ASC 325-40, the amount of the OTTI to be measured is the difference between the present value of the remaining cash flows as estimated at the initial transaction date (or at the last date previously revised) and the present value of the cash flows expected to be collected at the current financial reporting date, both discounted using a rate equal to the current yield used to accrete the beneficial interest. If an OTTI does not exist, the entire unrealized loss relating to an AFS debt security continues to be recognized in OCI, and an HTM debt security will continue to be recognized at amortized cost. For HTM debt securities, the impairment analysis is the same as it is for debt securities measured at FV-OCI, except that an entity should not consider whether it intends to sell, or will more likely than not be required to sell, the debt security before the recovery of its amortized cost basis. This is because the entity has already asserted its intent and ability to hold an HTM debt security to maturity.	effective interest rate of the asset. In addition, ECLs are an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes that is representative of the loss distribution. For financial assets that are debt instruments measured at FV-OCI, impairment gains and losses are recognized in profit or loss. However, the ECLs do not reduce the carrying amount of the financial assets in the statement of financial position, which remains at fair value. Instead, impairment gains and losses are accounted for as an adjustment to the revaluation reserve accumulated in OCI (the “accumulated impairment amount”), with a corresponding charge to profit or loss. When these financial assets are derecognized, the cumulative gains and losses previously recognized in OCI are “recycled” from equity to profit or loss. As a result, the amount recycled from OCI to profit or loss on derecognition of the financial asset is the difference between the total change in fair value and the amount previously recognized in profit or loss (excluding any amounts received in cash, such as interest received). An entity is required to reduce the gross carrying amount of a financial asset when the entity has no reasonable expectation of recovering all or a portion of the contractual cash flows.

Implications:
As noted above, the impairment models for debt securities under US GAAP and IFRS are vastly different, which could cause significant differences in the amount of impairment losses that are recognized and the timing of their recognition.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

10(b). Does the reporting entity have debt securities measured at FV-OCI that are impaired (after the adoption of ASC 326)?	Yes ☐	No ☐

US GAAP — ASC 326-30	**IFRS — IFRS 9.5.5.1 through 9.5.5.5 and IFRS 9.5.5.7 through 9.5.5.8**
Under US GAAP (after the adoption of ASC 326), for debt securities that are measured at FV-OCI, if the amortized cost of a debt security exceeds its fair value, the security is impaired. When an entity intends to sell an impaired debt security (or it is more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis), the entire impairment (i.e., the difference between amortized cost and fair value) is recognized as a direct reduction in the security's amortized cost basis with the impairment loss reported in earnings. When an entity does not intend to sell an impaired debt security (and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis), the entity must determine whether any impairment is attributable to credit-related factors. When evaluating an impairment, entities may not use the length of time a security has been in an unrealized loss position as a factor, either by itself or in combination with other factors, to conclude that a credit loss does not exist. This determination should be performed at the individual security level. The credit-related impairment is measured as the difference between the debt security's amortized cost basis and the present value of expected cash flows, and is recognized as an allowance on the balance sheet with a corresponding adjustment to earnings. The allowance should not exceed the amount by which the amortized cost basis exceeds fair value. Both the allowance and the adjustment to net income can be adjusted if conditions change.	Under IFRS, there is a single impairment model for debt instruments (including loans and debt securities) not measured at FV-PL (i.e., measured at FV-OCI or at amortized cost), including loans and debt securities. The guiding principle is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments. The amount of ECLs recognized as a loss allowance (and provision for credit losses) depends on the extent of credit deterioration since initial recognition. Generally, there are two measurement bases: ► In Stage 1, 12-month ECLs, which applies to all items (on initial recognition and thereafter) as long as there is no significant deterioration in credit risk. ► In Stages 2 and 3, lifetime ECLs, which applies whenever there has been a significant increase in credit risk. In Stage 2, interest income is calculated on the asset's gross carrying amount. In Stage 3, a credit event has occurred, and interest income is calculated on the asset's net amortized cost (i.e., net of the allowance). In subsequent reporting periods, if the credit quality of the Stage 2 or 3 financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the entity reverts to Stage 1. A discounted cash flow approach is required when determining ECLs. ECLs must be discounted using a rate that approximates the effective interest rate of the asset. In addition, ECLs are an unbiased and probability-weighted amount determined by evaluating a range of

Impairment that isn't credit-related is recognized in OCI.	possible outcomes that is representative of the loss distribution. For financial assets that are debt instruments measured at FV-OCI, impairment gains and losses are recognized in profit or loss. However, the ECLs do not reduce the carrying amount of the financial assets in the statement of financial position, which remains at fair value. Instead, impairment gains and losses are accounted for as an adjustment to the revaluation reserve accumulated in OCI (the "accumulated impairment amount"), with a corresponding charge to profit or loss. When these financial assets are derecognized, the cumulative gains and losses previously recognized in OCI are "recycled" from equity to profit or loss. As a result, the amount recycled from OCI to profit or loss on derecognition of the financial asset is the difference between the total change in fair value and the amount previously recognized in profit or loss (excluding any amounts received in cash such as interest received). An entity is required to reduce the gross carrying amount of a financial asset when the entity has no reasonable expectation of recovering all or a portion of the contractual cash flows.

Implications:
As noted above, the impairment models for debt securities under US GAAP and IFRS are vastly different, which could cause significant differences in the amount of impairment losses that are recognized and the timing of their recognition.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

11(a). Does the entity hold AFS or HTM debt securities that previously recorded an "other-than-temporary" loss, which have subsequently recovered (before the adoption of ASC 326)?	Yes	No
	☐	☐

US GAAP — ASC 320-10-35, ASC 320-10-35-35	**IFRS — IFRS 9.5.5.2 and IFRS 9.5.5.8**
Subsequent increases in expected cash flows	For debt securities carried at amortized cost or FV-OCI, IFRS 9 requires the use of an

For debt securities for which OTTIs were recognized in earnings, the difference between the new amortized cost basis and the cash flows expected to be collected are accreted as interest income. Accordingly, an entity is required to continually update its estimate of cash flows expected to be collected over the life of the debt security.	allowance, which is adjusted every reporting period for revised ECLs estimates. If in a subsequent period the amount of the ECLs decreases, the previously established allowance is adjusted.
For debt securities accounted for under ASC 325-40, an entity must follow that guidance to account for changes in cash flows expected to be collected. For all other debt securities, if upon subsequent evaluation, the cash flows expected to be collected increase significantly or if actual cash flows are significantly greater than cash flows previously expected, ASC 320-10-35-35 requires that such changes be accounted for as a prospective adjustment to the accretable yield in accordance with ASC 310-30, even if the debt security would not otherwise be in the scope of that standard. That is, the increase in cash flows expected to be collected will be brought back into income over the life of the security. *Subsequent impairment reversal* For debt securities in the scope of ASC 320, subsequent reversals of impairment losses previously charged through earnings are prohibited. Increases in cash flows expected to be collected are accounted for as discussed above.	The financial asset is only written down when an entity has no reasonable expectation of recovering all or a portion of the contractual cash flows of the financial asset. Subsequent to a write-down, the original effective interest rate is applied to the new amortized cost amount to determine the amount of interest income to be recognized. Although IFRS 9 does not provide specific guidance on accounting for subsequent recoveries of financial assets previously written off, it may be possible to recognize a recovery depending on an entity's fact and circumstances.

Implications:
Because of the differences between US GAAP and IFRS in the guidance for recognizing an impairment (direct write-down versus recording an allowance), certain impairment losses that are not permitted to be reversed under US GAAP may be permitted to be reversed under IFRS.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

11(b). Does the entity hold AFS or HTM debt securities that previously recorded an impairment loss, which have subsequently recovered (after the adoption of ASC 326)?	Yes ☐	No ☐

US GAAP — ASC 326-30-35-3 through 35-15, ASC 326-20-35-1 and ASC 326-20-35-8	**IFRS — IFRS 9.5.5.2 and IFRS 9.5.5.8**
For AFS debt securities that were written down because of a decision to sell or a more-likely-than-not requirement to sell the debt security before recovery of its amortized cost basis, the difference between the new amortized cost basis and the cash flows expected to be collected are accreted as interest income. Accordingly, an entity is required to continually update its estimate of cash flows expected to be collected over the life of the debt security. If upon subsequent evaluation, the cash flows expected to be collected increase significantly or if actual cash flows are significantly greater than cash flows previously expected, changes are accounted for as a prospective adjustment to the yield. That is, the increase in cash flows expected to be collected will be brought back into income over the life of the security. Subsequent reversals of impairment losses previously charged through earnings are prohibited. For AFS and HTM debt securities where an allowance for credit losses was recognized, an entity should continue to reassess the cash flows it expects to collect at each subsequent measurement date, as necessary. If the measurement of credit losses increases or decreases, the entity adjusts the allowance, with corresponding gains or losses recorded in net income. For debt securities accounted for under ASC 325-40, an entity must follow that guidance to account for changes in cash flows expected to be collected. When all or a portion of a debt security is deemed uncollectible, an entity writes off the uncollectible amortized cost amount with a corresponding reduction to the allowance for credit losses.	For debt securities carried at amortized cost or FV-OCI, IFRS 9 requires the use of an allowance, which is adjusted every reporting period for revised ECLs estimates. If in a subsequent period the amount of the ECLs decreases, the previously established allowance is adjusted. The financial asset is only written down when an entity has no reasonable expectation of recovering all or a portion of the contractual cash flows of the financial asset. Subsequent to a write-down, the original effective interest rate is applied to the new amortized cost amount to determine the amount of interest income to be recognized. Although IFRS 9 does not provide specific guidance on accounting for subsequent recoveries of financial assets previously written off, it may be possible to recognize a recovery depending on an entity's facts and circumstances.

Implications:
Because of the differences between US GAAP and IFRS in the guidance for recognizing a write-off, certain impairment losses that are not permitted to be reversed under US GAAP may be permitted to be reversed under IFRS.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

12. Does the reporting entity have equity investments for which there is no readily determinable fair value?	Yes	No
	☐	☐

US GAAP — ASC 321-10-35-3 through 35-4	**IFRS — IFRS 9.5.2.2 and IFRS 9.5.7.5**
Under US GAAP, an equity investment without a readily determinable fair value may be eligible for the measurement alternative. If the measurement alternative has been elected, the equity investment is qualitatively assessed for impairment at each reporting date. ASC 321 includes the impairment indicators to be considered in the assessment. If a qualitative assessment indicates that the investment is impaired, the entity will have to estimate the investment's fair value in accordance with ASC 820 and, if the fair value is less than the investment's carrying value, recognize an impairment loss in net income equal to the difference between carrying value and fair value.	As discussed in question 1, equity instruments are measured at FV-PL or FV-OCI. No measurement alternative is available. For equity instruments measured at FV-OCI, gains and losses recognized in OCI are never reclassified to profit or loss. Therefore, there is no impairment recognized for these instruments.

Implications:
Under US GAAP, equity investments without readily determinable fair values for which the measurement alternative has been elected are qualitatively assessed for impairment. For these investments, there will be earnings decreases when (1) an entity that holds such investments determines, as a result of a qualitative assessment, that the investments are impaired and (2) the fair value of those investments is less than their carrying value. Under IFRS, no impairment is recognized for equity investments and, therefore, no impairment losses are recognized in profit or loss for such investments.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

13(a). Does the entity have receivables (e.g., individual loans, a portfolio (pool) of loans, or other financing receivables such as trade accounts receivable or notes receivable) for which it is assessing credit impairment (before the adoption of ASC 326)?	Yes ☐	No ☐

US GAAP — ASC 310-10 and ASC 450-20	**IFRS — IFRS 9.5.5.1 through 9.5.5.5, IFRS 9.5.5.7 through 9.5.5.9, IFRS 9.5.5.15, IFRS 9.5.5.17, IFRS 9.5.5.20 and IFRS 9.B5.4.9**
Under US GAAP (before the adoption of ASC 326), the impairment model for loans and other receivables is an incurred loss model. Losses from uncollectible receivables are recognized when it is probable that a loss has been incurred and the amount of the loss is reasonably estimable. When it is probable, based on current information and events, that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement, it is probable that a loss has been incurred. Entities should recognize a loss if it is probable and estimable, even if the entity can't yet identify which specific receivables are uncollectible. The total allowance for credit losses should include those amounts for financial assets that have been measured for impairment, whether individually under ASC 310-10 or collectively (in groups of loans) under ASC 450-20. Individual impairment allowances should be measured only for those loans that can be individually identified as being impaired. A loan may be identified for evaluation and subsequently determined to not be impaired. However, once a loan is identified for evaluation, it shouldn't be grouped with other similar loans to determine whether the loan (or the group of loans) is impaired. Individual impairment should be measured as the difference between the present value of expected future cash flows discounted at the loan's effective interest rate and the recorded investment. As a practical expedient, a creditor	As stated in the response to question 1, there is a single impairment model, and ECLs are recognized for debt instruments recorded at amortized cost or FV-OCI, including loans and debt securities. The guiding principle is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments. The amount of ECLs recognized as a loss allowance (and provision for credit losses) depends on the extent of credit deterioration since initial recognition. Generally, there are two measurement bases: ▸ In Stage 1, 12-month ECLs, which apply to all items (on initial recognition and thereafter) as long as there is no significant deterioration in credit risk. ▸ In Stages 2 and 3, lifetime ECLs, which apply whenever there has been a significant increase in credit risk on an individual or collective basis. In subsequent reporting periods, if the credit quality of the Stage 2 or 3 financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the entity reverts to Stage 1. For cancelable undrawn commitments, an entity's contractual ability to demand repayment and cancel an undrawn commitment does not limit the entity's exposure to credit losses to the contractual notice period. As such, for these undrawn

may measure impairment based on a loan's observable market price or the fair value of collateral (less costs to sell, if repayment or satisfaction of the loan is dependent on the sale of the collateral) if the loan is a collateral-dependent loan. Impairment should be measured based on the fair value of collateral when foreclosure is probable. The measurement method selected for an individually impaired loan should be applied consistently. Write-downs (charge-offs) of loans and other receivables are recorded when the asset is deemed uncollectible. Recoveries of loans and receivables previously written down are recorded when received.	commitments, expected credit losses would not be mitigated by credit risk management actions. For those where the entity cannot withdraw the facility, it is exposed for the contract duration. In other cases, an entity may have the contractual right to withdraw the facility, but in practice it manages the facilities in a way that doesn't allow it to reduce its exposure to the contractual notice period (revolving facilities like credit cards). On these commitments, the ECLs are calculated over the period the entity is actually exposed to risk based on its risk management practices. An entity needs to consider the time value of money when measuring ECLs, by discounting the estimated losses to the reporting date. ECLs must be discounted using a rate that approximates the effective interest rate of the asset. In addition, ECLs are an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes that is representative of the loss distribution. Write-downs (charge-offs) of loans and other receivables are recorded when the entity has no reasonable expectation of recovering all or a portion of the contractual cash flows of the asset. IFRS does not provide guidance on accounting for subsequent recoveries. IFRS preparers may opt for a simplified approach for trade receivables. The simplified approach allows entities to recognize lifetime expected losses on all trade receivables without the need to identify significant increases in credit risk.

Implications:
The US GAAP impairment model (before the adoption of ASC 326) is an incurred loss model, while the IFRS 9 model is an expected loss model that requires an entity to assess whether there has been a significant deterioration in credit quality since initial recognition. The differences between the models could cause significant differences in the amounts of impairment losses that are recognized and the timing of their recognition.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

13(b). Does the entity have financial assets measured at amortized cost (e.g., loans, a portfolio (pool) of loans, trade accounts receivable, HTM securities) for which it is assessing credit impairment (after the adoption of ASC 326)?	Yes ☐	No ☐

US GAAP — ASC 326-20	**IFRS — IFRS 9.5.5.1 through 9.5.5.5, IFRS 9.5.5.7 through 9.5.5.9, IFRS 9.5.5.15, IFRS 9.5.5.17, IFRS 9.5.5.20 and IFRS 9.B5.4.9**
Under US GAAP (after the adoption of ASC 326), financial assets measured at amortized cost, including loans, receivables and HTM securities (including beneficial interests accounted for under ASC 325-40), follow the current expected credit loss (CECL) model. Under the CECL model, lifetime expected credit loss is recorded upon initial recognition of financial assets. The objective of the model is to recognize an allowance for credit losses that results in the financial statements reflecting the net amount expected to be collected. To determine the expected credit losses, the following core concepts must be considered: ► The allowance should be based on an asset's amortized cost. ► An expected credit loss estimate requires entities to reflect the risk of loss, even when that risk is remote. This is accomplished by pooling assets with similar risk characteristics. As a result of using pool-based assumptions, an estimate of zero credit loss may be appropriate only in limited circumstances. ► The allowance should reflect losses expected over the remaining contractual life of an asset adjusted for expected prepayments, reasonably expected troubled debt restructurings (before the adoption of ASU 2022-02) and contractual extension options outside of the lender's control. ► The allowance must consider available relevant information about the collectibility of cash flows, including information about past events, current conditions, and reasonable and supportable forecasts. An entity should not recognize a liability for an off-balance-sheet commitment if that commitment is unconditionally cancelable by the lender.	As stated in the response to question 1, there is a single impairment model, and ECLs are recognized for debt instruments recorded at amortized cost (or FV-OCI), including loans and debt securities. The guiding principle is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments. The amount of ECLs recognized as a loss allowance (and provision for credit losses) depends on the extent of credit deterioration since initial recognition. Generally, there are two measurement bases: ► In Stage 1, 12-month ECLs, which apply to all items (on initial recognition and thereafter) as long as there is no significant deterioration in credit risk. ► In Stages 2 and 3, lifetime ECLs, which apply whenever there has been a significant increase in credit risk on an individual or collective basis. In subsequent reporting periods, if the credit quality of the Stage 2 or 3 financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the entity reverts to Stage 1. For cancelable undrawn commitments, an entity's contractual ability to demand repayment and cancel an undrawn commitment does not limit the entity's exposure to credit losses to the contractual notice period. As such, for these undrawn commitments, expected credit losses would not be mitigated by credit risk management actions. For those where the entity cannot withdraw the facility, it is exposed for the contract duration. In other cases, an entity may have the contractual right to withdraw the facility, but in practice it manages the facilities in a way that doesn't allow it to reduce its exposure to the contractual notice period (revolving facilities like credit cards). On these commitments, the ECLs are calculated

The CECL model allows entities to use various methods to estimate expected credit losses and does not require entities to use a discounted cash flow method. Entities are also not required to utilize probability-weighted scenarios in the credit loss estimate. Write-downs (charge-offs) of loans and other receivables are recorded when the entity deems all or a portion of a financial asset to be uncollectible. Additionally, when measuring the allowance for credit losses, entities should incorporate an estimate of expected recoveries.	over the period the entity is actually exposed to risk based on its risk management practices. An entity needs to consider the time value of money when measuring ECLs by discounting the estimated losses to the reporting date. ECLs must be discounted using a rate that approximates the effective interest rate of the asset. In addition, ECLs are unbiased and probability-weighted amounts that are determined by evaluating a range of possible outcomes that is representative of the loss distribution. Write-downs (charge-offs) of loans and other receivables are recorded when the entity has no reasonable expectation of recovering all or a portion of the contractual cash flows of the asset. IFRS does not provide guidance on accounting for subsequent recoveries. IFRS preparers may opt for a simplified approach for trade receivables. The simplified approach allows entities to recognize lifetime expected losses on all trade receivables without the need to identify significant increases in credit risk.

Implications:

The US GAAP impairment model (after the adoption of ASC 326) requires lifetime expected credit losses to be recorded upon initial recognition, while the IFRS 9 model is an expected loss model that requires an entity to assess whether there has been a significant deterioration in credit quality since initial recognition. Only when there has been a significant increase in credit risk since initial recognition does IFRS 9 require the recognition of lifetime expected credit losses. The differences between the models could cause significant differences in the amounts of impairment losses that are recognized and the timing of their recognition.

Identified difference?

Yes	No	Depends on policy election
☐	☐	☐

Describe:
Click here to enter text.

14(a). Has the entity purchased credit-impaired financial assets (before the adoption of ASC 326)?	Yes ☐	No ☐

US GAAP — ASC 310-30	**IFRS — IFRS 9.5.5.13 through 9.5.5.14 and IFRS 9.B5.5.45**
ASC 310-30 (before the adoption of ASC 326) applies to purchased loans and debt securities where the investor believes it is probable, at acquisition, that it will not collect the remaining contractual payments as a result of credit deterioration since origination. The probable threshold should be met for each individual acquired loan or debt security. These assets are referred to as purchased credit-impaired (PCI) financial assets. Under ASC 310-30, the yield used to subsequently recognize income for these acquired loans or debt securities should represent only cash flows expected to be collected (i.e., accretable yield). This yield is calculated at initial recognition and adjusted as needed (see below for subsequent accounting). Entities should not record a valuation allowance for a loan or pools of loans at initial acquisition. Any valuation allowance recorded after the acquisition should reflect only those losses incurred by the investor after acquisition. *Loans — subsequent accounting* An investor should continue to estimate expected cash flows over the life of the loan or pool of loans. If at a subsequent reporting date, an entity determines that it is probable that it will not be able to collect all cash flows expected at acquisition, the entity should record an allowance pursuant to ASC 310-10 or ASC 450-20. If at a subsequent reporting date an entity determines that it is probable that there has been a significant increase in expected cash flows since the last estimate, the entity should first reduce any allowance that has been recorded since acquisition. If, after reducing the allowance to zero, there are still additional expected cash flows, the entity should recalculate the accretable yield. Changes in the accretable yield should be	As noted previously, IFRS 9 has a single impairment model for all financial instruments that are in its scope. On initial recognition (through either purchase or origination) of a financial asset, an entity is required to determine whether the asset is “credit-impaired.” A financial asset is credit-impaired when one or more events that have a detrimental effect on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about such events. IFRS 9 provides a list of events to be considered in the individual asset assessment. It may not be possible for an entity to identify a single discrete event. Instead, the combined effect of several events may cause the financial asset to be credit-impaired. A purchased or originated credit-impaired (POCI) asset is likely to be acquired at a deep discount. In other unusual circumstances, it may be possible that an entity originates a credit-impaired financial asset (e.g., following a substantial modification of a distressed financial asset that resulted in the derecognition of the original financial asset). For financial assets that are considered to be POCI, the effective interest rate is calculated taking into account the initial lifetime ECLs in the estimated cash flows, and there is no additional 12-month ECLs allowance. In subsequent reporting periods, an entity is required to recognize changes in the lifetime ECLs estimate immediately in earnings as an impairment gain or loss, with a corresponding decrease or increase, respectively, in the loss allowance. In calculating interest income for POCI assets, the entity applies a credit-adjusted effective interest rate to their amortized cost basis from initial recognition.

applied prospectively as an increase to the loan's effective interest rate. *Debt securities — subsequent accounting* An investor should continue to estimate expected cash flows over the life of debt securities. If at the reporting date an entity determines that the fair value of the debt security has declined below its amortized cost basis (such as from a decrease in expected or actual cash flows following acquisition), the entity should determine whether an OTTI exists under ASC 320-10-35. If at a reporting date an entity determines that there has been a significant increase in expected or actual cash flows since acquisition, the entity should recalculate the accretable yield. Changes in accretable yield should be applied prospectively as an increase to the instrument's effective interest rate.	

Implications:

There is no US GAAP concept of originated credit-impaired assets comparable to that in IFRS 9. Therefore, only purchased financial assets may be considered PCI under US GAAP, but both purchased and originated financial assets may be considered credit-impaired under IFRS.

While increases in expected cash flows of PCI loans under US GAAP may require an increase in the effective interest rate that is prospectively applied, under IFRS the changes are immediately recorded in earnings.

For debt securities under US GAAP, an OTTI assessment is required when the fair value of a PCI debt security has declined below its amortized cost basis (such as from a decrease in expected or actual cash flows). There is no comparable OTTI assessment under IFRS. Rather, increases in lifetime ECLs are recorded immediately in profit or loss as an impairment loss. Increases in expected cash flows of PCI debt securities under US GAAP would require an increase in the effective interest rate that is prospectively applied, whereas under IFRS, decreases in lifetime ECLs are recorded immediately in earnings as a reduction in the allowance.

Identified difference?

Yes	No	Depends on policy election
☐	☐	☐

Describe:
Click here to enter text.

14(b). Has the entity purchased credit-deteriorated financial assets (after the adoption of ASC 326)?	Yes ☐	No ☐

US GAAP — ASC 326-20 and ASC 326-30	**IFRS — IFRS 9.5.5.13 through 9.5.5.14 and IFRS 9.B5.5.45**
US GAAP (after the adoption of ASC 326) provides special initial recognition and measurement (Day 1) accounting for assets that have experienced more-than-insignificant deterioration in credit quality since origination. These assets are referred to as PCD assets. ASC 326 provides a broad list of factors to consider to determine whether a purchased financial asset has experienced a more-than-insignificant deterioration in credit quality since origination. PCD accounting is also applied to beneficial interests accounted for under ASC 325-40 for which there is a significant difference between contractual and expected cash flows at the date of recognition. An allowance is recognized for a PCD asset by adding it to the purchase price or fair value at acquisition to arrive at the initial amortized cost basis. Because the initial estimate for expected credit losses is added to the purchase price, PCD accounting is commonly referred to as a "gross-up" approach. There is no credit loss expense recognized upon acquisition of a PCD asset because the initial allowance is established through the gross-up. When measuring the allowance for credit losses on a PCD asset, entities should incorporate an estimate of expected recoveries. After initial recognition, the accounting for a PCD asset will follow the credit loss model that applies to that type of asset (i.e., ASC 326-20 or ASC 326-30). Interest income for a PCD asset is recognized using the effective interest rate calculated at initial measurement. The PCD gross-up means that the purchase discount related to estimated credit losses on acquisition is not accreted into interest income. Only the noncredit-related discount or premium is accreted or amortized, using the effective interest rate that was calculated at the time the asset was acquired.	As noted previously, IFRS 9 has a single impairment model for all financial instruments that are in its scope. On initial recognition (through either purchase or origination) of a financial asset, an entity is required to determine whether the asset is "credit-impaired." A financial asset is credit-impaired when one or more events that have a detrimental effect on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about such events. IFRS 9 provides a list of events to be considered in the individual asset assessment. It may not be possible for an entity to identify a single discrete event. Instead, the combined effect of several events may cause the financial asset to be credit-impaired. A POCI asset is likely to be acquired at a deep discount. In other unusual circumstances, it may be possible that an entity originates a credit-impaired financial asset (e.g., following a substantial modification of a distressed financial asset that resulted in the derecognition of the original financial asset). For financial assets that are considered to be POCI, the effective interest rate is calculated taking into account the initial lifetime ECLs in the estimated cash flows, and there is no additional 12-month ECLs allowance. In subsequent reporting periods, an entity is required to recognize changes in the lifetime ECLs estimate immediately in earnings as an impairment gain or loss, with a corresponding decrease or increase, respectively, in the loss allowance. In calculating interest income for POCI assets, the entity applies a credit-adjusted effective interest rate to its amortized cost basis from initial recognition.

Implications:
There is no US GAAP concept of originated credit-impaired assets comparable to that in IFRS 9. Therefore, only purchased financial assets may be considered PCD under US GAAP, but both purchased and originated financial assets may be considered credit-impaired under IFRS.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

Derecognition of financial assets and financial liabilities

Similarities:

ASC 860, *Transfers and Servicing,* focuses on legal isolation and control over the transferred financial asset and the ability to exercise that control. The derecognition rules in IFRS 9 are based on different accounting concepts, in particular a “risks-and-rewards” model and a “control” model, which may lead to different conclusions. IFRS 9 seeks to avoid the potential conflict between those accounting models by requiring the “risks-and-rewards” model to be applied first and the “control” model second.

Transfer of financial assets

Both US GAAP and IFRS permit derecognition of an entire financial asset, a group of entire financial assets or portions of an entire financial asset in certain cases. However, US GAAP and IFRS differ in how they define a portion of a financial asset that is eligible for derecognition (see question 2).

Continuing involvement

A transferor’s continuing involvement in transferred financial assets includes any involvement with the transferred financial assets that permits the transferor to receive cash flows or other benefits that arise from the transferred financial assets or that obligates the transferor to provide additional cash flows or other assets to any party related to the transfer (e.g., servicing arrangements, recourse or guarantee arrangements).

If the transferor has no continuing involvement with either the transferred financial assets or the transferee, the transfer typically meets the conditions for sale accounting under both US GAAP and IFRS.

Under IFRS, if an entity neither transfers nor retains substantially all the risks and rewards of ownership of a transferred financial asset, but retains control of the transferred financial asset, IFRS 9 requires the entity to continue to recognize the transferred financial asset to the extent of its “continuing involvement” (the extent to which it is exposed to changes in the value of the transferred financial asset), plus an associated liability.

Under US GAAP, some forms of continuing involvement may result in the transferred financial assets not being legally isolated from the transferor and its creditors, provide the transferor with a unilateral ability to reacquire the transferred financial assets, or constrain the transferee from selling the transferred financial asset, and therefore, enable the transferor to effectively control the transferred financial assets. If a transfer of financial assets fails to meet any of the derecognition conditions in ASC 860, the transfer is accounted for as a secured borrowing with a pledge of collateral.

Initial measurement of transfers of financial assets that qualify for derecognition

Upon completion of a transfer of financial assets that meets the conditions for derecognition, both US GAAP and IFRS provide similar guidance for determining the gain or loss from the sale as well as the carrying amounts of the assets obtained and the liabilities assumed as proceeds. However, because US GAAP and IFRS have different definitions of the unit of account eligible for derecognition and different interpretations of what constitutes a newly-created asset, the measurement of any associated gain or loss may differ under the two accounting standards.

Accounting for servicing rights

An entity that transfers financial assets in a transfer that qualifies for sale accounting and retains servicing rights will recognize a servicing asset or liability depending on whether the servicing fee is above or below “adequate compensation.” Under both US GAAP and IFRS, the definition of servicing assets and liabilities, including the requirements for separate recognition, are similar. However, both initial and subsequent measurement of servicing rights differs under the two accounting standards.

Accounting for transfers of financial assets that fail the derecognition requirements

If a transfer of a financial asset (or portion thereof) in exchange for cash or other consideration does not meet the criteria for sale accounting, both US GAAP and IFRS require that the transferor continue to recognize the transferred financial asset and recognize a financial liability for the consideration received (i.e., the transferor accounts for the transfer as a secured borrowing with pledge of collateral). In subsequent periods, the transferor will continue to recognize any income on the transferred financial asset and any expense incurred on the financial liability.

Extinguishment of financial liabilities

A debtor derecognizes a liability if and only if it has been extinguished. The criteria for derecognizing liabilities under US GAAP are similar to those under IFRS. A liability generally has been extinguished if either 1) the debtor pays the creditor and is relieved of its obligation for the liability or 2) the debtor is legally released from being the primary obligor under the liability, either judicially or by the creditor. The guidance for extinguishment of liabilities is in ASC 405, *Liabilities*. The guidance in ASC 405 on the extinguishment of liabilities applies to all liabilities, including financial and nonfinancial liabilities, unless other guidance applies.

Accounting for collateral

In many financing transactions, a debtor may grant a security interest in certain assets to a lender (the secured party) to serve as collateral for its obligation under a borrowing, with or without recourse to other assets of the debtor. If collateral is transferred to the secured party, the custodial arrangement is commonly referred to as a pledge. Secured parties sometimes are permitted to sell or re-pledge collateral held under a pledge. In a transfer of collateral that is accounted for as a secured borrowing, the recognition of the collateral by the secured party and the reclassification of the collateral by the debtor is similar under both US GAAP and IFRS and depend on whether the secured party has the right to sell or re-pledge the collateral and whether the debtor has defaulted under the terms of the borrowing.

Repurchase agreements and securities lending arrangements

Under US GAAP, an agreement that both entitles and obligates the transferor to repurchase or redeem transferred financial assets from the transferee results in the transferor maintaining “effective control” over the assets and requires that the transaction be accounted for as a secured borrowing.

Under IFRS, an entity has retained substantially all the risks and rewards of ownership of a financial asset if its exposure to the variability in the present value of the future net cash flows from the financial asset does not change significantly as a result of the transfer. IFRS 9 gives securities lending transactions and repurchase agreements as examples of transactions in which an entity has retained substantially all of the risks and rewards of ownership.

The accounting for securities lending transactions and repurchase agreements will often be the same under both US GAAP and IFRS (i.e., secured borrowing rather than sale accounting). However, differences in accounting can result because US GAAP focuses on transfer of control while IFRS primarily considers the transfer of risks and rewards of ownership.

Pursuant to ASC 860, a transferor is required to account for a “repurchase-to-maturity transaction” as a secured borrowing as if the transferor retains effective control, even though the transferred financial assets are not returned to the transferor at settlement. This represents an exception to the control-based derecognition model in US GAAP — one that is closer to the risks-and-rewards model under IFRS.

Primary US GAAP	Primary IFRS
► ASC 860, *Transfers and Servicing* ► ASC 810, *Consolidation* ► ASC 405-20, *Liabilities — Extinguishments of Liabilities* ► ASC 460, *Guarantees*	► IFRS 9 *Financial Instruments* ► IFRS 10 *Consolidated Financial Statements*

Standard setting activities:

There is no significant standard setting activity in this area.

Discussion of IFRS 1:

A first-time adopter must apply the derecognition requirements in IFRS 9 prospectively to transactions occurring on or after the date of transition to IFRS. If a first-time adopter derecognized non-derivative financial assets or non-derivative financial liabilities under its previous GAAP, it does not recognize those assets and liabilities under IFRS (unless they qualify for recognition as a result of a later transaction or event). However, transfers on or after the date of transition to IFRS are subject to the full requirements of IFRS 9 and will have to be re-evaluated to determine whether they meet the criteria for derecognition. Therefore, unless the derecognition requirements of IFRS 9 are satisfied, financial assets and financial liabilities transferred after the date of transition to IFRS must be recognized under IFRS.

A first-time adopter may elect to apply the derecognition requirements in IFRS 9 retrospectively from a date of the entity’s choosing. Such an election is permissible provided that the information needed to apply IFRS 9 to financial assets and financial liabilities derecognized as a result of past transactions was obtained at the time of initially accounting for those transactions. Therefore, an entity that was not permitted to derecognize transferred financial assets under its previous GAAP may be able to derecognize those assets through retrospective application of IFRS 9, provided the entity also retained contemporaneous documentation of its original basis for conclusion. However, the limitation on the retrospective application of IFRS 9 helps to prevent the re-estimation of measurements used in the risks-and-rewards analysis pursuant to IFRS 9 with the unacceptable benefit of hindsight.

IFRS 1 contains no specific exemption from the retrospective application of IFRS 10 to structured entities that are not businesses, as defined in IFRS 3. Accordingly, the IFRS 10 requirements with regard to the consolidation of structured entities that are not businesses are retrospective for first-time adopters. As a result, previously derecognized assets and liabilities may not remain off-balance sheet upon adoption of IFRS. For example, if under US GAAP a reporting entity derecognized non-derivative financial assets and non-derivative financial liabilities as the result of a transfer to a non-consolidated structured entity, those assets and liabilities may be required to be re-recognized upon transition to IFRS, as a result of consolidation of the structured entity (i.e., assuming the reporting entity is deemed to control the structured entity under IFRS 10). However, if the structured entity itself then subsequently transferred the assets and achieved derecognition of the items concerned under the structured entity’s previous GAAP (other than by transfer to a consolidated entity), the items remain derecognized on transition.

Refer to the “Consolidation” section of this publication for additional guidance.

Differences:

1. Has the reporting entity transferred an entire financial asset or groups of entire financial assets to an entity (including a structured entity) and derecognized such assets? If no, questions 2 through 7 do not need to be answered and evaluated.	Yes ☐	No ☐

Under US GAAP and IFRS, financial assets consist of cash, evidence of ownership interest in an entity, or a contract that conveys to one entity a contractual right (1) to receive cash or another financial instrument from a second entity or (2) to exchange other financial instruments on potentially favorable terms with the second entity.

Under US GAAP, a transfer is defined as the conveyance of a noncash financial asset (or a portion thereof) by and to someone other than the issuer of that financial asset. Although IFRS does not explicitly define transfers, we understand that transfers under US GAAP are generally considered transfers under IFRS.

Several factors must be evaluated to determine whether a transfer of financial assets constitutes a sale and, if so, the determination of any resulting gain or loss.

US GAAP — ASC 860-10-40-5 and ASC 860-10-55-17F	**IFRS — IFRS 9.3.2.1 through 3.2.9, IFRS 9.3.2.16 through 3.2.21 and IFRS 9.B3.2.1 through B3.2.16**
A transferor can derecognize financial assets (i.e., achieve sale accounting) when control of the financial assets has been surrendered. Control has been surrendered if, and only if, all of the following conditions are met: ► *Legal isolation of the transferred financial assets:* The transferred financial assets have been isolated from the transferor — put presumptively beyond the reach of the transferor, including any of its consolidated affiliates, and its creditors — even in bankruptcy or other receivership ► *Transferee’s right to pledge or exchange:* Each transferee (or, if the transferee is a securitization entity, each holder of its beneficial interests), has the right to pledge or exchange the transferred financial assets (or beneficial interests), and no condition both constrains the transferee (or third-party holder of its beneficial interests) from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor ► *Transferor’s surrender of effective control:* The transferor does not maintain effective control over the transferred financial assets or beneficial interests (e.g., through a call option or repurchase agreement)	The derecognition model under IFRS is based on a mixed model that considers both transfer of risks and rewards and control. Transfer of control is considered only when the transfer of risks and rewards assessment is not conclusive. Derecognition is required in the following cases: ► When the rights to cash flows from the financial asset have expired ► When the reporting entity has transferred substantially all risks and rewards from the financial asset ► When the reporting entity (a) has neither transferred substantially all, nor retained substantially all, the risks and rewards from the financial asset and (b) has not retained control of the financial asset An entity has “transferred” a financial asset if, and only if, it either: ► Transfers the contractual rights to receive the cash flows of the financial asset; or ► Retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows on to one or more recipients in an arrangement that meets the conditions specified in IFRS 9 (a so-called “pass-through arrangement”). An example of a pass-through arrangement is one in which the entity is a structured entity or

Partial sale accounting is not permitted under US GAAP. However, portions of entire financial assets may be derecognized if such portions meet the definition of a participating interest. Refer to question 2 for further information regarding transfers of portions of entire financial assets.	trust and issues to investors beneficial interests in financial assets that it owns and provides servicing of those assets. When an entity retains the contractual rights to receive the cash flows of a financial asset but assumes a contractual obligation to pay those cash flows to the eventual recipients, special "pass-through" conditions apply, as explained in IFRS 9.3.2.5. These conditions are also discussed in question 2. If the transferor has neither retained nor transferred substantially all of the risks and rewards, the transferor's control is then evaluated. Control is considered to be surrendered if the transferee has the practical ability to unilaterally sell the transferred financial asset to a third party, without restrictions (ability to pledge is not sufficient). There is *no* legal "isolation in bankruptcy" test that is required to be met under IFRS to demonstrate that control has been surrendered. Lastly, if an entity neither transfers nor retains substantially all the risks and rewards of ownership of a transferred financial asset, and retains control of the transferred financial asset, the entity continues to recognize the transferred financial asset to the extent of its continuing involvement. The extent of the entity's continuing involvement in the transferred financial asset is the extent to which it is exposed to changes in the value of the transferred financial asset. In addition, when an entity continues to recognize an asset to the extent of its "continuing involvement," the entity also recognizes an associated liability and special measurement rules apply (refer to IFRS 9.3.2.17).

Implications:
Differences in accounting for transfers of financial assets are likely to arise between US GAAP and IFRS in situations in which legal control has been retained by the transferor while substantially all risks and rewards have been transferred. For instance, in order to derecognize financial assets under US GAAP, the transferor has to give up control over the transferred financial assets, but does not have to transfer substantially all risks and rewards of ownership in order to achieve sale accounting. IFRS primarily allows financial assets to be derecognized when the entity has transferred substantially all risks and rewards from the financial asset. IFRS 9 attempts to clarify that the transfer of risks and rewards should be evaluated by comparing the entity's exposure, before and after the transfer, to the variability in the amounts and timing of the net cash flows of the transferred financial asset. An entity has transferred substantially all the risks and rewards of ownership of a financial asset if its exposure to the variability in the amounts and timing of the net cash flows of the transferred financial asset is no longer significant in relation to the total of such variability (IFRS 9.B3.2.4 through B3.2.6).

Under US GAAP, control is considered to be surrendered if, among other criteria enumerated in ASC 860-10-40-5, the transferee has the ability to sell *or* pledge the transferred financial assets. Under IFRS, a transferor that has neither retained nor transferred substantially all of the risks and rewards of ownership of a transferred financial asset can still derecognize the asset to the extent it has transferred control over the asset to the transferee (i.e., when the transferee has the practical ability to *sell* the asset unilaterally to an unrelated party without additional restrictions). However, unlike US GAAP, a transferee's ability to only repledge the assets it receives is not sufficient to evidence surrender of control by the transferor under IFRS.

Lastly, IFRS' special "pass-through" conditions do not exist under US GAAP. However, some similarities exist to IFRS' pass-through requirements when the transaction involves the transfer of a portion of an entire financial asset.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

2. Has the reporting entity achieved partial derecognition by transferring a portion of an entire financial asset?	Yes	No
	☐	☐

Groups of banks or other entities may jointly fund large borrowings through loan participations in which a single lender makes a large loan to a borrower and subsequently transfers interests in the loan to other entities.

US GAAP — ASC 860-10-40-4 through 40-6A, ASC 860-10-05-23 and ASC 860-10-55-17M	**IFRS — IFRS 9.3.2.1 through 3.2.9**
A portion of an entire financial asset is eligible for sale accounting if it meets the conditions of a participating interest. A participating interest is defined in ASC 860-10-40-6A as a portion of a financial asset that possesses each of the following characteristics: ► Represents a proportionate (pro rata) ownership interest in an entire financial asset ► Entitles each participating interest holder to all the cash flows received from the entire financial asset in proportion to their share of ownership ► Requires each participating interest holder to have the same priority and no participating interest holder is subordinated to another (i.e., it involves no recourse to, or subordination by, any participating interest holder and it does not entitle any participating interest holder to receive cash before any other participating interest holder) ► Does not entitle any participating interest holder the right to pledge or exchange the entire financial asset unless all participating	A portion of a financial asset may be considered for derecognition only if the portion meets one of the following three conditions: ► Comprises only specified identified cash flows from a financial asset (e.g., an interest-only (I/O) strip) ► Comprises only a fully proportionate (pro rata) share of the cash flows from a financial asset (e.g., 90% of *all* cash flows from a loan) ► Comprises only a fully proportionate (pro rata) share of specifically identified cash flows (e.g., 90% of *interest* cash flows) Additionally, the transfer of a portion of a financial asset generally would be evaluated as a transfer of a financial asset subject to the "pass-through" criteria of IFRS 9. For pass-through arrangements, IFRS 9 permits derecognition (i.e., sale accounting) only if the following three conditions are met: ► The transferor has no obligation to pay amounts to the eventual recipients unless it

interest holders agree to pledge or exchange the entire financial asset Additionally, the requirements for a participating interest stipulate that certain cash flows should be excluded when evaluating whether all cash flows received from the entire financial asset are divided proportionately among the participating interest holders. Such exclusions include: ► Cash flows allocated as compensation for services performed (if not "significantly above" an amount that would fairly compensate a substitute service provider, should one be required, which includes the profit that would be demanded in the marketplace) ► Proceeds from sales of participating interests (except proceeds that permit the transferor to receive disproportionate cash flows) ► Recourse in the form of an independent third-party guarantee If the transferred portion of an entire financial asset meets the above conditions of a participating interest, and the sale criteria of ASC 860-10-40-5 are met (see question 1), the transferor may derecognize the participating interests transferred (i.e., a portion of the loan is derecognized by the transferor to the extent of the participating interest sold to the transferee).	collects equivalent amounts from the underlying assets, ► The transferor is prohibited from selling or pledging the underlying asset, and ► The transferor has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. Additionally, the transferor cannot reinvest such cash flows received from the underlying assets, unless they are invested in cash equivalents and interest earned is passed on to the eventual recipients.

Implications:
Reporting entities that transfer portions of financial assets may reach different accounting conclusions under US GAAP and IFRS. For example, transferred portions of an entire financial asset that do not meet the definition of a "participating interest" under US GAAP may be eligible for derecognition under IFRS 9 if the criteria described above are met. Additionally, a transfer of financial asset portions that can achieve sale accounting under US GAAP may include provisions that do not meet the pass-through requirements of IFRS 9 and, therefore, should be accounted for as a secured borrowing under IFRS. Under IFRS, retention of servicing rights in connection with sale of participating interests may be problematic (prevent derecognition of the transferred financial asset) unless cash flows received from the underlying assets are promptly remitted to the transferee or invested in cash equivalents and interest earned is passed on to the transferee. In contrast, under US GAAP a servicing arrangement that permits the servicer (transferor) to earn and retain interest on cash collected from the underlying assets prior to the contractual payment date(s) to the participating interest holders (transferees) does not prevent derecognition of the transferred participating interest (unless such arrangement causes the transferor to fail the legal isolation requirement). Unlike the participating interest requirements under US GAAP, the pass-through requirements of IFRS do not limit the

amount of service fees received as compensation provided such fees are dependent upon the servicing work being performed satisfactorily and that would end upon termination or transfer of the servicing contract.

Under both US GAAP and IFRS, the gain or loss from a transfer of a portion of an entire financial asset that meets the requirements for sale accounting is typically determined based on the difference between the allocated cost basis of the financial asset components derecognized and the proceeds, which includes the fair value of any assets or liabilities that are newly created as a result of the transaction. However, because US GAAP and IFRS have different definitions of the unit of account eligible for derecognition and different interpretations of what constitutes a newly-created asset, the measurement of any associated gain or loss may also differ under the two accounting standards. For example, under US GAAP, if an entire financial asset (e.g., a mortgage loan) is transferred to a securitization entity that it does not consolidate and the transfer meets the conditions for sale accounting, the transferor may obtain an I/O strip as proceeds from the sale. An I/O strip received as proceeds of a sale is initially recognized and measured at fair value under US GAAP. Under IFRS, such a transaction would represent the transfer of a portion of an entire financial asset (i.e., in the case of the mortgage loan, a transfer of 100% of the principal cash flows and a portion of the interest cash flows). Unlike US GAAP, assuming the transfer qualifies for sale accounting under IFRS, the I/O strip would not represent a newly-created asset and, therefore, it would initially be recognized and measured based upon an allocation of the previous carrying amount of the larger financial asset (e.g., the mortgage loan). Assuming the original financial asset transferred was not designated upon initial recognition at fair value through profit or loss, the I/O strip would not initially be recognized at fair value under IFRS. Consequently, the amount of gain or loss recognized upon sale would differ.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

3. Has the reporting entity transferred financial assets to another entity subject to a performance guarantee?	Yes ☐	No ☐

Guarantees can come in many forms and, when provided by a transferor in a transfer of financial assets, represent a form of the transferor's continuing involvement with the transferred financial assets. For example, a loan guarantee by a transferor is a promise to the transferee to assume a borrower's debt obligation if the borrower defaults (i.e., fails to repay debt in accordance with the borrower note). Third-party guarantees are sometimes necessary to entice lenders to lend by reducing concerns about the borrower's ability to repay. In securitization transactions, guarantees may be required by credit rating agencies in order to justify or preserve high credit ratings for certain classes of beneficial interests (securities) issued by the transferee, which are backed by the transferred financial assets.

US GAAP — ASC 860-10-40-4 through 40-5 and ASC 460-10	**IFRS — IFRS 9.3.2.6(c)(ii), IFRS 9.3.2.16 through 3.2.21 and IFRS 9.B3.2.13**
Guarantees may cause a transfer of financial assets to fail sale accounting for two reasons. That is, the guarantee may either: ► Cause the transfer to fail the legal isolation requirements of ASC 860-10-40-5(a), or	Full derecognition of a transferred financial asset can be achieved only if substantially all of the risks and rewards are transferred. If an entity neither transfers nor retains substantially all the risks and rewards of ownership of a transferred financial asset, but retains control of the transferred financial asset, IFRS 9 requires the entity to continue to

- Constrain the transferee's right to pledge or exchange the transferred financial asset.

For example, a freestanding transferor guarantee may effectively constrain a transferee because the transferee may be unlikely to forfeit the benefit of the guarantee (e.g., if the guarantee is sufficiently valuable to the transferee and not transferable). This constraint may also provide the transferor a more-than-trivial benefit (e.g., by knowing the location of such assets if it were to seek to reclaim them or by effectively limiting the ability of such assets to be obtained by a competitor).

Additionally, a guarantee provided by the transferor in conjunction with the sale of a portion of an entire financial asset is a form of recourse that would cause the transfer to fail to meet the participating interest definition. Refer to question 2 for further information about transfers of portions of financial assets.

Some guarantee or recourse arrangements associated with transfers of financial assets do not preclude sale accounting because the transferor has relinquished effective control (i.e., each of the derecognition criteria of ASC 860-10-40-5 have been met). In those instances, the transferor would fully derecognize the transferred financial assets, recognize a corresponding gain or loss (if any), and record a liability for the guarantee in accordance with ASC 460-10.

For example, assume an entity has a loan portfolio carried at $10 million with a fair value of $10.5 million. The entity sells the rights to 100% of the cash flows to a third party for a payment of $10.55 million, which includes a payment of $50k in return for the transferor agreeing to absorb the first $1 million of default losses on the portfolio.

Assuming the transferor meets the derecognition criteria specified in ASC 860-10-40-5, the transferor will derecognize the assets and recognize a liability measured at the fair value of the guarantee (i.e., $50k, assuming this represents a market-based premium for the guarantee) in accordance with ASC 460-10. Therefore, the transferor's continuing involvement in the transaction will be reflected as follows (in millions):

Cash	$ 10.55	
Loans transferred		10.00

recognize the transferred financial asset to the extent of its "continuing involvement" (i.e., the extent to which it is exposed to changes in the value of the transferred financial asset).

When the entity's continuing involvement takes the form of guaranteeing the transferred financial asset, IFRS 9 states the extent of the entity's continuing involvement is the lower of:

- The amount of the asset; and
- The maximum amount of the consideration received that the entity could be required to repay (the "guarantee amount").

Additionally, when an entity continues to recognize an asset to the extent of its continuing involvement, IFRS 9 also requires the entity to recognize an associated liability initially measured at the guaranteed amount plus the fair value of the guarantee (which is normally the consideration received for the guarantee).

For example, assume an entity has a loan portfolio carried at $10 million with a fair value of $10.5 million. The entity sells the rights to 100% of the cash flows to a third party for a payment of $10.55 million, which includes a payment of $50k in return for the transferor agreeing to absorb the first $1 million of default losses on the portfolio.

Applying the requirement noted above, the entity will record an asset that represents its continuing involvement in the transferred financial assets of $1 million. Additionally, the entity will record an associated liability measured at the guarantee amount (i.e., $1 million) plus the fair value of the guarantee (i.e., $50k) — a total of $1.05 million. Therefore, the entity's continuing involvement in the transaction will be reflected as follows (in millions):

Cash	$ 10.55	
Continuing involvement in assets	1.00	
Loans transferred		10.00
Liability ($1m max + $50k guarantee)		1.05
Gain		0.50

Over the remaining life of the transaction, the $50k of the liability that represents the consideration received for the guarantee is recognized in income either over time or at a point in time, as appropriate, using the principles

Liability ($50k guarantee) 0.05 Gain 0.50 Under ASC 460-10, the guarantee described above is initially recorded as a liability at fair value. Subsequently, the guarantee is reduced (by a credit to earnings) as the guarantor is released from risk under the guarantee (i.e., depending on the specific nature of the guarantee, upon either expiration or settlement of the guarantee, by a systematic and rational amortization method, or as the fair value of the guarantee changes).	in IFRS 15. If it is recognized over time, the entity needs to select an appropriate measure of progress (e.g., time-elapsed). In addition, the entity will continue to recognize any income arising on the transferred financial asset to the extent of its continuing involvement and will recognize any expense incurred on the associated liability.

Implications:

It is possible that a transfer that includes a guarantee could achieve sale accounting under ASC 860 but would represent “continuing involvement” under IFRS 9. In particular, and in contrast to the treatment for transactions that do not qualify for derecognition through retention of risks and rewards, an entity that is determined to have “continuing involvement” in the transferred financial assets under IFRS will need to record a second entry (i.e., an asset that represents its continuing involvement in the transferred financial assets and an associated liability, which is often calculated as a balancing figure that will not necessarily represent the proceeds received as the result of the transfer).

Additionally, transfers of a portion of a financial asset might not qualify for derecognition under US GAAP because a guarantee associated with the portion transferred caused it to fail the requirements of a participating interest. Depending on its terms, such transfers may achieve sales accounting under IFRS 9 and require an entity to recognize an asset to the extent of its continuing involvement and an associated liability initially measured at the guaranteed amount plus the fair value of the guarantee.

Identified difference?

Describe:
Click here to enter text.

Yes	No	Depends on policy election
☐	☐	☐

4. Has the reporting entity transferred financial assets to another entity pursuant to a transfer arrangement that includes a "cleanup call" that would allow the entity (transferor) to liquidate the trust or structured entity (the transferee) under specified conditions?	Yes ☐	No ☐

Under both US GAAP and IFRS, a "cleanup call" is defined as an option held by the servicer or its affiliate, which may be the transferor, to purchase the remaining transferred financial assets if the amount of outstanding assets falls to a level at which the cost of servicing those assets or beneficial interests becomes burdensome in relation to the benefits of servicing.

US GAAP — ASC 860-10-40-5(c), ASC 860-10-40-32 through 40-35 and ASC 860-40-40-9 through 40-11	**IFRS — IFRS 9.3.2.1 through 3.2.9, IFRS 9.3.2.16 through 3.2.21, IFRS 9.B3.2.13 and IFRS 9.B3.2.16(m)**
Under ASC 860-10-40-5(c), a cleanup call is permitted as an exception to the requirement that the transferor has no rights (e.g., call options) or obligations to repurchase the transferred financial assets. That is, not only does a qualifying cleanup call not preclude derecognition (i.e., sales accounting), full derecognition of the transferred financial assets is permitted.	IFRS 9.B3.2.16(m) states that "provided a clean-up call results in the entity neither retaining nor transferring substantially all the risks and rewards of ownership and the transferee cannot sell the assets, it precludes derecognition only to the extent of the amount of the assets that is subject to the call option." For example, if an entity that transfers assets and retains servicing can demonstrate that the cost of servicing those assets becomes burdensome in relation to the benefits of servicing when the outstanding assets fall to 10% of the original transferred balance, and the entity has neither retained nor transferred substantially all of the risks and rewards of ownership and the transferee is prohibited from selling the transferred financial assets, then the entity will derecognize only 90% of the transferred financial assets. In addition, when the entity continues to recognize an asset to the extent of its continuing involvement, the entity also recognizes an associated liability. The associated liability is measured in such a way that the net carrying amount of the transferred financial asset and the associated liability is either: ► The amortized cost of the rights and obligations retained by the entity, if the transferred financial asset is measured at amortized cost ► Equal to the fair value of the rights and obligations retained by the entity when measured on a standalone basis, if the transferred financial asset is measured at fair value

Implications:
Under ASC 860, a transferor (that is also the servicer) that holds a cleanup call is not precluded from accounting for the transfer of financial assets entirely as a sale. However, IFRS 9 allows only partial derecognition of transferred financial assets provided a cleanup call results in an entity neither retaining nor transferring substantially all the risks and rewards of ownership and the transferee is constrained from selling the assets. Moreover, when an entity continues to recognize an asset to the extent of its "continuing involvement," the entity also recognizes an associated liability as defined in IFRS 9.31. On the other hand, if the transferor transfers substantially all of the risks and rewards of ownership, then full derecognition is achieved under IFRS (i.e., in this instance, the cleanup call would not preclude full derecognition).

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

5. Has the reporting entity transferred financial assets to another entity pursuant to a transfer arrangement that includes a "removal-of-accounts provision"?	Yes	No
	☐	☐

Many transfers of financial assets in securitization transactions (including credit card and other accounts receivable) empower the transferor to reclaim assets subject to certain restrictions. Such a power is often referred to as a "removal-of-accounts provision" (ROAP).

US GAAP — ASC 860-10-40-28 through 40-39, ASC 860-10-55-70 and ASC 860-20-25-11	**IFRS — IFRS 9.3.2.1 through 3.2.9, IFRS 9.3.2.17, IFRS 9.B3.2.13 and IFRS 9.B3.2.16(l)**
A ROAP does not preclude derecognition of transferred financial assets by the transferor if it does not result in the transferor maintaining effective control over specified transferred financial assets. Whether a ROAP precludes sale accounting depends on whether it allows the transferor to unilaterally cause the return of specific assets and it provides the transferor with more than a trivial benefit. Examples of ROAPs that would not preclude derecognition include those: ► For random removal of excess assets, if the ROAP is sufficiently limited so that the transferor cannot remove specific transferred financial assets ► For defaulted receivables, because the removal would be allowed only after a third party's action (default) and could not be caused unilaterally by the transferor However, an unconditional ROAP that allows the transferor to specify the assets that may be removed precludes sale accounting for all transferred financial assets, because such a	IFRS 9.B3.2.16(l) states that "provided that such an option (ROAP) results in the entity neither retaining nor transferring substantially all the risks and rewards of ownership, it precludes derecognition only to the extent of the amount subject to repurchase (assuming the transferee cannot sell the assets)." For example, if an entity transfers loan receivables with a carrying amount of $100,000 for proceeds of $100,000 and any individual loan can be called back subject to a maximum of $10,000, $90,000 of the loans would qualify for derecognition. When the entity continues to recognize an asset to the extent of its continuing involvement, the entity also recognizes an associated liability. The associated liability is measured in such a way that the net carrying amount of the transferred financial asset and the associated liability is either: ► The amortized cost of the rights and obligations retained by the entity, if the

provision allows the transferor unilaterally to remove specific assets. That applies even if the transferor's right to remove specific assets from a pool of transferred financial assets is limited. For example, if a ROAP is limited to 10% of the fair value of the assets transferred, and all of the assets are smaller than that 10%, none of the transferred financial assets would be derecognized at the time of transfer because no transferred financial asset is beyond the reach of the transferor. Conversely, if a transferor holds a call option to repurchase at any time a few specified, individual loans from an entire portfolio of loans transferred in a securitization transaction, then sale accounting is precluded only for the specified loans subject to the call, not the whole portfolio of loans.	transferred financial asset is measured at amortized cost ► Equal to the fair value of the rights and obligations retained by the entity when measured on a standalone basis, if the transferred financial asset is measured at fair value

Implications:

Under IFRS, a transferor's ROAP in a securitization transaction or other asset-backed financing arrangement precludes full derecognition of transferred financial assets when such an option results in the transferor neither retaining nor transferring substantially all the risks and rewards of ownership. In these instances, IFRS permits derecognition, except to the extent of the amount subject to repurchase. Under US GAAP, a ROAP that allows the transferor to reacquire at any time a few specified individual assets from an entire pool of transferred financial assets and provides the transferor with more than a trivial benefit will preclude derecognition only to the extent of those assets subject to the ROAP, not the entire pool. Conversely, an unconditional ROAP that allows the transferor to specify the assets that may be removed from an entire pool of transferred financial assets and provides the transferor with more than a trivial benefit precludes sale accounting for all transferred financial assets.

A ROAP may also be considered a form of continuing involvement under IFRS and consequently require the entity to record a second entry as described above (i.e., an asset that represents its continuing involvement in the transferred financial assets and an associated liability, which is often calculated as a balancing figure that will not necessarily represent the proceeds received as the result of the transfer).

Identified difference?

	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

6. Has the reporting entity transferred a financial asset in conjunction with a total return swap with the same transferee?	Yes ☐	No ☐

A total return swap represents a swap agreement in which one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of an underlying asset, which includes both the income it generates and any gains or losses. In total return swaps, the underlying asset, referred to as the reference asset, is usually an equity index, loans or bonds. This asset is owned by the party receiving the set rate payment.

Total return swaps allow the party receiving the total return to gain exposure and benefit from a reference asset without actually having to own it.

US GAAP — ASC 860-10-40-4 through 40-5	**IFRS — IFRS 9.3.2.1 through 3.2.9, IFRS 9.B3.2.5(c) and IFRS 9.B3.2.16(o)**
A transferor can derecognize a financial asset when effective control has been surrendered. Transfer of substantially all of the risks and rewards of ownership of a financial asset is not a criterion for derecognition under ASC 860. Therefore, an entity that surrenders control over a transferred financial asset can retain substantially all of the risks and rewards of ownership of that asset by concurrently entering into a total return swap with the same counterparty and still achieve sale accounting.	As discussed in question 1, the derecognition model under IFRS is based on a mixed model that considers both transfer of risks and rewards and control. Transfer of control is considered only when the transfer of risks and rewards assessment is not conclusive. IFRS 9 provides examples of when derecognition of a transferred financial asset would be precluded because an entity has retained substantially all the risks and rewards of ownership. One of the examples relates to a sale of a financial asset together with a total return swap that transfers the market risk exposure back to the entity (IFRS 9.B3.2.5).

Implications:
Under US GAAP, an entity may sell a financial asset and retain substantially all of the risks and rewards by concurrently entering into a total return swap with the same counterparty and still achieve sale accounting provided control has been surrendered by meeting the derecognition criteria of ASC 860-10-40-4 and 40-5. In contrast, under IFRS, sale accounting for the same transactions would likely be precluded because the derecognition model requires that substantially all of the risks and rewards be transferred. Consequently, if an entity is converting from US GAAP to IFRS, previously derecognized financial assets under US GAAP may be re-recognized under IFRS if an associated total return swap remains open as of the transition date, subject to the transition provisions of IFRS 1.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

7. Has the reporting entity transferred financial assets and retained servicing rights?	Yes ☐	No ☐

An entity that transfers financial assets in a transfer that qualifies for sale accounting and retains servicing rights will recognize a servicing asset or liability depending on whether the servicing fee is above or below "adequate compensation." US GAAP defines adequate compensation as the amount of benefits of servicing that would fairly compensate a substitute servicer should one be required, which includes the profit that would be demanded in the marketplace. The key point of this definition is that adequate compensation is the amount demanded by the marketplace to perform the specific type of servicing; it does not vary according to the specific servicing costs of the servicer. We understand that adequate compensation is similarly interpreted under IFRS.

US GAAP — ASC 860-50-30-1, ASC 860-50-35-1 through 35-5, and ASC 860-50-50-5	**IFRS — IFRS 9.3.2.10 through 3.2.11, IFRS 9.3.2.13, IAS 37, IFRS 15 and IAS 38.9 through 10**
All separately recognized servicing assets and servicing liabilities are required to be initially measured at fair value. An entity must subsequently measure each class of separately recognized servicing assets and servicing liabilities either at fair value or by amortizing the amount recognized in proportion to and over the period of estimated net servicing income for assets (the excess of servicing revenues over servicing costs) or the period of estimated net servicing loss for servicing liabilities (the excess of servicing costs over servicing revenues). ASC 860 requires that classes of servicing assets and servicing liabilities be identified based on one or both of the following: ► The availability of market inputs used in determining the fair value of servicing assets or liabilities ► An entity's method for managing the risks of its servicing assets or servicing liabilities An entity may make an irrevocable decision to subsequently measure a class of servicing assets and servicing liabilities at fair value at the beginning of any fiscal year. An entity that elects to subsequently measure a class of servicing assets and liabilities at fair value must apply that election to all new and existing recognized servicing assets and liabilities within that class. The effect of remeasuring an existing class of servicing assets and liabilities at fair value is reported as a cumulative-effect adjustment to retained earnings as of the beginning of the period of election, and should be separately disclosed.	Upon completion of a transfer of financial assets that qualifies for derecognition, a servicing asset or servicing liability is initially recognized for the servicing right. If the servicing right is a servicing asset, it is recognized at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset, as defined. Specifically, the previous carrying amount of the larger financial asset (e.g., transferred loans) is allocated between the part that continues to be recognized (which includes the servicing asset) and the part that is derecognized, based on the relative fair values of those parts on the date of the transfer. (Refer to Chapter 51 of our International GAAP® publication for illustrative examples.) If the servicing right is a servicing liability, it is initially recognized at its fair value. While IFRS 9 provides guidance for the initial recognition of servicing assets and liabilities, it does not address subsequent measurement considerations because servicing rights do not represent financial assets or financial liabilities. A servicing asset represents a right to receive a higher than normal amount for performing future services. Accordingly, it would normally be accounted for in accordance with IAS 38. Additionally, we believe IAS 37 and IFRS 15 provide applicable guidance to help in determining the subsequent measurement of servicing liabilities. For example, because the servicing liability is related to the servicing contract, it may be appropriate to amortize the liability over the service period in line with the pattern of performance used to recognize revenue under IFRS 15 for the servicing contract. In accordance with IAS 37, increases in the

	servicing liability would be recognized if the obligation becomes onerous at a later date.

Implications:

Upon completion of a transfer of financial assets that qualifies for derecognition, both US GAAP and IFRS provide guidance for the recognition of retained servicing rights. Those rights will result in the recognition of a servicing asset or liability depending on whether the servicing fee is above or below, respectively, “adequate compensation” (see also question 2 for implications when a transfer involves portions of a financial asset (i.e., a participating interest)).

Servicing assets

Under US GAAP, ASC 860 requires an initially recognized servicing asset to be measured at fair value. Thereafter, a reporting entity can choose to remeasure the asset at fair value or amortized cost. In contrast, under IFRS a servicing asset is recognized by allocating the previous carrying amount of the larger financial asset between the part that continues to be recognized (which includes the servicing asset) and the part that is derecognized, based on the relative fair values of those parts on the date of the transfer. Subsequently, a servicing asset that meets the definition of an intangible asset may be measured in accordance with IAS 38.

Servicing liabilities

While both US GAAP and IFRS initially require that a separately recognized servicing liability for a servicing obligation be recognized at its fair value, differences in accounting may exist in the subsequent remeasurement of servicing liabilities. Under US GAAP, an entity may elect to subsequently amortize a recognized servicing liability (and assess for increased obligation based on fair value at each reporting date) or remeasure the liability at fair value in accordance with the provisions of ASC 860. In contrast, under IFRS, a servicing liability may be subsequently amortized over the service period, in line with the pattern of performance used to recognize revenue under IFRS 15 for the servicing contract, and may be assessed for the need to increase the obligation to the extent the contract has become onerous in accordance with IAS 37.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

8. Has the reporting entity received or pledged collateral in connection with a securities lending transaction or repurchase agreement?	Yes ☐	No ☐

Securities lending

In a typical securities lending transaction, a borrower-transferee provides cash or a security (or pool of securities) as collateral for borrowing a specific security or securities. Typically, the lender-transferor of the security makes a payment to the borrower-transferee of the security known as a "rebate." A rebate consists of an interest charge for the cash collateral received by the lender-transferor of the security (assuming cash is received), netted by any loan fee owed by the borrower-transferee for the security it borrowed. The cash collateral received by the lender-transferor is then invested by the lender-transferor, earning a rate higher than the amount rebated. In the situation in which a security is received as collateral rather than cash, the lender-transferor charges a loan fee.

Repurchase agreement

Under a repurchase agreement, the transferor-repo party transfers a security to a transferee-reverse repo party in exchange for cash and concurrently agrees to reacquire that security at a future date for an amount equal to the cash exchanged plus a stipulated amount of interest. The transferor-repo party is viewed to be the debtor that borrowed cash and transferred securities as collateral while the transferee-reverse repo party is viewed as the secured lender that receives securities as collateral. The transferee-reverse repo party may or may not have the right to sell or re-pledge the securities to a third party during the term of the repurchase agreement.

For purposes of this question, unless otherwise indicated, the lender-transferor in a securities lending transaction and the transferor-repo party in a repurchase agreement are collectively referred to as the "transferor," while the borrower-transferee in securities lending transaction and transferee-reverse repo party in a repurchase agreement are collectively referred to as the "transferee."

US GAAP — ASC 860-10-40-5 through 40-5A, ASC 860-10-40-24 through 40-25, ASC 860-10-55-51, ASC 860-10-55-55, ASC 860-30-05-2 through 05-3, ASC 860-30-25-4 through 25-8, ASC 860-30-30-1, ASC 860-30-40-1 and ASC 860-30-45-1	**IFRS — IFRS 9.3.2.1 through 3.2.9, IFRS 9.3.2.23, IFRS 9.B3.2.16(a) through (d) and IFRS 9.B3.2.16(j) through (k)**
An agreement that both entitles and obligates the transferor to repurchase or redeem transferred financial assets from the transferee results in the transferor maintaining effective control over those assets. In those instances, the transferor will account for the transfer as a secured borrowing, if, and only if, all of the following conditions are met (ASC 860-10-40-24): ► The assets to be repurchased or redeemed are the same or substantially the same as those transferred. ► The agreement is to repurchase or redeem the financial assets before their maturity, at a fixed or determinable price.	An entity has retained substantially all the risks and rewards of ownership of a financial asset if its exposure to the variability in the present value of the future net cash flows from the financial asset does not change significantly as a result of the transfer. IFRS 9 gives securities lending transactions and repurchase agreements as examples of transactions in which an entity has retained substantially all of the risks and rewards of ownership. The following examples come from the application guidance of IFRS 9 and illustrate when derecognition is *precluded* for financial assets transferred concurrently with a securities lending transaction or repurchase agreement: ► If a financial asset is sold under an agreement to repurchase it at a fixed price, or at the sale price plus a lender's return, or

► The agreement is entered into contemporaneously with, or in contemplation of, the transfer. Under many agreements to repurchase transferred financial assets before their maturity, the transferor maintains effective control over those assets. Repurchase agreements that do not meet all the derecognition criteria of ASC 860 will be treated as secured borrowings. “Repurchase-to-maturity transactions” are also treated as secured borrowings as if the transferor maintains effective control. Fixed-coupon and dollar-roll repurchase agreements, and other contracts under which the securities to be repurchased need not be the same as the securities sold, qualify as borrowings if the return of substantially the same securities as those concurrently transferred is assured. If a transferor has transferred securities to an independent third-party custodian, or to a transferee, under conditions that preclude the transferee from selling or re-pledging the assets during the term of the repurchase agreement or securities lending arrangement, the transferor has not surrendered control over those assets. In transactions accounted for as secured borrowings, the cash (or securities that the holder is permitted by contract or custom to sell or re-pledge) received as “collateral” is considered the amount borrowed, and the securities “loaned” are considered pledged as collateral against the cash borrowed and reclassified (i.e., reported separately on the balance sheet) from securities owned in accordance with the requirements of ASC 860. Additionally, in a securities lending transaction, any “rebate” paid to the transferee of the securities is the interest on the cash the transferor is considered to have borrowed. However, in some securities lending transactions and repurchase agreements the criteria for sale accounting are met. An arrangement in which the asset to be repurchased is not substantially the same as that originally transferred is a common example of a transaction that would be accounted for as a sale. In those instances, the transferor will account for the transaction as a sale of the “loaned” securities for proceeds consisting of the cash (or in the case of securities lending transactions, securities that the holder is permitted by contract or custom to sell	if it is loaned under an agreement to return it to the transferor (IFRS 9.B3.2.16(a)) ► If a financial asset is sold under an agreement to repurchase the same or substantially the same asset at a fixed price, or at the sale price plus a lender’s return, or if a financial asset is borrowed or loaned under an agreement to return the same or substantially the same asset to the transferor (IFRS 9.B3.2.16(b)) ► If a repurchase agreement at a fixed repurchase price or a price equal to the sale price plus a lender’s return, or a similar securities lending transaction, provides the transferee with a right to substitute assets that are similar and of equal fair value to the transferred financial asset at the repurchase date (IFRS 9.B3.2.16(c)) However, a transfer of a financial asset that is subject to a forward repurchase agreement that has an exercise or repurchase price equal to the fair value of the financial asset at the time of repurchase results in derecognition because substantially all of the risks and rewards of ownership have been transferred (IFRS 9.B3.2.16(j)). Likewise, an entity that sells a financial asset, and retains only a right of first refusal to repurchase the transferred financial asset at fair value if the transferee subsequently decides to sell it, will derecognize the asset (IFRS 9.B3.2.16(d)). IFRS 9 provides additional application guidance on the treatment of transfers of financial assets that are subject to a forward repurchase agreement that will be settled net (IFRS 9.B3.2.16(k)). The guidance indicates that the key factor for determining whether derecognition is appropriate remains whether or not the entity has transferred substantially all the risks and rewards of the transferred financial asset.

or re-pledge) “collateral” and a forward repurchase commitment, while the transferee recognizes a purchase of the “borrowed” securities in exchange for the “collateral” and a forward resale commitment.	
Accounting for collateral in a securities lending transaction In a securities lending transaction, the transferor of securities being “loaned” accounts for the cash it receives in the same way regardless of whether the transfer is accounted for as a sale or a secured borrowing. The cash received is recognized as the transferor’s asset (as will investments made with that cash, even if made by agents or in pools with other securities lenders), and the obligation to return the cash is recognized as a liability. In addition, if securities that *may* be sold or re-pledged are received, the transferor of the securities being “loaned” accounts for those securities in the same way as it would account for cash received. In other words, ASC 860 considers securities received by the transferor, which may be sold or re-pledged, to be akin to the proceeds of either a sale of the “loaned” securities or a borrowing secured by them (i.e., the transferor records an asset (to recognize the in-kind proceeds) and a liability (to recognize a related obligation) to repay the transferee or return the collateral received).	*Accounting for collateral in a securities lending transaction* Under IFRS, the accounting for cash collateral received in a securities lending transaction is similar to that under US GAAP. However, unlike US GAAP, IFRS does not permit a transferor in a securities lending transaction to recognize on its balance sheet securities received as collateral, including an obligation to return securities received as collateral, even if it has the ability to sell the collateral received. However, if the transferor actually sells the collateral received, it must recognize the proceeds received and an obligation to return the collateral.

Implications:
The accounting for securities lending transactions and repurchase agreements will often be the same (i.e., secured borrowing rather than sale accounting) under US GAAP and IFRS. However, differences in accounting can result because the US GAAP model focuses on the transfer of control while IFRS considers the transfer of risks and rewards of ownership. Under US GAAP, the transferor will recognize the securities pledged as collateral, and a corresponding liability representing the obligation to return the securities received as collateral, provided it has the *right* by contract or custom to sell or pledge the collateral received. In other words, the transferor accounts for the securities collateral as an asset with a corresponding obligation to return that asset to the transferee. In contrast, IFRS requires a transferor to recognize collateral received and a corresponding obligation to return the collateral to the transferee only when the collateral is sold.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

Liabilities and equity – after the adoption of ASU 2020-06

Note: This section compares ASC 470-20, *Debt – Debt with Conversion and Other Options*, and ASC 815-40 (after the adoption of ASU 2020-06, *Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*) with IAS 32 and IFRS 9. For a comparison of ASC 470-20 and ASC 815-40 (before the adoption of ASU 2020-06) with IAS 32 and IFRS 9, see the January 2021 edition of this publication. The questions below also assume that the convertible instruments being analyzed were not issued as awards to a grantee in exchange for goods or services. Those instruments are in the scope of ASC 718 unless the instrument is modified and no longer subject to ASC 718.

Similarities:

Under both US GAAP and IFRS, common equity, preferred equity and debt instruments are evaluated at issuance based on their contractual provisions and settlement alternatives to determine the appropriate classification as a liability (or asset in some cases) or equity. Instruments with both equity and liability components ("compound instruments" in IFRS) and instruments with embedded derivatives ("hybrid instruments" in both IFRS and US GAAP) will be evaluated to determine if those components or embedded features require separate accounting. Both US GAAP and IFRS require identification of the same contractual features for analysis, although there frequently will be differences in the resulting classification.

After issuance, instruments classified in equity generally are not remeasured for subsequent changes. For debt instruments carried at amortized cost, both US GAAP and IFRS require an effective interest method to accrete or amortize any discounts or premiums and issuance costs. Certain instruments or features will fall under a fair value model, with the instrument or bifurcated feature remeasured at fair value through earnings each period. Both US GAAP and IFRS provide a similar model to determine if a debt instrument has been modified or extinguished based on significant changes to its cash flows or terms. However, there are slight differences in the detailed guidance for subsequent measurement, modification and extinguishment accounting.

Contracts that can be settled in the entity's shares are also closely examined to determine equity or liability classification, with a focus on how the settlement amount is determined (i.e., whether it is equivalent to a "fixed amount of cash for a fixed number of shares") and the form of settlement (i.e., whether it is settled in net cash, net shares or for a gross exchange of cash for shares), including any settlement alternatives. An instrument ultimately may be classified in equity, or as an asset or liability. Again, the similarity is in the identification of the settlement amount calculation and settlement method alternatives, but the application of US GAAP and IFRS often will result in different classifications for the same instrument.

When evaluating a financial instrument under both US GAAP and IFRS, it is important to focus on identifying the contractual features and applying the detailed literature to that feature. As discussed above, both sets of standards are similar in that generally the same features will be identified within instruments. However, once the features are identified and the preparer is ready for the analysis, the underlying standards are organized differently.

The FASB's Codification has condensed relevant literature into three main topics: ASC 470, ASC 480 and ASC 815-40. IFRS contains most of the equivalent guidance in two standards and IFRIC issues. IAS 32 broadly addresses the classification issues between liabilities and equity, focusing on specific characteristics of instruments such as contractual obligations to deliver cash, settlement in the entity's own equity shares, contingent settlement provisions and compound

financial instruments. IFRS 9 generally addresses measurement and subsequent accounting issues, including the derivative literature. IFRS 7 comprehensively addresses disclosure.

In accounting for financial instruments, including liability and equity instruments, fair value is frequently the measurement basis for an entire instrument, or a component of an instrument, such as a bifurcated embedded derivative or the liability component of a compound instrument. ASC 820 and IFRS 13 both provide a framework for measuring fair value that is applicable under the various accounting topics that require (or permit) fair value measurements in US GAAP and IFRS, respectively. Accordingly, the measurement of fair value across US GAAP and IFRS is generally based on a single definition and a consistent framework for the application of that definition. Although the principles of measuring fair value are virtually identical between US GAAP and IFRS, certain differences remain between the two sets of literature. Readers should consider the differences noted in the “Fair value measurements” section of this publication.

Overview

The questions that follow below are generally organized based on the type of instrument being evaluated. The questions are generally organized within the following categories:

- Equity instruments (e.g., common and preferred shares — questions 1 through 5)
- Debt instruments (including convertible debt — questions 6 through 12)
- Freestanding equity derivatives (e.g., warrants, forwards — questions 13 through 18)

The use of the term “equity derivative” in the questions does not imply the instrument is a derivative for accounting purposes under US GAAP or IFRS; rather, it is used in a generic sense. The term “equity instrument” generally refers to an instrument in the form of a share (either common stock or preferred stock). Instruments, features and components are evaluated to be assets, liabilities, derivatives or equity.

Within each section, a general question is used to help distinguish some of the key considerations and differences, with subsequent questions using specific instruments to highlight the key differences. The subsequent questions examine representative instruments, but do not represent a complete listing of instruments with differences under US GAAP and IFRS.

The questions provide the basic guidance to be considered when evaluating a liability or equity instrument for the appropriate accounting. Extensive interpretative guidance can be found in our US GAAP publications, including in our FRD, *Issuer’s accounting for debt and equity financings (after the adoption of ASU 2020-06).* For IFRS, our International GAAP® publication provides extensive discussion and examples of issues related to accounting for financial instruments.

Primary US GAAP	**Primary IFRS**
► ASC 260, *Earnings Per Share* ► ASC 405, *Liabilities* ► ASC 470, *Debt* ► ASC 480, *Distinguishing Liabilities from Equity* ► ASC 505, *Equity* ► ASC 815, *Derivatives and Hedging* ► ASC 820, *Fair Value Measurement* ► ASC 835, *Interest*	► IAS 32 *Financial Instruments: Presentation* ► IFRS 7 *Financial Instruments: Disclosures* ► IFRS 9 *Financial Instruments* ► IFRS 13 *Fair Value Measurement* ► IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

Standard setting activities:

The IASB continues its project on potential improvements to (1) the classification of liabilities and equity in IAS 32, including potential amendments to the definitions of liabilities and equity in the Conceptual Framework and (2) the presentation and disclosure requirements for financial instruments with characteristics of equity, irrespective of classification. In June 2018, the IASB published a discussion paper, *Financial Instruments with Characteristics of Equity,* that sets out the IASB's preferred approach to classification of a financial instrument, from the perspective of the issuer, as a financial liability or an equity instrument. Many components of the project have been discussed and tentatively agreed upon and the IASB continues to discuss the remaining topics. Reader should monitor this project for developments.

In January 2020, the IASB issued amendments to IAS 1 to clarify the criteria for classifying a liability as either current or noncurrent. After issuance, stakeholders raised concerns about the outcomes and potential consequences of the 2020 amendments. In response to these concerns, the IASB tentatively decided, in June 2021, to defer the effective date of the amendments to IAS 1 to annual periods no earlier than beginning on or after 1 January 2024 (from 1 January 2023) and, in November 2021, issued an exposure draft, *Non-current Liabilities with Covenants, Proposed Amendments to IAS 1*, that proposed several amendments to the 2020 amendments. In October 2022, the IASB finalized these amendments. The 2022 amendments are effective for annual reporting periods beginning on or after 1 January 2024 and need to be applied retrospectively in accordance with IAS 8. Early adoption is permitted. The IASB also deferred the effective date of the 2020 amendments to align with the effective dates for the 2022 amendments. The 2020 amendments must also be applied retrospectively, and early adoption is permitted. However, an entity that adopts the 2020 amendments early is also required to apply the 2022 amendments at the same time, and vice versa. Due to the delayed effective date and late 2022 standard setting activity, differences related to these amendments are not reflected in the questions below.

In August 2020, the FASB issued ASU 2020-06 to simplify certain areas of the accounting for financial instruments with characteristics of liabilities and equity. The objective of this ASU is to improve understandability and reduce complexity of the accounting for instruments with characteristics of liabilities and equity (e.g., convertible debt). The ASU eliminates the cash conversion and beneficial conversion feature models in ASC 470-20 to separately account for embedded conversion features. Only conversion features separated under the substantial premium model in ASC 470-20 and embedded conversion features bifurcated under ASC 815-15 are accounted for separately. For contracts in an entity's own equity, the guidance eliminates some of the conditions for equity classification under ASC 815-40-25. For PBEs other than smaller reporting companies as defined by the SEC as of 5 August 2020, the guidance is effective for annual periods beginning after 15 December 2021 and interim periods therein. For all other entities, it is effective for annual periods beginning after 15 December 2023 and interim periods therein. Early adoption is permitted in fiscal years beginning after 15 December 2020, but an entity must adopt the guidance as of the beginning of a fiscal year. Certain differences between US GAAP and IFRS will remain after the adoption of ASU 2020-06 and are reflected in the relevant questions below. In addition, because more convertible instruments will be reported as a single unit of account with the adoption of ASU 2020-06, the differences between US GAAP and IFRS for these instruments will increase.

In May 2021, the FASB issued ASU 2021-04, *Earnings Per Share (Topic 260), Debt – Modifications and Extinguishments (Subtopic 470-50), Compensation – Stock Compensation (Topic 718), and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options*. The ASU requires issuers to account for modifications or exchanges of freestanding equity-classified written call options that remain equity-classified after the modification or exchange based on the economic substance of the modification or exchange. Under the guidance, an issuer determines the

accounting for the modification or exchange based on whether the transaction was done to issue equity, to issue or modify debt, or for other reasons. The guidance is applied prospectively to all modifications or exchanges that occur on or after the date of adoption. It was effective for all entities for fiscal years beginning after 15 December 2021 and interim periods within those fiscal years.. The guidance in ASU 2021-04 does not cause new and/or change existing differences between US GAAP and IFRS as outlined below.

Discussion of IFRS 1:

The general principles of IFRS 1 require a first-time adopter to retrospectively recognize and derecognize all financial assets and financial liabilities (including derivatives) in its opening IFRS balance sheet in accordance with IAS 32 and IFRS 9. IFRS 1 requires a first-time adopter to apply IAS 32 retrospectively and separate all compound financial instruments into their debt and equity components.[8] Under that general principal, if the liability component of a compound financial instrument is no longer outstanding at the date of transition, retrospective application of IAS 32 would result in two separate equity portions: (1) a portion recorded in retained earnings, representing the cumulative interest accretion on the liability component and (2) the equity component initially allocated at inception.

Because retrospective application under this situation does not affect the total amount of equity recorded for this instrument, IFRS 1 provides an exemption under which a first-time adopter need not separate the two portions of equity if the liability component of the instrument is no longer outstanding at the date of transition. The exemption is only relevant for the issuers of compound financial instruments that require “split accounting.” That is, the exemption applies to compound instruments with a component accounted for as a liability and a component accounted for as equity. However, this exemption does not extend to the issuer of a convertible instrument in which the “equity” component is an embedded equity-linked instrument (i.e., it does not meet the “fixed-for-fixed” criterion) and is required to be separately accounted for (bifurcated) as a derivative under IFRS 9.

Differences:

Equity instruments

		Yes	No
1.	**Has the entity issued any equity instruments other than simple common stock? For example, has it issued preferred stock, instruments with redemption features or equity instruments with conversion features?**	☐	☐

Once an instrument departs from being a simple residual interest in the assets of an entity after deducting its liabilities (e.g., a simple common share), the features representing contractual obligations to deliver cash or another asset and provisions requiring contingent settlement will need to be analyzed to determine the proper classification of the instrument and perhaps separate accounting for the feature(s) or provision(s).

[8] Compound financial instruments are instruments that contain both a liability and equity component. IAS 32 requires an issuer to split a compound financial instrument at inception into separate liability and equity components. The substance of the contractual arrangement, rather than the legal form, governs the classification of the components of compound financial instruments. The measurement of the components is determined based on the circumstances existing at the date when the instrument was first issued. For example, a convertible bond contains an obligation to pay interest and principal (a liability component) and an embedded conversion option (an equity component). The fair value of the liability component, excluding the conversion option, is measured at the fair value of expected cash flows at inception and recorded as a liability. The residual amount of the issuance proceeds is recorded in equity. This is sometimes referred to as “split accounting” and applies only when the conversion option is considered to be a “fixed-for-fixed” feature. If the “fixed-for-fixed” criterion is not met, then IFRS 9 requires the issuer of the instrument to separate (or bifurcate) the equity conversion option (the embedded derivative) and to account for the embedded derivative at fair value. (See IAS 32.28 through 32 and IAS 32.AG30 through AG35.) See question 1 for further discussion.

Under US GAAP, some features may render the entire instrument a liability under ASC 480. But if the equity instrument is not a liability under ASC 480, the terms that affect some or all of the cash flows or the value of other exchanges required by the contract must be evaluated for potential bifurcation as embedded derivatives under ASC 815. Instruments containing such features are referred to as hybrid instruments. Therefore, under US GAAP, some features may result in liability classification of the instrument while others may be separated from the instrument as embedded derivatives.

Under IFRS, separate accounting for a feature can result when a non-derivative instrument, such as a share, is determined to contain both a liability component and an equity component. IFRS refers to these as compound instruments in IAS 32 and the separate accounting is often referred to as split accounting. IFRS also has a similar concept of bifurcating embedded derivatives from hybrid instruments. Therefore, under IFRS, features may be split as equity or liability components, or bifurcated as embedded derivatives.

The literature referenced below provides a high-level overview of the US GAAP literature that is applied to equity instruments (excluding equity derivatives, which are discussed in question 13), along with the IFRS literature that examines the same features under its guidance that is more concisely contained in IAS 32 (for equity and liability features) and IFRS 9 (for embedded derivatives).

US GAAP — ASC 815, ASC 480, ASC 470-20, ASC 815-40, ASC 260-10-S99-2, ASC 480-10-S99-3A and ASC 480-10-S99-1	**IFRS — IAS 32 and IFRS 9**
Distinguishing liabilities from equity ASC 480 requires that certain freestanding financial instruments in the form of a share be classified as liabilities. Among those instruments are: ► A financial instrument in the form of a share that is mandatorily redeemable (as defined) unless the redemption is required to occur only on the liquidation or termination of the reporting entity ► A financial instrument in the form of a share that embodies an unconditional obligation that the entity must or may settle by issuing a variable number of its equity shares if, at inception, the monetary value of the obligation is based solely or predominantly on any of a fixed monetary amount known at inception; variations in something other than the fair value of the entity's equity shares; or variations inversely related to changes in the fair value of the entity's equity shares ASC 480 requires that mandatorily redeemable equity instruments be initially measured at fair value. Those instruments are subsequently measured based on whether the settlement amount and date are fixed. If fixed, subsequent measurement is at the present value of the settlement amount with interest accrued at the implicit rate at inception. If not, subsequent	The emphasis of IAS 32 is on the contractual rights and obligations arising from the terms of an instrument, rather than on the probability of those rights and obligations leading to an outflow of cash or other resources from the entity. Additionally, IAS 32 requires the issuer of a financial instrument to classify a financial instrument by reference to its substance rather than its legal form. An equity instrument is defined in IAS 32.11 as any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The instrument is an equity instrument if, and only if, both of the following conditions are met: ► The instrument includes no contractual obligation to either deliver cash or another financial asset to another entity or exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity ► If the instrument will or may be settled in the entity's own equity instruments, it is either: (1) a non-derivative that includes no contractual obligation for the entity to deliver a variable number of its own equity instrument or (2) a derivative that will be settled only by the entity exchanging a fixed amount of cash or another financial asset for a fixed number

measurement is at the amount that would be paid if settlement occurred at the reporting date, recognizing any resulting changes in that amount from the previous reporting date as interest expense. If a conditionally redeemable equity instrument (in the form of a share) becomes mandatorily redeemable, the reporting entity reclassifies the instrument from equity to a liability based on the fair value of the instrument at that time. *Evaluation of embedded derivatives* If the equity instrument is not classified as a liability, then it is likely classified in equity, and any terms affecting future cash flows are evaluated as potential embedded derivatives requiring bifurcation. In evaluating the features, the entity first evaluates the nature of the host instrument as either debt-like or equity-like in accordance with ASC 815-15-25-16 through 25-17D, which requires all entities to use the whole instrument approach to determine the nature of the host contract in a hybrid instrument issued in the form of a share. The whole instrument approach requires entities to consider all of a hybrid instrument's stated and implied substantive terms and features, including the embedded derivative feature being evaluated for bifurcation. The embedded features are then evaluated under ASC 815-15 for bifurcation, including the determination of whether the economic characteristics and risks of the embedded derivative are clearly and closely related to the economic characteristics and risks of the host contract. ASC 815-10-15 will also be considered to determine if a derivative that otherwise requires bifurcation receives a scope exception under ASC 815 (and thus would not require bifurcation). For embedded conversion options, this will include the consideration of the scope exception in ASC 815-10-15-74(a) and ASC 815-40 that excludes contracts that are both indexed only to the entity's own stock (using the indexation literature in ASC 815-40-15) and classified in shareholders' equity (using the equity classification literature in ASC 815-40-25, which requires ongoing reassessment at each reporting date). Part of the analysis under the equity classification literature depends on whether the instrument is considered convertible under ASC 815-40-25-39 through 25-42. Bifurcated	of its own equity instruments (frequently referred to as the "fixed-for-fixed" notion) An instrument that fails to meet the definition of equity will meet the definition of a financial liability in IAS 32.11 as the two definitions are essentially the inverse of each other (i.e., if an instrument failed one of the criteria for equity, then it met the criteria in the liability definition). Under IAS 32.19, if an entity does not have an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the obligation meets the definition of a financial liability. A contractual obligation that is conditional on a counterparty exercising its right to redeem is a financial liability because the entity does not have the unconditional right to avoid delivering cash or another financial asset. Under IAS 32.25, a financial instrument with contingent settlement provisions (i.e., it is settled in the event of the occurrence or non-occurrence of uncertain future events, or on the outcome of uncertain circumstances, that are beyond the control of both the entity and the holder of the instrument) is a financial liability of the entity unless either the part of the contingent settlement provision that could require settlement in cash or another financial asset (or otherwise in such a way that it would be a financial liability) is not genuine or the entity can be required to settle the obligation only in the event of liquidation of the entity. A puttable equity instrument meets the definition of a financial liability because it gives the holder the right to put it back to the entity for cash or another financial asset, which means that the entity does not have an unconditional right to avoid delivering cash or other financial assets under the contract. However, IAS 32.16A through 16.D provides limited exceptions to the general requirement that puttable instruments are presented as financial liabilities, allowing presentation as equity for puttable instruments if they meet certain conditions. IAS 32.28 through 32 discuss the concept of a compound instrument in which the non-derivative financial instrument is separated into its liability and equity components, which is often referred to as split accounting. This process also involves the identification of any embedded derivatives

derivatives are initially recorded at fair value and subsequently measured at fair value with changes reflected in earnings. If the equity instrument is convertible, and classified as a liability under ASC 480-10, the guidance in ASC 470-20 is also applicable. That is, the instrument will be evaluated to see whether the conversion feature needs to be accounted for separately under the substantial premium model if the feature is not required to be bifurcated under ASC 815. This will result in a portion of the proceeds being classified in equity, resulting in separate liability and equity components. If separate accounting is required, the liability component is subsequently accreted using an interest method and the equity component is not remeasured. If the conversion option does not require bifurcation under ASC 815 or separate accounting under ASC 470-20, an issuer will account for convertible securities as a single unit of account. *Consideration of SEC guidance for redeemable securities* Public entities also consider the SEC's guidance in ASC 480-10-S99-1 and ASC 480-10-S99-3A for classification of redeemable securities as temporary equity. This guidance also specifies the subsequent measurement of the instruments and related effects on earnings per share (EPS). *Consideration of SEC guidance for redemption or conversion of preferred shares* If a public entity redeems its preferred stock, the excess (or deficiency) of the fair value of the consideration transferred to the holders of the preferred stock over the carrying amount of the preferred stock in the entity's balance sheet is treated in a manner similar to dividends and thus subtracted from (or added to) net earnings to arrive at net earnings available to common shareholders in the calculation of EPS.	(e.g., other non-equity features, such as prepayment features, and equity-related features that are not classified as equity, such as conversion options that are not "fixed-for-fixed" under IFRS 9.4.3 as discussed further in question 9). Split accounting allocates fair value to the liability component (including the value related to any embedded derivatives that will be bifurcated) and allocates the residual to the equity component. In accordance with IFRS 9, all financial liabilities are classified as subsequently measured at amortized cost, with several exceptions noted under IFRS 9.4.2.1, including an exception for financial liabilities at fair value through profit or loss, such as derivatives that are liabilities. Financial liabilities are initially measured at fair value. However, financial liabilities not classified as at fair value through profit or loss are initially recorded at fair value less any transaction costs that are directly attributable to the issuance of the financial liability. Subsequent measurement of financial liabilities classified as at fair value through profit or loss are measured at fair value. All other financial liabilities, except for those noted under IFRS 9.4.2.1(b) through (e), are subsequently measured at amortized cost using the effective interest method.

If convertible preferred stock is converted to other securities issued by the entity pursuant to an inducement offer as contemplated in ASC 470-20-40-13 through 40-17, the excess of the fair value of all securities and other consideration transferred in the transaction by the registrant to the holders of the convertible preferred stock over the fair value of securities issuable pursuant to the original conversion terms is subtracted from net earnings to arrive at net earnings available to common shareholders in the calculation of EPS.	

Implications:

The discussion above outlines the basic approach to analyzing financial instruments that appear to be in the form of equity (e.g., common stock, preferred shares), other than the most basic forms of those instruments. Both US GAAP and IFRS require contractual terms and features in the instrument to be identified and the accounting guidance to be applied to determine if the instrument is accounted for as a single instrument or accounted for in pieces (e.g., as liability and equity components as a result of split accounting or as bifurcated derivatives). Questions 2 through 5 illustrate some of the key concepts in the discussion above, but are not intended to be a complete listing of instruments with differences under US GAAP and IFRS accounting.

Given the significant differences in how certain features (such as redemption features) are treated under US GAAP and IFRS, equity instruments may be classified differently. For example, there is no concept of “temporary equity” or “mezzanine classification” under IFRS. It is very common for preferred shares to contain redemption rights for the holders, so those instruments would be classified as temporary equity under US GAAP and as a liability under IFRS.

Identified difference?

Yes	No	Depends on policy election
☐	☐	☐

Describe:
Click here to enter text.

2. Has the entity issued puttable common or preferred shares? For example, has the entity issued shares that are puttable at any time or at certain times at the option of the holder?	Yes ☐	No ☐

In some cases, a common share may include a contractual provision that allows the holder to require the entity to redeem the share at any time or on a specific date. It is even more common for outstanding preferred shares to contain such provisions. In addition, preferred shares may include other rights (e.g., cumulative or noncumulative dividends that may be mandatorily payable or payable at the entity's option).

In determining whether a common or preferred share is a financial liability or an equity instrument, IFRS requires an entity to assess the particular rights attached to the share to determine whether it exhibits the fundamental characteristics of a financial liability (with limited exceptions). If an entity does not have an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the obligation meets the definition of a financial liability. In addition, IFRS focuses on the substance of a financial instrument, rather than its legal form, to determine the classification of such financial instrument in the entity's statement of financial position. Substance and legal form are commonly consistent, but not always. Some financial instruments take the legal form of equity but are liabilities in substance, and others may combine features associated with equity instruments and features associated with financial liabilities.

Under US GAAP, unless an equity instrument (in the form of a share) is one of the three types of financial instruments for which ASC 480 requires liability classification, the legal form generally governs its classification. An embedded put option in a share would be evaluated for bifurcation under ASC 815 rather than resulting in liability classification for the entire instrument.

US GAAP — ASC 815, ASC 480 and ASC 480-10-S99-3A	**IFRS — IAS 32**
The redemption of puttable shares is contingent upon the holder's exercise of the embedded put option. Therefore, they are not "mandatorily redeemable" instruments that require liability classification under ASC 480, as the exercise of the put option by the holder and the delivery of cash or transfer of assets is not certain to occur. However, once the put option is exercised, but prior to final settlement, the instruments being redeemed would be measured at fair value (recognizing no gain or loss), reclassified to a liability and subsequently measured as required under ASC 480. The guidance in ASC 815-15-25-16 through 25-17D (to determine the nature of the host contract in preferred shares) and then the guidance in either ASC 815-15-25-20 (for equity hosts) or ASC 815-15-25-40 through 25-43 (for debt hosts) would be considered in evaluating the put feature for bifurcation. The guidance in ASC 815-15-25-16 through 25-17D requires all entities to use the	A puttable instrument meets the definition of a financial liability because it gives the holder the right to put it back to the entity for cash or another financial asset, which represents a contractual obligation to deliver cash or another financial asset for which the entity does not have an unconditional right to avoid under IAS 32.19. This is so even when the amount of cash or other financial assets fluctuates with an index or other item, or the puttable instrument gives the holder a right to a residual interest in the assets of an entity. IAS 32.16A through 16.D provides limited exceptions to the general requirement that puttable instruments are presented as financial liabilities. These exceptions allow presentation as equity for puttable instruments if they have particular features and meet certain conditions. These exceptions are provided to address what some regarded as an inappropriate result of presenting certain puttable instruments as

whole instrument approach to determine the nature of the host contract in a hybrid instrument issued in the form of a share. The whole instrument approach requires entities to consider all of a hybrid instrument's stated and implied substantive terms and features, including the embedded derivative feature being evaluated for bifurcation. For public entities, ASC 480-10-S99-3A requires securities with redemption features that are not solely within the control of the reporting entity to be classified outside of permanent equity. Accordingly, a puttable equity instrument is classified as temporary equity (i.e., in the mezzanine between liabilities and equity).	financial liabilities in the financial statements of entities such as open-ended mutual funds, unit trusts, partnerships and some co-operative entities. Such entities often provide their unit holders or members with a right to redeem their interests in the entity at any time for cash. In addition, a redeemable preferred share may not be a financial liability in its entirety. For example, if the redeemable preferred share is issued on terms that any dividends paid on the share are entirely at the entity's discretion, it is only the amount payable on redemption that is a liability. This would lead to split accounting treatment as a compound instrument under IAS 32.28 and IAS 32.AG37, whereby the share would, at issuance, be classified as a liability to the extent of the present value of the amount payable on redemption and as equity as to the balance of the issuance proceeds.

Implications:
Puttable preferred shares are generally classified as equity (temporary equity for public entities) under US GAAP and as liabilities under IFRS. There is no concept of "temporary equity" or "mezzanine classification" under IFRS. It is very common for preferred shares to contain redemption rights for the holders, so this may represent a significant difference. Under IFRS, puttable preferred shares that are also convertible would be compound instruments, with the conversion feature representing an equity component (or perhaps a derivative depending on its characteristics). Under US GAAP, conversion options are generally not bifurcated as embedded derivatives from preferred shares. See question 4 for additional discussion on convertible preferred shares. Note that a preferred share redeemable in cash at the option of the entity is not classified as a liability under IFRS or US GAAP because redemption of the shares is solely at the discretion of the entity.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

3. Has the reporting entity issued contingently redeemable common or preferred equity instruments? For example, are the instruments optionally redeemable or automatically redeemed based on events that are not certain to occur?	Yes ☐	No ☐

Some financial instruments may require an entity to deliver cash or another financial asset in the event of the occurrence or non-occurrence of uncertain future events that are beyond the control of both the entity and the holder of the instrument (e.g., contingently redeemable preferred shares). These contingent events might include (1) a change in a stock market index, consumer price index (CPI), interest rate or taxation requirements; (2) the level of the entity's future revenues, net income or debt-to-equity ratio; or (3) specified events of default.

US GAAP — ASC 815, ASC 480 and ASC 480-10-S99-3A	**IFRS — IAS 32**
Such an instrument does not represent a "mandatorily redeemable" liability under ASC 480-10-25-4 through 25-7 because the redemption is contingent upon the occurrence or non-occurrence of a future event. Accordingly, it is classified as equity. However, if the future event occurs, the contingency is resolved or the event becomes certain to occur, the reporting entity should reclassify the instrument from equity to a liability based on the fair value of the instrument at that time. The guidance in ASC 815-15-25-16 through 25-17D (to determine the nature of the host contract in preferred shares) and then the guidance in either ASC 815-15-25-20 (for equity hosts) or ASC 815-15-25-40 through 25-43 (for debt hosts) would be considered in evaluating the put feature for bifurcation. The guidance in ASC 815-15-25-16 through 25-17D requires all entities to use the whole instrument approach to determine the nature of the host contract in a hybrid instrument issued in the form of a share. The whole instrument approach requires entities to consider all of a hybrid instrument's stated and implied substantive terms and features, including the embedded derivative feature being evaluated for bifurcation. For public entities, ASC 480-10-S99-3A requires securities with redemption features that are not solely within the control of the reporting entity to be classified outside of permanent equity. Accordingly, a puttable equity instrument is classified as temporary equity (i.e., in the mezzanine between liabilities and equity).	IAS 32.25 requires that a contingently redeemable instrument that is redeemable upon the occurrence of an event that is beyond the control of both the entity and the holder, and for which the entity does not have the unconditional right to avoid the obligation to deliver cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability), be classified as a financial liability. Exceptions are provided if the contingency is not "genuine," it is triggered only in the event of a liquidation of the entity, or it has all the features and meets the conditions for certain puttable instruments in IAS 32.16A through 16.B. The contingency is not considered genuine if the requirement would arise "only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur."

Implications:
Similar to puttable preferred shares, contingently redeemable shares that are redeemable upon events that are beyond the control of both the entity and the holder are generally classified as equity (temporary equity for public companies) under US GAAP and as liabilities under IFRS. Again, there is no concept of temporary equity or mezzanine classification under IFRS. An entity may need to identify all of its contingently redeemable instruments to analyze the events triggering the redemption features to determine whether these events are within the entity's control or not, which will require judgment based on facts and circumstances, to determine the appropriate classification under US GAAP and IFRS.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

4. Has the entity issued preferred shares that are mandatorily redeemable or redeemable at the option of the holder and also convertible by the holder?	Yes	No
	☐	☐

Convertible preferred shares are common and frequently will also include redemption features. Those redemption features may be either at the option of the holder or mandatory.

US GAAP — ASC 815, ASC 480, ASC 815-40, ASC 480-10-S99-3A and ASC 480-10-S99-1	**IFRS — IAS 32**
If mandatorily redeemable preferred shares are also convertible, then they are generally not classified as liabilities under ASC 480-10-25-4 through 25-7 as redemption is not certain given that conversion may occur. However, the holder's redemption feature will generally result in the instrument being reflected in temporary equity by SEC registrants. Once any conversion option lapses, the instrument is reclassified to a liability. However, if the instrument is convertible and requires cash to be delivered equal to the stated value (liquidation or preference amount) of the preferred shares in addition to cash or shares for the conversion spread, then the instrument is classified as a liability under ASC 480 because it is known that cash equal to the stated value will be paid by the entity either at conversion or maturity. Whether classified in equity or as a liability, the embedded conversion option requires analysis. In evaluating the embedded conversion option, the entity first evaluates the nature of the host instrument in the preferred stock as either debt-like or equity-like under ASC 815-15-25-16 through 25-	A preferred share that is mandatorily redeemable or redeemable at the option of the holder and also convertible is a compound instrument under IAS 32.28. Such a redeemable instrument contains a financial liability because it gives the holder the right to put it back to the entity for cash or another financial asset, which represents a contractual obligation to deliver cash or another financial asset for which the entity does not have an unconditional right to avoid under IAS 32.19. As a convertible instrument, the conversion option must be analyzed for the appropriate accounting. If the conversion option meets the "fixed-for-fixed" notion in IAS 32, it would not be a derivative and would be separately accounted for as an equity component under split accounting. Split accounting allocates fair value to the liability component (including the value related to any other embedded derivatives that will be bifurcated) and allocates the residual to the equity component.

17D, which requires all entities to use the whole instrument approach to determine the nature of the host contract in a hybrid instrument issued in the form of a share. The whole instrument approach requires entities to consider all of a hybrid instrument's stated and implied substantive terms and features, including the embedded derivative feature being evaluated for bifurcation. The embedded conversion option is then evaluated under ASC 815-15 for bifurcation. If the preferred stock host is classified in equity and is also deemed to be an equity-like host instrument, as is frequently the case, then the conversion option is not bifurcated as it is considered clearly and closely related to the host contract. However, if the preferred stock is either classified as a liability or classified in equity but deemed to have a debt-like host, and if the conversion option meets the criteria for bifurcation, ASC 815-10-15 will also be considered to determine if the conversion option receives a scope exception under ASC 815 (and thus would not require bifurcation). This will include the consideration of the scope exception in ASC 815-10-15-74(a) and ASC 815-40 that excludes contracts that are both indexed only to the entity's own stock (using the indexation literature in ASC 815-40-15) and classified in shareholders' equity (using the equity classification literature in ASC 815-40-25, which requires ongoing reassessment at each reporting date). Part of the analysis under the equity classification literature depends on whether the instrument is considered convertible under ASC 815-40-25-39 through 25-42. Bifurcated derivatives are initially separated at fair value and subsequently measured at fair value with changes reflected in earnings. If the preferred stock is not classified as a liability under ASC 480-10, the conversion option is not bifurcated under ASC 815, and no other features require bifurcation, an issuer will account for the convertible securities as a single unit of account in equity. *Consideration of SEC guidance for redeemable securities* Public entities also consider the SEC's guidance in ASC 480-10-S99-1 and ASC 480-10-S99-3A for classification of redeemable securities as	However, if the conversion option was considered a derivative, it would not be clearly and closely related to the debt host and would require bifurcation as an embedded derivative.

temporary equity. This guidance also specifies the subsequent measurement of the instruments and related effects on EPS.	

Implications:
Under IFRS, the preferred share itself, which is mandatorily redeemable or redeemable at the option of the holder, represents a liability. The conversion option in such a preferred share will be accounted for separately. However, the specific characteristics of the instrument will determine whether the separate accounting is split accounting as an equity component or bifurcation as an embedded derivative. Under US GAAP, the holder's redemption feature will usually result in the instrument being reflected in temporary equity by SEC registrants and the conversion option will usually not be bifurcated.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

5. Does the reporting entity (or a consolidated subsidiary) hold any previously purchased shares of its own stock? Does it enter into market-making activities or hedging activities that involve its own stock?	Yes	No
	☐	☐

Holdings of treasury shares may arise in a number of ways. For example, the entity may directly purchase shares, such as from the market or in a buyback of shares from specific shareholder or groups of shareholders. A financial institution may have a market-making operation that may buy and sell its own shares along with those of other listed entities in the normal course of business, or perhaps hold them in order to "hedge" issued derivatives. In consolidated financial statements, parent entity shares may be held by a subsidiary (perhaps purchased by that entity before it became a subsidiary).

US GAAP — ASC 505-30	**IFRS — IAS 32**
If an entity acquires shares of its own capital stock, the cost of the acquired shares is generally shown as a deduction from capital. Gains and losses on sales of treasury stock are accounted for as adjustments to capital and not as part of income. ASC 505-30-30-5 through 30-10 provides additional guidance. A purchase price that is significantly in excess of current market price may indicate that the price paid includes consideration for other factors such as stated or unstated rights, privileges or agreements in addition to the capital stock. In such cases, the excess should be attributed to the other factors and accounted for based on their	If an entity acquires its own equity instruments, IAS 32.33 through 34 requires those instruments to be deducted from equity. They are not recognized as financial assets, regardless of the reason for which they are acquired. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of an entity's own equity instruments. Accordingly, any consideration paid or received in connection with the treasury shares must be recognized directly in equity. It is not clear whether or not the IASB specifically considered transactions in the entity's own equity other than at fair value in the context of IAS 32.

substance. Application of this provision could result in a current charge to earnings for any excess price paid under ASC 505-30-30-2 through 30-4.	

Implications:

The accounting for treasury share transactions under US GAAP and IFRS is generally consistent. Because no gain or loss is generally recognized in the income statement on share transactions, a market-making function must be careful to account for all purchases and sales of the entity's own stock through equity (as opposed to income).

However, US GAAP provides specific guidance in limited situations for purchases of treasury shares significantly in excess of market prices (typically referred to as a "greenmail transaction") which will likely result in the recognition of an expense for such excess, whereas IFRS, read literally, would require such difference to be recorded in equity.

In a "greenmail transaction," where the entity may wish to rid itself of a troublesome shareholder or group of shareholders, the entity might have to offer a premium specific to the holder over and above the "true" fair value of the equity instruments concerned. It is not clear whether IAS 32 contemplated such a transaction. There could be an argument that the holder-specific premium should be accounted for in profit or loss, not equity. Alternatively, it might be argued that, in these circumstances, the amount paid is the fair value of the shares concerned. Under the literal guidance in IAS 32, no amount should be recorded in earnings for this type of transaction.

A transaction in which the entity reissues treasury shares for cash or other assets with a fair value lower than the fair value of the shares may fall under the scope of IFRS 2, thus requiring the shortfall to be accounted for under IFRS 2, which would result in an expense for the shortfall. The key consideration that is further discussed in Chapter 29, *Share-based payment*, of our International GAAP® publication is whether the shares are being issued to investors or for goods or other services. We believe that a similar conclusion would be reached under US GAAP if the shares were sold at a significant discount from fair value.

Identified difference?

	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

Debt instruments

	Yes	No
6. Has the entity issued any debt instruments other than simple fixed-rate debt with a stated maturity? For example, has the entity issued convertible debt, debt with variable interest rates, or debt that is puttable by the holder or callable by the entity?	☐	☐

Debt instruments are generally liabilities under both US GAAP and IFRS. US GAAP requires liability treatment based on the legal form of the instrument. IFRS usually results in liability treatment due to the contractual obligation to settle the interest and principal amount in cash. However, given the focus on substance and contractual obligations in IFRS rather than legal form, it is possible certain debt could be considered equity if it was perpetual (with no obligation to settle the principal amount); however, if interest payments were required, split accounting would be required and it is likely that the liability component would represent the full face amount of the instrument.

Debt instruments frequently have features that can cause variations in the amount and/or timing of the cash flows and settlements. Similar to equity instruments, debt instruments can represent compound instruments and hybrid instruments. Common examples include debt instruments that include interest rates that vary based on an index or a formula, prepayment features (such as an entity call option or holder put option), conversion options and make-whole features. These features will be analyzed under both US GAAP and IFRS for the appropriate accounting — either spilt accounting or bifurcation under IFRS, or separate accounting (for certain conversion features) or bifurcation under US GAAP.

While not discussed in detail below, debt (except some convertible instruments) is generally eligible for the FVO under ASC 825-10-25. If the FVO is applied, there is no bifurcation analysis to be performed. IFRS preparers have a more limited ability to designate a debt instrument as fair value through profit and loss. See question 2 in the “Recognition and measurement” section of this publication for more information.

The literature references below provide a high-level overview of the US GAAP literature that is applied to debt instruments (including convertible debt), along with the IFRS literature that examines the same instruments and features under guidance that is more concisely contained in IAS 32 (for equity and liability features) and IFRS 9 (for embedded derivatives).

US GAAP — ASC 470-20, ASC 835-30, ASC 470-50, ASC 470-60, ASC 815, ASC 405-20, ASC 815-40, ASC 480-10-S99-3A and ASC 480-10-S99-1	**IFRS — IAS 32, IFRS 9 and IFRIC 19**
Issuance and subsequent accounting *ASC 835-30* Debt is generally recorded at the amount of the cash proceeds (or fair value of goods or services) received. The difference between the proceeds and the face amount is treated as a premium or discount and classified as a direct addition to, or deduction from, the debt and amortized to interest expense using the interest method. Transaction costs are deducted from the carrying value of the financial liability. *ASC 470-20* Convertible debt is generally accounted for as a single instrument under ASC 470-20 provided the detailed analysis of the conversion feature does not indicate the need for bifurcation or other separate accounting. *ASC 815* Any terms affecting future cash flows are evaluated as potential embedded derivatives	*Issuance and subsequent accounting* The emphasis of IAS 32 is on the contractual rights and obligations arising from the terms of an instrument, rather than on the probability of those rights and obligations leading to an outflow of cash or other resources from the entity. Additionally, IAS 32 requires the entity to classify a financial instrument by reference to its substance rather than its legal form. Transaction costs are deducted from the carrying value of the financial liability. IAS 32.11 defines a financial liability as any liability that is: ► A contractual obligation to either deliver cash or another financial asset to another entity or exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity Or

requiring bifurcation. The embedded features are evaluated under ASC 815-15 for bifurcation. ASC 815-10-15 will also be considered to determine if a derivative that otherwise requires bifurcation receives a scope exception under ASC 815 (and thus would not require bifurcation).

For embedded conversion options, this includes the consideration of the scope exception in ASC 815-10-15-74(a) and ASC 815-40 that excludes contracts that are both indexed only to the entity's own stock (using the indexation literature in ASC 815-40-15) and classified in shareholders' equity (using the equity classification literature in ASC 815-40-25, which requires ongoing reassessment at each reporting date). The analysis under the indexation literature focuses on contingent exercise provisions and on settlement provisions for the conversion option. The analysis under the equity classification literature will depend on whether the instrument is considered convertible under ASC 815-40-25-39 through 25-42.

If the debt instrument is convertible, and the conversion option is not bifurcated under ASC 815, an issuer will account for convertible debt as a single unit of account, unless the conversion feature meets the criteria for accounting under the substantial premium model.

ASC 480-10-S99

A public entity that issues a debt instrument with an equity conversion feature separately accounted for in equity must consider the guidance in ASC 480-10-S99-3A for classification of all or a portion of that equity feature as temporary equity, which will depend on the settlement characteristics of the host debt instrument (i.e., if the amount due upon settlement of the debt exceeds the current liability balance for the instrument, all or a portion of the amount classified in equity must be reclassified to temporary equity).

- A contract that will or may be settled in the entity's own equity instruments and is either (1) a non-derivative that does or may oblige the entity to deliver a variable number of its own equity instruments or (2) a derivative that will be or may be settled other than by exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments

Under IAS 32.19, if an entity does not have an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the obligation meets the definition of a financial liability. A contractual obligation that is conditional on a counterparty exercising its right to redeem is a financial liability because the entity does not have the unconditional right to avoid delivering cash or another financial asset.

IAS 32.28 through 32 discuss the concept of a compound instrument in which the non-derivative financial instrument is separated into its liability and equity components, which is often referred to as split accounting. This process also involves the identification of any embedded derivatives (e.g., other non-equity features, such as prepayment features, and equity-related features that are not classified as equity, such as conversion options that are not "fixed-for-fixed" under IFRS 9.4.3 as discussed further in question 9). Under IFRS 9, derivatives are generally evaluated for bifurcation only at issuance.

If a debt instrument is denominated in a currency different from the entity's functional currency, then bifurcation of the conversion option is required as it is not presumed to meet the "fixed-for-fixed" notion (which is also consistent with the evaluation under the indexation literature in US GAAP). However, provided all the other requirements for "fixed-for-fixed" are met, we believe convertible debt issued by a subsidiary that is convertible into the shares of the parent may contain an equity component in the consolidated financial statements of the parent. An entity may, as a matter of accounting policy, determine the classification in its consolidated financial statements by reference to either the subsidiary's or the parent's functional currency. In these circumstances, an equity component can only exist where the debt is denominated in the designated reference functional currency.

	In accordance with IFRS 9, all financial liabilities are classified as subsequently measured at amortized cost, with several exceptions noted under IFRS 9.4.2.1, including an exception for financial liabilities classified at fair value through profit or loss, such as derivative liabilities. Financial liabilities are initially measured at fair value. However, financial liabilities not classified as at fair value through profit or loss are initially recorded at fair value less any transaction costs that are directly attributable to the issuance of the financial liability. Subsequent measurement of financial liabilities classified as at fair value through profit or loss is at fair value. All other financial liabilities, except for those noted under IFRS 9.4.2.1(b) through (e), are subsequently measured at amortized cost using the effective interest method.
Settlement of debt Under ASC 405-20, debt is derecognized only when it has been extinguished, which requires that either the debtor pay the creditor and be relieved of its obligation for the liability or the debtor be legally released from being the primary obligor under the liability, either judicially or by the creditor. When debt is extinguished prior to maturity, under ASC 470-50, *Debt — Modifications and Extinguishments*, the difference between the reacquisition price and the net carrying amount is recognized in income. If convertible debt is extinguished, as opposed to converted, the result is the same. Under an interpretation of ASC 470-50, if converted, or converted early, by issuing only shares in satisfaction of the conversion option, the net carrying amount of the debt is credited to the capital accounts upon conversion to reflect the shares issued and no gain or loss is recognized. However, if the conversion option was not considered substantive as of the time of issuance and conversion was triggered by the issuer calling the debt, the conversion would be accounted for as a debt extinguishment pursuant to ASC 470-20-40-5 through 40-10. If a conversion occurs pursuant to changed conversion privileges that are exercisable for only a limited period of time and includes the issuance of all of the equity securities issuable pursuant to conversion privileges included in the terms of the debt at issuance for each debt	*Settlement of debt* Under IFRS 9, an entity removes a financial liability (or a part of a financial liability) from its balance sheet when, and only when, it is extinguished (i.e., when the obligation specified in the contract is discharged, canceled or expired). IFRIC 19 states that if an entity extinguishes a liability using equity instruments, and such a settlement was not in accordance with the original terms, that the equity instruments are generally measured at their fair value and treated as the consideration paid in the extinguishment transaction. IAS 32.AG32 through AG35 generally address the settlement of convertible debt. On conversion of a convertible instrument at maturity, the entity derecognizes the liability component and recognizes it as equity. The original equity component remains as equity (although it may be transferred from one line item within equity to another). There is no gain or loss on conversion at maturity. When an entity extinguishes a convertible instrument before maturity through an early redemption or repurchase in which the original conversion privileges are unchanged, the entity allocates the consideration paid and any transaction costs for the repurchase or redemption to the liability and equity components of the instrument at the date of the transaction. The consideration is allocated using a method consistent with that at

instrument that is converted, then the induced conversion charge is determined under ASC 470-20-40-13 through 40-17.	issuance, and the amount of gain or loss relating to the liability component is recognized in profit or loss and the amount of consideration relating to the equity component is recognized in equity. An entity may amend the terms of a convertible instrument to induce early conversion. The difference, at the date the terms are amended, between the fair value of the consideration the holder receives on conversion of the instrument under the revised terms and the fair value of the consideration the holder would have received under the original terms is recognized as a loss in profit or loss.
Modifications of debt If the debtor is considered "troubled" and the debt is restructured (e.g., by transferring other assets or equity interests in settlement or partial settlement, or modifying terms of the debt), ASC 470-60, *Debt — Troubled Debt Restructurings by Debtors*, provides guidance for the issuer on how to measure and when to recognize any gain on the transaction, as well as how to account for the modified debt. If the modification is not troubled, ASC 470-50 provides guidance on determining whether a transaction is an extinguishment (where the terms of the "old" and "new" instruments are deemed significantly different enough to warrant extinguishment accounting) or a modification (where the terms are not significantly different).	*Modifications of debt* IFRS does not have the concept of a troubled debt restructuring. IIFRS 9.3.3.2 requires that an exchange between an existing borrower and lender of debt instruments with "substantially different" terms be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability, or a part of it (whether or not due to the financial difficulty of the debtor), should be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. If the exchange or modification is not considered substantially different, then debt extinguishment accounting would not apply.

Implications:

The discussion above outlines the basic approach to analyzing debt instruments. Both US GAAP and IFRS require appropriate identification of the contractual terms and features in the instrument and application of the guidance to determine if the instrument is accounted for as a single debt instrument or as pieces (components or bifurcated embedded derivatives). Questions 7 through 12 illustrate some of the key concepts in the discussion above, but are not intended to be a complete listing of instruments with differences under US GAAP and IFRS accounting.

Given the significant differences in how certain features (such as equity conversion options) are treated under US GAAP and IFRS, debt instruments may be classified differently.

Identified difference?

Yes	No	Depends on policy election
☐	☐	☐

Describe:
Click here to enter text.

7. Has the entity issued any debt with prepayment features?

Prepayment features are terms that can affect the timing and amount of cash flows in a debt instrument and must be evaluated for bifurcation as embedded derivatives. These are usually referred to as embedded call options (i.e., the entity can call its debt from the creditor and prepay) or embedded put options (i.e., the creditor can require the entity to prepay). The key to evaluating these features is determining whether they are clearly and closely related to the host debt instrument.

Yes ☐ No ☐

US GAAP — ASC 815-15-25-37 through 25-43, ASC 815-10-55-13, ASC 815-10-55-25 and ASC 815-10-15-107 through 15-109	**IFRS — IFRS 9.B4.3.5(e)**
The guidance for determining if bifurcation is required for embedded prepayment features looks to both quantitative tests (e.g., impact of prepayment on rates of return) and qualitative considerations (e.g., contingencies that trigger a put or call).	IFRS 9.B4.3.5(e) requires a comparison of the exercise price of the prepayment option embedded in a host debt contract to the amortized cost of the host debt instrument and a determination as to whether the exercise price of the prepayment option reimburses the lender for an amount in excess of the approximate present value of interest lost over the remaining term of the host contract. If the exercise price is approximately equal to the amortized cost of the host debt instrument at each exercise date or the exercise price reimburses the lender for an amount up to the approximate present value of interest lost over the remaining term of the host contract, the feature is considered clearly and closely related to the host contract and bifurcation is not required.

Implications:
The tests for “clearly and closely related” are different under US GAAP and IFRS and may result in different bifurcation conclusions.

Identified difference?
Describe: Click here to enter text.

Yes ☐ No ☐ Depends on policy election ☐

8. Does the entity have any debt instruments that are carried at amortized cost with premium or discount and issuance costs amortized based on the effective interest method?

Yes ☐ No ☐

In measuring a financial liability at amortized cost, both US GAAP and IFRS require the premium or discount and transaction costs to be amortized based on the effective interest rate on the instrument.

US GAAP — ASC 835-30	**IFRS — IFRS 9**
Under US GAAP, the objective of the effective interest rate method under ASC 835-30-35-2 is to arrive at a periodic interest expense (including amortization) that will represent a level effective	IFRS 9.4.2.1 requires that most financial liabilities be carried at amortized cost using the effective interest method. IFRS 9 defines the effective interest rate as the rate that equates the present

rate on the sum of the face amount of the debt plus or minus the unamortized premium or discount and deferred issuance costs at the beginning of each period. The effective interest rate is the yield implicit in the debt (i.e., the contractual interest rate adjusted for premium or discount and any deferred transaction costs existing at the origination of the debt) and is used to discount contractual cash payments through the contractual life of the financial liability. If the instrument includes a feature where the holder can force prepayment (a put feature), the effective interest rate method may be applied to the first put date. In the case of a debt modification that is not an extinguishment, a new effective interest rate is determined based on the carrying amount of the original debt instrument at the time of the transaction and the modified terms and cash flows. Because US GAAP focuses on CCF, no adjustments are generally necessary when expected cash flows change.	value of estimated future cash payments through the expected life of the financial liability to the amortized cost of the financial liability. When calculating the effective interest rate, an entity estimates cash flows considering all contractual terms of the financial instrument (e.g., prepayment, extension, call and similar options) but does not consider expected credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. If the instrument includes a prepayment feature, it should be considered in the estimated cash flows. However, if that prepayment feature is bifurcated as an embedded derivative, it is not considered to avoid double counting the effect in determining the effective interest rate. If the expected cash flows change in the future, under IFRS 9.B5.4.6, a new amortized cost of the financial liability is calculated by computing the present value of the revised estimated future cash flows using the instrument's original effective interest rate. The adjustment to the amortized cost is recognized immediately in profit and loss.

	Modification or exchange of financial liabilities that do not result in derecognition In the case of a modification or exchange that is not accounted for as a debt extinguishment, and when there are no changes in estimated cash flows (e.g., collateral terms, default provisions or covenants are modified), an entity continues to use the original effective interest rate with no recalculation of the carrying amount of the financial liability. However, if the estimated cash flows have changed due to a change in terms (i.e., the interest rate was changed, or life of the debt changed) but the cash flows were not changed enough to meet the 10% threshold pursuant to IFRS 9.B3.3.6 triggering extinguishment accounting, then an entity should adjust the carrying amount of the liability by computing the present value of the revised estimated cash flows using the original effective interest rate. Any adjustment is then recognized through profit or loss and additional cost or fees are amortized over the remaining term of the modified contract. (See question 12 for additional discussion on modification of debt instruments.)

Implications:
There are significant differences between US GAAP and IFRS in terms of the application of the effective interest method. US GAAP focuses on the CCF of the financial liability while IFRS emphasizes the estimated cash flows of the instrument, which will likely result in differences in the carrying amount of the debt instrument recorded and the timing of interest expense recognition. However, if there are no reliable estimates of the expected cash flows under IFRS (although there is a presumption that cash flows can be estimated reliably), the CCF are to be used. Under IFRS, the carrying amount of the liability is adjusted when estimates change to an amount calculated as the new estimated cash flows discounted back at the original effective rate. The same is not necessary under US GAAP as CCF is the basis for the effective interest method. As a result, changes in estimated cash flows will create differences in the carrying amount recorded and the timing of the interest expense recognition under US GAAP and IFRS.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

9. Has the entity issued any convertible debt instruments that can be settled in a conversion only by delivering the full amount of shares due in exchange for the debt instrument?	Yes ☐	No ☐

Although less prevalent in recent years than convertible instruments with multiple settlement terms (e.g., Instrument B, Instrument C and Instrument X discussed in question 11), gross share settled convertible instruments are those that provide the holder an option to convert the debt instrument into a fixed number of shares of the entity at any time or upon certain contingent events.

The economic effect of issuing such an instrument is substantially the same as simultaneously issuing debt with an early settlement provision and warrants to purchase equity shares, or issuing debt with detachable share purchase warrants that can be exercised using the debt instrument itself as consideration.

All of the features of these instruments, including the conversion option and any other potential embedded derivatives, must be evaluated for the appropriate accounting.

US GAAP — ASC 470-20, ASC 815 and ASC 815-40	**IFRS — IAS 32**
The conversion feature will be evaluated to see if it first meets the definition of a derivative under ASC 815, including consideration of the net settlement criteria. If it meets the definition in ASC 815-10-15, it is evaluated for the scope exception in ASC 815-10-15-74(a) and ASC 815-40 that excludes contracts that are both indexed only to the entity's own stock (using the indexation literature in ASC 815-40-15) and classified in shareholders' equity (using the equity classification literature in ASC 815-40-25, which requires ongoing reassessment at each reporting date). The analysis under the indexation literature focuses on contingent exercise provisions and on settlement provisions for the conversion option. The analysis under the equity classification literature will depend on whether the instrument is considered convertible under ASC 815-40-25-39 through 25-42. The guidance on convertible debt instruments in ASC 470-20 is considered after the guidance in ASC 815-15 on bifurcation of embedded derivatives for an embedded conversion option (discussed above) or other embedded features (e.g., an embedded prepayment option) is evaluated. If the conversion option is not bifurcated from the debt host instrument, ASC 470-20 indicates that this type of convertible debt instrument is generally recorded as a single liability, with no portion of the proceeds from the issuance attributable to the conversion feature (equity), unless the conversion feature results in a	Under IAS 32.28, such a convertible instrument is a compound instrument that comprises two components: a financial liability (i.e., a contractual arrangement to deliver cash or another financial asset) and an equity instrument (i.e., a call option granting the holder the right, for a specified period of time, to convert it into a fixed number of equity shares of the entity). Generally, under IAS 32, a conversion option in a convertible bond is bifurcated and accounted for by the entity as a derivative, rather than an equity component, if (1) it can be settled net, in shares or cash, at the option of either party, (2) the conversion ratio is not fixed, or (3) the bond is denominated in a currency other than the functional currency of the entity. Provided that the conversion feature is characterized with a "fixed-for-fixed" notion as required in IAS 32.22 and meets the other characteristics of equity, it would not be considered an embedded derivative requiring bifurcation. Therefore, upon initial recognition of the instrument, the entity is required to apply split accounting and separately account for the liability and equity components of the convertible instrument. The entity is required to determine the fair value of the liability component (i.e., the fair value of a similar liability that does not have an associated equity conversion feature, but including any embedded non-equity derivative features). The allocated value of the equity component represents the residual difference between the issuance proceeds and amount allocated to the liability

substantial premium to be recorded in equity under ASC 470-20.	component. The liability and equity components are presented separately on its balance sheet. Any remaining potential embedded derivatives are also evaluated for bifurcation.

Implications:
Significant differences exist between US GAAP and IFRS relating to the accounting for gross settled convertible debt instruments. Specifically, under US GAAP, the instrument is likely recorded as a liability in its entirety, while under IFRS, the instrument is split between a liability and an equity component. This split results in additional interest expense being recorded under IFRS as the liability is accreted to its maturity value.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

10. Has the reporting entity settled a gross share settled convertible instrument? Yes ☐ No ☐

The conversion accounting for these instruments can vary based on the timing and cause of the conversion. This discussion assumes the conversion was not bifurcated as an embedded derivative under either US GAAP or IFRS.

US GAAP — ASC 470-20	**IFRS — IAS 32**
ASC 470-20 requires a gross share settled convertible instrument to be accounted for as a single instrument on the balance sheet with no portion of the proceeds allocated to equity, unless accounted for under the substantial premium model (as discussed in question 9). Generally, when such a convertible instrument is converted to equity in accordance with the original terms of the instrument, no gain or loss is recognized under ASC 470-20-40-4. ASC 470-20-40-13 through 40-17 provide guidance on recognizing a loss when conversion has been induced, as defined in the guidance. However, a gross share settled instrument may become convertible into the debtor's equity upon the debtor's exercise of a call option when the debt did not otherwise contain a substantive conversion feature as of the time of issuance. Upon such an exercise, debt extinguishment accounting under ASC 470-20-40-5 through 40-10 applies. Any difference between the fair value of the equity shares delivered and the carrying	Under IFRS, as discussed in question 9, upon initial recognition of a gross share settled convertible instrument, the entity separately accounts for the liability and equity components of the convertible instrument under split accounting. On conversion of a gross share settled convertible instrument at maturity, IAS 32.AG32 requires the entity to derecognize the liability component and recognize it as equity. There is no gain or loss on conversion at maturity. We believe the same is true for an early conversion of such an instrument under the original terms. Upon an early redemption or repurchase of the convertible debt in which the original conversion privileges are unchanged, IAS 32.AG33 requires the entity to allocate any consideration paid (and related transaction costs) to the liability and equity components of the instrument at the date of the transaction. If there is an early conversion pursuant to amended terms of the convertible instrument to induce conversion, IAS 32.AG35 provides guidance on recognizing a loss for the fair value

amount of the debt instrument is recognized as a gain or loss.	of the consideration in excess of the consideration provided for in the original terms.

Implications:

While under both US GAAP and IFRS a gain or loss is generally not recorded upon the conversion of a gross share settled convertible debt instrument under its original terms, there are certain circumstances where a gain or loss may result under US GAAP. The reason for this difference is primarily attributable to the specific guidance under US GAAP with respect to accounting for nonsubstantive conversion features as defined under ASC 470-20-40-5 through 40-10. Similar guidance does not exist under IFRS.

For a settlement transaction where the investor has been induced to convert the debt early, there is more guidance in US GAAP defining what constitutes an "induced conversion," but those transactions generally receive the same accounting under US GAAP and IFRS.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

11. Has the entity issued any convertible debt instruments that are settled on conversion using a method other than gross physical settlement? Do any convertible instruments offer multiple settlement alternatives?

Yes ☐ No ☐

EITF 90-19, *Debtor's Accounting for a Modification or Exchange of Debt Instruments*, which was not codified, identified several types of convertible instruments. These categorizations are useful in understanding the accounting differences between US GAAP and IFRS for such instruments.

Instrument A: Upon conversion, the entity must satisfy the obligation entirely in cash based on the fixed number of shares multiplied by the stock price on the date of conversion (i.e., the conversion value).

Instrument B: Upon conversion, the entity may satisfy the entire obligation in either stock or cash equivalent to the conversion value.

Instrument C: Upon conversion, the entity must satisfy the accreted value of the obligation (i.e., the amount accrued to the benefit of the holder exclusive of the conversion spread) in cash and may satisfy the conversion spread (i.e., the excess conversion value over the accreted value) in either cash or stock.

Instrument X: Upon conversion, the entity may satisfy the entire conversion obligation in all cash, all shares, or any combination thereof.

As the conversion option in Instrument A is cash settled, it is bifurcated under both IFRS and US GAAP, resulting in no difference between the two standards. The other instruments, with their settlement options, must be further analyzed under both US GAAP and IFRS.

US GAAP — ASC 815, ASC 470-20 and ASC 815-40	IFRS — IAS 32
The conversion feature will be evaluated to see if it first meets the definition of a derivative under ASC 815, including consideration of the net settlement criteria. If it meets the definition in ASC 815-10-15, it is evaluated for the scope exception in ASC 815-10-15-74(a) and ASC 815-40 that excludes contracts that are both indexed only to the entity's own stock (using the indexation literature in ASC 815-40-15) and classified in shareholders' equity (using the equity classification literature in ASC 815-40-25, which requires ongoing reassessment at each reporting date). The analysis under the indexation literature focuses on contingent exercise provisions and on settlement provisions for the conversion option. The equity classification literature is applied given that the instrument is not the type of convertible debt described under ASC 815-40-25-41. If the conversion option is not bifurcated, the convertible debt should be classified and measured pursuant to the guidance for convertible debt in ASC 470-20. Convertible debt may be issued at a premium because the proceeds received upon issuance exceed the principal amount that will be paid at maturity. ASC 470-20-25-13 states that when convertible debt is issued at a substantial premium, there is a presumption that the premium represents paid-in capital. Paid-in capital is increased by reclassifying part of the debt proceeds to APIC.	IAS 32.28 requires liability and equity components of compound financial instruments to be separately recorded. A convertible instrument is a compound instrument that would be subject to the split accounting under IAS 32, provided that the embedded conversion option is not a derivative requiring bifurcation. However, IAS 32.16 requires a derivative with two or more settlement options to be treated as a financial asset or a financial liability, unless all possible settlement alternatives would result in it being equity. The conversion rights in these instruments contain a settlement alternative that does not result in it being equity (because the entity has an alternative to settle net in cash or shares). This means that the embedded conversion option is a derivative that requires bifurcation and separate accounting from the host debt instrument.

Implications:
Many convertible instruments contain provisions whereby, if the holder exercises the conversion option, the entity may settle in either cash, shares or any combination thereof. These convertible instruments will be subject to bifurcation under IFRS 9 rather than split accounting under IAS 32. This is because IFRS does not consider a derivative with two or more settlement alternatives to be equity, unless all of the possible settlement alternatives would result in the instrument being equity. Under US GAAP, the existence of settlement alternatives does not preclude equity classification as long as the choice between such alternatives rests with the issuer. Further, under IFRS, the bifurcated conversion option derivative must be accounted for at fair value with changes in value included in profit or loss. As a result, under IFRS, these financial instruments will result in greater volatility in an entity's financial statements.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

12. Has the entity modified or exchanged debt instruments during the period?	Yes	No
	☐	☐

An entity may approach creditors to modify or restructure its debt instruments for a number of reasons, including circumstances when the entity has experienced financial difficulties, desires changes to covenants, or desires changes in the availability of funding. Such changes to the terms of debt can be effected in a number of ways, including a notional repayment of the original debt instrument followed by an immediate re-lending of all or part of the proceeds of the notional repayment as a new debt (exchange) or legal amendment of the original debt agreement (modification).

US GAAP — ASC 470-50 and ASC 470-60	IFRS — IFRS 9
Certain modifications or exchange transactions for debt instruments may be considered troubled debt restructurings under the guidance in ASC 470-60-55-4 through 55-14 that are then subject to ASC 470-60. Pursuant to ASC 470-60, a debtor is generally required to account for the effects of the troubled debt restructuring prospectively although the restructuring may result in a gain in certain circumstances. All other modifications or exchanges are evaluated and accounted for under ASC 470-50, which requires the entity to determine whether or not such modifications or exchanges are to be accounted for as a debt extinguishment. The determination of whether or not a debt extinguishment occurs is primarily based on whether such a modification or an exchange is considered substantial. There are specific criteria in ASC 470-50-40-10 through 40-12 related to calculating changes in the present value of cash flows and changes in fair value of conversion options relative to a 10% threshold that a debtor evaluates in order to determine whether a substantial modification or exchange occurs. Substantial modification or exchange results in debt extinguishment accounting while a non-substantial modification or exchange does not, and the resulting accounting implications are different. A modification or exchange that is considered substantial is accounted for as a debt extinguishment, which can result in a gain or loss. Fees paid to or received from the creditor are included in the determination of the gain or	IFRS does not provide guidance specific to troubled debt restructurings. IFRS 9.3.3.2 requires an exchange between an existing borrower and lender of debt instruments with substantially different terms to be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability, or a part of it (whether or not due to the financial difficulty of the debtor), is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. If the exchange or modification is not considered substantially different, then debt extinguishment accounting does not apply and the effective interest method is applied using the modified cash flows. (See question 8 for additional discussion.) IFRS 9.B3.3.6 does not provide detailed guidance on how to calculate the change in cash flows for determining whether they are substantially different, but does require a 10% threshold (similar to US GAAP). Additionally, the 10% cash flow test is not the only factor an entity should consider when determining if a modification or an exchange is considered “substantially different.” All changes in debt terms (e.g., addition of a substantive conversion feature, a change in the currency in which debt is denominated) are considered to determine if

loss. Costs paid to third parties are considered to be associated with the new debt and amortized over the term of the new debt. A modification or exchange that is not considered substantial is deemed to be a modification and accounted for prospectively by determining a new effective interest rate based on the carrying amount of the original debt instrument, reflecting the modified terms. Fees paid to or received from the creditor are combined with the existing net carrying amount and amortized over the term of the modified debt. Costs paid to third parties are expensed as incurred. ASC 470-50 also provides specific guidance when a modification or exchange involves a third-party intermediary such as an investment banker. The accounting analysis may vary depending on whether such intermediary is considered an agent or a principal.	they are substantial and would, therefore, trigger derecognition. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment of the original debt, IFRS 9.B3.3.6 requires any fees and costs incurred to be recognized as part of the gain or loss on the extinguishment. However, if the exchange or modification is accounted for as a modification, any fees and costs incurred are an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified liability. (See question 8 for discussion of the application of the effective interest method depending on whether the debt instrument was deemed extinguished or modified.)

Implications:

US GAAP provides more specific guidance for modification or exchange transactions (including troubled debt restructurings) than IFRS, but the approach for determining whether a modification or exchange is considered an extinguishment or modification is generally consistent, focusing on present values of cash flows.

IFRS 9 does not provide specific accounting for restructurings considered to be “troubled debt restructurings,” whereas ASC 470-60 does under US GAAP. Accordingly, to the extent the reporting entity has experienced a troubled debt restructuring, a potentially significant difference may exist.

It is generally believed that the concepts of fees and costs are consistent between US GAAP and IFRS, with “fees” transacted with the creditor and “costs” transacted with third parties. However, IFRS 9 does not differentiate between the two in the modification/extinguishment accounting discussion. That is, under IFRS, fees and costs receive the same accounting in a transaction, whereas under US GAAP fees and costs are treated differently. As a result, fees are treated the same under IFRS and US GAAP (i.e., both expense fees in extinguishments and capitalize fees in modifications) but costs are treated differently (i.e., for an extinguishment, costs are considered in the gain or loss on the old debt for IFRS but capitalized with the new debt under US GAAP; for a modification, costs are capitalized with the old debt for IFRS but expensed under US GAAP).

Identified difference?

	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

Freestanding equity derivatives

13. Has the entity issued equity derivatives? For example, has it entered into forward contracts requiring it and the counterparty to transact in the entity's shares in the future? Has the entity entered into option contracts that will allow one of the parties the right to require the other party to transact in the entity's shares in the future?	Yes ☐	No ☐

Under both US GAAP and IFRS, traditional equity derivatives in the form of forward and option contracts will be classified in their entirety as assets (e.g., assets in the case of certain forward contracts, depending on their value, and purchased options), liabilities or equity. For those classified as assets or liabilities, the contracts will generally be recorded at fair value throughout their life with changes in earnings, or in the case of some liabilities, at the present value of the future cash obligation. However, for contracts accounted for as liabilities, US GAAP and IFRS can arrive at a different measurement basis (e.g., an instrument that is a fair value liability under US GAAP could be a present value liability under IFRS). Critical to determining the classification of the contract, and the subsequent measurement model to be applied, is how the settlement amount is determined and how the equity derivative is settled (and, if there are choices involved, who controls the choices).

Under US GAAP, ASC 480 will specifically require some instruments to be accounted for as assets/liabilities. Other instruments not addressed in that standard will be addressed under ASC 815 (including ASC 815-40). In IFRS, all instruments will be addressed in IAS 32.

In US GAAP, contracts that are not classified as liabilities (or assets in some circumstances) under ASC 480 are evaluated for classification under ASC 815-40. To be classified as equity, the instrument must be both (1) indexed to the entity's stock (using the indexation guidance in ASC 815-40-15) and (2) classified in shareholders' equity (using the equity classification guidance in ASC 815-40-25), regardless of whether the instrument is a derivative. A "fixed-for-fixed" notion applies in determining if the contract is "indexed to" the entity's stock. IFRS states that an instrument that meets the definition of a derivative in IFRS 9 may nonetheless be considered an equity instrument under IAS 32.16 if the derivative will be settled only by the entity exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments. That "fixed-for-fixed" notion is the sole criteria under IFRS for an equity derivative to be considered equity (as opposed to the two criteria — "indexed to" and "classified in equity" — in US GAAP).

Some additional discussion of the two "fixed-for-fixed" concepts is necessary. The indexation literature in ASC 815-40-15 is considered in evaluating if the equity contract is indexed to the entity's own stock, focusing on exercise contingencies and how the settlement amount is determined. Regarding the settlement amount, for a contract to qualify as "indexed to" the entity's own stock, the settlement amount must be based on the difference between the fair value of a fixed number of the entity's equity shares and a fixed monetary amount or a fixed amount of a debt instrument issued by the entity. Importantly, there are explicit exceptions in the indexation literature that relax the strict "fixed-for-fixed" notion in certain instances. Both standards provide that the fixed-for-fixed criteria is not met if "fixed amount of cash or another financial asset" is in reference to (or the strike price denominated in) a currency other than the entity's functional currency. However, IAS 32.16 provides one narrow exception to the "fixed-for-fixed" notion for a specific transaction (i.e., a rights issue) that has a fixed monetary amount (or the strike price) denominated in a foreign currency and is granted pro rata to all of an entity's existing holders of the same class of non-derivative equity instruments (and can therefore be seen as a transaction with owners in their capacity as owners). The narrow exception does not apply to other instruments (see question 18). Under IFRS, no other stated exceptions exist to the fixed-for-fixed notion (although this is a significant practice issue).

Critical in the IFRS notion of fixed-for-fixed are the words “settled only,” explicitly stating that any settlement alternatives are not allowed. Under US GAAP, the fixed-for-fixed notion does not address how the instrument is settled, only how the amount is calculated. However, in US GAAP, the equity classification literature in ASC 815-40-25 is used to evaluate the second qualifying criterion (“classified in equity”), and that criterion looks to the settlement method. The equity classification literature allows an equity derivative with settlement alternatives to potentially be classified in equity depending on what the alternatives are and who can choose between them. Under IFRS, any choice (other than a choice among alternatives that would all be equity-qualified) renders the contract a liability contract. However, that choice can affect the measurement criteria in IFRS as either a fair value instrument or present value instrument. Another item to highlight under IFRS is that there are no detailed tests on the ability to settle in registered shares (when a contract requires settlement in registered shares and explicitly states that an entity must settle in cash if registered shares are unavailable), as there are in the equity classification literature under US GAAP.

The literature references below provide a high-level overview of the US GAAP literature that is applied to “equity derivatives,” along with the IFRS literature that examines the same instruments under guidance that is more concisely contained in IAS 32 (for equity and liability instruments) and IFRS 9 (for derivative instruments).

In the questions that follow, the term “entity” relates to the company applying the guidance for its own accounting related to a potential derivative instrument on its own stock. The term “counterparty” refers to the company on the other side of the contract.

US GAAP — ASC 815, ASC 480 and ASC 815-40	**IFRS — IAS 32 and IFRS 9**
Distinguishing liabilities from equity ASC 480 requires that certain freestanding financial instruments be classified as liabilities. Among those instruments are: ► A financial instrument, other than an outstanding share, that, at inception embodies an obligation to repurchase the entity’s equity shares (or is indexed to such an obligation), and requires (or may require) the entity to settle the obligation by transferring assets. ► A financial instrument that embodies an unconditional obligation or a financial instrument other than an outstanding share that embodies a conditional obligation, that the entity must or may settle by issuing a variable number of its equity shares, if, at inception, the monetary value of the obligation is based solely or predominantly on any of: (1) a fixed monetary amount known at inception, (2) variations in something other than the fair value of the entity’s equity shares, or (3) variations	IAS 32.11 and 32.16 define an equity instrument as one that both (1) includes no contractual obligation to either deliver cash or another financial asset to another entity (the counterparty) or exchange financial assets or financial liabilities with another entity (the counterparty) under conditions that are potentially unfavorable to the entity, and (2) if the instrument will or may be settled in the entity’s own equity instruments, it is either a non-derivative that includes no contractual obligation for the entity to deliver a variable number of its own equity instrument or a derivative that will be settled only by the entity exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments (i.e., the “fixed-for-fixed” notion). Under IAS 32, certain rights, options or warrants to acquire a fixed number of the entity’s own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

inversely related to changes in the fair value of the entity's equity shares. ASC 480 requires that forward contracts that require physical settlement by repurchase of a fixed number of the entity's equity shares in exchange for cash be measured initially at the fair value of the shares at inception, adjusted for any consideration or unstated rights or privileges. Equity is reduced by an amount equal to the fair value of the shares at inception. Forward contracts that require physical settlement by repurchase of a fixed number of the entity's equity shares in exchange for cash are subsequently measured based on whether the settlement amount and date are fixed. If fixed, subsequent measurement is at the present value of the settlement amount with interest accrued at the implicit rate at inception. If not fixed, subsequent measurement is at the amount that would be paid if settlement occurred at the reporting date, recognizing any resulting changes in that amount from the previous reporting date as interest expense. All other equity derivatives in the scope of ASC 480 are measured initially and subsequently at fair value. *Indexation and equity classification guidance* If the instrument is not a liability (or an asset in some circumstances) under ASC 480, it is evaluated for classification as an asset or liability, or as equity, under ASC 815-40. To be classified as equity, the instrument must be both (1) indexed to the entity's own stock (considering the indexation guidance in ASC 815-40-15) and (2) classified in shareholders' equity (considering the equity classification guidance in ASC 815-40-25). If the contract meets both criteria, it is classified in equity without subsequent remeasurement. If the instrument fails the indexation or equity classification criteria, it is classified as an asset or liability and subsequently measured at fair value through earnings. The instrument's classification is reassessed at each reporting date. *SEC views* Options written by the entity that are not captured by any of the above literature are accounted for in accordance with the SEC staff's longstanding	An instrument that meets the definition of a derivative under IFRS 9 and does not meet the "fixed-for-fixed" notion in the definition of equity in IAS 32 will be a derivative. However, even equity instruments may be thought of as containing a financial liability if the entity is required to deliver cash. In summary, IAS 32 can result in the following: ► A contract such as a forward or written call option involving the sale, or a purchased option involving the purchase, of a fixed number of its own equity instruments for a fixed amount of cash or other financial assets is an equity instrument. ► A contract for the purchase by an entity of its own equity instruments, even if for a fixed amount of cash or other financial assets (and therefore an equity instrument) may give rise to a financial liability in respect of the cash or other financial assets to be paid. However, the initial recognition of the liability results in a reduction in equity and not in an expense. (That is, while there is a liability to pay cash under the contract, the contract itself is an equity instrument and is therefore not subject to periodic remeasurement to fair value). ► A contract involving the delivery or receipt of either a fixed number of own equity instruments for a variable amount of cash or other financial assets, a variable number of own equity instruments for a variable amount of cash or other financial assets, or an amount of cash or own equity instruments with a fair value equivalent to the difference between a fixed number of own equity instruments and a fixed amount of cash or other financial assets (i.e., a net-settled derivative contract) is a financial asset or financial liability. ► A contract that allows a choice of settlement methods will be a liability contract as a result of the fixed-for-fixed-settlement-only criteria being violated for equity treatment. However, as a liability, the methods of settlement and existence of choice will affect the measurement of the contract. If the contract is either a written put option (counterparty can put shares to the entity) or a forward contract to purchase shares (counterparty must sell

view on written options, which requires they be classified as a liability and marked to fair value through earnings.	shares to the entity), and the contract allows gross physical settlement among its alternatives, then we believe the accounting will depend on who has the choice of settlement method. If the counterparty has the choice, then the entity has no ability to avoid a contractual obligation to pay cash, and a liability for the present value of the potential cash settlement is recorded as a liability as discussed above. However, if the entity has the choice, and thus can elect a form of net settlement (net cash or net share), then that cash obligation can be avoided and the instrument is to be recorded as a derivative liability and subsequently measured at its fair value.

Implications:

The discussion above outlines the basic approach to analyzing equity derivative instruments. Both US GAAP and IFRS require appropriately identifying the contractual terms and features in the instrument and applying the guidance to determine if the instrument is accounted for as a liability (or asset in some cases) or in equity. Questions 15 through 18 illustrate some of the key concepts in the discussion above, but are not intended to be an exhaustive listing of instruments with differences under US GAAP and IFRS accounting.

Given the significant differences in how settlement amounts and settlement alternatives are treated under US GAAP and IFRS, freestanding equity derivatives may be classified differently. Settlement alternatives that are sometimes added to allow equity classification under US GAAP will require asset/liability accounting under IFRS. For example, allowing the entity the right to choose the form of settlement is often a negotiating point and may allow the entity the ability to classify a contract as equity under US GAAP. However, the consideration of the entity's settlement choices in IFRS may result in a different classification or perhaps a different measurement attribute. We believe the form of settlement choices and who controls that choice could affect the measurement attribute of any contract classified as a liability.

As a specific example, if a forward contract to purchase the entity's shares has settlement options (e.g., net cash, net share or gross physical), the contract is a financial asset or a financial liability under IFRS. If one of the settlement alternatives is to exchange its cash for shares, one would presume an entity recognizes a liability for the obligation to deliver cash under the implementation guidance to IAS 32 which, as drafted, appears to apply whether the choice of settlement rests with the entity or the counterparty. However, because the entity has the choice of settlement, there would be no obligation for it to settle gross. We assume that the IAS 32 implementation guidance is written on the presumption that the choice of settlement would normally rest with the counterparty rather than the entity. IAS 32.23 is clear that an equity contract gives rise to a liability for the purchase price of the shares only when the entity is obligated to purchase its own equity. Accordingly, we believe that when the choice of settlement rests only with the entity, it is acceptable for the entity to account for the contract as a derivative at fair value rather than as a liability for the cash obligation (because that obligation can be avoided under the entity's choices).

IAS 32 states that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights,

options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. As further discussed in paragraph 4J of the Basis for Conclusions to IAS 32, this is an “extremely narrow amendment that requires the entity to treat all of its existing owners of the same class of its non-derivative equity instruments equally.” Thus, under IFRS, typical warrants and forwards sold to investors will not be considered “fixed-for-fixed” if they are denominated in a currency other than the issuer’s functional currency.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

14. Is the entity a party to an equity option contract that allows it to put the entity’s own shares to the counterparty (i.e., a purchased put), or call the entity’s own shares from the counterparty (i.e., a purchased call)? Is the entity a party to an equity option contract that allows the counterparty to call the entity’s own shares from it (i.e., a written call)? Is the entity a party to an equity forward contract requiring it to sell, and the counterparty to purchase, the entity’s own shares (i.e., a forward sale)?

Yes ☐ No ☐

In a purchased call (put) option, the entity pays a counterparty in return for receiving the right, but not the obligation, to buy (sell) a given number of the entity’s own equity instruments from (to) the counterparty for a fixed price at a future date. In a written call option, the entity receives a payment from a counterparty for granting to the counterparty the right, but not the obligation, to buy a given number of the entity’s own equity instruments from the entity for a fixed price at a future date. In contrast, in a forward sale contract, the entity agrees to sell, and the counterparty agrees to buy (i.e., both parties are obligated to do so), a given number of the entity’s own equity instruments for a price on a determined date.

The accounting for the various forms of options and the forward listed above will generally depend on the existence of settlement alternatives. Those settlement alternatives are commonly expressed as “net cash” (i.e., the party in the loss position delivers an amount of cash equal in value to the net loss under the contract), “net share” (i.e., the party in the loss position delivers a number of shares equal in value to the net loss under the contract) or “gross physical” (i.e., one party delivers the total amount of consideration due for the strike price and the other party delivers the notional amount of shares).

US GAAP — ASC 815, ASC 480 and ASC 815-40	**IFRS — IAS 32**
Under US GAAP, ASC 480 is first considered when evaluating an equity contract. It does not apply to a purchased put or purchased call because these contracts do not embody any obligations. It may apply to the written call option or forward if the underlying shares are puttable back to the entity, or if the written call option or forward itself is puttable to the entity. If the instrument is not a liability (or an asset in some circumstances) under ASC 480, it is	IAS 32.22 provides that a derivative potentially settled in the entity’s own shares is an equity instrument if the derivative will be settled only by the entity exchanging a fixed amount of cash or another financial asset for a fixed number of its own shares (“fixed-for-fixed”). However, if the number of shares to be issued is not a fixed number or the amount of cash or other financial assets receivable is not a fixed amount, then the

evaluated for classification as an asset or liability, or as equity, under ASC 815-40. To be classified as equity, the instrument must be both (1) indexed to the entity's own stock (considering the indexation guidance in ASC 815-40-15) and (2) classified in shareholders' equity (considering the equity classification guidance in ASC 815-40-25). The indexation literature contains a "fixed-for-fixed" concept but provides exceptions to the strict "fixed-for-fixed" rule in determining if the contract is "indexed to" the entity's shares. In the equity classification literature, a key consideration is how the instrument is to be settled and who has the option to elect the manner of settlement. If the contract meets both the indexation and equity classification criteria, it is classified in equity without subsequent remeasurement. If the instrument fails the indexation or equity classification criteria, it is classified as an asset or liability and subsequently measured at fair value through earnings. The instrument's classification is reassessed at each reporting date. *SEC views* Options written by the entity that are not captured by any of the above literature are accounted for in accordance with the SEC staff's longstanding view on written options, which requires they be classified as a liability and marked to fair value through earnings.	contract is a financial asset or liability and not an equity instrument. If a derivative financial instrument has settlement options that give one party the choice over how it is settled, it is equity only if all possible settlement alternatives would result in it being an equity instrument. Accordingly, in the case where a contract provides for any form of net settlement, the financial instrument should be classified as a financial asset or liability. If gross physical settlement is an alternative, we believe it may have an effect on measurement of the liability depending on who holds the election.

Implications:
US GAAP and IFRS are significantly different in evaluating these freestanding equity derivatives on an entity's own shares. Under US GAAP, if the contract requires either net share or gross physical settlement, or allows the entity a choice that includes at least one of net share or gross physical settlement (with the entity either delivering the shares or delivering the cash), then the contract is classified in equity provided the additional detailed criteria in ASC 815-40 are met (including the indexation literature and the equity classification literature in ASC 815-40-15 and 40-25, respectively). A contract that either requires net cash settlement or provides the counterparty with a choice that includes net cash settlement will be an asset or liability. However, under IFRS, equity classification requires gross physical settlement only. Any form of net settlement, or any choice that includes a net settlement, would result in derivative classification as it would not meet the "fixed-for-fixed" requirement. However, the form of settlement choices and who controls that choice could affect the measurement attribute of any contract classified as a liability. Many equity derivative instruments that are required to be classified as equity under US GAAP are instead classified as derivatives under IFRS and measured at fair value with changes in fair value recorded in profit and loss, resulting in greater volatility in earnings under IFRS.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

15. Is the entity a party to an equity option contract that allows the counterparty to put the entity's own shares back to the entity (i.e., a written put option)?	Yes ☐	No ☐

In a written put option, the entity receives a payment from a counterparty for granting to the counterparty the right, but not the obligation, to sell a given number of the entity's own equity instruments to the entity for a fixed price at a future date.

US GAAP — ASC 480	**IFRS — IAS 32 and IFRS 9**
ASC 480-10-25-8 through 25-13 preclude equity classification for a financial instrument, other than an outstanding share, that embodies, or is indexed to, an obligation to repurchase an entity's equity shares that requires or could require settlement by the transfer of assets, as would happen in a gross physical or net cash settlement of a written put option. In addition, because the written put option changes in value opposite to that of the underlying share (i.e., as the share price decreases the value of the put option increases), then even a net share settled put option is a liability under ASC 480-10-25-14. Accordingly, all written put options are classified as liabilities and are initially and subsequently measured at fair value, with any changes recognized in earnings.	Gross settled written put options are equity instruments that also give rise to a financial liability in respect of the obligation to pay the purchase or redemption price. This treatment reflects the same principle that results in a financial liability contained within a redeemable share. That is, if an entity does not have an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the obligation meets the definition of a financial liability. When the financial liability is recognized initially under IAS 32.23, its fair value (i.e., the present value of the redemption amount) is recorded as a liability (representing the entity's obligation to purchase its own equity) with the offset reflected in equity. Subsequently, the financial liability is measured at amortized cost using the effective interest method in accordance with IFRS 9.4.2.1.

	If the contract expires without delivery, the carrying amount of the financial liability is reclassified to equity. IAS 32 offers no guidance as to how the liability is to be measured when the number of shares to be purchased and/or the date of purchase are not known. We believe it would be consistent with the requirement of IFRS 13 that liabilities with a demand feature (such as a demand bank deposit) should be measured at the amount payable on demand to adopt a worst-case approach. In other words, it is assumed that the purchase will take place on the earliest possible date for the maximum number of shares. This is also consistent with IAS 32's emphasis, in the general discussion of the differences between liabilities and equity instruments, on a liability arising except to the extent that an entity has an "unconditional" right to avoid delivering cash or other financial assets. If a derivative financial instrument has settlement options that give one party the choice over how it is settled, it is equity only if all possible settlement alternatives would result in it being an equity instrument. Accordingly, in the case where a contract provides for any form of net settlement, the financial instrument should be classified as a financial asset or liability. If gross physical settlement is an alternative, we believe it may have an effect on measurement of the liability depending on who holds the election.

Implications:
Under both US GAAP and IFRS, a written put option on the entity's own shares will result in a liability on the balance sheet. However, the measurement of that liability may differ. As more fully described in questions 13 and 14, under IFRS, we believe the form of settlement choices and who controls that choice would affect the measurement attribute of any contract classified as a liability. Under US GAAP, for all written put options, including a gross settled written put, the liability is measured initially and subsequently at fair value with any changes recognized in earnings. Under IFRS, if gross settlement is required or one of several alternatives at the option of the counterparty, the present value of the potential payable based on the first possible redemption date is initially recorded and accreted as interest expense through the first possible redemption date. This leads to a different accounting treatment for written American put options (i.e., those that can be exercised at any time during a period ending on a future date) and written European put options (i.e., those that can be exercised only at a given future date). In the case of an American option, a liability would be recorded immediately for the full potential liability. In the case of a European option, a liability would be recorded for the net present value of the full potential liability and interest accrued on that liability until the date of potential exercise.

For written put options requiring net settlement under IFRS, the instruments are accounted for initially and subsequently at fair value. That same is true for written put options with a choice of gross physical settlement at the option of the entity because the entity could avoid the gross cash obligation under the put option by not electing gross physical settlement.

Because of these differences, earnings will be different under US GAAP and IFRS, with US GAAP being the more volatile of the two.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

16. Is the entity a party to an equity forward contract that requires it to purchase its own shares from the counterparty? Yes ☐ No ☐

In a forward purchase contract, the entity agrees to buy and the counterparty agrees to sell (i.e., both parties are obligated to do so) the entity's own equity instruments for a price on a determined date. The number of equity instruments may be fixed or variable.

The accounting for a forward contract to purchase the entity's own shares will generally depend on the existence of settlement alternatives.

US GAAP — ASC 480	**IFRS — IAS 32 and IFRS 9**
Under US GAAP, a forward contract to purchase the entity's own shares, whether it is gross physically settled, net cash settled or net share settled, will be classified as a liability (or an asset in some circumstances) under ASC 480. Forward contracts that require physical settlement by repurchase of a fixed number of the entity's equity shares in exchange for cash are measured initially at the fair value of the shares at inception, adjusted for any consideration or unstated rights or privileges. Equity is reduced by an amount equal to the fair value of the shares at inception. These forward contracts are subsequently measured based on whether the settlement amount and date are fixed. If fixed, subsequent measurement is at the present value of the settlement amount with interest accrued at the implicit rate at inception. If not fixed, subsequent measurement is at the amount that would be paid if settlement occurred at the reporting date, recognizing any resulting changes in that amount from the previous reporting date as interest expense. All other forward contracts (net cash or net share settled) are measured initially and subsequently at fair value.	Gross settled forward purchase contracts are equity instruments that also give rise to a financial liability in respect of the obligation to pay the purchase or redemption price. This treatment reflects the same principle that results in a financial liability contained within a redeemable share. That is, if an entity does not have an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the obligation meets the definition of a financial liability. When the financial liability is recognized initially under IAS 32.23, its fair value (i.e., the present value of the redemption amount) is recorded as a liability (representing the entity's obligation to purchase its own equity) with the offset reflected in equity. Subsequently, the financial liability is measured at amortized cost using the effective interest method in accordance with IFRS 9.4.2.1. If a derivative financial instrument has settlement options that give one party the choice over how it is settled, it is equity only if all possible settlement alternatives would result in it being an equity instrument. Accordingly, in the case where a contract provides for any form of net settlement, the financial instrument should be classified as a financial asset or liability. If gross physical settlement is an alternative,

	we believe the approach to measurement of the liability depends on who holds the election.

Implications:
US GAAP and IFRS are different in evaluating forward contracts to purchase the entity's own shares. These forward contracts will be liabilities under ASC 480, with the measurement of gross physically settled forward contracts being similar to the liability treatment of the same instruments under IFRS. However, all other forward contracts are accounted for at fair value under US GAAP with changes in fair value reflected in earnings. Under IFRS, if gross settlement is required or one of several settlement alternatives at the option of the counterparty, the present value of the potential payable based on the first possible redemption date is initially recorded and accreted as interest expense through the settlement date. For those forward contracts requiring net settlement under IFRS, the instruments are accounted for initially and subsequently at fair value. That same is true for forward contracts with a choice of gross physical settlement or net settlement at the option of the entity because the entity could avoid the gross cash obligation under the put option by not electing gross physical settlement. As more fully described in questions 13 and 14, we believe the form of settlement choices and who controls that choice would affect the measurement attribute of any contract classified as a liability. Refer to Chapter 42, *Financial instruments: Financial liabilities and equity,* of our International GAAP® publication for further discussion on accounting for financial liabilities and equity. Because of these differences, earnings will be different under US GAAP and IFRS, with US GAAP being the more volatile of the two.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

17. Has a consolidated subsidiary issued any equity derivatives (options or forwards) on its shares, or has the parent entity issued any such contracts on the subsidiary's shares?	Yes	No
	☐	☐

All the contracts described in previous questions (i.e., questions 13 through 16) could likewise be issued by, or indexed to, the shares of a consolidated subsidiary.

US GAAP — ASC 480 and ASC 815-40	**IFRS — IAS 32**
The application of ASC 480 is the same for instruments that are indexed to the shares of a consolidated subsidiary because ASC 480 broadly defines "equity shares" to include the equity of any consolidated subsidiary. Under ASC 815-40-15-5C, a freestanding financial instrument (and embedded feature) for which the payoff to the counterparty is based, in whole or in part, on the stock of a consolidated subsidiary is not precluded from being considered indexed to the entity's own stock in the consolidated financial statements of the	The requirements of IAS 32 relating to contracts over the entity's own equity instruments generally apply in consolidated financial statements to forward and option contracts on a subsidiary's shares.

parent if the subsidiary is a substantive entity. Therefore, these instruments would undergo essentially the same analysis under ASC 815 and its related guidance and exceptions.	

Implications:

Generally, any differences between the accounting under US GAAP and IFRS that exist in the accounting for equity derivatives on parent entity shares will exist in the accounting for equity derivatives on subsidiary shares.

Chapter 42, *Financial instruments: Financial liabilities and equity,* of our International GAAP® publication contains additional discussion relative to the interaction of IAS 32 and IFRS 10 on noncontrolling interests. There may be diversity in practice in certain situations related to puts and calls over noncontrolling interests due to a lack of clarity and consistency among IAS 32, IFRS 10 and IFRS 3. As a result, there may be differences with US GAAP.

Identified difference?

Describe:
Click here to enter text.

Yes ☐ No ☐ Depends on policy election ☐

18. Has the entity made "rights issues" to its existing shareholders to acquire common shares of the entity in exchange for a fixed amount denominated in a currency other than the entity's functional currency?

Yes ☐ No ☐

Laws or regulations in many jurisdictions throughout the world require the use of "rights issues" when raising capital. When listed in more than one jurisdiction, or if regulatory restrictions so require, some entities have had to make the rights issue in a currency other than their functional currency.

These rights issues (including rights, options and warrants) are offered pro rata to all of the entity's existing owners of a class of its own non-derivative instruments and entitle them to acquire a fixed number of additional shares. The exercise price is normally below the current market price of the shares.

US GAAP — ASC 815, ASC 480 and ASC 815-40	IFRS — IAS 32
ASC 480 is first considered when evaluating a rights issue. Generally, a rights issue is not a liability under ASC 480. If the rights issue is not a liability under ASC 480, it is evaluated for classification as a liability or equity under ASC 815-40. To be classified as equity, the instrument must be both (1) indexed to the entity's own stock (considering the indexation guidance in ASC 815-40-15) and (2) classified in shareholders' equity (considering the equity classification guidance in ASC 815-40-25). The indexation literature specifically precludes a contract from meeting the "fixed-for-fixed" criteria	IAS 32.11 and 32.16 define an equity instrument as one that both (1) includes no contractual obligation to either deliver cash or another financial asset to another entity (the counterparty) or exchange financial assets or financial liabilities with another entity (the counterparty) under conditions that are potentially unfavorable to the entity and (2) if the instrument will or may be settled in the entity's own equity instruments, it is either a non-derivative that includes no contractual obligation for the entity to deliver a variable number of its own equity instrument or a derivative that will be

if the “fixed monetary amount” is in reference to (or the strike price denominated in) a currency other than the entity’s functional currency. Thus, a rights issue denominated in a currency other than the entity’s own functional currency would not be considered “indexed to” the entity’s own stock. As such, the rights issue must be accounted for as a liability measured at fair value with changes in its fair value recognized in earnings.	settled only by the entity exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments. Under IAS 32, certain rights, options or warrants to acquire a fixed number of the entity’s own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. IAS 32.16 provides a narrow exception to the “fixed-for-fixed” notion for rights issues (including certain options or warrants) that reference the “fixed amount of cash or another financial asset” (or the strike price) to a currency other than the entity’s functional currency and permits these rights issues to be classified as equity instruments. This scope exception is applicable only if the rights are given pro rata to all of the existing owners of the same class of an entity’s non-derivative equity instruments, in order to acquire a fixed number of the entity’s own equity instruments for a fixed amount in any currency. A rights issue meeting the characteristics described above would not be considered a derivative instrument subject to subsequent remeasurement.

Implications:
US GAAP and IFRS are significantly different in evaluating rights issues denominated in a currency other than the entity’s functional currency. Under US GAAP, these rights issues would be recorded as derivative liabilities subject to fair value remeasurement in earnings. Because these are usually relatively large transactions, they could have a substantial effect on entities’ financial statement amounts under US GAAP. However, under IFRS, they are classified as equity instrument with no subsequent remeasurement required, resulting in no volatility in earnings.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

Derivatives and hedging

Note: This section compares the guidance for derivative and hedge accounting in ASC 815 with IFRS 9. The publication does not compare ASC 815 and IAS 39.

Similarities:

Both US GAAP and IFRS require derivatives to be accounted for at fair value, with changes in fair value recorded through profit and loss. Both US GAAP and IFRS also provide exceptions to this accounting when derivatives qualify as hedging instruments and qualify for special hedge accounting. ASC 815 contains the US GAAP guidance for derivatives and hedging, while the IFRS guidance for derivatives and hedging is contained in IFRS 9 or its predecessor, IAS 39.

Many other similarities between the standards exist. For example, the definition of a derivative is similar in ASC 815 and IFRS 9, in that both standards require certain contractual characteristics to be present for a contract to be accounted for as a derivative (although a notable difference exists with regard to the settlement provisions since IFRS 9 only requires *settlement* at a future date, while ASC 815 emphasizes the characteristic of *net settlement*, which is not as common a characteristic). Both standards also provide a number of very similar scope exceptions to certain contracts that otherwise have all the required characteristics of a derivative.

ASC 815 and IFRS 9 also provide the same basic guidance for when an embedded derivative is required to be separated from a host contract and accounted for separately. Both standards require bifurcation if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. However, under IFRS 9, the concept of embedded derivatives only applies to financial liabilities and nonfinancial items. In addition, the two standards apply the “closely related” principle differently in some circumstances and hence may not always reach the same conclusion.

Both standards permit hedge accounting for fair value, cash flow and net investment hedge relationships. Additionally, many aspects of the hedge accounting rules are similar under US GAAP and IFRS. In particular, entities are required to document and continuously assess hedge effectiveness under both standards, although the threshold required to achieve hedge accounting differs, as does the recognition of any “ineffectiveness.” While there are certain differences related to what qualifies as a hedgeable item, both standards permit hedged items that are recognized assets or liabilities (including a portion of a single recognized asset or liability or a portfolio of recognized assets or liabilities), unrecognized firm commitments, highly probable forecast transactions and net investments in foreign operations.

Detailed disclosures about derivatives and hedging activities are required by both US GAAP and IFRS. For US GAAP, these disclosure requirements are provided in ASC 815, while for IFRS they are primarily provided in IFRS 7.

Fair value is the measurement basis for all financial instruments meeting the definition of a derivative. ASC 820 and IFRS 13 both provide a framework for measuring fair value that is applicable under the various accounting topics that require (or permit) fair value measurements in US GAAP and IFRS, respectively. Accordingly, the measurement of fair value across US GAAP and IFRS is generally based on a single definition and a consistent framework for the application of that definition. Although the principles of measuring fair value are virtually identical between US GAAP and IFRS, there are certain differences. Readers should consider the differences noted in the “Fair value measurements” section of this publication.

Primary US GAAP	Primary IFRS
► ASC 815, *Derivatives and Hedging* ► ASC 820, *Fair Value Measurement* ► ASC 825, *Financial Instruments*	► IFRS 4 *Insurance Contracts* ► IFRS 9 *Financial Instruments* ► IAS 39 *Financial Instruments: Recognition and Measurement* ► IFRS 7 *Financial Instruments: Disclosures* ► IFRS 13 *Fair Value Measurement* ► IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

Standard setting activities:

In January 2020, the FASB issued ASU 2020-01, which clarified the interaction between ASC 321, ASC 323 and ASC 815, related to the application of the guidance for certain forward contracts and purchased options to purchase securities that, upon settlement or exercise, would be accounted for under the equity method of accounting. The ASU is applied prospectively and was effective for PBEs for fiscal years beginning after 15 December 2020 and interim periods within those years. For entities other than PBEs, it was effective for fiscal years beginning after 15 December 2021 and interim periods within those fiscal years. The clarifications in ASU 2020-01 do not cause new and/or change existing differences between US GAAP and IFRS as outlined below.

In March 2020, the FASB issued ASU 2020-04 to help facilitate the market transition from existing reference interest rates, such as LIBOR, to alternative rates (commonly referred to as reference rate reform). In January 2021, the FASB issued ASU 2021-01 to clarify the scope of the relief provided. Refer to “Standard setting activities” in the “Financial instruments” overview section of this publication for more information on this topic.

In August 2020, the FASB issued ASU 2020-06. The ASU simplifies certain areas of the accounting for financial instruments with characteristics of liabilities and equity. Refer to “Standard setting activities” in the “Liabilities and equity” section of this publication for more information on this topic.

In March 2022, the FASB issued ASU 2022-01, *Derivatives and Hedging (Topic 815): Fair Value Hedging — Portfolio Layer Method*, to expand and clarify the use of what is now referred to as the portfolio layer method (formerly last-of-layer method) for fair value hedges of interest rate risk in a closed portfolio of prepayable financial assets or one or more beneficial interests secured by prepayable financial instruments. For PBEs, the amendments are effective for fiscal years beginning after 15 December 2022, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after 15 December 2023, and interim periods within those fiscal years. Early adoption is permitted. Question 26 includes discussion of differences before and after adoption of ASU 2022-01.

In addition, the FASB has other projects on its agenda to provide improvements related to hedge accounting issues that require further research and analysis. Readers should monitor these projects for developments.

IFRS 9 became effective for annual periods beginning on or after 1 January 2018. However, when adopting the other aspects of IFRS 9, an entity may make an accounting policy choice not to apply its hedge accounting guidance and instead continue to apply the hedge accounting model in IAS 39 until the IASB completes its project on dynamic risk management and macro hedging, which was recently added to its standard-setting agenda. Readers should monitor this project for developments.

The IASB provided relief relating to reference rate reform in two sets of mandatory amendments to IFRS. In September 2019, the IASB issued *Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)*, followed by the issuance of *Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)* in August 2020. Refer to "Standard setting activities" in the "Financial instruments" overview section of this publication for more information on this topic.

Discussion of IFRS 1:

A first-time adopter is required to account for all derivatives in its opening IFRS balance sheet as assets or liabilities measured at fair value. It is important to note that under IFRS all derivatives, other than those that are designated and effective hedging instruments, are classified as fair value through profit or loss, and as such, must be measured at fair value with changes in fair value recognized in income each period.

A first-time adopter is not permitted to retrospectively designate hedging relationships in relation to transactions that were entered into before the date of transition to IFRS. This requirement is intended to prevent an entity from reflecting hedging relationships in its opening balance sheet that it did not identify as such under the entity's previous GAAP. Further, the implementation guidance in IFRS 1 explains that hedge accounting can be applied prospectively only from the date the hedging relationship is fully designated and documented. Therefore, if the hedging instrument is still held at the date of transition to IFRS, the designation and documentation of a hedging relationship under IFRS 9 must be completed on or before that date if the hedging relationship is to qualify for hedge accounting on an ongoing basis from that date. For comparative financial statements, that designation and documentation must be present as of the first day of the first year that is presented on a comparative basis.

IFRS 1 provides that a hedging relationship be reflected in the first-time adopter's opening IFRS balance sheet if hedge accounting was applied under the previous GAAP and the hedging relationship is a *type* that is eligible under IFRS 9. Therefore, as long as a hedging relationship was designated under US GAAP and that hedging relationship would be a type that qualifies for hedge accounting under IFRS, the first-time adopter must account for the hedging relationship and recognize the hedging instrument in its opening IFRS balance sheet. This opening IFRS balance sheet treatment applies even if an entity does not desire to pursue qualification for hedge accounting subsequently under IFRS, and therefore does not complete hedge documentation in accordance with IFRS 9. However, in order for a first-time adopter to continue to apply hedge accounting subsequent to the transition date, all of the documentation, effectiveness and designation requirements of hedge accounting under IFRS 9 must be satisfied on or before the transition date.

If, in anticipation of adopting IFRS, an entity chooses to designate and document an existing US GAAP hedging relationship as a hedge in accordance with IFRS 9 (e.g., to benefit from some of the more advantageous aspects of IFRS 9), we believe that IFRS 9 hedge accounting would be applied prospectively from the date of this designation. This would effectively result in the application of IFRS 9 hedge accounting before the transition date and potentially affect the amounts recorded on the opening balance sheet if the accounting treatment under IFRS 9 differs from that under US GAAP for hedging relationship types that qualify under both.

Differences:

1. Does the reporting entity have a potential derivative with no notional amount?	Yes ☐	No ☐

A notional amount can be defined as a number of currency units, shares, bushels, pounds or other units specified in an instrument. The definition of a derivative under US GAAP requires a notional amount; however, IFRS does not.

US GAAP — ASC 815-10-15-83(a)(2), ASC 815-10-15-92 through 15-93 and ASC 815-10-55-5 through 55-7	**IFRS — IFRS 9 Appendix A and IFRS 9.BA.1 through BA.5**
The US GAAP definition of a derivative requires the existence of a notional amount, a payment provision or both. The settlement of a derivative with a notional amount is determined by interaction of that notional amount with the underlying. A payment provision specifies a fixed or determinable settlement to be made if the underlying behaves in a specified manner. In circumstances in which a notional amount is not determinable (i.e., when the quantification of such an amount is highly subjective and relatively unreliable) and no payment provision exists, the contract would not be accounted for as a derivative under ASC 815.	The IFRS definition of a derivative does not include a requirement that a notional amount be indicated. IFRS 9 describes contracts with payment provisions if an underlying moves in a particular way as an example of a contract without a notional amount that is also a derivative.

Implications:

A financial instrument or other contract that does not have a notional amount may meet the definition of a derivative under IFRS. For example, “requirements contracts” as discussed in ASC 815-10-55-5 through 55-7 may not meet the definition of a derivative under US GAAP but would under IFRS. A requirements contract does not specify a fixed number of units to be bought or sold, but rather refers to the number of units required to satisfy a party’s actual utilization or consumption needs. Many contracts, particularly in commodity-based industries such as energy, rely on the guidance in ASC 815-10-55-5 through 55-7 to determine whether certain contracts meet the definition of a derivative or instead are excluded from the requirements of ASC 815. Overall, more contracts may meet the definition of a derivative under IFRS.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

2. Does the reporting entity hold potential derivatives that are not capable of "net settlement"?

Yes ☐ No ☐

A "net settlement" is a one-way transfer of an asset, usually cash, from the counterparty in a loss position to the counterparty in a gain position. (In a "gross settlement," there is a two-way exchange where one party typically delivers cash or cash equivalent, and the other party delivers an underlying asset.) When a contract requires "net settlement," neither party is required to deliver the underlying asset equal to the notional amount of the contract to the other party. The notional amount is generally not exchanged between counterparties, but is used only for calculating the size of cash flows to be exchanged.

US GAAP — ASC 815-10-15-83(c) and ASC 815-10-15-99 through 15-139	IFRS — IFRS 9 Appendix A — Defined Terms and IFRS 9.2.4 through 2.6
Net settlement is an essential characteristic of a derivative. To be a derivative, the contract must either explicitly permit net settlement or put the receiving party in a position that is essentially equivalent to net settlement. ASC 815 provides three ways that the net settlement criteria can be satisfied: ► Net settlement through the contractual terms themselves ► Existence of a market mechanism that facilitates net settlement outside the contract ► The contract requires delivery of an asset that is readily convertible to cash (i.e., a gross settlement that is economically equivalent to a net settlement)	For contracts other than those to buy or sell a nonfinancial asset, net settlement is not a requirement (neither is it prohibited) for a contract to meet the definition of a derivative. The distinction between gross and net settlement is not a critical consideration in the definition of a derivative under IFRS, although IFRS does include "settlement at a future date" as one characteristic in the definition of a derivative. A contract to buy or sell a nonfinancial asset is not in the scope of IFRS 9 unless it can be settled net in cash or by another financial instrument, or by exchanging financial instruments as if the contract was a financial instrument. However, these contracts would be excluded from the scope of IFRS 9 if they were entered into and continue to be held for the purpose of the receipt or delivery of a nonfinancial item in accordance with the entity's expected purchase, sale or usage requirements. See question 3 for further discussion on these contracts.

Implications:

More financial instruments (e.g., forward or option contracts on certain nonpublic equity stocks that can be only gross settled in the future) will be classified as derivatives under IFRS. This seemingly subtle difference in the definition of a derivative between the two standards might result in a significant measurement difference for financial instruments that call for the delivery of a financial asset that is not readily convertible to cash, because IFRS may view them as derivatives.

The standards will provide more consistent conclusions for contracts to buy or sell nonfinancial assets due to the guidance in IFRS 9.2.4. This is because both standards (1) require such contracts to be net settleable to be accounted for as a derivative and (2) have similar scope exceptions from derivative accounting. Since more financial instruments will be accounted for as derivatives under IFRS, entities may desire to use them as hedging instruments under IFRS.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

3. Does the entity hold any potential derivative contracts that qualify for the normal purchase and normal sale scope exception in ASC 815 or as an "own use" contract under IFRS?

Yes ☐ No ☐

Normal purchases and normal sales (NPNS) are contracts that provide for the purchase or sale of something other than a financial instrument or derivative instrument that will be physically delivered in quantities expected to be used or sold by the reporting entity over a reasonable period in the normal course of business. While both US GAAP and IFRS provide an exemption from derivative accounting for items that meet the definition of an NPNS or "own use" contract, certain differences exist due to differences in the definitions.

US GAAP — ASC 815-10-15-13(b) and ASC 815-10-15-22 through 15-51	IFRS — IFRS 9.2.4 through 2.7 and BA.2
To qualify for the NPNS exception under US GAAP, the contract must be probable of physical settlement (i.e., no net settlement), be for normal quantities and time periods based on the operations of the entity, have pricing terms that are clearly and closely related to the item being purchased or sold, and have fixed contracted quantities. If a contract qualifies for the NPNS scope exception, an entity's use of this exception is elective. Documentation is required if elected. Contracts with volumetric optionality, even if intended to be physically settled, do not qualify for the NPNS exception. The FASB reasoned that option contracts only contingently provide for a purchase or sale since exercise of an option contract is not assured, and therefore an entity cannot determine at contract inception that it will be probable that physical delivery will result. Accordingly, option contracts in which the quantities to be delivered are not fixed cannot qualify for the NPNS exception. However, contracts with fixed quantities and optionality features that relate only to pricing may qualify for the NPNS exception.	Own-use contracts (the IFRS term for what US GAAP calls NPNS contracts) are those to buy or sell nonfinancial items that can be settled net as long as they were entered into and continue to be held for the purpose of the receipt or delivery of the nonfinancial item in accordance with the entity's expected purchase, sale, or usage requirements. The own-use scope exception is not elective. However, the entity may make an irrevocable designation at contract inception to measure a contract that meets the own-use requirements at fair value through profit or loss. This designation is available only if it eliminates or significantly reduces an accounting mismatch that would otherwise arise from not recognizing the contract. Own-use contracts may be purchased options or contracts that include volumetric optionality; however, written options cannot be own-use contracts.

Implications:

ASC 815-10-15-45 through 15-51 also allow power purchase or sales capacity contracts, which might otherwise be considered option contracts ineligible for the NPNS exception, to qualify as NPNS if certain criteria are met. Qualification also requires documentation of the contract as an NPNS, including the basis for concluding that it meets the required criteria. Under IFRS, the practice of settling net or taking delivery and selling it within a short period of time for the purpose of generating a profit from short-term fluctuations in price or dealer's margin would indicate that the contracts should be accounted for as derivatives (including power capacity contracts). Freestanding option contracts are not eligible to be considered NPNS under US GAAP, but could be exempt as own-use contracts under IFRS 9 (unless they are *written* options).

ASC 815-10-15-37 through 15-39 clarify that due to the documentation requirement, the NPNS exception is an election. In some cases under US GAAP, entities with contracts that qualify for the NPNS exception do not want to use the exception, because they prefer derivatives accounting for a variety of reasons. Those companies can simply choose not to document such contracts as NPNS. However, in most instances, entities want to use the NPNS exception. Once the election is made, the decision cannot be reversed (although a change in the probability that the contract will be physically settled would render the exemption no longer appropriate).

Under IFRS 9, the own-use exception is not an election. A contract meeting the own-use requirements is normally outside the scope of IFRS 9 and should be accounted for as an executory contract. However, it is common for entities in certain industries to enter into similar contracts for both own-use and trading (i.e., risk management) purposes and manage all these contracts together. In such a situation, accounting for the own-use contracts as executory contracts leads to an accounting mismatch since the fair value change of the derivative positions used for risk management purposes are not offset against fair value changes of the own-use contracts. To eliminate the accounting mismatch, IFRS 9 provides an FVO for own-use contracts.

Like US GAAP, if a contract is entered into with the intent to use but subsequently it is determined that it will be net settled, the contract should be accounted for as a derivative prospectively. However, if a contract is originally accounted for as a derivative under IFRS 9 and it is subsequently determined that it will be physically settled, the contract should continue to be accounted for as a derivative because it was not entered into with the intent of being held for own use.

Identified difference?

	Yes	No	Depends on policy election
	☐	☐	☐

Describe:
Click here to enter text.

IFRS 1 implications:

Upon initial adoption, entities will need to identify all financial instruments and contracts that fall under the scope of IFRS 9 and apply that standard's provisions as if IFRS had always been in place. Entities that elected not to use the NPNS scope exception in ASC 815 must determine whether those contracts would have qualified for the required scope exception from IFRS 9 or whether the FVO requirements are met at the date of transition. If the contracts would have qualified for own use and the FVO is not elected, the contracts should not appear in the opening IFRS balance sheet, and retained earnings should be adjusted accordingly. In addition, contracts that did not qualify for the NPNS exception under ASC 815 (such as option contracts and forward contracts with volumetric optionality) will need to be evaluated to determine if they would have met the required own-use exception requirements in IFRS 9. If they would have been considered own-use contracts, they should also not appear in the opening IFRS balance sheet (unless they have been designated at fair value as discussed above). Despite the general requirement that the FVO election under IFRS be

made at contract inception, IFRS 1.D33 permits an entity, at the date of transition, to designate already existing contracts as measured at fair value through profit or loss if they meet the requirements at designation and the entity designates all similar contracts. Contracts outside the scope of IFRS 9 are accounted for under other appropriate IFRS literature. Utilities may have special issues in transition since there is extensive specialized guidance for utility capacity contracts in US GAAP (ASC 815-10-15-45 through 15-51) that is absent in IFRS.

4. Does the entity have any contracts for the purchase or sale of a nonfinancial asset in which the price in the contract is based on an underlying that is not clearly and closely related to the asset being sold or purchased?

Yes ☐ No ☐

Both US GAAP and IFRS limit the use of the NPNS or own-use exception if the price in the contract is based on an underlying that is extraneous to the asset being sold or purchased. However, the accounting implications for a contract with a price based on an unrelated underlying are different under each standard.

US GAAP — ASC 815-10-15-30 through 15-34	IFRS — IFRS 9.2.4, IFRS 9.B4.3.5 and IFRS 9.B4.3.8
Contracts that have a price based on an underlying that is not clearly and closely related to the asset being sold or purchased are not considered NPNS and are accounted for as derivatives.	Contracts that have a price based on an underlying that is not clearly and closely related to the asset being sold or purchased are not explicitly precluded from qualifying for the own-use scope exception in IFRS 9. However, the component of the contract that is not clearly and closely related to the asset being sold or purchased may represent an embedded derivative that requires bifurcation under IFRS 9.

Implications:

The guidance in ASC 815-10-15-31 through 15-32 indicates that the application of the phrase “clearly and closely related” requires both a qualitative and quantitative analysis of the relationship between the underlying and the price adjustment features of the contract and provides specific circumstances where the clearly and closely related criteria are not met. If it is determined that the price adjustment is not clearly and closely related to the asset being sold or purchased, the *entire* contract must be accounted for under ASC 815.

Under IFRS 9, contracts held for the purpose of the receipt or delivery of a nonfinancial item in accordance with the entity’s expected purchase, sale or usage requirements are not required to be accounted for as derivatives in their entirety solely because they contain a pricing feature that is not clearly and closely related to the asset being sold or purchased. However, that *component* of the contract that is not clearly and closely related to the asset being sold or purchased may need to be bifurcated and treated as a derivative under IFRS 9, while the host contract may still meet the own-use scope exception. IFRS 9 does not give detailed guidance for determining whether a pricing feature is clearly and closely related.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

IFRS 1 implications:

Upon initial adoption, entities will need to identify all financial instruments and contracts that fall under the scope of IFRS 9 and apply the provisions of that guidance as if IFRS had always been applied. For example, entities that were unable to elect the NPNS scope exception in ASC 815 because the price in the contract was based on an underlying that was not clearly and closely related must determine if the host contract qualifies for the own-use scope exception in IFRS 9. At transition, the contract should be removed from the opening balance sheet because under IFRS 9 it would have not been accounted for as a derivative in its entirety. However, the price adjustment feature (that had disqualified it from NPNS under US GAAP) would be viewed as a derivative under IFRS and it should be reflected in the opening balance sheet at fair value.

5. Does the entity have any weather derivatives? Yes ☐ No ☐

Weather derivatives are contracts requiring payments based on changes in climatic, geological or other physical variables.

US GAAP — ASC 815-10-15-13(e), ASC 815-10-15-59(a) and ASC 815-45	IFRS — IFRS 4.B18 through B19 and IFRS 9.B2.1
Contracts that are not exchange-traded are not subject to ongoing remeasurement at fair value as derivatives under ASC 815-10 if the underlying on which the settlement is based is a climatic, geological or other physical variable.	Contracts that require payment based on a climatic, geological or other physical variable that is not specific to a party to the contract are derivatives and accounted for under IFRS 9.

Implications:

ASC 815-10-15-59(a) states that contracts that are not exchange-traded are not subject to ASC 815-10's fair value accounting if the underlying on which the settlement is based is a climatic, geological or other physical variable. However, ASC 815-10-15-3 provides that events occurring after the inception of a contract may cause the contract to later meet the definition of a derivative instrument. Consistent with paragraph 252 of the Basis for Conclusions to FAS 133, *Accounting for Derivative Instruments and Hedging Activities*, if the underlying variable to a non-exchange traded contract becomes exchange traded, the contract will automatically become subject to the fair value accounting provisions of ASC 815-10.

Contracts that combine financial variables with weather and other physical variables are derivatives and fair valued under ASC 815 (i.e., ASC 815-10-55-136 through 55-137). The illustrative example provided in that guidance is a contract that requires a $10 million payment if aggregate property damage for all hurricanes in the state of Florida exceeds $50 million. ASC 815-10-55-138 through 55-141 clarify the difference between derivatives and insurance contracts. While insurance contracts are also outside the scope of ASC 815, the illustrative example in ASC 815-10-55-136 through 55-137 is not an insurance contract.

An entity that enters into a non-exchange-traded weather derivative applies ASC 815-45, *Weather Derivatives,* under US GAAP. The accounting under ASC 815-45 differs depending on whether the derivative is a swap, purchased option or written option, but none of the models are fair value accounting models (unless entered into for trading or speculative purposes).

Under IFRS 9, contracts that require payment based on climatic, geological or other physical variables are accounted for as derivatives at fair value unless they meet the definition of an insurance contract. Weather derivative contracts generally will not meet the definition of an insurance contract because the variable is unlikely to be specific to either party to the contract.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

6. Does the entity have any contracts with payments that are indexed to the sales or service revenues of one of the parties to the contract? Yes ☐ No ☐

ASC 815 and IFRS 9 both address whether a contract indexed to the sales or service revenues of one of the parties to the contract is exempted from derivatives accounting. An example is a retailer's lease with the owner of a shopping center in which the monthly lease payments are indexed to the retailer's monthly sales volume.

US GAAP — ASC 815-10-15-13(e) and ASC 815-10-15-59(d)	IFRS — IFRS 9.IG.B.8 and IFRS 9.B4.3.8(f)
A non-exchange-traded contract is not subject to ASC 815 accounting as a derivative if the underlying is based on specified volumes of sales or service revenues of one of the parties to the contract.	Contracts with underlyings based on sales volumes are subject to IFRS 9 accounting as derivatives, or embedded derivatives, as applicable. However, an embedded derivative in a host lease contract is considered closely related to the host contract if the embedded derivative is contingent rentals based on related sales. Accordingly, the embedded feature in this example would not be bifurcated and accounted for as a derivative.

Implications:

ASC 815 specifically excludes from its scope contracts that are not exchange traded if the underlying is based on specific volumes of sales or service revenues of one of the parties to the contract. IFRS 9 does not exclude contracts where the underlying is based on sales volume from its scope and provides examples of its application to such contracts in IG.B.8 and B4.3.8(f). However, for the most commonly cited example of underlyings based on volumes of sales (i.e., contingent rentals based on related sales), both standards provide similar results because, in this instance, the embedded derivative is deemed to be clearly and closely related to the host lease contract and, therefore, is not bifurcated under IFRS 9.

In addition, the definition of a derivative under IFRS 9 excludes contracts whose values change in response to changes in a nonfinancial variable that is specific to one of the parties to the contract. Given the lack of clarity regarding whether revenue is a financial or nonfinancial variable, we believe that an entity may make an accounting policy choice as to whether the entity's revenue, earnings before interest, taxes, depreciation and amortization, or other measures taken or derived from the entity's financial statements, are financial or nonfinancial variables. Once an entity elects a particular policy, it must consistently apply that approach to all similar transactions.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

7. Does the entity enter into loan commitments? Yes ☐ No ☐

Loan commitments are legally binding commitments to extend credit to a borrower under certain pre-specified terms and conditions. They have fixed expiration dates and may either be fixed-rate or variable-rate. Fixed-rate loan commitments change in fair value between the commitment date and loan funding as market interest rates and borrower credit spreads change. Loan commitments can either be revolving (in which the amount of the overall line of credit is re-established upon repayment of previously drawn amounts) or non-revolving (in which the amount of the overall line of credit is not re-established upon repayment of previously drawn amounts). Loan commitments can be distributed through syndication arrangements, in which one entity acts as a lead lender and an agent on behalf of other entities that will each extend credit to a single borrower.

US GAAP — ASC 815-10-15-13(i) and ASC 815-10-15-69 through 15-71	IFRS — IFRS 9.2.1(g), IFRS 9.2.3 and IFRS 9.BCZ2.2 through 2.8
Loan commitments that are scoped out of ASC 815 include (1) those held by potential borrowers that are related to the origination of all loans, (2) those issued by potential lenders to originate non-conforming loans (including commercial loans and commercial mortgages) and (3) those issued by potential lenders to originate mortgage loans that will be held for investment. In contrast, loan commitments that relate to the origination of mortgage loans that will be held for sale are accounted for as derivatives by the issuer (i.e., the potential lender) but not by the holder (i.e., the potential borrower).	Loan commitments that are not designated as fair value through profit or loss, cannot be settled net, and do not involve a commitment to provide a loan at a below-market interest rate are not accounted for as derivatives. Loan commitments that can be settled net in cash or by delivering or issuing another financial instrument (other than the loan itself that is the subject of the commitment) are derivatives. A loan commitment is not regarded as being settled net merely because the loan is paid out in installments (e.g., a mortgage construction loan that is paid out in installments in line with the progress of construction). However, a loan commitment is regarded as being able to be settled net when the entity has a past practice of selling the assets (loans in the same class) resulting from its loan commitments shortly after origination.

Implications:

Under US GAAP, one of the characteristics of a derivative is that a contract must permit net settlement or put the receiving party in a position that is essentially equivalent to net settlement (i.e., the underlying asset is “readily convertible to cash”). The underlying loan to which the commitment contract related is inherently “readily convertible to cash” if the issuer engages in the business activity of entering commitments to originate loans to be held for resale. As such, the FASB determined that mortgage loans held for resale should be deemed “readily convertible to cash” while other loans should not. Therefore, only the loan commitments for mortgage loans that will be held for sale meet the definition of a derivative under ASC 815.

IFRS has a similar concept in that it requires derivatives accounting for loan commitments for loans in which the originator has a past practice of selling similar loans in the same class. However, IFRS does not pre-define such loans as mortgage loans held for sale in the way that US GAAP does. US GAAP attempts to link the scope exception to existing definitions in ASC 948. Because of this subtle difference in the definition of a derivative under the two standards, more loan commitments may be derivatives and carried at fair value under IFRS.

Under both standards, loan commitments may be recorded at fair value if the entity elects the FVO.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

IFRS 1 implications:

Loan commitments that had not been accounted for as derivatives under US GAAP but would be required to follow derivative accounting under IFRS should be reflected as derivatives and measured at fair value in the opening IFRS balance sheet.

8. Has the entity bifurcated an embedded derivative from a financial asset? Yes ☐ No ☐

An embedded derivative is an implicit or explicit term that affects some or all of the cash flows or the value of other exchanges required by a contract in a manner similar to a derivative instrument. US GAAP and IFRS require embedded derivatives in hybrid contracts to be bifurcated and measured through earnings in certain circumstances.

US GAAP — ASC 815-15-05, ASC 815-15-15-1 through 15-2 and ASC 815-15-25-1	**IFRS — IFRS 9.4.3.2 through 4.3.3 and IFRS 9.4.1.1 through 4.1.5**
US GAAP requires embedded derivatives in financial assets and financial liabilities to be evaluated for bifurcation. An embedded derivative is separated from the host contract and accounted for as a derivative instrument if, and only if, all of the following criteria are met: ► The economic characteristics and risks of the embedded derivative are not clearly and closely related to the economic characteristics and risks of the host contract. ► The hybrid instrument is not remeasured at fair value under otherwise applicable GAAP with changes in fair value reported in earnings as they occur. ► A separate instrument with the same terms as the embedded derivative would be a derivative instrument subject to the requirements of ASC 815.	If a hybrid contract contains a host that is a financial asset within the scope of IFRS 9, an entity applies the requirements in IFRS 9.4.1.1 through 4.1.5 to the entire hybrid contract. The guidance in IFRS 9.4.1.1 through 4.1.5 requires a financial asset to be subsequently measured at amortized cost, FV-OCI or FV-PL *in its entirety* depending on the entity's business model for managing the financial asset, the financial asset's CCF characteristics and whether the FVO is elected. Therefore, bifurcation of embedded derivatives in financial assets is not permitted. If a hybrid contract contains a host that is not a financial asset within the scope of IFRS 9, an embedded derivative is separated from the host and accounted for as a derivative if, and only if: ► The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host.

	► A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. ► The hybrid contract is not measured at fair value with changes in fair value recognized in profit or loss.

Implications:
Under IFRS 9, the concept of embedded derivatives applies only to financial liabilities and nonfinancial items, not to financial assets. Despite this exception, the classification guidance in IFRS 9 will often result in financial assets with embedded derivatives being accounted for at fair value through profit or loss in their entirety. Refer to the "Recognition and measurement" section of this publication for further discussion on the accounting for financial assets.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

Refer to the "Recognition and measurement" section of this publication for IFRS 1 implications.

9. Does the entity have embedded put and call options in financial liabilities that are debt hosts?	Yes	No
	☐	☐

See question 8 for embedded derivatives in financial assets. Debt instruments with embedded terms that can affect some or all of the interest and/or principal payments are collectively referred to as "hybrid instruments" in the derivatives literature because they have characteristics of both debt instruments and derivative instruments. Many hybrid instruments, including convertible debt instruments, contain put or call features that require or permit accelerated repayment of the debt prior to contractual maturity, certain of which can be triggered upon a contingent event. The redemption price is typically at par. These options must be analyzed to determine whether or not they should be bifurcated from the debt host contract and accounted for separately. (This analysis of the debt host is still required even if a hybrid instrument contains an equity element that IAS 32 requires be separated.)

US GAAP — ASC 815-15-25-26 through 25-31 and ASC 815-15-25-37 through 25-43	**IFRS — IFRS 9.B4.3.5(e) and IFRS 9.B4.3.8(a)**
ASC 815-15-25-42 provides a decision tree to help analyze any embedded call or put. The decision tree indicates that call and put options in debt that require the prepayment of principal are considered to be clearly and closely related to the debt instrument unless either: ► The payoff is indexed to an underlying other than interest rates or credit risk. Or	Embedded puts, calls and prepayment options are not closely related to the host debt contract *unless* either: ► The exercise price is approximately equal on each exercise date to the amortized cost of the host debt instrument. Or

- The debt involves a substantial premium or discount (such as zero-coupon bonds) and the put or call option is only contingently exercisable.

All embedded calls and puts must also be analyzed under ASC 815-15-25-26 through 25-31 in order to conclude that they are clearly and closely related to the debt host.

ASC 815-15-25-26 questions whether the hybrid instrument could contractually be settled in such a way that the investor (holder) would not recover substantially all of its initial recorded investment. With most embedded puts and calls, this sub-paragraph is not at issue because the holder of the instrument will recover substantially all of its initial investment upon exercise of the call or put.

ASC 815-15-25-26, however, may require a challenging analysis. It requires bifurcation if both of the following are met:

- There is a possible future interest rate scenario under which the embedded derivative would at least double the investor's initial rate of return on the host contract.
- For each of the possible interest rate scenarios under which the investor's initial rate of return on the host contract would be doubled, the embedded derivative would at the same time result in a rate of return that is at least twice what otherwise would be the then-current market return (under each of those future interest rate scenarios) for a contract that has the same terms as the host contract and that involves a debtor with a credit quality similar to the issuer's credit quality at inception.

As a final complication, while ASC 815-15-25-26 may initially appear to require a call or put feature to be bifurcated, US GAAP requires an entity to further consider ASC 815-15-25-29 for puts that appear to violate ASC 815-15-25-26, and ASC 815-15-25-37 through 25-39 for calls that appear to violate ASC 815-15-25-26. If the investor has the ability to avoid the loss of its initial net investment by refraining from exercising the put, and the debtor has the ability to avoid passing on to the investor the high rate of return described in ASC 815-15-25-26 by refraining from exercising the call, then bifurcation is not required.

- The exercise price of a prepayment option reimburses the lender for an amount up to the approximate present value of lost interest for the remaining term of the host contract.

The assessment of whether the call or put option is closely related to the host debt contract is made before separating the equity element of a convertible debt instrument in accordance with IAS 32.

An embedded derivative in which the underlying is an interest rate or interest rate index that can change the amount of interest that would otherwise be paid or received on an interest-bearing host debt contract is closely related to the host contract unless the combined instrument can be settled in such a way that the holder would not recover substantially all of its recognized investment or the embedded derivative could at least double the holder's initial rate of return on the host contract and could result in a rate of return that is at least twice what the market return would be for a contract with the same terms as the host contract.

Implications:
In concept, the two standards are similar because both support the presumption that bifurcating embedded calls and puts in a debt host is the exception, not the rule. Both standards effectively caution, however, that if these prepayment options accelerate the accretion of a discount or amortization of a premium, bifurcation may be required. ASC 815 conveys this concept through a complex decision tree and illustrations whereas IFRS 9 uses much fewer words. In some respects, however, IFRS 9 tends to require bifurcation of put and call features more frequently than US GAAP does. Closely related calls and puts do not have to be bifurcated under IFRS, but IFRS 9 limits closely related to calls and puts that have exercise prices that approximate the amortized cost of the debt or reimburse the lender for the value of lost interest. Calls and puts with exercise prices not approximating amortized cost of the debt may be subject to bifurcation under IFRS, but that characteristic alone would not necessarily result in bifurcation under US GAAP. US GAAP focuses on redemption features that are (1) exercisable upon a contingent event *and* (2) exercised such that amortization/accretion of substantial premium or discount is accelerated, in addition to puts and calls that simply result in a payoff that is indexed to something other than credit or interest rates.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

In general, more redemption features are bifurcated under IFRS. Accordingly, at transition, an entity should evaluate its outstanding debt instruments to determine whether there are other redemption features that would be required to be bifurcated and separately accounted for under IFRS. The effect of retrospective application of derivative accounting for these bifurcated features can result in adjustments to the opening IFRS balance sheet.

In addition, an entity continues to account for its bifurcated puts and calls as determined under US GAAP at the transition date. These previously accounted for bifurcated puts and calls would likely continue to be bifurcated under IFRS and should be reflected in the opening IFRS balance sheet as well.

10. Has the entity entered into any contracts that do not meet the definition of a financial asset or financial liability and that are denominated in a currency other than the functional currency or local currency of a substantial party to the contract?	Yes ☐	No ☐

Executory contracts (such as construction contracts and commodity purchase/sale agreements) and other nonfinancial contracts that are not denominated in the functional or local currency of either party to the contract may indicate the presence of an embedded foreign currency derivative that should be bifurcated under both standards.

US GAAP — ASC 815-15-15-10 through 15-11 and ASC 815-15-55-83 through 55-98	IFRS — IFRS 9.B4.3.8(d)
An embedded foreign currency derivative should not be bifurcated from the host contract if the host contract is not a financial instrument and it requires payment denominated in one of the following currencies: ► The functional currency of any substantial party to that contract	An embedded foreign currency derivative in a host contract that is an insurance contract or not a financial instrument (such as a contract for the purchase or sale of a nonfinancial item where the price is denominated in a foreign currency) is closely related to the host contract provided it is not leveraged, does not contain an option

► The currency in which the price of the related good or service that is acquired or delivered is routinely denominated in international commerce (e.g., the US dollar for crude oil transactions) ► The local currency of any substantial party to the contract ► The currency used by a substantial party to the contract as if it were the functional currency because the primary economic environment in which the party operates is highly inflationary	feature, and requires payments denominated in one of the following currencies: ► The functional currency of any substantial party to that contract ► The currency in which the price of the related good or service that is acquired or delivered is routinely denominated in commercial transactions around the world (such as the US dollar for crude oil transactions) ► A currency that is commonly used in contracts to purchase or sell nonfinancial items in the economic environment in which the transaction takes place (e.g., a relatively stable and liquid currency that is commonly used in local business transactions or external trade)

Implications:

The final bullet point above for IFRS 9 highlights the primary difference between US GAAP and IFRS on this topic. IFRS 9 provides additional flexibility to avoid bifurcation with respect to contract currency denomination by exempting currency denominations for currencies that are commonly used in a particular economic environment. US GAAP does not permit this type of exception, requiring instead that a currency denomination outside the functional or local currencies of either party to the contract be a currency that is routinely used in *international transactions,* not the local economic environment. Although both standards provide exceptions from the requirement to bifurcate embedded foreign currency derivatives, the exceptions under IFRS 9 are somewhat broader than those under US GAAP and, accordingly, bifurcation is less frequent under IFRS.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

IFRS 1 implications:

The exceptions under US GAAP are repeated under IFRS, so there should be no particular transition issues. Going forward, an entity would be able to take advantage of the broader exemption under IFRS 9. However, it is possible that previously bifurcated contracts under US GAAP may qualify for the “commonly used in the economic environment” exception under IFRS 9. In such cases, the effect of retrospective application of non-bifurcation accounting for these contracts should result in adjustments to the opening IFRS balance sheet.

11. Does the entity have any contracts that were reassessed and, as a result, the conclusion about whether the instrument (or embedded feature) met the definition of a derivative changed?

Yes ☐ No ☐

ASC 815 requires a potential derivative to be continuously reassessed as to whether all the characteristics of a derivative are satisfied. Accordingly, contracts can convert from derivatives to non-derivatives or from non-derivatives to derivatives. This requirement also affects the evaluation of embedded derivatives for bifurcation. IFRS does not require a continuous reassessment of a bifurcation analysis that was performed at inception.

US GAAP — ASC 815-10-15-3 and ASC 815-10-25-2 through 25-3	IFRS — IFRS 9.B4.3.11
The evaluation of whether a market mechanism exists and whether items to be delivered under a contract are readily convertible to cash must be performed at inception and on an ongoing basis throughout a contract's life. If events occur subsequent to the inception or acquisition of a contract that cause the contract to meet the definition of a derivative instrument, then that contract must be accounted for at that later date as a derivative under ASC 815. For example, if a market develops, if an entity effects an IPO, or if daily trading volume changes for a sustained period of time, then those events need to be considered in re-evaluating whether the contract meets the definition of a derivative.	An entity assesses whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. An entity determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both have changed and whether the change is significant relative to the previously expected cash flows on the contract.

Implications:

IFRS offers a more practical accommodation than US GAAP does on this topic, since US GAAP requires an ongoing assessment of contract characteristics that may change over time, particularly the "net settlement" characteristic. However, because the derivative definition under IFRS does not have the "net settlement" requirement at all, this difference is understandable. Both standards, notably, would require reassessment whenever a contract has been substantively modified.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

IFRS 1 implications:

A first-time adopter assesses whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative on the basis of the conditions that existed at the later of the date it first became a party to the contract and the date the contract is substantively modified. This means that a contract that met the definition of a derivative under both US GAAP and IFRS at the date the entity first became party to the contract (e.g., a gross physically settled forward or option on a publicly traded share) but was subsequently determined to not be a derivative under US GAAP (e.g., the underlying share is no longer publicly traded) would need to be adjusted in the opening balance sheet as if derivative accounting had never been discontinued.

12. Does the entity want to apply hedge accounting?

Yes ☐ No ☐

Both US GAAP and IFRS require certain conditions to be met to apply hedge accounting, including formal designation and documentation at the inception of a hedging relationship and a certain degree of correlation between the changes in value of the hedging instrument and hedged item.

US GAAP — ASC 815-20-25-75 and ASC 815-20-45-1A(a)	IFRS — IFRS 9.6.4.1, IFRS 9.6.5.5, IFRS 9.B6.4.1 through B6.4.11 and IFRS 9.B6.5.7 through B6.5.21
To qualify for hedge accounting, the hedging relationship, both at inception of the hedge and on an ongoing basis, must be expected to be highly effective in achieving either of the following: ► Offsetting changes in fair value attributable to the hedged risk during the period that the hedge is designated (if a fair value hedge) Or ► Offsetting cash flows attributable to the hedged risk during the term of the hedge (if a cash flow hedge), except as indicated in ASC 815-20-25-50 The FASB intended the term “highly effective” to be the same as the notion of “high correlation” originally used in FAS 80, *Accounting for Futures Contracts* (which was ultimately superseded by FAS 133, later codified in ASC 815). Based on an SEC view, high correlation is generally accepted to mean a range from 80% to 125%. For qualifying fair value and cash flow hedges, the guidance requires the entire change in the fair value of hedging instruments designated in qualifying hedging relationships to be presented in the same income statement line where the earnings effect of the hedged item is presented.	The hedging relationship must meet all of the following hedge effectiveness requirements: ► There is an economic relationship between the hedged item and the hedging instrument (see IFRS 9.B6.4.4 through B6.4.6). ► The effect of credit risk does not dominate the value changes that result from that economic relationship (see IFRS 9.B6.4.7 through B6.4.8). ► The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of the hedged item. However, that designation must not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness (regardless of whether recognized or not) that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting (see IFRS 9.B6.4.9 through B6.4.11). If a hedging relationship ceases to meet the above requirement relating to the hedge ratio, but the other hedge effectiveness requirements continue to be met and the risk management objective for that designated hedging relationship remains the same, an entity is required to adjust the hedge ratio of the hedging relationship so that it meets the qualifying criteria again. IFRS 9 refers to this process as rebalancing. Rebalancing is accounted for as a continuation of the hedging relationship with any hedge ineffectiveness determined and recognized immediately before adjusting the hedge ratio. IFRS 9 does not specifically address where entities present the change in fair value of the hedging instrument included in the assessment of hedge effectiveness.

Implications:
Hedging relationships that are not highly effective under US GAAP may still meet the IFRS requirement to have an economic relationship since IFRS 9 is generally considered to require less correlation between the hedging instrument and the hedged item. Accordingly, hedging relationships that are considered highly effective under US GAAP would be expected to meet IFRS 9's requirement of having an economic relationship. A valid hedging relationship under US GAAP would also likely meet IFRS 9's requirement that credit risk not dominate the value changes resulting from the economic relationship. This is because, under US GAAP, a severe deterioration in the credit quality of a counterparty to the hedging instrument would likely result in a fair value hedge no longer being highly effective. For cash flow hedges, if the likelihood that the counterparty will not default ceases to be probable, an entity would be unable to conclude that the hedging relationship is expected to be highly effective in achieving offsetting cash flows. IFRS 9's requirements pertaining to rebalancing do not exist under US GAAP. Under US GAAP, a hedge ratio may be any that results in the hedging relationship being highly effective, and any adjustment to the designated notional of the hedging instrument or hedged item (i.e., a change to the hedged ratio) would generally require dedesignation of the hedging relationship.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

13. Does the entity have any cash flow hedges or net investment hedges that are not perfectly effective?	Yes	No
	☐	☐

Both US GAAP and IFRS require an ongoing assessment of hedge effectiveness to determine whether a hedging relationship continues to qualify for hedge accounting. However, IFRS also requires that any ineffectiveness in the hedging relationship (e.g., due to mismatches between the critical terms of the hedging instrument and the hedged item) be separately measured and recognized in profit and loss.

US GAAP — ASC 815-30-35-3, ASC 815-35-35-7 and ASC 815-35-35-17	**IFRS — IFRS 9.6.5.11, IFRS 9.6.5.13, IFRS 9.B6.5.4 through B6.5.6, IFRS 7.22B(c), IFRS 7.23D through 23E, IFRS 7.24A(c), IFRS 7.24B(a)(iv), IFRS 7.24(b)(i) and IFRS 7.24C**
US GAAP does not require the separate measurement and recognition of hedge ineffectiveness. For qualifying cash flow and net investment hedges, respectively, the entire change in the fair value of the hedging instrument included in the assessment of hedge effectiveness is recorded in AOCI (or the CTA section of AOCI). The amounts in AOCI are reclassified to earnings when the hedged item affects earnings (or when it becomes	For cash flow hedges, the separate component of equity associated with the hedged item (i.e., the cash flow hedge reserve) is adjusted to the lower of the (1) the cumulative gain or loss on the hedging instrument from inception of the hedge in absolute amounts or (2) the cumulative change in fair value of the hedged item (i.e., the present value of the cumulative change in the hedged expected future cash flows) from inception of the hedge in absolute amounts.

probable that the forecasted transaction being hedged in a cash flow hedge will not occur in the required time period).	Net investment hedges are accounted for similarly to cash flow hedges. As a result, for cash flow and net investment hedges the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in AOCI (or the CTA section of AOCI), and the ineffective portion is recognized in profit and loss. For both cash flow hedges and net investment hedges, the ineffectiveness recorded is limited to overhedges. IFRS 7 contains certain disclosure requirements related to hedge ineffectiveness.

Implications:

Under US GAAP, as long as a cash flow or net investment hedging relationship remains highly effective, the entire change in the fair value of the hedging instrument included in the assessment of effectiveness is recorded in AOCI (for cash flow hedges) or the CTA section of AOCI (for net investment hedges) and is reclassified into earnings when the hedged item affects earnings (or when it becomes probable that the forecasted transaction being hedged in a cash flow hedge will not occur in the required time period).

For cash flow and net investment hedging relationships that continue to qualify for hedge accounting but that are not perfectly effective, IFRS requires entities to separately measure and recognize hedge ineffectiveness through profit or loss at each reporting period. For both cash flow and net investment hedges, the ineffectiveness recorded is limited to overhedges. This will result in a different earnings recognition pattern for changes in the fair value of the hedging instrument included in the assessment of hedge effectiveness between the two standards.

In addition, under US GAAP certain entities may choose to apply a strategy for cash flow and net investment hedges whereby they “intentionally overhedge.” This is possible given the additional flexibility regarding the designated hedge ratio (as discussed in question 12) and the fact that under US GAAP hedge ineffectiveness is not required to be separately measured and reported for cash flow and net investment hedges. Under IFRS, this hedging strategy would not be applicable.

Identified difference?

Describe:
Click here to enter text.

Yes	No	Depends on policy election
☐	☐	☐

IFRS 1 implications:

Hedging relationships that are a *type* eligible for hedge accounting under IFRS 9 are required upon initial adoption of the guidance to be reflected in an entity's opening IFRS statement of financial position regardless of whether the designation and documentation of the hedge relationship under IFRS 9 is completed on or before the transition date. For cash flow and net investment hedges, the amounts recorded in AOCI under US GAAP would not be adjusted (i.e., there would be no adjustment for the cumulative amount of ineffectiveness recorded in AOCI under US GAAP that would have been recognized in profit or loss under IFRS 9). These amounts are reclassified to profit or loss when the hedged item affects profit or loss (or when the forecasted transaction in a cash flow hedge is no longer expected to occur). In order for the entity to continue to apply hedge accounting subsequent to the transition date, all of the hedge documentation and designation requirements of hedge accounting under IFRS 9 must be satisfied on or before the transition date.

IFRS 1 allows a first-time adopter to make an election to assume that the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to IFRS. This exception is provided so that a first-time adopter does not have to apply IAS 21 *The Effects of Changes in Foreign Exchange Rates* on a fully retrospective basis. If elected, any gains/losses recognized in CTA related to foreign investment hedges prior to transition will not subsequently be recognized in profit or loss.

14. Does the entity prepare only annual financial statements?	Yes ☐	No ☐

Both US GAAP and IFRS require an ongoing assessment of hedge effectiveness to determine whether a hedging relationship continues to qualify for hedge accounting.

US GAAP — ASC 815-20-35-2 through 35-4 and ASC 815-20-25-139 through 25-143	**IFRS — IFRS 9.6.4.1 and 9.B.6.4.12**
A prospective and retrospective assessment of hedge effectiveness is required whenever financial statements are issued or earnings are reported, and at least every three months. That is, the hedging entity must determine at least quarterly whether the hedging relationship *has been* highly effective in achieving offsetting changes in fair value or cash flows through the date of the periodic assessment. That ongoing assessment can be based upon regression or other statistical analysis of past changes in fair values or cash flows, as well as on other relevant information, or may be performed on a qualitative basis in certain circumstances (see ASC 815-20-35-2A through 35-2F for additional guidance on subsequent qualitative assessments of hedge effectiveness).	Only a prospective assessment of hedge effectiveness is required to be performed on an ongoing basis. That assessment relates to expectations about hedge effectiveness and is therefore only forward looking. Effectiveness is assessed, at a minimum, at the time an entity prepares its annual or interim financial statements or upon a significant change in the circumstances affecting IFRS 9's hedge effectiveness requirements, whichever occurs first.

Private companies that are not financial institutions and certain not-for-profit entities (i.e., those that have not issued, or are not a conduit bond obligor for, securities that are traded, listed or quoted on an exchange or an over-the-counter market) have until the date on which the next interim (if applicable) or annual financial statements are available to be issued to document and/or perform the following: ► The method that will be used to assess effectiveness ► The initial hedge effectiveness assessment ► Subsequent quarterly hedge effectiveness assessments While US GAAP provides certain private companies with additional time to perform their assessment of hedge effectiveness, these entities must still complete an assessment as of each quarterly period using information as of each assessment date. For example, a calendar-year private company that issues only annual financial statements and enters into a hedging relationship on 3 January 20X8 could wait more than a year to complete its initial and quarterly subsequent assessments. However, prior to the date on which its financial statements are available to be issued, the entity would need to complete five separate assessments using information as of hedge inception and each quarterly assessment date to determine whether the hedging relationship was highly effective throughout the year.	

Implications:
For tightly constructed hedges with minimum “ineffectiveness” accounted for under IFRS 9, entities may spend less time on what is viewed as a compliance-type activity than entities that follow US GAAP, particularly if quarterly hedge assessments under US GAAP are performed qualitatively. However, for IFRS entities with dynamic hedges and/or hedges with multiple potential sources of ineffectiveness, it may be advisable to assess hedge effectiveness on a quarterly basis (or even a more frequent one), although not explicitly required.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

15(a). Does the entity seek to hedge any component of HTM debt securities?	Yes ☐	No ☐
15(b). Does the entity seek to use a written option as a hedging instrument?	Yes ☐	No ☐
15(c). Does the entity seek to hedge the foreign currency risk associated with a firm commitment to acquire a business in a business combination?	Yes ☐	No ☐

Each of these three questions highlights a key difference between US GAAP and IFRS with respect to permitted hedging relationships.

US GAAP — **(a) ASC 815-20-25-12(d)** **(b) ASC 815-20-25-94 through 25-97** **(c) ASC 815-20-25-43(c)(5)**	**IFRS —** **(a) IFRS 9.4.1.2 and IFRS 9.6.3.7** **(b) IFRS 9.6.2.1 and IFRS 9.B6.2.4** **(c) IFRS 9.B6.3.1**
(a) Either all or a portion of an HTM debt security can be hedged for the risk of changes in its fair value attributable to credit risk, foreign exchange risk or both. The designated hedged risk for an HTM debt security may not be the risk of changes in its fair value attributable to interest rate risk. If the hedged item is an option component of an HTM debt security that permits its prepayment, the designated risk being hedged is the risk of changes in the entire fair value of that option component. If the hedged item is other than an option component that permits its prepayment, the designated hedged risk may not be the risk of changes in its overall fair value. (b) If a written option is designated in a hedging relationship, the combination of the hedged item and the written option must provide at least as much potential for gains (or as appropriate, favorable cash flows) as exposure to losses (or unfavorable cash flows). The guidance illustrates how such a test could be performed. (c) The hedged item cannot be a firm commitment to enter into a business combination or to acquire or dispose of a subsidiary, a minority interest or an equity method investee, or a forecasted transaction involving the same.	(a) While the concept of HTM investment classification does not exist under IFRS 9, financial assets are measured at amortized cost if both of the following conditions are met: (1) the asset is held within a business model whose objective is to hold the asset in order to collect CCF and (2) the contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. IFRS 9 does not preclude financial assets measured at amortized cost from being the hedged item with respect to interest rate, prepayment, foreign exchange or credit risk. (b) Because the potential loss on an option that an entity writes could be significantly greater than the potential gain in value of a related hedged item, a written option does not qualify as a hedging instrument unless it is designated as an offset to a purchased option (including an embedded purchased option such as that in a callable debt liability). (c) A firm commitment to acquire a business in a business combination cannot be a hedged item, except for foreign exchange risk, because other risks being hedged cannot be specifically identified and measured. These other risks are general business risks.

Implications:

(a) The restrictions in US GAAP for hedging interest rate and prepayment risk of HTM debt securities do not exist for financial assets measured at amortized cost under IFRS 9.

(b) The guidance for using written options as hedging instruments is worded differently in the standards, but when it's applied, the effect should be similar under both US GAAP and IFRS. Hedges that use written options as hedging instruments are rare and essentially can be done only when very precisely paired up with mirrored purchased options embedded in hedged items. As a result, the different wording between the two standards may not result in a real distinction.

(c) The guidance on hedging the foreign currency risk associated with a business combination in US GAAP represents a significant difference from IFRS. This difference would affect a yet-to-be-consummated business combination transaction in which the price has been fixed in a nonfunctional currency from the viewpoint of the buyer (but likely to be the currency denomination that is desired by the seller). Although the buyer has a real economic risk in the period leading up to the closing of the transaction, US GAAP prohibits the application of hedge accounting to this risk, in part in deference to ASC 805's consideration of the business combination as a discrete event and also because it would be difficult to determine when the deferred effect of the gain or loss on the hedge should be recognized in earnings. In contrast, IFRS focuses on the ability to separately identify and measure the foreign currency component of that same risk and permits hedge accounting if all the other requirements have been met (e.g., the forecasted business combination is determined to be highly probable).

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

16. Does the entity seek to designate an equity investment in a fair value hedge?

Yes ☐ No ☐

US GAAP — ASC 321-10-35-1 through 35-2 and ASC 815-20-25-43(b)(1)	IFRS — IFRS 9.5.7.5, IFRS 9.6.5.8 and IFRS 9.BC6.105 through 116
Equity investments that are not accounted for under the equity method or consolidated are generally recorded at fair value with unrealized gains and losses included in earnings. However, a measurement alternative can be elected for equity investments with no readily determinable fair value that are not eligible for the ASC 820 NAV practical expedient. Under this alternative, an equity investment is measured at its cost minus impairment, if any. If an entity identifies observable price changes in orderly transactions for the identical or a similar investment of the same issuer, it should measure the equity security at fair value as of the date that the observable transaction occurred. See the "Recognition and measurement" section of this publication for more information on the accounting for equity securities.	At initial recognition, an entity may make an irrevocable election to present in AOCI subsequent changes in the fair value of an investment in an equity instrument in the scope of IFRS 9 that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies. The accumulated gain or loss in AOCI is not recycled into profit or loss. For fair value hedging relationships that designate such equity instruments as the hedged item, changes in the fair value of the hedging instrument are also classified in AOCI. Both effective and ineffective portions of the hedging instrument are recognized and remain in AOCI similar to the subsequent changes in fair value of the equity investment.

ASC 815 prohibits equity investments accounted for in accordance with ASC 321 from being designated as the hedged item in a fair value or cash flow hedging relationship. This includes equity investments measured using the measurement alternative discussed above. In addition, equity investments accounted for under the equity method are also prohibited from being designated as the hedged item in fair value or cash flow hedging relationships.	

Implications:

ASC 815 does not allow equity investments that are accounted for under ASC 321 to be designated as the hedged item in a fair value (or cash flow) hedge.

IFRS allows entities to designate those equity investments that they have elected to measure at fair value through AOCI as the hedged item in fair value hedging relationships, although the accounting for these hedging relationships is somewhat unique. Typically, only hedges of exposures that could affect profit or loss qualify for hedge accounting. However, IFRS 9 provides an exception to this rule for hedges of an investment in equity instruments for which the entity has elected to present changes in fair value in AOCI because the gains and losses recognized in AOCI for these instruments are prohibited from being recycled into profit or loss when the equity instrument is derecognized. Refer to question 1 in the “Recognition and measurement” section of this publication. For these hedging relationships, the change in fair value of the hedging instrument, including any hedge ineffectiveness, is also recognized in AOCI. Upon sale of the investment, gains or losses accumulated in AOCI from the equity investment and hedging instrument, including any hedge ineffectiveness, are not reclassified to profit or loss.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

17. Does the entity have a derivative in a hedging relationship that was novated from the original counterparty to another counterparty?

Yes ☐ No ☐

A novation refers to the replacement of a party to a derivative contract with a new party. Novations occur for various reasons, including financial institution mergers, a counterparty’s decision to exit a derivatives business, intercompany transactions, the desire to reduce credit exposure to a particular counterparty, or legal or regulatory requirements.

US GAAP — ASC 815-30-40-1A and ASC 815-20-55-56A	IFRS — IFRS 9.6.5.6(a) and IFRS 9.BC6.332 through 352
ASC 815 requires an entity to discontinue hedge accounting if the designated derivative instrument is terminated or if the critical terms of the hedging relationship change. However, ASC 815 is clear that a change in the counterparty to a derivative instrument that has been designated as the	IFRS 9 states that an entity discontinues hedge accounting only when the hedging relationship (or a part of a hedging relationship) ceases to meet the qualifying criteria (after taking into account any rebalancing of the hedging relationship, if applicable). This includes instances when the

hedging instrument in an existing hedging relationship would not, in and of itself, be considered a change in a critical term of the hedging relationship or be considered a termination of the derivative instrument for the purposes of applying the guidance in ASC 815-25-40-1. As such, hedging relationships could continue after a novation provided that all hedge effectiveness requirements continue to be met.	hedging instrument expires or is sold, terminated or exercised. For this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of, and consistent with, the entity's documented risk management objective. For this purpose, there is not an expiration or termination of the hedging instrument if, as a consequence of laws or regulations, or the introduction of laws or regulations, the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. However, when the parties to the hedging instrument replace their original counterparties with different counterparties this exception applies only if each of those parties effects clearing with the same central counterparty. Other changes, if any, to the hedging instrument are limited to those that are necessary to effect such a replacement of the counterparty. Such changes are limited to those that are consistent with the terms that would be expected if the hedging instrument were originally cleared with the clearing counterparty. These changes include changes in the collateral requirements, rights to offset receivables and payables balances and charges levied.

Implications:

The question of whether a company is required to discontinue a hedging relationship is important because redesignating a new hedging relationship likely will result in the hedging relationship being less effective and possibly the failure to achieve hedge accounting due to the derivative not having a fair value of zero at the redesignation date.

US GAAP is explicit that a novation would not, in and of itself, be considered a change in the critical terms of the hedging relationship or a termination of the derivative instrument for the purposes of applying the guidance in ASC 815-25-40-1. However, companies could have novations that would require dedesignation under IFRS 9, such as those not as a consequence of laws or regulations, or the introduction of laws or regulations.

Identified difference?

Yes	No	Depends on policy election
☐	☐	☐

Describe:
Click here to enter text.

18. Does the entity want to voluntarily dedesignate a hedging relationship?

Yes ☐ No ☐

Under US GAAP and IFRS, a hedging relationship is required to be dedesignated if the hedging instrument(s) are sold, terminated or the qualifying criteria for hedge accounting are no longer met. However, there may be circumstances when an entity would like to voluntarily discontinue hedge accounting.

US GAAP — ASC 815-25-40-1(c) and ASC 815-30-40-1(c)	IFRS — IFRS 9.B6.5.26 and IFRS 9.BC6.314 through BC6.331
ASC 815 permits entities to voluntarily dedesignate a hedging relationship at any time after the inception of a hedging relationship.	IFRS 9 prohibits voluntary dedesignation of a hedging relationship but requires dedesignation when the risk management objective, on which the hedge initially qualified for hedge accounting, changes.

Implications:

Under US GAAP, entities may voluntarily discontinue hedge accounting at their discretion. An example of why an entity may choose to do so could be to adjust a hedge ratio for a change in the expected relationship between the hedged item and the hedging instrument. Other reasons could be that an entity may want to hedge a secondary risk (i.e., it first hedged the commodity price risk in a commodity purchase contract in foreign currency but later decided to hedge the foreign currency risk as well), the chosen effectiveness method may no longer be appropriate, or some of the hedged cash flows are no longer expected to occur.

While IFRS 9 prohibits voluntary dedesignation, it does address certain of the above circumstances by permitting more flexibility in the assessment of hedge effectiveness, rebalancing and the ability to achieve hedge accounting for aggregated exposures and partial discontinuation. Hence, there may be less of a need for voluntary discontinuation in the above situations.

In most cases where an entity might want to voluntarily dedesignate a hedging relationship, a change in the risk management objective will likely have occurred, in which case the entity would actually be required to dedesignate under IFRS 9.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

19. Does the entity use interest rate swaps to hedge interest rate risk?

Yes ☐ No ☐

Both US GAAP and IFRS allow entities to hedge interest rate risk. However, the application of hedge accounting may be less burdensome, under US GAAP, if the criteria to apply the shortcut method are met. The shortcut method is a specific, rules-based exception to the general hedging guidance in ASC 815 that allows an entity to assume that certain narrowly-defined types of interest rate hedging relationships, where the critical terms of the hedging instrument and the entire hedged asset or liability are the same, will be perfectly effective. The ability to use the shortcut method is limited because ASC 815 provides for a shortcut method only with respect to interest rate swaps that hedge the interest rate risk associated with recognized interest-bearing assets or liabilities (i.e., a cash flow hedge of forecasted transactions is not eligible for the shortcut method), and only under very specific conditions. It requires all the same formal hedge documentation at inception, and requires that the additional criteria listed in ASC 815-20-25-102 through 25-106 be met. There is no equivalent to the shortcut method in IFRS 9.

US GAAP — ASC 815-20-25-102 through 25-117D	IFRS — IFRS 9.B6.4.13 through 4.14 and IFRS 9.B6.5.5 through 5.6
When the criteria for using the shortcut method are met, no ongoing assessment of hedge effectiveness is required. In a fair value hedge, the hedged item is adjusted by exactly the same amount as the change in the fair value of the derivative. As such, the only effect on earnings is the intended effect of the hedge (i.e., the swap settlement differential, which results in interest being recorded based on a floating market rate instead of the fixed rate being hedged). In a cash flow hedge, AOCI is adjusted by exactly the same amount as the change in the fair value of the derivative, with no impact on earnings (other than the swap settlement differential). In complying with the shortcut method, the reporting entity must also consider the likelihood of the swap counterparty's compliance with the contractual terms of the hedging derivative that require the counterparty to make payments to the reporting entity as discussed in ASC 815-20-25-103.	There is no equivalent to the shortcut method in IFRS 9.

Implications:

US GAAP does not require a reporting entity to periodically assess hedge effectiveness of a hedging relationship if that entity applies the shortcut method. For example, in a fair value hedge under the shortcut method, an entity can assume perfect effectiveness such that the hedged item's change in fair value is defined to be exactly the same as the derivative's change in fair value. The accounting for such hedges is significantly simplified.

IFRS, which does not permit the shortcut method, requires reporting entities with similar hedging relationships using interest rate swaps to identify and document in the initial hedge documentation a method of periodic hedge effectiveness assessment and ineffectiveness measurement. Ongoing assessment is required, with any ineffective portion of the hedge calculated and recognized in profit or loss each period.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

20. If the entity applied fair value or cash flow hedge accounting to a financial asset or financial liability (or to their related cash flows), has the entity designated a specific sub-component of interest rate risk as the hedged risk?	Yes	No
	☐	☐

Both standards allow entities to hedge only interest rate risk as a sub-component of a financial instrument. However, while IFRS provides entities certain flexibility to determine the sub-components that may be designated as the hedged risk, US GAAP is somewhat more prescriptive regarding which interest rate sub-components may be separately hedged.

US GAAP — ASC 815-20-25-12(f), ASC 815-20-25-15(j), ASC 815-20-25-6 through 25-6A and ASC 815-20-25-19A through 25-19B	IFRS — IFRS 9.6.3.7
Under US GAAP, only a benchmark interest rate may be designated as the hedged risk when hedging the interest-rate component of a fixed-rate financial instrument. This applies to fair value hedges of a recognized fixed-rate financial instrument, as well as cash flow hedges of the forecasted issuance or purchase of a fixed-rate financial instrument. A benchmark interest rate is defined as “a widely recognized and quoted rate in an active financial market that is broadly indicative of the overall level of interest rates attributable to high quality obligors in that market.” In the US, only interest rates on direct obligations of the US Treasury, the LIBOR swap rate, the Fed Funds Effective Rate Overnight Index Swap Rate, the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Rate and the Secured Overnight Financing Rate (SOFR) Overnight Index Swap Rate are considered to be benchmark interest rates. Alternatively, when hedging the interest rate risk component of a variable-rate financial instrument in a cash flow hedge (i.e., either an existing instrument or the forecasted issuance or purchase of a variable-rate financial instrument), entities may designate any contractually specified interest rate as the hedged risk. In addition, if, as of the hedge designation date, the entity does not know whether the financial instrument it expects to issue or purchase will have fixed or variable interest rate payments, ASC 815 allows the entity to designate as the	If the hedged item is a financial asset or financial liability, it may be a hedged item with respect to the risks associated with only a portion of its cash flows or fair value (such as one or more selected CCF or portions of them or a percentage of the fair value) provided that effectiveness can be measured. For example, an identifiable and separately measurable portion of the interest rate exposure of an interest-bearing asset or interest-bearing liability may be designated as the hedged risk (such as a risk-free interest rate or benchmark interest rate component of the total interest rate exposure of a hedged financial instrument). IFRS 9 does not limit the type of interest rate that could be considered to be a “benchmark” or “contractually specified” interest rate.

hedged risk a rate that would qualify both as a benchmark interest rate (in case the issuance or purchase is of a fixed-rate instrument) and as a contractually specified interest rate (in case the issuance or purchase is of a variable-rate instrument).	

Implications:
Entities may find the IFRS guidance more flexible, particularly if they seek to hedge a component of interest rate risk in a fixed-rate financial instrument that is not explicitly included in ASC 815 as an eligible US benchmark rate, but that would meet the requirements to be hedged as a component under IFRS 9 (i.e., it is separately identifiable and reliably measurable).

Identified difference?
Describe: Click here to enter text.

Yes ☐ No ☐ Depends on policy election ☐

21. Does the entity use the benchmark rate component of the contractual coupon cash flows to calculate the change in the fair value of the hedged item attributable to changes in the benchmark interest rate in a fair value hedge of interest rate?

Yes ☐ No ☐

Both standards permit an entity to determine the change in the fair value of a fixed-rate financial instrument designated as the hedged item in a fair value hedge of interest rate risk using the benchmark rate component (determined at hedge inception) of the contractual coupon cash flows. However, IFRS is more restrictive because it generally requires that the portion of the cash flows of the financial asset or financial liability designated as the hedged item be less than or equal to the total cash flows of the asset or liability (i.e., the benchmark rate being hedged generally cannot exceed the total contractual coupon of the hedged item). This is sometimes referred to as the sub-benchmark issue.

US GAAP — ASC 815-20-25-12(f), ASC 815-25-35-13 and ASC 815-25-55-55 through 55-61C	**IFRS — IFRS 9.6.3.7 and IFRS 9.B6.3.21 through B6.3.23**
When calculating the change in the hedged item's fair value attributable to changes in the benchmark interest rate in accordance with ASC 815-20-25-12(f)(2), an entity can choose to use the benchmark rate component of the contractual coupon cash flows of the hedged item determined at hedge inception. US GAAP allows entities to use benchmark rate component cash flows to determine the change in the fair value of the hedged item even when, at the inception of the hedging relationship, the current market yield of the hedged item is less that the benchmark interest being hedged.	If the hedged item is a financial asset or financial liability, it may be a hedged item with respect to the risks associated with only a portion of its cash flows or fair value (such as one or more selected contractual cash flows or portions of them or a percentage of fair value) provided that effectiveness can be measured. For example, an identifiable and separately measurable portion of the interest rate exposure of an interest-bearing asset or interest-bearing liability may be designated as the hedged risk. In the context of this question, "portion" refers to a subdivision of an individual cash flow or series thereof (e.g., the 4% benchmark portion of a 5%

	fixed interest coupon), as opposed to a subdivision of one group of cash flows unique to one time period from another group of cash flows unique to a separate time period (e.g., all of the 5% coupons in years 1 through 5 of a 10-year debt instrument). If a component of the cash flows of a financial item is designated as the hedged item, that component must be less than or equal to the total cash flows of the entire item (e.g., the 4% benchmark rate is less than a 5% coupon). When that is not the case (e.g., when the coupon on a fixed-rate financial instrument is lower than the benchmark rate), an entity could instead designate as the hedged item the change in fair value of the entire instrument attributable to the benchmark interest rate. However, if a fixed-rate financial instrument is hedged sometime after its origination and interest rates have changed in the meantime, the entity can designate a risk component equal to a benchmark rate that is higher than the contractual coupon rate on the instrument, provided that the benchmark rate is less than the effective interest rate calculated based on an assumption that the entity had purchased the instrument on the day when it first designates the hedged item (i.e., that the effective yield of the instrument exceeds the benchmark interest rate at hedge inception). This is an important concept for hedges designated sometime after the origination of the financial instrument (i.e., a “late hedge”).

Implications:

The additional flexibility provided under US GAAP could represent a meaningful difference for companies able to raise funds at rates below the benchmark interest rate (e.g., AAA-rated entities that can issue debt at a rate that that is below LIBOR). Such entities (i.e., those with negative credit spreads) can achieve more effective fair value hedges under US GAAP than under IFRS because they are able to determine the change in the fair value of a fixed-rate financial instrument using only benchmark component cash flows.

With respect to late hedges, both standards focus on the interest rate environment at hedge inception rather than when the hedged financial item was originally issued. However, IFRS is more restrictive regarding the use of benchmark rate cash flows to determine the change in the fair value of the hedged item because it requires that the effective interest rate be greater than the current benchmark rate.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

22. Does the entity seek to hedge risk components in a nonfinancial contract? Yes ☐ No ☐

Both standards allow entities to hedge risk components related to nonfinancial items. However, the guidance in US GAAP is more prescriptive because it limits nonfinancial component hedging to cash flow hedges and requires the hedged component to be contractually specified. Entities that report under IFRS are given more flexibility in determining the nonfinancial risk components that may be designated as the hedged risk because non-contractually specified risk components are allowed to be separately hedged in cash flow and fair value hedges.

US GAAP — ASC 815-20-25-12(e), ASC 815-20-25-15(i)(3) and ASC 815-20-25-22A through 25-22B	IFRS — IFRS 9.6.3.7, B6.3.8 through B6.3.15 and BC6.3.21
For a cash flow hedge of a forecasted purchase or sale of a nonfinancial asset, the designated risk being hedged must be either (1) the risk of changes in the functional-currency-equivalent cash flows attributable to changes in the related foreign currency exchange rates, (2) the risk of changes in the cash flows relating to all changes in the purchase price or sales price of the asset reflecting its actual location if a physical asset (regardless of whether that price and the related cash flows are stated in the entity's functional currency or a foreign currency), not the risk of changes in the cash flows relating to the purchase or sale of a similar asset in a different location or (3) the risk of variability in cash flows attributable to changes in a contractually specified component. For a fair value hedge, if the hedged item is a nonfinancial asset or liability (other than a recognized loan servicing right or a nonfinancial firm commitment with financial components), the designated risk being hedged is the risk of changes in the fair value of the entire hedged asset or liability.	To be eligible for designation as a hedged item, a risk component must be a separately identifiable component of the nonfinancial item, and the changes in the cash flows or the fair value of the item attributable to changes in that risk component must be reliably measurable based on an assessment in the context of the particular market structure. This component must be less than or equal to the total cash flows of the entire instrument. When designating risk components as hedged items, an entity considers whether the risk components are explicitly specified in a contract (i.e., contractually specified risk components) or whether they are implicit in the fair value or the cash flows of an item of which they are a part (i.e., non-contractually specified risk components).

Implications:

IFRS guidance is more flexible for hedging nonfinancial items than US GAAP. The ability to hedge non-contractually specified components that are "separately identifiable" and "reliably measurable" will likely increase the extent to which nonfinancial risk components can be separately hedged under IFRS and consequently the effectiveness of these hedges. However, for cash flow hedging relationships that are highly effective under US GAAP, the financial reporting effect may be very similar regardless of whether the designated risk is the total price risk (under ASC 815) or a non-contractually specified component of the total price risk (under IFRS 9). This is because, under ASC 815, the entire change in fair value of the derivative included in the assessment of a highly effective cash flow hedge is deferred in AOCI and recognized in the income statement line affected by the hedged item only when that hedged item affects earnings (which is consistent with the treatment of a perfectly effective cash flow hedge under IFRS 9).

However, the requirement to hedge total price risk under US GAAP would increase the likelihood of losing hedge accounting (e.g., if the hedge is no longer highly effective due to volatility in the basis) and could require additional effort to assess hedge effectiveness.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

23. Does the entity want to designate the combination of a derivative instrument and non-derivative instrument as the hedged item? Yes ☐ No ☐

In certain circumstances, a reporting entity may want to hedge an "aggregated exposure" that results from the combination of a risk exposure in a non-derivative and a separate exposure in a derivative. For example, assume an entity has a forecasted purchase of a commodity in one year at the then-current market price and payable in a foreign currency. Further assume that the entity initially fixes the commodity price risk by entering into a futures contract. If the entity wanted to subsequently lock in the foreign currency amount, the entity could designate as the hedged item the aggregated exposure resulting from the combination of the forecasted purchase and the futures contract, which would be equivalent to a forecasted purchase of a commodity for a fixed foreign currency amount.

US GAAP — ASC 815-20-25-12(b)(1), ASC 815-20-25-15(a)(2), ASC 815-20-25-15(d) and ASC 815-20-25-43(c)(3)	**IFRS — IFRS 9.6.3.4, IFRS 9.B6.3.3 through 6.3.4 and IFRS 9.IE116-147**
US GAAP prohibits a hedged item from being: ► A forecasted transaction that is the acquisition of an asset or incurrence of a liability that will subsequently be remeasured at fair value with changes in fair value attributable to the hedged risk reported currently in earnings ► An asset or liability that is remeasured at fair value with the changes in fair value attributable to the hedged risk reported currently in earnings ► A group of individual assets, individual liabilities or forecasted transactions that do not share the same risk exposure for which they are being hedged	IFRS 9 permits an aggregated exposure that is a combination of an exposure that could qualify as a hedged item in accordance with IFRS 9.6.3.1 and a derivative, to be designated as a hedged item. When designating such a hedged item on the basis of the aggregated exposure, an entity considers the combined effect of the items that constitute the aggregated exposure for the purpose of assessing hedge effectiveness and measuring hedge ineffectiveness. However, the items that constitute the aggregated exposure remain accounted for separately.

Implications:

US GAAP does not allow an aggregated exposure to be designated as a hedged item because the items making up the aggregated exposure would not share the same risk exposure for which they are being hedged. In the example above, the futures contract does not produce exposure to foreign currency, which is the hedged risk.

Hedging an aggregate exposure under IFRS 9 allows an entity to designate an additional derivative to an already existing hedging relationship to hedge an additional risk (such as the foreign currency risk in the example above). Under US GAAP, an entity would be required to dedesignate the original hedging relationship and redesignate a new hedging relationship using both derivatives as the hedging instruments to hedge the forecasted transaction for both commodity and foreign currency risks. This hedging relationship would likely not be perfectly effective since the initially designated derivative would likely have a non-zero fair value upon redesignation.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

24. Does the entity seek to hedge more than one type of risk in two or more hedged items using a single hedging instrument?

Yes ☐ No ☐

IFRS 9 provides an entity with additional flexibility when it seeks to hedge more than one type of risk in two or more hedged items using a single hedging instrument.

US GAAP — ASC 815-20-25-12(b), ASC 815-20-25-15(a), ASC 815-20-25-50 and ASC 815-20-25-51	IFRS — IFRS 9.B6.2.6
US GAAP generally does not allow a single hedging instrument to hedge more than one risk in two or more hedged items. For fair value hedges, the hedged item may be a single asset or liability (or a specific portion thereof) or a portfolio of similar assets or similar liabilities. For cash flow hedges, the forecasted transaction being hedged may be either a single transaction or group of individual transactions that share the same risk exposure of which they are designated as being hedged. As an exception, US GAAP permits a basis swap to be used as the hedging instrument in a cash flow hedge of interest receipts or payments associated with a recognized financial asset or liability from one variable rate to another variable rate, when the swap cash flows are expected to be highly effective in offsetting the cash flows from a combined asset-liability position in which the asset and liability have different rate bases. ASC 815 also requires that the basis of one leg of the swap be the same as the basis of the identified asset and that the basis of the other leg of the swap be the same as the basis of the identified liability such that the basis swap results in offsetting cash flows.	A single hedging instrument may be designated as a hedging instrument of more than one type of risk, provided that there is a specific designation of the hedging instrument and of the different risk positions as hedged items. Those hedged items can be in different hedging relationships.

Implications:
The flexibility provided in IFRS 9 may be helpful for entities that have assets and liabilities denominated in foreign currencies that each differ from the entity's functional currency. For example, consider an entity with the Japanese yen as its functional currency that issues five-year floating-rate US dollar debt and acquires a 10-year fixed-rate British pound sterling bond. Assuming that the principal amounts of the asset and liability are the same when converted into Japanese yen, the entity could enter into a single foreign currency forward contract to hedge its foreign currency exposure on both instruments under which it receives US dollars and pays British pound sterling at the end of five years. In this example, the hedging instrument is effectively decomposed and viewed as two forward contracts, each with an offsetting position in Japanese yen. Each of the decomposed forward contracts is then designated in an eligible hedging relationship.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

25. Does the entity want to hedge credit risk?	Yes	No
	☐	☐

US GAAP defines credit risk for purposes of a hedged item as (1) changes in the obligor's creditworthiness and (2) changes in the spread over the benchmark interest rate. Additionally, for purposes of a hedged item in a cash flow hedge, credit risk also includes the risk of changes in the hedged transaction's cash flows attributable to the obligor's default and changes in the spread over the contractually specified interest rate.

US GAAP — ASC 815-20-25-12(d), ASC 815-20-25-12(f), ASC 815-20-25-15(f) and ASC 815-20-25-15(j)	IFRS — IFRS 9.6.7.1 through 6.7.4 and IFRS 9.BC6.469 through BC6.517
US GAAP permits the designated hedged risk in a cash flow hedge of a forecasted purchase or sale of a financial asset or financial liability, or the variable cash inflow or outflow of an existing financial asset or financial liability, to be the risk of changes in its cash flows attributable to credit risk. US GAAP also permits the designated hedged risk in a fair value hedge of a financial asset or liability, recognized loan servicing right or a nonfinancial firm commitment with financial components to be the risk of changes in its fair value due to credit risk.	Credit risk of a financial instrument is not a risk component that meets the eligibility criteria for hedged items under IFRS 9.6.6.3 because it is not a separately identifiable risk component. This is because the spread between the risk-free rate and the market interest rate of a financial instrument incorporates liquidity risk, funding risk, and other unidentified risk components and margin elements other than credit risk. However, IFRS 9 provides an alternative for hedging credit risk. If an entity uses a credit derivative that is measured at fair value through profit or loss to manage the credit risk of all or a part of a financial instrument (credit exposure), it may designate that financial instrument to the extent it is so managed (i.e., all or a proportion of it) as measured at fair value through profit or loss if: ► The name of the credit exposure (e.g., the borrower, the holder of a loan commitment) matches the reference entity of the credit derivative (i.e., name matching)

	► The seniority of the financial instrument matches that of the instruments that can be delivered in accordance with the credit derivative An entity may make this designation regardless of whether the financial instrument that is managed for credit risk is in the scope of IFRS 9 (e.g., an entity may designate loan commitments that are outside the scope of IFRS 9). The entity may designate that financial instrument at, or subsequent to, initial recognition, or while it is unrecognized. The entity must document the designation concurrently.

Implications:

Although US GAAP permits credit risk to be an eligible hedged risk component, hedging instruments that are highly effective at hedging specific credit risk are often difficult or costly to obtain. IFRS 9 provides an alternative to hedge accounting that permits the FVO to be elected at any time for a financial instrument (or a proportion of it) in which an entity wishes to hedge credit risk. Such election allows the entity to elect the FVO on a financial instrument subsequent to inception of the instrument. To the extent the change in fair value of the credit derivative offsets that of the financial instrument, an economic hedge results. However, the offsetting changes in fair value of the credit derivative and the financial instrument will not be perfect because any change in fair value of the financial instrument that relates to a component other than credit risk will not be offset.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

26. Does the entity execute portfolio fair value hedges of the benchmark interest rate risk associated with the hedged financial instruments?

Yes ☐ No ☐

These types of hedges attempt to convert similar types of fixed-rate instruments, usually assets such as loans, mortgages or bonds, into floating-rate instruments.

US GAAP — ASC 815-20-25-12(b)(1), ASC 815-20-25-12A through 25-12B, ASC 815-20-25-118A, ASC 815-25-35-7A, ASC 815-25-40-7A through 40-9A and ASC 815-20-55-14 through 55-14B	IFRS — IFRS 9.6.6.1, IFRS 9.6.6.3, IFRS 9.6.1.3, IFRS 9.B6.3.16 through B6.3.20, IAS 39.81A, IAS 39.89A, IAS 39.AG114 through 132, IAS 39.BC173 through 220 and IAS 39.IE1 through IE31
Historically, portfolio fair value hedging was difficult under US GAAP as ASC 815-20-55-14 requires a homogeneity screening before fixed-rate instruments can be grouped into a common hedging pool. In addition, hedging relationships need to be dedesignated and redesignated when instruments are added or subtracted from the pool and assets and liabilities are precluded from being grouped in the same hedging pool.	IFRS 9 allows hedging of groups of items that are individually eligible to be hedged, and the items in the group are managed together on a group basis. A group designation can also consist of a component of a group of items, such as a layer component of a group. While IFRS 9 provides an effective solution for portfolios that feature a bottom layer that is not prepayable, it does not provide an effective

Under both the last-of-layer method (before the adoption of ASU 2022-01) and the portfolio layer method (after the adoption of ASU 2022-01), homogeneity screening can be performed qualitatively and only at hedge inception because the hedged items are deemed to be homogeneous (i.e., assets whose change in fair value related to interest rate risk is not affected by prepayment risk and that share the same benchmark rate cash flows and assumed maturity date). Note: Financial liabilities are not in the scope of either of the methodologies discussed below, and therefore, portfolio fair value hedges of these instruments retain some of the complexity that historically existed under US GAAP. However, the ability to apply the guidance on benchmark component cash flows and partial-term fair value hedges makes passing the homogeneity test somewhat less onerous for financial liabilities. *Before the adoption of ASU 2022-01* The last-of-layer method (introduced in ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*) significantly reduced the complexity associated with portfolio fair value hedges of prepayable financial assets. Under the last-of-layer method, an entity may designate as the hedged item a stated amount of prepayable asset(s) in a closed portfolio or one or more beneficial interests secured by a portfolio of prepayable financial instruments that the entity expects to be outstanding as of the hedged item's assumed maturity date (i.e., the last layer). Any prepayments, defaults or other factors affecting the timing and amount of cash flows (e.g., sales) are assumed to apply to the portion of the portfolio that is not part of the last layer. As long as the last layer amount designated is expected to remain outstanding as of the hedged item's assumed maturity date, an entity may exclude prepayment risk when measuring the change in fair value of the hedged item. An entity is required to perform and document an analysis at hedge inception and each subsequent assessment date supporting its expectation that the designated last layer amount is still anticipated to be outstanding as of the hedged item's assumed maturity date.	solution for fair value hedges of portfolios that are fully prepayable due to the requirement to consider the value of prepayment options when calculating the change in fair value of the hedged item. Although a layer component may be designated as the hedged item under IFRS 9, the guidance in IFRS 9.B6.3.20 is clear that a layer component that includes a prepayment option is not eligible to be designated as a hedged item in a fair value hedge if the prepayment option's fair value is affected by changes in the hedged risk, unless the designated layer includes the effect of the related prepayment option when determining the change in the fair value of the hedged item. The IASB decided to address hedging such portfolios in its separate macro hedging project. Until that project is finalized, IFRS 9 permits entities to apply the portfolio fair value hedging guidance in IAS 39 for all fair value portfolio hedges of interest rate risk. In that case, the entity must also apply the specific requirements for the fair value hedge accounting for a portfolio hedge of interest rate risk and designate as the hedged item a portion that is a currency amount. While the portfolio fair value hedging guidance in IAS 39 for hedges of interest rate risk may provide a better solution than IFRS 9 when hedging a portfolios of items that are fully prepayable, it does not contain guidance equivalent to the portfolio layer method in US GAAP. However, the guidance in IAS 39.81A, 89A and AG114-AG132 does provide a portfolio fair value hedging model that addresses a number of the complexities associated with hedging prepayable financial instruments. For instance, an entity can analyze the portfolio by repricing time periods based on expected, rather than contractual, repricing dates. On the basis of this analysis, the entity decides the amount it wishes to hedge and designates as the hedged item a specified currency amount of assets or liabilities (but not a net amount) from the identified portfolio equal to the amount it wishes to designate as being hedged. The designated risk could be a portion of the interest rate risk, such as a benchmark interest rate (e.g., LIBOR). The entity can designate one or more hedging instruments for each repricing time period. Using the expected maturities rather than the contractual prepayment terms of the financial instruments results in better measurement of the hedged risk and helps achieve hedge effectiveness. However, if a portfolio of prepayable financial instruments is hedged with a non-prepayable

After the adoption of ASU 2022-01 ASU 2022-01 expanded and clarified the use of the last-of-layer method (renamed the portfolio layer method). Under the portfolio layer method, an entity may designate as the hedged item or items a stated amount or amounts (i.e., layer or layers) of a closed portfolio of financial assets or one or more beneficial interests secured by a portfolio of financial instruments that is not expected to be affected by prepayments, defaults or other factors affecting the timing and amount of cash flows for the designated hedge period. Any prepayments, defaults or other factors affecting the timing and amount of cash flows (e.g., sales) are assumed to apply to the portion of the portfolio that is not part of the hedged layer or layers. As long as the designated hedged layer amount(s) is expected to remain outstanding for the hedged period, an entity may exclude prepayment risk (if applicable) when measuring the change in fair value of the hedged item. An entity is required to perform and document an analysis at hedge inception and each subsequent assessment date supporting its expectation that the designated hedged layer or layers are anticipated to be outstanding for the hedged period(s).	derivative, hedge ineffectiveness will arise when the dates on which items in the hedged portfolio are expected to prepay are revised or when actual prepayment dates differ from expected ones.

Implications:
Both standards permit fair value portfolio hedges. For certain fair value portfolio hedges (e.g., hedging interest rate risk in a designated bottom layer of a portfolio of non-prepayable financial assets) the approaches may be similar. However, the ability for users to apply the last-of-layer (before the adoption of ASU 2022-01) or the portfolio layer method (after the adoption of ASU 2022-01) may make it easier to hedge interest rate risk associated with a portfolio that includes prepayable financial assets under US GAAP than under IFRS. Conversely, because the last-of-layer and portfolio layer methods are limited to hedges of financial assets, IFRS may provide more flexibility for fair value hedges of interest rate risk related to a portfolio of prepayable financial liabilities[9] since the guidance appears to be written in a way that acknowledges that hedgers approach this task in a dynamic manner, anticipating prepayments and other variations from CCF schedules.

[9] Note that entities are generally precluded from applying fair value hedge accounting to a portfolio of demand deposits under IFRS. This is because the fair value of the demand deposits will not vary with the hedged risk based on the guidance in IFRS 13 that the fair value of a financial liability with a demand feature (e.g., a demand deposit) cannot be less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

27. Does the entity seek to hedge groups of dissimilar items with offsetting exposures that result in a net position? Yes ☐ No ☐

A group of dissimilar items is a group of offsetting exposures that result in a net position. For instance, many entities are exposed to foreign currency risks arising from purchases and sales of goods or services denominated in foreign currencies. Cash inflows and outflows occurring on forecasted transactions in the same foreign currency are often economically hedged on a net basis. For example, consider an entity that has forecast foreign currency sales of foreign currency (FC) 100 and purchases of FC 80, both in six months. The entity wants to hedge the net exposure using a single foreign exchange forward contract to sell FC 20 in six months.

US GAAP — ASC 815-20-25-12(b) and ASC 815-20-25-15(a)	IFRS — IFRS 9.6.6.1, IFRS 9.6.6.4 through 6.6.6 and IFRS 9.B6.6.1 through B6.6.16
ASC 815 does not permit hedging a net position. ASC 815-20-25-15(a)(2) states that a group of forecasted transactions may be hedged only if they share the same exposure for which they are designated as being hedged. For example, a forecasted purchase and a forecasted sale must not both be included in the same group of individual transactions that constitute the hedged transaction. Similarly, for fair value hedges, ASC 815-20-25-12(b) requires that changes in fair value attributable to the hedged risk for each individual item in a hedged portfolio be expected to respond in a generally proportionate manner to the overall change in fair value of the aggregate portfolio attributable to the hedged risk.	A group of items (including a group of items that constitute a net position) is an eligible hedged item only if: ► It consists of items (including components of items) that individually are eligible hedged items ► The items in the group are managed together on a group basis for risk management purposes ► In the case of a cash flow hedge of a group of items whose variabilities in cash flows are not expected to be approximately proportional to the overall variability in cash flows of the group so that offsetting risk positions arise, (1) it is a hedge of foreign currency risk and (2) the designation of that net position specifies the reporting period in which the forecasted transaction is expected to affect profit or loss, as well as its nature and volume IFRS 9 further permits the hedged item in a group to be a nil net position (i.e., the hedged items among themselves fully offset the risk that is managed on a group basis), provided that: ► The hedge is part of a rolling net risk hedging strategy. ► Hedging instruments are used to hedge the net risk when the hedged net position changes in size over the life of the rolling hedging strategy and is not a nil net position.

	► The entity would normally apply hedge accounting to such net positions when the net position is not nil. ► Not applying hedge accounting to the nil net position would result in inconsistent accounting outcomes over time (because in a period in which the net position is nil, hedge accounting would not be available for what is otherwise the same type of exposure). When hedging a nil net position, the hedging relationship would not include a hedging instrument.

Implications:
The ability to hedge net positions under IFRS 9 allows entities to better align their hedge accounting and economic hedging strategies. For example, if an entity anticipates sales of FC 100 in 12 months and a purchase of fixed assets of FC 80 in 12 months, an entity can designate the net position of FC 20 as the hedged item. Under US GAAP, an entity would only be permitted to hedge FC 20 of the forecasted sales. Consequently, only FC 20 of sales would be recorded at the foreign currency rate locked in at inception of the hedge, while the remaining sales would be recorded at the then-prevailing spot rates. The purchases would also be measured at the then-prevailing spot rate, which would affect earnings as the fixed assets are depreciated over time. IFRS 9 differs by permitting the foreign exchange gain or loss on the FC 80 of forecasted sales to be deferred in AOCI and released as the fixed asset is depreciated.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

28. Does the entity have a hedged forecasted transaction that is no longer "highly probable" of occurring? Does the entity have a formerly hedged transaction that is "no longer expected to occur"?	Yes ☐	No ☐

Under both US GAAP and IFRS, the probability of a hedged forecasted transaction occurring is important for determining (1) when a hedging relationship must be discontinued and (2) when amounts accumulated in AOCI related to a discontinued hedge would be required to be released to earnings. However, the standards specify different thresholds.

US GAAP — ASC 815-20-25-3(d), ASC 815-20-25-15(b), ASC 815-20-25-16(c) and ASC 815-30-40-1 through 40-6	**IFRS — IFRS 9.6.3.3, IFRS 9.6.5.6, IFRS 9.6.5.7, IFRS 9.6.5.11, IFRS 9. 6.5.12 and IFRS 9.B6.5.27**
ASC 815 requires the hedged forecasted transaction to be described with sufficient specificity so that when a transaction occurs, it is clear whether it is or is not the hedged transaction. This requirement includes documenting the date on, or period within which, the forecasted transaction is expected	IFRS 9.6.5.6 states that an entity must discontinue hedge accounting prospectively if the hedging relationship ceases to meet the qualifying criteria (which includes that a forecasted transaction being hedged is highly probable). If hedge accounting is discontinued, the cumulative gain or loss that has been recognized in AOCI must remain separately

to occur. The best estimate of the forecasted transaction's timing should be documented and used in assessing hedge effectiveness. ASC 815-30-40-1 through 40-6 discuss when AOCI should be reclassified to earnings if a cash flow hedge is discontinued and the transaction will not occur by the end of the originally specified time but will occur shortly thereafter. It is not appropriate to continue to apply cash flow hedge accounting and defer a gain or loss on a derivative that arises after a hedged forecasted transaction is deemed no longer probable (ASC 815-30-40-1 and ASC 815-20-25-15(b)). However, the net derivative gain or loss related to a discontinued cash flow hedge would continue to be reported in accumulated AOCI until the forecasted transaction occurs or it becomes probable that the forecasted transaction will *not* occur by the end of the originally specified time period (which is permitted to be a range of time under ASC 815-20-25-16(c)) or within an additional two-month period of time thereafter (except for extenuating circumstances). When the forecasted transaction is probable of not occurring by the date (or within the time period) originally specified or within an additional two months thereafter, the related cumulative gain or loss on the hedging instrument that remained in AOCI must be recognized in profit or loss immediately.	in equity until the forecasted transaction occurs or until the forecasted transaction is no longer expected to occur. IFRS 9.6.5.12(b) states that a forecasted transaction that is no longer highly probable may still be expected to occur. This supports the notion of continuing to defer the gain or loss in AOCI as long as the transaction is expected to occur as originally documented. Unlike US GAAP, the guidance in IFRS does not provide for an additional two-month period subsequent to the documented originally specified time. When the forecasted transaction is no longer expected to occur, the related cumulative gain or loss on the hedging instrument that remained in AOCI must be recognized in profit or loss.

Implications:

The "no longer highly probable" threshold under IFRS 9 may be reached sooner than the "no longer probable" threshold of ASC 815, potentially resulting in the cessation of hedge accounting earlier under IFRS 9.

Similarly, the "no longer expected to occur" threshold under IFRS 9 may be reached sooner than the "probable of not occurring" threshold under ASC 815, resulting in the reclassification of gains or losses from AOCI to earnings earlier under IFRS 9. As a result, gains or losses may be reclassified from AOCI to earnings earlier under IFRS than under US GAAP.

Identified difference?

	Yes	No	Depends on policy election
	☐	☐	☐

Describe:
Click here to enter text.

29. Does the entity use a purchased option as a hedging instrument in a cash flow hedge? Yes ☐ No ☐

Both US GAAP and IFRS permit purchased options to be used as hedging instruments in cash flow hedges. Economically, purchased options used in cash flow hedges are effective at hedging the variability in expected future cash flows attributable to a particular rate or price beyond (or within) a specified level (or levels). In addition, both standards provide the hedger with an election for how to assess hedge effectiveness using purchased options. The hedger can choose to (1) designate the entire option as the hedging instrument or (2) separate the intrinsic value and extrinsic value (also referred to as time value) of the option, with only the changes in intrinsic value designated as the effective portion of the hedge. However, the two standards differ with respect to the timing of recognition of the time value component.

US GAAP — ASC 815-20-25-82(a), ASC 815-20-25-83 through 25-83B, ASC 815-20-25-98 through 25-99, ASC 815-20-25-123 through 25-129A, ASC 815-20-55-235 through 55-238, ASC 815-30-35-33 through 35-34 and ASC 815-35-35-5A through 35-5B	**IFRS — IFRS 9.6.2.4(a), IFRS 9.6.5.15 and IFRS 9.B6.5.29 through 33**
The first alternative under US GAAP is described in ASC 815-20-25-126 through 25-129 and in ASC 815-30-35-33 through 35-34. This alternative permits effectiveness to be assessed based on total changes in the option's cash flows (i.e., the assessment includes the option's entire change in fair value). Under this alternative, the entire change in the option's fair value is eligible to be reported in AOCI, including the changes in time value, if certain conditions are met. The second alternative under US GAAP is described in ASC 815-20-25-82(a)[10] and 25-83A. Under this alternative, a hedger documents that it will assess the effectiveness of a purchased option used in a cash flow hedge based only on changes in the option's intrinsic value. The initial value of the excluded component (i.e., the option's time value) is recognized in earnings (in the same income statement line item as the earnings effect of the hedged item) using a systematic and rational method over the life of the hedging instrument. Any difference between the change in the fair value of the excluded components and the amounts recognized in earnings under the systematic and rational	If the option is designated in its entirety as the hedge of a non-option item, changes in the portion of the fair value attributable to the option's time value results in ineffectiveness, which is recognized in profit or loss as it arises. If the entity excludes the time value of an option from the assessment of hedge effectiveness, changes in the fair value of the time value of the option are first recognized in a component of AOCI separate from the cash flow reserve.[11] The subsequent treatment depends on the nature of the hedged transaction and whether it is transaction-related or time period-related (see question 30 for further discussion). For transaction-related hedged items, the amounts in AOCI will generally be reclassified to profit or loss when the hedged item affects profit or loss. For time period-related hedge items, the amounts in AOCI will be amortized into profit or loss on a systematic and rational basis over the period during which the hedge adjustment for the option's intrinsic value could affect profit or loss.

[10] ASC 815-20-25-82(b) through 25-82(c) also allow an entity to assess the effectiveness of a hedge with a purchased option based on the option's minimum value (i.e., intrinsic value plus the effect of discounting) or by excluding only certain components of the option's time value (i.e., theta, vega, rho).

[11] This treatment applies only to the aligned time value as described in IFRS 9.B6.5.32 and B6.5.33. If the time value of the option is not aligned with that of a hypothetical option that perfectly matches the critical terms of the hedged item, this difference could be recorded in profit or loss.

method during the period is deferred in AOCI. Alternatively, an entity can make a policy election to record changes in the option's time value directly in earnings (under ASC 815-20-25-83B).	

Implications:

Both US GAAP and IFRS allow entities to exclude a hedging option's time value from the assessment of hedge effectiveness and defer changes in the option's time value in AOCI. However, the manner in which this amount is ultimately recognized in earnings can differ. Under US GAAP, the initial value of the excluded component is recognized in earnings using a systematic and rational method over the life of the hedging instrument regardless of the nature of the hedged item or the period(s) during which the hedged item affects earnings. Under IFRS 9, the recognition pattern of the time value of an option excluded from the assessment of hedge effectiveness depends on the nature of the hedged item (transaction-related vs. time period-related) and, in certain instances, the recognition pattern of the hedged item, thus potentially resulting in differences between IFRS and US GAAP.

Under US GAAP, an entity may also choose to include the option's total changes in cash flows in the assessment of hedge effectiveness, thereby allowing it to defer the option's entire changes in AOCI until the hedged item effects earnings (as discussed in ASC 815-20-25-126 through 25-129). This approach may result in accounting that is similar to the treatment under IFRS when time value is excluded from the assessment of hedge effectiveness and the hedged item is transaction-related. However, under US GAAP, this approach is limited to cash flow hedge strategies, while under IFRS this approach would also apply to fair value hedges where the hedged item is transaction-based.

Unlike US GAAP, IFRS does not specify where the change in time value excluded from the assessment of hedge effectiveness should be presented in the income statement.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

30. Does the entity exclude certain components from a forward contract or a cross-currency swap that is designated in a hedging relationship? Yes ☐ No ☐

Entities may seek to exclude certain components of the hedging instrument when performing the effectiveness assessment, such as the time value of options (see question 29 for further discussion) and forward contracts (sometimes referred to as the discount or premium points of a forward contract). Excluding certain components may better align the changes in the fair value of the hedged item and hedging instrument.

Both US GAAP and IFRS allow entities to exclude changes in a non-option hedging instrument's fair value related to forward points and cross-currency basis spread when performing the assessment of hedge effectiveness. However, there may be differences with respect to the recognition of the excluded components.

US GAAP — ASC 815-20-25-82(d) through 25-82(e), ASC 815-20-25-83 through 25-83B and ASC 815-35-35-5A through 35-5B	IFRS — IFRS 9.6.2.4(b), IFRS 9.6.5.15 through 5.16, IFRS 9.B6.5.4 and IFRS 9.B6.5.34 through 39
ASC 815 allows entities to exclude from the effectiveness assessment all or part of a hedging instrument's time value or the portion of the change in the fair value of a currency swap attributable to the cross-currency basis spread. The initial value of the excluded component is recognized in earnings (in the same income statement line item as the earnings effect of the hedged item) using a systematic and rational method over the life of the hedging instrument. Any difference between the change in the fair value of the excluded components and the amounts recognized in earnings under the systematic and rational method during the period is deferred in AOCI. Alternatively, an entity can make a policy election to record changes in the fair value of the excluded component directly in earnings (under ASC 815-20-25-83B). If a forward contract is designated as the hedging instrument in a cash flow hedge and the time value associated with the hedging instrument is excluded from the assessment of effectiveness (i.e., the hedge is assessed based on changes in spot prices), the entity does not discount the cash flows for the purposes of assessing effectiveness.	IFRS 9 permits excluding the forward element of a forward contract and the cross-currency basis spread from a financial instrument designated as a hedging instrument. When measuring hedge ineffectiveness, an entity must consider the effect of the time value of money on the hedged item. The change in fair value of the excluded component is deferred in AOCI and reclassified to profit or loss based on the nature of the hedged item.[12] This requires an entity to consider how the accounting for the hedged item will eventually affect profit or loss. If the hedged item later results in a transaction for which the transaction costs are accounted for as part of a one-off event (like a purchase or a sale of an item), the hedging instrument's time value relates to a *transaction-related hedged item* (e.g., hedges of forecast purchases of inventory, and forecasted purchases or sales). If the hedged item later results in protection against risk for a particular period that does not involve a transaction for which the transactions costs are accounted for as part of a one-off event, the hedging instrument's time value relates to a *time period-related hedged item* (e.g., hedges of interest expense or income in a particular period's already existing inventory hedged for fair value changes).

[12] This treatment applies only to the aligned time value as described in IFRS 9.B6.5.37 and B6.5.38. If the time value of the forward contract is not aligned with that of a hypothetical forward that perfectly matches the critical terms of the hedged item, this difference could be recorded in profit or loss.

	For transaction-related hedged items, this amount is reclassified to profit or loss when the hedged item affects profit or loss, or reclassified to the carrying amount of a hedged nonfinancial item once that nonfinancial item is recognized. For time period-related hedged items, the deferred amount is reclassified to profit or loss on a systematic and rational basis.

Implications:

ASC 815 allows entities to ignore the effect of time value when assessing a hedging relationship based on changes in spot prices, while IFRS 9 requires entities to always consider the time value of money when measuring hedge ineffectiveness. As a result, under IFRS 9, if only the spot element of a forward contract is considered when assessing effectiveness, the spot method must be applied on a discounted basis. While this difference will result in ineffectiveness being recognized under IFRS 9, the relationship may still qualify for hedge accounting.

The timing of when changes in the fair value of excluded components are recognized in earnings may differ between US GAAP and IFRS. US GAAP requires the initial value of the excluded component to be recognized in earnings using a systematic and rational method over the life of the hedging instrument irrespective of the nature of the hedged item or the period(s) during which the hedged item impacts earnings. Alternatively, the recognition pattern for the excluded components under IFRS depends on the nature of the hedged item (transaction-related or time period-related) and in certain instances on the recognition pattern of the hedged item, thus potentially resulting in differences between IFRS and US GAAP.

Unlike US GAAP, IFRS does not specify where the change in components excluded from the assessment of hedge effectiveness should be presented in the income statement.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

31(a). Does the entity apply the "change in variable cash flows" method when assessing effectiveness in a cash flow hedge under US GAAP? Yes ☐ No ☐

For hedges of interest rate risk using an interest rate swap, ASC 815 permits hedge effectiveness to be assessed using the variable cash flows method if certain conditions are met, while IFRS 9 does not. This approach is based on a comparison of the floating-rate leg of the hedging swap and the hedged floating-rate cash flows on the asset or liability.

31(b). Does the entity apply the "hypothetical derivative" method when assessing effectiveness in a cash flow hedge? Yes ☐ No ☐

Another method of assessing hedge effectiveness for cash flow hedging relationships more broadly is the hypothetical derivative method, which is based on a comparison of the actual hedging instrument to a hypothetical derivative that would have terms that identically match the hedged item. Although this method is permitted under both US GAAP and IFRS for various hedging relationships, certain aspects of the approach are different in both standards.

US GAAP — **(a) ASC 815-30-35-16 through 35-24** **(b) ASC 815-30-35-25 through 35-30**	**IFRS —** **(a) IFRS 9.BC6.100c and IFRS 9.BC6.288** **(b) IFRS 9.B6.5.4 through B6.5.6 and IFRS 9.BC6.284 through BC6.299**
(a) The change in the variable cash flows method is unique because the change in fair value of the fixed leg of the swap is not considered in the assessment of hedge effectiveness. Instead, the assessment under this method involves comparing the present value of the cumulative change in the expected future cash flows on the variable leg of the swap with the present value of the cumulative change in the expected future hedged cash flows (such as those from a floating-rate asset or liability). The discount rates applicable to determining the fair value of the swap will be used for both present value calculations. The change in the fair value of the swap attributable to its fixed leg is also measured in order to properly reflect the swap on the balance sheet at its fair value, but it isn't an element relevant to the assessment of hedge effectiveness. (b) Under the hypothetical derivative method, effectiveness is assessed based on a comparison of the change in fair value of the actual hedging instrument with the change in fair value of a hypothetical derivative. The latter must have terms that identically match the critical terms of the hedged item. For example, in a hedge of interest rate risk using an interest rate swap, the hypothetical derivative will have the same notional amount, repricing dates, index and caps and	(a) The measurement of hedge effectiveness for hedge accounting purposes cannot be limited to an analysis that considers only the mismatch between the variable cash flows of the hedging instrument and hedged item, even if an entity's actual risk management is based on that approach. (b) To calculate the change in the value of the hedged item for the purpose of measuring hedge ineffectiveness, an entity may use a derivative that would have terms that match the critical terms of the hedged item. The hypothetical derivative replicates the hedged item and hence results in the same outcome as if that change in value was determined by a different approach. Therefore, using a hypothetical derivative is not a method in its own right but a mathematical expedient that can only be used to calculate the value of the hedged item. Consequently, a hypothetical derivative cannot be used to include features in the value of the hedged item that only exist in the hedging instrument (but not in the hedged item).

floors as the hedged item. The hypothetical derivative should also have a zero fair value at the inception of the hedging relationship. However, the hypothetical derivative may be valued using the same discount rate used to value the actual hedging instrument.	

Implications:

(a) The fact that IFRS does not permit the use of the change in variable cash flows method may be a distinction without a material difference. US GAAP permits this method only when the fair value of the swap at hedge inception is zero (or "somewhat near zero"), meaning that the change in variable cash flows method can be used only when it would produce the same (or nearly the same) effectiveness computation as the hypothetical derivative method.

(b) While the criteria for the hypothetical derivative method are generally similar under both IFRS and US GAAP, the clarification under IFRS 9 that a hypothetical derivative cannot be used to include features in the value of the hedged item that only exist in the hedging instrument (but not in the hedged item) may result in additional earnings volatility under IFRS. For example, due to credit risk associated with the actual derivative (that is not part of the hedged item), the discount rate used to value the hypothetical derivative may differ from that of the actual derivative.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

32. Has the entity executed cash flow hedges of forecasted transactions that subsequently resulted in the recognition of a nonfinancial asset (e.g., inventory, PP&E) or nonfinancial liability?

Yes ☐ No ☐

Both US GAAP and IFRS account for the effective portion of the gain or loss associated with such hedges in OCI; however, they differ with respect to how the amounts in OCI are subsequently accounted for once the nonfinancial asset or nonfinancial liability is recognized.

US GAAP — ASC 815-30-35-38 through 35-41	IFRS — IFRS 9.6.5.11(d) and IFRS 9.BC6.375A through BC6.382
US GAAP requires entities to reclassify the amounts in OCI as the nonfinancial assets or liabilities affect earnings (e.g., as the inventory is sold or is impaired, as the PP&E depreciates). The FASB prohibited a basis adjustment approach for the effect of cash flow hedging because such an approach would have resulted in the acquired asset or incurred liability recorded at an amount other than fair value at the date of initial recognition. That is, the adjustment for the effect of the hedge would have moved the initial carrying amount of the acquired asset or incurred liability away from its fair value.	Under IFRS 9.6.5.11(d)(i), if a hedged forecast transaction subsequently results in the recognition of a nonfinancial asset or nonfinancial liability, or a hedged forecast transaction for a nonfinancial asset or a nonfinancial liability becomes a firm commitment for which fair value hedge accounting is applied, the entity removes that amount from the cash flow hedge reserve and includes it directly in the initial cost or other carrying amount of the asset or the liability. This is not a reclassification adjustment and hence it does not affect OCI.

Implications:
The recognition requirement in IFRS addresses what has long been an unpopular aspect of ASC 815. Entities following ASC 815 often apply a basis adjustment technique in their subsidiary ledgers to make sure they can properly track the amortization/release of the hedging gain or loss, only to reverse such basis adjustment back to OCI for periodic financial reporting purposes. Opponents of this aspect of ASC 815 have complained that maintaining appropriate histories and release schedules for different types of cash flow hedge OCI balances is costly and prone to possible error.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

33. A reporting entity characterized by a multinational ownership structure often includes parent, subsidiaries and intervening subsidiaries with different functional currencies. Does the reporting entity want to hedge its operating units' foreign currency risk associated with forecasted transactions?

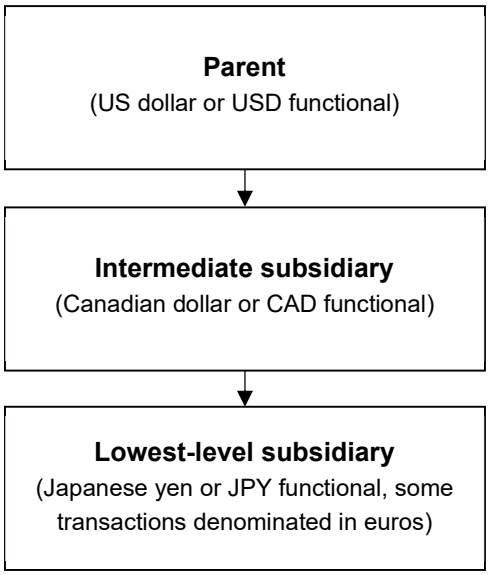
Yes ☐ No ☐

The ability of a parent entity to directly hedge a foreign currency cash flow risk present in its operating unit differs between US GAAP and IFRS. Similarly, the ability of a parent entity to cause the foreign currency risk associated with one of its subsidiary's net investment in a foreign operation to be hedged differs. In the discussion that follows, the "operating unit" is considered to be the entity that has the foreign currency exposure for which hedge accounting is desired. "The hedging unit," which may or may not be the same as the "operating unit," is the entity that holds the hedging instrument.

US GAAP — ASC 815-20-25-30	IFRS — IFRS 9.6.3.6, IFRS 9.B6.2.3 and IFRS 9.BC6.383 through BC6.385
US GAAP requires that the operating unit that has the foreign currency exposure, or another entity in the consolidated group that has the same functional currency as the operating unit, be a party to the hedging instrument. However, for another member of the consolidated group to function as the "hedging unit," there may be no intervening subsidiary with a different functional currency. This principle applies to both net investment hedges (discussed in more detail in question 34) and cash flow hedges of forecasted transactions.	IFRS does not require that the operating unit that is exposed to the risk being hedged be a party to the hedging instrument. When hedging foreign currency exposure on behalf of a subsidiary, the hedging instrument can be transacted by any entity within the consolidated group. IFRS allows any member of the consolidated group, even with a functional currency different from that of a subsidiary, to hedge the subsidiary's foreign currency exposure.

Implications:

US GAAP is more restrictive than IFRS about a member entity hedging foreign currency exposure when a group of entities is involved. IFRS provides additional hedging opportunities for members of the consolidated group to hedge on behalf of the subsidiary with foreign currency exposures. The following example shows the differences between the two standards:



Under US GAAP, the USD Parent cannot directly hedge the foreign currency exposure (i.e., CAD vs. JPY) associated with the Intermediate subsidiary's net investment in its JPY-denominated Lowest-level subsidiary on behalf of the Intermediate subsidiary. The USD Parent also cannot directly hedge its foreign currency exposure (i.e., USD vs. JPY) associated with its ultimate net investment in the JPY-denominated Lowest-level subsidiary. However, such hedges would qualify in the consolidated financial statements under IFRS. (Other differences related to net investment hedging are discussed in question 34.)

Similarly, under US GAAP, neither the USD Parent nor the CAD Intermediate subsidiary can hedge the JPY versus euro (EUR) risk that the JPY Lowest-level subsidiary is exposed to through its forecasted transactions. In contrast, under IFRS 9, any of the three entities (i.e., the USD Parent, the CAD Intermediate subsidiary or the JPY Lowest-level subsidiary) can function as the "hedging unit" and enter into the derivative that hedges the JPY versus EUR risk. This flexibility under IFRS isn't dependent on whether the method of consolidation is "step by step" (Lowest-level subsidiary first consolidated into Intermediate subsidiary) or "direct." (See the "Foreign currency matters" section of this publication for more details.)

If the Intermediate subsidiary were JPY functional like the Lowest-level subsidiary, US GAAP would permit the Intermediate subsidiary to function as the "hedging unit" on behalf of the Lowest-level subsidiary and enter into the JPY versus EUR derivative to hedge EUR-denominated transactions because there is no intervening subsidiary that has a different functional currency than JPY.

Identified difference?

Yes	No	Depends on policy election
☐	☐	☐

Describe:
Click here to enter text.

34. Does the entity hedge its net investment in a foreign entity? Yes ☐ No ☐

Both US GAAP and IFRS permit derivatives and certain non-derivatives (e.g., foreign-currency-denominated debt) to serve as hedges of a net investment in a foreign entity. Investments in foreign operations include investments in incorporated and unincorporated foreign operations with a functional currency other than the reporting currency. This includes subsidiaries, divisions, branches, joint ventures and investments accounted for under the equity method. The change in the carrying amount of these investments, measured at the spot exchange rate, is recorded in the CTA account in OCI. When the hedging criteria for the hedge of a net investment in a foreign operation are met, the gain or loss on the effective part of the hedging instrument is taken directly to equity (the CTA account). ASC 815 has fairly extensive guidance on constructing net investment hedges, while IFRS 9 provides very little guidance on what may or may not be considered a valid net investment hedging relationship.

US GAAP — ASC 815-20-25-66 through 25-71, ASC 815-35-35-4 through 35-27 and ASC 815-20-45-1C	**IFRS — IFRS 9.6.2.2, IFRS 9.6.5.13, IFRS 9.6.5.14, IFRS 9.B6.5.34, IFRS 9.BC6.383 through BC6.385 and IFRIC 16**
ASC 815 provides detailed guidance for what is acceptable and what is not acceptable in constructing net investment hedges. ASC 815-20-25-66 through 25-71 permit non-derivative financial instruments such as foreign-denominated debt, and derivatives such as forwards, fixed-for-fixed cross-currency swaps, and floating-for-floating cross-currency swaps to be the hedging instrument. Fixed-for-floating and floating-for-fixed cross-currency swaps are specifically not permitted to be used. When a derivative is used as the hedging instrument, ASC 815-35-35-4 allows an entity to assess hedge effectiveness using either a method based on changes in spot exchange rates or a method based on changes in forward exchange rates, as long as a single method is used consistently. Amounts excluded from the assessment of hedge effectiveness under the spot method may be recognized under the amortization approach. Under this approach, the initial value of the excluded components is recognized in earnings using a systematic and rational method over the life of the hedging instrument. Any difference between the change in the fair value of the excluded components during the period and the amount amortized into earnings during the period under the systematic and rational method is deferred in CTA. If the hedging relationship is discontinued, any amounts remaining in CTA that relate to the excluded components will remain in CTA until the hedged net investment is sold or liquidated.	IFRS allows an entity to designate either a derivative or non-derivative financial instrument (or a combination thereof) as hedging instruments for net investment hedging, but it does not specifically comment on the ability to use fixed-for-floating or floating-for-fixed cross-currency swaps. IFRS 9 does not have specific guidance on how ineffectiveness of a net investment hedge should be measured, but it does allow for time value of options, forward elements of forwards and/or foreign currency basis spread to be excluded from the assessment of hedge effectiveness. Where such portions are excluded, they may be treated as a cost of hedging or remain at fair value through profit or loss. IFRIC 16 addresses, in part, the absence of detailed guidance in IFRS for where, within a consolidated group, hedging instruments that are hedges of a net investment can be held. IFRIC 16 clarifies that the hedged risk may be designated as the foreign currency exposure arising between the functional currency of the foreign operation and the functional currency of *any* parent entity (i.e., the immediate, intermediate or ultimate parent entity) of that foreign operation. IFRIC 16 says that any entity within the group, irrespective of the ownership structure, is permitted to hold the hedging instrument, as long as the hedging instrument is effective in offsetting the risk arising from the exposure to the functional currency of the foreign operation and the functional currency of the specified parent entity. IFRIC 16 even allows

As covered in question 33, a parent cannot directly hedge a subsidiary held by another subsidiary if the intervening subsidiary has a different functional currency from the parent or the ultimate subsidiary. ASC 815 requires the entire change in a hedging instrument's fair value included in the assessment of hedge effectiveness in a net investment to be presented in the same income statement line item used to present the earnings effect of the hedged net investment when those amounts are reclassified from AOCI (e.g., when the foreign subsidiary is sold). However, no guidance is provided on the income statement classification of amounts excluded from the assessment of effectiveness in net investment hedges.	the foreign operation that itself is being hedged to hold the hedging instrument. The functional currency of the entity holding the hedging instrument is irrelevant. The specified parent entity, the hedged risk and the hedging instrument should all be designated and documented at inception.

Implications:

The guidance in US GAAP on net investment hedging is voluminous, even though the permissible hedge structures are more restrictive than under IFRS. IFRIC 16 clarifies the broad flexibility in IFRS to place the hedging instrument within the consolidated entity. As such, under IFRS, a parent entity can directly execute a net investment hedge of a "third-tier" subsidiary even if there is an intervening subsidiary in the "second-tier" that does not have the same functional currency. This is specifically prohibited under US GAAP. Furthermore, this flexibility is available under IFRS whether the step-by-step method or the direct method of consolidation is used under IAS 21. (See the "Foreign currency matters" section of this publication for more details on the two methods.) Under ASC 815, the ownership structure of the entire entity, and the functional currency of each entity, must be respected.

In addition, the specific guidance on permitted hedging instruments and the methods of measuring hedge ineffectiveness is much less detailed under IFRS than US GAAP. For example, IFRS does not provide specific guidance on the types of cross-currency swaps that may, or may not, be used as the hedging instrument in a net investment hedge. For example, IFRS doesn't specifically prohibit the use of a cross-currency swap with multiple underlyings (e.g., a fixed-for-floating cross-currency swap or a floating-for-fixed cross-currency swap) as the hedging instrument; however, such a derivative would unlikely be an effective hedge. Further, certain of the assessment methodologies explicitly allowed for under US GAAP may be harder to theoretically justify under IFRS, such as achieving perfectly effective hedge accounting under the forward method when a fixed-for-fixed cross-currency swap is used to hedge a net investment amount that is equal to the foreign currency notional amount of the swap.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

35. Does the reporting entity want to designate a non-derivative (e.g., a debt instrument) or a combination of derivative and non-derivative instruments as the hedging instrument?

Yes ☐ No ☐

While both standards permit non-derivative instruments to be used as hedging instruments in certain hedges that present foreign currency exchange risk, IFRS allows other risks to be hedged. In addition, the US GAAP guidance is more detailed and prescriptive, and also explicitly prohibits combining derivatives and non-derivatives together and using them in a joint fashion as a hedging instrument.

US GAAP — ASC 815-20-25-51A through 25-71	IFRS — IFRS 9.6.2.1 through 6.2.3, IFRS 9.6.2.5, IFRS 9.B6.2.3 and IFRS 9.B6.2.5
A non-derivative instrument (e.g., a debt instrument) can be designated as a hedging instrument as long as it results in a foreign currency transaction gain or loss and is designated as a hedge of: ► The changes in the fair value of an unrecognized firm commitment attributable to foreign currency exchange risk Or ► The foreign currency exposure on a net investment in a foreign operation It is never appropriate under US GAAP to use a non-derivative as a hedging instrument outside of the specific foreign currency contexts listed above. In addition, ASC 815-20-25-71(d)(2) prohibits considering a separate derivative and a cash instrument as a single synthetic instrument for accounting purposes. For example, a debt instrument denominated in the investor's functional currency and a cross-currency interest rate swap cannot be accounted for as synthetically created foreign-currency-denominated debt to be designated as a hedge of the entity's net investment in a foreign operation.	Under IFRS 9.6.2.2, a non-derivative financial asset or a non-derivative financial liability measured at fair value through profit or loss may be designated as a hedging instrument unless it is a financial liability designated as at fair value through profit or loss for which the amount of its change in fair value that is attributable to changes in the credit risk of that liability is presented in OCI. For hedges other than those of foreign exchange risk, when an entity designates a non-derivative financial asset or liability measured at fair value through profit or loss as a hedging instrument, it may only designate the non-derivative financial instrument in its entirety or a proportion of it. For a hedge of foreign currency risk, the foreign currency risk component (determined by IAS 21) of a non-derivative financial asset or a non-derivative financial liability may be designated as a hedging instrument, provided that it is not an investment in an equity instrument for which an entity has elected to present changes in fair value in OCI. For example, an entity could hedge the spot risk of highly probable forecasted sales in 12 months that are denominated in a foreign currency with a seven-year financial liability denominated in the same foreign currency. IFRS 9 also permits two or more non-derivatives or proportions of them, or a combination of derivatives and non-derivatives or proportions of them, to be jointly designated as the hedging instrument. For example, a USD functional currency entity may combine its British pound (GBP) denominated fixed-rate debt with a receive-fixed-GBP, pay-floating-EUR currency swap as a synthetic floating-rate EUR debt as a hedge of its net investment in a EUR subsidiary. However, the unit of account for instruments making up the aggregated exposure does not change. As a result, these items would continue to be treated separately for other aspects of accounting (e.g., balance sheet presentation).

Implications:

IFRS offers more flexibility than US GAAP because it permits designation of a non-derivative financial asset or financial liability measured at fair value through profit or loss as a hedging instrument in a hedge of any qualifying risk, including foreign currency.

For example, an entity that is exposed to variability in cash flows from highly probable forecasted purchases of crude oil indexed to Brent crude oil could purchase non-derivative exchange-traded investments that replicate the performance of Brent futures contracts such as commodity funds or exchange-traded commodities as the hedging instrument. The ability to designate non-derivative hedging instruments can be helpful if an entity does not have access to derivatives markets (e.g., because of local regulations that prohibit the entity from holding such instruments), or if an entity does not want to be subject to margining requirements or enter into uncollateralized over-the-counter derivatives.

In addition, unlike US GAAP, IFRS permits entities to combine a derivative with a non-derivative and designate the resultant synthetic instrument as a hedging instrument. This flexibility provides entities with additional hedge accounting opportunities and enables them to adopt new strategies to manage risks while achieving hedge accounting under IFRS.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

36. Does the entity employ a central treasury-type function, utilizing internal foreign currency derivative contracts, to achieve hedge accounting for standalone subsidiaries while offsetting such exposures with a third party on a net basis?

Yes ☐ No ☐

An internal foreign currency derivative contract is one that has been entered into with another member of a consolidated group (such as a treasury center) rather than with an external third party, such as a bank. Under US GAAP, these derivatives may be designated as hedges if certain criteria for achieving offset with a third party are met; however, under IFRS, only instruments that directly involve a third party on a one-for-one basis can be designated as hedging instruments.

US GAAP — ASC 815-20-25-61 through 25-64	IFRS — IFRS 9.6.2.3
An internal foreign currency derivative can be a hedging instrument in a foreign currency cash flow hedge of a forecasted borrowing, purchase, or sale or an unrecognized firm commitment in the consolidated financial statements only if: ► The criteria for foreign currency cash flow hedge accounting in ASC 815 are satisfied from the perspective of the member of the consolidated group using the derivative. ► The member of the consolidated group *not* using the derivative as a hedging instrument either (1) enters into a derivative contract with an unrelated third party to offset the exposure that results from that internal derivative or (2) if the conditions in ASC 815-20-25-62	For hedge accounting purposes, only instruments that involve a party external to the reporting entity (i.e., external to the group or individual entity that is being reported on) can be designated as hedging instruments.

through 25-64 (offsetting net exposures) are met, enters into derivative contracts with unrelated third parties that would offset, on a *net* basis for each foreign currency, the foreign exchange risk arising from multiple internal derivative contracts. The conditions in ASC 815-20-25-62 include a requirement that the offsetting net third-party derivative must mature within the same 31-day period that the internal derivatives mature and must be entered into within three business days after the designation of the internal derivatives as hedging instruments.	

Implications:

ASC 815 provides an exception to the general principle that an intercompany derivative would be eliminated during the preparation of the consolidated financial statements by indicating that a foreign currency derivative instrument that has been entered into with another member of a consolidated group could be a hedging instrument in the consolidated financial statements. This exception only applies when the member of the consolidated group using the intercompany derivative as a hedging instrument satisfies the criteria for foreign currency cash flow hedge accounting. The member of the consolidated group *not* using the derivative as a hedging instrument is generally required to enter into a one-to-one offsetting contract with an unrelated third party. However, if certain criteria are met, this entity may enter into derivative contracts with unrelated third parties to offset the foreign exchange risk arising from multiple internal derivative contracts on a *net* basis for each foreign currency. This accommodation is not provided in IFRS 9.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

37. Does the reporting entity hedge its foreign currency risks associated with a forecasted intercompany transaction (e.g., royalty revenue)?

Yes ☐ No ☐

Large multinational firms transact regularly with their foreign subsidiaries or operations and thus expose themselves to the foreign currency risks associated with these transactions. For example, a US parent entity sells inventory to its Japanese subsidiary in JPY, or a distributor of copyrighted movies with a USD functional currency receives CAD royalty revenue for every movie that its Canadian subsidiary sells. To manage the foreign currency risks, entities often hedge the foreign currency exposure to variability in the functional-currency-equivalent cash flows associated with these intercompany transactions.

One example of a hedgeable transaction in consolidated financial statements under both standards is a forecasted sale or purchase of inventories between members of the same consolidated group if there is an onward sale of the inventory to an external party, when such sale or purchase is denominated in a currency other than the functional currency of the entity entering into that transaction. In this example, the hedged transaction is the foreign currency risk associated with an intercompany transaction, but ultimately there is a related external transaction (the sale to an external party) that affects consolidated profit or loss.

However, the two standards appear to differ with respect to permitted hedge accounting for intercompany royalties.

US GAAP — ASC 815-20-25-15(c), ASC 815-20-25-30, ASC 815-20-25-38 through 25-40 and ASC 815-30-55-67 through 55-76	**IFRS — IFRS 9.6.3.6 and IFRS 9.B6.3.5 through B6.3.6**
A forecasted transaction is a transaction with a party external to the reporting entity (except as permitted by ASC 815-20-25-38 through 25-40) and presents an exposure to variations in cash flows for the hedged risk that could affect reported earnings. Under ASC 815-20-25-38, a reporting entity is permitted to hedge the foreign currency exposure to variability in the functional-currency-equivalent cash flows associated with a forecasted intercompany transaction (e.g., a forecasted royalty from a foreign subsidiary), provided that the forecasted transaction is denominated in a currency other than the hedging unit's functional currency and that the operating unit that has the foreign currency exposure is a party to the hedging instrument (or another member of the consolidated group with the same functional currency and no intervening subsidiary with a different functional currency is a party to the hedging instrument). The forecasted transaction does not need to be with a party external to the reporting entity.	In consolidated financial statements, the foreign currency risk of a highly probable forecast intragroup transaction may qualify as a hedged item in a cash flow hedge provided the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss. For this purpose, an entity can be a parent, subsidiary, associate, joint venture or branch. If the foreign currency risk of a forecast intragroup transaction does not affect consolidated profit or loss, the intragroup transaction cannot qualify as a hedged item. This is usually the case for royalty payments, interest payments or management charges between members of the same group unless there is a related external transaction. However, when the foreign currency risk of a forecast intragroup transaction will affect consolidated profit or loss, the intragroup transaction can qualify as a hedged item. An example is forecast sales or purchases of inventories between members of the same group if there is an onward sale of the inventory to a party external to the group.

Implications:

ASC 815 and IFRS 9 are largely similar on the concept of how the hedging guidance interacts with ASC 830 and IAS 21, respectively, with respect to many intercompany transactions. However, a key difference appears to affect intercompany royalties.

ASC 815 has been said to convey a mixed message with respect to royalty payments in that it specifically lists intercompany royalties as an example of an eligible hedged item in ASC 815-20-25-38 and then illustrates (in ASC 815-30-55-67 through 55-76) the hedging of intercompany royalties as a permitted cash flow hedging activity, yet simultaneously implies that cash flow hedge accounting is supportable only if a transaction could affect consolidated reported earnings. IFRS cites intercompany royalties as an illustration of an unlikely-to-qualify hedged item, presumably because intercompany royalties would cleanly eliminate in consolidated earnings. Conceivably, US GAAP lists intercompany royalties as permitted hedged transactions because they relate to external transactions that precede such royalties and affect consolidated earnings, just as intercompany sales of inventory relate to external transactions with third parties that follow such intercompany sales.

This difference could affect many entities applying US GAAP that use derivatives to manage their foreign currency risks associated with forecasted foreign currency denominated intercompany royalty revenue.

(Note that IFRS 9.B6.3.5 also lists “interest payments or management charges between members of the same group” as unlikely-to-qualify hedged items. The application of the concepts in ASC 815-20-25-15(c) would likely reach the same conclusion for internal interest and internal management charges under US GAAP.)

Identified difference?

Yes	No	Depends on policy election
☐	☐	☐

Describe:
Click here to enter text.

Fair value measurements

Similarities:

ASC 820 and IFRS 13 both provide a framework for measuring fair value that is applicable under the various accounting topics that require (or permit) fair value measurements in US GAAP and IFRS, respectively. The measurement of fair value across US GAAP and IFRS is based on a single definition of fair value and a generally consistent framework for the application of that definition.

Like ASC 820, IFRS 13 defines fair value as an exit price. That is, the price to sell an asset or transfer a liability. Both ASC 820 and IFRS 13 acknowledge that the fair value of an asset or liability at initial recognition may not always be its transaction price, as exit and entry prices can differ. In addition, both US GAAP and IFRS indicate that when the transaction price differs from fair value, the reporting entity recognizes the resulting gain or loss in earnings unless the standard that requires or permits the fair value measurement specifies otherwise.

Primary US GAAP	Primary IFRS
► ASC 820, *Fair Value Measurement* ► ASC 718, *Compensation — Stock Compensation* ► ASC 946, *Financial Services — Investment Companies* ► ASC 842, *Leases*	► IFRS 13 *Fair Value Measurement* ► IFRS 2 *Share-Based Payment* ► IFRS 16 *Leases*
Note: Share-based payment transactions addressed under ASC 718 (excluding ASC 718-40, *Compensation — Stock Compensation — Employee Stock Ownership Plans*) have been specifically excluded from the scope of ASC 820. As such, the determination of “fair value” under ASC 718 (excluding 718-40) is based on the specific guidance provided in that standard. Under ASC 842, lessees and certain lessors determine the fair value of an underlying asset in a lease arrangement using the definition of fair value in ASC 820. However, as an exception, lessors that are not manufacturers or dealers calculate the fair value of an underlying asset at lease commencement at cost less any volume or trade discounts.	*Note:* Share-based payment transactions in the scope of IFRS 2 and leasing transactions in the scope of IFRS 16 have been specifically excluded from the scope of IFRS 13. As such, the determination of “fair value” under IFRS 2 and IFRS 16 is based on the specific guidance provided in each of those respective standards.

Standard setting activities:

In June 2022, the FASB issued ASU 2022-03*, Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*. This ASU clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered when measuring fair value. Recognizing such a restriction as a separate unit of account is also not permitted. IFRS 13 does not require excluding a contractual restriction on the sale of an equity security from the unit of account of the equity security when measuring its fair value. Rather, entities applying IFRS 13 are required to apply judgment to determine whether the restriction is deemed to be a characteristic of the asset or the entity holding the asset. See further discussion in question 3. The guidance will be applied prospectively, with special transition provisions for entities that qualify as investment companies under ASC 946. The guidance is effective for all PBEs for fiscal years beginning after 15 December 2023, and interim periods within those fiscal years. For all other entities, it is effective for fiscal years beginning after 15 December 2024, and interim periods within those fiscal years. Early adoption is permitted for all entities.

Discussion of IFRS 1:

Although the principles of measuring fair value are generally consistent between US GAAP and IFRS, certain differences could result in adjustments to fair value measurements for first-time IFRS adopters. One difference discussed below relates to the recognition of Day 1 gains and losses for financial instruments initially measured at fair value. First-time adopters may elect to apply IFRS 9 prospectively to Day 1 gain or loss transactions occurring on or after the date of transition to IFRS (IFRS 1.D20). As such, if a first-time adopter elects to recognize Day 1 gains and losses prospectively, Day 1 gain or loss transactions that occurred prior to the date of transition to IFRS would not need to be retrospectively restated.

Two other differences discussed below relate to (1) the use of NAV as a practical expedient for fair value measurements and (2) the effect of contractual sale restrictions when measuring equity securities.

This section does not address differences in measurement objectives between US GAAP and IFRS (e.g., where fair value is required or permitted under IFRS but not US GAAP, or vice versa). These differences are separately addressed in other sections of this publication.

Differences:

1. Has the reporting entity recognized Day 1 gains or losses on the initial recognition of financial instruments?	Yes ☐	No ☐

The exit price notion in ASC 820 and IFRS 13 allows for differences between transaction price (an entry price) and fair value (an exit price). ASC 820-10-30-3A and IFRS 13.B4 discuss situations in which transaction prices may not represent the fair value of an asset or liability at initial recognition. For example, a transaction price may not represent fair value in a situation in which the unit of account represented by the transaction price is different than the unit of account for the asset or liability measured at fair value. This could occur when the transaction price for a complex financial instrument includes a fee for structuring the transaction. Alternatively, a transaction price could differ from fair value if the market in which the reporting entity acquired the asset (or assumed the liability) is different from the principal (or most advantageous) market in which the entity will dispose of the asset (or transfer the liability). While helpful in identifying the types of factors an entity should consider in assessing whether fair value would differ from transaction price, the lists provided in ASC 820-10-30-3A and IFRS 13.B4 are not intended to be all inclusive.

A Day 1 gain or loss represents the unrealized gain or loss resulting from a difference between an asset's or liability's transaction price and its fair value at initial recognition.

US GAAP — ASC 820-10-30	**IFRS — IFRS 13.57 through 60 and IFRS 9.B5.1.2A**
ASC 820 requires the recognition of Day 1 gains or losses in those instances where the transaction price does not represent the fair value of an asset or liability (including financial instruments) at initial recognition, unless the Topic that requires or permits the fair value measurement specifies otherwise. ASC 820 does not impose a reliability threshold for the recognition of gains or losses upon the initial measurement of an asset or liability at its fair value. As such, the recognition of Day 1 gains and losses is not prohibited, even for instruments whose fair value is measured using valuation models based on unobservable (i.e., Level 3) inputs. However, in all instances, companies should have evidence to substantiate the amount by which fair value is assumed to differ from the transaction price.	IFRS 13 requires the recognition of Day 1 gains or losses in profit or loss in those instances where the transaction price does not represent the fair value of an asset or liability (including financial instruments) at initial recognition, unless the standard that requires or permits the fair value measurement specifies otherwise. For financial instruments, IFRS 9.B5.1.2A states that the best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (i.e., the fair value of the consideration given or received). If an entity determines that the fair value of a financial instrument at initial recognition differs from the transaction price, it should only recognize this difference as a gain or loss if fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets. In all other cases, the difference is deferred and subsequently recognized "as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability."

Implications:
IFRS 9 indicates that the best evidence of fair value of a financial instrument at initial recognition is normally the transaction price unless the fair value of the instrument is evidenced by observable market data. The IASB concluded that those conditions were necessary and sufficient to provide reasonable assurance that fair value was other than the transaction price for the purpose of recognizing up-front gains or losses. US GAAP contains no specific requirements regarding the observability of inputs, thereby potentially allowing for the recognition of gains or losses at initial recognition for financial instruments even when the fair value measurement is based on a valuation model with significant unobservable inputs (i.e., Level 3 measurements). Accordingly, the ability to recognize Day 1 gains and losses for financial instruments under IFRS is more restrictive than under US GAAP.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

2. Does the reporting entity measure the fair value of its alternative investments based on net asset value as a practical expedient? Yes ☐ No ☐

Certain types of investments, often referred to as alternative investments, permit an investor to redeem its investment directly with, or receive distributions from, the investee at times specified in the investee's governing documents. Examples of these alternative investments, which are commonly in the form of limited partnership interests, include ownership interests in hedge funds, private equity funds, real estate funds, venture capital funds, commodity funds, offshore fund vehicles and funds of funds. It is common practice for the investees to provide investors in these funds with information regarding the pro rata share of the fair value of the underlying investments in the fund (i.e., the fund's NAV).

US GAAP — ASC 820-10-35-59 through 35-62 and ASC 946	**IFRS**
ASC 820 provides a practical expedient to estimate the fair value of certain alternative investments using NAV per share or its equivalent. The scope of this practical expedient is limited to investments without readily determinable fair values in investment companies (including investments in a real estate fund for which it is industry practice to measure investment assets at fair value on a recurring basis and to issue financial statements that are consistent with the measurement principles in ASC 946). However, the practical expedient cannot be used for in-scope investments if it is probable as of the measurement date that the entity will sell the investment (or a portion of the investment) for an amount other than NAV.	IFRS does not provide a practical expedient to use NAV to measure the fair value of alternative investments. While NAV may represent the fair value of the equity interest in certain situations (e.g., in situations where an open-ended fund provides a source of liquidity through ongoing subscriptions and redemptions at NAV), one cannot presume this to be the case. Instead, when these investments are measured at fair value (e.g., an investment in a venture capital organization accounted for at fair value under IFRS 9), the measurement should consider all the attributes that market participants would consider when transacting for the investment (i.e., the price that would be received in a sale of the investment to an independent party).

When calculated in a manner consistent with the measurement principles of ASC 946, and as of the reporting entity's measurement date, unadjusted NAV may be used, as a practical expedient, to estimate the fair value of alternative investments. In those situations in which the NAV of the investment obtained from the investee is not as of the reporting entity's measurement date or is not calculated in a manner consistent with the measurement principles of ASC 946, the reporting entity considers whether an adjustment to the most recent NAV per share is necessary. The guidance in ASC 820 notes that "the objective of any adjustment is to estimate a NAV per share for the investment that is calculated in a manner consistent with the measurement principles of ASC 946 as of the reporting entity's measurement date."	

Implications:

In some instances, an alternative investment's NAV may represent its fair value. For example, if a hedge fund is open to new investors, presumably the fair value of an investment in the fund would not be expected to be higher than the amount that a new investor would be required to directly invest with the fund in order to obtain a similar interest. Similarly, the fair value of the investment would not be expected to be an amount lower than the current holder could receive by directly redeeming its investment with the hedge fund (if possible).

However, in other instances, the NAV of a fund may not necessarily represent the fair value of an equity interest in the fund because NAV may not capture all the attributes of the equity interest in the fund that market participants would consider in pricing the interest. This could be the case when, for example, a hedge fund does not stand ready to provide liquidity to investors and, therefore, the reporting entity cannot redeem its investment with the fund at the measurement date. Likewise, the fair value of an interest in a private equity fund will often differ from its NAV because the fair value of the underlying assets within the private equity fund ignores any restrictions associated with a client's equity interest in the fund, as well as the effect of any required additional capital contributions.

An entity that has utilized the practical expedient under ASC 820 to measure its alternative investments at NAV may be required to make an adjustment upon its initial adoption of current IFRS, if it is determined that NAV does not represent the instrument's fair value.

Identified difference?

	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

3. Does the reporting entity hold equity securities measured at fair value that are subject to contractual sale restrictions?	Yes ☐	No ☐

Contractual arrangements that restrict an entity from selling an equity security are used in many capital-raising transactions. Those contractual sale restrictions may be referred to as a lock-up agreement or a market standoff agreement. Alternatively, the restriction could be a provision within a separate agreement between certain shareholders. Examples of those other types of transactions include private placements, private investments in public equity or a business combination involving a special-purpose acquisition company (SPAC), also referred to as a de-SPAC transaction.

US GAAP — 820-10-35-36B, 820-10-55-52 and 820-10-55-52A	**IFRS 13. IE28**
ASC 820 indicates that the effect on fair value of a restriction on the sale or use of an asset will differ depending on whether the restriction is deemed to be a characteristic of the asset or the entity holding the asset. A restriction that would transfer with the asset in an assumed sale would generally be deemed a characteristic of the asset and therefore would likely be considered by market participants in pricing the asset. Conversely, a restriction that is specific to the reporting entity holding the asset would not transfer with the asset in an assumed sale and therefore would not be considered when measuring fair value. Before the adoption of ASU 2022-03, there was diversity in practice in the measurement of the fair value of equity securities subject to contractual sale restrictions. To value these securities, some stakeholders previously applied a discount to the fair value of an identical equity security that is not subject to a contractual sale restriction, while others believed the application of such a discount was inconsistent with the fair value measurement principles ASC 820.	IFRS 13 indicates that the effect on fair value of a restriction on the sale or use of an asset will differ depending on whether the restriction is deemed to be a characteristic of the asset or the entity holding the asset. A restriction that would transfer with the asset in an assumed sale would generally be deemed a characteristic of the asset and, therefore, would likely be considered by market participants when pricing the asset. Conversely, a restriction that is specific to the entity holding the asset would not transfer with the asset in an assumed sale and, therefore, would not be considered when measuring fair value. However, IFRS 13 does not require excluding a contractual restriction on the sale of an equity security from the unit of account of the equity security when measuring its fair value. Rather, IFRS 13 requires entities to assess whether a contractual sale restriction is a characteristic of the asset or of the entity holding the asset. This assessment may require judgment based on the specific facts and circumstances.

After the adoption of ASU 2022-03, entities should not consider the contractual restriction on the sale of an equity security as part of the unit of account of the equity security when measuring its fair value. This is because the contractual sale restriction is viewed as a characteristic of the entity holding the security rather than a characteristic of the asset. That is, an entity should measure the fair value of an equity security subject to a contractual sale restriction the same way it measures an identical equity security that is not subject to such a restriction (e.g., based on the quoted price). Under the new guidance, applying a discount to reflect a contractual sale restriction that is not a characteristic of the asset is not permitted. Recognizing such a restriction as a separate unit of account is also not permitted.	

Implications:

After the adoption of ASU 2022-03, US GAAP requires a contractual restriction on the sale of an equity security to be excluded from the fair value measurement of the security. IFRS 13 requires an entity to apply judgment to determine whether a contractual restriction on the sale of an equity security is a characteristic of the reporting entity holding the security that should be excluded from the fair value measurement of the security. Because IFRS 13 does not require excluding a contractual restriction on the sale of an equity security from the unit of account when measuring the fair value of the equity security, it is possible that differences may arise between IFRS and US GAAP entities after the adoption of ASU 2022-03.

Identified difference?

Describe:
Click here to enter text.

Yes	No	Depends on policy election
☐	☐	☐

Foreign currency matters

Similarities:

ASC 830 and IAS 21 are similar in their approach to foreign currency translation. Although US GAAP and IFRS contain different criteria in determining an entity's functional currency, both ASC 830 and IAS 21 generally result in the same conclusion. Under both US GAAP and IFRS, the *functional currency* is defined as the currency of the primary economic environment in which the entity operates, and this is normally the currency of the environment in which the entity generates and expends cash.

Also, although there are significant differences in accounting for foreign currency translation in hyperinflationary economies under ASC 830 and IAS 29 *Financial Reporting in Hyperinflationary Economies*, both standards require the identification of hyperinflationary economies and generally consider the same economies to be hyperinflationary.

Both ASC 830 and IAS 21 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. Similarly, both standards allow financial statements to be presented in a currency other than the entity's functional currency (i.e., the reporting (US GAAP) or presentation (IFRS) currency) but this requires *translation* of an entity's financial statements from the functional currency to the reporting currency. With the exception of the translation of financial statements in hyperinflationary economies, the method used by both US GAAP and IFRS to translate financial statements from the functional currency to the reporting currency is generally the same, and both US GAAP and IFRS require remeasurement into the functional currency before translation into the reporting currency. Assets and liabilities are translated at the period-end rate and income statement amounts generally are translated at the average rate, with the exchange differences reported in equity.

Both standards require certain foreign exchange effects related to net investments in foreign operations to be reported in shareholders' equity (i.e., cumulative translation adjustment, or CTA) rather than through net income when the entities related to the transactions are consolidated, combined or accounted for by the equity method in the reporting entity's financial statements. In general, CTA amounts are reclassified from equity into income when there is a sale (including the loss of a controlling financial interest) or complete liquidation or abandonment of the foreign operation.

Primary US GAAP	Primary IFRS
► ASC 830, *Foreign Currency Matters* ► ASC 810, *Consolidation*	► IAS 21 *The Effects of Changes in Foreign Exchange Rates* ► IAS 29 *Financial Reporting in Hyperinflationary Economies* ► IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

Standard setting activities:

There is no significant standard setting activity in this area.

Discussion of IFRS 1:

Different CTA amounts could exist under US GAAP and IFRS, and these differences could accumulate over a period of several years because neither US GAAP nor IFRS allows the cumulative translation differences to be entirely reclassified to profit and loss until the foreign operation is disposed. The IASB was concerned about the costs of restatements for reporting entities because full retrospective application of IAS 21 would require a first-time adopter to restate all financial statements of its

foreign operations to IFRS from its date of inception or later acquisition onwards, and then determine the cumulative translation differences arising in relation to each of these foreign operations. For this reason, IFRS 1 provides a reporting entity with the option to restate to zero all of the cumulative translation differences existing as of the transition date, including any gains or losses on related hedges residing in the CTA account. We interpret this IFRS 1 exemption to apply to all cumulative translation differences arising from the translation into the presentation currency of the parent entity, including both (1) the translation differences arising between the parent's and its subsidiaries' functional currencies and (2) the translation differences arising between the parent's functional currency and presentation currency, if any. Accordingly, the gain or loss on a subsequent disposal of any foreign operation excludes translation differences that arose before the date of transition to IFRS and includes only the subsequent translation differences.

The IASB decided not to exempt first-time adopters from retrospective application of IAS 29. Although the cost of restating financial statements for the effects of hyperinflation in periods before the date of transition to IFRS might exceed the benefits, particularly if the currency is no longer hyperinflationary, the IASB concluded in paragraph 67 of the Basis for Conclusions to IFRS 1 that a full retrospective "restatement should be required because hyperinflation can make unadjusted financial statements meaningless or misleading."

As a result, in preparing its opening IFRS balance sheet, a first-time adopter should apply the requirements of IAS 29 on hyperinflation to any periods during which the economy of the functional currency or presentation currency was hyperinflationary. Also, because the determination of a hyperinflationary economy is slightly different under IFRS and US GAAP, reporting enterprises need to first re-perform the analysis for hyperinflationary economy under IFRS in order to appropriately apply IAS 29.

To make the restatement process less onerous, a first-time adopter may want to consider using fair value as deemed cost for long-lived assets such as PP&E, investment properties and certain intangible assets. If a first-time adopter applies the exemption to use fair value or a revaluation as deemed cost, it would apply IAS 29 to subsequent periods from the date the revalued amount or fair value was determined.

Differences:

1. Is the share capital of a reporting entity denominated in a currency other than its functional currency?	Yes ☐	No ☐
While this is not a common occurrence, it is possible that a reporting entity's share capital is not denominated in its functional currency or reporting currency. For example, the British Virgin Islands is a tax haven for the incorporation of "international business companies," with share capital commonly stated in US dollars (although there may be other share capital denominations). That international business company, however, might have operations in other nations such as China, and management may determine that the Renminbi (or RMB, issued by the People's Bank of China, the monetary authority of the People's Republic of China) is the functional currency.		

US GAAP — ASC 830-10-45-17 through 45-18	**IFRS — IAS 21.23**
Equity balances, which are nonmonetary items, are remeasured using historical exchange rates.	IFRS does not indicate the exchange rate that should be used for the translation of equity balances. Therefore, equity balances (other than retained earnings) may be translated at either the historical exchange rate or the closing exchange rate (i.e., the spot exchange rate at the balance sheet date).

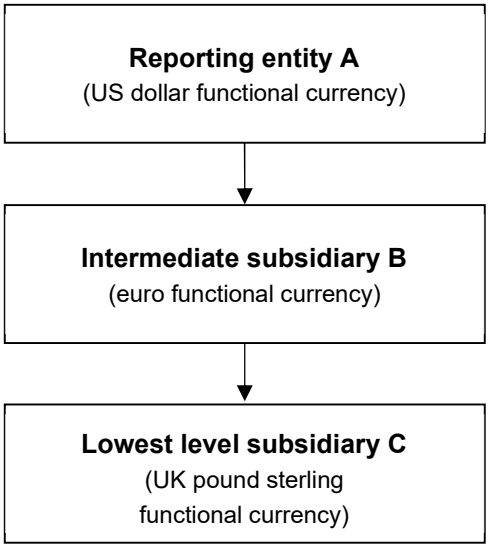
Implications:
If an IFRS reporting entity chooses to translate its share capital denominated in a currency other than its functional currency using the closing exchange rate instead of the historical exchange rate, the translated amount of share capital may differ between US GAAP and IFRS. If an entity does translate such share capital at the closing rate under IFRS, it is not appropriate for the exchange differences to be recognized in profit or loss, since they do not affect the cash flows of the entity. Instead, the exchange differences are recognized in equity. Consequently, whether such share capital is maintained at a historical rate, or is retranslated at the closing rate, the approach does not affect the total equity of the entity.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

2. Does the reporting entity have a corporate structure comprising multiple levels of subsidiaries and parent companies with different functional currencies that are ultimately consolidated into the reporting entity?	Yes	No
	☐	☐

US GAAP respects the ownership structure of a complex entity with differing functional currencies for purposes of performing the translation accounting to prepare the consolidated financial statements in the reporting currency. The consolidation is said to occur “step by step” (i.e., bottom-up). In contrast, IFRS allows an entity to choose to effectively perform “direct” translation of each subsidiary into the presentation currency, ignoring any intervening subsidiaries (even if their functional currency is different).

Consider the following example: Reporting entity A (US dollar functional currency) controls 100% of Intermediate subsidiary B (euro functional currency). Intermediate subsidiary B in turn controls 100% of Lowest level subsidiary C (UK pound sterling functional currency).



US GAAP — ASC 830 and ASC 810	IFRS — IFRIC 16.17
A “bottom-up” approach is required in order to reflect the appropriate foreign currency effects and hedges in place. As such, the entity should be consolidated by an enterprise that controls the entity. Therefore, the “step-by-step” method of consolidation is used whereby each entity is consolidated into its immediate parent until the ultimate parent (i.e., the reporting entity) has consolidated the financial statements of all the entities below it. In the example above, Lowest level subsidiary C’s financial statements are first translated from UK pound sterling into euros and consolidated into Intermediate subsidiary B. Then, the consolidated financial statements of Intermediate subsidiary B (which now include Lowest level subsidiary C) are translated from euros to US dollars and consolidated into Reporting entity A.	The method of consolidation is not specified and, as a result, either the “direct” or the “step-by-step” method of consolidation is used. Under the “direct” method, each entity within the consolidated group is directly translated into the functional currency of the ultimate parent and then consolidated into the ultimate parent (i.e., the reporting entity) without regard to any legal structure that may include intermediate subsidiaries. The “step-by-step” method is also permitted and will be the same as under US GAAP. In the example above, under the direct method, Lowest level subsidiary C’s financial statements would be translated from UK pound sterling directly to US dollars and then consolidated into Reporting entity A. Likewise, Intermediate subsidiary B’s financial statements would be translated from euros to US dollars and consolidated into Reporting entity A.

Implications:
The choice of consolidation method employed under IFRS could affect the CTA deferred within equity at intermediate levels and can therefore also affect the recycling of such exchange rate differences upon disposal of an intermediate foreign operation. However, if the intermediate subsidiary has the same functional currency as either the parent or the lower level subsidiary, the two consolidation methods normally should produce the same results.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

As noted in the “Discussion of IFRS 1” section, IFRS 1 provides a reporting entity with the option to restate to zero all of the cumulative translation differences existing as of the transition date, including any gains or losses on related hedges residing in the CTA account. Even though an entity might want to approach IFRS 1 under the assumption that under IFRS they would have used the same step-by-step translation methodology as under US GAAP, there might be other reasons that an IFRS-based CTA account would differ from US GAAP, and we expect most entities will want to elect the option to restate the CTA account to zero at transition. If elected, this exemption must be used for all foreign operations.

3. Does the reporting entity have a consolidated or equity method investee that is a foreign entity held for disposal?	Yes ☐	No ☐

This question addresses whether a reporting enterprise should include the CTA in the carrying amount of the investment in assessing impairment of an investment in a foreign entity that is held for disposal if the planned disposal will cause some or all of the CTA to be reclassified to net income. The scope of this question includes an investment in a foreign entity that is either consolidated by the reporting enterprise or accounted for by the reporting enterprise using the equity method.

US GAAP — ASC 830-30-45-13 through 45-15 and ASC 830-30-40-1	**IFRS — IAS 21.25 and IFRS 5.BC37 through BC38**
According to ASC 830-30-45-13 through 45-15, a reporting entity that has committed to a plan that will cause the CTA for an equity method investment or a consolidated investment in a foreign entity to be reclassified into earnings should include the CTA as part of the carrying amount of the investment when evaluating that investment for impairment. However, cumulative foreign CTAs are reclassified to income only upon the sale (including the loss of a controlling financial interest) or the substantially complete liquidation of the foreign operation. An entity should include the portion of the CTA that represents a gain or loss from an effective hedge of the net investment in a foreign operation as part of the carrying amount of the investment when evaluating that investment for impairment. Pursuant to ASC 830-30-45-14, no basis exists to include the CTA in an impairment assessment if that assessment does not contemplate a planned sale or liquidation that will cause reclassification of some amount of the CTA.	IFRS does not allow CTA to be considered as part of the carrying amount of the investment when evaluating that investment for impairment. Furthermore, IFRS does not permit any exchange differences to be recycled on the classification of an asset or a disposal group as held for sale. The recycling will take place when the asset or disposal group is sold.

Implications:
As a result of the difference between US GAAP and IFRS on how the carrying amount of the investment is evaluated when the investment is held for disposal, the determination of whether impairment actually exists and how it is measured may differ under the two standards. Consequently, impairment charges to be reported in the income statement under US GAAP may differ from that recorded under IFRS.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

IFRS 1 implications:

If a foreign entity is held for disposal at the time a company transitions to IFRS, a company would cease to consider as part of the carrying amount the effect of any associated CTA existing as of the transition date. The effect could be to increase, decrease or reverse any impairment reported under US GAAP, depending on the amount of the associated CTA and whether it is a debit or credit in AOCI.

4. Does the reporting entity have subsidiaries, associates or joint ventures located in countries that are considered hyperinflationary?	Yes ☐	No ☐

Both US GAAP and IFRS require the identification of hyperinflationary economies. The accounting for foreign exchange transactions depends on whether or not a particular economy is considered hyperinflationary under both US GAAP and IFRS.

Under US GAAP, hyperinflation is deemed to exist when the cumulative rate of inflation over a three-year period is equal to or exceeds 100%. Under US GAAP, once an economy reaches a three-year period cumulative inflation of 100%, it is automatically considered hyperinflationary.

IFRS does not establish an absolute rate of inflation at which hyperinflation is deemed to arise. Instead, it considers certain economic characteristics of a country (e.g., whether the general population prefers to keep its wealth in nonmonetary assets or in a relatively stable foreign currency, whether sales account receivables are indexed to inflation until collection, whether interest rates, wages and prices are linked to a price index) to be strong indicators of the existence of hyperinflation. Also, once the cumulative inflation rate over three years approaches or exceeds 100%, hyperinflation may be deemed to exist. Despite the potential differences in the assessment of hyperinflationary economies, both standards generally consider the same economies to be hyperinflationary.

US GAAP — ASC 830-10-45-10 through 45-15 and ASC 830-10-45-17 through 45-18	**IFRS — IAS 29.4, IAS 29.8, IAS 29.11 through 26, IAS 29.38 and IAS 21.42 through 43**
Local functional currency financial statements are remeasured as if the functional currency was the reporting currency (US dollar in the case of a US parent) with resulting exchange differences recognized in income. Monetary items are remeasured into the reporting currency using the exchange rate at the balance sheet date. Nonmonetary assets and liabilities are remeasured into the reporting currency at the historical foreign exchange rate, which for this purpose is the exchange rate on the date of the change to highly inflationary accounting. For profit and loss items, it is acceptable to use appropriately weighted average exchange rates. All remeasurement gains and losses are recognized in earnings. Translation is usually not required since the financial statements of a foreign entity in a highly inflationary economy are already remeasured directly into the reporting currency. Translation adjustments for prior periods are not removed from equity.	IFRS requires that the functional currency be maintained. However, local functional currency financial statements (current and prior period) need to be restated in terms of the measuring unit current at the balance sheet date with the resultant effects recognized in income. For many balance sheet amounts, this may be accomplished by applying a general price index. For monetary items, no adjustment is required since they are already at current values. Nonmonetary items that are carried at cost are restated by the changes in the index since they were acquired. All items in the income statement are also expressed in terms of the measuring unit current at the balance sheet date, and therefore, all amounts are restated by applying the change in the general price index from the dates when the items of income and expense were initially recorded in the financial statements. Once the financial statements are adjusted by applying a general price index, the financial

When an economy ceases to be considered highly inflationary, the reporting currency amounts at the date of change would be translated back into the local currency at current exchange rates and those amounts would become the new functional currency accounting bases for the nonmonetary assets and liabilities. Highly inflationary accounting is applied as of the beginning of the reporting period after an economy becomes highly inflationary.	statements are translated to the presentation currency at the current rate. When an economy ceases to be hyperinflationary, the amounts expressed in the measuring unit current at the end of the previous reporting period would be the basis for the carrying amounts in its subsequent financial statements. Hyperinflationary accounting is applied from the beginning of the reporting period in which an economy is determined to be hyperinflationary.

Implications:
Because US GAAP and IFRS differ significantly in their approaches for hyperinflationary accounting, the carrying amounts and the operating results relating to foreign entities in hyperinflationary economies will be different between IFRS and US GAAP at both the standalone and consolidated financial statements levels.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

In preparing its opening IFRS balance sheet, a first-time adopter should apply the requirements of IAS 29 on hyperinflation to any periods during which the economy of the functional currency or presentation currency was hyperinflationary.

5. Has the reporting entity changed its functional currency from the reporting (US GAAP)/presentation (IFRS) currency to a foreign currency?	Yes	No
	☐	☐

Once a determination of the functional currency is made, that decision must be consistently used for each foreign entity unless significant changes in economic facts and circumstances indicate clearly that the functional currency has changed. This question addresses those changes in facts and circumstances in which, for example, the functional currency of a foreign subsidiary of a US parent (which reports in US dollars) must change from the US dollar to that subsidiary's local currency due to changes in the factors considered in determining the functional currency.

Note: This question does not relate to circumstances where a subsidiary changes its functional currency because it no longer is considered to operate in a hyperinflationary economy (i.e., change of status from hyperinflationary economy to non-hyperinflationary economy).

US GAAP — ASC 830-10-45-9 through 45-10	**IFRS — IAS 21.37**
The change in functional currency from the reporting currency to a foreign currency is accomplished by adjusting the carrying amount of a nonmonetary asset (e.g., inventory, PP&E) to the amount that is reflective of an assumption that the foreign currency had been the functional currency all along.	The effect of a change in functional currency is accounted for prospectively. Accordingly, the amount that would have been recorded had the new functional currency been in effect at inception is not relevant.

For purposes of translation back to the reporting currency (which has not changed), such nonmonetary assets are translated to the reporting currency using current exchange rates. This two-step process of restating to a new functional currency and then translating back to the same reporting currency as used in the prior financial statements (before the change in functional currency) produces a difference that is recorded in CTA rather than earnings.	A reporting entity translates all items into the new functional currency using the foreign exchange rate at the date of the change in functional currency. The resulting translated amounts for nonmonetary items are treated as their historical cost. For purposes of translation back to the presentation currency (which has not changed), the nonmonetary assets are translated to the presentation currency using current exchange rates.

Implications:
The difference in carrying values of nonmonetary assets will result in differences in depreciation/amortization/impairment in the future.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

As noted in “Discussion of IFRS 1” above in this section, IFRS 1 provides a reporting entity with the option to restate to zero all of the CTA existing as of the transition date. This question highlights just one of many reasons why the CTA may have accumulated to a different amount under IFRS than US GAAP.

Leases

Similarities:

The overall accounting for leases under US GAAP and IFRS is similar. Both standards provide similar guidance for determining whether an arrangement is or contains a lease. In addition, both standards require lessees to identify and separately account for lease and non-lease components in an arrangement unless they elect, by class of underlying asset, to account for a lease component and its associated non-lease components as a single lease component. Below are some of the similarities between the two standards.

Lessee accounting

The accounting for leases under both ASC 842 and IFRS 16 is based on the view that all leases should be recognized on the balance sheet. IFRS provides a recognition exemption for short-term leases and leases of low-value assets, while US GAAP only provides a recognition exemption for short-term leases. Under both US GAAP and IFRS, a lessee initially recognizes a right-of-use asset and a lease liability at the present value of the lease payments to be made over the lease term. Under US GAAP, subsequent measurement of right-of-use assets and lease liabilities for *finance leases* are generally similar to the treatment of all recognized leases under IFRS (other than short-term leases and leases of low-value assets for which the recognition exemption has been applied). In particular, under both US GAAP and IFRS, the right-of-use asset is amortized over the shorter of the lease term or the useful life of the right-of-use asset (however, the amortization period is the remaining useful life of the underlying asset if the lessee is reasonably certain to exercise an option to purchase the underlying asset or if the lease transfers ownership of the underlying asset to the lessee by the end of the lease term) and subject to impairment testing. The lease liability is accreted based on the interest method using the discount rate determined at lease commencement (except when reassessment of the discount rate is required) and reduced by any payments made. Subsequent accounting for the *operating lease* right-of-use asset is different in US GAAP.

Lessor accounting

Under both US GAAP and IFRS, the classification of the lease determines the initial and subsequent accounting for the lease arrangement. Although US GAAP and IFRS use different terminology (e.g., US GAAP uses the terms “direct financing lease” and “sales-type lease” to identify types of lease arrangements, while IFRS uses the term “finance lease” to broadly refer to leases where substantially all of the risks and rewards incidental to ownership of the leased asset transfer to the lessee), both US GAAP (for certain sales-type leases) and IFRS permit profit to be recognized at lease commencement. Also, if a lease is a finance lease under IFRS or a sales-type (when collection of lease payments is probable) or direct finance lease under US GAAP, the underlying asset is derecognized and replaced with the net investment in the lease. If a lease is classified as operating, lease income is recognized on a straight-line basis (or another systematic and rational basis if it is more representative of the pattern in which the benefit is expected to be derived from the use of the underlying asset) over the lease term. In an operating lease, the underlying asset that is subject to the lease continues to be recognized and is depreciated by the lessor over its useful life.

Primary US GAAP	Primary IFRS
► ASC 842, *Leases* ► ASC 606, *Revenue from Contracts with Customers*	► IFRS 16 *Leases* ► IFRS 15 *Revenue from Contracts with Customers*

Standard setting activities:

The FASB and IASB may continue to make targeted improvements to ASC 842 and IFRS 16, respectively, and therefore, readers should monitor these standard setters for developments that may result in additional differences between the standards.

FASB

In July 2021, the FASB issued ASU 2021-05, *Leases (Topic 842): Lessors – Certain Leases with Variable Lease Payments*, which amended ASC 842 to require lessors to classify leases as operating leases if they have variable lease payments that do not depend on an index or rate and would result in selling losses if they were classified as sales-type or direct financing leases. For lessors that had adopted ASC 842 as of 19 July 2021, the date the amendments were issued, the amendments were effective for annual periods beginning after 15 December 2021 and interim periods either within those years or within the following year, depending on when they were required to adopt ASC 842. Early adoption is permitted. Entities that had not adopted ASC 842 as of 19 July 2021 are required to apply the amendments when they adopt ASC 842 and follow the transition requirements in ASC 842. Question 11 discusses this amendment.

In November 2021, the FASB issued ASU 2021-09, *Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities*, which amended ASC 842 to allow a lessee that is not a PBE to elect to use a risk-free rate as its discount rate by class of underlying asset, rather than for all leases as originally required by ASC 842. A lessee that makes the election is required to disclose the class or classes of underlying assets to which it applied the risk-free rate. The amendments also require lessees to use the rate implicit in the lease when it is readily determinable, even if they make the risk-free rate election. Lessees that had not adopted ASC 842 as of 11 November 2021, the date the amendments were issued, are required to apply the amendments when they adopt ASC 842 and follow the transition requirements in ASC 842. Lessees that had adopted ASC 842 as of 11 November 2021 were required to apply the amendments on a modified retrospective basis to leases that existed at the beginning of the year of adoption. The amendments were effective for annual periods beginning after 15 December 2021, and interim periods beginning the following year. Early adoption is permitted. We updated question 8 for this amendment.

IASB

In September 2022, the IASB issued *Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)*, which specifies the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognize any amount of the gain or loss that relates to the right of use it retains. The amendment does not change the accounting for leases unrelated to sale and leaseback transactions. The amendment applies to annual reporting periods beginning on or after 1 January 2024. Early adoption is permitted. Due to the delayed effective date and late 2022 standard setting activity, the effects of this amendment are not reflected in question 16 below.

Reference rate reform

In March 2020, the FASB issued ASU 2020-04 to provide temporary optional expedients and exceptions to the US GAAP guidance on contract modifications to ease the financial reporting burden related to the expected market transition from LIBOR and other interbank offered rates to alternative reference rates, such as SOFR. Under the ASU, if an entity elects the optional expedient to not apply modification accounting to contract modifications that replace a reference rate due to reference rate reform, it would not account for the change as a lease modification if the modified contract meets certain criteria. The guidance in the ASU became effective upon issuance and generally can be applied through 31 December 2024.

In August 2020, the IASB issued *Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)* to address issues that could affect financial reporting when a benchmark interest rate is replaced with an alternative reference rate. With respect to leases, the

amendments provide a practical expedient to be applied to all lease modifications that change the basis for determining future lease payments as a result of interest rate benchmark reform. Under this practical expedient, lease modifications directly required by the reform are treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest, as described in IFRS 16.42. The amendments were effective for annual reporting periods beginning on or after 1 January 2021.

Beyond this discussion of the reference rate reform amendments and how they generally apply to leases, we have not otherwise added (or amended existing) questions in this section of the publication due to the temporary and transitional nature of these amendments.

Discussion of IFRS 1:

When assessing whether an arrangement contains a lease, a first-time adopter (a lessee or a lessor) is permitted to assess a contract existing at the date of transition to IFRS based on the facts and circumstances that exist as of the transition date (as opposed to contract inception).

IFRS 1 requires a first-time adopter that acts as a lessor to classify leases either as operating or finance leases based on the circumstances existing at the inception of the lease and not those existing at the date of transition to IFRS. Lease classification is reassessed only if there is a lease modification that is not accounted for as a separate contract. Changes in estimates or circumstances do not give rise to a new classification of a lease.

When a first-time adopter is a lessee, it recognizes lease liabilities and right-of-use assets and may measure the lease liability at the date of transition to IFRS at the present value of remaining lease payments, applying the lessee's incremental borrowing rate at the date of transition. With respect to right-of-use assets, the lessee may decide on a lease-by-lease basis to measure those assets at either their carrying amounts as if IFRS 16 had been applied since the commencement date of the lease, discounted using the lessee's incremental borrowing rate at the date of transition, or by recognizing an amount equal to the lease liability adjusted by any prepaid or accrued lease payments, recognized in the statement of financial position immediately before the date of transition to IFRS. In addition, the lessee is required to apply IAS 36 *Impairment of Assets* to the right-of-use assets at the date of transition. An exception to this relates to lessees for which the right-of-use assets qualify as investment property and are measured at fair value under IAS 40 *Investment Property.* In these instances, the right-of-use assets are measured at fair value at the date of transition.

A lessee at the date of transition to IFRS also may apply, on a lease-by-lease basis, one or more of the following practical expedients:

- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics
- Exclude initial direct costs from the measurement of the right-to-use asset at the date of transition
- Use hindsight (i.e., in determining the lease term if the contract contains options to extend or terminate the lease)
- Elect not to apply the general transition requirements in IFRS 1 for leases where the remaining lease term is within 12 months from the date of transition or where the underlying assets are of low value; instead, the lessee is required to account for (including disclosure of information about) these leases as if they were short-term leases or leases of low-value assets in accordance with IFRS 16.6

Differences:

Scope

1. Has the reporting entity entered into any arrangements within the scope of the lease guidance?	Yes ☐	No ☐

A lease arrangement is an arrangement that conveys the right to use an identified asset or assets. An arrangement that meets the definition of a lease (as described further below), although not nominally identified as a lease, is considered to be a lease.

US GAAP — ASC 842-10-15-1	**IFRS — IFRS 16.3 through 4**
Only arrangements that convey the right to control the use of PP&E (i.e., land and/or depreciable assets) should be accounted for as leases with certain limited exceptions. Arrangements conveying the right to control the use of intangible assets or non-depreciable assets, other than land, are not accounted for as leases.	Lease accounting is broadly applicable to all arrangements that convey the right to use an asset with certain limited exceptions, such as: ► Leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources ► Leases of biological assets within the scope of IAS 41 *Agriculture* held by a lessee ► Service concession arrangements within the scope of IFRIC 12 *Service Concession Arrangements* ► Licenses of intellectual property (IP) granted by a lessor within the scope of IFRS 15 ► Rights held by lessees under licensing agreements within the scope of IAS 38 for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights Therefore, arrangements that convey the right to control the use of assets other than land or depreciable assets may still be accounted for as leases. Under IFRS, lessees may, but are not required to, apply the lease accounting standard to leases of intangible assets other than rights held by a lessee under licensing agreements in the scope of IAS 38, as discussed above.

Implications:
Arrangements that are outside of the scope of lease accounting under US GAAP may be in the scope of lease accounting under IFRS. If an entity is a party to such arrangements, upon transition to IFRS, these arrangements will need to be assessed for classification (for lessors only) as of the inception of the arrangement and accounted for as leases. Accounting for an arrangement as a lease may be significantly different than the accounting previously applied. Conversely, upon transition to US GAAP, certain arrangements accounted for as leases under IFRS may not be in the scope of ASC 842. In addition, under IFRS, lessees can make a policy election to apply the lease

accounting standard to leases of certain intangible assets. Entities that apply IFRS and act in the capacity of a lessee should determine whether they will elect to follow the lease accounting guidance for certain intangible assets, which may result in differences when compared to the treatment of such intangibles under US GAAP, which doesn't allow lease accounting to be applied to intangibles.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

Lessee accounting

2. Has the reporting entity entered into any lease arrangements as a lessee?	Yes ☐	No ☐

Under US GAAP, at lease commencement, a lessee classifies a lease as a finance lease or an operating lease (unless the short-term lease recognition exemption is elected).

Under IFRS, lessees do not classify leases and all leases are treated under a single model (unless the short-term lease or lease of low-value asset recognition exemption is elected).

US GAAP — ASC 842-10-25-2 through 25-3	**IFRS — IFRS 16.9 and IFRS 16.22**
A lessee identifies a lease at inception of the contract. However, a lessee classifies leases at lease commencement as either finance or operating based on the application of five specific criteria as discussed below (unless the short-term lease recognition exemption is elected). A lessee classifies a lease as a finance lease if the lease meets any *one* of the following criteria: ► The lease transfers ownership of the underlying asset to the lessee by the end of the lease term. ► The lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise. ► The lease term is for a major part of the remaining economic life of the underlying asset. This criterion is not applicable for leases that commence at or near the end of the underlying asset's economic life. ► The present value of the sum of the lease payments and any residual value guaranteed by the lessee that is not already included in the lease payments equals or exceeds substantially all of the fair value of the underlying asset. ► The underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term.	Like US GAAP, a lessee identifies a lease at inception of the contract. However, a lessee does not classify recognized leases to determine the initial or subsequent accounting treatment because IFRS does not distinguish between operating and finance leases for lessees. A single recognition and measurement model is applied to all leases in which the reporting entity acts in the capacity as the lessee (unless a recognition exemption is elected).

A lessee classifies a lease as an operating lease when it does not meet any of these criteria.	

Implications:

Under IFRS, unless a recognition exemption is elected, all leases from the lessee's perspective are treated under a single model that is similar to the treatment of finance leases under US GAAP.

While the treatment of finance leases under US GAAP is similar to the treatment of all leases under IFRS (unless a recognition exemption is elected), significant differences could arise between the two standards when a lessee classifies a lease as an operating lease under US GAAP. This is because IFRS does not provide for an equivalent to operating lease classification from the lessee's perspective. While the initial measurement and recognition of an operating lease under US GAAP may not result in a difference compared to IFRS, the subsequent measurement of the right-of-use asset differs. For operating leases under US GAAP, the subsequent measurement of the lease liability is based on the present value of the remaining lease payments using the discount rate determined at lease commencement, while the right-of-use asset is remeasured at the amount of the lease liability, adjusted for the remaining balance of any lease incentives received, cumulative prepaid or accrued rents, unamortized initial direct costs and any impairment. This treatment under US GAAP generally results in straight-line expense being incurred over the lease term, as opposed to IFRS, which generally yields a "front-loaded" expense with more expense recognized in earlier years of the lease.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

3. Is the reporting entity a lessee in any arrangements for which the underlying asset is of low value (e.g., less than US$5,000 when new)?

Yes ☐ No ☐

IFRS provides an exemption allowing a lessee to not apply the lease accounting guidance to leases of low value assets. If a lessee elects not to apply the lease accounting guidance, no right-of-use asset or lease liability is recognized, and lease payments are generally expensed on a straight-line basis over the lease term.

Under IFRS, the assessment of whether the underlying asset is of low-value is based on the value of the asset when it is new, regardless of the age of the asset being leased. In addition, the assessment is not affected by the size, nature or circumstances of the lessee, nor whether those leases of low-value assets are, in aggregate or individually, material to the lessee. If a lessee subleases an asset, or expects to sublease an asset, the head lease does not qualify as a lease of a low-value asset. Examples of low-value underlying assets may include tablets, personal computers, some office furniture and telephones.

US GAAP — ASC 842	IFRS — IFRS 16.5 through 6 and IFRS 16.B3 through B8
Unlike IFRS, there is no recognition exemption for leases based on the value of the underlying asset.	A lessee may elect, on a lease-by-lease basis, not to recognize a right-of-use asset and lease liability on the balance sheet when the value of the underlying asset, when new, is low. An underlying asset can be of low value only if (1) the lessee can benefit from use of the underlying asset on its own or together with other resources that are readily

	available to the lessee and (2) the underlying asset is not highly dependent on, or highly interrelated with, other assets. In the Basis for Conclusions to IFRS 16, the IASB noted that when it reached its decision about the exemption it had in mind leases of underlying assets with a value, when new, of US$5,000 or less.

Implications:
Under US GAAP, there is no recognition exemption for leases of low-value assets. However, in the Basis for Conclusions of ASU 2016-02, *Leases (Topic 842)*, the FASB noted that entities will likely be able to adopt reasonable capitalization thresholds below which lease assets and lease liabilities are not recognized. An entity's practice in this regard may be consistent with its accounting policies in other areas of GAAP (e.g., capitalizing purchases of PP&E). Under IFRS, lease payments for leases of low-value assets may be expensed on a straight-line basis or another systematic basis over the lease term if that basis is more representative of the pattern of the lessee's benefit, as opposed to recognizing a right-of-use asset and a corresponding lease liability. As a result, this may drive differences in how certain leases are accounted for between the two standards, if an entity elects to make use of this exemption under IFRS.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

4. Has the reporting entity entered into any leases with a lease term of 12 months or less?	Yes	No
	☐	☐

Both US GAAP and IFRS provide an exemption allowing a lessee to not apply the respective lease accounting guidance to short-term leases, which are defined as leases that are 12 months in duration or less (with certain differing limitations under both standards). If a lessee makes a policy election not to apply the respective lease accounting guidance (by class of underlying asset), no right-of-use asset or lease liability is recognized, and lease payments are generally expensed on a straight-line basis over the lease term.

US GAAP — ASC 842-20-25-2 through 25-3 and ASC 842-20-55-13 through 55-16	**IFRS — IFRS 16.5 through 8**
A lease does not qualify as a short-term lease if the lease includes a purchase option that is reasonably certain to be exercised. A lease no longer qualifies as a short-term lease when there is a change in a lessee's assessment of either: ▸ The lease term so that, after the change, the remaining lease term extends more	A lease does not qualify as a short-term lease if it includes a purchase option, regardless of whether the lessee is reasonably certain to exercise the option. Any modification or change in the lease term of a short-term lease is considered a new lease. If that new lease has a lease term greater than 12 months, it does not qualify as a short-term lease.

than 12 months from the end of the previously determined lease term ▸ Whether it is reasonably certain to exercise an option to purchase the underlying asset	

Implications:
The US GAAP and IFRS definitions of a short-term lease are similar but are not identical. Under IFRS, when the lease contains a purchase option, it does not qualify for the short-term lease exemption. Under US GAAP, the existence of a purchase option in and of itself does not disqualify a lease from the short-term lease exemption if the purchase option is not reasonably certain of exercise by the lessee. As a result, when a purchase option is present within a lease that does not exceed 12 months, there may be a difference in whether that lease is eligible for the short-term lease exemption under US GAAP and IFRS. With respect to the treatment of short-term leases, both standards require lease payments to be expensed over the term of the lease. While US GAAP requires lease payments (other than variable lease payments) to be expensed on a straight-line basis, IFRS notes that expense recognition is to be based on a either a straight-line basis or another systematic basis (i.e., other than straight-line) if that basis is more representative of the pattern of the lessee's benefit.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

5. Does the reporting entity pay variable payments that are linked to an index or a rate? Yes ☐ No ☐

Lease payments can include variable lease payments that are dependent on an index or a rate (e.g., CPI, a market interest rate). Under both standards, variable lease payments that depend on an index or a rate are included in the lease payments and measured using the prevailing index or rate at the measurement date (e.g., lease commencement date for initial measurement).

US GAAP — ASC 842-10-30-5 and ASC 842-10-35-4 through 35-5	**IFRS — IFRS 16.27 through 28 and IFRS 16.42**
Changes in variable lease payments based on an index or rate result in a remeasurement of the lease liability when the lease liability is remeasured for another reason (e.g., a change in the lease term).	Changes in variable lease payments based on an index or rate result in a remeasurement of the lease liability when there is a change in the cash flows (i.e., when the adjustment to the lease payments takes effect).

Implications:
Differences may arise in terms of the timing of when the remeasurement occurs under US GAAP and IFRS. Under US GAAP, when lease payments are based on an index or rate and there is a change to the index or rate, an entity does not remeasure its lease payments and instead

recognizes the effect of the change in index or rate in expense. However, under IFRS, such change will result in the remeasurement of the lease liability.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

6. Do the lessee's leases contain variable payments that are not dependent on an index or rate (e.g., performance- or usage-based payments)? Yes ☐ No ☐

Under US GAAP, for a contract that contains a lease component and one or more additional lease or non-lease components, a lessee is required to allocate the consideration in the contract on a relative standalone price basis to the lease and non-lease components (unless the lessee elects the practical expedient to account for each separate lease component of a contract and its associated non-lease components as a single lease component). When variable payments not included in consideration in the contract are recognized, lessees allocate these amounts between lease and non-lease components on the same basis as the allocation of consideration in the contract. These payments include variable payments not based on an index or rate (discussed in this question) or changes in variable payments based on an index or rate after the commencement date of the lease (discussed in question 5).

US GAAP — ASC 842-10-15-33 and ASC 842-10-15-37	**IFRS — IFRS 16.12 through 16, IFRS 16.B32 through B33 and IFRS 16.IE4**
Lessees allocate variable consideration not dependent on an index or rate to the lease and non-lease components of a contract on a relative standalone price basis.	Lessees may allocate variable consideration not dependent on an index or rate entirely to a non-lease component of a contract.

Implications:

Under both US GAAP and IFRS, a lessee is generally required to allocate the consideration in the contract on a relative standalone price basis. However, the treatment of a variable payment that is not dependent on an index or rate is different in the two standards. This may result in a difference in how the payments are allocated between the lease and non-lease component(s).

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

7. Does the reporting entity have right-of-use assets that have significant parts with different useful economic lives?	**Yes** ☐	**No** ☐

Under IFRS, depreciation of the right-of-use asset is recognized in a manner consistent with the existing standards for PP&E (i.e., IAS 16). As also discussed in question 2 of the "Property, plant and equipment" section of this publication, IAS 16 requires that each part of an item of PP&E with a cost that is significant in relation to the total cost of the item is depreciated separately. An entity allocates the amount initially recognized with respect to an item of PP&E to its significant parts and separately depreciates each such part. For example, as noted in IAS 16, it may be appropriate to separately depreciate the airframe and engines of an aircraft. In many cases, the right-of-use asset will relate to an asset with a single significant part and, therefore, a component approach may not be necessary. However, entities will need to assess whether a component approach should be applied for right-of-use assets that have significant parts with different useful economic lives.

US GAAP — ASC 360-10-35-4	**IFRS — IFRS 16.31, IAS 16.43 through 48 and IAS 16.58 through 59**
Component depreciation is permitted but not common.	A lessee applies the depreciation requirements in IAS 16 in depreciating right-of-use assets, which requires that each item of PP&E with a cost that is significant in relation to the total cost of the item be separately depreciated (i.e., a component approach).

Implications:
Subsequent measurement of the right-of-use asset may differ between the two standards. Because most US GAAP entities depreciate assets based on a composite estimated life of the asset as a whole (e.g., an airplane) and IFRS requires component depreciation if components of an asset have differing patterns of benefit, this may result in a difference in how the right-of-use assets are being depreciated.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

8. Does the reporting entity use its incremental borrowing rate to calculate the present value of lease payments?	Yes ☐	No ☐

Discount rates are used to calculate the present value of the lease payments (which are included in the classification evaluation under US GAAP) and measure a lessee's lease liability for both US GAAP and IFRS. For a lessee, the discount rate for the lease is the rate implicit in the lease or, if that rate cannot be readily determined, its incremental borrowing rate. Lessees under both standards determine the discount rate at the lease commencement date.

US GAAP — ASC 842-20-30-2 through 30-3, ASC 842-20-35-5 and ASC 842-20-55-17 through 55-20	**IFRS — IFRS 16.26**
US GAAP defines the lessee's incremental borrowing rate as the rate of interest that a lessee would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. A lessee may consider the effect of lease term options (e.g., purchase and renewal options) that are not included in the lease term. A lessee that is not a PBE (as defined) is permitted to make an accounting policy election to use a risk-free discount rate (e.g., in the US, the rate of a zero coupon US Treasury instrument) for initial and subsequent measurements of the lease liability. If a lessee makes this election, it must apply this policy by class of underlying asset. However, a lessee is required to use the rate implicit in the lease when it is readily determinable, even if they make the risk-free rate election.	IFRS defines the lessee's incremental borrowing rate as the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. IFRS 16 does not address whether a lessee may consider the effect of lease term options (e.g., purchase and renewal options) that are not included in the lease term. IFRS does not provide accounting alternatives for private companies.

Implications:

Under both US GAAP and IFRS, lessees are required to use the rate implicit in the lease if that rate can be readily determined. Lessees often will be unable to determine the rate implicit in the lease (e.g., the lessee may not know the lessor's initial direct costs). When the lessee cannot readily determine that rate, the lessee uses its incremental borrowing rate. While the definitions of the lessee's incremental borrowing rate are similar in US GAAP and IFRS, differences may arise if the lessee considers the effect of purchase and renewal options that are not included in the lease term when determining the lessee's incremental borrowing rate between the two standards. Under US GAAP, when an entity identifies a borrowing with a "similar term," we believe the entity can either:

- Evaluate the term relative to the lease term determined at the lease commencement date (i.e., any options not deemed reasonably certain of exercise at lease commencement, such as termination or extension options, will not be considered in the term of the debt). Under this approach, the incremental borrowing rate is not adjusted to consider purchase, renewal or termination options not included in the lease term.

- Use the same approach as above; however, the incremental borrowing rate is adjusted to reflect the lessee has an option to extend or terminate the lease or to purchase the underlying asset not otherwise included in the lease term.

IFRS does not address whether a lessee may consider the effect of lease term options (e.g., purchase and renewal options) that are not included in the lease term.

Differences may arise between US GAAP and IFRS if an entity has elected under US GAAP to use a risk-free discount rate to determine the classification and measure the present value of lease payments. This election is only available for lessees that are not PBEs under US GAAP. There is no such election available under IFRS. Under IFRS, all reporting entities are required to apply the interest rate implicit in the lease, unless such rate is not readily determinable by the lessee. In that case, a lessee applies its incremental borrowing rate.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

9. Has the reporting entity entered into a lease modification that does not result in a separate contract? Yes ☐ No ☐

Lessees are required to remeasure lease liabilities when there is a lease modification that is not accounted for as a separate contract, including such modifications that shorten the lease term.

If certain conditions are met, the lease modification could result in two separate contracts (i.e., the unmodified original contract and a separate new contract). Lessees account for the separate contract that contains a lease in the same manner as other new leases under both US GAAP and IFRS.

US GAAP — ASC 842-20-35-4	**IFRS — IFRS 16.46**
Lease modifications that do not result in a separate contract and shorten the contractual lease term do not result in the recognition of a gain or loss. A lessee recognizes the amount of the remeasurement of the lease liability as an adjustment to the corresponding right-of-use asset without affecting profit or loss. However, if the right-of-use asset is reduced to zero, a lessee would recognize any remaining amount in profit or loss. Additionally, a substantive change in the timing of lease payments is a lease modification because there is a substantive change in the terms and conditions of the contract.	Lease modifications that do not result in a separate contract and shorten the contractual lease term result in the recognition of a gain or loss for the difference between the decrease in the lease liability and the proportionate decrease in the right-of-use asset. A change in the timing of lease payments may be interpreted differently than under US GAAP because there is no change to the total amount of the consideration for the lease.

Implications:

Modifications are defined similarly under US GAAP and IFRS. However, a change in the timing of lease payments may be interpreted differently under US GAAP and IFRS. Additionally, the treatment of the modification may differ between the two standards in some circumstances,

including when a lease modification does not result in a separate contract and shortens the contractual lease term.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

10. Has the reporting entity remeasured a lease liability upon a change in the lease term, the assessment of whether a purchase option is reasonably certain to be exercised or the amounts probable of being owed under a residual value guarantee?	Yes	No
	☐	☐

Lessees are required to remeasure lease liabilities when there is a lease modification that is not accounted for as a separate contract or upon a change in (1) the lease term, (2) the assessment of whether a purchase option is reasonably certain to be exercised, or (3) the amounts probable of being owed under a residual value guarantee that is not accounted for as a separate contract under both US GAAP and IFRS. The lease liability is remeasured based on the revised consideration in the contract.

US GAAP — ASC 842-10-15-36, ASC 842-10-35-4 through 35-5 and ASC 842-20-35-4 through 35-5	**IFRS — IFRS 16.39 through 43 and IFRS 16.45**
The consideration in the contract is reallocated when a lease is modified or a lease liability is remeasured. Therefore, the revised lease payments are allocated based on the standalone price of the lease and non-lease components at the date of remeasurement (or effective date of the modification).	The consideration in the contract is reallocated only when a lease is modified. Therefore, when a lease liability is remeasured for other reasons (e.g., a change in lease term), the revised lease payments are allocated based on the standalone price of the lease and non-lease components at lease commencement.

Implications:

Under both US GAAP and IFRS, when a lease is modified, lessees are required to reallocate the consideration in the contract using the standalone price of the lease and non-lease components at the effective date of the modification. However, differences in the measurement of the lease liability may arise between US GAAP and IFRS if a lessee remeasures the lease liability for other reasons (e.g., a change in the lease term). In these circumstances, the lessee allocates the consideration in the contract between the lease and non-lease components based on their standalone price at the date of remeasure under US GAAP and at the lease commencement date under IFRS. If the standalone price of the lease and non-lease components has changed between the lease commencement date and the remeasurement date, there will be a difference in the measurement of the lease liability under US GAAP and IFRS.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

Lessor accounting

11. Has the reporting entity entered into any lease arrangements as a lessor?	Yes ☐	No ☐

In a lease arrangement, a lessor conveys to a lessee the right to use an identified asset. Under both IFRS and US GAAP, after determining that a contract contains a lease, an entity needs to identify and separate the lease and non-lease components within the contract. US GAAP provides a practical expedient to allow lessors to make a policy election to elect, by class of underlying asset, to not separate lease and non-lease components if certain criteria are met. IFRS does not have a similar practical expedient for lessors. The initial and subsequent accounting for a lease arrangement by a lessor is based on the classification of the lease arrangement. Classifications are different under US GAAP and IFRS.

US GAAP — ASC 842-10-15-42A through 42C, ASC 842-10-25-2 through 25-4, ASC 842-10-35-3, ASC 842-30-25-1 through 25-13 and ASC 842-30-35-4	**IFRS — IFRS 16.61 through 71**
Practical expedient A lessor can elect, by class of underlying asset, not to separate the lease and associated non-lease component in a contract if certain criteria are met. If the contract meets the required criteria, and the non-lease component is the predominant component, the lessor accounts for the combined component as a single performance obligation under ASC 606. Otherwise, the combined component is accounted for as a single lease component under ASC 842.	*Practical expedient* IFRS 16 does not provide a similar practical expedient for lessors to not separate lease and non-lease components.
Lease classification A lessor classifies a lease based on the application of five criteria that also apply to lessees and the application of additional criteria applicable to lessors. The lessor performs the classification evaluation at the lease commencement date. If a lease meets any of the five criteria also applicable to lessees (see question 2) and, after the adoption of ASU 2021-05, does not have a selling loss and variable lease payments that are not based on an index or rate, it is classified as a sales-type lease. If a lease does not meet any of the five criteria applicable to lessees, but does meet the two additional lessor criteria and, after the adoption of ASU 2021-05, does not have a selling loss and variable lease payments that are not based on an index or rate, it is classified as a direct financing lease; otherwise, the lease is classified as an operating lease.	*Lease classification* A lessor classifies a lease based on an overall assessment of the substance of the transaction. The lessor performs the classification evaluation at the inception date of the lease. A lease is classified as a finance lease if it transfers substantially all of the risks and rewards incidental to ownership of an underlying asset; otherwise, it is classified as an operating lease. The lessor performs the classification test at the lease inception date. IFRS 16 provides examples and indicators of situations that can be considered individually, or in combination, and would result in a lease being classified as a finance lease. Meeting a single situation will not automatically result in the lease being classified as a finance lease. Further, the guidance for lease classification does not include additional criteria specific to lessors.

After the adoption of ASU 2021-05, if a lease has variable lease payments that do not depend on an index or rate and would result in a selling loss if it were classified as a sales-type or direct financing lease, it is classified as an operating lease.	
Reassessment of lease classification Lessors are required to reassess lease classification if lessees exercise an existing option to renew the lease (i.e., change in assessment of lease term) or to purchase the underlying asset when it was previously determined it was not reasonably certain to do so.	*Reassessment of lease classification* Lessors do not reassess lease classification if lessees exercise an existing option to renew the lease (i.e., change in assessment of lease term) or to purchase the underlying asset when it was previously determined it was not reasonably certain to do so. Lease classification is determined at lease inception and reassessed only if there is a lease modification that is not accounted for as a separate contract.
Rate implicit in the lease Lessors determine the rate implicit in the lease at the lease commencement date.	*Rate implicit in the lease* Lessors determine the rate implicit in the lease at the lease inception date.
Collectibility A lessor does not assess the collectibility of lease payments and any residual value guarantee for purposes of evaluating whether a lease is classified as a sales-type lease. However, collectibility of lease payments is considered when determining lease classification between a direct financing or operating lease. Collectibility of the lease payments also is assessed for the purpose of initial recognition and measurement of a sales-type lease and is also evaluated to determine the income recognition pattern of an operating lease.	*Collectibility* IFRS 16 does not include explicit guidance for considering collectibility of lease payments.
Selling profit Upon initial measurement, US GAAP requires a lessor to defer any selling profit on a direct financing lease at lease commencement and amortize over the lease term in a manner that, when combined with the interest income on the lease receivable and unguaranteed residual asset, produces a constant periodic discount rate on the remaining balance of the net investment in the lease.	*Selling profit or loss* Upon initial measurement, a lessor recognizes the selling profit or loss on finance leases at lease commencement.

Sale of lease receivables when the lessor retains an interest in the unguaranteed residual asset If a lessor sells substantially all of the lease receivable associated with a sales-type lease or a direct financing lease and retains an interest in the unguaranteed residual asset, the lessor no longer accretes the unguaranteed residual asset to its estimated value over the remaining lease term under ASC 842. Instead, the lessor reports any remaining unguaranteed residual asset at its carrying amount at the date of the sale of the lease receivable and applies ASC 360 to determine whether the unguaranteed residual asset is impaired.	*Sale of lease receivables when the lessor retains an interest in the unguaranteed residual asset* IFRS 16 does not include similar guidance. The lessor's net investment in the lease, which includes any unguaranteed residual value, is subject to the derecognition and impairment requirements in IFRS 9.

Implications:

Differences may arise between US GAAP and IFRS if an entity has elected under US GAAP to combine the lease and associated non-lease components (if certain criteria are met).

Also, under US GAAP, there are three different lease classifications (i.e., sales-type, direct financing or operating) available to lessors as opposed to two under IFRS (i.e., finance or operating). While the underlying principles for classifying leases under US GAAP and IFRS are similar, an entity may classify a lease differently under the two standards. This is because each lease classification criterion under US GAAP is determinative, while under IFRS all classification criteria can be considered individually or in combination. Differences also may arise between US GAAP and IFRS because of the difference relating to when a lessor determines and reassesses lease classification and when a lessor determines the rate implicit in the lease.

Further, under US GAAP, collectibility is not assessed for purposes of the sales-type lease classification test. Rather, lessors in sales-type leases assess the collectibility of lease payments and any residual value guarantee provided by the lessee for purposes of determining initial recognition and measurement. Collectibility of lease payments must also be evaluated for operating leases to determine the income recognition pattern for those leases. Collectibility is also a determining factor in classification of a direct financing lease. Under IFRS, there is no explicit guidance for considering collectibility of lease payments.

Identified difference?

Yes	No	Depends on policy election
☐	☐	☐

Describe:
Click here to enter text.

12. Has the reporting entity incurred any initial direct costs?	Yes ☐	No ☐

Initial direct costs (IDCs) represent incremental costs of a lease that would not have been incurred if the lease had not been obtained.

US GAAP — ASC 842-30-25-1, ASC 842-30-25-8 and ASC 842-30-25-10 through 25-11	**IFRS — IFRS 16.69, IFRS 16.74 and IFRS 16.83**
Under US GAAP, IDCs are defined as incremental costs that would not have been incurred if the lease had not been obtained. The lessor's accounting for IDCs depends on the classification of the lease. *Sales-type lease* If the fair value of the underlying asset differs from the carrying amount of the asset at lease commencement, IDCs are expensed. However, if the fair value of the underlying asset equals the carrying amount of the asset at lease commencement, IDCs are included in the initial measurement of the net investment in the lease and reduce the amount of income recognized over the lease term. *Direct financing lease* IDCs are included in the initial measurement of the net investment in the lease and reduce the amount of income recognized over the lease term. *Operating lease* IDCs are recognized as an expense over the lease term on the same basis as the lease income.	Under IFRS, IDCs are defined as the incremental costs of obtaining a lease that would not have been incurred if the lease had not been obtained. The lessor's accounting for IDCs depends on the classification of the lease. *Finance lease* IDCs are included in the initial measurement of the net investment in the lease and reduce the amount of income recognized over the lease term. However, a manufacturer or dealer lessor will recognize costs incurred in connection with obtaining a finance lease (i.e., costs that would otherwise have been considered as IDCs) at the commencement date as an expense. *Operating lease* IDCs are recognized as an expense over the lease term on the same basis as the lease income.

Implications:

The treatment of IDCs under both US GAAP and IFRS is based on how a lessor classifies the lease. As a result, the following differences should be considered in conjunction with any underlying changes in lease classification (refer to question 11).

Under US GAAP, if the lease is classified as a sales-type lease, the treatment of IDCs will depend on whether the fair value of the leased asset equals its carrying amount at lease commencement. Differences may arise between the two standards when the carrying amount of the leased asset does not equal the fair value at lease commencement. For sales-type leases under US GAAP, IDCs in some cases are expensed, as opposed to IFRS, in which IDCs in a finance lease are included in the initial measurement of the net investment in the lease, unless the lessor is a manufacturer or dealer.

In addition, even when IDCs are included in the net investment in the lease under US GAAP (i.e., in a direct financing or sales-type lease where the carrying amount equals the fair value of the leased asset at lease commencement), differences may exist because, under IFRS, IDCs do not include costs incurred by manufacturer or dealer lessors in connection with obtaining a finance lease and, therefore, are excluded from the net investment in the lease. Instead, under IFRS, those costs incurred by manufacturer or dealer lessors are recognized as an expense.

For operating leases, US GAAP and IFRS are similar in that IDCs are expensed over the lease term on the same basis as the lease income.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

13. Do the lessor's leases contain variable payments that are not dependent on an index rate?	Yes	No
	☐	☐

Under US GAAP, for a contract that contains a lease component and one or more additional lease or non-lease components, a lessor is required to allocate the consideration in the contract on a relative standalone selling price basis to lease and non-lease components (unless the lessor elects and qualifies for the practical expedient to not separate the lease and non-lease components as discussed in question 11). Certain variable payments are included as consideration in the contract (e.g., variable payments that depend on an index or rate). Variable payments that do not depend on an index or rate (e.g., performance- or usage-based payments) and that relate to the lease component, even partially, are excluded from the consideration in the contract.

US GAAP — ASC 842-10-15-38 through 15-40	**IFRS — IFRS 16.17**
For lessors, if the terms of a variable payment that is not dependent on an index or rate relate, even partially, to the lease component, the lessor will recognize those payments (allocated to the lease component) as income in profit or loss in the period when the changes in facts and circumstances on which the variable payment is based occur (e.g., when the lessee's sales on which the amount of the variable payment depends occur). When the changes in facts and circumstances on which the variable payment is based occur, the lessor will allocate those payments to the lease and non-lease components of the contract. The allocation is on the same basis as the initial allocation of the consideration in the contract or the most recent modification not accounted for as a separate contract unless the variable payment meets the criteria in ASC 606-10-32-40 to be allocated only to the lease component(s).	IFRS 16 does not include similar guidance on the allocation of such consideration to the lease and non-lease components. Rather, lessors will follow the guidance in IFRS 15.73 through 15.90, which is to allocate the transaction price to each performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer.

Implications:

Under both US GAAP and IFRS, a lessor is generally required to allocate the consideration in the contract on a relative standalone selling price basis. However, the treatment of a variable payment that is not dependent on an index or rate (e.g., performance- or usage-based payments) and

relates, even partially, to the lease component is different in the two standards. This could result in a difference in how the payments are allocated between the lease and non-lease component(s).

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

14. Did the reporting entity agree to modify the terms and conditions of a lease?

Yes ☐ No ☐

Lease modifications occur when there are changes to the terms and conditions of a contract that result in a change in scope or consideration in the lease arrangement. Lease modifications are defined similarly under US GAAP and IFRS. Examples of lease modifications include adding or terminating the right to use one or more underlying assets or extending or shortening the lease term.

For a lessor's sales-type or direct financing lease under US GAAP and a lessor's finance lease under IFRS, accounting for a lease modification is dependent on whether the modification is accounted for as a separate contract. Modifications are accounted for as separate contracts if the lessee is granted an additional right of use that is not included in the original lease and the lease payments (under US GAAP) or consideration (under IFRS) increases commensurate with the standalone price of the additional right of use (adjusted for the circumstances of the particular contract). If the modification does not result in a separate new lease, the modification accounting follows the classification and measurement requirements of ASC 842 or IFRS 16, as applicable.

US GAAP — ASC 842-10-25-15 through 25-17	**IFRS — IFRS 16.80**
Under US GAAP, if the modification of a sales-type or direct financing lease is not accounted for as a separate contract, the entity reassesses the classification of the lease as of the effective date of the modification based on the modified terms and conditions, and the facts and circumstances as of that date. ASC 842 then specifies how to account for the modified lease based on the classification of the modified lease. Additionally, a substantive change in the timing of lease payments is a lease modification because there is a substantive change in the terms and conditions of the contract.	Under IFRS, if the modification of a finance lease is not accounted for as a separate contract, the accounting for the modification depends on whether the finance lease would have been classified as an operating lease had the modification been in effect at lease inception. IFRS 16 then specifies how to account for the modified lease based on that classification. A change in the timing of lease payments may be interpreted differently than under US GAAP because there is no change to the total amount of the consideration for the lease.

Implications:

Modifications are defined similarly under US GAAP and IFRS. However, whether a change in the timing of lease payments results in a lease modification may be interpreted differently under US GAAP and IFRS. Additionally, the treatment of the modification may differ between the two standards for a lessor's sales-type or direct financing lease under US GAAP compared with a lessor's finance lease under IFRS. This may result in differences in the accounting for the modification from the perspective of the lessor.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

Sale and leaseback transactions

15. Has the reporting entity entered into any sale and leaseback transactions?	Yes	No
	☐	☐

Sale and leaseback accounting applies to both the seller-lessee and the buyer-lessor. A sale and leaseback transaction involves the transfer of an asset by an entity (the seller-lessee) to another entity (the buyer-lessor) and the leaseback of the same asset by the seller-lessee.

US GAAP — ASC 842-40-25-1 through 25-3 and ASC 842-40-55-31 through 55-38	**IFRS — IFRS 16.98 through 99 and IFRS 15**
To determine whether an asset transfer is accounted for as a sale and purchase, a seller-lessee and a buyer-lessor consider the following: ► Whether the transfer meets the sale criteria under ASC 606 (however, certain fair value repurchase agreements will not result in a failed sale). ► Whether the leaseback would be classified as a sales-type lease by the buyer-lessor or a finance lease by the seller-lessee (i.e., a sale and purchase does not occur when the leaseback is classified as a sales-type lease by the buyer-lessor or as a finance lease by the seller-lessee).	To determine whether the transfer of an asset is accounted for as a sale and purchase, a seller-lessee and a buyer-lessor apply the requirements in IFRS 15 (including those for repurchase agreements) to assess whether the buyer-lessor has obtained control of the asset.
Sale and leaseback reassessment If a repurchase option is the only reason the transfer of an asset in a sale and leaseback transaction is not accounted for as a sale, a seller would recognize the sale of the asset and a leaseback upon expiration of the repurchase option	*Sale and leaseback reassessment* IFRS 16 does not include similar guidance for the reassessment of a failed sale when a repurchase option expires in a sale and leaseback transaction. Therefore, reassessment of the failed sale is not required.

Implications:
Under US GAAP and IFRS, in order for a sale and leaseback arrangement to qualify as a sale for the seller-lessee and a purchase for the buyer-lessor, the transfer of the underlying asset must meet the sale criteria under ASC 606 (excluding the evaluation of repurchase agreements under ASC 606-10-55-66 through 55-78) and IFRS 15 (including the evaluation of repurchase agreements under IFRS 15.B64 through B76). However, ASC 842 provides additional guidance for evaluating whether repurchase options affect sale accounting. IFRS does not include this additional guidance, which may result in differences under IFRS. While an option for a seller-lessee to repurchase the transferred asset will generally preclude sale accounting under IFRS, ASC 842-40 specifies that an option for the seller-lessee to repurchase the asset does not preclude sale and purchase accounting when *both* of the following conditions are met:

- The exercise price of the option is the fair value of the underlying asset at the time the option is exercised.
- There are alternative assets, substantially the same as the transferred asset, readily available in the marketplace.

Generally, a sale and leaseback of real estate when the seller-lessee retains any form of a repurchase option will preclude sale accounting under ASC 842-40.

Further, a sale and purchase does not occur if the leaseback will be classified as a finance lease by the seller-lessee or as a sales-type lease by the buyer-lessor under US GAAP. IFRS 16 does not contain the same lease classification criteria included in US GAAP, which precludes sale accounting if the leaseback would be classified as a sales-type lease by the buyer-lessor or a finance lease by the seller-lessee. Because of the differences between US GAAP and IFRS, a transfer of an asset with a leaseback to the seller that does not qualify as a sale and purchase under US GAAP may qualify as a sale under IFRS (and vice versa), which could result in significant accounting differences over the term of a sale and leaseback arrangement (e.g., financing accounting under US GAAP vs. sale and leaseback accounting under IFRS). However, entities should carefully consider the requirements in IFRS 15 (i.e., whether the buyer-lessor obtains control of the asset) to determine whether the transfer of an asset is accounted for as a sale and purchase. Entities may often reach similar conclusions on whether a sale and purchase have occurred under both standards.

In addition, if a repurchase option(s) is the only reason the transfer of an asset in a sale and leaseback transaction is not accounted for as a sale under US GAAP or IFRS, differences may result when that repurchase option(s) expires unexercised.

For a seller-lessee, refer to questions 16 and 17 for additional differences on a sale and leaseback transaction.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

16. Has the reporting entity recognized any gain or loss associated with a sale and leaseback transaction? Yes ☐ No ☐

Under both US GAAP and IFRS, a seller-lessee recognizes any gain or loss on the sale of the underlying asset upon the transfer of the underlying asset. However, the amount of gain or loss recognized could be different under US GAAP and IFRS.

US GAAP — ASC 842-40-25-4, ASC 842-40-30-1 through 30-3, and ASC 842-40-55-23 through 55-30	**IFRS — IFRS 16.100 through 102 and IFRS.IE 11**
The seller-lessee recognizes any gain or loss, adjusted for off-market terms, immediately.	The seller-lessee recognizes only the amount of any gain or loss, adjusted for off-market terms, that relates to the rights transferred to the buyer-lessor.

Implications:
When the transfer of the asset is a sale, both US GAAP and IFRS require off-market terms to be adjusted in the selling price used to calculate the gain or loss on the sale and leaseback transaction.

However, differences between US GAAP and IFRS may arise in the measurement of the gain or loss since IFRS limits the amount recognized to include only gains or losses that relate to the rights transferred from the seller-lessee to the buyer-lessor. In contrast, under US GAAP, the entire gain or loss on the transaction is recognized. However, under IFRS, the seller-lessee may need to consider whether the underlying asset may have been impaired prior to the sale and leaseback and the transaction would require the asset to have been classified as held-for-sale under IFRS 5 and, therefore, subject to potential impairment prior to the transaction.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

17. Does the reporting entity have a sale and leaseback transaction that does not qualify as a sale?	Yes	No
	☐	☐

Under both US GAAP and IFRS, if the transfer of an asset is not a sale, the seller-lessee and the buyer-lessor account for the transaction as a financing. The seller-lessee keeps the transferred asset subject to the sale and leaseback transaction on its balance sheet and accounts for amounts received as a financial liability.

US GAAP — ASC 842-40-25-5, ASC 842-40-30-6, and ASC 842-40-55-31 through 55-38	**IFRS — IFRS 16.103**
Asset transfers that do not qualify as sales should be accounted for as financings. For the seller-lessee, ASC 842 provides additional guidance for adjusting the interest rate on the recognized financing in certain circumstances (e.g., to ensure there is not a built-in loss).	Asset transfers that do not qualify as sales should be accounted for as financings in accordance with IFRS 9. IFRS 16 does not provide additional lessee guidance on interest rate adjustments.

Implications:

When the transfer of the asset does not qualify as a sale, both US GAAP and IFRS require the amounts received to be recognized as a financial liability by the seller-lessee and a loan receivable by the buyer-lessor. However, differences between US GAAP and IFRS may arise in the interest rate on the financial liability since US GAAP requires the seller-lessee to adjust the interest rate on its financial liability as necessary to make sure that *both*:

- Interest on the financial liability is not greater than the principal payments on the financial liability over the shorter of the lease term or the term of the financing (i.e., there should be no negative amortization of the liability).
- The carrying amount of the asset does not exceed the carrying amount of the financial liability at the earlier of the end of the lease term or the date at which control of the asset will transfer to the buyer-lessor (i.e., there should be no built-in loss).

Under IFRS, the applicable discount rate is determined in accordance with IFRS 9.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

Subleases

18. Did the reporting entity enter into any subleases?	Yes	No
	☐	☐

Lessees may enter into arrangements to sublease an underlying asset to a third party. In these arrangements, one party acts as both the lessee and lessor in relation to the same underlying asset. The original lease is often referred to as a head lease, the original lessee is often referred to as an intermediate lessor or sublessor, and the ultimate lessee is often referred to as the sublessee.

US GAAP — ASC 842-10-25-6	**IFRS — IFRS 16.B58**
When classifying a sublease, the intermediate lessor or sublessor classifies the sublease based on the underlying asset rather than the right-of-use asset recognized as part of the head lease.	When classifying a sublease, the intermediate lessor classifies the sublease based on the right-of-use asset recognized as part of the head lease rather than the underlying asset subject to the sublease.

Implications:
When a sublease exists, the asset assessed by the sublessor for purposes of classifying the sublease is different under US GAAP and IFRS. Under US GAAP, when classifying a sublease, a sublessor considers the lease classification criteria with reference to the underlying asset subject to the sublease rather than the right-of-use asset recognized as part of the head lease. Therefore, the sublease classification assessment is completed on the underlying asset itself, which is the item leased by the intermediate lessor to a third party. Under IFRS, the sublease is classified by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset. As a result, differences related to classification of a sublease may exist between the two standards.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

Related party transactions

19. Did the reporting entity enter into any lease arrangements with a related party? Yes ☐ No ☐

A related party is a person or entity that is related to the entity that is preparing its financial statements.

US GAAP — ASC 842-10-55-12, ASC 842-20-50-7, ASC 842-30-50-4 and ASC 842-40-30-4	IFRS — IFRS 16 and IAS 24
Entities classify and account for related party leases (including sale and leaseback transactions) based on the legally enforceable terms and conditions of the lease. Disclosure of related party transactions is required.	IFRS 16 does not address related party lease transactions. IAS 24 *Related Party Disclosures* contains guidance on related party disclosures.

Implications:

Under US GAAP, lessees and lessors are required to classify and account for leases between related parties on the basis of the legally enforceable terms and conditions of the lease (i.e., in the same manner as leases between unrelated parties).

IFRS 16 does not address related party lease transactions.

Identified difference? Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

20. Does the reporting entity have any leveraged leases? Yes ☐ No ☐

A leveraged lease is a special type of structured lease involving non-recourse financing. A leveraged lease involves at least three parties (e.g., a lessor, a lessee and a third-party financier), has sufficient non-recourse financing to result in substantial leverage, and results in the lessor's net investment declining in early years and rising in later years. A unique economic effect is produced by the combination of non-recourse financing and a cash flow pattern that typically allows the lessor to recover its investment in the early years of the lease (due in large part to tax benefits) and thereafter affords the lessor the temporary use of funds from which additional income can be derived. Due to this unique economic effect, special accounting rules exist for lessors in leveraged leases under legacy US GAAP. However, leveraged lease accounting is eliminated for leases that commence or are modified on or after the effective date of ASC 842. Leveraged leases that commenced prior to the effective date are grandfathered.

US GAAP — ASC 842-50	IFRS — IFRS 16
Leveraged lease arrangements that existed before the effective date of ASC 842 (i.e., the lease commenced before the effective date) are grandfathered and, therefore, continue to follow the legacy recognition, measurement, presentation	Leveraged lease accounting is not permitted under IFRS 16.

and disclosure guidance for leveraged leases that was carried forward to ASC 842-50. If an existing leveraged lease is modified on or after the effective date of ASC 842, it would no longer be accounted for as a leveraged lease but would instead be accounted for under ASC 842 (i.e., the existing leveraged lease is required to be reclassified as a sales-type, direct financing or operating lease, as applicable, using the lease classification guidance in ASC 842). As of the effective date of ASC 842, leveraged lease accounting is eliminated prospectively for all new or modified leases.	

Implications:
Fundamental differences exist in accounting for leveraged leases that existed before the effective date of ASC 842 between US GAAP and IFRS. No special rules exist under IFRS to account for leveraged leases; therefore, all leases will be classified as either operating or finance leases in accordance with IFRS 16. In addition, no special presentation or accounting is provided for non-recourse debt and deferred taxes in a leveraged lease under IFRS. These amounts are presented and accounted for separately under IFRS.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

21. Did the reporting entity grant or receive any concessions resulting from COVID-19? Yes ☐ No ☐

Some lessors may have provided (e.g., deferral of lease payments, cash payments, reduced future lease payments) to existing lessees to help mitigate the economic fallout from the COVID-19 pandemic on the lessee's operations.

To reduce the operational challenges at a time when many businesses were ordered to close or saw their revenue drop due to the impact of the COVID-19 pandemic, the FASB staff and the IASB provided certain accounting elections to entities that receive (and provide under US GAAP) rent concessions due to the impact of the COVID-19 pandemic. The FASB staff addressed these elections in a question-and-answer document posted on the FASB website,[13] while the IASB amended IFRS 16. Making this election would simplify the accounting for both lessees and lessors under US GAAP and for lessees under IFRS.

US GAAP — Q&A document	**IFRS — IFRS 16.46A and 46B**
The elections apply to both lessees and lessors.	The practical expedient is not available to lessors.
Entities that receive or provide lease-related concessions to mitigate the economic effects of COVID-19 on lessees need to consider whether	As a practical expedient, a lessee may elect not to assess whether a COVID-19 related lease concession from a lessor is a lease modification.

[13] See **https://fasb.org/page/pageContent?pageId=/staticpages/fasb-staff-qatopic-842-and-topic-840accounting-for-lease-concessions-related-to-the-effects-of-the-covid19-pandemic.html.**

to elect not to evaluate whether certain concessions provided by a lessor related to the effects of COVID-19 are lease modifications. Entities that elect not to evaluate whether a concession is a modification can then elect whether to apply the lease modification guidance in ASC 842 to that concession (i.e., assume the concession was always contemplated by the contract or assume the concession was not contemplated by the contract). Entities may make the elections for any lessor-provided concessions related to the effects of the COVID-19 pandemic (e.g., deferrals of lease payments, cash payments made to the lessee, reduced future lease payments) as long as the concession does not result in a substantial increase in the rights of the lessor or the obligations of the lessee. Entities that don't make the elections need to apply the guidance in ASC 842 to determine whether a concession provided by a lessor should be accounted for as a lease modification. The FASB staff said these elections should be applied consistently to leases with similar characteristics and in similar circumstances, consistent with the overall objective described in ASC 842-10-10-1.	A lessee that makes this election accounts for any qualifying change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16 if the change were not a lease modification. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: ► The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change. ► Any reduction in lease payments affects only payments originally due on or before 30 June 2022 (e.g., a rent concession would meet this condition if it results in reduced lease payments before 30 June 2022 and increased lease payments that extend beyond 30 June 2022). ► There is no substantive change to other terms and conditions of the lease. A lessee may elect to apply the practical expedient consistently to contracts with similar characteristics and in similar circumstances, as specified in IFRS 16.2.

Implications:
As noted above, there are certain fundamental differences between the relief provided under US GAAP and IFRS for COVID-19 related concessions. For example, the relief provided by the IASB does not apply to lessors, while the relief provided under US GAAP is available to both lessees and lessors. As a result, the accounting for these concessions likely will differ under US GAAP and IFRS.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

Income taxes

Similarities:

ASC 740, *Income Taxes,* and IAS 12 *Income Taxes* provide guidance on income tax accounting under US GAAP and IFRS, respectively. Both standards require an entity to account for both current and expected future tax effects of events that have been recognized, either for financial or tax reporting (i.e., deferred taxes), using an asset and liability approach. Further, under both standards, deferred tax liabilities for temporary differences arising at the acquisition date from nondeductible goodwill or the excess of financial reporting goodwill over tax goodwill for tax-deductible goodwill are not recorded. In addition, the tax effects of items accounted for directly in equity during the current year are allocated directly to equity. Finally, neither US GAAP nor IFRS permits the discounting of deferred taxes.

While the approaches to accounting for income taxes are similar in US GAAP and IFRS, there are several differences, which are addressed below.

Primary US GAAP	Primary IFRS
► ASC 740, *Income Taxes* ► ASC 980, *Regulated Operations*	► IAS *12 Income Taxes* ► IFRIC 23 *Uncertainty over Income Tax Treatments* ► Standing Interpretations Committee (SIC)-25 *Income Taxes — Changes in the Tax Status of an Entity or its Shareholders* ► IFRS 14 *Regulated Deferral Accounts*

Standard setting activities:

The FASB and the IASB have separately undertaken projects in various areas of accounting for income taxes aiming to simplify or clarify the application of the current standards.

In May 2021, the IASB issued *Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)* (the IAS 12 Amendments). The Board amended IAS 12 to reduce diversity in the way that entities account for deferred tax on transactions and events, such as leases and decommissioning obligations, that lead to the initial recognition of both an asset and a liability. The IAS 12 Amendments narrow the scope of the initial recognition exception under IAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Early adoption is permitted. See further discussion in question 3.

In January 2021, the IASB published an Exposure Draft, *Regulatory Assets and Regulatory Liabilities*, which sets out the proposals for a model to account for regulatory assets and regulatory liabilities. The Board completed its discussion of the feedback received on the Exposure Draft and is currently redeliberating. If issued as a new IFRS Accounting Standard, it would replace the interim standard, IFRS 14 *Regulatory Deferral Accounts*. See further discussion in question 19.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, that, among other things, simplifies the accounting for income taxes by eliminating some exceptions to the general approach in ASC 740 and clarifies certain aspects of the existing guidance to promote more consistent application. For PBEs, the guidance was effective for fiscal years beginning after 15 December 2020 and interim periods within those fiscal years. For all other entities, the guidance is effective for fiscal years beginning after 15 December 2021 and interim periods within fiscal years beginning after 15 December 2022. Early adoption is permitted. The effect of ASU 2019-12 on US GAAP and IFRS differences has been considered in questions 9 and 18.

Discussion of IFRS 1:

IFRS 1 requires full retrospective application of IAS 12. A first-time adopter needs to apply IAS 12 to temporary differences between the carrying amount of the assets and liabilities in its opening IFRS balance sheet and their tax bases. Full retrospective application of IAS 12 requires a first-time adopter to establish the history of the items that give rise to temporary differences because, depending on the initial transaction, it may not be necessary to account for deferred tax, or changes in the deferred tax may need to be accounted for in OCI.

Differences:

1. Do the tax bases of an entity's assets and liabilities or the applicable tax rate differ depending on the manner in which the assets are recovered or the liabilities are settled?	Yes ☐	No ☐

Tax basis is referred to as "tax base" under IFRS.

US GAAP — ASC 740-10-25-50	**IFRS — IAS 12.5, IAS 12.7 through 8 and IAS 12.51 through 51E**
Tax basis is not defined in US GAAP. However, tax basis generally is a question of fact under the tax law. The tax basis of an asset or liability is determined by the tax consequences that would arise if the asset were recovered or the liability settled for its carrying amount at the reporting date. For most assets and liabilities, there is no dispute on the amount; however, when uncertainty exists, the amount is determined in accordance with ASC 740-10-25 (see question 2). Management's intent is not a factor in determining the tax basis of an asset or liability or the applicable tax rate.	Tax base is generally the amount deductible or taxable for tax purposes, being defined as the amount attributed to assets and liabilities for tax purposes. Management's expectation at the end of the reporting period of the manner in which it will recover the carrying amount of an asset or settle the carrying amount of a liability can affect the tax base or the applicable tax rate. For example, if an entity would pay a different amount of tax depending on whether an asset is consumed in the business or sold, the entity measures deferred tax according to the expected method of realization. This effectively makes deferred tax a function of management's intent.

Implications:
IFRS permits an entity's expectation of the manner in which it will recover an asset or settle a liability to be factored in when determining the tax basis of an asset or liability. Therefore, the tax bases of an entity's assets or liabilities or the tax rate applied may be different under IFRS. If the tax bases of an entity's assets and liabilities or the tax rate applied change upon conversion to IFRS or US GAAP, the related deferred tax assets or liabilities will have to be adjusted.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

2. Does the entity have any uncertain income tax positions?	Yes ☐	No ☐

US GAAP — ASC 740-10-25-5 through 25-7, ASC 740-10-25-16, ASC 740-10-30-7 and ASC 740-10-45-10A through 45-11	**IFRS — IAS 12, IFRIC 23.4, IFRIC 23.6, IFRIC 23.8, IFRIC 23.10 through 11, and IFRIC 23.23**
Recognition and measurement The accounting for uncertain tax positions under ASC 740 requires a two-step process, separating recognition from measurement. First, a benefit is recognized when it is "more likely than not" to be sustained based on the technical merits of the position. Second, the amount of benefit to be recognized is based on the largest amount of tax benefit that is more likely than not (i.e., greater than 50% likelihood) of being realized upon ultimate settlement. Detection risk is not considered in the analysis. The unit of account for uncertain tax positions is based on the level at which an entity prepares and supports the amounts claimed in the tax return and considers the approach the entity anticipates the taxation authority will take in an examination.	*Recognition and measurement* IFRIC 23 clarifies how to apply the recognition and measurement requirements of IAS 12 when there is uncertainty over income tax treatments. When it is probable (which has been interpreted as equivalent to the "more likely than not" threshold under US GAAP) that the taxation authority will accept an uncertain tax treatment, taxable profit or loss is determined consistent with the tax treatment used or planned to be used in the income tax filings. When it is not probable that a taxation authority will accept an uncertain tax treatment, an entity will reflect the effect of the uncertainty for each uncertain tax treatment by using either the expected value or the most likely amount, whichever method better predicts the resolution of the uncertainty. Detection risk is not considered in the analysis. Uncertain tax treatments may be considered separately or together based on the approach that better predicts the resolution of the uncertainty.
Presentation ASC 740-10-45-11 requires that an unrecognized tax benefit that is presented as a liability be classified as current to the extent the entity expects payment (or receipt) of cash within one year. An unrecognized tax benefit that is presented as a liability and is expected to be resolved without a payment (e.g., resolution due to the expiration of the statutes of limitations) should not be classified as current. Additionally, ASC 740-10-45-10A and 45-10B require that a liability related to an unrecognized tax benefit be offset against a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward, if such a	*Presentation* Neither IAS 12 nor IFRIC 23 contain explicit requirements on the presentation of uncertain tax liabilities or assets in the statement of financial position. In September 2019, in response to a request for clarification on this matter, the IFRS IC published an agenda decision and concluded that an entity is required to present uncertain tax liabilities as current tax liabilities or deferred tax liabilities, and uncertain tax assets as current tax assets or deferred tax assets.

settlement would be required or expected in the event the tax position is disallowed.	

Implications:

While uncertain tax positions/treatments are required to be considered under both US GAAP and IFRS, the recognition and measurement of uncertain tax positions/treatments are different.

Under US GAAP, a tax position is not recognized unless the position is more likely than not to be sustained upon examination, and the measurement of the benefit is limited to the largest amount that is greater than 50% likely of being realized. Under IFRS, if it is probable (which has been interpreted as equivalent to more likely than not under US GAAP) that the taxation authority will accept the uncertain tax treatment, the tax treatment is measured in the financial statements consistent with the amount in the tax return (i.e., no liability for the uncertain tax treatment is recorded). If it is not probable that the taxation authority will accept the tax treatment, the entity will apply one of the following two methods to reflect the effect of uncertainty in its estimate of the amount it expects to pay or recover from the tax authorities: the expected value or the most likely amount. Therefore, different amounts may be recognized under US GAAP and IFRS for uncertain tax positions/treatments. In addition, the unit of account in recognizing and measuring uncertain tax positions/treatments could differ.

Following the September 2019 IFRS IC agenda decision, the guidance under IFRS is more prescriptive than US GAAP regarding the presentation of uncertain tax liabilities. Therefore, depending on a company's presentation under US GAAP, differences may exist.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

3. Has the entity recognized any deferred tax assets or liabilities associated with temporary differences initially arising from transactions that were not business combinations and that at the time of the transaction did not affect accounting or taxable profit or loss (e.g., acquisitions of assets)?

Yes ☐ No ☐

In most cases, when an entity acquires an asset, the amount paid or received represents the basis of reporting for financial statement and tax purposes and no temporary difference is initially generated. In certain instances, an entity may purchase a used asset from someone else, an asset that is not deductible for tax purposes, or an asset that is eligible for tax deductions in future periods greater or less than its cost, which could result in a difference between the book and tax bases of the asset acquired.

US GAAP — ASC 740-10-25-51	IFRS — IAS 12.15, IAS 12.22 and IAS 12.24
Deferred taxes are recognized for temporary differences arising on the initial recognition of an acquired asset or liability. If the amount paid when acquiring a single-asset differs from its tax basis, the consideration paid is allocated between the asset and deferred tax effect. In this case, a simultaneous equation is used to	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, (2) upon occurrence, the transaction affects neither accounting nor taxable profit (e.g., acquisition of nondeductible assets) and (3) (after adoption of

determine the amount of the deferred tax and the value of the asset acquired.	the IAS 12 Amendments) at the time of the transaction, it does not give rise to equal taxable and deductible temporary differences (e.g., the initial recognition of a lease liability and the corresponding amount as a right-of-use asset). This is referred to as the initial recognition exemption. IAS 12 also prohibits an entity from subsequently recognizing changes in these unrecognized deferred tax assets or liabilities.

Implications:
The initial recognition exemption that exists under IFRS is generally not provided under US GAAP. Companies converting from US GAAP to IFRS need to evaluate whether any existing deferred tax amounts arising from the acquisition of an asset and a liability should be derecognized based on the initial recognition exemption. Similarly, companies converting from IFRS to US GAAP need to evaluate whether any new deferred tax amounts arising from the acquisition of an asset and a liability should be recorded upon conversion.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

4. Has the entity recorded a valuation allowance related to some or all of the entity's recognized deferred tax assets?	Yes	No
	☐	☐

US GAAP — ASC 740-10-30-5	**IFRS — IAS 12.24, IAS 12.34 and IAS 12.56**
Deferred tax assets are recognized in full and a valuation allowance is separately recognized to reduce the deferred tax assets to an amount that is more likely than not to be realized.	Deferred tax assets are recognized only to the extent it is probable (i.e., more likely than not) that they will be realized. A separate valuation allowance is not recognized.

Implications:
IFRS requires a deferred tax asset to be recognized at the amount that is probable to be realized. "Probable" as used under IAS 12 is equivalent to "more likely than not" as used under ASC 740. Therefore, the deferred tax asset recognized under IFRS often should be equivalent to the deferred tax asset, net of valuation allowance, reported under US GAAP. As a result, this difference often should result in differences only in the disclosures in the notes to the financial statements.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

5. Has an enacted or "substantively enacted" tax law changed during the year? Yes ☐ No ☐

US GAAP — ASC 740-10-30-8 and ASC 740-10-35-4	**IFRS — IAS 12.46 through 47**
Current and deferred tax assets and liabilities are generally measured using the enacted tax rates or laws that apply to current taxable income or are expected to apply to taxable income in the periods in which the deductible or taxable temporary difference is expected to be realized or settled.	Current and deferred tax assets and liabilities are measured using the enacted or "substantively enacted" tax rates or laws that apply to current taxable income or are expected to apply in the periods in which the deductible or taxable temporary difference is expected to be realized or settled.

Implications:
IFRS requires tax laws enacted or "substantively enacted" as of the balance sheet date to be used. This may differ from the requirement under US GAAP to use only the enacted tax rates or laws. We do not believe that there should be differences in practice in the tax rates and laws applied for US tax jurisdictions under IFRS and under US GAAP because for such jurisdictions a law is substantively enacted only when signed into law (i.e., when enacted). However, there may be differences related to tax jurisdictions outside of the US. As a result, an entity should carefully evaluate whether it should have applied a tax law or rate that has only been substantively enacted in a tax jurisdiction outside of the US upon conversion.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

6. Does the entity have investments in foreign subsidiaries or foreign corporate joint ventures? Yes ☐ No ☐

US GAAP — ASC 740-10-25-3, ASC 740-30-25-3, ASC 740-30-25-5 through 25-6, ASC 740-30-25-9, ASC 740-30-25-11 through 25-13, ASC 740-30-25-17 through 25-19, and ASC 740-30-45-2	**IFRS — IAS 12.15, IAS 12.39 and IAS 12.44**
Deferred tax liabilities Recognition of a deferred tax liability is not required for taxable temporary differences between the carrying amount and tax basis of an investment in a foreign subsidiary or foreign	*Deferred tax liabilities* Recognition of a deferred tax liability is required for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements,

corporate joint venture (i.e., the outside-basis difference) that is essentially permanent in duration, unless it becomes apparent that the difference will reverse in the foreseeable future.	except to the extent that both of the following conditions are satisfied: (1) the parent, investor, joint venturer or joint operator is able to control the timing of the reversal of the temporary difference and (2) it is probable (i.e., more likely than not) that the temporary difference will not reverse in the foreseeable future.
Deferred tax assets A deferred tax asset is recognized for a deductible temporary difference between the carrying amount and tax basis of an investment in a foreign subsidiary or foreign corporate joint venture that is essentially permanent in duration, only if it is apparent that the temporary difference will reverse in the foreseeable future. Recognized deferred tax assets must be assessed for realizability.	*Deferred tax assets* Recognition of a deferred tax asset is required for all deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint arrangements, only to the extent that it is probable (i.e., more likely than not) that (1) the temporary difference will reverse in the foreseeable future and (2) taxable profit will be available against which the temporary difference can be used.

Implications:
Both US GAAP and IFRS provide certain exceptions from recognizing deferred tax liabilities and assets for temporary differences between the carrying amount and tax basis of investments in foreign subsidiaries and foreign corporate joint ventures. However, because these exceptions are different, an entity must carefully evaluate whether its deferred taxes related to such investments will change upon conversion.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

7. Does the entity have investments in domestic subsidiaries or domestic corporate joint ventures?	Yes	No
	☐	☐

US GAAP — ASC 740-10-25-3, ASC 740-30-25-3 through 25-5, ASC 740-30-25-7 through 25-9, ASC 740-30-25-11 through 25-13, and ASC 740-30-25-18	**IFRS — IAS 12.15, IAS 12.39 and IAS 12.44**
Deferred tax liabilities — investments in domestic subsidiaries The recognition of a deferred tax liability is required for a taxable temporary difference between the carrying amount and tax basis of an investment (i.e., the outside-basis difference) in a domestic subsidiary that arose after 1992, unless	*Deferred tax liabilities* Recognition of a deferred tax liability is required for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, except to the extent that both of the following conditions are satisfied: (1) the parent, investor,

the tax law provides a means by which the recorded amount of an investment in the stock of a domestic subsidiary's outside-basis difference could be recovered in a tax-free transaction (e.g., a tax-free liquidation or a statutory merger) and the company expects that it ultimately will use that means.	joint venturer or joint operator is able to control the timing of the reversal of the temporary difference and (2) it is probable (i.e., more likely than not) that the temporary difference will not reverse in the foreseeable future.
The recognition of a deferred tax liability is not required for a taxable temporary difference related to the undistributed earnings of a domestic subsidiary that is essentially permanent in duration and that arose prior to 1992, unless it becomes apparent that the temporary difference will reverse in the foreseeable future. *Deferred tax liabilities — investments in domestic corporate joint ventures* The recognition of a deferred tax liability is required for a taxable temporary difference between the carrying amount and tax basis of an investment (i.e., outside-basis difference) in a domestic corporate joint venture that arose after 1992. The recognition of a deferred tax liability is not required for a taxable temporary difference related to the undistributed earnings of a domestic corporate joint venture that is essentially permanent in duration and that arose prior to 1992, unless it becomes apparent that the temporary difference will reverse in the foreseeable future.	
Deferred tax assets A deferred tax asset is recognized for a deductible temporary difference between the carrying amount and tax basis of an investment in a domestic subsidiary or domestic corporate joint venture that is essentially permanent in duration, only if it is apparent that the temporary difference will reverse in the foreseeable future. Deferred tax assets recognized must be assessed for realizability.	*Deferred tax assets* Recognition of a deferred tax asset is required for all deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint arrangements, only to the extent that it is probable (i.e., more likely than not) that (1) the temporary difference will reverse in the foreseeable future and (2) taxable profit will be available against which the temporary difference can be used.

Implications:
Both US GAAP and IFRS provide certain exceptions from recognizing deferred tax liabilities and assets for temporary differences between the carrying amount and tax basis of investments in domestic subsidiaries and domestic joint ventures. However, since these exceptions are different, an entity must carefully evaluate whether its deferred taxes related to such investments will change upon conversion.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

8. Does the entity have either domestic or foreign investments accounted for under the equity method, other than foreign or domestic subsidiaries or corporate joint ventures?	Yes	No
	☐	☐

US GAAP — ASC 740-10-25-3, ASC 740-30-25-4 through 25-5, ASC 740-30-25-11 through 25-13, and ASC 740-30-25-18	**IFRS — IAS 12.15, IAS 12.39 and IAS 12.44**
The recognition of deferred taxes is required for temporary differences between the carrying amount and tax basis of an investment (i.e., the outside-basis difference) accounted for under the equity method (other than foreign or domestic subsidiaries or corporate joint ventures). Recognized deferred tax assets must be assessed for realizability.	Recognition of a deferred tax liability is required for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, except to the extent that both of the following conditions are satisfied: (1) the parent, investor, joint venturer or joint operator is able to control the timing of the reversal of the temporary difference and (2) it is probable (i.e., more likely than not) that the temporary difference will not reverse in the foreseeable future. Recognition of a deferred tax asset is required for deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint arrangements, only to the extent that it is probable (i.e., more likely than not) that (1) the temporary difference will reverse in the foreseeable future and (2) taxable profit will be available against which the temporary difference can be used.

Implications:
While US GAAP requires deferred taxes to be recognized for temporary differences between the carrying amount and tax basis of an investment (i.e., the outside-basis difference) accounted for under the equity method (other than qualifying corporate joint ventures as noted previously in questions 6 and 7), IFRS provides certain limited exceptions to their recognition. Because it may be difficult to assert that management has control over the timing of reversal of any temporary differences, we would not expect many differences related to how deferred taxes are recognized on temporary differences related to investments accounted for under the equity method upon conversion. Therefore, any differences identified should be scrutinized.

Identified difference?

Describe: Click here to enter text.	Yes ☐	No ☐	Depends on policy election ☐

9. Did the entity increase its interest in a foreign equity method investee such that it was required to consolidate the entity as a foreign subsidiary?	Yes ☐	No ☐

US GAAP — ASC 740-30-25-16	**IFRS — IAS 12.15 and IAS 12.39 through 40**
Before the adoption of ASU 2019-12 A deferred tax liability related to a foreign equity method investment in an entity will continue to be recognized after that entity becomes a consolidated foreign subsidiary to the extent dividends from the foreign subsidiary do not exceed the parent company's share of the foreign subsidiary's earnings subsequent to the date the entity became a foreign subsidiary. Recognition of a deferred tax liability is not required for taxable temporary differences between the carrying amount and tax basis of an investment in a foreign subsidiary or foreign corporate joint venture (i.e., the outside-basis difference) that is essentially permanent in duration, unless it becomes apparent that the difference will reverse in the foreseeable future. *After the adoption of ASU 2019-12* An entity may apply the exceptions to recognizing deferred tax liabilities on its outside-basis differences of foreign subsidiaries that predate the change in ownership if it asserts its intent and it has the ability to indefinitely reinvest those earnings or remit them in a tax-free manner.	Recognition of a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, is required, except to the extent that both of the following conditions are satisfied: (1) the parent, investor, joint venturer or joint operator is able to control the timing of the reversal of the temporary difference, and (2) it is probable (i.e., more likely than not) that the temporary difference will not reverse in the foreseeable future.

Implications:
Before the adoption of ASU 2019-12, under US GAAP, deferred tax liabilities related to a foreign equity method investment in an entity will continue to be recognized after that entity becomes a consolidated foreign subsidiary. Under IFRS, if a parent can control the timing of the reversal of a temporary difference arising from an outside-basis difference in a foreign subsidiary or foreign joint venture, and it is probable that the temporary difference will not reverse in the foreseeable future, a deferred tax liability is not required to be recognized. Therefore, a deferred tax liability related to an entity's equity method investment could be reversed if that entity becomes a consolidated subsidiary and the requirements in IAS 12 are met.

However, after the adoption of ASU 2019-12, under US GAAP, an entity may apply the exceptions to recognizing deferred tax liabilities on its outside-basis differences that predate the change in ownership if it asserts its intent and it has the ability to indefinitely reinvest those earnings or remit them in a tax-free manner. That is, there will be no difference between US GAAP and IFRS after the adoption of the new guidance.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

10. Does the entity have nonmonetary assets and liabilities that are measured in the entity's functional currency but have a tax basis that is determined in a different currency? Yes ☐ No ☐

When an entity's functional currency is not the same as its local currency (and the local currency is generally used to measure the amounts reported in its tax return), differences will arise due to the use of a historical exchange rate for the book basis and the current exchange rate for the tax bases of nonmonetary assets or liabilities.

US GAAP — ASC 740-10-25-3(f)	**IFRS — IAS 12.41**
Deferred tax assets or liabilities are not recognized for temporary differences related to nonmonetary assets or liabilities that are remeasured from the local currency into the functional currency for book purposes using historical exchange rates but that are reported in the entity's local currency for tax purposes using current exchange rates, when those temporary differences arise either from changes in exchange rates or indexing for tax purposes.	Deferred tax assets or liabilities are recognized for temporary differences related to nonmonetary assets or liabilities that are remeasured from the local currency into the functional currency for book purposes using historical exchange rates but that are reported in the entity's local currency for tax purposes using current exchange rates.

Implications:

Under IFRS, an entity is required to record additional deferred tax assets or liabilities for temporary differences related to nonmonetary assets or liabilities that are remeasured from the local currency into the functional currency for book purposes using historical exchange rates but that are reported in the entity's local currency for tax purposes using current exchange rates. US GAAP provides an exception for the recognition of these deferred tax assets and liabilities.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

11. Is the entity or any of its subsidiaries subject to a different tax rate depending on whether its taxable profits are distributed or undistributed (e.g., a lower rate applies if dividends are paid)?

Yes ☐ No ☐

Certain foreign jurisdictions tax corporate income at different rates depending on whether income is distributed to the company's shareholders or retained.

US GAAP — ASC 740-10-25-39 through 25-41 and ASC 740-10-30-14 through 30-15	IFRS — IAS 12.52A
Whether the reporting entity is a consolidated parent company or standalone subsidiary affects the tax rate applied. In the parent's consolidated financial statements, the tax rate applied to the operations of a subsidiary that receives a tax credit for dividend payments depends on whether the parent expects to remit the earnings of the foreign subsidiary (i.e., apply the distributed rate) or if the parent has indefinitely reinvested the foreign subsidiary's earnings and is not providing for deferred taxes on unremitted earnings under ASC 740-30-25-17 (i.e., apply the undistributed rate). In the separate financial statements of a subsidiary that pays dividends subject to the tax credit, a deferred tax asset will not be recognized for the tax benefits of future tax credits until the previously taxed income is distributed (ASC 740-10-25-40). ASC 740 does not specifically address the issue of a higher tax rate on distributed earnings.	Deferred taxes are measured using the tax rate applicable to undistributed profits. Companies should not anticipate that they would pay dividends when the temporary difference reverses.

Implications:

IFRS requires deferred tax assets and liabilities to be measured using the tax rate applicable to the undistributed profits. Under US GAAP, the tax rate applied is dependent on the parent's expectations about future remittance of the profits. In addition, the timing of recognition of the tax benefits of future tax credits in US GAAP could differ from that in IFRS. Under US GAAP and for separate financial statements, tax benefits of future tax credits that will be realized when previously taxed income is distributed should be recognized in the period that the tax credits are included in the entity's tax return (i.e., when the dividend giving rise to the tax credit is paid). Under IFRS, the tax consequences of the dividend should be recognized when a liability to pay a dividend is recognized.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

12. Did the entity have any changes to deferred taxes that were originally charged or credited to equity (i.e., "backwards tracing") or a category different from the origination of deferred tax?

Yes ☐ No ☐

For example, deferred taxes on unrealized gains or losses on available-for-sale debt securities, CTAs and adjustments from recognizing certain additional pension liabilities.

US GAAP — ASC 740-10-45-20, ASC 740-20-45-2 through 45-4, ASC 740-20-45-8, ASC 740-20-45-11 through 45-12 and ASC 740-20-45-14	**IFRS — IAS 12.58 and IAS 12.61A**
The tax effects of items credited or charged directly to equity during the current year are required to be allocated directly to equity. However, ASC 740 generally (subject to the intraperiod allocation guidance in ASC 740) requires subsequent changes in a valuation allowance related to a change in judgment about the realizability of deferred tax assets in future periods to be recognized in the current year's income tax expense or benefit from continuing operations even if the valuation allowance was initially recorded in equity. ASC 740 also requires subsequent changes in deferred tax balances that existed as of the beginning of the year because of a change in an enacted tax law or rate or an entity's tax status to be recognized in the current year's income statement even if the deferred tax was initially recorded in equity. Backwards tracing to equity is generally prohibited under ASC 740.	The tax effects of items credited or charged directly to equity during the current year are required to be allocated directly to equity. IAS 12 also requires subsequent changes in deferred tax items that were recognized in equity to continue to be recognized in equity (i.e., backwards tracing is required).

Implications:

IFRS requires that the movement in deferred taxes for items that have been directly recognized in equity be recognized in equity, without regard to the period in which the item itself was initially recognized in equity. This approach is generally prohibited under US GAAP.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

13. Does the entity have any intercompany transfers of assets that resulted in the payment of tax and such assets remain within the group?

Yes ☐ No ☐

It is not unusual for companies within the same consolidated group to transfer products between themselves and between tax jurisdictions. For example, a company in a lower tax rate jurisdiction might sell its inventory to a company in a higher tax rate jurisdiction. If the inventory, which now has a higher tax basis, is not sold outside the group at the balance sheet date, the intercompany profit is eliminated in consolidation. An intercompany transfer of assets between tax jurisdictions generally is a taxable event to the transferor and also generally establishes new tax bases for those assets in the buyer's tax jurisdiction. The new tax bases of those assets generally are deductible on the buyer's tax return as those assets are consumed or sold to an unrelated party.

US GAAP — ASC 740-10-25-3(e) and ASC 810-10-45-8	**IFRS — IAS 12.15, IAS 12.24 and IAS 12.51**
Income tax expense paid by the transferor on intercompany profits from the transfer or sale of inventory within a consolidated group are deferred in consolidation, resulting in the recognition of a prepaid asset for the taxes paid. This prepaid tax asset is presented separately from an entity's deferred taxes and is recognized as tax expense as the underlying asset is consumed or is sold to an unrelated party. US GAAP also prohibits the recognition of deferred taxes for increases in the tax bases due to an intercompany sale or transfer of inventory. The income tax effects of the intercompany sale or transfer of inventory are recognized when the inventory is sold to a party outside of the consolidated group. Companies are required to recognize both the current and deferred income tax effects of intercompany sales and transfers of assets other than inventory in the income statement as income tax expense (benefit) in the period in which the sale or transfer occurs.	Taxes paid by the transferor on intercompany profits from the transfer of assets within a consolidated group are recognized as tax expense as incurred. IAS 12 requires the recognition of deferred taxes on temporary differences between the tax bases of assets transferred between entities/tax jurisdictions that remain within the consolidated group. IAS 12 also generally requires an entity, in measuring deferred tax, to consider the expected manner of recovery or settlement of the tax. It would generally be consistent with this requirement to measure the deferred taxes on temporary differences arising from intercompany transfers at the tax rates and laws applicable to the transferee, rather than those applicable to the transferor, since the transferee will be taxed when the asset or liability subject to the transfer is realized or sold. However, in some jurisdictions, the tax history of an asset or liability transferred within the group remains with the transferor. In such cases, the general principles of IAS 12 should be used to determine whether any deferred tax should be measured at the tax rate of the transferor or the transferee.

Implications:

The US GAAP accounting of the tax effects of intercompany transfers of inventory that remains within the consolidated group is fundamentally different than the IFRS accounting. IFRS requires the establishment of deferred taxes, whereas US GAAP prohibits such recognition.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

14. Does the entity have any grandfathered leveraged leases?

Yes ☐ No ☐

A leveraged lease is a specific type of direct financing lease that involves at least three parties, has sufficient nonrecourse financing to result in substantial leverage, and results in the lessor's net investment declining in the early years and rising in later years. The combination of nonrecourse financing and a cash flow pattern that typically enables the lessor to recover its investment in the early years of the lease (which arises in large part as a result of tax benefits) and thereafter affords the lessor the temporary use of funds from which additional income can be derived produces a unique economic effect. Due to this unique economic effect, special accounting rules are provided for leveraged leases under US GAAP that affect the accounting for income taxes related to leveraged leases. Income tax rates are an important assumption in determining the rate of return on a leveraged lease. See question 20 in the "Leases" section of this publication.

US GAAP — ASC 740-10-25-2 and ASC 740-10-25-3(c)	IFRS — IAS 12 and IFRS 16
ASC 740 specifically scopes out the accounting for deferred taxes on a leveraged lease that exists and has not been modified before the effective date of ASC 842 and provides that such deferred taxes are accounted for under ASC 842-50. The accounting for income taxes related to leveraged leases grandfathered under ASC 842-50 is not consistent with the general accounting requirements for deferred income taxes in ASC 740. (Note: Upon adoption of ASC 842, no new or modified existing leveraged leases will be classified as leveraged leases. See question 20 in the "Leases" section of this publication.)	IFRS does not include special classification or accounting for leveraged leases.

Implications:

Fundamental differences in the accounting for grandfathered leveraged leases (that commenced before the adoption of ASC 842) between US GAAP and IFRS will continue to exist, as noted above. If leveraged leases entered into before the adoption of ASC 842 are modified after the adoption of the ASU, the fundamental differences in the accounting for those leases and related deferred taxes will no longer exist. See also question 20 in the "Leases" section of this publication.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

15. Is the entity engaged in activities that entitles it to special deductions for tax purposes?	Yes ☐	No ☐

Examples of special deductions include:

- Statutory depletions for oil and gas companies
- Deductions for manufacturing activities provided by Canadian tax law
- Foreign-derived intangible income deduction

US GAAP — ASC 740-10-25-37 and ASC 740-10-30-13	**IFRS — IAS 12.49**
Tax benefits of special deductions are recognized in the period in which they are deductible on the tax return. However, their effects may be considered when determining (1) average graduated tax rate to be used for measuring deferred taxes, if graduated rates are a significant factor and (2) the need for a valuation allowance.	No specific guidance is provided. However, IAS 12.49 requires that "when different tax rates apply to different levels of taxable income, deferred tax assets and liabilities are measured using the average rates that are expected to apply to the taxable profit (tax loss) of the periods in which the temporary differences are expected to reverse."

Implications:
Because IFRS is silent on the accounting treatment for special deductions, diversity in practice exists regarding whether a special deduction is recognized in the period in which it is deductible in an entity's tax return or it is factored into the effective tax rate. As a result, if a US GAAP entity is converting to IFRS, it will have to adopt a policy on accounting for the tax effects of special deductions upon conversion. The entity would be able to continue applying its existing US GAAP accounting policy upon adoption of such policy. However, if an IFRS entity is converting to US GAAP, it would only be allowable for the entity to recognize the tax benefits of special deductions in the period in which they are deductible on the tax return.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

16(a).	**Is the entity subject to an alternative or parallel income tax that imposes a different tax or tax rate?**	Yes ☐	No ☐
16(b).	**Is the entity subject to a modified taxable income calculation or a system that requires tax payments by an entity that would otherwise not be taxpaying under the normal income tax regime?**	Yes ☐	No ☐

US GAAP — ASC 740-10-30-10 through 30-12	**IFRS — IAS 12**
The effects of any alternative tax must be considered when measuring the tax effects of temporary differences. The applicable tax rate is determined in a manner consistent with the tax law after giving consideration to any interaction between the two systems. In jurisdictions that have an alternative tax system, deferred taxes should be measured using the regular tax rate. The regular tax rate must be used in computing deferred taxes, even if the company anticipates remaining subject to the alternative minimum tax (AMT) system for the foreseeable future. A deferred tax asset should be recognized for AMT credit carryforwards to the extent such alternative tax provides a credit against regular taxes in future periods. A valuation allowance is recognized against such AMT credit carryforwards if necessary, to reduce the deferred tax asset to the amount that is more likely than not to be realized.	IFRS does not include guidance on alternative tax or tax rates.

Implications:

Under US GAAP, an entity is required to consider the interaction of regular and alternative tax systems in determining the appropriate rate to apply to deferred tax items. Because there is no similar guidance under IFRS, differences may exist between US GAAP and IFRS in the application of alternative tax systems.

The US federal corporate AMT system does not currently exist; however, guidance included in ASC 740 regarding the corporate AMT system will continue to be applicable in other jurisdictions that have similar alternative tax systems. US tax law has a minimum base erosion anti-abuse tax (BEAT). In a question and answer document, the FASB staff addressed the accounting of BEAT by analogizing it to the AMT under prior tax law. Therefore, the FASB staff believes that an entity that is subject to BEAT should measure deferred tax assets and liabilities using the statutory tax rate under the regular tax system, following ASC 740-10-30-10.

Given that the BEAT computation is dependent on contingent or future events, and entities may not always need to pay the tax, we believe the FASB’s approach is also acceptable under IAS 12.

However, because there is no guidance under IFRS, differences in the accounting of BEAT may exist between US GAAP and IFRS.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

17. Did the entity change its tax status (i.e., from taxable to nontaxable or vice versa) during the year?	Yes	No
	☐	☐

US GAAP — ASC 740-10-25-32, ASC 740-10-40-6 and ASC 740-10-45-19	**IFRS — SIC-25.4**
Deferred tax effects of a change in tax status (i.e., from taxable to nontaxable or vice versa) are included in income from continuing operations at the date the change in tax status occurs. When an entity changes its tax status and becomes subject to income taxes, deferred tax assets and liabilities should be recognized for existing temporary differences. When a taxable entity ceases to be taxable, deferred tax assets and liabilities generally should be eliminated. The resulting adjustment is included in income tax expense for the period in which the change in status is effective.	Current and deferred tax consequences of a change in tax status should be recognized in the profit or loss for the period except to the extent that the tax consequences involve remeasurement of tax originally accounted for in OCI or in equity, in which case those consequences also should be included in OCI or equity.

Implications:

SIC-25 considers both current and deferred tax consequences and changes in tax status of the entity and its shareholders, which is broader in scope than ASC 740. ASC 740 addresses only the deferred tax consequences of changes in tax status and limits the change in tax status to changes to the reporting entity. Additionally, SIC-25 provides for recognition of changes resulting from a change in tax status to be recognized in OCI or equity if the tax was originally accounted for in OCI or equity instead of only in income from continuing operations as required by US GAAP.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

18. Does an entity in the group prepare separate financial statements and is it either part of a consolidated tax return group or otherwise engaged in tax sharing with other members of the group or outside the group?	Yes ☐	No ☐

US GAAP — ASC 740-10-30-27 through 30-28	**IFRS**
The amount of current and deferred tax expense for an income tax return group that files a consolidated income tax return is allocated among the members of that group when those members issue separate financial statements. While ASC 740 does not establish a mandatory method of allocation, it does require the allocation method to be systematic, rational and consistent with the broad principles of ASC 740. One acceptable method would be to allocate current and deferred tax expense as if each member were a separate taxpayer. ASC 740-10-30-27 notes that under this method the sum of the amounts allocated to individual members of the income tax return group may not equal the consolidated amount. This “separate return” method is considered preferable by the SEC. ASU 2019-12 added ASC 740-10-30-27A, which clarifies that an entity is not required to, but may elect to, allocate the consolidated amount of current and deferred tax expense to the separate financial statements of legal entities that are not subject to tax and disregarded by the taxing authority (such as single-member limited liability companies). The election is not required for all members of a group (that meet the requirements for the election) that file a consolidated tax return. That is, the election may be made for individual members of the group that file a consolidated tax return. An entity cannot make the election to allocate the consolidated amount of current and deferred tax expense for legal entities that are partnerships or are other pass-through entities that are not wholly owned.	No specific guidance is provided.

Implications:
Because IAS 12 is silent about whether the income taxes of a consolidated tax group are allocated to an entity within that group that prepares separate financial statements, there is diversity in practice under IFRS. In contrast, US GAAP requires the amount of current and deferred tax expense for a group that files a consolidated income tax return to be allocated among the members of that group when those members issue separate financial statements on a systemic, rational and consistent basis. In addition, under US GAAP, for the separate financial statements of legal entities that are not subject to tax and disregarded by the taxing authority (such as single-member limited liability companies), ASU 2019-12 clarifies that an entity is not required to, but may elect to, allocate the consolidated amount of current and deferred tax expense to the separate financial statements of these legal entities.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

19. Does the entity qualify as a regulated enterprise?	Yes	No
	☐	☐

ASC 980-10-15-2 addresses which entities are considered regulated enterprises and subject to specific accounting guidance under US GAAP.

US GAAP — ASC 980-740-25-1 through 25-2	**IFRS – IFRS 14**
ASC 980 provides specific guidance on accounting for regulated enterprises. ASC 980-740-25-1 and 25-2 provide guidance specific to temporary differences that arise for regulated enterprises.	IFRS does not provide specific guidance for regulated enterprises. However, an interim standard, IFRS 14, allows a first-time adopter of IFRS to continue to account, with some limited changes primarily related to presentation and disclosure, for regulatory deferral account balances in accordance with previous GAAP.

Implications:
Because IAS 12 does not provide specific guidance on accounting for regulated enterprises, there could be diversity in practice under IFRS. However, an interim standard, IFRS 14, allows a first-time adopter of IFRS to continue to account, with limited changes primarily related to presentation and disclosure, for regulatory deferral account balances in accordance with previous GAAP. This will enhance the comparability of financial reporting by some entities with rate-regulated activities until the IASB issues a new IFRS Accounting Standard, as discussed under “Standard setting activities” above.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

20. Does the entity operate in multiple taxing jurisdictions with varying tax rates which affects the estimated effective income tax rate used for interim reporting?	Yes ☐	No ☐

US GAAP — ASC 740-270-30-36	**IFRS — IAS 34.B14**
When a company is subject to tax in one or more jurisdictions, ASC 740-270 indicates that one overall estimated annual effective tax rate should be used to determine the interim period tax (benefit) related to the registrant's consolidated ordinary income (loss) for the year-to-date period, except in certain situations.	When an entity operates in a number of tax jurisdictions, IAS 34 requires that an entity determine, to the extent practicable, a separate estimated average annual effective income tax rate for each taxing jurisdiction and apply it individually to the interim period pretax income of each jurisdiction. Similarly, if different income tax rates apply to different categories of income (i.e., capital gain versus ordinary income), to the extent practicable, a separate tax rate is applied to each individual category of interim period pretax income. If it is not practicable to apply either an average rate for each jurisdiction or a separate rate for each category of income, IAS 34 allows an entity to use a weighted average of rates across jurisdictions or across categories of income if this rate represents a reasonable approximation of the effect of using more specific rates.

Implications:
Because the requirements under IAS 34 for computing the estimated average annual effective income tax rate for an entity that has operations in multiple taxing jurisdictions are different from those in US GAAP for determining the estimated annual effective tax rate, an entity will need to assess the effect this difference will have on its determination of income taxes for interim reporting periods.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

21. Did the entity adjust its expectation of the realizability of deferred tax assets during an interim period?	Yes ☐	No ☐

US GAAP — ASC 740-270-25-7 and ASC 740-270-30-7	**IFRS — IAS 34.B19 through 22 and IAS 12.24**
US GAAP requires that the tax effect of a valuation allowance expected to be necessary at the end of the year for deferred tax assets related to deductible temporary differences and carryforwards originating during the year be included in the estimated annual effective tax rate. The treatment for interim financial reporting purposes of current-year changes in a valuation allowance related to deferred tax assets existing as of the beginning of the fiscal year depends on whether the benefit is expected to be realized because of current-year ordinary income or other income, or alternatively, because of expectations about income in future years. The effect of a current-year change in a valuation allowance related to deferred tax assets existing as of the beginning of the year that are expected to be realized as a result of *ordinary income* in the current year generally should be included in the estimated annual effective tax rate computation. However, if the change in the valuation allowance results from *other than ordinary income* in the current year, the tax benefit should be recognized in the interim period that includes the other income. The effect of a current-year change in a valuation allowance related to deferred tax assets existing as of the beginning of the year that results from a change in judgment about the realizability of the related deferred tax asset in future years should be recognized as a discrete event in the interim period that the change in judgment is made and not apportioned to other interim periods. If the benefit is expected to be realized because of both current-year ordinary income and future years' income (of any type), the benefit would be allocated between the interim period that includes the date of the change in judgment (for the future-year effect) and the estimated annual effective rate (for the current-year effect).	IFRS does not distinguish between the accounting for changes in the realizability of deferred tax assets related to prior or current periods. However, under IAS 12, a deferred tax asset is recognized to the extent that it is probable (i.e., more likely than not) that future taxable profit will be available against which the unused tax losses and unused tax credits can be used. In assessing whether future taxable profit is available, the criteria described in IAS 12 should be applied at the interim date. In accordance with IAS 34, when these criteria are met as of the end of the interim period, the effect of a tax loss carryforward can be either entirely reflected in the computation of the estimated average annual effective income tax rate, or partially reflected in the determination of the tax rate and as a discrete item (see IAS 34.B21 through 22 for further discussion). While the guidance in IAS 34 mentions only tax loss carryforwards, in practice, this guidance is applied to changes in the realizability of other deferred tax assets. However, IAS 34 does require benefits of tax loss carrybacks and tax benefits related to a one-time event to be reflected as a discrete event in the interim period in which the related tax loss or one-time event occurs. IAS 34 does not allow them to be included in the assessment of the estimated average annual effective income tax rate.

Implications:
While US GAAP includes detailed guidance on how to account for changes in valuation allowances for deferred tax assets in interim periods, IFRS does not. As a result, diversity in practice exists under IFRS regarding whether such changes are recorded as discrete period events or as adjustments to the estimated average annual effective income tax rate.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

22. Did the entity change its judgment about uncertain tax positions during an interim reporting period?	Yes	No
	☐	☐

US GAAP — ASC 740-270-35-6	**IFRS — IFRIC 23.13 through 14**
Changes in judgment about tax positions taken in previous annual periods should be treated as discrete items in the period in which the change in judgment occurs. Changes in judgment about tax positions reflected in a prior interim period within the same fiscal year should be included in the estimated annual effective tax rate computation.	An entity will reassess a judgment or estimate for uncertain tax treatments if the facts and circumstances on which the judgment or estimate was based change or if there is new information. An entity will reflect the effect of a change in facts and circumstances or of new information as a change in accounting estimate by applying IAS 8. However, there is no specific guidance on whether the change in judgment about uncertain tax treatments should be included in the estimated average annual effective income tax rate computation or recorded as a discrete item.

Implications:
While US GAAP includes detailed guidance on how to account for changes in uncertain tax positions in interim periods, IFRS does not contain specific guidance on whether the change in judgment about uncertain tax treatments should be included in the estimated average annual effective income tax rate computation or recorded as a discrete item. As a result, diversity in practice exists under IFRS regarding whether such changes are recorded as discrete period events or as adjustments to the estimated average annual effective income tax rate.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

23. Were there any effects on the entity related to intraperiod tax allocation during an interim reporting period?	Yes ☐	No ☐

US GAAP — ASC 740-270-45-1 through 45-8	**IFRS — IAS 12.61A through 63**
The intraperiod tax allocation rules should be considered for interim reporting. Backwards tracing to equity generally is prohibited under ASC 740 (see question 12).	IAS 12 requires subsequent changes in deferred tax items that were initially recognized in equity to continue to be recognized in equity (i.e., backwards tracing is required).

Implications:
Differences in interim reporting may arise because IFRS requires backwards tracing and US GAAP generally prohibits it. These differences could affect the computation of the estimated annual effective tax rate used to determine tax expense in interim periods.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

Contingencies, exit or disposal costs, and asset retirement obligations

Similarities:

IFRS provides one overarching standard that contains the general recognition and measurement criteria for contingencies and other liabilities — IAS 37. While there is no singular equivalent under US GAAP, ASC 450 addresses the recognition and measurement criteria for contingencies and other liabilities, and a number of other ASC Topics and Subtopics address the accounting for specific types of provisions and contingencies (e.g., ASC 410-20 for AROs and ASC 420 for exit or disposal activities). Further, the guidance provided in two non-authoritative FASB Concepts Statements (CON 5 and CON 8, *Conceptual Framework for Financial Reporting – Chapter 4, Elements of Financial Statements* (CON 8 Chapter 4), which replaced CON 6, *Elements of Financial Statements*) is similar to the specific recognition criteria provided in IAS 37.

Both US GAAP and IFRS require an entity to recognize a loss if:

- A present obligation exists as a result of a past event.
- It is probable that a loss will occur, although the definition of probable is different under US GAAP (where probable is interpreted as “likely”) and IFRS (where probable is interpreted in IAS 37 as “more likely than not”).
- A reliable estimate of the obligation can be made.

With respect to terminology, IFRS defines a “provision” as a liability of uncertain timing or amount. A provision under IFRS is similar to a recognized contingent liability under US GAAP. A contingent liability under IFRS is one that is only a possible obligation as a result of a past event, or is a present obligation that is not considered probable or for which a reliable estimate of the obligation cannot be made.

Other similarities are:

- A provision (liability) represents the best estimate of the expenditure required to settle the present obligation at the balance sheet date.
- Recognizing provisions for costs associated with future operating activities is prohibited.
- Disclosure about a contingent liability, whose likelihood of occurrence is more than remote but does not meet the recognition criteria, is required.
- Gain contingencies are not recognized until they are realized under US GAAP or “virtually certain” under IFRS.
- Provisions are recognized for asset retirement costs (decommissioning liabilities) when the obligating event occurs (i.e., generally when the asset is installed).

Primary US GAAP	Primary IFRS
► ASC 450, *Contingencies* ► ASC 410, *Asset Retirement and Environmental Obligations* ► ASC 420, *Exit or Disposal Cost Obligations*	► IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* ► IFRIC 1 *Changes in Existing Decommissioning Restoration and Similar Liabilities*

Standard setting activities:

In May 2020, the IASB issued *Onerous Contracts — Cost of Fulfilling a Contract* (*Amendments* to *IAS 37*) to specify which costs an entity needs to include in determining the cost of fulfilling a contract when assessing whether a contract is onerous, as well as the measurement of the obligation recognized. The amendments apply a "directly related cost approach." The costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labor and materials) and an allocation of other costs directly related to fulfilling contracts (e.g., depreciation of equipment used to fulfill the contract, among others). The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The amendments should be applied to contracts for which an entity has not yet fulfilled all its obligations as of the adoption date through a cumulative effect adjustment to retained earnings at the adoption date. This guidance is reflected in question 9.

In January 2020, the IASB added a project to its agenda to make targeted improvements to IAS 37 to align the liability definition and requirements for identifying liabilities in IAS 37 with the IASB's Conceptual Framework, clarify which costs to include in the measurement of a provision, and specify whether the rate at which an entity discounts a provision should reflect the entity's own credit risk. The IASB agreed to keep the project on its agenda in February 2022 and will decide on the project's direction at a future meeting.

In December 2021, the FASB issued CON 8 Chapter 4 that amended the definitions of the elements of the financial statements, including the definition of a liability that was included in CON 6. Additionally, the FASB proposed amendments to remove references to concept statements from the Codification, which includes removing the reference to CON 6 from ASC 420 and including the related guidance from CON 6 in ASC 420-10-25-2. Based on comment letter feedback, the FASB plans to issue a revised proposal. We do not believe the FASB intended to change how a liability for costs associated with an exit or disposal activity should be recognized and initially measured when it issued CON 8 Chapter 4. Because the FASB previously proposed adding the language from CON 6 to ASC 420, we believe the guidance in CON 6 should still be applied. We also do not expect these changes to result in a difference between IFRS and US GAAP.

Readers should monitor the projects noted above for developments.

Discussion of IFRS 1:

IFRS 1 requires a first-time adopter to use estimates under IFRS that are consistent with the estimates made for the same date under previous GAAP, after adjusting for any difference in accounting policy, unless there is objective evidence that errors existed in those previous estimates, as defined in IAS 8. This requirement applies to estimates made in respect of the date of transition to IFRS.

Under IFRS 1, a first-time adopter cannot apply hindsight and make "better" estimates when it prepares its first IFRS financial statements. This also means that a first-time adopter is not allowed to take into account any subsequent events that provide evidence of conditions that existed at a balance sheet date that came to light after the date its previous GAAP financial statements were issued.

Thus, if a first-time adopter's previous GAAP accounting policy was not consistent with IFRS, the entity may adjust the estimate only for the difference in accounting policy; it may not also adjust the estimate to reflect the more current information available. In other words, the first-time adopter uses information available at the time of the original previous GAAP accounting to apply its new accounting policy. If an entity later adjusts those estimates, it accounts for the revisions to those estimates as events in the period in which it makes the revisions.

Differences:

1. Does the reporting entity have potential obligations resulting from past events that have not been recorded because it is not "probable" that an outflow of resources will be required to settle the obligation?	Yes ☐	No ☐

The term "probable" is defined differently under US GAAP and IFRS.

US GAAP — ASC 450-10-20, ASC 450-20-20 and ASC 450-20-25-2	**IFRS — IAS 37.10, IAS 37.13 through 14 and IAS 37.23**
A contingency is an existing condition, situation or set of circumstances involving uncertainty as to possible gain or loss that will ultimately be resolved when one or more future events occur or fail to occur. A loss contingency is recognized if both of the following conditions are met: ► It is probable (i.e., likely to occur) that an asset had been impaired or a liability had been incurred. ► The amount of loss can be reasonably estimated. If these conditions are not met, a provision is not recognized. The meaning of "probable" under ASC 450 is "the future event or events are likely to occur."	A contingency is a possible obligation that arises from past events, the existence of which will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. A provision is a present obligation of uncertain timing or amount for which it is probable that an outflow of resources will be required to settle the obligation. Contingent liabilities are items that are not yet recognized as liabilities (provisions). A provision is recognized when: ► An entity has a present obligation (legal or constructive) as a result of a past event. ► It is probable (i.e., more likely than not) that an outflow of resources will be required to settle the obligation. ► A reliable estimate of the obligation can be made. If these conditions are not met, a provision is not recognized. The meaning of "probable" for the purposes of IAS 37 is "more likely than not to occur."

Implications:
Under US GAAP, the term probable is defined as "likely." However, while IFRS also requires that an outflow of resources be "probable" prior to recognizing a provision, IFRS describes the term probable as "more likely than not to occur," which is a lower threshold than under US GAAP. As a result, a provision may be recognized earlier under IFRS than US GAAP.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

2. Does the company have provisions that are or could be materially different if recorded at their present value?	Yes ☐	No ☐

IFRS requires that liabilities, in general, be discounted if the effect is material. Under US GAAP, long-term liabilities also are discounted, if material. Because the requirement to discount financial statement elements is in the Concepts Statements (non-authoritative guidance), the only specific guidance on discounting liabilities at initial measurement relates to environmental liabilities, which permits discounting only in certain situations.

US GAAP — ASC 410-30-35-12 and ASC 450-20-S99-1	**IFRS — IAS 37.45 through 47 and IAS 37.60**
Discounting is not addressed in ASC 450 for contingent liabilities. ASC 410-30 specifically provides that the measurement of an environmental liability may be discounted to reflect the time value of money only if the aggregate amount of the liability and the amount and timing of cash payments related to that liability are fixed or reliably determinable. The SEC staff believes that, for registrants, the rate used to discount cash payments should be the rate that will produce an amount at which an environmental or product liability could be settled in an arm's-length transaction with a third party, and that rate should not exceed the interest rate on monetary assets that are essentially risk free and have maturities comparable to that of the environmental or product liability.	Provisions should be discounted if the effect of the time value of money is material, using a pretax discount rate that reflects current market assessments of the time value of money and risks specific to the liability that have not been reflected in the best estimate of the expenditure. The increase in the provision due to the passage of time is recognized as an interest expense.

Implications:
Although ASC 450 does not address discounting contingent liabilities, we believe the guidance in ASC 410-30 should be considered when an entity determines whether a liability should be discounted. Since IAS 37 requires discounting when the time value of money is material, the effect of discounting could create differences in the carrying amounts of liabilities and future income statement effects between US GAAP and IFRS preparers.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

3. Has the entity recognized a provision in which all possible outcomes in an estimated range were equally likely?	Yes ☐	No ☐

US GAAP — ASC 450-20-30-1	**IFRS — IAS 37.36 through 41**
The most likely outcome within a range should be accrued. When no one outcome within the range is more likely than the others, the minimum amount in the range of outcomes should be accrued.	The best estimate of the amount to settle or transfer an obligation should be accrued. For a large population of items being measured, such as warranty costs, the best estimate typically is its expected value (i.e., weighting all possible outcomes by their associated probabilities). The mid-point in the range may be used when any point in a continuous range is as likely as any other. The best estimate for a single obligation may be the most likely outcome, although other possible outcomes also should be considered.

Implications:
If the estimate of the loss is based on a range of possible outcomes, a difference in the amount of the provision between US GAAP and IFRS likely will exist. Under US GAAP, a liability should be recorded at the most likely outcome within a range, and if no one outcome is more likely than the others, the minimum amount should be recorded. Conversely, IFRS requires the best estimate of the amount to settle or transfer an obligation to be accrued. The best estimate may represent an amount based on the weighting of the various probabilities of different outcomes if there is a large population of items or it may be the mid-point in a range when any point in a range is as likely as another. The best estimate for a single obligation may be the most likely outcome, but other possible outcomes also should be considered. This best estimate will generally represent a larger amount than that recognized under US GAAP.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

4. Does the reporting entity expect that a third party will reimburse (or pay directly) part or all of the costs required to settle a provision, including insurance recoveries?	Yes ☐	No ☐

US GAAP — ASC 450-30-25-1 and ASC 410-30-35-8 through 35-11	**IFRS — IAS 37.53 through 58**
Third-party reimbursements of costs related to a recognized loss, including insurance recoveries, generally are recognized only when realization of the claim for recovery of a loss recognized in the financial statements is deemed probable (as that term is used in ASC 450). However, potential recoveries from either insurance or other third parties should not be recognized before the related loss is recognized. Amounts recovered in excess of a loss recognized in the financial statements (i.e., gain contingencies) should not be recognized until all contingencies relating to the insurance claim have been resolved. Specific guidance exists with regard to determining when to record a potential recovery relating to an environmental liability. The amount of an environmental remediation liability should be determined independently from any potential claim for recovery. An asset relating to the recovery should be recognized only when realization of the claim for recovery is deemed probable. If the claim is the subject of litigation, a rebuttable presumption exists that realization of the claim is not probable.	Reimbursement of the expenditure required to settle a provision (e.g., through insurance contracts, indemnity clauses or suppliers' warranties) is recognized when it is virtually certain that the reimbursement will be received. The asset recorded for the reimbursement should not exceed the amount of the provision.

Implications:
Under US GAAP, a careful analysis of the facts and circumstances is required to determine whether realization of a reimbursement from third parties is probable. Under IFRS, a reimbursement is recognized when it is virtually certain to be received. Although as a practical matter we do not anticipate differences to occur in the accounting for gain contingencies, reimbursements up to the amount of loss recognized might be, in certain circumstances, recognized earlier under US GAAP.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

5. Does the reporting entity have any potential liability for environmental remediation costs?	Yes ☐	No ☐

Environmental remediation involves a sequence of events occurring over a long period of time that is designed to clean up past contamination. Due to the nature of the cleanup process, determining when to recognize an environmental liability can be difficult. While both IFRS and US GAAP provide general guidance for recording liabilities, US GAAP provides specific guidance on how to estimate liabilities for environmental remediation.

US GAAP — ASC 410-30-25-1 through 25-6, ASC 410-30-25-12 and ASC 410-30-35-1	**IFRS — IAS 37.14, IAS 37.19 and IAS 37.21**
The general principles for recording a contingency in ASC 450 should be followed. That is, a liability should be recorded if information is available prior to the issuance of the financial statements (or prior to the date that the financial statements are available to be issued) indicating that it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Because the existence of a liability for environmental remediation costs generally becomes determinable and the amount of the liability becomes estimable over a continuum of events, ASC 410-30 provides that the following two criteria must be met to conclude that an environmental liability is probable of occurrence: ► Litigation has commenced or a claim or an assessment has been asserted, or commencement of litigation or assertion of a claim or an assessment is probable. ► It is probable that the outcome of such litigation, claim or assessment will be unfavorable. A presumption exists in ASC 410-30 that the outcome of an environmental claim or assessment will be unfavorable if: ► Litigation has commenced or is probable of commencement, or a claim or an assessment has been asserted or is probable of assertion. ► The reporting entity is associated with the site (e.g., arranged for the disposal of or transported hazardous substances found at a site or is a previous owner or operator of the site).	A provision should be recognized when a present obligation (legal or constructive) as a result of a past event exists and it is probable of occurrence and reliably estimable. An event that does not give rise to an obligation immediately may do so at a later date, because of changes in the law or because an act (e.g., a sufficiently specific public statement) by the entity gives rise to a constructive obligation such as cleanup costs for unlawful environmental damage. See questions 1 and 3 for additional information.

When estimating an environmental liability, the general provisions of ASC 450-20 (i.e., estimating the liability when a range of loss exists) should be followed. ASC 410-30 provides some additional guidance for making these estimates, such as: ▸ Uncertainties relating to the entity's share of an environmental remediation liability should not preclude the entity from recognizing its best estimate of its share of the liability or, if no best estimate can be made, the minimum estimate of its share of the liability. ▸ Changes in estimates of the entity's remediation liability, including revisions to the entity's estimate of its share of the liability due to negotiation or identification of other potentially responsible parties, should be accounted for as changes in estimates under ASC 250.	

Implications:

US GAAP has specific guidance in ASC 410-30 on the accounting for environmental remediation liabilities which provides additional guidance for applying ASC 450 to environmental liabilities. IFRS does not have a specific standard that addresses the accounting for environmental liabilities — the accounting for such is addressed in IAS 37. Accordingly, differences could exist in the amount and timing of when environmental liabilities are recorded. Generally, environmental liabilities would be recognized earlier under IFRS than under US GAAP, and consistent with the implications discussed under question 3, the best estimate under IFRS may be larger than the amount recognized under US GAAP.

Identified difference?

Describe:
Click here to enter text.

Yes	No	Depends on policy election
☐	☐	☐

6. Does the reporting entity have any potential liability for AROs?	Yes ☐	No ☐

Although similarities exist in the principles regarding the accounting for AROs as referred to under US GAAP or decommissioning liabilities as they are referred to under IFRS, differences in the application of such principles exist. For example, the way in which changes to the ARO are recognized as adjustments to the liability will create differences.

US GAAP — ASC 410-20-05-1, ASC 410-20-25-4 through 25-5, ASC 410-20-35-2, ASC 410-20-35-5, ASC 410-20-35-8 and ASC 410-20-55-1	**IFRS — IAS 37.19, IAS 37.36 through 37, IAS 37.45 through 47, IAS 37.59 through 60, IAS 16.16, IAS 16.18 and IFRIC 1**
AROs are liabilities associated with the retirement of a tangible long-lived asset whereas *asset retirement cost*s are amounts capitalized that increase the carrying amount of the long-lived asset when a liability for an ARO is recognized. An ARO is recognized in the period in which it is incurred and is measured at fair value if its fair value is reasonably estimable. When an ARO liability is initially recognized, the related asset retirement costs should be capitalized by increasing the carrying value of the long-lived asset by the same amount as the liability. The asset retirement costs are allocated to expense using a systematic and rational method over the asset's useful life. Changes to an ARO due to the passage of time are measured by applying an interest method of accretion to the amount of the liability at the beginning of the period. The interest rate used to measure that change is the credit-adjusted risk-free rate that existed when the liability, or portion thereof, was initially measured. That change is recognized as an increase in the carrying amount of the ARO and as accretion expense (not interest). Changes due to revisions in the timing or the amount of the originally estimated undiscounted cash flows are recognized as an increase or decrease in the ARO and the related asset retirement costs capitalized as part of the related long-lived asset. Upward revisions are discounted using the current credit-adjusted risk-free rate. Downward revisions are discounted using the credit-adjusted risk-free rate that existed when the original liability was recognized.	The initial estimate of the costs of dismantling and removing an item of PP&E and restoring its site are included in the cost of the asset. A provision for a decommissioning liability is recognized when the general recognition criteria for a liability are met. That is, when a present obligation that is probable of occurrence and reasonably estimable exists. Obligations arising from past events existing independently of an entity's future actions are recognized as provisions. Examples of such obligations are decommissioning costs of an oil installation or a nuclear power station to the extent that the entity is obliged to rectify damage already caused. Provisions are adjusted at each balance sheet date to reflect the current best estimate. If the provision was discounted, the provision should increase in each period to reflect the passage of time. This increase is recognized as borrowing (interest) cost. IFRIC 1 applies to changes in the measurement of any existing decommissioning liability that is both: ► Recognized as part of the cost of an item of PP&E in accordance with IAS 16 ► Recognized as a liability in accordance with IAS 37 The measurement of changes in the estimated timing or amount of the obligation, or a change in the discount rate, depends whether the underlying asset is measured using the cost or revaluation model.

When asset retirement costs change as a result of a revision to estimated cash flows, the amount allocated to expense is adjusted in the period of change if the change affects that period only or in the period of change and future periods if the change affects more than one period, as required by ASC 250. The adjusted carrying amount of the asset is depreciated over its useful life. Once the related asset has reached the end of its useful life, all subsequent changes in the liability are recognized in profit or loss as they occur.	If the related asset is measured using the cost model: ► Changes in the liability are added to or deducted from the cost of the related asset in the current period. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognized immediately in profit or loss. ► Changes resulting in an addition to the cost of an asset should be evaluated to determine whether the new carrying amount of the asset is fully recoverable. If not fully recoverable the asset should be tested for impairment under IAS 36. If the related asset is measured using the revaluation model, changes in the liability alter the revaluation surplus or deficit previously recognized on that asset: ► A decrease in the liability is credited directly to revaluation surplus in equity, unless it reverses a revaluation deficit on the asset that was previously recognized in profit or loss. If a decrease in the liability exceeds the carrying amount that would have been recognized had the asset been carried under the cost model, the excess is recognized immediately in profit or loss. ► An increase in the liability is recognized in profit or loss to the extent it exceeds any credit balance existing in the revaluation surplus in respect of that asset. ► A change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. If a revaluation is necessary, all assets of that class must be revalued. The adjusted depreciable amount of the asset is depreciated over its remaining useful life. Once the related asset has reached the end of its useful life, all subsequent changes in the liability are recognized in profit or loss as they occur. This applies under both the cost model and the revaluation model.

Implications:

Differences between US GAAP and IFRS will arise because of differences in the treatment of changes in cost estimates or discount rates associated with AROs. Under US GAAP, a liability is not remeasured for changes in the risk-free rate because the credit-adjusted risk-free rate used to initially measure the obligation is used for all subsequent reductions in the estimated gross future cash flows. Only if the estimated gross future cash flows are increased is the discount rate changed to reflect the current risk-free rate (i.e., only for the incremental expenditures or the new layer). IFRS requires the discount rate used to estimate the liability to be based on current discount rates at each balance sheet date. The use of different discount rates to measure changes in an ARO under US GAAP creates a layering of ARO liabilities (i.e., each new layer is treated as a new ARO) that does not exist for decommissioning liabilities under IFRS because the entire liability is discounted at current rates. Accordingly, differences in the timing and amount recognized for changes in AROs likely will occur.

Under IAS 37, provisions, including AROs, are measured at the best estimate of the expenditure required to settle the obligation at the balance sheet date whereas under US GAAP, AROs are initially measured at fair value. IAS 37.37 notes that “the best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time.” IAS 37 also discusses several measurement concepts that are consistent with fair value that should be considered in determining a best estimate, such as consideration of risk and uncertainty and present value. Differences in the initial measurement of AROs could occur due to the settlement value concept in IFRS compared to the fair value concept in US GAAP.

Identified difference?

	Yes	No	Depends on policy election
	☐	☐	☐

Describe:
Click here to enter text.

IFRS 1 implications:

When an entity purchases or constructs certain assets, such as oil wells, it may be liable for certain contractual, constructive or statutory costs to decommission and/or restore the asset site to certain minimum standards at the end of the asset’s life. Under IFRS, these costs should be capitalized (generally as part of the asset’s carrying value) when the entity becomes obligated to incur such costs as discussed in IAS 16. IFRIC 1 provides guidance on accounting for changes in a decommissioning, restoration or similar liability that have been previously recognized as part of the cost of an item of PP&E and as a liability. IFRIC 1 requires that changes in such liabilities due to the estimated timing or amount of the outflow of resources required to settle the obligation, or a change in the discount rate, are accounted for based on whether the underlying asset is carried at cost or a revaluation amount. See question 1 in the “Property, plant and equipment” section of this publication for further information regarding assets carried at a revaluation amount (i.e., fair value).

The requirements under IFRIC 1 to account for changes in decommissioning liabilities differ significantly from US GAAP. This difference results from the US GAAP requirement to use different discount rates to adjust for changes in the liability based on the reason for the change (e.g., the passage of time and/or changes in estimates of cash flows). Under IFRS all changes in the liability are discounted using current discount rates (see question 6 for further information). If an asset is carried at cost, the changes to the decommissioning liability generally are added to or deducted from the asset cost. If an asset is carried at a revaluation amount, the change in the liability alters the revaluation surplus or deficit previously recognized on that asset.

As noted above, IFRIC 1 requires specified changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates; the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. Because of an exemption provided in IFRS, a first-time adopter need not comply with these requirements for changes in such liabilities that occurred before the date of transition to IFRS. If a first-time adopter uses this exemption, it should:

- Measure the liability as at the date of transition to IFRS in accordance with IAS 37
- Estimate the amount that would have been included in the cost of the related asset when the liability first arose (to the extent that the liability is in the scope of IFRIC 1) by discounting the liability back to the date the liability first arose using its best estimate of the historical risk-adjusted discount rate(s) that would have applied for that liability over the intervening period
- Add the discounted liability to the corresponding asset to which the decommissioning liability relates
- Calculate the accumulated depreciation on that amount, as at the date of transition to IFRSs, based on the current estimate of the useful life of the asset, using the depreciation policy adopted by the entity in accordance with IFRS

Note that the exemption is applied differently for certain oil and gas assets (see IFRS 1.D21A).

This exemption is likely to provide a practical way for a first-time adopter that previously reported under US GAAP to determine the amount at which to record such assets and liabilities in its opening IFRS balance sheet. Retrospective application of IFRIC 1 and IAS 37 would have required an entity to reconstruct historical records. For example, as a result of differences between US GAAP and IFRS in the manner in which changes in market-based discount rates should be treated for purposes of these provisions, an entity would be required to identify all of the revisions to the discount rate and/or changes in the estimated cash flows that would have been recognized since the inception of the decommissioning liability and recalculate depreciation from that date to the date of transition.

7. Has the entity recorded an ARO that was incurred during a particular period as a consequence of having used a long-lived asset to produce inventory during that period?	Yes ☐	No ☐

US GAAP — ASC 410-20-25-5, ASC 410-20-35-2 and ASC 330-10-30-1 through 30-3	**IFRS — IAS 16.18, IAS 16.BC15 and IAS 2**
Upon initial recognition of an ARO, an entity must capitalize asset retirement costs by increasing the carrying amount of the related long-lived asset by the same amount as the liability.	An entity applies IAS 2 to the costs of obligations for dismantling, removing or restoring the site on which an item (e.g., PP&E) is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period. Therefore, an ARO that is created during the production of inventory is accounted for as a cost of the inventory, and it is added to the carrying amount of the inventory.

Implications:
Under US GAAP, asset retirement costs are capitalized as part of PP&E and depreciation of an asset used to produce inventory is allocated to inventory through the allocation of overhead in accordance with ASC 330. Under IFRS, the asset retirement costs should be added to the carrying amount of the inventory in the period in which they are incurred if the costs relate to an asset that is used to produce inventory during the period. Accounting for these costs in accordance with IAS 2 should generally achieve a similar result as accounting for them under US GAAP. However, differences may arise in the timing and amount recognized in inventory as a result of the depreciation and allocation method applied under US GAAP. Additionally, there will be a difference in the gross PP&E balance as no amount is recorded in PP&E under IAS 2.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

8. Has the reporting entity committed to a restructuring plan or another exit activity? Yes ☐ No ☐

A restructuring is defined under both US GAAP and IFRS as a program planned and controlled by management that materially changes either (1) the scope of a business or (2) the manner in which that business is conducted.

US GAAP — ASC 420	**IFRS — IAS 37.70 through 83**
Once management has committed to an exit plan, each type of cost is examined to determine when it should be recognized. A liability for costs associated with an exit or disposal activity is incurred when the definition of a liability in CON 6 is met. That is, when a present obligation exists as a result of a past event and that obligation is probable of occurring. Costs covered by ASC 420 include, but are not limited to: (1) involuntary termination benefits provided to employees under the terms of a one-time benefit arrangement that, in substance, is not an ongoing benefit arrangement or an individual deferred compensation contract, (2) certain contract termination costs (excluding lease termination costs under ASC 842) and (3) other costs associated with an exit or disposal activity. A one-time benefit arrangement is deemed to exist at the date the plan of termination meets certain criteria and has been communicated to employees. Further, the timing and amount of liability recognition is dependent on whether employees are required to render future service in order to receive the termination benefits. If employees are required to render service until they are terminated, and that service period	A provision for a restructuring is recognized when the general recognition criteria for a liability are met (i.e., when a present obligation that is probable of occurrence and reasonably estimable exists). Once management has a legal or constructive obligation for a detailed exit plan, the general provisions of IAS 37 apply. A constructive obligation to restructure arises only when an entity has a detailed formal plan for the restructuring identifying at least: ► The business affected ► The principal locations affected ► The location, function and approximate number of employees who will be compensated for terminating their services ► The expenditures to be incurred ► When the plan will be implemented Furthermore, a constructive obligation for a restructuring obligation exists when the appropriate level of management has created a valid expectation in those affected by the plan that the actions specified in the plan will be implemented by: ► Starting to implement that plan Or

extends beyond a “minimum retention period,” the liability (expense) should be recognized ratably over the future service period, even if the benefit formula used to calculate the termination benefit is based on past service. Certain contract termination costs are expensed when a liability is incurred. That is, liabilities for costs to terminate a contract before the end of its term that will continue to be incurred under the contract for its remaining term without economic benefit to the entity are recognized and measured at fair value in the period in which the liability is incurred (generally when the entity terminates the contract pursuant to the contractual terms or ceases to use the rights conveyed under the contract). In addition, liabilities for other costs associated with exit or disposal activities, such as costs to consolidate or close a facility, should be recognized and measured at fair value in the period in which the liability is incurred (generally upon receipt of the goods or services (e.g., security services incurred during the closing of the facility)), not at a commitment date.	► Announcing its main features to those affected A restructuring provision includes only expenditures directly related to the restructuring and that are necessary for the restructuring and are detailed in the plan, and not associated with the ongoing activities of the entity. Identifiable future operating losses up to the date of a restructuring are not included in a provision, unless they relate to an onerous contract. Refer to question 9, regarding the accounting for onerous contracts.

Implications:
Although the types of costs included in a restructuring are similar under both IFRS and US GAAP, the guidance in US GAAP is more restrictive than IFRS as to the timing of when such provisions should be recorded. Restructuring costs may be recognized earlier under IFRS than under US GAAP because IFRS focuses on the exit plan as a whole while US GAAP indicates when specific components of the plan should be recognized (e.g., the criteria to recognize termination costs are more stringent under US GAAP). In addition, the guidance in US GAAP applies to all exit activities, which include, but are not limited to, a restructuring as defined by IAS 37. Certain exit activities subject to the guidance in ASC 420 may not be considered restructurings and would not be subject to the restructuring guidance in IAS 37.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

9. Does the entity have any onerous contracts?	Yes ☐	No ☐

IAS 37 requires that provisions be recorded when a contract is considered onerous. An onerous contract is a contract in which the unavoidable costs of meeting its obligations exceed the economic benefits expected to be received under the contract. However, an overarching principle to record a provision for an onerous contract does not exist under US GAAP, and only in limited circumstances is such a provision recorded.

US GAAP — ASC 420-10-25-11 through 25-13, ASC 420-10-30-7 through 30-9, ASC 420-10-35-1 and ASC 805-20	**IFRS — IAS 37.45 through 47, IAS 37.59 through 60, and IAS 37.66 through 68A**
No single standard exists to permit a provision to be recorded for an onerous contract. The circumstances in which such a provision can be recorded generally are limited to a restructuring or other exit activity (see question 8), a business combination, or specific types of transactions or industries. Recording losses on executory contracts is generally not permitted under US GAAP, unless required by a specific accounting standard. The liability relating to onerous contracts for a restructuring or other exit activity should be recorded at fair value when the entity terminates the contract in accordance with the contract terms or ceases to use the rights under the contract without economic benefit to the entity. Subsequent changes to the liability are measured using the credit-adjusted risk-free rate that was used to measure the liability initially. The subsequent measurement is not a fair value measurement and the rate used is not adjusted based on current market conditions. In connection with a business combination, assets and liabilities are required to be recorded at their fair values. Accordingly, if a contract is onerous, a liability for that contract will be recorded such that the contract will be reflected at its fair value at the date of the business combination. Other US GAAP that requires accrual of expected losses on certain contracts includes, but is not limited to, the following: ► A firm purchase commitment for goods or inventory subject to ASC 440-10-25-4 ► Separately priced extended warranty and product maintenance contracts subject to ASC 605-20	IAS 37 provides a standard for recording provisions for onerous contracts. If a contract establishes both rights and obligations between the contracting parties and events make such a contract onerous, the present value of the obligation should be recognized as a provision. The provision for an onerous contract is based on the unavoidable costs less any economic benefit expected to be received under the contract. Unavoidable costs as defined in IAS.37.68 reflect the least net cost of exiting from the contract, which is the lower of the costs of fulfilling it or any compensation or penalties arising from failure to fulfill it. The amendments to IAS 37, which are effective for annual reporting periods beginning on or after 1 January 2022, unless early adopted, clarify which costs an entity needs to include in determining the cost of fulfilling a contract. The costs of fulfilling a contract include those costs that relate directly to a contract to provide goods or services and include both incremental costs (e.g., the costs of direct labor and materials) and an allocation of other costs directly related to fulfilling contracts (e.g., depreciation of equipment used to fulfill the contract among others). If material, the liability is discounted to its present value. Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognized as borrowing cost. The discount rate should be adjusted to reflect current market assessments of the time value of money. In other words, when interest rates change, the provision should be recalculated on the basis of the revised rates.

► Contracts within the scope of ASC 605-35 on construction-type and production-type contracts ► Certain derivative contracts within the scope of ASC 815 ► Certain federal government contracts within the scope of ASC 912-20 ► An insurance contract with a premium deficiency subject to ASC 944 ► Continuing care retirement community contracts subject to ASC 954-440 ► Losses on prepaid health care services subject to ASC 954-450 ► Certain long-term power sales contracts within the scope of ASC 980-350 ► Losses on certain software arrangements accounted for pursuant to ASC 985-605	

Implications:

US GAAP requires that provisions be recorded for onerous contracts in limited circumstances, while IFRS provides for a more broadly-applicable principle to be applied to any contract that is determined to be onerous. As a result, onerous contracts would likely be recognized more often under IFRS. Furthermore, after the adoption of the amendments to IAS 37, based on the clarified definition of the cost to fulfill the contract, more contracts are expected to be assessed as onerous; therefore, the expected provision for such contracts would likely be greater. This will likely create a greater difference between IFRS and US GAAP.

Differences in the initial measurement of the liability could occur due to the settlement value concept in IFRS compared to the fair value concept in US GAAP. Additionally, under US GAAP, the liability is not subsequently adjusted to reflect changes in the discount rate, unlike under IFRS.

Identified difference?

	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

Revenue recognition

Similarities:

The revenue recognition standards issued by the FASB and the IASB are broadly applicable to all revenue transactions with customers (with some limited scope exceptions, for example, for insurance contracts, financial instruments and leases). The standards also specify the accounting for costs an entity incurs to obtain and fulfill a contract to provide goods and services to customers and provide a model for the measurement and recognition of gains and losses on the sale of certain nonfinancial assets, such as property and equipment, including real estate. Below, we discuss the differences that may lead US GAAP and IFRS preparers to reach different accounting conclusions.

The core principle of both standards is that an entity recognizes revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration the entity expects to be entitled in exchange for those goods or services. The standards also require entities to provide comprehensive disclosures and change the way they communicate information in the notes to the financial statements in both interim and annual periods.

The principles in the standards are applied using the following five steps:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

Primary US GAAP	Primary IFRS
► ASC 606, *Revenue from Contracts with Customers* ► ASC 853, *Service Concession Arrangements*	► IFRS 15 *Revenue from Contracts with Customers* ► IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* ► IFRIC 12 *Service Concession Arrangements*

Standard setting activities:

The FASB is continuing its post-implementation review of ASC 606 to determine whether the standard is accomplishing its stated purpose, to evaluate the standard's implementation and continuing compliance costs and related benefits, and to provide feedback to improve the standard setting process. The IASB has also begun a post-implementation review of its standard, which includes evaluating its effectiveness and identifying areas for improvement.

Discussion of IFRS 1:

See question 13 for IFRS 1 considerations relating to transactions under the scope of IFRIC 12.

Differences:

1. Has the reporting entity assessed whether its contracts with customers meet the collectibility criterion in order to be accounted for as contracts under the standards?	Yes ☐	No ☐

Under both US GAAP and IFRS, one of the five criteria for a contract to be in the scope of the model in the standards is that the consideration to which the entity will be entitled in exchange for the goods and services that will be transferred to the customer must be probable of collection. However, US GAAP defines this criterion differently than IFRS.

US GAAP — ASC 606-10-25-1(e)	**IFRS — IFRS 15.9**
An entity must assess whether it is *probable* that it will collect *substantially all* of the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. For purposes of this analysis, the term “probable” is defined as “the future event or events are likely to occur,” consistent with its definition elsewhere in US GAAP.	An entity must assess whether it is *probable* that it will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. For purposes of this analysis, the term “probable” is defined as “more likely than not,” consistent with its definition elsewhere in IFRS.

Implications:
Although both US GAAP and IFRS use the term “probable” for the collectibility assessment, it is a lower threshold in IFRS than in US GAAP. The Boards noted that using the same term that has different meanings in US GAAP and IFRS could result in accounting that is not converged when determining whether the collectibility criterion is met. However, the Boards noted that the term probable was used in some of the collectibility thresholds in their previous revenue recognition guidance, and both Boards wanted to maintain consistency with that guidance. In addition, the US GAAP assessment is that the entity will collect “substantially all of” the consideration to which it’s entitled. The FASB included this language to clarify that a contract may represent a substantive transaction even if it is not probable the entity will collect 100% of the consideration. The IFRS criterion does not include this “substantially all” language. However, the IASB does not expect the FASB’s clarification to result in differences in outcomes in relation to the collectibility criterion.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

2. Has the reporting entity received nonrefundable consideration related to an arrangement that does not meet the criteria to be a contract under the standards?

Yes ☐ No ☐

Both ASC 606 and IFRS 15 include five criteria that must be met for an arrangement to meet the definition of a contract and be in the scope of ASC 606's five-step revenue model. If the criteria are not met, the arrangement should not be considered a revenue contract under the standards. An entity continues to reassess the criteria throughout the term of the arrangement to determine whether they are subsequently met. Once the criteria are met, the five-step model in the standards apply.

US GAAP — ASC 606-10-25-7 through 25-8	IFRS — IFRS 15.15 through 16
In cases in which the arrangement does not meet the criteria to be a contract under the scope of ASC 606 (and continues to not meet them), the entity should recognize nonrefundable consideration received as revenue only when one of the following *three* events has occurred: ► The entity has fully performed and substantially all of the consideration has been received. ► The contract has been terminated. ► The entity has transferred control of the goods or services and has stopped transferring (and has no obligation under the contract to transfer) additional goods or services to the customer, if applicable. Until one of these events happens, any consideration received from the customer is initially accounted for as a liability (not revenue), and the liability is measured at the amount of consideration received from the customer.	In cases in which the arrangement does not meet the criteria to be a contract under the scope of IFRS 15 (and continues to not meet them), an entity should recognize nonrefundable consideration received as revenue only when one of the following *two* events has occurred: ► The entity has fully performed and substantially all of the consideration has been received. ► The contract has been terminated. Until one of these events happens, any consideration received from the customer is initially accounted for as a liability (not revenue), and the liability is measured at the amount of consideration received from the customer.

Implications:

IFRS 15 does not contain the third event that ASC 606 does. However, the IASB noted in the Basis for Conclusions to IFRS 15 that contracts often specify that an entity has a right to terminate the contract in the event of non-payment and that this clause would not generally affect the entity's legal rights to recover any amounts due. Therefore, the IASB concluded that the guidance in IFRS 15 would allow an entity to conclude that a contract is terminated when it stops providing goods or services to the customer.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

3. Does the reporting entity perform shipping and handling activities related to the sale of goods to a customer?	Yes ☐	No ☐

US GAAP includes explicit guidance on shipping and handling activities, while IFRS does not.

US GAAP — ASC 606-10-25-18A through 25-18B	**IFRS — IFRS 15.22**
ASC 606 allows entities to elect to account for shipping and handling activities performed *after* the control of a good has been transferred to the customer as a fulfillment cost (i.e., not as a promised good or service). An entity is required to apply this accounting policy election consistently to similar types of transactions and is not required to apply this election at an entity level. This election is intended to provide relief for entities that have free onboard shipping point arrangements and might otherwise determine that the act of shipping is a performance obligation under the standard. If that were the case, the entity would be required to allocate a portion of the transaction price to the shipping service and recognize it when (or as) the shipping occurs. ASC 606 also states that shipping and handling activities performed *before* the transfer of control are not a promised service to the customer, but activities to fulfill the entity's promise to transfer the good (e.g., an expense).	IFRS 15 does not include a similar policy election for shipping and handling activities performed after control of a good transfers. It also does not discuss the classification of shipping and handling activities incurred before the transfer of control. The IASB noted that IFRS 15.22 requires an entity to assess the goods or services promised in a contract with a customer, including shipping and handling activities, in order to identify performance obligations.

Implications:
Since the FASB's standard includes explicit guidance on shipping and handling activities that IFRS 15 does not, it is possible that IFRS and US GAAP preparers may reach different accounting conclusions. IFRS entities need to assess all goods and services promised in a contract with a customer, including shipping and handling activities, to identify performance obligations.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

4. Does the reporting entity incur, and/or collect from customers, sales (and other similar) taxes on goods and services transferred to customers?	Yes ☐	No ☐

Sales (and other similar) taxes include “all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected by the entity from a customer (for example, sales, use, value added, and some excise taxes),” but not taxes imposed on an entity’s gross receipts or the inventory procurement process.

US GAAP — ASC 606-10-32-2 through 32-2A	**IFRS — IFRS 15.47**
ASC 606 includes a general principle that an entity should determine the transaction price excluding amounts collected on behalf of third parties (e.g., some sales taxes). However, ASC 606 allows entities to make an accounting policy election to exclude sales (and other similar) taxes from the measurement of the transaction price. If an entity makes this election, it must apply the election for all taxes in the scope of the election and comply with the disclosure requirements of ASC 235-10-50-1 through 50-6. If it doesn’t make this election, the entity must apply the guidance on determining the transaction price and consider the principal versus agent guidance to determine whether amounts collected from customers for those taxes should be included in the transaction price. That is, on a per-jurisdiction basis, the entity would determine whether the tax is levied on the entity (and thus, the entity would include that amount in revenue and expenses) or the customer (and thus, the entity would exclude that amount from revenue and expenses because it is acting as a pass-through agent).	IFRS 15 includes a general principle that an entity should determine the transaction price excluding amounts collected on behalf of third parties (e.g., some sales taxes). However, it does not allow a similar policy election as described under ASC 606. As a result, IFRS entities are required to evaluate taxes that they collect in all jurisdictions in which they operate to determine whether a tax is levied on the entity or the customer, applying the guidance on determining the transaction price and considering the principal versus agent guidance.

Implications:
Since the FASB’s standard includes an accounting policy election that IFRS 15 does not, it is possible that diversity in practice may arise between IFRS and US GAAP entities if the election is chosen.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

5. Is the entity a principal in the transaction that does not know (and expects not to know) the price charged to its customer for its goods and services by an intermediary?

Yes ☐ No ☐

When more than one party is involved in providing goods or services to a customer, both US GAAP and IFRS require an entity to determine whether it is a principal or an agent by evaluating the nature of its promise to the customer.

US GAAP — ASC 606-10-55-37B	IFRS — IFRS 15.B35B
An entity that is a principal cannot estimate its gross transaction price when it does not know (or expects not to know) the price charged to its customer for its goods and services by an intermediary.	An entity that is a principal can apply judgment and determine the consideration to which it is entitled using all information available to it.

Implications:

Under US GAAP, if uncertainty related to the transaction price is not ultimately expected to be resolved, it would not meet the definition of variable consideration and, therefore, should not be included in the transaction price.

Because the IASB did not specifically consider how the transaction price requirements would be applied when an entity that is a principal does not know and expects not to know the price charged to its customer by an agent, it is possible for US GAAP and IFRS entities to reach different conclusions on estimating the gross transaction price.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

6. Does the reporting entity receive noncash consideration from customers (e.g., goods, services, financial instruments) in exchange for transferring goods or services?

Yes ☐ No ☐

Both US GAAP and IFRS require that when an entity receives or expects to receive noncash consideration, the fair value of the noncash consideration is included in the transaction price. However, the standards differ on measurement date and how to account for different types of variability.

US GAAP — ASC 606-10-32-21 through 32-24	IFRS — IFRS 15.66 through 69
Measurement date ASC 606 specifies that an entity measures the estimated fair value of the noncash consideration at contract inception (i.e., the date at which the five Step 1 contract criteria are met).	*Measurement date* IFRS 15 does not specify the measurement date for noncash consideration. As a result, the IASB has acknowledged that the use of a measurement date other than the contract inception date is not precluded under IFRS 15.

Types of variability	*Types of variability*
Under ASC 606, the variable consideration guidance, including the constraint, applies only to variability resulting from reasons other than the form of consideration (e.g., a change in the exercise price of a share option because of the entity's performance). ASC 606 also specifies that when the variability of noncash consideration is due to both the form (e.g., a change in the price of a share an entity is entitled to receive from a customer) of the consideration and for other reasons, the constraint on variable consideration applies only to the variability for reasons other than its form.	IFRS 15 requires that the variable consideration guidance, including the constraint, be applied only to variability resulting from reasons other than the form of consideration. However, IFRS 15 does not address how the constraint is applied when the noncash consideration is variable due to both its form and other reasons. The IASB noted that, in practice, it might be difficult to distinguish between variability in the fair value due to the form of the consideration and other reasons, in which case applying the variable consideration constraint to the whole estimate of the noncash consideration might be more practical.

Implications:
Due to the difference in measurement date guidance for noncash consideration under the standards, it is possible that diversity in practice may arise between IFRS and US GAAP entities. The differences in the guidance on how to account for different types of variability in noncash consideration may also cause diversity between an entity reporting under IFRS and an entity reporting under US GAAP.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

7. Has the reporting entity granted equity instruments (e.g., shares, options, other equity instruments) to a customer in conjunction with selling goods or services?	Yes	No
	☐	☐

US GAAP — ASC 606-10-32-25 through 32-27, ASC 606-10-55-88A through 55-88B, ASC 718-10-15-5, ASC 718-10-25-2C and ASC 718-10-30-3	**IFRS**
ASC 606 defines equity instruments granted to a customer in conjunction with the selling of goods or services as a form of consideration paid or payable to a customer. An entity accounts for consideration paid or payable to a customer as a reduction of the transaction price and, therefore, of revenue, unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the entity. However, if the payment to the customer exceeds the fair value of the distinct good or service received, the entity should account for the excess amount as a reduction of the transaction price.	IFRS 15 does not specify whether equity instruments issued by an entity to a customer are a type of consideration paid or payable to a customer nor does the standard address the accounting for the initial and subsequent measurement of equity instruments granted to customers in a revenue arrangement. IFRS 2 also does not specifically address such transactions. Depending on the facts and circumstances, several standards (or a combination of standards) may be applicable (e.g., IFRS 2, IFRS 15, IAS 32). To determine the substance of the transaction and which standard or standards

Entities are required to measure and classify equity awards granted to a customer in conjunction with the selling of goods and services in accordance with ASC 718. That is, an entity must measure the equity instrument using the grant-date fair value for both equity- and liability-classified share-based payment awards. The award is measured and classified under ASC 718 for its entire life, unless it is modified after the award vests and the grantee is no longer a customer, in which case it is accounted for in accordance with other US GAAP (e.g., ASC 815). If an entity is required to estimate the fair value of an equity instrument before the grant date in accordance with ASC 606's variable consideration guidance, the estimate should be based on the fair value of the award at the reporting dates that occur before the grant date. In the period in which the grant date occurs, the entity should change the transaction price for the cumulative effect of measuring the fair value of the grant rather than the fair value previously used at any reporting date. If the number of equity instruments promised to a customer is variable due to a service or performance condition that affects the vesting or exercisability of an award, the entity should estimate the number of equity instruments that it will be obligated to issue to the customer at the grant date. The estimate is updated until the awards ultimately vest. Because these changes are due to reasons other than the form of the consideration (i.e., there is uncertainty about whether the award will vest), they are reflected in the transaction price (e.g., as a reduction of revenue). After the grant date, ASC 718 may require an entity to measure any changes in the fair value of an award (e.g., a liability-classified award that is remeasured until settlement). Because these changes are due to the form of the consideration (e.g., a change in the fair value of an award), they are not reflected in the transaction price. Instead, they are presented elsewhere in the grantor's income statement.	apply, entities will need to consider all relevant facts and circumstances, including the purpose of the transaction. Such determinations may require significant judgment.

Implications:
US GAAP defines equity instruments granted to a customer in conjunction with selling goods or services as consideration paid or payable to a customer, and provides guidance on the initial and subsequent measurement of such equity instruments. IFRS 15 does not specify whether equity instruments issued by an entity to a customer are a type of consideration paid or payable to a customer nor does the standard address the accounting for the initial and subsequent measurement of equity instruments granted to customers in a revenue arrangement. Therefore, entities applying IFRS could reach a different accounting conclusion than those applying US GAAP.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

8. Does the reporting entity grant licenses of IP (e.g., software, films, music, franchises, patents, trademarks)?	Yes ☐	No ☐

Both US GAAP and IFRS provide guidance on the recognition of revenue for licenses of IP that differ from the recognition model for other promised goods and services. However, the guidance differs in certain aspects.

US GAAP — ASC 606-10-55-44 through 55-64A	**IFRS — IFRS 15.B52 through B62**
Determining the nature of an entity's promise in granting a license of IP ASC 606 requires an entity to assess whether the nature of its promise in granting a license is to provide either: (1) a right to use the entity's IP as it exists at the point in time in which the license is granted, which results in point-in-time recognition, or (2) a right to access the entity's IP throughout the license period, which results in over-time revenue recognition. Under ASC 606, an entity makes this determination by classifying the IP underlying the license as functional or symbolic, respectively. Functional IP has significant standalone functionality (e.g., the ability to process a transaction, perform a function or task, be played or aired), does not require the licensor to continue to support or maintain the IP as part of the promise to the customer, grants a right to use the entity's IP and revenue generally is recognized at the point in time when the IP is made available for the customer's use and benefit. Symbolic IP is any IP that is not functional IP and does not have significant standalone	*Determining the nature of an entity's promise in granting a license of IP* IFRS 15 requires an entity to assess whether the nature of its promise in granting a license is to provide either: (1) a right to use the entity's IP as it exists at the point in time in which the license the granted, which results in point-in-time recognition, or (2) a right to access the entity's IP throughout the license period, which results in over-time revenue recognition. IFRS preparers do not classify licenses of IP as either functional or symbolic. Under IFRS 15, the application guidance focuses on the characteristics of a license that provides a right to access IP. If licensed IP does not have those characteristics, it provides a right to use IP, by default. The key determinants of whether the nature of an entity's promise is a right to access the entity's IP is whether all of the following three criteria are met: (1) the entity is required to undertake activities that affect the licensed IP (or the customer has a reasonable expectation that the entity will do so), (2) the customer is exposed to positive or negative effects resulting

functionality. Its utility is largely derived from a licensor's ongoing or past support (that does not	from those changes and (3) the activities undertaken cannot result in the transfer of a
transfer a promised good or service to a customer). A license of symbolic IP grants a right to access an entity's IP, and revenue from such a license is recognized over time as the performance obligation is satisfied (e.g., over the license period).	good or service to the customer (similar to US GAAP). That is, an entity would exclude the effect of any other performance obligations in the contract when making this assessment. If the IP has significant standalone functionality (i.e., the IP's form and functionality is not significantly changed by the above-mentioned activities), IFRS 15 clarifies that the customer derives a substantial portion of the benefit of that IP from that functionality and revenue is recognized at a point in time.
Applying the licenses guidance to a bundled performance obligation that includes a license ASC 606 states that if an entity is required to bundle a license of IP with other promised goods or services in a contract, it is required to consider the licenses guidance to determine the nature of its promise to the customer.	*Applying the licenses guidance to a bundled performance obligation that includes a license* IFRS 15 does not explicitly state that an entity needs to consider the nature of its promise in granting a license when applying the general revenue recognition model to bundled performance obligations that include a license and other goods or services. However, the IASB clarified in the Basis for Conclusions that an entity should consider the nature of its promise in granting the license if the license is the primary or dominant component (i.e., the predominant item) of a single performance obligation.
Contractual restrictions in a license and identifying performance obligations ASC 606 requires entities to distinguish between contractual restrictions that define the attributes of a license of IP (e.g., restrictions of time, geography or use) and other provisions in the contract that represent additional promised good or services to the customer (e.g., additional rights to use or access IP). Contractual provisions that are attributes of a promised license define the scope of a customer's rights to IP and do not affect whether a performance obligation is satisfied at a point in time or affect the number of performance obligations in the contract. When analyzing contractual restrictions, an entity should consider whether a restriction requires it to grant additional rights to the customer at a future date in order to fulfill its promises under the contract. The presence of a requirement to grant additional rights to the customer indicates that there may be multiple	*Contractual restrictions in a license and identifying performance obligations* IFRS 15 includes language on contractual restrictions that differs from the US GAAP language. It does explicitly state, similar to US GAAP, that restrictions of time, geography or use do not affect the licensor's determination of whether the promise to transfer a license is satisfied over time or at a point in time. IFRS 15 is less specific than US GAAP about whether particular types of contractual restrictions would affect the identification of promised goods or services in the contract. However, consistent with the US GAAP standard, an entity is required to apply the requirements in Step 2 of the model when distinguishing between contractual provisions that create promises to transfer additional rights from contractual restrictions that are merely attributes of a license that establish when, where and how the right may be used.

promises that need to be accounted for under Step 2 of the model.	
Renewals of licenses of IP Under US GAAP, revenue related to the renewal of a license of IP may not be recognized before the beginning of a renewal period. This is true even if the entity provides a copy of the IP in advance of the renewal period or the customer has a copy of the IP from another transaction.	*Renewals of licenses of IP* IFRS 15 does not include similar requirements for renewals as US GAAP. Therefore, when an entity and a customer enter into a contract to renew (or extend the period of) an existing license, the entity needs to evaluate whether the renewal or extension should be treated as a new contract or as a modification of the existing contract.

Implications:

Regarding the differences in the guidance on *determining the nature of the entity's promises in granting a license of IP*, the Boards agreed that their approaches generally result in consistent answers, but there could be differences between US GAAP and IFRS when entities license brand names that no longer have any related ongoing activities (e.g., the license to the brand name of a defunct sports team such as the Brooklyn Dodgers). Under the FASB's approach, a license of a brand name is classified as symbolic IP, and revenue is recognized over time, regardless of whether there are any related ongoing activities. Under the IASB's approach, revenue is recognized at a point in time if there are no ongoing activities that significantly affect the IP (which would be likely in the case of the Brooklyn Dodgers).

Regarding *applying the licenses guidance to a bundled performance obligation that includes a license*, when the license is not the predominant item of a single performance obligation, this may result in US GAAP entities considering the nature of their promises in granting a license more frequently than IFRS entities.

Regarding *contractual restrictions*, significant judgment is required under both ASC 606 and IFRS 15 to distinguish between a contract that contains a single license with multiple attributes and a contract that contains multiple licenses to the customer that represent separate performance obligations.

Regarding *contract renewals*, because IFRS 15 does not state that an entity cannot recognize revenue relating a license renewal until the beginning of the license renewal period, it is possible that IFRS entities may recognize revenue for contract renewals or extensions sooner than US GAAP entities.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

9. Are there indicators that costs to obtain or fulfill a contract for which an impairment loss was recorded have recovered their value?	Yes ☐	No ☐

Under both US GAAP and IFRS, entities are required to capitalize costs to obtain and/or fulfill a contract, provided certain criteria are met. Any capitalized costs are amortized, with the expense recognized on a systematic basis that is consistent with the entity's transfer of the related goods or services to the customer. Any asset recorded by the entity is subject to an assessment of impairment at the end of each reporting period.

US GAAP — ASC 340-40-35-6	**IFRS — IFRS 15.104**
Reversal of impairment losses is prohibited for all costs to obtain and/or fulfill a contract.	IFRS 15 permits the reversal of some or all previous impairment losses when impairment conditions no longer exist or have improved. However, the increased carrying value of the asset must not exceed the amount that would have been determined (net of amortization) if no impairment had been recognized previously.

Implications:
Under IFRS, entities must continue to evaluate assets on which an impairment loss has been reported to determine if there are indicators that an asset has recovered its value. US GAAP does not allow for the reversal of a previously recognized impairment loss.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

10. Did the entity sell or transfer nonfinancial assets (or in substance nonfinancial assets) to noncustomers that are not an output of its ordinary activities?	Yes ☐	No ☐

At the same time as ASC 606, the FASB also issued ASC 610-20 to provide a model for the measurement and recognition of gains and losses on the sale of certain nonfinancial assets, such as property and equipment, including real estate.

US GAAP — ASC 610-20	**IFRS — IAS 16, IAS 38 and IAS 40**
ASC 610-20 provides guidance on how to account for any gain or loss resulting from the sale or transfer of nonfinancial assets or in substance nonfinancial assets to noncustomers that are not an output of an entity's ordinary activities and are not a business. This includes the sale of intangible assets and PP&E, including real estate, as well as materials and supplies. ASC 610-20 also includes guidance for a "partial sale" of nonfinancial assets and in substance nonfinancial assets held in a legal entity.	IAS 16, IAS 38 and IAS 40 require entities to use certain of the requirements of IFRS 15 when recognizing and measuring gains or losses arising from the sale or disposal of nonfinancial assets to noncustomers when it is not in the ordinary course of business. IFRS 15 does not contain specific requirements regarding the sale of in substance nonfinancial assets to noncustomers that are not a business. The applicable guidance for such disposals would depend on facts and circumstances (e.g., the sale or disposal of a subsidiary (i.e., loss of

ASC 610-20 requires entities to apply certain recognition and measurement principles of ASC 606. Thus, under US GAAP, the accounting for a contract that includes the sale of a nonfinancial asset to a noncustomer is generally consistent with that of a contract to sell a nonfinancial asset to a customer, except for financial statement presentation and disclosure. Sales or transfers of businesses to noncustomers are accounted for using the deconsolidation guidance in ASC 810. Further, sales or transfers of subsidiaries that do not contain solely nonfinancial assets and in substance nonfinancial assets to noncustomers are accounted for using the deconsolidation guidance in ASC 810, unless other US GAAP applies.	control) is generally accounted for under IFRS 10).

Implications:
Because US GAAP provides guidance on how to account for any gain or loss resulting from the sale of in substance nonfinancial assets that are not an output of an entity's ordinary activities and are not a business and IFRS does not, it is possible that IFRS and US GAAP preparers may reach different accounting conclusions.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

11. Did the entity sell or transfer its interest in a separate entity to a customer (i.e., sale of a corporate wrapper)? Yes ☐ No ☐

As part of their ordinary activities, entities may enter into contracts with customers to sell an asset by selling their equity interest in a separate entity (commonly referred to as a "corporate wrapper" or "single-asset entity") holding that asset (e.g., real estate), rather than by selling the asset itself. Entities may sell assets via a sale of equity interest in a corporate wrapper for tax or legal reasons or because of local regulation or business practice.

US GAAP — ASC 606	**IFRS — IFRS 10 and IFRS 15**
Under US GAAP, the sale of a corporate wrapper to a customer generally will be in the scope of ASC 606. ASC 810 indicates that its deconsolidation and derecognition guidance does not apply to a loss of control of a subsidiary that is a business if that transaction is within the scope of ASC 606. Loss of control of a subsidiary that is not a business is equally excluded from the scope of ASC 810 if the substance of the	Whether an entity needs to apply IFRS 10 or IFRS 15 to the sale of a corporate wrapper to a customer depends on facts and circumstances and may require significant judgment, including consideration of the following: ► IFRS 10 requires an entity that controls one or more entities (i.e., the parent) to present consolidated financial statements, with some limited exceptions, and sets out the

transaction is within the scope of another standard (e.g., ASC 606). ASC 610-20 applies to the recognition of gains or losses on transfers of nonfinancial assets and in substance nonfinancial assets that are not businesses to counterparties that are not customers.	requirements to determine whether, as an investor, it controls (and, therefore, must consolidate) an investee. A parent consolidates an entity that it controls (i.e., the subsidiary) from the date on which it first obtains control. It ceases consolidating that subsidiary on the date on which it loses control. IFRS 10 also specifies how a parent accounts for the full or partial sale of a subsidiary. ► IFRS 15 excludes from its scope "… financial instruments and other contractual rights or obligations within the scope of … IFRS 10." In practice, some entities apply IFRS 15 to all such contracts with customers because the transactions are part of the entity's ordinary activities and they believe doing so would better reflect the "substance" of each transaction (e.g., the entity is "in substance" selling the asset and not the equity interest; the structure is for legal, tax or risk reasons, and it believes it should not affect the recognition of revenue). Judgment may also be needed in determining whether an investor controls the corporate wrapper. For example, the (selling) entity may act as an agent (in accordance with IFRS 10) in relation to the corporate wrapper based on the terms and conditions in the customer contract. IFRS 10 would not apply to the sale, if the entity does not control the corporate wrapper prior to sale.

Implications:

Under US GAAP, the sale of a corporate wrapper to a customer is generally recognized under ASC 606. However, under IFRS, preparers may reach different conclusions on whether the sale of corporate wrappers to customers is in the scope of IFRS 15 or IFRS 10. The accounting for these transactions under ASC 606 and IFRS 15 is largely the same. However, accounting for these transactions under IFRS 10 (as compared to ASC 606 or IFRS 15) may result in differences in the timing of recognition (i.e., point in time versus over time and, if point in time, the specific point in time) and the measurement of consideration (e.g., IFRS 10 does not constrain variable consideration). Furthermore, IFRS 10 provides specific requirements for the derecognition of all assets and liabilities of the former subsidiary on loss of control, which would not apply if the contract with the customer is within the scope of IFRS 15.

Identified difference?

Yes	No	Depends on policy election
☐	☐	☐

Describe:
Click here to enter text.

12. Does the entity receive government grants?

Yes ☐ No ☐

US GAAP	IFRS — IAS 20.7, IAS 20.12, IAS 20.20, IAS 20.24 and IAS 20.29
US GAAP does not provide specific guidance on the accounting for government grants to for-profit business entities. As a result, many US GAAP reporters account for government grants or other assistance by analogy to other guidance, such as IAS 20, ASC 450-30, *Contingencies — Gain Contingencies*, or ASC 958-605, *Not-for-Profit Entities — Revenue Recognition*, depending on the facts and circumstances. A not-for-profit entity that receives a government grant should apply ASC 958-605.	Government grants should not be recognized until there is reasonable assurance that they will be received and that the entity will comply with their conditions. IAS 20.12 requires grants to be recognized in profit or loss over the periods that match the related costs for which they were intended to compensate, on a systematic basis. ▸ For grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs, IAS 20.20 requires recognition in profit or loss in the period when they become receivable. ▸ For grants related to assets (including nonmonetary grants at fair value), IAS 20.24 requires that the grants be presented on the balance sheet either as deferred income (and then amortized on a systematic basis over the life of the asset) or as an offset to the cost of the asset to which it relates. ▸ For grants related to income, IAS 20.29 requires that amounts recognized in profit or loss are either presented separately under a general heading of “other income” or alternatively as a deduction from the related expense. Therefore, amounts are not presented as revenue.

Implications:

Because US GAAP does not provide guidance on accounting for government grants to for-profit business entities, US GAAP reporters may apply other guidance by analogy, such as IAS 20, ASC 450-30 or ASC 958-605. However, because it is possible that US GAAP reporters may have analogized to IAS 20 previously, there may or may not be a significant difference between US GAAP and IFRS for those business entities. Companies should carefully review all terms and conditions of grant agreements to determine whether differences do, or should, exist based on their historical accounting policies.

Under both US GAAP and IFRS, recording grants in equity is not acceptable.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

13. Does the entity enter into service concession arrangements (also referred to as public-private partnerships)?

Yes ☐ No ☐

In some countries, service concession arrangements have been developed as a mechanism for procuring public services and may be more prevalent in certain industries, particularly the energy and construction sectors (e.g., entities involved in assets such as power plants or bridges). Such arrangements involve a public-sector entity grantor and an operating entity, under which the operating entity generally operates and maintains the grantor's infrastructure (e.g., a highway, bridge, parking lot, power plant, hospital) that fulfills a public service for a specified period of time, in exchange for consideration (e.g., payments from the grantor, the right to charge third-party users of the assets).

US GAAP — ASC 853	IFRS — IFRIC 12
ASC 853 applies only to an operating entity in a service concession arrangement that involves a public-sector grantor if (1) the grantor controls or has the ability to modify or approve the services that the operator must provide with the infrastructure, to whom it must provide them, and at what price; and (2) the grantor controls, through ownership, beneficial entitlement or otherwise, any residual interest in the infrastructure at the end of the term of the arrangement. An operating entity in the scope of ASC 853 should account for revenue from service concession arrangements in accordance with ASC 606. Further, ASC 853 states that an operating entity in a service concession arrangement must consider the grantor the customer of the operation services it provides when it applies the revenue guidance in ASC 606. Infrastructure in the scope of ASC 853 should not be accounted for as a lease or recognized as PP&E because the operating entity does not control the infrastructure. Service concession arrangements in the scope of ASC 853 and ASC 980 on regulated operations should be accounted for using ASC 980. The operating entity should refer to other US GAAP to account for the various other aspects of service concession arrangements.	IFRIC 12 applies to public-to-private service concession arrangements if (1) the grantor (typically a governmental unit) controls or regulates the services that the operator must provide with the infrastructure, to whom it must provide them, and at what price; and (2) the grantor controls — through ownership, beneficial entitlement or otherwise — any significant residual interest in the infrastructure at the end of the term of the arrangement. IFRIC 12 does not include explicit guidance on who the customer is in a service concession arrangement. However, if an operator is compensated for its services by being given the intangible right to charge the public for using the infrastructure, under IFRIC 12, the customer during the construction phase is likely to be the grantor and during the operational phase it can be the public. Infrastructure determined to be in the scope of IFRIC 12 should not be accounted for as a lease or recognized as PP&E of the operator since the asset is "controlled" by the grantor. IFRIC 12.14 requires the operator to account for construction services when assets are built or upgraded during the concession term in accordance with IFRS 15. During the period of construction, the operator recognizes a contract asset in accordance with IFRS 15. The operator subsequently recognizes either a financial asset or an intangible asset as consideration for these construction services. It is a financial asset to the extent that the operator has an unconditional right to receive cash or another financial asset from or at the direction of the grantor, including where the grantor has guaranteed the operator's cash flows. It is an intangible asset to the extent it receives a right to charge users of the public service. In certain circumstances, the operator may recognize both a

	financial asset and an intangible asset as consideration for construction or upgrade services. IFRIC 12.20 requires the operator to account for operations services over the term of the concession arrangement in accordance with IFRS 15.

Implications:
Service concession arrangements in the scope of ASC 853 exist in US jurisdictions but may be more prevalent in other jurisdictions, particularly in the energy and construction sectors (e.g., entities involved with assets such as power plants or bridges). The guidance in ASC 853 is consistent with IFRS in that service concession arrangements under IFRS are not considered leases. In addition, infrastructure that is the subject of a service concession arrangement is not recognized as PP&E. However, IFRIC 12 addresses the accounting by operating entities of service concession arrangements, including general principles on recognizing and measuring the obligations and related rights in these arrangements. Further, IFRIC 12 indicates the certain aspects of existing IFRS that should be applied by an operating entity in accounting for service concession arrangements (e.g., to recognize and measure revenue for operating, construction or upgrade services in accordance with IFRS 15; to apply IAS 37 to contractual obligations to maintain or restore infrastructure; and to account for borrowing costs as an expense unless the operator has a contractual right to receive an intangible asset). ASC 853 does not provide similar guidance about how to account for service concession arrangements. Instead, ASC 853 requires an operating entity to refer to ASC 606 to account for revenue from service concession arrangements. For various other aspects of service concession arrangements, an operating entity should refer to other accounting topics. The application of IFRIC 12 to service concession arrangements may result in a significant difference in accounting, for both the balance sheet and income statement, due to the detailed provisions within IFRIC 12 on how existing IFRS should be applied.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

IFRS 1 permits a first-time adopter to apply the transitional provisions in IFRIC 12. IFRIC 12 requires retrospective application unless it is, for any particular service arrangement, impracticable for the operator to apply IFRIC 12 retrospectively at the start of the earliest period presented, in which case it should:

- Recognize financial assets and intangible assets that existed at the start of the earliest period presented, which will be the date of transition for a first-time adopter
- Use the previous carrying amounts of those financial and intangible assets (however previously classified) as their carrying amounts as at that date
- Test financial and intangible assets recognized at that date for impairment, unless this is not practicable, in which case the amounts must be tested for impairment as at the start of the current period, which will be the beginning of the first IFRS reporting period for a first-time adopter

As noted above, service concession arrangements exist in US jurisdictions but may be more prevalent in other jurisdictions.Therefore, this voluntary exemption is likely to have a minimal effect on

many industries, but it will need to be evaluated by a first-time adopter providing public services as defined by IFRIC 12.

Share-based payments

Similarities:

The US GAAP guidance for share-based payments, ASC 718, is largely converged with IFRS 2. Both US GAAP and IFRS require a fair value-based approach in accounting for share-based payment arrangements whereby an entity (1) acquires goods or services in exchange for issuing share options or other equity instruments 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 US GAAP and IFRS, this guidance applies to transactions with both employees and nonemployees and is applicable to all entities. Both ASC 718 and IFRS 2 define the fair value of the transaction to be the amount at which the asset or liability could be bought or sold in a current transaction between willing parties.

Further, both US GAAP and IFRS require the fair value of the shares or options, as applicable, to be measured based on a market price (if available) or estimated using an option-pricing model. In rare cases in which fair value cannot be determined, both sets of standards allow the use of intrinsic value, which is remeasured until settlement of the shares. Additionally, the treatment of modifications and settlements of share-based payments is similar in many respects under both US GAAP and IFRS. Finally, both standards require similar disclosures in the financial statements to provide investors with sufficient information to understand the types and extent to which the entity is entering into share-based payment transactions.

Primary US GAAP	Primary IFRS
► ASC 718, *Compensation — Stock Compensation*	► IFRS 2 *Share-Based Payment* ► IAS 12 *Income Taxes*

Standard setting activities:

In October 2021, the FASB issued ASU 2021-07, *Compensation — Stock Compensation (Topic 718): Determining the Current Price of an Underlying Share for Equity-Classified Share-Based Awards*, that amended ASC 718 to allow nonpublic entities to elect a practical expedient to determine the current price of an underlying share for valuing equity-classified share-based payment awards by using the reasonable application of a reasonable valuation method (e.g., a valuation performed in accordance with Section 409A of the Treasury Regulations). A share price calculated in this manner may be used for 12 months from the measurement date unless information that may materially affect the value of the nonpublic entity becomes available. The amendments are applied prospectively and are effective for nonpublic entities for fiscal years beginning after 15 December 2021, and interim periods within fiscal years beginning after 15 December 2022. Early adoption, including adoption in an interim period, is permitted for financial statements that have not yet been issued or made available for issuance as of 25 October 2021, the date the guidance was issued. We updated question 17 for this amendment.

Discussion of IFRS 1:

The IASB specifically added the following exemptions to IFRS 1 for first-time adopters that have share-based payment plans:

- A first-time adopter is encouraged, but not required, to apply IFRS 2 to equity instruments that were granted on or before 7 November 2002.
- A first-time adopter is also encouraged, but not required, to apply IFRS 2 to equity instruments that were granted after 7 November 2002 but that vested before the later of date of transition to IFRS and 1 January 2005.

- A first-time adopter is encouraged, but not required, to apply IFRS 2 to liabilities arising from cash-settled share-based payment transactions if those liabilities were settled before 1 January 2005 or before the date of transition to IFRS.

As a result of applying these exemptions, a first-time adopter will have to apply the provisions of IFRS 2 only to all outstanding equity instruments that are unvested and liabilities that have not been settled prior to the date of transition to IFRS. Therefore, a first-time adopter who elects to apply these exemptions will not apply the requirements of IFRS 2 to equity instruments that have vested and liability awards that have been settled prior to the date of transition to IFRS.

Given that entities reporting under US GAAP were required to adopt a fair value approach to accounting for share-based payment transactions beginning in 2005, it is unlikely that first-time adopters will have many, if any, unvested share-based payment arrangements that are not already being accounted for under a fair value approach on the date of transition. As a result, we would not expect the effect of applying the requirements of IFRS 2 to the unvested share-based payment transactions to be significant. However, as described below, the entity should be aware that there are certain differences between IFRS 2 and ASC 718 that may affect the opening IFRS balance sheet and future accounting for the entity’s share-based payment transactions.

Differences:

1. Does the entity have share-based payment awards granted to employees that vest in installments (i.e., graded vesting) based on service conditions only?	Yes ☐	No ☐

Graded vesting refers to share-based payment awards that vest in installments (or “tranches”) over the vesting period (e.g., an award of 300 stock options that vest in equal installments of 100 stock options per year over a three-year period).

A service condition is a condition that affects the vesting, exercisability, exercise price or other pertinent factors used in determining the fair value of an award that depends on the employee rendering service to the employer for the requisite service period.

US GAAP — ASC 718-10-35-8 and ASC 718-20-55-25 through 55-32	**IFRS — IFRS 2.IG11**
Recognition Entities make an accounting policy election about whether to recognize compensation cost for an employee award with only service conditions that has a graded vesting schedule on a straight-line basis over one of the following: ► The requisite service period for each separately vesting portion of the award as if the award were, in substance, multiple awards (i.e., accelerated method) ► The requisite period for the entire award The choice of attribution method is an accounting policy election that should be applied consistently to all share-based payments subject to graded service vesting and should be disclosed, if significant.	*Recognition* The accelerated method is required.
Measurement The fair value of awards subject to graded vesting is typically determined based on either (1) separate awards corresponding with each vesting tranche, each with a different expected term, or (2) a single award with an expected term equal to the average expected term of the component vesting tranches. The entity can choose its approach for measuring awards regardless of the accounting policy election discussed above for expense attribution.	*Measurement* The fair value of awards subject to graded vesting should be measured separately for each vesting tranche, using separate expected lives.

Implications:

Because of the policy choice under US GAAP, the attribution of compensation cost over the requisite service period will differ between US GAAP and IFRS when a US GAAP entity elects to apply the “straight-line” method to account for share-based payment awards subject to graded vesting based on a service condition only. The use of the “straight-line” method will result in less compensation cost being recognized in earlier years.

In addition, total compensation cost may differ between US GAAP and IFRS because of the way that the fair value of the award is determined. For example, US GAAP permits the total fair value of the award (regardless of the entity’s expense attribution policy) to be determined by estimating the value of the award subject to graded vesting as a single award using an average expected life or by estimating the value of each vesting tranche separately using a separate expected life, whereas IFRS requires the use of only the latter valuation approach.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

IFRS 1 implications:

First-time adopters that have elected to apply the “straight-line” method under ASC 718 will need to apply the “accelerated” method under IFRS 2 to all unvested share-based payment awards subject to graded vesting as of the transition date (note that the entire award is considered to be unvested if any tranche is unvested as of the transition date). This could result in the acceleration of compensation cost from what had been originally reported. Any difference would be recorded as an adjustment to APIC or a liability with an offsetting entry to retained earnings in the first-time adopter’s opening IFRS balance sheet.

In addition, because IFRS 2 requires a different fair value measure for each tranche, the first-time adopter who measured the fair value of the award using a single expected term assumption will be required to remeasure each vesting tranche. In remeasuring the fair value, the first-time adopter should use inputs (e.g., volatility, risk-free rate, dividend yield) based on information available as of the original grant date, unless there is objective evidence that demonstrates such inputs were erroneous.

2. Does the entity have share-based payment awards granted to employees that are subject to forfeiture?

Yes ☐ No ☐

A forfeiture of a share-based payment results from an employee’s failure to satisfy a service condition or a performance condition that affects vesting. A service condition is a condition affecting the vesting, exercisability, exercise price or other pertinent factors used in determining the fair value of an award that depends solely on an employee rendering service to the employer for the requisite service period. A performance condition is a condition affecting the vesting, exercisability, exercise price or other pertinent factors used in determining the fair value of an award that relates to both of the following: (1) an employee’s rendering service for a specified (either explicitly or implicitly) period of time and (2) achieving a specified performance target that is defined solely by reference to the grantor’s own operations (or activities) or by reference to the grantee’s performance related to the grantor’s own operations or activities (see question 5 for differences related to the definition of performance conditions between US GAAP and IFRS). The total amount of compensation cost recognized at the end of the requisite service period should be

based on the number of instruments for which the requisite service has been rendered (i.e., awards for which the requisite service period has been completed).

US GAAP — ASC 718-10-35-3	IFRS — IFRS 2.20
Entities may elect to account for forfeitures related to service conditions by (1) recognizing forfeitures of awards as they occur (e.g., when an award does not vest because the employee leaves the company) or (2) estimating the number of awards expected to be forfeited and adjusting the estimate when subsequent information indicates that the estimate is likely to change. For awards with performance conditions, an entity follows ASC 718-10-25-20 and assesses the probability that a performance condition will be achieved at each reporting period to determine whether and when to recognize compensation cost, regardless of its accounting policy election for forfeitures.	There is no accounting policy election under IFRS. Entities should base initial accruals of compensation cost on the estimated number of instruments for which the requisite service is expected to be rendered. That estimate should be revised if subsequent information indicates that the actual number of instruments is likely to differ from previous estimates.

Implications:
The timing of the recognition of compensation cost will differ between US GAAP and IFRS when a US GAAP entity elects to recognize forfeitures of awards as they occur. If an entity estimates forfeitures, there would be no difference between US GAAP and IFRS in the number of awards used to measure compensation cost in the period. Regardless of the policy election, an entity will ultimately recognize compensation cost for all awards that vest under both US GAAP and IFRS.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

First-time adopters of IFRS that previously elected to recognize forfeitures of awards as they occur will need to estimate forfeitures under IFRS 2 for all unvested share-based payment awards as of the transition date. This could result in recognizing less compensation cost for unvested awards as of the transition date. Any difference would be recorded as an adjustment to APIC or liability, as applicable, with an offsetting entry to retained earnings in the first-time adopter’s opening IFRS balance sheet.

3. Does the entity have share-based payment awards granted to employees with a service inception date that precedes the grant date?	Yes ☐	No ☐

The service inception date is the date at which the employee's requisite service period begins and usually is the grant date. The grant date is the date at which a grantor and a grantee reach a mutual understanding of the key terms and conditions of a share-based payment award.

US GAAP — ASC 718-10-35-6 and ASC 718-10-55-108 through 55-109	**IFRS — IFRS 2.IG4**
The service inception date usually is the grant date, but may precede the grant date if (1) an award is authorized, (2) service begins before a mutual understanding of the key terms and conditions of a share-based payment award is reached and (3) either of the following conditions is met: (a) the award's terms do not include a substantive future requisite service condition that exists at the grant date or (b) the award contains a market or performance condition that if not satisfied during the service period preceding the grant date and following the inception of the arrangement results in forfeiture of the award.	The service inception date usually is the grant date, but may precede the grant date if services are received prior to the grant date. There are no specified conditions required under IFRS 2.

Implications:

Under ASC 718, the service inception date may precede the grant date only if the above conditions are satisfied. Because there are no specified conditions required in IFRS 2, a service inception date preceding the grant date is more likely to occur under IFRS, which may lead to the recognition of compensation cost earlier under IFRS than US GAAP. Consider the following example:

- On 1 January 20X9, Entity A offers an employee a share option award that vests upon completion of two years of service. A mutual understanding of the key terms and conditions of the award exists on this date.
- Entity A's Board of Directors has authorized the award. Shareholder approval of the award occurs on 1 April 20X9 (grant date).
- The employee begins providing service on 1 January 20X9.

Under US GAAP, because the award has a substantive future requisite service condition that exists at the grant date (1 April), the service inception date and grant date are 1 April. Entity A would recognize compensation cost beginning on 1 April through the end of the remaining two-year service period. Thus, compensation cost under US GAAP is recognized over 21 months.

Conversely, under IFRS, the service inception date is 1 January and the grant date is 1 April. Therefore, Entity A would begin recognizing compensation cost based on the estimated fair value of the award at each reporting date prior to 1 April. On 1 April, cumulative compensation cost would be adjusted to reflect the cumulative effect of measuring compensation cost based on the fair value at the grant date. Compensation cost will continue to be recognized over the next 21 months through the end of the two-year service period. Thus, compensation cost under IFRS is recognized over 24 months.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

If the first-time adopter is receiving services for a share-based payment award in which neither the service inception date nor the grant date has been established under ASC 718 as of the transition date, the first-time adopter must determine whether a service inception date has been established under IFRS 2. If so, the first-time adopter must estimate the fair value of the award as of the transition date and recognize compensation cost by recording in the opening IFRS balance sheet an adjustment to APIC or a liability with an offsetting entry to retained earnings.

In addition, an adjustment may be required in the opening IFRS balance sheet to reflect differences in service inception date between IFRS 2 and ASC 718 for an award for which the grant date has already occurred. Any difference in the cumulative compensation cost is recognized in APIC or a liability with an offsetting entry to retained earnings.

In measuring the fair value of the award in advance of a grant date, the inputs used in the option-pricing model should be based on conditions that existed as of the transition date, in order to achieve consistency with IAS 10 *Events after the Reporting Period*.

4. Has the entity granted share-based payment awards to nonemployees?	Yes	No
	☐	☐

Nonemployees are those individuals that do not meet the definition of an employee, which is defined differently under the two standards.

US GAAP — ASC 718-10-30-2, ASC 718-10-30-6 and ASC 718-10-35-10	**IFRS — IFRS 2.13 through 13A**
Definition of an employee The US GAAP definition of an employee focuses mainly on the common law definition of an employee (i.e., Internal Revenue Service (IRS) Revenue Ruling 87-41 *Common Law Employee Guidelines*).	*Definition of an employee* IFRS has a more general definition of an employee that includes individuals who provide services similar to those rendered by employees.
Measurement date Equity classified share-based payment awards granted to nonemployees are generally measured at the grant date.	*Measurement date* Share-based payment awards granted to nonemployees must be measured at the date the entity obtains the goods or the counterparty (i.e., the nonemployee) renders the services.
Measurement Share-based payment awards granted to nonemployees are measured at the grant date by estimating the fair value of the equity instruments to be issued in exchange for goods or services received.	*Measurement* Share-based payment awards granted to nonemployees should be measured based on the fair value of the goods or services received. In those rare circumstances where the fair value of the goods and services received cannot be reliably estimated, the fair value of the equity instruments granted may be used.

	However, if the fair value of the equity instruments exceeds the fair value of the goods and services received (or to be received), the difference is generally an indication that unidentifiable goods or services have been or will be received. The unidentifiable goods or services would be measured at the grant date as the difference between the fair value of the equity instrument and the fair value of any identifiable goods or services received. Therefore, even under IFRS 2 where the fair value of the goods or services is used, entities would need to consider the fair value of the equity instrument at the grant date to determine if there is any excess that may need to be accounted for.
Reassessment of classification Entities are required to reassess the classification of share-based payments (i.e., equity or liability) under other accounting literature (e.g., ASC 815, ASC 480-10) only if they are modified after they vest and the grantee is no longer providing goods or services.	*Reassessment of classification* While not specifically addressed in IFRS 2, share-based payment awards that are originally in the scope of IFRS 2 remain in the scope of IFRS 2 and do not become subject to other literature until they vest (share awards), are exercised (equity-settled option awards) or are settled (cash-settled awards).

Implications:

Definition of an employee

Because the definition of an employee is broader under IFRS 2, this could result in some nonemployee awards under US GAAP qualifying as employee awards under IFRS, depending on whether the nature of the services and the relationship between the counterparty and the employer satisfies the more general IFRS definition.

Measurement date

Compensation cost under US GAAP will be measured at the grant date, which may or may not be the same as the date goods are transferred or services are rendered under IFRS. Under IFRS, unless an entity obtains the goods (and a nonemployee renders services) on the grant date, a different fair value, and therefore, a different amount of compensation cost, is likely to be recognized.

Measurement

Unlike companies that report under IFRS, companies that report under US GAAP measure share-based payment awards granted to nonemployees based on the fair value of the equity instruments expected to be issued (rather than on the fair value of the goods or services received or to be received). Consequently, if the fair value of the equity instruments granted under US GAAP is less than the fair value of the goods or services received under IFRS, this will result in the recognition of a different amount of compensation cost. However, if the fair value of the equity instruments to be issued under US GAAP is greater than the fair value of the goods or services received (or to be received) under IFRS, compensation cost may be the same if the application of IFRS 2 results in the recognition of that excess.

In the rare case that the fair value of the goods or services cannot be reliably measured under IFRS, the fair value of the equity instrument is used to measure the good or service acquired.

Reassessment of classification

Under US GAAP, a share-based payment award becomes subject to other literature (e.g., ASC 815, ASC 480-10) if it is modified after it vests and the grantee is no longer providing goods or services. In these circumstances, the award may require classification as a liability under US GAAP, with continued remeasurement of the award at fair value that would otherwise not be required under IFRS. However, if the award is not modified after it vests, the accounting under US GAAP and IFRS would generally be aligned.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

First-time adopters will have to assess whether nonemployee awards that are unvested at the date of transition to IFRS should be accounted for as employee awards under IFRS 2. This evaluation will likely require the use of significant judgment to determine whether the services performed by a nonemployee are similar to those rendered by an employee. Any awards that should be considered employee awards under IFRS 2 should be accounted for as such from the transition date.

First-time adopters also need to re-evaluate the accounting for unvested nonemployee awards that continue to be accounted for as nonemployee awards under IFRS. Awards that were measured based on the fair value of the equity instruments granted should be evaluated to determine whether the fair value of the goods or services received was reliably determinable. If the fair value of the goods or services received was reliably determinable and that value exceeded the fair value of the equity instrument, the unvested awards should be measured based on the fair value of the goods or services when received. If the fair value of the goods and services received was not reliably determinable, the fair value of the equity instruments should be used under IFRS 2, similar to US GAAP. However, when a first-time adopter has previously measured nonemployee awards at the grant date, the first-time adopter may still need to remeasure the fair value of unvested equity instruments at the date of transition to IFRS using the revised measurement date since IFRS 2 requires the awards to be measured when the goods and services are received. The differences in the fair value of nonemployee awards as of the date of transition to IFRS should be recorded in the opening IFRS balance sheet as an adjustment to APIC or a liability with an offsetting entry to retained earnings.

5. Has the entity granted share-based payment awards to employees that include a performance condition?	Yes ☐	No ☐

A performance condition is defined in ASC 718 as a condition affecting the vesting, exercisability, exercise price or other pertinent factors used in determining the fair value of an award that relates to both of the following: (1) an employee's rendering service for a specified (either explicitly or implicitly) period of time and (2) achieving a specified performance target that is defined solely by reference to the grantor's own operations (or activities) or by reference to the grantee's performance related to the grantor's own operations (or activities). For example, a common type of performance condition requires an entity to achieve a specified amount of net income, as determined in accordance with US GAAP, in order for the grantee to vest in the awards. The definition of a performance condition under IFRS 2 is similar to the definition under US GAAP, except as described below.

US GAAP — ASC 718-10-30-28 and ASC 718-10-25-20	**IFRS — IFRS 2 Appendix A, IFRS 2.19 through 20 and IFRS 2.21A**
Performance period different from service period A performance target that affects vesting of a share-based payment and that could be achieved after the requisite service period is a performance condition under US GAAP. ASC 718 does not require the employee to be rendering service when the performance target is achieved. The period of time to achieve a performance target can extend beyond the end of the service period.	*Performance period different from service period* Under IFRS, a performance condition that affects vesting of a share-based payment must be met while the employee is rendering service. The commencement date may start (but not substantially) before the grantee begins providing service. If the period of time to achieve a performance target extends beyond the service period, then the condition is a nonvesting condition and considered in the fair value of the award on the grant date.
Recognition Compensation cost should be recognized only if it is probable that the performance condition will be achieved. The probable threshold should be applied based on the guidance in ASC 450. "Probable" is defined as "the future event or events are likely to occur." When a performance condition is based on a liquidity event (e.g., an IPO, change in control), the condition is deemed probable only when the event has occurred.	*Recognition* If the performance metric is a performance condition, compensation cost should be recognized for awards that are expected to vest, which is generally interpreted as "more likely than not" to vest (i.e., a lower recognition threshold than US GAAP). Under IFRS, there is no difference in the accounting for awards that contain performance conditions based on liquidity events. Therefore, if a liquidity event is likely to occur, compensation cost would be recognized.

Implications:

Definition of a performance condition

Under US GAAP, an award with a performance condition that could be met after the grantee has rendered the required service could result in an entity recognizing compensation expense when the achievement of the target is probable even after an employee has completed the requisite service. One common example of a performance condition that could be met after the required service has been rendered would include an award that vests when a company completes an IPO (i.e., it

achieves the performance condition even if the IPO occurs after a former employee completed the required service). Another example would be an award granted to an employee who is eligible to retire (without losing the ability to vest in the award) before the end of the period in which a performance target could be achieved.

Under IFRS, the performance targets described above would not be accounted for as a performance condition, if they would not be met until after the employee has completed the requisite service. They would instead be included as a nonvesting condition in the determination of the grant date fair value that will be recognized over the requisite service period.

Recognition

Because “probable” under US GAAP is considered to be a higher threshold than “expected to vest” the recognition of compensation cost under US GAAP for an award with a performance condition may occur later than under IFRS. Practically speaking, we do not expect many differences in recognition to arise, other than when accounting for awards that contain a performance condition based on a liquidity event.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

IFRS 1 implications:

For share-based payment awards granted to an employee that include a performance condition and are unvested as of the transition date, if compensation cost was not recognized under US GAAP because the performance condition was not considered “probable,” the first-time adopter must determine whether the award was “expected to vest,” which is generally interpreted as a more likely than not threshold in IFRS. If the first-time adopter determines that there were additional awards expected to vest as of the transition date, the first-time adopter should recognize any cumulative compensation cost at the date of transition as an adjustment to the liability or APIC, as applicable, with an offsetting entry to retained earnings in the opening IFRS balance sheet.

6. Has the entity modified the terms of an unvested share-based payment award resulting in a longer employee requisite service period or nonemployee vesting period as well as incremental compensation cost?	Yes ☐	No ☐

For example, an entity may modify a share-based payment award by extending its term thereby causing the fair value of the modified award to be greater than that of the original award as of the modification date.

US GAAP	**IFRS — IFRS 2.B43(a)**
If the award was probable of vesting at the modification date, we believe there are two acceptable approaches to attribute the remaining unrecognized compensation cost from the original award and the incremental compensation cost resulting from the modification: ► The unrecognized compensation cost remaining from the original grant date valuation is recognized over the remainder of the original requisite service period or	IFRS 2 requires the grant date fair value of the original equity award to be recognized over the remainder of the original vesting period while the incremental compensation cost is recognized over the new service/vesting period (beginning on the modification date) (i.e., Approach 1 described in the US GAAP section).

nonemployee vesting period, while the incremental compensation cost is recognized over the new service/vesting period (beginning on the modification date). Essentially, the unrecognized compensation cost is bifurcated and recognized as if the two components were separate awards with separate vesting periods (Approach 1). ► The total compensation cost relating to the newly modified award (including both the unrecognized compensation cost remaining from the original grant date valuation and the incremental compensation cost resulting from the modification) is recognized ratably over the employee's new requisite service period or nonemployee vesting period (Approach 2). The selection of either Approach 1 or Approach 2 is an accounting policy decision that must be consistently applied.	

Implications:
Because of the policy choice generally accepted under US GAAP, when an entity modifies the terms of an unvested share-based payment award that results in a longer service/vesting period as well as incremental compensation cost, the attribution of the remaining unrecognized compensation cost from the original award and the incremental compensation cost will differ between US GAAP and IFRS if the entity elects to apply Approach 2 under US GAAP. The use of Approach 2 will result in less compensation cost being recognized in earlier years.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

First-time adopters that have elected to apply Approach 2 under US GAAP will need to apply Approach 1 under IFRS 2 to all unvested share-based payment awards as of the transition date that were previously modified to extend the service/vesting period (which resulted in incremental compensation cost). This could result in the acceleration of compensation cost from what had been originally reported. Any difference would be recorded as an adjustment to APIC or liability with an offsetting entry to retained earnings in the first-time adopter's opening IFRS balance sheet.

7. Has the entity modified any share-based payment equity awards because the existing vesting conditions were improbable of achievement?	Yes ☐	No ☐

An entity may modify a share-based payment award so that the vesting condition goes from being improbable of vesting at the date of the modification to being probable of vesting (known as a Type III modification under ASC 718).

US GAAP — ASC 718-20-35-3 through 35-4, ASC 718-30-35-5 and ASC 718-20-55-116 through 55-117	**IFRS — IFRS 2.27 and IFRS 2.B42 through B44**
Compensation cost is based on the fair value of the modified award. Because the original award was improbable of vesting as of the modification date, that award is no longer relevant for accounting purposes. Thus, the original grant date fair value is ignored.	Modification accounting is applied. Compensation cost is based on the value of the original award plus any incremental increase in value measured as of the date of the modification. The determination of whether the original grant date fair value affects the measurement of compensation cost is based on the ultimate outcome (i.e., whether the original or modified conditions are met) rather than the probability of vesting as of the modification date.

Implications:

Under US GAAP and IFRS, a modification of an equity instrument's vesting terms affects the amount of total compensation cost to be recognized. However, the modification to a vesting condition when the award was not expected to vest at the modification date pursuant to the original terms is treated differently under the two standards. Under US GAAP, since the original vesting condition is not probable of achievement at the modification date, the original grant-date fair value is no longer used to measure compensation cost for the award. Rather, the modified award is treated as a new award, which may result in a lower fair value than the original grant date fair value.

In contrast, under IFRS 2, if the original vesting conditions of an award are not expected to be satisfied, but the modified vesting conditions are expected to be met, an entity would recognize the original grant date fair value of the award together with any incremental fair value resulting from the modification. If the modified vesting conditions are not met but the original vesting conditions were met, an entity still must recognize the original grant date fair value of the award. The fact that the original award is not expected to vest at the modification date does not factor into the final measure of the compensation cost. Consequently, to the extent that the original award's grant-date fair value exceeds the fair value of the modified award, compensation cost will be higher under IFRS than US GAAP.

Consider the following example:

- Entity A grants 1,000 share options to one employee of the sales department.
- The award vests upon the employee selling 150,000 units of product Z over a three-year explicit service period.
- Based on historical sales patterns and future forecasts, at the end of year 1, Entity A does not believe the awards are probable of vesting and modifies the sales target to 120,000 units of product Z.
- The fair value of the modified award is equal to the fair value of the original award immediately before the modification (no incremental compensation) but is less than the grant-date fair value of the original award.

Under ASC 718, because the modified award is not probable of vesting at the modification date, the final measurement of compensation cost will be based on the fair value of the modified award. In contrast, under IFRS 2, the original grant-date fair value of the award will be recognized if the award ultimately vests, which will result in a higher amount of compensation cost.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

If a first-time adopter modified a share-based payment award that is unvested as of the transition date, the first-time adopter must assess whether that previous modification was a Type III modification under ASC 718. If so, the first-time adopter will need to assess whether the modification accounting under ASC 718 is in compliance with IFRS 2 by determining whether there is any incremental compensation cost at the modification date. To the extent the fair value of the modified award exceeds the fair value of the original award immediately before the modification, that incremental compensation cost is recognized over the new service/vesting period with the grant date fair value of the original award being recognized over the remainder of the original vesting period. If there is no incremental compensation cost, the grant date fair value of the original award is recognized over the remainder of the vesting period. Any differences between the cumulative compensation costs recognized for unvested awards at the date of transition to IFRS determined in accordance with ASC 718 versus IFRS 2 is recognized as an adjustment to APIC with an offsetting entry to retained earnings.

8. Has the entity modified the terms of a share-based payment award after the employee has been terminated or when a nonemployee no longer provides goods or services?	Yes	No
	☐	☐

This situation could occur when the employee retains the share-based payment award after he/she is terminated, or the nonemployee retains the share-based payment award after he/she has stopped providing goods or rendering services, and the award is subsequently modified.

US GAAP — ASC 718-10-35-14 and ASC 718-10-35-9 through 35-11	**IFRS — IFRS 2.26 through 29**
A freestanding financial instrument originally issued to a grantee in exchange for goods or services received (or to be received) that is or was subject to ASC 718 continues to be subject to the recognition and measurement provisions of ASC 718 throughout the life of the instrument, unless its terms are modified when the holder is no longer an employee or a nonemployee vests in the award and is no longer providing goods or services. Such modifications would not include those accounted for as an equity restructuring meeting the conditions in ASC 718-10-35-9 through 35-11. Following the modification, the instrument is subject to other accounting literature (e.g., ASC 480-10, ASC 815).	While not specifically addressed in IFRS 2, share-based payment awards that are originally in the scope of IFRS 2 remain in the scope of IFRS 2 and do not become subject to other literature until they vest (share awards), are exercised (equity-settled option awards) or are settled (cash-settled awards). After vesting (or, for options, after exercise), the share held by the employee or nonemployee is no different from other shares issued by the entity and therefore is no longer subject to IFRS 2. However, the subsequent modification of the share should be evaluated as a separate transaction to determine whether it is in the scope of IFRS 2. Specifically, a modification of an existing share with one shareholder (or specified shareholders) for no consideration (or for goods

	or services) is generally a new share-based payment transaction in the scope of IFRS 2, whereas a modification to all shares held by a class of shareholders would *not* be in the scope of IFRS 2. If the modification is in the scope of IFRS 2, the share-based payment award remains in the scope of IFRS 2 until it becomes subject to other accounting literature as described above.

Implications:
Because the modification guidance in ASC 718 and IFRS 2 is similar, the accounting for the modification of an award after the employee has been terminated or a nonemployee no longer provides goods or services should be similar under US GAAP and IFRS. (See question 7 if the award was modified because the existing vesting conditions were improbable of achievement.) However, under US GAAP, because the award becomes subject to other literature after the modification that may require liability classification, differences may arise if that other literature has different accounting requirements than IFRS. (Note that under IFRS, depending on the award's terms, the award may or may not become subject to other literature.)

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

This accounting difference will most likely arise for vested share-based payment awards held by former employees or nonemployees. If a first-time adopter elects to apply IFRS 2 only to unvested awards at the transition date, then there will not be any adjustments to record in the opening balance sheet as a result of this US GAAP-IFRS difference. IFRS 1 permits retention of US GAAP accounting for awards that were vested as of the date of transition to IFRS.

9. Does the entity receive a tax deduction for its share-based payment plan?	Yes	No
	☐	☐

In many jurisdictions, an entity will receive a tax deduction for its share-based payment awards. For example, in the US, many entities will receive a tax deduction upon employee exercise of a nonqualified stock option, and that deduction generally is equal to the intrinsic value of the award on the date of exercise.

US GAAP — ASC 718-740-05-4, ASC 718-740-25-2 through 25-4, ASC 718-740-30-1 through 30-2 and ASC 718-740-35-2	**IFRS — IAS 12.68A through 68C and IAS 12 Appendix B, Example 6**
Deferred tax assets for awards that will result in a deduction are calculated based on the cumulative US GAAP expense recognized. In addition, entities recognize all excess tax benefits and tax deficiencies by recording them	Deferred tax assets are calculated based on the estimated tax deduction determined at each reporting date under applicable tax law (e.g., intrinsic value). If the tax deduction exceeds cumulative compensation cost for an individual award, the deferred tax effect on the excess is credited to

as income tax expense or benefit in the income statement.	shareholders' equity. If the tax deduction is less than or equal to cumulative compensation cost for an individual award, the deferred tax effect is recorded in income.

Implications:

The method for calculating deferred tax assets for share-based payment arrangements under US GAAP and IFRS differs significantly, including how the deferred tax benefit itself is calculated and the timing and amount (in certain circumstances) of income tax expense recognized in the statement of income.

Under US GAAP, the deferred tax benefit of a share-based payment arrangement that will result in a tax deduction (e.g., a nonqualified share option) and the related deferred tax asset are calculated based on the cumulative compensation cost recognized over the vesting period. The deferred tax asset is trued up or down upon realization of the tax benefit. A tax benefit is generally measured as the intrinsic value on the date of exercise (for a share option) or fair value at the vesting date (for a share award), multiplied by the entity's tax rate. The difference between the realized tax benefit and the deferred tax asset is reflected on the income statement (i.e., as an income tax benefit, if the realized benefit is larger than the deferred tax asset, or as an income tax expense, if the realized benefit is smaller than the deferred tax asset).

In contrast, under IFRS the deferred tax benefit of a share-based payment arrangement and the related deferred tax asset are calculated based on the estimated tax deduction determined at each reporting date under applicable tax law (e.g., intrinsic value) over the life of the share-based payment award. This results in the recognition of deferred tax assets only for those awards that have intrinsic value deductible for tax purposes at each reporting date. If the estimated (for reporting periods before the taxable event) or actual (for reporting periods when the taxable period occurs) tax deduction exceeds cumulative compensation cost, the deferred tax benefit is based on the excess over the book compensation and is credited to shareholders' equity. If the tax deduction is less than or equal to cumulative compensation cost, the deferred tax shortage is recorded in tax expense.

Because the actual deduction to be taken is estimated under IFRS based on current information at each reporting period, this will likely result in more volatility in deferred tax expense during the vesting period. However, under US GAAP, there may be more volatility in the deferred tax expense when the option is exercised, expires or is forfeited.

In addition to timing differences, there may be differences in the cumulative tax benefit/expense recognized under US GAAP and IFRS. If there is a tax deficiency, the income statement result under US GAAP would be identical to the result under IFRS. However, if there are excess tax benefits, those are recorded in shareholders' equity under IFRS, while US GAAP requires that all income tax effects be recorded in the income statement.

The differences mentioned above also may occur in share-based payment awards exchanged in a business combination under ASC 805 and IFRS 3. See question 4 in the "Business combinations" section of this publication for a discussion of share-based payment awards exchanged in a business combination.

Identified difference?

	Yes	No	Depends on policy election
	☐	☐	☐

Describe:
Click here to enter text.

IFRS 1 implications:

The first-time adopter will need to identify all outstanding, unexercised share-based payment arrangements, both vested and unvested, at the opening balance sheet date that are expected to provide a tax deduction. For each arrangement identified, the estimated tax deduction will be calculated by multiplying the intrinsic value as of the opening IFRS balance sheet date by the number of shares, options or similar instruments included in the arrangement. The estimated tax deduction, multiplied by the first-time adopter's tax rate, will represent the tax benefit recorded as a deferred tax asset in the opening IFRS balance sheet. Any difference between that amount and the deferred tax benefit recorded for the same awards under US GAAP is recognized in retained earnings and APIC (if the estimated tax deduction exceeds cumulative compensation cost multiplied by the tax rate).

10. Is the entity required to pay employer payroll or other employment taxes on employee share-based compensation arrangements?

Yes ☐ No ☐

In many jurisdictions, the entity is required to pay employer payroll or other employment taxes on share options and other share-based payment transactions with employees, just as if the employees had received cash remuneration. For example, in the US, an entity generally is required to pay payroll taxes on (1) the intrinsic value of nonqualified options on the exercise date and (2) the fair value of share awards on the vesting date.

US GAAP — ASC 718-10-25-22	IFRS
A liability for "employer-paid" payroll taxes on employee share-based payment awards should be recognized on the date of the event triggering the measurement and payment of the tax to the taxing authority (e.g., in the US, this is generally the exercise date for options and the vesting date for share awards).	Specific guidance does not exist under IFRS and there are several approaches applied in practice. An entity may adopt an approach that is consistent with the principles in the following standards to account for the liability for employee payroll taxes on employee share-based payment awards: ► IAS 37: The entity will recognize a provision for the employment tax in accordance with IFRIC 21, which requires identification of the activity that triggers the payment, as identified by the legislation. When IAS 37, as interpreted by IFRIC 21, is applied, there are different views on what constitutes the activity that triggers the payment (i.e., the granting of the award, the consumption of services received from employees, the event (typically exercise) that gives rise to a real tax liability or the vesting of the award). Entities applying IAS 37 therefore need to consider the appropriate treatment of employment taxes in light of IFRIC 21. ► IAS 19: If short-term, the liability would be recognized over the vesting period as the services are being performed. If long-term, the liability would be accounted for using the projected unit credit method.

	► IFRS 2: The payroll tax liability would be accounted for as a cash-settled share-based payment award, which would require the tax liability to be measured based on the fair value of the cash-settled award at each reporting date and recognized to the extent that the award has vested. However, the entity should choose an appropriate policy based on its particular facts and circumstances.

Implications:
The total expense ultimately recognized must always equal the tax paid; however, the allocation of the expense to different accounting periods may differ between US GAAP and IFRS depending on which approach is followed under IFRS. As discussed above, specific guidance does not exist under IFRS and there are several approaches applied in practice.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

Because the US GAAP requirement of recognizing the tax liability on the date that gives rise to the tax liability (i.e., generally the exercise date for options or the vesting date for shares) is an acceptable alternative under IFRS (if the first-time adopter elects to apply the IAS 37 approach), no adjustment may be required to the first-time adopter's opening IFRS balance sheet as of the transition date.

11. Does the entity repurchase (or net settle) shares upon exercise of share options (or the vesting of nonvested shares) to satisfy the entity's statutory withholding requirements?	Yes	No
	☐	☐

In many jurisdictions, the exercise of a nonqualified stock option or vesting of nonvested shares generates taxable income to the employee. For example, in the US, the IRS requires entities to withhold and remit tax based on this taxable income. Some plans allow employees to use shares received from the exercise to satisfy the tax withholding requirement. In effect, the entity repurchases a portion of the shares at fair value and, instead of giving the money to the employee, remits it on the employee's behalf to the government.

US GAAP — ASC 718-10-25-16 through 25-18	**IFRS — IFRS 2.33E through 33H**
The repurchase (or net settlement) of shares upon exercise of share options (or the vesting of nonvested shares) to satisfy the employer's statutory withholding requirements does not, by itself, result in liability classification of instruments that would otherwise be classified as equity.	IFRS 2 permits an entity with a withholding obligation that settles a share-based payment arrangement net by deducting a specified portion of the equity instruments so it can meet the employee's tax obligation to classify the transaction as equity-settled in its entirety,

However, if the amount withheld (or that may be withheld at the employee's discretion) is in excess of the maximum statutory tax rates in the employees' applicable jurisdiction(s), the entire award should be classified and accounted for as a liability. If a broker is used to facilitate the sale of shares to third parties to fund the tax withholding obligation, then the employer has neither repurchased nor net settled the shares received upon exercise of the share options. The entire award should be classified as equity as long as (1) a valid exercise of the share options is required and (2) the employee is the legal owner of the shares subject to the option. In addition, if the broker is a related party of the entity, the broker must sell the shares in the open market within a normal settlement period, which is generally three days.	assuming the entire share-based payment would otherwise be classified as an equity-settled share-based payment if it had not included the net settlement feature. Any shares withheld in excess of the employee's tax obligation should be accounted for as a cash-settled share-based payment. The US GAAP exception to account for the award as equity-settled as long as no more shares are withheld than is required to satisfy the employer's maximum statutory withholding requirement does not exist under IFRS. However, we believe that if the entity arranged for a broker to sell the shares withheld in the market on the employee's behalf and at the employee's election and used the cash proceeds from that sale to satisfy the minimum statutory holding requirements, the entire award may be accounted for as equity-settled because the cash used to satisfy the employee's tax obligation is coming from the market instead of the entity. Under this view, the entity has not repurchased the shares, so the award is not cash-settled.

Implications:
To the extent that an entity repurchases shares equal to the statutory amount required to net settle the award, the entire award would be classified as equity under both US GAAP and IFRS. However, if the entity repurchases a greater number of shares than is required to net settle the award (but still within the maximum statutory limit), differences may arise. In this scenario, the full award would continue to be classified as equity under US GAAP, while the excess shares (i.e., those greater than the amount required to remit to the taxing authority) would be classified as a liability under IFRS. In addition, if an amount in excess of the maximum statutory tax rate in the employee's applicable jurisdiction(s) is withheld or may be withheld at the employee's discretion, differences in total compensation cost under US GAAP and IFRS will arise. This is because, under IFRS, the portion of the award relating to the excess shares withheld would be classified as a liability and the remaining portion of the award would be classified as equity, while under US GAAP the entire award would be classified as a liability.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

If a first-time adopter plans or is obligated to repurchase shares (or net settle) upon exercise of share options (or the vesting of nonvested shares) to satisfy its statutory withholding requirements (up to the amount of the maximum statutory tax rate in the employee's applicable jurisdiction(s)) and the share-based payment award is unvested as of the transition date, the first-time adopter will be required to determine the appropriate classification of the award under IFRS.

The first-time adopter must classify and account for the portion of the award relating to the number of shares in excess of the amount required for actual tax settlement as a liability with the remaining portion being classified and accounted for as an equity award. Any adjustment to the share-based payment award should be recorded as an adjustment to the liability and APIC, as applicable, with an offsetting entry to retained earnings in the opening IFRS balance sheet.

In measuring the fair value of the liability on the transition date, the inputs used in the option-pricing model should be based on conditions that existed as of the transition date.

If a broker arrangement is in place to facilitate the sale of shares to third parties to fund the tax withholding obligation and the conditions for equity classification are met, no adjustment would be required under IFRS.

12. Does the share-based payment award include a condition other than a service, performance or market condition? Yes ☐ No ☐

An example of such an award is an option that vests based on the increase in a commodity index. For example, a grantee will earn the award only if a commodity index rises by 10% over three years. Another example is an option whose exercise price is indexed to inflation. These features are commonly referred to as "other" conditions under US GAAP. Under IFRS, conditions that are not service or performance conditions are considered "nonvesting conditions."

US GAAP — ASC 718-10-25-13	**IFRS — IFRS 2.21A and IFRS 2.28A**
If an award is indexed to a factor in addition to the grantor's share price, and the additional factor is not a market, performance or service condition, the share-based payment award is classified and accounted for as a liability. The "other" condition is factored into the fair value estimate of the award.	A nonvesting condition is a condition not considered to be a vesting condition as defined in IFRS 2. Vesting conditions include service and non-market performance conditions. A nonvesting condition under IFRS does not trigger liability classification. The nonvesting condition is factored into the fair value measurement of the award.
"Other" condition is met	*Nonvesting condition is met*
Compensation cost is recorded over the vesting period and the award is marked to fair value at the end of each reporting period until settled.	Compensation cost is recorded over the employee vesting period based on the award's grant date fair value.
"Other" condition is not met	*Nonvesting condition is not met*
No compensation cost is recognized because the fair value of the liability is zero.	If the nonvesting condition *is* within the control of the entity or counterparty, the failure to satisfy the nonvesting condition is accounted for as a cancellation (i.e., accelerate all remaining compensation cost immediately). If the nonvesting condition *is not* within the control of the entity or counterparty, compensation cost for the award continues to be

	spread over the employee vesting period based on the award's grant date fair value.

Implications:

Both IFRS 2 and ASC 718 provide guidance for features in share-based payment awards that are not service, performance or market conditions. IFRS 2 defines these features as "nonvesting" conditions and provides specific guidance regarding the measurement and attribution of compensation cost for awards with these conditions.

In contrast, ASC 718 provides guidance regarding the balance sheet classification of awards that are indexed to something that is not a service, performance or market condition. The measurement and attribution of compensation cost for awards containing these features (commonly known as "other" conditions) is based on the guidance for liability classified awards in ASC 718 (i.e., the award is measured at fair value each reporting period until the earlier of the satisfaction of the condition or the settlement of the award).

Many features that are considered "other" conditions under ASC 718 will qualify as "nonvesting" conditions under IFRS 2, and vice versa. For example, an award that vests based on the achievement of an increase in a commodity index will likely be considered a nonvesting condition under IFRS 2 and an "other" condition under ASC 718. However, because "other" conditions and nonvesting conditions are different concepts under US GAAP and IFRS, respectively, that may not always be the case. For example, consider a share-based payment award that includes a noncompete clause whereby the vested award will be forfeited if the employee terminates employment and goes to work for a competitor within a stated timeframe. That noncompete clause would qualify as a nonvesting condition under IFRS 2 but would not qualify as an "other" condition under ASC 718 (see question 13 for further information about noncompete clauses).

Even if an award contains a feature that is considered an "other" condition under ASC 718 and a nonvesting condition under IFRS 2, the final measure of compensation cost for the award likely will differ under both standards. This is because IFRS 2 does not require liability classification of the award simply because of the "nonvesting" condition and, therefore, its classification will be based on the general classification guidance of IFRS 2. In contrast, under US GAAP, share-based payment awards containing "other" conditions are classified as liabilities, which likely will result in the recognition of a different amount of compensation cost if the "other" condition is met because compensation cost will be measured at the earlier of the satisfaction of the condition or the settlement of the award. If the other condition is not met, then no compensation cost is recognized because the fair value of the liability is zero.

Under IFRS 2, because share-based payments to nonemployees generally are measured based on the fair value of the goods or services received, the implication of the nonvesting condition for such awards would be in the application of IFRS 2.13A, which requires the grantor to recognize an expense for any unspecified good or service being the excess of the fair value of the award over the fair value of the goods and/or services.

Identified difference?

	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

A first-time adopter that has unvested share-based payment awards, including those containing “other” conditions under ASC 718, will need to evaluate whether the awards contain nonvesting conditions under IFRS 2. If the award contains a nonvesting condition, but did not previously contain an “other” condition under US GAAP and was classified as an equity award, then the grant-date fair value of the award will need to be revised to incorporate the nonvesting condition. All other assumptions previously used to estimate the grant-date fair value should not be revised unless those assumptions were in error. If an award contains a nonvesting condition that was previously considered an “other” condition under US GAAP, then the award will need to be reclassified from a liability award to an equity award (as long as the award is not otherwise considered cash-settled under IFRS 2), which will likely change the amount of cumulative compensation cost that should have been recognized as of the opening IFRS balance sheet date. Any differences between the cumulative compensation cost recorded under US GAAP and the amount that would have been recorded under IFRS 2 should be recorded as an adjustment to eliminate the liability and to recognize APIC with an offsetting entry to retained earnings.

13. Has the reporting entity granted a share-based payment award that includes a noncompete clause?	Yes ☐	No ☐

Entities may grant share-based payment awards with noncompete clauses that contain a contingent feature whereby if an employee terminates employment or a nonemployee ceases to provide goods or services and immediately (or within a specified period) establishes a relationship with a competitor, he or she will be required to return all share-based payment awards previously granted and earned (i.e., a clawback).

US GAAP — ASC 718-10-30-24 and ASC 718-20-35-2	**IFRS — IFRS 2.21A and IG24**
Because the noncompete clause is a contingent feature that might cause a grantee to return to the entity either equity instruments earned or realized gains from the sale of equity instruments earned for consideration that is less than fair value on the date of transfer (including no consideration), it generally should be accounted for if and when the contingent event occurs. The noncompete clause is not factored into the fair value estimate of the award.	We believe that the noncompete clause is a nonvesting condition and, therefore, it is factored into the fair value estimate of the award. See question 12 for a further discussion of nonvesting conditions.

Implications:

Under US GAAP, noncompete clauses are not reflected in the fair value of the share-based payment award. The noncompete clause is generally accounted for if and when it occurs. Conversely, we believe IFRS 2 views noncompete clauses as a nonvesting condition; as such, it would be reflected in the fair value measure of the share-based payment award. This will result in a different amount of compensation being recognized. This difference is further illustrated in the following example:

A share award is granted with a three-year cliff vesting condition. The award has a noncompete condition stating that the employee will have to give any vested shares back (i.e., a clawback) if he or she leaves the entity and goes to work for a competitor within two years following employment termination. Under US GAAP, the noncompete clause is not factored into the grant-date fair value of the share-based payment award. The clawback of the award resulting from violating

the noncompete is accounted for if and when it occurs, resulting in a reduction to the previously-recognized compensation cost to the extent of the fair value of the shares at the date of forfeiture.

Under IFRS, we believe that the noncompete condition is factored into the grant-date fair value because it is a nonvesting condition. That value would be recognized over the three-year vesting period. If the employee leaves anytime in those three years, the compensation cost would be reversed. However, if he or she stays, earns the award, then subsequently leaves the entity and begins to compete, he or she would have to return the shares. The return of those shares would be treated as an equity transaction. There would be no reversal of cost. Because this was an award where the condition (not competing) was not attained and the ability to achieve the condition was in the employee's control, the violation of the noncompete provision would be treated as a cancellation, with acceleration of any remaining compensation cost. Because compensation cost has been fully recognized prior to the violation of the noncompete provision, there is no additional compensation cost to recognize.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

First-time adopters that have unvested share-based payment awards containing contingent features, such as a noncompete agreement with a clawback requirement, will need to account for those awards following the guidance for nonvesting conditions under IFRS. This will result in a remeasurement of the award's grant-date fair value to include this nonvesting condition, which will likely change the amount of cumulative compensation cost recognized as of the opening IFRS balance sheet date. Any differences between the cumulative compensation cost recorded under US GAAP and the amount that would have been recorded under IFRS 2 will be reflected in the opening IFRS balance sheet as an adjustment to APIC or a liability with an offsetting entry to retained earnings.

14. Has the entity granted share-based payment awards that can be cash-settled upon a contingent event?	Yes	No
	☐	☐

Some share-based payment awards include provisions that allow the award to be cash-settled upon certain contingent events (e.g., change in control, IPO, death of a grantee) that are outside of the control of both the grantor and grantee.

US GAAP — ASC 718-10-25-11 through 25-12 and ASC 718-10-35-15	**IFRS**
An award where the grantee has a contingent right to sell the shares back to the grantor (a put option) may be classified as an equity award, provided that the contingent event is outside the control of the grantee and is not considered probable of occurring while the shares are immature (i.e., held for less than six months) and the award contains no other features that would require liability classification.	IFRS 2 does not contain specific guidance. However, awards with contingent cash settlement features have been considered by both the IFRS IC and the IASB and may: ► Be classified as an equity award provided that the contingent event is outside the control of both the entity and counterparty, is not considered probable of occurring and contains no other features that would require liability classification. This approach is based

An award where the grantor has a contingent right to buy the shares back from the grantee (a call option) may be classified as an equity award, provided it is not probable that the contingent event will occur or the grantor will exercise the call feature while the shares are immature. The probability assessment must be performed at the end of each reporting period, which may result in a change in the award's classification from equity to a liability.	on the application of the principles in IAS 37, which requires a liability to be recognized only when it is probable of occurring (i.e., more likely than not) (Approach 1) ► Be classified as a cash-settled award if the contingent event is outside the control of the entity (Approach 2) ► Be treated as two mutually exclusive awards, one equity-settled and one cash-settled, with the ultimate accounting depending on which settlement method is probable (Approach 3)
	When applying Approach 1, the probability assessment must be performed at the end of each reporting period, which may result in a change in the award's classification from equity to a liability. The probability assessment for Approach 3 must also be performed at the end of each reporting period. An entity may adopt any of these accounting treatments, but should do so consistently and state its policy for accounting for such transactions if material.

Implications:
There could be a difference in application of the models due to the difference in the definitions of "probable." As also discussed in question 1 in the "Contingencies, exit or disposal costs, and asset retirement obligations" section of this publication, under US GAAP, the term probable is defined as "likely." IFRS defines it as "more likely than not," which is a lower threshold than under US GAAP.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

If a first-time adopter classified an unvested share-based payment award with a contingent cash settlement feature as an equity award under its previous GAAP, because IFRS 2 also would permit equity classification, no adjustment would be required to the first-time adopter's opening IFRS balance sheet as of the transition date. We believe that it would be rare that the first-time adopter would elect the IFRS alternative (Approach 2 above) and account for the award as a cash-settled award.

15. Does the share-based payment award contain a cash repurchase feature at fair value at the grantee's election?

Yes ☐ No ☐

For example, the share-based payment award may contain a put feature that enables the grantee to sell the shares back to the grantor at fair value on the repurchase date beginning six months after the date the equity is issued or vests.

US GAAP — ASC 718-10-25-9 and ASC 718-10-25-10	IFRS — IFRS 2.30
Liability classification is not required if the grantee bears the risks and rewards of ownership of a share acquired under a share-based payment award for six months or more from the date the shares are issued or vest. In many cases, such awards will be classified by SEC registrants outside of permanent equity (i.e., between liabilities and equity, generally characterized as "temporary" or "mezzanine" equity) in accordance with Accounting Series Release (ASR) 268, *Presentation in Financial Statements of "Redeemable Preferred Stocks*," and its related interpretations.	Liability classification is required (i.e., no six-month consideration exists). Liability awards must be remeasured at fair value at each reporting date until settled.

Implications:

Differences between US GAAP and IFRS will arise if the grantee bears the risks and rewards of ownership for six months or more from the date the shares are issued or vest. For example, assume that an entity grants share options to its employees (or nonemployees) and the award provides the employees (or nonemployees) the right to put the underlying shares to the entity for cash equal to the fair value of the shares on the put date. If the put cannot be exercised until six months after the share options are exercised, this award would be classified as an equity award under US GAAP (because the employee (or nonemployee) bears the risks and rewards of ownership for a reasonable period of time) and a liability award under IFRS.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

IFRS 1 implications:

To the extent that such unvested share-based payment awards have been classified within permanent or temporary equity as of the transition date under its previous GAAP, a first-time adopter will be required to classify these awards as liabilities in its opening IFRS balance sheet and account for them as such prospectively from that date. Any adjustment upon transition should be recorded as an adjustment to the liability, and APIC or "temporary" equity, as appropriate, with an offsetting entry to retained earnings.

16. Does the entity's share-based payment plan provide an equity repurchase feature at fair value at the grantor's election?

Yes ☐ No ☐

For example, the share-based payment award may contain a call feature that enables the grantor to buy shares back from the grantee at fair value on the repurchase date beginning six months after the date the equity is issued or vests.

US GAAP — ASC 718-10-25-9 through 25-10	IFRS — IFRS 2.41 through 43
Liability classification is required if it is probable that the grantor would prevent the grantee from bearing the risks and rewards of ownership for a reasonable period of time (i.e., repurchase the shares within a six-month period from the date the equity is issued or vests). We believe the probability assessment should be based on: ► The grantor's stated representation that it has the positive intent not to repurchase immature shares (i.e., shares held for less than six months) ► All other relevant facts and circumstances This probability assessment should be made at the end of each reporting period on an individual grantee-by-grantee basis.	Liability classification is required if the entity has a present obligation to settle in cash. Under IFRS, an entity has a present obligation to settle in cash if the choice of settlement in equity instruments has no commercial substance (e.g., because the entity is legally prohibited from issuing shares), or the entity has a past practice or a stated policy of settling in cash. The assessment of whether the entity has a present obligation to settle in cash should be made at the end of each reporting period on an individual counterparty-by-counterparty basis.

Implications:

In general, if it is probable that a grantor will exercise its fair value repurchase right within a six-month period from the date the equity is issued or vests, then both ASC 718 and IFRS 2 will require the share-based payment award to be classified and accounted for as a liability. However, if a grantor can demonstrate equity classification under ASC 718 based on the criteria listed above, differences between US GAAP and IFRS may arise because the six-month consideration does not exist in IFRS. Further, if a grantor has a present obligation to settle in cash, even if beyond the six-month period, liability classification would be required under IFRS 2.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

IFRS 1 implications:

To the extent that such unvested share-based payment awards have been classified as equity awards as of the transition date, the first-time adopter must determine whether the award's current classification is appropriate under IFRS 2 as of that date. Any adjustment resulting from a change in the award's classification should be recorded as an adjustment to the liability and APIC with an offsetting entry to retained earnings in the opening IFRS balance sheet.

17. Would the entity that is issuing share-based payment awards qualify as a nonpublic entity under ASC 718?	Yes ☐	No ☐

Under ASC 718, a nonpublic entity is any entity other than one (1) whose equity securities trade in a public market either on a stock exchange (domestic or foreign) or in the over-the-counter market, including securities quoted only locally or regionally, (2) that makes a filing with a regulatory agency in preparation for the sale of any class of equity securities in a public market or (3) that is controlled by an entity covered by (1) or (2). An entity that has only debt securities trading in a public market (or that has made a filing with a regulatory agency in preparation to trade only debt securities) is also a nonpublic entity for purposes of ASC 718.

US GAAP — ASC 718-10-30-19A through 30-20B and ASC 718-30-30-2	**IFRS — IFRS 2**
ASC 718 provides different measurement alternatives and practical expedients for nonpublic entities, including: ► Allowing measurement of liability awards at intrinsic, rather than fair value (as an accounting policy election). ► Allowing measurement of share options and similar instruments using a “calculated value” (which substitutes the volatility of an appropriate industry sector index for the volatility of the entity’s own share price) when the entity is unable to estimate its expected volatility. ► Allowing nonpublic entities to make an entity-wide accounting policy election to estimate the expected term for awards with performance or service conditions using a practical expedient if they meet certain criteria as described in ASC 718-10-30-20B. The election of this practical expedient is required for nonemployee awards to be consistent with the employee awards. However, for nonemployee awards, entities may always elect to use the contractual term on an award-by-award basis. ► Allowing nonpublic entities to determine, on a measurement-date-by-measure-date basis, the current price of an underlying share for valuing equity-classified share-based payment awards by using the reasonable application of a reasonable valuation method. A share price calculated in this manner may be used for 12 months from the	IFRS does not differentiate between public or nonpublic entities.

measurement date unless information that may materially affect the value of the nonpublic entity becomes available.	

Implications:
Because US GAAP provides different measurement alternatives and practical expedients for nonpublic entities, this may result in the recognition of a different amount of compensation cost.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

First-time adopters that meet the definition of a nonpublic entity must determine if they have applied any of the measurement alternatives or practical expedients permitted by ASC 718 to any unvested share-based payment awards as of the transition date. If applied, and such measurement alternatives or transition requirements do not comply with IFRS 2, any difference between the cumulative compensation cost recorded under US GAAP and the amount that would have been recorded under IFRS 2 should be reflected in the opening IFRS balance sheet as an adjustment to the liability or APIC, as applicable, with an offsetting entry to retained earnings.

18. Does the entity have an employee stock purchase plan (ESPP) that allows employees to buy the entity's stock over a period of time at a discount from the market price at the date of grant?	Yes	No
	☐	☐

ESPPs generally provide a broad group of employees the right to acquire employer stock through payroll deductions. A typical plan (e.g., one that qualifies for favorable tax treatment under Section 423 of the Internal Revenue Code (a "Section 423 Plan")) allows employees to buy the employer's stock over a period of time (e.g., two years) at a discount from the market price at the date of grant.

US GAAP — ASC 718-50-25-1	**IFRS — IFRS 2.4, BC8 through BC17, IG15A and IG17**
Compensation cost is not recognized if the following conditions are met: ► The plan satisfies at least one of the following two conditions: ► The terms of the plan are no more favorable than those available to all holders of the same class of shares. ► Any purchase discount from the market price does not exceed the per-share amount of share issuance costs that would have been incurred to raise a significant amount of capital by a public offering. A purchase discount of 5% or	Compensation cost is measured in the same way as any other employee share-based payment award.

less from the market price is considered to comply with this condition without further justification. A purchase discount greater than 5% that cannot be justified under this condition results in compensation cost for the entire amount of the discount. ► Substantially all employees that meet limited employment qualifications may participate on an equitable basis. ► The plan incorporates no option features, other than the following: ► Employees are permitted a short period of time (not exceeding 31 days) after the purchase price has been fixed to enroll in the plan. ► The purchase price is based solely on the market price of the shares at the date of purchase, and employees are permitted to cancel participation before the purchase date and obtain a refund of amounts previously paid (such as those paid by payroll withholdings).	

Implications:

It is possible that an ESPP for which IFRS 2 requires recognition of compensation cost would not be considered compensatory under ASC 718. However, because many ESPPs are compensatory under ASC 718 (i.e., the ESPP failed one of the criteria above), compensation cost will generally be recognized under both IFRS and US GAAP.

In addition, the requirement to make contributions to the ESPP is a nonvesting condition under IFRS 2. Because the nonvesting condition is within the control of the employee, if the employee elects to cancel his/her participation in the ESPP and obtain a refund of amounts previously paid, this would be treated as a cancellation under IFRS 2 and any unrecognized compensation cost would be recognized immediately. (See question 12 for more information about nonvesting conditions.) Under US GAAP, similar accounting would be applied when the employee cancels his/her participation in the ESPP that has been deemed compensatory under ASC 718.

Identified difference?

	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

Because both US GAAP and IFRS typically result in ESPPs being treated as compensatory, no adjustment would be required to the first-time adopter's opening IFRS balance sheet as of the transition date. However, a transition adjustment would result if the ESPP was not compensatory under US GAAP.

19. Has the entity modified the terms and conditions of an award that changes its classification from liability to equity?	Yes ☐	No ☐

A modification may change the balance sheet classification of an award. For example, an entity may modify an award by replacing a cash settlement feature with a net share settlement feature. Under both US GAAP and IFRS, this converts the award from a liability-classified award to an equity-classified award because the entity no longer has an obligation to transfer cash to settle the arrangement.

US GAAP — ASC 718-20-55-135 through 55-138	**IFRS — IFRS 2.B44A**
On the date of modification, the entity compares the fair value of the instrument immediately before the modification to the fair value of the modified award and recognizes any additional compensation cost. The modified award would be accounted for as an equity award from the date of modification until the settlement date.	On the date of modification, the entity: ► Measures the equity-settled share-based payment transaction by reference using the modification-date fair value of the equity instruments granted ► Recognizes the equity-settled share-based payment transaction in equity on the modification date to the extent to which goods or services have been received ► Derecognizes the liability for the cash-settled share-based payment transaction at the modification date ► Recognizes any difference between the carrying amount of the liability derecognized and the amount recognized in equity on the modification date immediately in profit or loss

Implications:

Under both US GAAP and IFRS, the modification is effectively accounted for as the grant of an equity award in settlement of a liability. However, the compensation cost differs under US GAAP and IFRS.

Under US GAAP, the liability instrument is remeasured to fair value, and that together with any incremental value from the modification becomes the fair value of the equity instrument. The carrying amount of the liability (i.e., the portion of the award related to the requisite service provided to date) is reclassified to equity, and the modified award is recognized as equity over the remaining requisite service period.

Under IFRS, the liability instrument is derecognized (before remeasurement), and an equity instrument is measured at fair value at the modification date (as if a new equity award). As a result, the entity must account for any difference between the carrying amount of the liability derecognized and the new modification-date fair value of the equity award.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

If any unvested share-based payment awards outstanding at the transition date have been modified in the manner discussed in this section, the first-time adopter must account for the modification following the guidance in IFRS 2. Any adjustment resulting from a change in the accounting should be recorded as an adjustment to APIC with an offsetting entry to retained earnings in the opening IFRS balance sheet.

Employee benefits other than share-based payments

Similarities:

Under both US GAAP and IFRS, the cost recognized for 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, most notably that the defined benefit obligation is the present value of benefits that have accrued to employees for services rendered through that date based on actuarial methods of calculation. Additionally, both US GAAP and IFRS require the funded status of the defined benefit plan to be recognized on the balance sheet as the difference between the present value of the benefit obligation and the fair value of plan assets, although IAS 19 limits the net asset recognized for overfunded plans.

Primary US GAAP	Primary IFRS
► ASC 715, *Compensation — Retirement Benefits* ► ASC 712, *Compensation — Nonretirement Postemployment Benefits* ► ASC 710, *Compensation — General*	► IAS 19 *Employee Benefits* ► IFRIC 14 *IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

Standard setting activities:

There is no significant standard setting activity in this area.

Differences:

Defined benefit and contribution plans

	Yes	No
1. Does the reporting entity have defined benefit pension or other postretirement benefit obligations denominated in currencies in which a deep market for high-quality corporate bonds is not available to determine the discount rate for the benefit obligation?	☐	☐

US GAAP — ASC 715-30-35-43 through 35-44, ASC 715-60-35-79 through 35-82, ASC 715-20-S55-1 and ASC 715-20-S99-1	IFRS — IAS 19.83 through 86
Employers typically look to rates of return on high-quality (generally interpreted to be an instrument that receives one of the two highest ratings given by a recognized rating agency) fixed-income investments currently available and expected to be available when the postretirement benefits are expected to be paid to participants. Different methods exist for determining the discount rate, including spot-rate yield curves and a hypothetical bond portfolio.	The rate used to discount the defined benefit obligation should be determined by reference to the market yields at the end of the reporting period on high quality (we interpret this to be an instrument that is rated AA or better) corporate bonds that are denominated in the same currency as the defined benefit obligation.

	If a deep market for such bonds does not exist, the yield from government bonds denominated in that currency should be used. The assessment of whether a deep market for bonds exists should be made at a currency level and should not be determined on a country level or an entity-by-entity basis.

Implications:
Employers may operate in countries or regions where there are not enough high-quality corporate bonds that are denominated in the currency of the obligation available to match the estimated timing of future benefit payments. In this situation, IAS 19 states that market yields (at the end of the reporting period) from government bonds denominated in the same currency should be used. US GAAP does not contain a requirement to use market yields from government bonds. Consequently, the discount rate determined for a benefit plan denominated in a currency without a deep market for high-quality corporate bonds will be different under US GAAP and IAS 19.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

This difference will most likely affect the measurement of the benefit obligation for employers with benefit plan obligations denominated in currencies in which a deep market for high-quality corporate bonds might not exist. Current US GAAP reporting entities with plans in foreign jurisdictions will need to consider this difference upon transition to IFRS. It is important that first-time adopters verify that their actuaries understand this difference with regard to determining the discount rate.

2. Does the reporting entity develop its discount rate assumption using a spot rate yield curve or hypothetical bond portfolio (also known as the specific bond matching approach)?	Yes	No
	☐	☐

US GAAP and IFRS both require a plan sponsor to consider the effect of the time value of money by using a discount rate when calculating the defined benefit obligation of a postretirement benefit plan.

Neither US GAAP nor IFRS specify the method that must be used to determine the discount rate. Different methods exist in practice. Spot rate yield curves are developed such that the spot rates at various points along the curve can be used to discount the plan's expected future cash outflows. Alternatively, the discount rate produced by a hypothetically constructed bond portfolio is developed using individual bonds that are selected to generate cash inflows (coupon interest and principal payments) that match the plan's expected cash outflows for benefit payments. Both the spot rate yield curves or hypothetical bond portfolio are acceptable methods to develop the discount rates assumption under US GAAP, whereas employers that report under IFRS generally are not permitted to use yield curves that disproportionately exclude bonds at the higher and lower ends of the range (e.g., 40th to 90th percentile curve) or the hypothetical bond matching approach because those methods may not comply with IAS 19's requirement that employers select assumptions that are unbiased.

US GAAP — ASC 715-30-35-42 through 35-46, ASC 715-30-55-23 through 55-34, ASC 715-60-35-71 through 35-83, and ASC 715-60-55-4	IFRS — IAS 19.75 through 86
ASC 715 states that employers are required to use assumed discount rates that reflect the rates at which the pension benefits could be *effectively settled*. Employers typically look to rates of return on high-quality fixed-income investments currently available and expected to be available during the period to maturity of the pension benefits. It may also be appropriate in estimating those rates to look to available information about rates implicit in current prices of annuity contracts that could be used to effect settlement of the obligation (including information about available annuity rates published by the Pension Benefit Guaranty Corporation).	IAS 19 prescribes that the rate used to discount post-employment benefit obligations (both funded and unfunded) should be determined by reference to market yields at the end of the reporting period on high-quality corporate bonds. For currencies for which there is no deep market in such high-quality corporate bonds, the market yields (at the end of the reporting period) on government bonds denominated in that currency must be used. The currency and term of the corporate bonds or government bonds must be consistent with the currency and estimated term of the post-employment benefit obligations. In addition, IAS 19 requires employers to select assumptions that are unbiased and mutually compatible. Actuarial assumptions are unbiased if they are neither imprudent nor excessively conservative, and mutually compatible if they reflect the same expected economic outlook.

Implications:

The discount rates assumption generally can have a significant effect on the benefit cost and obligation of a plan. ASC 715-30-55-25 states that the assumed discount rates should not be selected arbitrarily from within a range but should reflect the best estimate of the interest rates at which the benefit obligation could be effectively settled at that point in time. Under US GAAP's explicit approach, the employers' objective is to select assumed discount rates using a method that is consistent with the manner in which they expect to settle the benefit payments. In contrast, IAS 19 rejects the use of the settlement approach to selecting the discount rate (as noted in paragraph 129 of the Basis for Conclusions) and requires employers to use their best estimate to select actuarial assumptions that are unbiased.

In practice, the discount rates assumption generally would be unbiased under IAS 19 if the make-up of the corporate bonds used to determine the spot rate yield curves is representative of the "universe" of bonds denominated in the currency of the obligation and available in the jurisdiction that the benefits are expected to be paid. The population of the bonds should not exclude outliers based on a skewed selection process that disproportionately excludes bonds at the higher and lower ends of the range (with limited exceptions). Due to the different requirements in selecting the discount rate, employers using spot rate yield curves or hypothetical bond matching approaches under US GAAP should examine whether their approach is also acceptable under IAS 19.

Identified difference?

	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

Current US GAAP reporting entities will need to consider this difference upon transition to IFRS. It is important that first-time adopters verify that their actuaries understand this difference with regard to the requirements for determining the discount rates.

3. Does the reporting entity have actuarial gains and losses associated with its defined benefit plan?	Yes ☐	No ☐

US GAAP — ASC 715-30-35-18 through 35-20, ASC 715-30-35-24 through 35-26, ASC 715-60-35-23 through 35-32, and ASC 715-60-35-34 through 35-36	**IFRS — IAS 19.120, IAS 19.122 and IAS 19.127 through 130**
Actuarial gains and losses recorded in AOCI (excluding asset gains and losses not yet reflected in market-related value) are recognized in net income in subsequent reporting periods. Under this deferral approach, the minimum amount of actuarial gains and losses to be recognized in net periodic benefit cost is calculated as the amount of the net gain or loss that exceeds 10% of the greater of the benefit obligation or the market-related value of plan assets measured at the beginning of the year (known as the corridor approach). Deferred actuarial gains and losses outside the 10% corridor are amortized over the average remaining service period of active employees or, when all or almost all participants are inactive, over the average remaining life expectancy of those participants. Any systematic method of amortizing net actuarial gains and losses may be used in lieu of the minimum determined by the method specified above provided that (1) the minimum is used in any period in which the minimum amortization is greater (reduces the net balance included in AOCI by more), (2) the method is applied consistently and (3) the method is applied similarly to both gains and losses. Actuarial gains and losses also may be recognized immediately in net income. The choice in approaches is an accounting policy election.	Remeasurement gains and losses, including actuarial gains and losses, must be recognized immediately in OCI and are not subsequently recognized (or recycled) into net income.

Implications:
Under US GAAP, all actuarial gains and losses are recognized in net income (either immediately or in future periods after they are initially recognized in OCI based on the employer's accounting policy election). In contrast, remeasurement gains and losses, including actuarial gains and losses, will

never be recognized in net income under IAS 19 because remeasurement gains and losses must be recognized in OCI as they occur and are not subsequently recognized in net income.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

At the date of transition to IFRS, first-time adopters will begin recording actuarial gains and losses immediately through OCI.

4. Does the reporting entity have prior service costs or credits associated with amendments to its defined benefit plan?	Yes	No
	☐	☐

US GAAP — ASC 715-30-35-10 through 35-11, ASC 715-30-35-13 through 35-14, ASC 715-30-35-17 and ASC 715-60-35-13 through 35-20	**IFRS — IAS 19.102 through 108**
Prior service costs are initially deferred in AOCI and are recognized in net income in subsequent periods. For benefit increases (positive plan amendments), the amortization of prior service costs occurs over the average remaining service period of active employees or over the average remaining life expectancy of inactive participants (if all or almost all participants are inactive). For benefit decreases (negative plan amendments), unrecognized prior service “credits” are first offset against any remaining unrecognized prior service costs in AOCI. Any remaining prior service credits are then recognized in net income on the same basis as prior service costs.	Past service costs from plan amendments that increase or decrease vested or unvested benefits are recognized immediately in net income at the earlier of when the related plan amendment occurs or when the entity recognizes related restructuring costs or termination benefits (see question 9).

Implications:

Under US GAAP, prior service costs or credits are generally recognized on a prospective basis, typically over the average remaining service period of active employees. Under IAS 19, those costs or credits (referred to as “past service costs”) must be recognized immediately.

Examples of benefit plans where past service costs are likely to exist include:

- A benefit plan with periodic benefit improvements, such as a collectively bargained plan
- A frozen pension plan, under which benefit improvements (such as ad hoc cost-of-living adjustments) are provided to inactive participants
- Any benefit plan with a significant change that increases or decreases benefits

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

IFRS 1 implications:

First-time adopters will have to recognize any unrecognized past service costs or credits immediately in retained earnings upon adoption of IFRS.

5. Does the reporting entity use an actuarial method other than the projected unit credit method to estimate the present value of its liability for defined benefit plans? Yes ☐ No ☐

Different methods exist to estimate the cost of defined benefits recognized in the period due to an employee's service. For example, the traditional unit credit method estimates the cost of defined benefits based on the employee's actual history of compensation to-date. In contrast, the projected unit credit method estimates the costs of defined benefits based on the employee's estimated future — and presumably higher — compensation levels.

US GAAP — ASC 715-30-15-3, ASC 715-30-35-34, ASC 715-30-35-36 through 35-38, ASC 715-30-35-71 through 35-72, ASC 715-30-55-7, ASC 715-60-35-62, ASC 715-60-35-66, ASC 715-60-35-68 and ASC 715-60-35-70	**IFRS — IAS 19.67 through 69**
Different methods are required depending on the characteristics of the plan's benefit formula. For example, final-pay and career-average pay plans often use a projected unit credit method. Flat-benefit or non-pay-related plans typically use the traditional unit credit method.	Projected unit credit method is required in *all* cases.

Implications:
US GAAP requires the actuarial method selected (i.e., the projected unit credit method or the traditional unit credit method) to reflect the plan's benefit formula. However, IFRS requires use of the projected unit credit method in all cases. This could result in different measurements of the defined benefit plan liability for certain plans. For example, hybrid plans that have features of both a defined benefit and a defined contribution plan exist in both the US and globally. In the US, such hybrid plans include cash balance plans and defined contribution plans with guaranteed interest crediting rates. Plans such as these that are accounted for using a traditional unit credit method under US GAAP would be accounted for using the projected unit credit method under IAS 19.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

IFRS 1 implications:

First-time adopters will need to obtain new actuarial valuations for their defined benefit plans in accordance with IAS 19 as part of their conversion to IFRS. Further, it is important that first-time adopters verify that their actuaries understand the difference in the actuarial valuation methodologies used under US GAAP and IFRS.

6. Is there a defined benefit asset recognized on the balance sheet?	Yes ☐	No ☐

US GAAP — ASC 715-30-25-1 through 25-3, ASC 715-60-25-1, ASC 715-60-35-5 and ASC 715-20-45-3	**IFRS — IAS 19.63 through 65 and IFRIC 14**
Employers are required to present the benefit plan's funded status on the balance sheet, which is the difference between the fair value of plan assets and the actuarial present value of the defined benefit obligation. US GAAP does not limit the amount of the defined benefit asset recognized on the balance sheet for overfunded plans.	Employers are required to present the benefit plan's funded status on the balance sheet, which is the difference between the actuarial present value of the benefit obligation and the fair value of plan assets. However, IAS 19 limits the measurement of the net defined benefit asset (or "surplus") to the present value of economic benefits available in the form of cash refunds from the plan or reductions in future contributions to the plan. This limitation is known as the "asset ceiling." A reduction in the net defined benefit asset resulting from the asset ceiling is reported in OCI (see question 3). IFRIC 14 provides additional guidance on how to determine the amount of the surplus that can be recognized as the net defined benefit asset. It also explains how the asset ceiling test may be influenced by the existence of a minimum funding requirement. Specifically, IFRIC 14 provides the following guidance: ► Economic benefits in the form of refunds from the plan are considered "available" to the employer if they will be realizable at some point during the life of the plan or at final settlement. ► Economic benefits available as a reduction in future contributions are measured as the lower of the surplus in the plan and the present value of the employer's future service cost (excluding any employee contributions). ► Any minimum funding requirement at a given date must take into consideration any existing shortfall for past services, as well as future benefit accruals. An entity must assume continuation of a minimum funding requirement for contributions relating to future service, consistent with the assumptions used to measure the defined benefit obligation.

	► The reduction in the net defined benefit asset for the asset ceiling is recorded through an increase in the defined benefit obligation if contributions payable under minimum funding requirements will not be available to the employer after they are paid into the plan. The additional liability is necessary to prevent recognition of gains and losses that would otherwise arise in future periods when the contributions are paid and the asset ceiling test is applied. ► A prepayment of a minimum funding requirement is to be recognized as a pension asset. Subsequently, the remaining surplus in the plan is subject to the same analysis (discussed above) as if no prepayment had been made.

Implications:

US GAAP does not limit the amount of the net defined benefit asset that can be recognized on the balance sheet, whereas, under IAS 19, all defined benefit plans in a surplus position could be affected by the asset ceiling. Additionally, IFRIC 14 may also require recognition of an additional liability for defined benefit plans in a deficit (net defined benefit liability) position if they have minimum funding requirements to cover an existing shortfall on the minimum funding basis related to services already received.

A reduction in the net defined benefit asset as a result of the asset ceiling may be more likely to occur for employers with the following situations:

- Plans under which surplus assets may not fully revert to the employer upon plan wind-up or termination, due to plan provisions, local laws (including tax laws) or the constructive obligation of the employer to share the surplus with other parties, including plan participants. The available refund, if any, would be net of any taxes or other costs payable by the plan upon the reversion of assets.
- Plans under which surplus assets may not be available to the employer to reduce future contributions due to contractual arrangements, such as a collectively-bargained arrangement, that prevents those assets from reverting back to the employer.

Identified difference?

Yes	No	Depends on policy election
☐	☐	☐

Describe:
Click here to enter text.

IFRS 1 implications:

The IAS 19 asset ceiling may reduce the amount of any net defined benefit asset that exists at the transition date. IAS 19's asset ceiling requirements, as well as the IFRIC 14 requirements, are very complex. Companies will most likely need to work with accounting and actuarial specialists to apply the provisions. A transition adjustment to reduce the amount of any net defined benefit asset or

increase the postemployment obligation for any minimum funding requirements should be recorded in retained earnings.

7. Does the reporting entity include an expected return on plan assets as a component of net periodic benefit cost?	Yes ☐	No ☐

US GAAP — ASC 715-30-35-47, ASC 715-60-35-84, ASC 715-60-35-86 through 35-87 and ASC 715-60-35-107	**IFRS — IAS 19.123 through 126**
The expected return on plan assets, which is a component of net periodic benefit cost recognized in the income statement, is determined using the expected long-term rate of return on invested assets and the market-related value of the assets (based on either the fair value of plan assets at the measurement date or a "calculated" value that smooths changes in fair value over a period not to exceed five years, at the employer's election). The fair value of plan assets is determined based on the guidance in ASC 820 (see the "Fair value measurements" section of this publication).	The concept of an expected return on plan assets does not exist in IFRS. A "net interest" expense (income) on the net defined benefit liability (asset) is recognized as a component of defined benefit cost. Net interest represents the change in the net defined benefit obligation (asset) as a result of the passage of time. It is calculated as the product of the net defined benefit liability (asset) and the discount rate used to measure the benefit obligation, each as of the beginning of the annual period (see questions 1 and 2).

Implications:
Under US GAAP an employer will include in net periodic benefit cost an expected return on plan assets based on either the fair value of plan assets or a "calculated" value that smooths the effects of short-term market fluctuations over a period not to exceed five years. Differences between the expected and actual return on plan assets are recognized immediately in net income or OCI. Gains or losses on plan assets included in AOCI are recognized in net income in subsequent periods (see question 3). IAS 19 requires recognition of a "net interest" expense (income) on the net defined benefit liability (asset) as a component of the defined benefit cost, instead of an expected or calculated return on plan assets. The net interest expense (income), which consists of interest expense on the obligation and interest income on the plan assets, is calculated using the benefit obligation's discount rate, which typically is determined using high-quality corporate bond yields, irrespective of the assets held in the plan. Differences between the interest income on plan assets and the actual return on those assets are included in the remeasurement gains and losses recorded in OCI and will never be recognized in net income. This difference affects all plans.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

IFRS 1 implications:

A first-time adopter will begin recognizing net interest on the defined benefit plan liability (asset) in its first IFRS financial statements.

8. Are plan benefits covered by insurance policies?	Yes ☐	No ☐

Under US GAAP, an annuity contract is a contract in which an insurance company unconditionally undertakes a legal obligation to provide specified benefits to specific individuals in return for a fixed consideration or premium. It is irrevocable and involves the transfer of significant risk from the employer to the insurance company.

Under IAS 19, a qualifying insurance policy is an insurance policy issued by an insurer (that is not a related party of the employer) if the proceeds of the policy:

(1) Can be used only to pay or fund employee benefits under a defined benefit plan;

(2) Are not available to the employer's own creditors (even in bankruptcy) and cannot be paid to the employer, unless either:

(a) The proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations.

(b) The proceeds are returned to the employer to reimburse it for employee benefits already paid.

US GAAP — ASC 715-30-35-53 through 35-60, ASC 715-30-25-7, ASC 715-60-35-109 through 35-110, ASC 715-60-35-114 through 35-119, ASC 715-60-35-160 and ASC 715-60-25-3	**IFRS — IAS 19.46 through 49 and IAS 19.115 through 119**
The cost of benefits covered by an annuity contract is the cost of purchasing the annuity contract. Similar to a defined contribution plan, the annuity contracts and the benefits covered by those contracts are excluded from the employer's balance sheet. Insurance policies that are not annuity contracts may be plan assets if the assets have been segregated and restricted to provide benefits. Otherwise, they are recognized as separate assets of the employer.	The cost of benefits covered by an insurance arrangement will equal the insurance premiums paid (i.e., the plan is considered a defined contribution plan) unless the employer has a legal or constructive obligation to either (1) pay employee benefits directly when they come due or (2) pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods. If the employer retains a legal or constructive obligation to pay employee benefits, then the plan is accounted for as a defined benefit plan. Qualifying insurance policies are included in plans assets, and the benefits covered by the qualifying insurance policies are included in the benefit obligation. Insurance policies that are not qualifying insurance policies are excluded from plan assets. The right to reimbursement under the insurance policy is a separate asset on the employer's balance sheet that is not deducted from the defined benefit deficit or added to the defined benefit surplus but is otherwise accounted for similar to plan assets.

Implications:
An annuity contract purchased to pay benefits under the plan may be treated differently under US GAAP and IAS 19. Under IAS 19, the payments of fixed premiums under an annuity contract may be considered contributions to a defined contribution plan. However, if certain conditions are met, the annuity contract is accounted for as a defined benefit plan. Under US GAAP, the cost of an insurance contract is accounted for similar to a defined contribution plan as long as the contract is considered an "annuity contract," as defined, even if the criteria for a settlement under US GAAP may not have been met (see question 10). This difference will affect all defined benefit plans that hold annuity contracts.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

If a first-time adopter has an annuity contract, it will need to consider whether the contract should be accounted for as a defined contribution or defined benefit plan under IAS 19, as described above. If the annuity contract is considered a defined benefit plan under IAS 19, then the first-time adopter will need to determine whether the contract is (1) a qualifying insurance contract or (2) a reimbursement right in order to determine whether the contract can be accounted for as a plan asset. A transition adjustment to account for the contract as a defined benefit plan should be recorded in retained earnings.

9. Has the reporting entity's defined benefit plan experienced a curtailment?	Yes	No
Under US GAAP, a curtailment is defined as an event that significantly reduces the expected years of future service of current employees or eliminates, for a significant number of employees, the accrual of defined benefits for some or all of their future services. A curtailment under IFRS occurs when an entity significantly reduces the number of employees covered by a plan.	☐	☐

US GAAP — ASC 715-30-35-92 through 35-94, ASC 715-60-15-16, ASC 715-60-35-151 through 35-158, ASC 715-60-35-160, ASC 715-60-55-104 and ASC 715-60-55-105	**IFRS — IAS 19.102 through 108**
A decrease (gain) in the benefit obligation due to a curtailment is considered a *curtailment gain* only to the extent the gain exceeds net actuarial losses in AOCI. The entire decrease is considered a curtailment gain if a net actuarial gain exists in AOCI. An increase (loss) in the benefit obligation due to a curtailment is considered a *curtailment loss* only to the extent the loss exceeds net actuarial gains in AOCI. The entire increase is considered a curtailment loss if a net actuarial loss exists in AOCI.	A curtailment results in past service cost, measured as the change in the present value of the defined benefit obligation due to the curtailment. Past service costs (see question 4) are recognized immediately in net income at the earlier of when the curtailment occurs or when the entity recognizes related restructuring costs or termination benefits.

Unrecognized prior service costs (credits) at the curtailment date associated with prior plan amendments for which future service is no longer expected to be rendered are losses (gains). Net losses are recognized in net income when the curtailment is probable of occurring and the loss is estimable. Net gains are not recognized until the affected employees terminate or the plan suspension or amendment is adopted.	

Implications:

Differences exist between ASC 715 and IAS 19 in determining the timing and the amount of the curtailment gain or loss to be recognized. Under IAS 19, only the change in the benefit obligation will be recognized as a result of a curtailment, since there are no unrecognized prior service costs or gains and losses. Under ASC 715, unrecognized prior service costs or credits relating to previous plan amendments are recognized in a curtailment together with the portion, if any, of the decrease or increase in the benefit obligation that exceeds unrecognized net actuarial losses or gains, respectively.

The timing for recognizing the effects of a curtailment under US GAAP differs depending on whether a curtailment gain or loss has occurred (i.e., curtailment losses may be recognized in an earlier period than curtailment gains). The timing for recognizing the effects of a curtailment under IAS 19 is the same for both an increase and a decrease in the defined benefit obligation.

In addition, the elimination of the accrual of defined benefits for some or all of the future services of a significant number of employees is accounted for as a curtailment under ASC 715. Under IAS 19, the elimination of benefits is accounted for as a plan amendment (see question 4). The accounting for both a plan amendment and a curtailment is the same under IAS 19.

Differences in accounting for curtailments will affect employers that are reducing their workforces or reducing/eliminating employees' future benefit accruals.

Identified difference?

Yes	No	Depends on policy election
☐	☐	☐

Describe:
Click here to enter text.

IFRS 1 implications:

To the extent a first-time adopter had recognized a curtailment loss under ASC 715 based upon the probability of the curtailment occurring, but the curtailment has not yet occurred at the transition date, then an adjustment will be required at the date of transition to reverse the effects of the curtailment. The curtailment loss will subsequently be recognized under IAS 19 when the curtailment occurs. Also, the amount of curtailment gains and losses may differ under US GAAP and IFRS.

10(a). Has the reporting entity's defined benefit plan experienced a plan settlement?	Yes ☐	No ☐
10(b). Does the reporting entity have defined benefit plans that pay lump sums to plan participants?	Yes ☐	No ☐

Under US GAAP, a settlement of a defined benefit obligation is an irrevocable action that relieves the employer (or the plan) of primary responsibility for a benefit obligation and eliminates significant risks related to the obligation and the assets used to effect the settlement. For example, the obligation for pension benefits could be transferred to a third party by purchasing annuity contracts from an insurance company. Alternatively, the obligation could be settled by making lump-sum cash payments to participants in exchange for their rights to receive benefits.

Under IFRS, a settlement of a defined benefit obligation occurs when an entity enters into a transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan. A payment of benefits to, or on behalf of, employees in accordance with the terms of the plan and included in the actuarial assumptions is not a settlement. For example, a one-off transfer of significant employer obligations under the plan to an insurance company through the purchase of an insurance policy is a settlement, whereas a lump-sum cash payment made under the terms of the plan to plan participants in exchange for their rights to receive specified post-employment benefits is not a settlement (i.e., the actuarial assumptions would already anticipate the payments).

US GAAP — ASC 715-30-35-79, ASC 715-30-35-82 through 35-83, ASC 715-60-15-17, ASC 715-60-35-164 through 35-166 and ASC 715-30-35-169 through 35-171	**IFRS — IAS 19.109 through 112**
A settlement gain or loss is calculated as the difference between the present value of the defined benefit obligation being settled and the settlement price, including any plan assets transferred and any payments made directly by the employer in connection with the settlement, plus a pro rata portion of previously unrecognized actuarial gains and losses. The settlement gain or loss is recognized in net income when the benefit obligation is settled. An employer is not required to account for a settlement with one or more participants unless all settlements during the year exceed the sum of the plan's total service and interest cost for that year.	A settlement gain or loss is calculated as the difference between the present value of the defined benefit obligation being settled and the settlement price, including any plan assets transferred and any payments made directly by the employer in connection with the settlement. The settlement gain or loss is recognized in net income when it occurs. There is no minimum threshold for recognizing settlements.

Implications:
Differences exist between ASC 715 and IAS 19 in determining the amount of the settlement gain or loss to be recognized. Under IAS 19, the settlement gain or loss is measured as the difference between the benefit obligation being settled and the settlement price. Under US GAAP, the settlement gain or loss includes a portion of unrecognized actuarial gains or losses.

In addition, under ASC 715, an employer can elect to not account for settlement gains or losses, as long as payments made do not exceed the sum of the plan's total service cost and interest cost for that year (known as the "settlement threshold"). Such payments will be treated as normal benefit payments. In practice, this settlement threshold is most often applied when an employer offers lump-sum cash payments to plan participants in exchange for their rights to receive specified benefits. Under this approach, an employer with a plan that makes lump-sum payments in excess of the settlement threshold should account for those payments as settlements, even if the payments were not triggered by any special corporate event. Settlement accounting also may be applied if the amount of lump-sum payments is below the threshold, if this approach is applied consistently from year to year.

IAS 19 does not have a minimum threshold for recognizing settlements. However, if an existing benefit plan provides plan participants with an option to choose a lump-sum payment at retirement, instead of ongoing annuity payments, participants' decisions to receive those lump-sum payments are accounted for as benefit payments, rather than as settlements.

Differences in accounting for settlements will affect employers that are reducing their workforces and/or are making one-time or periodic purchases of annuities or payments of lump-sums (including termination indemnities) to plan participants.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

IFRS 1 implications:

Because the net benefit liability (asset) measured at the date of adoption will incorporate settlements under IAS 19, there will not likely be any IFRS 1 implications.

11. Does the reporting entity participate in a multiemployer plan?	Yes ☐	No ☐

Under US GAAP, a multiemployer plan is a pension or other postretirement benefit plan to which two or more unrelated employers contribute, usually pursuant to one or more collective-bargaining agreements. In multiemployer plans, assets contributed by one participating employer may be used to provide benefits to employees of other participating employers. Also, the assets contributed by an employer are not segregated in a separate account or restricted to provide benefits only to employees of that employer.

Under IFRS, a multiemployer plan is a defined benefit or defined contribution plan that pools the assets contributed by various entities that are not under common control and uses those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees covered.

US GAAP — ASC 715-80-05-1 and ASC 715-80-35-1 through 35-2	**IFRS — IAS 19.32 through 37**
An employer accounts for its participation in a multiemployer plan by recognizing the cost of the required contribution for the period and recording a liability for contributions due and unpaid. This is	An employer accounts for its participation in a multiemployer plan based on the underlying terms (contractual and constructive) of the plan. If the plan provides a defined benefit, the employer should follow the requirements for defined benefit plans. Accordingly, the

similar to the accounting for a defined contribution plan. Any obligation required upon withdrawal from the multiemployer plan is recorded when the withdrawal is probable or reasonably possible according to the guidance under ASC 450.	employer's proportionate share of the defined benefit obligation, fair value of plan assets and cost associated with the plan is accounted for in the same manner as for any other defined benefit plan. In some situations, the employer may not have access to the information required to apply defined benefit accounting. In this case, the employer should account for the plan as a defined contribution plan. If the plan is, or is accounted for as, a defined contribution plan, an employer accounts for its participation in a multiemployer plan by recognizing the cost of the required contribution for the period and recording a liability for contributions due and unpaid, together with any contractual assets or liabilities arising from the multiemployer plan agreement.

Implications:
ASC 715 requires the employer to recognize the required contributions as net periodic benefit costs for the period and to recognize a liability based on any contributions due and unpaid. IAS 19 requires consideration of the underlying characteristics of the plan to determine whether the plan should be accounted for as a defined contribution or a defined benefit plan. For defined benefit-type plans, the employer may have to recognize its proportionate share of the defined benefit obligation, plan assets and costs associated with the plan.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

Upon adoption of IFRS, a former US GAAP entity participating in a multiemployer plan may be required to account for the plan as a defined benefit plan. As such, any net deficit or surplus of the defined benefit plan upon adoption would be recognized in retained earnings.

12. Does the entity participate in one or more multiple-employer plans?	Yes ☐	No ☐

Under US GAAP, some pension plans to which two or more unrelated employers contribute are not multiemployer plans (see question 11). Multiple-employer plans are in substance aggregations of single-employer plans combined to allow participating employers to pool their assets for investment purposes and to reduce the costs of plan administration.

Under IFRS, group administration plans are an aggregation of single-employer plans combined to allow participating employers to pool their assets for investment purposes and reduce investment management and administration costs. The claims of different employers are segregated for the sole benefit of their own employees.

US GAAP — ASC 715-30-35-70, ASC 715-60-35-131 and ASC 715-80-15-3	**IFRS — IAS 19.38**
Multiple-employer plans should be accounted for as single-employer plans, and each employer's accounting should be based on its respective interest in the plan.	A group administration plan is accounted for as either a defined contribution plan or a defined benefit plan in accordance with the terms of the plan.

Implications:
Most multiple-employer plans for US GAAP entities are currently accounted for as defined benefit plans because they do not meet the definition of a defined contribution plan under US GAAP. In practice, many benefit plans (including multiple-employer plans) that are not defined contribution plans under US GAAP will also not be considered defined contribution plans under IAS 19 and would be accounted for as defined benefit plans under IFRS (see question 13).

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

IFRS 1 implications:

Because we expect many multiple-employer plans to continue to be accounted for as defined benefit plans, there will not likely be any IFRS 1 implications. However, if a multiple-employer plan is considered a defined contribution plan under IAS 19, then the first-time adopter will need to record an adjustment to remove the benefit asset or liability from the balance sheet. Any differences between the net periodic benefit obligation (asset) recorded prior to the date of transition for the defined benefit plan and the amount that should have been recorded for the defined contribution plan (due but unpaid contributions) should be recorded as an adjustment to retained earnings.

13. Does the entity have any plans with elements of both defined benefit and defined contribution plans?	Yes ☐	No ☐

Under US GAAP, a defined contribution plan is a plan that provides retirement benefits in return for services rendered, provides an individual account for each participant and has terms that specify how contributions to the individual's account are to be determined, rather than the amount of pension benefits the individual is to receive. The amount of the retirement benefit is based solely on the assets invested and the return on those assets. A benefit plan that does not meet the definition of a defined contribution plan is a defined benefit plan.

The IFRS definition of a defined contribution plan is similar to that under US GAAP. However, IFRS does not require that individual accounts exist for each participant. A benefit plan that does not meet the definition of a defined contribution plan is a defined benefit plan.

US GAAP — ASC 715-70-05-1 through 05-3, ASC 715-70-35-1, through 35-2, ASC 715-30-15-3, and ASC 715-30-35-71 through 35-72	**IFRS — IAS 19.8 and IAS 19.50 through 52**
The employer's expense for each period for a defined contribution plan is determined by the amount contributed for that period. A plan having characteristics of both a defined benefit and a defined contribution plan should be accounted for as a defined benefit plan if the substance of the plan is to provide a defined benefit.	The employer's expense for each period for a defined contribution plan is determined by the amounts to be contributed for that period. If the arrangement does not meet the definition of a defined contribution plan, it is accounted for as a defined benefit plan.

Implications:
Benefit plans classified as either defined benefit or defined contribution plans under US GAAP are typically also classified as defined benefit or defined contribution plans under IFRS. However, one example of a benefit plan for which the classification under IFRS may not always be clear is a cash balance plan. In these arrangements, the plan sponsor must make a fixed contribution to a "hypothetical account" and the employee's postretirement benefit is determined based on the employee's account balance. The assets are commingled for investment purposes and the plan sponsor retains the investment risks. Under US GAAP, even though the employer makes fixed contributions to a participant's "account," a cash balance plan is not accounted for as a defined contribution plan. Instead, cash balance plans are accounted for as a defined benefit plan because any plan that is not a defined contribution plan is accounted for as a defined benefit plan. It is not certain that cash balance plans would also be considered a defined benefit plan under IFRS.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

IFRS 1 implications:

A first-time adopter should carefully consider whether certain hybrid-type arrangements (i.e., plans with characteristics of both defined contribution and defined benefit plans) should be accounted for as defined contribution plans under IAS 19. If a benefit plan is considered a defined contribution plan under IAS 19, then the first-time adopter will need to record an adjustment to remove the benefit asset or liability from the balance sheet. Any differences between the net periodic benefit obligation (asset) recorded prior to the date of transition for the defined benefit plan and the amount that should have been recorded for the defined contribution plan should be recorded as an adjustment to retained earnings.

14. Does the reporting entity require employees or third parties to contribute to the cost of its defined benefit plan?	Yes ☐	No ☐

It is common practice for some employers to share the cost of other postemployment benefits with employees, retirees or third parties by requiring them to contribute to the plan during active service and/or after retirement. The amount of contribution could be a fixed percentage of compensation during active service or a fixed amount, adjusted for inflation, during retirement.

US GAAP — ASC 715-60-35-57	**IFRS — IAS 19.93**
The benefit obligation is reduced by the actuarial present value of contributions expected to be received from the plan participants during their remaining active service and postretirement periods. Employers should consider any related substantive plan provisions, such as past practice of consistently increasing or reducing the contribution rates, in determining the amount of the contributions expected to be received from the plan participants.	Contributions from employees or third parties may either reduce service cost if they are linked to service or affect remeasurements of the net defined benefit liability (asset) if they are not linked to service. If contributions are linked to service and are dependent on the number of years of service, those contributions must be attributed to service periods using the same attribution method as used for the service cost calculated based on the plan's benefit formula. If the contributions are linked to service but are not dependent on the number of years of service, those contributions may be recognized as a reduction in the service cost in the period in which the related service is rendered. (Note: This is a permitted but not a required method.)

Implications:
There is limited guidance under US GAAP on contributions from employees or third parties because the majority of the defined benefit pension plans in the US are non-contributory (i.e., contributions are required from employers only). In some instances, other postretirement benefit plans may contain provisions that require employees to contribute to the plan during their active service and postretirement periods as a means of cost sharing with the employer. The defined benefit obligation and the related cost are determined based on the net cost of the benefit to the employer.

Under IFRS, the accounting for contributions from employees or third parties depends on whether those contributions are linked to service. An example of contributions not linked to service is when the contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses. Those required contributions are recognized as remeasurement gains and losses when the triggering event occurs. If the contributions are linked to service and are dependent on the number of years of service, the employer must reduce the service cost by attributing those contributions to service periods using the same attribution method as used for the service cost calculated based on the plan's benefit formula. Contributions that are linked to service but are independent of the number of years of service (e.g., those that are a fixed percentage of salary or a fixed amount per year of service) are permitted to be recognized as a reduction of service cost in the period in which the related service is rendered.

Identified difference?	**Yes**	**No**	**Depends on policy election**
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

Because we expect many defined benefit pension plans in the US to be non-contributory, there will not likely be any IFRS 1 implications. However, if a US GAAP entity has a contributory plan under which an employee or third party contributes part of the plan cost, the first-time adopter will need to consider potential differences between US GAAP and IFRS with respect to contributions from employees or third parties because IFRS has different accounting guidance for contributions linked to service and those that are not. Any adjustment to the net periodic benefit obligation (asset) recorded at the date of transition should be recorded as an adjustment to retained earnings.

15. Does the entity present the components of net periodic benefit cost on different line items in its financial statements?	**Yes**	**No**
	☐	☐

US GAAP — ASC 715-20-45-3A	**IFRS — IAS 19.57, IAS 19.134 and IFRS 19.BC202**
The service cost component of net periodic benefit cost is presented in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period. The other components of the net periodic benefit cost are presented separately from the line item(s) that includes the service cost and outside of any subtotal of operating income, if one is presented.	IAS 19 does not specify how an entity should present service cost and net interest on the net defined benefit liability (asset). An entity presents those components in accordance with IAS 1. IAS 1 also does not specify whether an entity must present the components of defined benefit cost as a single item in the financial statements or whether an entity may include them in more than one line in profit or loss (e.g., service cost component separate from the net interest component).

Implications:
The components of net periodic benefit cost (defined benefit cost) are presented differently under US GAAP and IFRS. US GAAP prescribes where employers should present the service cost and the other components of net periodic benefit cost. IAS 19 doesn't provide explicit presentation guidance. The IASB had previously discussed whether to change the presentation requirements, but it concluded in paragraph 202(b) of the Basis for Conclusions to IAS 19 that "although these amounts would be material to many entities, there is no reason to single out post-employment benefits for special treatment in the statement of profit or loss and other comprehensive income. If an entity thinks that information about pensions is sufficiently important to the users of its financial statements, IAS 1 already permits that entity to provide disaggregated information in the performance statements."

Identified difference?	**Yes**	**No**	**Depends on policy election**
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

A first-time adopter will need to consider the potential differences between US GAAP and IFRS with respect to the presentation of the components of net periodic benefit cost. Because IFRS does not provide explicit presentation guidance, a first-time adopter should exercise judgment in deciding how to present the components of net periodic benefit cost.

16. Does the reporting entity capitalize net periodic benefit cost in assets?	**Yes**	**No**
	☐	☐

US GAAP — ASC 330-10-55-6A, ASC 715-30-35-7A and ASC 715-60-35-10A	**IFRS — IAS 19.121**
The service cost component is the only component of net periodic benefit cost eligible to be capitalized as part of the cost of inventory or other assets.	Other IFRS guidance requires some employee benefit costs to be included in the cost of assets, such as inventories and PP&E (see IAS 2 and IAS 16, respectively). Any post-employment benefit costs included in the cost of such assets include the appropriate proportion of service cost, net interest on the net defined liability (asset) and remeasurements of the net defined liability (asset) components.

Implications:
The capitalization of net periodic benefit cost (defined benefit cost) is recognized differently under US GAAP and IFRS. Under US GAAP, only the service cost component of net periodic benefit cost will be eligible for capitalization in assets. Under IFRS, capitalized costs include appropriate proportion of all components, including the service cost, net interest and remeasurements. (See question 7 in the "Inventory" section of this publication for further discussion.)

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

A first-time adopter will need to consider the potential differences between US GAAP and IFRS with respect to the costs eligible for capitalization into assets. IFRS does not provide guidance on what an "appropriate" portion of these items might be, but both IAS 2 and IAS 16 state that only those costs that are directly attributable to making the asset qualify for capitalization. A first-time adopter should exercise judgment in making this determination, especially as related to the remeasurement component.

Upon conversion to IFRS, an appropriate proportion of interest costs or other components of net periodic benefit cost may be eligible for capitalization under IFRS. Adjustments to inventory or PP&E should be recorded as an adjustment to retained earnings.

Other employee benefits

17. Does the reporting entity provide deferred compensation benefits for which the deferred funds are invested in a rabbi trust?	Yes	No
	☐	☐

Some employers offer a deferred compensation plan as an alternate form of compensation for select highly compensated employees. Amounts earned by eligible employees may be held in cash, invested in the employer's stock or, for some plans, in non-employer securities if the plan permits diversification. The employee is immediately vested in the deferred compensation and typically redeems the funds upon leaving the company.

A rabbi trust may be used to fund the deferred compensation obligation. To qualify as a rabbi trust for income tax purposes, the assets of the trust must be available to satisfy the claims of general creditors in the event of the employer's bankruptcy. The benefit of the rabbi trust to the employee is the ability to defer income taxes on the employee's salary and allow the deferred salary to appreciate in value tax-free until the withdrawal period. The employer is not required to invest in the securities selected by the employee and may choose to invest in different securities. However, placing assets in a rabbi trust does not relieve the employer of its legal obligation to settle the deferred compensation obligation that is calculated based upon the employee's investment elections.

US GAAP — ASC 710-10-05-8, through 05-9, ASC 710-10-25-15 through 25-18, ASC 710-10-35-1 through 35-4 and ASC 710-10-45-1 through 45-2	**IFRS — IAS 19.8, IAS 19.67 through 69 and IAS 19.113 through 115**
Employer stock held by the rabbi trust should be classified within equity. Subsequent changes in the fair value of the employer's stock are not recognized. For plans that permit diversification and the employee has diversified, the assets held by the rabbi trust should be accounted for in accordance with the applicable US GAAP for the particular asset (e.g., ASC 321-10). At acquisition, debt securities held by the rabbi trust may be classified as trading, with changes in fair value recorded in earnings. The deferred compensation obligation, generally, is classified as a liability. Changes in the fair value of the	Employer stock held by the rabbi trust should be classified within equity. Subsequent changes in the fair value of the employer's stock are not recognized. For plans that permit diversification, the assets held in a rabbi trust are not plan assets under IAS 19. The assets should be accounted for under IFRS 9. See the "Recognition and measurement" section of this publication. The deferred compensation plan liability is a post-employment benefit only if it is payable after employment.

amount owed to the employee are recorded as compensation cost. For plans that do not permit diversification and that must be settled by the delivery of a fixed number of employer shares, the obligation is recognized in equity and is not remeasured.	The deferred compensation liability that is not expected to be settled within 12 months of the reporting date is another long-term employee benefit and should be measured using the projected unit credit method (see question 5) to calculate the actuarial present value of the obligation. Subsequent changes in the measurement of the liability should be recognized immediately in net income. If the plan is a post-employment benefit plan, see question 3 for discussion of the accounting for the change in the benefit obligation.

Implications:

The liability for deferred compensation benefits invested in rabbi trusts is measured differently under US GAAP and IFRS.

Under US GAAP, the deferred compensation obligation is measured based on the fair value of the assets held in the rabbi trust. Under IFRS, the deferred compensation obligation is measured based on the actuarial present value of the benefits owed to the employee, which may differ from the fair value of the assets held in the rabbi trust. The application of the projected unit credit method for measuring the deferred compensation obligation may incorporate expectations regarding future changes in asset returns, as well as future salary deferrals.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

IFRS 1 implications:

A first-time adopter will need to consider potential differences between US GAAP and IFRS with respect to a deferred compensation plan when the deferred benefits are invested in a rabbi trust.

Upon conversion to IFRS, the deferred compensation liability under US GAAP will need to be remeasured using the projected unit credit method under IAS 19. Adjustments to the deferred compensation liability will be recorded as an adjustment to retained earnings.

18. Does the reporting entity provide profit sharing or bonus arrangements that are not expected to be settled wholly before 12 months after year end?

Yes ☐ No ☐

It is common practice for some employers to defer payment of profit sharing or bonus amounts earned by employees for more than 12 months after the end of the fiscal year in which the compensation was earned. This practice is common in the financial services industry and is used to facilitate the clawback of compensation that may have been fraudulently or erroneously earned by employees.

US GAAP — ASC 710-10-25-9 through 25-11 and ASC 710-10-30-1 through 30-2	IFRS — IAS 19.24
The deferred profit sharing or bonus obligation is classified as a liability and recognized each	Profit sharing and bonus payments that are not expected to be settled wholly before 12 months

reporting period based upon the present value of the amount expected to be paid, discounted only for the effects of the time value of money. Changes in the present value of the amount owed to the employee are recorded as compensation cost.	after the end of the fiscal year in which the employees render the related service are accounted for as other long-term employee benefits. As discussed in question 17, the deferred profit sharing or bonus liability should be measured using the projected unit credit method to calculate the actuarial present value of the obligation. Subsequent changes in the measurement of the liability should be recognized immediately in net income. If the plan is a post-employment benefit plan, see question 3 about accounting for the change in the benefit obligation.

Implications:
The liability for deferred profit sharing and bonus payments that are not expected to be settled wholly within 12 months of the end of the fiscal year in which the related services are performed is measured differently under US GAAP and IFRS. Under US GAAP, a deferred compensation obligation is measured based on the present value of the amount expected to be paid to the employees. Under IFRS, the deferred profit sharing or bonus obligation is measured based on the actuarial present value of the benefits owed to the employee, which may differ from the present value of the amount expected to be paid to the employee primarily due to differences in the discount rate used to measure the liability under US GAAP and IFRS.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

A first-time adopter will need to consider potential differences between US GAAP and IFRS with respect to liabilities for profit-sharing or bonus arrangements that are not expected to be fully settled within 12 months after the end of the fiscal period in which the employees provided the service.

Upon conversion to IFRS, the profit-sharing or bonus payment liability under US GAAP will need to be remeasured using the projected unit credit method under IAS 19. Adjustments to the deferred compensation liability will be recorded as an adjustment to retained earnings.

19. Has the reporting entity recognized termination benefits (e.g., severance)?	Yes	No
	☐	☐

US GAAP — ASC 710-10-25-1 and ASC 712-10-25-4 through 25-5	**IFRS —IAS 19.159 and IAS 19.165**
An entity uses the *service period approach* to account for termination benefits that are in the scope of ASC 712-10-25-4 if they accumulate	An entity should recognize termination benefits (e.g., severance) as a liability and an expense at the earlier of the following dates: (1) when it can no

(and meet all of the other conditions in ASC 710-10-25-1). Benefits accumulate if they increase based on length of service (e.g., severance benefits that consist of one week's salary for each year of service). Under the service period approach, the benefit cost is accrued over the employee's service period (i.e., the period from the date the employee is first eligible for coverage, generally the date of hire, to the expected date of the event that gives rise to the benefit obligation). The entity uses the *event approach* to recognize termination benefits that are not accounted for under a service period approach. That is, the termination benefits are recognized when it is probable that the benefits will be paid and the cost of the benefits can be reasonably estimated.	longer withdraw the offer of those benefits or (2) when it recognizes costs for a restructuring that is in the scope of IAS 37 and involves the payment of termination benefits. The date at which an entity can no longer withdraw the offer of termination benefits is the earlier of (1) when the employee accepts the offer or (2) when a restriction on the entity's ability to withdraw the offer takes effect. This would be when the offer is made if the restriction existed at the time of the offer.

Implications:
Termination benefits that accumulate are recognized differently under US GAAP and IFRS. US GAAP requires the use of a service period approach (i.e., over the employee's service period) if certain criteria are met, while IFRS requires the use of an event approach (i.e., when the termination occurs) in all instances.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

A first-time adopter will need to consider the potential differences between US GAAP and IFRS with respect to termination benefits. Upon an entity's conversion to IFRS, termination benefits accounted for under the service period approach should be written off and subsequently recognized when the conditions in IAS 19 are met.

Earnings per share

Similarities:

Entities whose common shares are publicly traded, or entities that are in the process of issuing shares in the public markets, must disclose EPS information pursuant to ASC 260 and IAS 33 *Earnings per Share*. ASC 260 and IAS 33 are substantially the same. Both require presentation of basic and diluted EPS on the face of the income statement and both use the same methods for calculating diluted EPS. These include the “treasury stock method” for determining the dilutive effects of stock options, nonvested shares (restricted stock) and warrants, and the “if-converted method” for determining the dilutive effects of convertible instruments. Note that only US GAAP includes these defined method terms. While both US GAAP and IFRS use similar methods of calculating EPS, there are some specific, narrow application differences.

Note that US GAAP uses the term “common stock” or “common shares” and IFRS uses the term “ordinary shares.” These terms are interchangeable and both refer to the class of stock with a residual ownership interest in an entity. This publication uses both terms based on the context (i.e., whether it refers to US GAAP or IFRS).

Primary US GAAP	Primary IFRS
► ASC 260, *Earnings Per Share*	► IAS 33 *Earnings per Share*

Standard setting activities:

In August 2020, the FASB issued ASU 2020-06 that requires entities to use the if-converted method for all convertible instruments in the diluted EPS calculation and presume share settlement for instruments that may be settled in cash or shares, except for liability-classified share-based payment awards. The ASU results in increased convergence between US GAAP and IFRS. In addition, the guidance amends the if-converted method by clarifying that an average market price should be used when calculating the denominator for instruments for which (1) the exercise price may change based on an entity’s share price or (2) changes in the entity’s share price may affect the number of shares that may be used to settle a financial instrument. The guidance was required for PBEs, other than smaller reporting entities as defined by the SEC, for annual periods beginning after 15 December 2021 and interim periods therein. For all other entities, it is effective for annual periods beginning after 15 December 2023 and interim periods therein. Question 4 includes discussion both before and after adoption.

In May 2021, the FASB issued ASU 2021-04, which requires entities to account for modifications or exchanges of freestanding equity-classified written call options (e.g., warrants) that remain equity classified after the modification or exchange based on the economic substance of the modification or exchange. Under this guidance, if the modification or exchange is not related to a financing (e.g., equity or debt issuance, debt modification) or compensation for goods and services (that would be accounted for under ASC 718), it should be accounted for as a dividend that reduces income available to common stockholders in the basic EPS calculation. IFRS does not have similar guidance; however, as discussed in the Basis for Conclusions of ASU 2021-04, these types of modifications or exchanges are not expected to be common. As such, we have not included this ASU as a significant difference below. ASU 2021-04 is applied prospectively to all modifications or exchanges that occur on or after the date of adoption. It is effective for all entities for fiscal years beginning after 15 December 2021 and interim periods therein.

Discussion of IFRS 1:

Upon the adoption of IFRS, an entity is required to restate EPS so that it conforms to IFRS for all periods presented.

Differences:

1. Is the reporting entity an investment company or a wholly-owned subsidiary?	Yes ☐	No ☐

An investment company, for the purposes of the scope of ASC 260, is defined as a reporting entity that complies with the requirements of ASC 946.

US GAAP — ASC 260-10-15-3	**IFRS — IAS 33.2 and IAS 33.4**
Presentation of EPS for investment companies or in statements of wholly-owned subsidiaries is not required. However, investment companies are required to present certain other per share information under ASC 946.	No scope exceptions are provided for investment companies and separate (or standalone) financial statements of wholly-owned subsidiaries.

Implications:

Investment companies

While there is no explicit scope exception for investment companies in IAS 33, we believe that there are some circumstances in which investment companies would not present EPS under IAS 33 as discussed further below.

The scope of IAS 33 includes entities (1) with instruments *traded in a public market*, or (2) that file, or are in the process of filing, financial statements with a securities commission or other regulatory organization for issuing any class of instruments in a *public market*. We believe that investment companies are not required to present EPS information if they are listed on a public exchange but all trading occurs off the public stock exchange directly with the company or through a transfer agent acting on behalf of the company (i.e., there is no public market).

Note that many investment companies are listed on a public stock exchange only to facilitate the valuation of portfolios by investors and accommodate certain investors that are required to invest only in securities listed on a public stock exchange. A public market in these instances does not exist when subscriptions and redemptions of a fund's instruments can only occur with the fund itself (or an agent acting on its behalf) at a price determined by the fund agreement and buyers and sellers cannot transact with one another. A public market (including a secondary market) for an investment company's instruments would only exist when the instruments can be bought or sold by buyers and sellers, consisting of the general public, at a price determined in that market (i.e., market participants can transact with one another).

Also, we believe that EPS information is not required to be presented for open-ended investment funds where shareholders' equity is classified within liabilities because the financial instruments are puttable. The denominator in calculating EPS is always ordinary shares. An open-ended investment fund does not have ordinary shares as defined by IAS 33, but rather puttable financial instruments which are classified as liabilities per IAS 32.18b. Therefore, it is not required to present EPS per IAS 33.

Wholly-owned subsidiaries

Under US GAAP, a wholly-owned subsidiary may not have to present EPS in its standalone financial statements because of the ASC 260 scope exception. In contrast, IFRS may require the wholly-owned subsidiary to do so. However, when an entity presents both consolidated financial statements and separate financial statements, EPS disclosures are required only for the consolidated financial statements. An entity may elect to present EPS for the separate financial

statements, but that information must be included in the separate financial statements only and cannot be presented in the consolidated financial statements.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

2. Does the reporting entity compute diluted EPS for (a) contingently issuable shares or (b) for potential common shares using the treasury stock method?	Yes	No
	☐	☐

Contingently issuable shares are shares issuable for little or no consideration upon the satisfaction of certain conditions.

The treasury stock method is used to compute the dilutive effect of call options, warrants and nonvested shares (restricted stock) on EPS.

US GAAP — ASC 260-10-45-49 and ASC 260-10-55-3 through 55-3B	**IFRS — IAS 33.37 and IAS 33.52**
For year-to-date computations of diluted EPS, contingently issuable shares are included on a weighted-average basis (i.e., weighted for interim periods in which they were included in the computation of diluted EPS). Under the treasury stock method for calculating diluted EPS, for year-to-date (and annual) computations when each period is profitable, the number of potential common shares added to the denominator is the weighted average of the incremental shares that were added to the denominator in each of the quarterly diluted EPS computations. For year-to-date (and annual) computations when one or more quarters has a loss, year-to-date and annual income (loss) from continuing operations should be used in determining whether in-the-money options or warrants are included in the denominator (i.e., whether they are dilutive). Thus, even if in-the-money stock options or warrants were excluded from one or more quarters in computing quarterly diluted EPS because the effect was antidilutive (e.g., there was a loss from continuing operations in those quarters), those options or warrants would be included in year-to-date or annual diluted EPS calculations as long as the effect is dilutive. As a result, diluted EPS for year-to-date and annual periods may not equal the sum of the individual quarter's diluted EPS amounts.	All dilutive potential ordinary shares, including contingently issuable shares, are determined independently for each period presented, including year-to-date periods. Regardless of whether the period has income or loss, the number of dilutive potential ordinary shares included in the year-to-date period is not a weighted average of the dilutive potential ordinary shares included in each interim computation. IFRS does not provide specific guidance when there is a loss from continuing operations for the year-to-date period.

Implications:
Contingently issuable shares Under both US GAAP and IFRS, if the related conditions are satisfied, contingently issuable shares are included in the diluted EPS calculations from the beginning of the period (or from the date of the contingent share agreement, if later). However, US GAAP requires that for year-to-date computations, contingent shares are included on a weighted-average basis (i.e., weighted for the interim periods in which they were included in the diluted EPS calculation). IFRS does not include this requirement. Accordingly, IFRS preparers may calculate more dilution for contingently issuable shares in year-to-date computations. For example, under US GAAP, if contingently issuable shares first meet the requirements for inclusion in the diluted EPS calculation in the fourth quarter, the shares would be considered outstanding and weighted for the fourth quarter only in the year-to-date diluted EPS calculation. However, under IFRS, the shares would be included in the denominator of diluted EPS from the beginning of the reporting period (or from the date of the contingent share agreement, if later) in the year-to-date calculation. *Treasury stock method* US GAAP and IFRS preparers will also likely see differences in the incremental shares calculated under the treasury stock method in year-to-date computations. The differences will be dependent on the fluctuations of the reporting entity's market price and whether the entity has a year-to-date loss or income.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

3. Does the reporting entity calculate diluted EPS using the treasury stock method for share-based payments?	Yes ☐	No ☐

US GAAP — ASC 260-10-45-29	**IFRS — IAS 33.46 through 47A**
Assumed proceeds under the treasury stock method exclude income tax effects of share-based payment awards because such effects are already required to be recorded in the income statement.	For options, warrants and their equivalents, IAS 33 does not explicitly require assumed proceeds under the treasury stock method to include the income tax effects recorded in APIC at exercise.

Implications:
As discussed in question 9 of the "Share-based payments" section of this publication, under US GAAP, entities record any excess tax benefits or tax deficiencies in relation to share-based payments as income tax expense or benefit in the income statement. Under IFRS, any excess tax deficiencies are also recorded in the income statement; however, if there are excess tax benefits, those are recorded in shareholders' equity. Under IFRS, assumed proceeds under the treasury stock method are not explicitly required to include income tax effects recorded in APIC. The inclusion of these income tax effects in the EPS

calculation under IFRS may increase or decrease the dilutive effect of the treasury stock method as compared to US GAAP.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

4. Has the reporting entity issued a contract that may be settled in shares or in cash? Yes ☐ No ☐

Examples of such contracts are written put options and convertible debt that give the entity or the holder a choice of settling in shares or cash. Another example is a share-based compensation arrangement that is payable in shares or in cash at the election of either the entity or the grantee.

US GAAP — ASC 260-10-45-30 and ASC 260-10-45-45 through 45-47	**IFRS — IAS 33.58 through 61**
Before the adoption of ASU 2020-06, for contracts that may be settled in shares or cash at the entity's option, there is a presumption that the contract will be settled in common shares and the resulting potential common shares included in diluted EPS if the effect is dilutive. That presumption may be overcome if past experience or a stated policy provides a reasonable basis to believe that the contract will be paid partially or wholly in cash. For contracts that may be settled in shares or cash at the holder's option, the more dilutive of cash or share settlement should be used in the calculation. After the adoption of ASU 2020-06, for contracts that may be settled in cash or shares and aren't liability-classified share-based payment awards, the guidance requires entities to include the effect of potential share settlement, if the effect is more dilutive, regardless of whether the entity or the holder can choose between cash and share settlement, or the entity has a history or policy of cash settlement. Liability-classified share-based payment awards that may be settled in shares or cash at the option of either the entity or the holder are excluded from the scope of the amendments. That is, the presumption that the contract will be settled in shares may be overcome if past experience or a stated policy provides a	For contracts that may be settled in shares or cash at the entity's option, there is a presumption that the contract will be settled in ordinary shares and the resulting potential ordinary shares included in diluted EPS if the effect is dilutive. The presumption of share settlement may not be overcome. For contracts that may be settled in shares or cash at the holder's option, the more dilutive of cash or share settlement should be used in the calculation.

reasonable basis to conclude that the award will be paid partially or wholly in cash.	

Implications:

Before the adoption of ASU 2020-06: If the option is at the election of the holder, there is no difference between US GAAP and IFRS (i.e., the more dilutive of cash or share settlement should be used in the calculation). However, if the option is at the election of the entity, US GAAP would allow the presumption of share settlement to be overcome, if certain considerations are met; IFRS would not.

After the adoption of ASU 2020-06: Regardless of whether the option is at the election of the holder or the entity, both US GAAP and IFRS generally require an entity to include the effect of share settlement in diluted EPS, if the effect is more dilutive. However, US GAAP would allow the presumption of share settlement to be overcome for liability-classified share-based payment awards. As a result, the adoption of ASU 2020-06 is expected to eliminate most, but not all, US GAAP to IFRS differences related to contracts that may be settled in cash or shares.

Identified difference?

Describe:
Click here to enter text.

Yes ☐ No ☐ Depends on policy election ☐

5. Does the reporting entity have participating securities classified as liabilities?

Yes ☐ No ☐

Participating securities include (1) securities that may participate in dividends with common stock according to a predetermined formula (e.g., on a two-for-one basis) with potentially an upper limit on participation and (2) a class of common stock with different dividend rates from those of another class of common stock but without prior or senior rights.

US GAAP — ASC 260-10-45-59A through 45-60B	IFRS — IAS 33.A13 through A14
The two-class method applies to participating securities irrespective of whether they are debt or equity instruments.	The two-class method applies only to participating securities that are classified as equity. The two-class method is not required for participating debt instruments (e.g., participating convertible debt).

Implications:

IFRS preparers may have fewer instruments that require the application of the two-class method of computing EPS because securities that are classified as liabilities cannot be considered participating securities under IFRS.

Identified difference?

Describe:
Click here to enter text.

Yes ☐ No ☐ Depends on policy election ☐

6. Does the reporting entity have a contingently convertible instrument with a contingency based on a market price trigger?	Yes ☐	No ☐

A market price trigger is a market condition that is based, at least in part, on the issuer's own share price. An example of a contingently convertible instrument with a contingency based on a market price trigger is debt that is convertible once the reporting entity's share price reaches a certain level.

US GAAP — ASC 260-10-45-43 through 45-44	**IFRS — IAS 33.52 through 57**
Potentially issuable shares from a contingently convertible instrument with a market price trigger are included in diluted EPS using the if-converted method from the issuance date, even if the market price trigger is not satisfied at the end of the reporting period. If the number of shares contingently convertible depends on both market price and non-market price triggers, an entity would include the dilutive effect of the instrument from the date that all of the required non-market price triggers are met as if the end of the reporting period were the end of the contingency period (i.e., ignore the market price contingency).	Potentially issuable shares from a contingently convertible instrument with a share price trigger are included in diluted EPS using the if-converted method only if the share price trigger is satisfied at the end of the reporting period, assuming the end of the reporting period is the end of the contingency period. If the number of shares contingently issuable depends on both share price and non-share price triggers, contingently issuable shares are not included in the diluted EPS calculation unless both conditions are met.

Implications:
US GAAP contains specific guidance on contingently convertible instruments with market price triggers. For such instruments under IFRS, entities will follow the contingently issuable share guidance. Contingently convertible instruments that are contingent based on a market price trigger are potentially more dilutive for US GAAP preparers than IFRS preparers.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

7. Has the reporting entity issued mandatorily convertible instruments?	Yes ☐	No ☐

US GAAP — ASC 260-10-45-40 through 45-42 and ASC 260-10-45-60 through 45-60A	**IFRS — IAS 33.23**
Mandatorily convertible instruments are not explicitly addressed under US GAAP. However, if a mandatorily convertible instrument is deemed a participating security, a company should apply the two-class method. If a mandatorily convertible instrument is not deemed a participating security, then the company would apply the if-converted method for computing diluted EPS. Current practice is to exclude the effect of the mandatorily convertible instrument from the computation of basic EPS.	Ordinary shares that will be issued upon the conversion of a mandatorily convertible instrument are included in the calculation of basic and diluted EPS from the date the contract is entered into.

Implications:
For mandatorily convertible instruments that are participating securities, US GAAP preparers apply the two-class method and IFRS preparers include the instruments in the weighted average shares outstanding calculation for both basic and diluted EPS. However, an entity would potentially apply the two-class method under IFRS if the dividend rate on the mandatorily convertible instruments was different than the rate for ordinary shares. For mandatorily convertible instruments that are not participating securities, US GAAP preparers typically apply the if-converted method for inclusion in diluted EPS only and IFRS preparers include the instruments in the weighted average shares outstanding calculation for both basic and diluted EPS. This will likely result in lower basic and diluted EPS amounts under IFRS.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

Segment reporting

Similarities:

The requirements for segment reporting under both ASC 280, *Segment Reporting*, and IFRS 8 are applicable to reporting entities with public reporting requirements and are based on a "management approach" to identify reportable segments. Required segment disclosures may differ from internal management reports if the reporting entity employs non-GAAP accounting policies to prepare its internal management reports. The two standards also have similar quantitative thresholds for determining reportable segments. That is, in general, separate operating or appropriately aggregated segments are required to be presented if the segment's revenue, assets, or profits or losses exceed 10% of the respective total.

Furthermore, the aggregation of operating segments is permitted under both pronouncements only if segments are similar and meet a specific set of aggregation requirements, and the total amounts disclosed for all reportable segments are reconciled to financial statement amounts. If the composition of reportable segments changes, restatement of comparative information is required under both US GAAP (unless it is impracticable to do so) and IFRS (unless the necessary information is not available and the cost to develop it would be excessive).

Certain enterprise-wide disclosures such as information about product and services, geographic areas and revenue from major customers are also required to be disclosed for each reportable segment under both US GAAP and IFRS.

Primary US GAAP	Primary IFRS
► ASC 280, *Segment Reporting*	► IFRS 8 *Operating Segments*

Standard setting activities:

In October 2022, the FASB issued a proposed ASU that would amend ASC 280 to require a public entity to disclose significant segment expenses and other segment items on an annual and interim basis and provide in interim periods all disclosures about a reportable segment's profit or loss and assets that are currently required annually. Public entities with a single reportable segment would also have to provide the proposed disclosures, along with all disclosures required by ASC 280. The proposal is intended to address requests from investors for companies to disclose more information about their financial performance at the segment level. The proposal would not change how a public entity identifies its operating segments, aggregates them or applies the quantitative thresholds to determine its reportable segments. Readers should monitor this project for developments.

Discussion of IFRS 1:

IFRS 1 provides no special guidance related to operating segments.

Differences:

1. Does the reporting entity utilize a “matrix” form organizational structure?	Yes ☐	No ☐

A “matrix” form of organization is a structure in which different components are managed in more than one way, and the chief operating decision maker (CODM) reviews all of the information provided. For example, in some public entities, certain managers may be responsible for different product and service lines worldwide, while other managers are responsible for specific geographical areas. The CODM regularly reviews the operating results of both sets of components, and financial information is available for both.

US GAAP — ASC 280-10-50-9	**IFRS — IFRS 8.1 and IFRS 8.10**
For reporting entities with a matrix form of organization referenced above, the components based on products and services would constitute operating segments.	All entities determine segments based on the management approach, regardless of form of organization. That is, reporting entities with a matrix form of organization referenced above are required to determine operating segments based on products, services or geographical areas. This determination should be made by reference to the core principle of the standard which requires a reporting entity to disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which the reporting entity engages and the economic environments in which it operates.

Implications:
Due to the difference in how operating segments may be determined when a reporting entity utilizes a matrix form organizational structure, a reporting entity’s operating segments under IFRS may be different from those determined under US GAAP.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

2. Is a measure of liabilities for each reporting segment regularly provided to the CODM?	Yes ☐	No ☐

US GAAP — ASC 280-10-50-30(d)	**IFRS — IFRS 8.21(b) and IFRS 8.23**
A reporting entity may choose to disclose liabilities for its reportable segments. However, such disclosure is not required even if segment liabilities are provided to the CODM.	A reporting entity is required to report a measure of liabilities for each reportable segment if such an amount is regularly provided to the CODM.

Implications:
Because disclosure of segment liabilities is an option under US GAAP while it is a requirement under IFRS if it is regularly provided to the CODM, reporting under IFRS may require this additional disclosure.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

3. Does the entity-wide geographic area information disclose long-lived assets?	Yes ☐	No ☐

US GAAP — ASC 280-10-50-41(b) and ASC 280-10-55-23	**IFRS — IFRS 8.33(b)**
Generally, long-lived assets include items such as PP&E, right-of-use assets of lessees and assets of lessors subject to operating leases and goodwill. However, for the purposes of entity-wide geographic area disclosures, the definition of long-lived assets implies hard assets that cannot be readily removed, which would exclude intangible assets, including goodwill. A right-of-use asset is in the scope of ASC 360 and is similar to a tangible asset and, therefore, would generally be included in the entity-wide geographic disclosures.	IFRS 8 requires disclosure of geographical information for noncurrent assets. In a balance sheet that is classified according to liquidity, noncurrent assets are assets that include amounts expected to be recovered more than 12 months after the balance sheet date. These noncurrent assets often include intangible assets.

Implications:
US GAAP entity-wide information requires disclosure of total long-lived assets by geographical area. These would exclude intangible assets. IFRS has similar requirements with respect to noncurrent assets. However, these disclosures often include intangible assets. If the reporting entity has intangible assets, the disclosed amounts will have to be changed to include intangible assets in order to meet the IFRS noncurrent asset entity-wide segment disclosure requirements.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

4. Does the entity aggregate any of its operating segments?	Yes	No
	☐	☐

US GAAP — ASC 280-10-50-21(a)	**IFRS — IFRS 8.22(aa)**
Entities must disclose whether operating segments have been aggregated.	Entities must disclose whether operating segments have been aggregated and the judgments made in applying the aggregation criteria, including a brief description of the operating segments that have been aggregated and the economic indicators that have been assessed in determining economic similarity.

Implications:
Although both US GAAP and IFRS require disclosure of whether operating segments have been aggregated, IFRS requires additional disclosures regarding judgments made in applying the aggregation criteria.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

Subsequent events and going concern

Similarities:

Subsequent events

Despite some differences in terminology, the accounting for subsequent events (US GAAP) and events after the reporting period (IFRS) is similar. An event that occurs after the balance sheet date but before the financial statements are issued or available to be issued (US GAAP) or authorized for issue (IFRS) 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 relates to conditions that arose subsequent to the balance sheet date, the financial statements are generally not adjusted, but disclosure may be necessary to keep the financial statements from being misleading. The date through which subsequent events have been evaluated is required to be disclosed under IFRS and under US GAAP, unless the entity is an SEC filer (see question 2).

Going concern

The going concern assumption is a fundamental principle in the preparation of financial statements under both US GAAP and IFRS. Under the going concern assumption, an entity is ordinarily viewed as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing operations or seeking protection from creditors pursuant to laws or regulations. An entity that is a going concern is one that has the ability to realize its assets and discharge its liabilities in the normal course of operations.

Both US GAAP and IFRS explicitly require management to assess an entity's ability to continue as a going concern. While management's evaluation of an entity's ability to continue as a going concern under US GAAP and IFRS is similar, there are notable differences which we discuss in question 4.

When events and conditions that raise substantial doubt about (US GAAP), or when material uncertainties related to events or conditions cast significant doubt upon (IFRS), an entity's ability to continue as a going concern, certain disclosures are required under both US GAAP and IFRS. However, US GAAP also requires disclosures when substantial doubt is alleviated by management's plans (i.e., substantial doubt does not exist), whereas IFRS does not include this specific requirement (see question 5). The financial statement presentation is not affected (i.e., the measurement and classification of assets and liabilities) unless the financial statements are prepared under a basis other than the going concern basis. If the financial statements are prepared under another basis of accounting, such as the liquidation basis if liquidation is imminent, that fact and the reasons leading to that decision are required to be disclosed under US GAAP and IFRS.

Primary US GAAP	Primary IFRS
► ASC 205-40, *Presentation of Financial Statements — Going Concern* ► ASC 855, *Subsequent Events*	► IAS 1 *Presentation of Financial Statements* ► IAS 10 *Events after the Reporting Period*

Standard setting activities:

There is no significant standard setting activity in this area.

Discussion of IFRS 1:

IFRS 1 includes an exemption to the retrospective application of IAS 10 such that it requires an entity to use the same estimates that it had made under the entity's previous GAAP (after adjustments to reflect differences in accounting policies), unless there is objective evidence that those estimates were in error. It recognizes that an entity may have better information regarding various estimates at its first

IFRS reporting date than when it originally made the estimates, but that a first-time adopter cannot apply hindsight and make “better” estimates when it prepares its first IFRS financial statements. For example, an entity’s first reporting date under IFRS may be 31 December 20X7, and those financial statements will include years ended 31 December 20X5, 20X6 and 20X7. An entity cannot use information that became available in 20X7 to adjust estimates made in the financial statements for the year ended 20X5. A first-time adopter is not allowed to take into account any subsequent events that provide evidence of conditions that existed at a balance sheet date that came to light after the date its previous GAAP (e.g., US GAAP) financial statements were issued.

The IASB, in the Basis for Conclusions to IFRS 1, indicated that events occurring from the date the previous financial statements were issued through the IFRS transition date might provide additional information regarding estimates made in those previously issued financial statements. However, the IASB ultimately concluded that it would be more helpful to users and more consistent with IAS 8 to recognize the revision of those estimates as income or expense in the period when the first-time adopter made the revision, rather than in preparing the opening IFRS balance sheet. Effectively, the IASB wished to prevent first-time adopters from using hindsight to “clean up” their balance sheets by direct write-offs to equity as part of the opening IFRS balance sheet exercise.

Differences:

1. Have events occurred after the balance sheet date but before the financial statements are issued?	Yes ☐	No ☐

Under US GAAP, subsequent events are evaluated until the financial statements are issued or available to be issued, whereas, under IFRS, subsequent events are evaluated until the financial statements are authorized for issue.

US GAAP — ASC 855 and ASC 855-10-S99-2	**IFRS — IAS 10**
Events subsequent to the balance sheet date, but before the financial statements are issued or available to be issued, must be evaluated to determine whether the effect of such events should be reflected in the period-end financial statements. Entities that are SEC filers, as defined (see question 2), or conduit bond obligors for conduit debt securities that are traded in a public market are required to evaluate subsequent events through the date the financial statements are issued. All other entities are required to evaluate subsequent events through the date the financial statements are available to be issued. Financial statements are “issued” as of the date they are widely distributed to shareholders and other financial statement users for general use and reliance in a form and format that complies with US GAAP and, in the case of annual financial statements that contain an audit report, that report indicates that the auditors have complied with generally accepted auditing standards.	Events subsequent to the balance sheet date, but before the financial statements are authorized for issue, must be evaluated to determine whether the effect of such events should be reflected in the period-end financial statements. IAS 10 acknowledges that the process involved in authorizing the financial statements for issue will vary depending upon the management structure, statutory requirements and procedures followed in preparing and finalizing the financial statements.

Issuance of financial statements generally is the earlier of the date when the annual or quarterly financial statements are widely distributed to all shareholders and other financial statement users (which may include posting financial statements to an entity's corporate website in some circumstances) or the date the financial statements are originally filed with the SEC. Furthermore, the issuance of an earnings release does not constitute issuance of financial statements because the earnings release would not be in a form and format that complies with US GAAP and US Generally Accepted Auditing Standards. Financial statements are considered "available to be issued" when they are complete in a form and format that complies with US GAAP and all approvals necessary for issuance have been obtained (e.g., approvals from management, the board of directors and/or significant shareholders).	

Implications:

Financial statements could be considered authorized for issue under IFRS before such financial statements would be considered issued or available to be issued under US GAAP. Accordingly, an adjusting subsequent event may be recognized in financial statements prepared under US GAAP when the same subsequent event would not be recognized in financial statements prepared under IFRS. Entities that adopt IFRS will need to develop policies for determining when their financial statements are authorized for issue under IAS 10. If there is a difference between when the financial statements are authorized for issue under IAS 10 and issued under ASC 855, then an entity will need to monitor subsequent events during the period between those two dates to be able to adjust for any differences in recognition or disclosure under IFRS and US GAAP.

However, we believe that the notion of "available to be issued" in ASC 855 generally is consistent with the manner in which most entities would apply "authorized for issue" under IAS 10. As a result, the period for considering subsequent events likely will be the same under US GAAP and IFRS for entities that evaluate subsequent events through the date that the financial statements are available to be issued.

Identified difference?

	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

2. Is the entity an SEC filer?	Yes ☐	No ☐

Under IFRS, entities are required to disclose the date through which they evaluated subsequent events (i.e., the date that the financial statements were authorized for issue). Under US GAAP, entities that are SEC filers are not required to disclose the date through which they evaluated subsequent events.

US GAAP — ASC 855-10-50-1	**IFRS — IAS 10.17**
Entities that are not SEC filers must disclose the date through which subsequent events have been evaluated and whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. An SEC filer is an entity that is required to file or furnish its financial statements with the SEC (or another agency (e.g., a banking regulator) as required by Section 12(i) of the Exchange Act). The definition specifically excludes entities that are not otherwise SEC filers whose financial statements are included in a submission by another SEC filer (e.g., financial statements included under Rule 3-05 of SEC Regulation S-X or similar requirements).	IAS 10 requires entities to disclose the date when the financial statements were authorized for issue (i.e., the date through which subsequent events were evaluated), who gave that authorization and if the owners of the entity or others have the power to amend them after issue.

Implications:
SEC requirements with respect to the content of filings and the obligations with respect to such filings (e.g., to disclose material events that occur through the filing date) provide sufficient transparency to users of financial statements with respect to the date through which subsequent events were evaluated. As a result, additional disclosure of the date through which subsequent events were evaluated is unnecessary for SEC filers. SEC filers that apply IFRS must disclose the date through which subsequent events were evaluated (i.e., the date that the financial statements were authorized for issue under IAS 10).

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

3. Has the entity reissued its financial statements (e.g., in reports filed with the SEC or other regulatory agencies)?	Yes ☐	No ☐

Under US GAAP, additional subsequent events generally are not recognized once the financial statements are originally issued or available to be issued. IFRS considers only one date through which subsequent events are evaluated, the date that the financial statements were authorized for issue, even if the financial statements are being reissued and were authorized for issue previously.

US GAAP — ASC 855-10-25-4 and ASC 855-10-50-4	**IFRS — IAS 10**
An entity may need to reissue financial statements, for example, in reports filed with the SEC or other regulatory agencies. After the original issuance of the financial statements, events or transactions may have occurred that require disclosure in the reissued financial statements to keep them from being misleading. An entity should not recognize events occurring between the time the financial statements were issued or available to be issued and the time the financial statements were reissued unless the adjustment is required by US GAAP or regulatory requirements (see further discussion below). Similarly, an entity should not recognize events or transactions occurring after the financial statements were issued or were available to be issued in financial statements that are later reissued in comparative form along with financial statements of subsequent periods, unless the adjustment is required by US GAAP or regulatory requirements. Examples of adjustments that would be required by US GAAP or other regulatory requirements would be reporting stock splits, discontinued operations or the effect of adopting a new accounting standard retrospectively. Unless the entity is an SEC filer, it is required to disclose in the revised financial statements the dates through which it evaluated subsequent events in both the issued or available-to-be-issued financial statements and the revised financial statements (i.e., financial statements revised only for correction of an error or retrospective application of US GAAP). Disclosure in the financial statements and, if applicable, revised financial statements of the date through which subsequent events were	IAS 10 does not specifically address the reissuance of financial statements and recognizes only one date through which subsequent events are evaluated (i.e., the date that the financial statements are authorized for issue, even if they are being reissued). As a result, only one date will be disclosed in IFRS financial statements with respect to the evaluation of subsequent events, and an entity could have adjusting subsequent events in reissued financial statements. If financial statements are reissued as a result of adjusting subsequent events or an error correction, the date the reissued statements are authorized for reissuance is disclosed. IAS 10 does not address the presentation of reissued financial statements in an offering document when the originally issued financial statements have not been withdrawn, but the reissued financial statements are provided either as supplementary information or as a re-presentation of the originally issued financial statements in an offering document in accordance with regulatory requirements.

evaluated is not required for SEC filers (refer to question 2).	

Implications:
Under US GAAP, additional subsequent events are not recognized once the financial statements are originally issued or available to be issued unless an adjustment is required by US GAAP or regulatory requirements. Since IFRS only considers one date through which subsequent events are evaluated, the date that the financial statements were authorized for issue, even if the financial statements are being reissued and were authorized for issue previously, an entity reporting under IFRS could have adjusting subsequent events in reissued financial statements. For example, assume that an entity originally authorized its 31 December 20X0 IFRS financial statements for issue on 28 February 20X1, and those financial statements included an estimate for a provision related to litigation of $10 million. On 1 April 20X1, the litigation is resolved for $50 million. Assume that for some reason the entity must reissue its financial statements on 31 May 20X1. When the IFRS financial statements are reissued, it must recognize the additional expense of $40 million in its 20X0 financial statements. In contrast, under US GAAP, the litigation settlement would be disclosed, but not recognized, in the 20X0 financial statements.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

4. Are there circumstances that indicate substantial (US GAAP)/significant (IFRS) doubt as to an entity's ability to continue as a going concern that are expected to arise beyond one year after the date the financial statements are issued, or available to be issued, when applicable?	Yes ☐	No ☐

Circumstances that indicate substantial (US GAAP)/significant (IFRS) doubt about an entity's ability to continue as a going concern that arise beyond one year from the date the financial statements are issued or available to be issued, when applicable, may need to be disclosed under IFRS, whereas those circumstances would not be considered in the assessment of an entity's ability to continue as a going concern under US GAAP. However, the contingency factors may give rise to other US GAAP disclosures (e.g., contingency or debt maturity disclosures).

US GAAP — ASC 205-40-50-1 and ASC 205-40-50-3	**IFRS — IAS 1.26**
In connection with preparing financial statements for each annual and interim reporting period, an entity's management must evaluate whether there are conditions and events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after	IFRS requires management to assess whether material uncertainties related to conditions and events cast significant doubt upon the entity's ability to continue as a going concern. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, 12 months from the end of the reporting period

the date that the financial statements are available to be issued, when applicable).[14] Management's evaluation is based on relevant conditions and events that are known and reasonably knowable at the date the financial statements are issued.	(i.e., balance sheet date). The degree of consideration depends on the facts in each case.

Implications:
US GAAP (i.e., ASC 205-40-50-1) includes a "bright-line" cutoff of 12 months from the date the financial statements are issued or available to be issued, when applicable, for evaluating an entity's ability to continue as a going concern, whereas IFRS does not explicitly limit the time horizon for evaluation. As a result, under IFRS, entities are required to consider information for periods at least, but not limited to, 12 months from the end of the reporting period when there is material evidence related to the going concern assumption in those periods. Additional disclosures regarding the going concern assessment may be required under IFRS as a result of this difference.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

5. Is substantial (US GAAP)/significant (IFRS) doubt about an entity's ability to continue as a going concern alleviated as a result of consideration of management's plans?	Yes ☐	No ☐

Under US GAAP, certain disclosures are required when management initially identifies conditions or events that raise substantial doubt about an entity's ability to continue as a going concern within one year after the financial statements are issued (or available to be issued, when applicable) but concludes that its plans alleviate substantial doubt. There is no disclosure requirement under IFRS for similar circumstances.

US GAAP — ASC 205-40-50-12	**IFRS — IAS 1.25**
If, after considering management's plans, substantial doubt about an entity's ability to continue as a going concern is alleviated as a result of consideration of management's plans, an entity must disclose in the notes to financial statements information that enables users of the financial statements to understand all of the following (or refer to similar information disclosed elsewhere in the notes): ► Principal conditions or events that raised substantial doubt about the entity's ability to	While there is no specific required disclosure under IAS 1, entities should consider IAS 1.25, which requires entities to disclose any material uncertainties that management is aware of related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.

[14] ASC 205-40 expands on principles in the US auditing standards. While it requires management to make an evaluation that is similar to the auditor's going concern evaluation under the auditing standards of the Public Company Accounting Oversight Board, there are a few key differences.

continue as a going concern (before consideration of management's plans) ► Management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations ► Management's plans that alleviated substantial doubt about the entity's ability to continue as a going concern	

Implications:

Certain disclosures are required under US GAAP when relevant conditions and events initially indicate that there is substantial doubt about an entity's ability to continue as a going concern within one year after the financial statements are issued (or available to be issued, when applicable), but management concludes that its plans alleviate substantial doubt. There is no disclosure requirement under IFRS for similar circumstances; however, IFRS entities should consider the disclosure requirements of IAS 1.25 noted above. As a result, there may be disclosure differences between US GAAP and IFRS entities where there are going concern considerations.

Identified difference?

Describe:
Click here to enter text.

Yes	No	Depends on policy election
☐	☐	☐

Statement of cash flows

Similarities:

Both US GAAP and IFRS require a statement of cash flows to provide information about the changes in cash and cash equivalents of an entity by means of classifying the cash flows during the period into operating, investing and financing activities. Both sets of standards define cash equivalents as short term, highly liquid investments that are readily convertible to known amounts of cash and are so near their maturity that they are subject to insignificant risk of changes in value. Generally, these instruments have original maturities of three months or less. Although gross presentation of cash flows is generally required by US GAAP and IFRS, net presentation is permitted if either (1) the cash flows are on behalf of customers or (2) the turnover is quick, amounts are large and maturities are short. Entities with foreign currency transactions or operations present the reporting currency equivalent of foreign currency cash flows using the exchange rates in effect at the time of the cash flows. Both standards allow an appropriately weighted average exchange rate for the period to be used for the translation if it approximates the actual rate.

Primary US GAAP	Primary IFRS
► ASC 230, *Statement of Cash Flows*	► IAS 7 *Statement of Cash Flows*

Standard setting activities:

In March 2019, the FASB issued ASU 2019-01, *Leases (Topic 842): Codification Improvement*, that clarifies that lessors in the scope of ASC 942, *Financial Services – Depository and Lending*, must classify principal payments received under sales-type and direct financing leases in investing activities in the statement of cash flows. All other lessors classify cash receipts from leases in operating activities, as required by ASC 842 on leases. For PBEs (as defined); not-for-profit entities that have issued or are conduit bond obligors for securities that are traded, listed or quoted on an exchange or an over-the-counter market and that had issued (or made available for issuance) financial statements that reflect the new standard as of 3 June 2020; and employee benefit plans that file or furnish financial statements with or to the SEC, ASU 2019-01 became effective for annual periods beginning after 15 December 2019 and interim periods within those years. For all other entities, ASU 2019-01 became effective for annual periods beginning after 15 December 2021 and is effective for interim periods within annual periods beginning after 15 December 2022. We have assumed the adoption of ASU 2019-01 in question 11.

In December 2019, the IASB proposed issuing a new IFRS standard on presentation of financial statements that would include amendments to reduce the presentation alternatives currently permitted by IAS 7 for interest and dividend cash flows. The amendments would also require an entity to use operating profit or loss (a new subtotal in the statement of profit or loss), instead of profit or loss as the starting point for the indirect method of reporting cash flows from operating activities. The IASB is currently redeliberating the proposal in light of comment letters received.

Discussion of IFRS 1:

Under IFRS 1, the statement of cash flows should be presented in accordance with IAS 7 for all periods.

Differences:

1. Is the entity a defined benefit plan or other employee benefit plan or investment company?	Yes ☐	No ☐

US GAAP — ASC 230-10-15-4	**IFRS — IAS 7.3**
A statement of cash flows is not required for defined benefit pension plans that present financial information in accordance with the provisions of ASC 960; certain other employee benefit plans that present information similar to that required by ASC 960; and for certain investment companies, variable annuity accounts, common trust funds and similar funds.	IFRS requires all entities to present a cash flow statement.

Implications:
Under US GAAP, certain entities are not required to present a statement of cash flows. Under IFRS, however, all entities are required to present a cash flow statement. Therefore, some entities that are not required to provide a statement of cash flows under US GAAP would be required to do so under IFRS.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

IFRS 1 implications:

Entities affected by this difference should plan to collect relevant information to prepare a cash flow statement on a timely basis to be able to prepare required statements upon adoption of IFRS.

2. Does the entity use the direct or indirect method to report cash flows from operating activities?	Yes ☐	No ☐

The direct method requires that an entity report major classes of gross cash receipts and gross cash payments and their arithmetic sum (i.e., the net cash flow from operating activities).

Using the indirect method, an entity should determine and report the same amount for net cash flow from operating activities indirectly by reconciling net income (US GAAP) or profit or loss, which has been interpreted as either before or after tax (IFRS), to net cash flows from operating activities.

US GAAP — ASC 230-10-45-25 and ASC 230-10-45-28 through 45-32	**IFRS — IAS 7.18 through 20 and IAS 7 Illustrative Examples, Example A**
Cash flows from operating activities may be reported using either the direct or indirect method. The indirect method requires adjusting net income to remove the effects of (1) all deferrals of past operating cash receipts and payments, (2) all accruals of expected future operating cash receipts and payments and (3) all items included in net income that do not affect net cash flows from operating activities (e.g., depreciation and amortization). If an entity other than a not-for-profit entity uses the direct method, the reconciliation of net income to net cash flow from operating activities is required to be provided in a separate schedule.	Cash flows from operating activities may be reported using either the direct or indirect method. Under the indirect method only, profit or loss (interpreted as either before or after tax) is adjusted for the effects of changes during the period in inventories, operating receivables, payables, noncash items and all other items for which the cash effects are investing or financing cash flows. Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the revenues and expenses disclosed in the statement of comprehensive income and the changes during the period in inventories, operating receivables and payables. Under the direct method, a reconciliation of profit or loss to net cash flow from operating activities is not required.

Implications:

US GAAP does not provide alternatives for the indirect method while IFRS allows for two approaches when using the indirect method, as noted above. The presentation requirements of the more common alternative under IFRS are the same as US GAAP. The alternative presentation under IFRS is rarely used. Additionally, when applying the indirect method under IFRS, entities start their reconciliation to net cash flows from operating activities from “profit or loss,” which has been interpreted as either “profit or loss before tax” or “profit or loss after tax” (i.e., net income). US GAAP requires entities to reconcile starting from net income.

When applying the direct method, the reconciliation of net income to net cash flows from operating activities is only required under US GAAP (not IFRS).

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

3. Does the reporting entity classify any amounts as restricted cash or restricted cash equivalents?	Yes	No
	☐	☐

US GAAP — ASC 230-10-45-4 and ASC 230-10-50-7 through 50-8	**IFRS — IAS 7**
The statement of cash flows shows the changes in the total of cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. In addition, when cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents are presented in more than one line item on the balance sheet, entities are required to reconcile the totals in the statement of cash flows to the related captions in the balance sheet. This reconciliation can be presented either on the face of the statement of cash flows or in the notes to the financial statements and may be provided in either a narrative or tabular format (refer to ASC 230-10-55-12A and ASC 230-10-55-18A for examples). Entities will also have to disclose the nature of their restricted cash and restricted cash equivalent balances.	There is no specific guidance about the presentation of changes in amounts generally described as restricted cash and restricted cash equivalents in the statement of cash flows.

Implications:
Neither US GAAP nor IFRS provides a definition of restricted cash. Because there is no IFRS guidance on the presentation of restricted cash and restricted cash equivalents in the statement of cash flows, there may be a difference in how these cash flows are classified and presented under US GAAP and under IFRS.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

4. Does the reporting entity have bank overdrafts that are repayable on demand?	Yes ☐	No ☐

US GAAP — ASC 230-10-20	**IFRS — IAS 7.8**
The US GAAP definition of “cash equivalents” does not specifically address bank overdrafts. However, AICPA Technical Question and Answers, TIS Section 1300.15, *Presentation of Cash Overdraft on Statement of Cash Flows*, clarifies the overdraft is classified on the statement of financial position as a liability, and notes the net change in overdrafts during the period is a financing activity.	IFRS notes that bank borrowings are generally considered to be financing activities. However, at times, bank overdrafts that are repayable on demand form an integral part of an entity’s cash management. In these circumstances, bank overdrafts are included as a component of cash and cash equivalents in the cash flow statement.

Implications:
Under US GAAP, bank overdrafts are not included in the definition of “cash equivalents” while certain bank overdrafts are included in the definition of “cash and cash equivalents” under IFRS. Under IFRS, the bank overdraft may be included in “cash and cash equivalents” in the cash flow statement even if the bank overdraft is not included in the “cash and cash equivalents” line item in the statement of financial position.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

5. Has the reporting entity paid or received interest or received any dividends during the period?	Yes ☐	No ☐

US GAAP — ASC 230-10-45-12 through 45-13, ASC 230-10-45-16 through 45-17, and ASC 230-10-45-21D	**IFRS — IAS 7.31 through 34**
Cash receipts from returns on loans, other debt instruments of other entities, and equity instruments of other enterprises (interest and dividends) are classified as operating, as are cash payments to lenders and other creditors for interest. Cash receipts from returns of investment in equity instruments of other enterprises are classified as investing. Payments to acquire PP&E and other productive assets, including interest capitalized as part of the cost of those assets, are classified as investing.	Cash flows from interest and dividends received and paid should be classified in a consistent manner from period to period as either operating, investing or financing. Interest paid and interest and dividends received are usually classified as operating cash flows for a financial institution. However, there is no consensus on the classification of these cash flows for other entities. They may be classified as operating cash flows or, alternatively, the interest paid may be classified as financing and

	interest and dividends received may be classified as investing cash flows.

Implications:

Interest paid or received

Under US GAAP, interest paid or received is generally reported as an operating activity, with the exception of interest capitalized as part of the cost of the acquisition of productive assets, which is classified as investing. IFRS allows more latitude as long as the cash flows are classified in a consistent manner. Under IFRS, interest paid is generally classified as operating or financing, and interest received is generally classified as operating or investing cash flows. However, under IFRS it would seem appropriate to include cash flows relating to capitalized interest under investing activities as well.

Dividends received

Dividends received are classified as either operating or investing under IFRS. Under US GAAP, dividends received are generally classified as operating. However, an entity with equity method investments must elect under ASC 230-10-45-21D, as an accounting policy election, to apply either the "cumulative earnings" approach or the "nature of the distribution" approach to determine whether distributions received from equity method investees are returns *on* investment (classified as operating) or returns *of* investment (classified as investing). This accounting policy election applies to all distributions received from all equity method investees, and entities have to disclose the approach they elect.

Under the "nature of the distribution" approach, distributions are classified based on the nature of the activity or activities of the investee that generated the distribution (return *on* investment or a return *of* investment). An entity that elects this approach but lacks the information to apply it for an individual equity method investee will apply the cumulative earnings approach for that investee as an accounting change (i.e., on a retrospective basis) and the nature of the distribution approach for all other equity method investees.

Identified difference?

Yes ☐ No ☐ Depends on policy election ☐

Describe:
Click here to enter text.

6. Did the entity pay any dividends or repurchase shares from employees to satisfy its statutory income tax withholding obligation?

Yes ☐ No ☐

US GAAP — ASC 230-10-45-15	IFRS — IAS 7.34
Payments of dividends or other distributions to owners, including outlays to reacquire the entity's equity instruments, are classified as cash outflows for financing activities. Cash paid by an employer to a tax authority when repurchasing (or withholding) shares from an employee's award for tax-withholding purposes is considered	Dividends paid may be classified as a financing cash flow because they are a cost of obtaining financial resources. Alternatively, dividends paid may be classified as a component of cash flows from operating activities in order to assist users in determining the ability of an entity to pay dividends out of operating cash flows. IAS 7 does not include specific guidance on the

an outlay to reacquire an entity's equity instruments and is classified as a financing activity.	classification of cash paid by an employer to the taxing authorities when it repurchases (or withholds) shares from employees to satisfy its statutory income tax withholding obligation.

Implications:

Under US GAAP, dividends paid are always classified as financing activities. This includes dividends paid to a subsidiary's noncontrolling interest holders. However, IFRS permits dividends to be classified either as financing or operating cash flows.

Under US GAAP, an entity is required to classify cash paid by an employer to the taxing authorities when it repurchases (or withholds) shares from employees to satisfy its statutory income tax withholding obligation as a financing activity. IAS 7 does not specifically address the classification of these cash flows. As a result, there may be a difference in how these cash flows are classified under US GAAP and under IFRS.

Identified difference?

Describe:
Click here to enter text.

Yes ☐ No ☐ Depends on policy election ☐

7. Has the reporting entity paid any income taxes?

Yes ☐ No ☐

US GAAP — ASC 235-10-45-17	IFRS — IAS 7.35 through 36
Taxes, duties and fines paid to governments are classified as operating cash flows.	Income taxes are classified as operating cash flows unless they can be specifically identified with investing or financing activities. When it is practicable to identify the tax cash flow with an individual transaction that gives rise to cash flows that are classified as investing or financing activities, the tax cash flow is classified as an investing or financing activity, as appropriate.

Implications:

US GAAP requires income taxes to be classified as operating cash flows.

Under IFRS, cash flows from taxes on income should be classified within operating cash flows unless they can be specifically identified with investing or financing activities. While it is possible to match elements of tax expense to transactions for which the cash flows are classified under investing or financing activities, taxes paid are usually classified as cash flows from operating activities because it is often impracticable to match tax cash flows with specific elements of tax expense and those tax cash flows may arise in a different period to the underlying transaction. However, when it is practicable to make this determination, the tax cash flow is classified as an investing or financing activity in accordance with the individual transaction that gives rise to such cash flows.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

8. Does the reporting entity recognize excess tax benefits and tax deficiencies for its share-based payment awards?

Yes ☐ No ☐

ASC 718 requires that the income tax effects of share-based payments be recognized for financial reporting purposes only if such awards would result in deductions on the company's income tax return. Generally, under US GAAP, the amount of income tax benefit recognized in any period is equal to the amount of compensation cost recognized multiplied by the employer's statutory tax rate. A tax deduction for an award (generally at option exercise or share vesting) that exceeds the cumulative amount of compensation cost recognized in the financial statements for that award results in an excess tax benefit, whereas a tax deduction for an award that is less than the cumulative amount of compensation cost for that award results in a tax deficiency. Entities will be required to reflect the income tax effects of awards in the income statement when the awards vest or are settled. See question 9 in the "Share-based payments" section of this publication for additional information.

US GAAP — ASC 230-10-45-17(c)	**IFRS — IAS 7**
Excess tax benefits and tax deficiencies from share-based payment awards (including tax benefits of dividends on share-based payment awards) are recognized as income tax expense or benefit in the income statement and, therefore, should be classified as operating activities in the statement of cash flows.	IFRS does not address the classification of cash flows resulting from the excess tax benefits and tax deficiencies from share-based payment awards.

Implications:
IAS 7 does not specifically address the classification of cash flows resulting from the excess tax benefits and tax deficiencies from share-based payment awards. As a result, there may be a difference in how these cash flows are classified under US GAAP and under IFRS. See question 7 for discussion of the classification of income tax cash flows in general under IFRS.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

9. Did the entity enter into any hedges?

Yes ☐ No ☐

US GAAP — ASC 230-10-45-27	**IFRS — IAS 7.14 and IAS 7.16**

Generally, each cash receipt or payment is to be classified according to its nature without regard to whether it stems from an item intended as a hedge of another item. However, cash flows from a derivative instrument that is accounted for as a fair value hedge or a cash flow hedge may be classified in the same category as the cash flows from the items being hedged provided that the derivative instrument does not include an other-than-insignificant financing element at inception (other than a financing element inherently included in an at-the-market derivative instrument with no prepayments (i.e., the forward points in an at-the-money forward contract)) and that the accounting policy is disclosed. If the derivative instrument includes an other-than-insignificant financing element at inception, all cash inflows and outflows of the derivative instrument should be considered cash flows from financing activities by the borrower. If for any reason hedge accounting for an instrument that hedges an identifiable transaction or event is discontinued, then any cash flows subsequent to the date of discontinuance should be classified consistent with the nature of the instrument.	IFRS requires cash receipts or payments for futures contracts, forward contracts, option contracts and swap contracts to be classified as investing activities except when the cash flows are classified as financing activities or the contracts are held for dealing or trading purposes, in which case they are classified as operating activities. However, when a contract is accounted for as a hedge of an identifiable position, the cash flows of the contract are classified in the same manner as the cash flows of the position being hedged.

Implications:

When a derivative is accounted for as a hedge, US GAAP *permits* classification of cash flows from the derivative in the same category as the cash flows from the item being hedged, provided that certain criteria are met. In contrast, IFRS *requires* that the derivative's cash flows be classified in the same manner as the cash flows of the position being hedged. Therefore, differences could result in the classification of cash flows from derivatives accounted for as a hedge if an entity chooses under US GAAP not to classify the derivative's cash flows in the same manner as the hedged item's cash flows.

If the derivative includes an other-than-insignificant financing element at inception, US GAAP requires classification of cash flows from the derivative as a financing activity by the borrower. Because IFRS does not specifically address classification of cash flows for derivatives that include an other-than-insignificant financing element at inception, a potential difference may arise.

When the hedge accounting for an instrument that hedges an identifiable transaction or event is discontinued (for any reason), US GAAP requires any subsequent cash flows to be classified consistent with the nature of the instrument. IFRS generally requires entities to classify cash flows from derivatives that are not part of a hedging relationship as investing activities except when the cash flows are classified as financing activities or the contracts are held for dealing or trading, in which case the related cash flows would be classified as an operating activity. This could lead to additional differences in accounting for cash flows from derivative instruments.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

10. Does the entity have discontinued operations?	Yes	No
	☐	☐

US GAAP — ASC 230-10-45-24A and ASC 205-20-50-5B(c)	**IFRS — IFRS 5.33**
US GAAP requires disclosure of either (1) the total cash flows attributable to operating and investing activities of the discontinued operation or (2) the depreciation, amortization, capital expenditures, and significant operating and investing noncash items of the discontinued operation. These disclosures may be presented either in the notes or on the face of the financial statements. An entity that chooses to report cash flows of discontinued operations on the face of the cash flow statement must do so consistently for all periods affected. As expressed at the 2005 AICPA National Conference on Current PCAOB and SEC Developments, the SEC staff believes that acceptable presentations include: ► Combine cash flows from discontinued operations with cash flows from continuing operations within each cash flow statement category ► Identify cash flows from discontinued operations separately within each statement of cash flows category ► Identify net cash flows from discontinued operations separately, by category and in total in the statement of cash flows	IFRS requires disclosure of the net cash flows attributable to the operating, investing and financing activities of discontinued operations. These disclosures may be presented either in the notes or on the face of the financial statements. These disclosures are not required for disposal groups that are newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition.

Implications:
Because IFRS requires disclosure of the net cash flows related to operating, investing and financing activities of discontinued operations (that are not newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition), and US GAAP does not require presentation of all categories, differences in presentation may arise.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

Entities should plan to collect relevant information to meet the IFRS disclosure requirement in order to avoid recalculating these amounts at a later date when the information may not be as readily available.

11. Did the reporting entity have any of the transactions described below?	Yes	No
	☐	☐

US GAAP — ASC 230-10-45-12 through 45-25, ASC 230-10-50-2 through 50-4, ASC 842-30-45-5 and ASC 942-230-45-4	**IFRS — IAS 7.10 through 17**
US GAAP provides specific guidance for the classification of the following transactions: ► Debt prepayment or extinguishment costs ► Settlement of zero-coupon debt instruments or other debt instruments with coupon rates that are insignificant in relation to the effective interest rate of the borrowing ► Contingent consideration payments made after a business combination ► Proceeds from the settlement of insurance claims ► Proceeds from the settlement of corporate-owned life insurance ► Beneficial interests in securitization transactions For a cash receipt or cash payment that has aspects of more than one class of cash flows where specific guidance is not proscribed, US GAAP provides guidance (i.e., the predominance principle) on how to determine the cash flow classification. ASU 2019-01 clarifies that lessors in the scope of ASC 942 (i.e., certain depository and lending institutions) must classify principal payments received under sales-type and direct financing leases in investing activities in the statement of cash flows. All other lessors classify cash receipts from leases in operating activities, as required by ASC 842.	IFRS provides principles for the classification of transactions as operating, investing or financing activities; however, it does not specifically address the classification of certain transactions and the application of the predominance principle like US GAAP does.

Implications:

US GAAP includes specific guidance for the cash flow classification of the following transactions:

Debt prepayment or extinguishment costs

An entity classifies cash payments for debt prepayment or extinguishment costs as financing cash outflows.

Settlement of zero-coupon debt instruments or other debt instruments with coupon rates that are insignificant in relation to the effective interest rate of the borrowing

An entity classifies the portion of the cash payment made to settle a zero-coupon bond or a bond with an insignificant cash coupon attributable to accreted interest related to the debt discount as a cash outflow for operating activities. It classifies the portion of the cash payment attributable to the principal as a cash outflow for financing activities.

Contingent consideration payments made after a business combination

An entity classifies cash payments that are not made “soon after” (i.e., a relatively short period of time such as three months or less) the consummation of a business combination to settle a contingent consideration liability as cash outflows for financing and operating activities. The portion of the cash payment up to the acquisition date fair value of the contingent consideration liability (including any measurement period adjustments) is classified as a financing cash outflow, and amounts paid in excess of the acquisition date fair value of that liability are classified as operating outflows. Cash payments made “soon after” the consummation of a business combination generally are classified as cash outflows for investing activities.

Proceeds from the settlement of insurance claims

An entity classifies insurance settlement proceeds (except as noted below) based on the related insurance coverage (i.e., the nature of the loss). The entity allocates a lump-sum settlement that relates to more than one type of loss (e.g., loss of a building in a fire and business interruption costs) to each type of loss to determine how the proceeds should be classified.

Proceeds from the settlement of corporate-owned life insurance

An entity classifies corporate-owned life insurance (COLI) settlement proceeds as cash inflows from investing activities and is able to present COLI premiums as cash outflows for investing activities, operating activities or a combination of them both.

Beneficial interests in securitization transactions

An entity discloses any beneficial interests obtained in financial assets transferred to an unconsolidated securitization entity as a noncash investing activity. The entity classifies subsequent cash receipts that are related to beneficial interest in previously transferred trade receivables as inflows from investing activities.

Application of the predominance principle

Certain cash receipts and cash payments may have aspects of more than one class of cash flows. An entity first applies any relevant guidance in ASC 230 and in other applicable topics. If there is no guidance that addresses those cash receipts and cash payments, an entity determines each separately identifiable source or use and classifies the receipt or payment based on the nature of the cash flow. If a receipt or payment has aspects of more than one class of cash flows and cannot be separated, classification depends on the predominant source or use.

Cash-flow presentation for lessors

Cash lease payments received by lessors are presented in operating activities, except for lessors in the scope of ASC 942 who classify principal payments received under sales-type and direct financing leases in investing activities.

Because IFRS does not specifically address the classification of these transactions and the application of the predominance principle, potential differences may arise depending on an entity's judgments when applying the principles of IAS 7.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

12. Does the entity calculate a cash flow per share amount?	Yes	No
	☐	☐

US GAAP — ASC 230-10-45-3	**IFRS — IAS 7**
Financial statements will not report an amount of cash flow per share.	There is no restriction on reporting cash flow per share.

Implications:
US GAAP prohibits an entity from reporting a cash flow per share amount in the financial statements, while IFRS does not explicitly disallow such presentation.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

13. Does the entity have any liabilities arising from financing transactions?	Yes	No
	☐	☐

US GAAP — ASC 230-10-45-7 through 45-9 and ASC 230-10-50-3 through 50-6	**IFRS — IAS 7.44A through 44E**
US GAAP generally requires presentation of the gross amounts of cash receipts and cash payments in the statement of cash flows, but it does not specifically address the disclosure of changes in liabilities arising from financing activities. US GAAP does, however, require the disclosure of noncash activity (e.g., obtaining a right-of-use asset in exchange for a lease liability under ASC 842).	Disclosure of changes in liabilities arising from financing activities, including both changes arising from cash flows and noncash changes, is required.

Implications:

Under IFRS, liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. In addition, financial asset-related cash flows that will be included in cash flows from financing activities (e.g., assets that hedge liabilities arising from financing activities) should also be included in this disclosure. The following changes should be disclosed to explain the movements in these instruments:

- Changes from financing cash flows
- Changes arising from obtaining or losing control of subsidiaries or other businesses
- The effect of changes in foreign exchange rates
- Changes in fair values
- Other changes

Because US GAAP does not have similar disclosure requirements, disclosure differences could arise.

Identified difference?

Yes	No	Depends on policy election
☐	☐	☐

Describe:
Click here to enter text.

Borrowing costs

Similarities:

The guidance for capitalizing interest under ASC 835-20 or borrowing costs under IAS 23 is largely converged. Both standards require financing costs related to borrowings that are incurred during the acquisition, construction or production of certain qualifying assets to be capitalized as costs of acquiring such assets. Generally, the types of costs to be capitalized and the qualifying assets that require capitalization of such costs are similar under both accounting models. In addition, both US GAAP and IFRS expressly prohibit the capitalization of interest or borrowing costs related to inventories that are manufactured or otherwise produced in large quantities on a repetitive basis.

Primary US GAAP	Primary IFRS
► ASC 835-20, *Capitalization of Interest* ► ASC 815, *Derivatives and Hedging*	► IAS 23 *Borrowing Costs*

Standard setting activities:

There is no significant standard setting activity in this area.

Discussion of IFRS 1:

On first-time adoption of IFRS, an entity should capitalize borrowing costs under IAS 23. IFRS 1.D23 allows a first-time adopter to elect to apply the requirements of IAS 23 from the date of transition or from an earlier date as permitted by IAS 23.28. From the date on which an entity that applies this exemption begins to apply IAS 23, the entity:

- Should not restate the borrowing cost component that was capitalized under previous GAAP and that was included in the carrying amount of assets at that date
- Should account for borrowing costs incurred on or after that date in accordance with IAS 23, including those borrowing costs incurred on or after that date on qualifying assets already under construction

If a first-time adopter established a deemed cost for an asset, then it cannot capitalize borrowing costs incurred before the measurement date of the deemed cost. See “IFRS 1 implications” in the “Property, plant and equipment” section of this publication for additional information on the deemed cost election.

Differences:

1. Does the reporting entity acquire, construct or produce assets that take a substantial period of time to get ready for their intended use?	Yes ☐	No ☐

An asset that requires a substantial period of time to get it ready for its intended use or sale may require interest or borrowing costs incurred during the acquisition period to be capitalized as a part of the historical cost of the asset. Under US GAAP and IFRS, interest or borrowing costs may be required to be capitalized for certain qualifying assets.

US GAAP — ASC 835-20-15-5 through 15-6	IFRS — IAS 23.1 and IAS 23.4 through 5
Qualifying assets include: ► Assets that are constructed or otherwise produced for an entity’s own use, including assets constructed or produced for the entity	A qualifying asset is defined as an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. An entity is not required to apply the guidance to borrowing costs directly attributable to the

by others for which deposits or progress payments have been made ► Assets intended for sale or lease that are constructed or otherwise produced as discrete projects (e.g., ships, real estate developments)	acquisition, construction or production of a qualifying asset measured at fair value (e.g., a biological asset in the scope of IAS 41).

Implications:
Under US GAAP, there is not a specific requirement that the period of time to construct or produce the assets be substantial. As a result, certain assets (i.e., assets for which the period of time required to produce or construct is not substantial) that are qualifying assets under US GAAP may not be considered qualifying assets under IFRS. Certain other assets (i.e., assets to be sold or leased that are not produced as discrete projects) that are not qualifying assets under US GAAP may be considered qualifying assets under IFRS. Certain other assets that are not qualifying assets under IAS 23 (i.e., qualifying assets that are measured at fair value) may be considered qualifying assets under US GAAP. Note that under both ASC 835-20 and IAS 23 inventories that are routinely manufactured or otherwise produced in large quantities on a repetitive basis are not considered qualifying assets.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

2. Does the reporting entity have any equity method investments? Yes ☐ No ☐

An entity may have an investment, such as an equity interest, loan or advance, accounted for under the equity method while the investee has activities in progress necessary to commence its planned principal operations.

US GAAP — ASC 835-20-15-5	**IFRS — IAS 23.BC22**
An investment accounted for under the equity method meets the qualifying assets criteria while the investee has activities in progress necessary to commence its planned principal operations provided that the investee's activities include the use of funds to acquire qualifying assets for its operations. The investor's investment in the investee, not the individual assets or projects of the investee, is the qualifying asset for purposes of interest capitalization.	An investment accounted for under the equity method is not a qualifying asset according to IAS 23.

Implications:
Capitalization of interest on equity method investments, which is required under US GAAP in certain circumstances, is not allowable under IFRS. Paragraph 22 in the Basis for Conclusions to IAS 23 specifically notes this as a difference between US GAAP and IFRS.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

3. Has the reporting entity incurred interest or borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset?	Yes	No
	☐	☐

US GAAP — ASC 835-20-10-2 and ASC 835-20-20	**IFRS — IAS 23.1, IAS 23.5 through 6 and IAS 23.8**
Capitalization of interest costs is required while a qualifying asset is being prepared for its intended use. Only interest costs (including interest recognized on obligations having explicit interest rates, interest on certain types of payables and interest related to finance leases) are eligible for capitalization. Interest cost includes amounts resulting from periodic amortization of discounts or premiums and issue costs on debt. Foreign exchange gains or losses are not included in capitalized interest.	Capitalization of borrowing costs is required while a qualifying asset is being acquired, constructed or produced. Borrowing costs include interest and other costs that an entity incurs in connection with the borrowing of funds, such as interest expense calculated using the effective interest method as described in IFRS 9 and interest related to lease liabilities recognized in accordance with IFRS 16. Borrowing costs also include exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Implications:
Borrowing costs as defined under IFRS reflect a broader definition than interest costs under US GAAP. Paragraph 20 in the Basis for Conclusions to IAS 23 specifically notes this as a difference between US GAAP and IFRS. Due to the broader definition of borrowing costs versus interest costs, certain costs may be eligible for capitalization under IFRS that are not eligible for capitalization under US GAAP. For example, because IFRS allows exchange differences to be capitalized and US GAAP does not, there will likely be differences in the measurement of costs to be capitalized when an entity borrows funds in a currency other than the currency in which the funds are expended for the purpose of obtaining a qualifying asset. For example, an entity may borrow funds denominated in US dollars and expend funds denominated in Mexican pesos. This may have been done on the basis that, over the period of the construction or production of the qualifying asset, the cost, after allowing for

exchange differences, was expected to be less than the interest cost of an equivalent loan denominated in Mexican pesos.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

4. Did the reporting entity borrow funds specifically for the purpose of obtaining a qualifying asset?	Yes ☐	No ☐

An entity may finance the acquisition of a qualifying asset through the use of funds borrowed for the specific purpose of acquiring, constructing or producing the asset. An entity may obtain borrowed funds, thereby incurring interest or borrowing costs, before some or all of the funds are needed and may temporarily invest these amounts prior to expending the funds.

US GAAP — ASC 835-20-30-3 through 30-4, and ASC 835-20-30-10	**IFRS — IAS 23.12 through 13**
Capitalized interest is determined by applying the capitalization rate (i.e., interest rate) to the average amount of accumulated expenditures for the asset during the period. The capitalization rate should reflect a reasonable measure of the cost of financing the acquisition of the asset in terms of the interest cost incurred that otherwise would have been avoided. If an entity's financing plans associate a specific new borrowing with a qualifying asset, the entity may use the rate on that borrowing as the capitalization rate to be applied to that portion of the average accumulated expenditures for the asset that does not exceed the amount of that borrowing. If average accumulated expenditures for the asset exceed the amounts of specific new borrowings associated with the asset, the capitalization rate to be applied to such excess should be a weighted average of the rates applicable to other borrowings of the entity. Any income earned on the temporary investment of borrowed funds is generally not considered in the determination of capitalized interest.	An entity is required to capitalize actual borrowing costs incurred related to funds that are borrowed specifically to obtain a qualifying asset less any investment income on the temporary investment of those borrowings.

Implications:

Differences may result in the measurement of costs to be capitalized when an entity borrows funds specifically for the purpose of obtaining a qualifying asset. Under US GAAP, an entity applies a capitalization rate (which may not necessarily be equivalent to the interest rate on the specific borrowings) to average accumulated expenditures during the period to determine the amount of interest to capitalize. Under IFRS, an entity capitalizes the actual borrowing costs incurred on the

specific borrowing (regardless of expenditures during the period) reduced by any income earned on the temporary investment of borrowings obtained in advance of expenditure. As a result, the different methods used will likely result in different capitalization amounts. The significance of such differences will vary based on facts and circumstances.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

5. Did the reporting entity borrow funds generally and use them to obtain qualifying assets?	Yes ☐	No ☐

In some circumstances, such as when the financing activity of the entity are coordinated, an entity may borrow funds generally (as opposed to specific borrowings) and use those funds in the acquisition, construction or production of qualifying assets.

US GAAP — ASC 835-20-30-3 through 30-4	**IFRS — IAS 23.14 through 15**
The capitalization rates used in an accounting period must be based on the rates applicable to borrowings outstanding during the period. An entity must use judgment in determining the capitalization rate to apply to the expenditures on the asset. An entity selects the borrowings that it considers appropriate to meet the objective of capitalizing the interest costs incurred that otherwise could have been avoided. If an entity's financing plans associate a specific new borrowing with a qualifying asset, the entity may use the rate on that borrowing as the capitalization rate to be applied to that portion of the average accumulated expenditures for the asset that does not exceed the amount of that borrowing. If average accumulated expenditures for the asset exceed the amounts of specific new borrowings associated with the asset, the capitalization rate to be applied to such excess must be a weighted average of the rates applicable to other borrowings of the entity.	To the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity would determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate should be the weighted average of the borrowing costs applicable to all borrowings of the entity that are outstanding during the period. However, in some circumstances it may be appropriate to calculate a separate capitalization rate for each subsidiary based on its outstanding borrowings. Additionally, to the extent an entity has made certain borrowings specifically for the purpose of obtaining a different qualifying asset, those specific borrowings are not included in the determination of the capitalization rate for assets obtained using generally borrowed funds until substantially all the activities necessary to prepare that asset for its intended use or sale are complete. Once substantially all the activities necessary to prepare the different qualifying asset for its intended use or sale are complete, these borrowing costs are included in determining the capitalization rate.

Implications:
Because US GAAP allows for the use of judgment in determining the capitalization rate whereas IFRS is more prescriptive, differences may result in the measurement of costs to be capitalized when an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

6. Has the reporting entity incurred any derivative gains and losses as part of the capitalized interest cost? Yes ☐ No ☐

Derivative financial instruments such as interest rate swaps, floors, caps and collars are commonly used to manage interest rate risk on borrowings. These derivative financial instruments may be designated as hedging instruments in fair value or cash flow hedges.

US GAAP — ASC 815-20-45-1A(a), ASC 815-25-35-14 and ASC 815-30-35-45	**IFRS — IAS 23**
Amounts recorded in interest cost arising from a derivative instrument that qualifies as a fair value hedge are reflected in the capitalization rate. Amounts in OCI related to a cash flow hedge of variable-rate debt associated with an asset under construction (where interest is capitalized as a cost of that asset) are reclassified into earnings over the depreciable life of the constructed asset because that depreciable life coincides with the amortization period for the capitalized interest cost on the debt.	IFRS does not address such derivative gains and losses.

Implications:
Differences may result in the measurement of costs to be capitalized when an entity uses derivative financial instruments to manage interest rate risk on borrowings. While US GAAP provides guidance indicating how amounts related to interest costs arising from derivative instruments in fair value and cash flow hedges are reflected in the capitalization rate, IFRS does not have specific guidance. In practice, the lack of guidance under IFRS has led to diversity in how derivative gains and losses are treated. As a result, an entity will be required to develop a policy under IFRS (which may differ from US GAAP requirements) on how it will account for derivative gains and losses when capitalizing interest costs.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

Noncurrent assets held for sale and discontinued operations

Similarities:

Held for sale criteria

The criteria for classifying a long-lived asset or disposal group (herein referred to as a disposal group) as held for sale are similar under US GAAP and IFRS. A disposal group is a group of assets to be disposed of together in a single transaction and the liabilities directly associated with those assets that will be transferred in the transaction. A disposal group is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use and the disposal group meets the held-for-sale criteria. For this to be the case, the disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets, and its sale must be probable (US GAAP) or highly probable (IFRS).

In addition, the appropriate level of management must be committed to a plan to sell and an active program to locate a buyer and complete the plan must have been initiated. Further, the disposal group must be actively marketed for sale at a price that is reasonable in relation to its current fair value, the sale should be expected to be completed within one year from the date the disposal group was classified as held for sale with limited exceptions, and the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Although the “Impairment or Disposal of Long-Lived Assets” subsections of ASC 360-10 use the term “probable” and IFRS 5 “highly probable,” the Basis for Conclusions to IFRS 5 states that the criteria for classification as held for sale is fully converged with the “Impairment or Disposal of Long-Lived Assets” subsections of ASC 360-10. Further, the IASB notes that it “regards ‘highly probable’ as implying a significantly higher probability than ‘more likely than not’ (the definition of probable in IFRS) and as implying the same probability as the FASB’s phrase ‘likely to occur’.”

Noncurrent assets that are to be abandoned should continue to be classified as held and used and evaluated for impairment until the asset has ceased to be used.

Measurement of a disposal group

A disposal group that has been classified as held for sale should be carried at the lower of its carrying amount or fair value less costs to sell. If a newly acquired disposal group meets the criteria to be classified as held for sale at the acquisition date, it should be carried at fair value less costs to sell and not at fair value like the other assets and liabilities acquired. Assets in a disposal group are not depreciated while classified as held for sale and are presented separately on the face of the balance sheet.

Changes to a plan of sale

If circumstances arise that management previously considered unlikely and, as a result, a disposal group ceases to meet the criteria to be classified as held for sale, the disposal group should be reclassified as held and used in the period in which the held-for-sale criteria are no longer met.

A disposal group reclassified to held and used should be carried at the lower of:

- Its carrying amount before the disposal group was classified as held for sale, adjusted for any depreciation, amortization or impairment losses (considering revaluations for IFRS) that would have been recognized had the disposal group not been classified as held for sale
- Its fair value under US GAAP or its recoverable amount under IFRS

Discontinued operations criteria

The criteria for what constitutes a discontinued operation under US GAAP is similar to IFRS; however, there are some differences that are described in detail below.

Presentation of discontinued operations

Both US GAAP and IFRS require separate presentation of discontinued operations on the face of the income statement. At a minimum, a single amount reflecting the results of operations, including any gain or loss on disposal, less applicable income taxes is required to be presented on the face of the income statement under both US GAAP and IFRS.

Primary US GAAP	Primary IFRS
► ASC 360*, Property, Plant, and Equipment* ► ASC 205-20, *Presentation of Financial Statements — Discontinued Operations*	► IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

Standard setting activities:

There is no significant standard setting activity in this area.

Discussion of IFRS 1:

IFRS 1 requires that entities apply IFRS 5 retrospectively.

Differences:

1. Does the entity have long-lived assets or asset groups that have been or will be disposed of?	Yes ☐	No ☐

US GAAP — ASC 205-20-15-1 through 15-3 and ASC 205-20-45-10 through 45-11	IFRS — IFRS 5.2 and IFRS 5.30 through 38
With the exception of oil and gas properties accounted for using the full cost method of accounting, the assets and liabilities of a component of an entity are presented as discontinued operations for all prior periods presented provided they meet the criteria for being presented as discontinued operations (refer to question 2).	Provided that they meet the criteria for being presented as discontinued operations (refer to question 2), a noncurrent asset or assets and liabilities of a disposal group may be presented as discontinued operations. IFRS has no separate requirements relating to the statement of financial position for a disposal group also qualifying as a discontinued operation and accordingly comparatives are not adjusted.

Implications:
The scope of discontinued operations guidance under US GAAP and IFRS is slightly different. As a result, it is possible certain disposals may not result in similar presentation under US GAAP and IFRS. Furthermore, US GAAP requires presentation of discontinued operations for all prior periods presented. Whereas, IFRS has no separate requirements relating to the statement of financial position for a disposal group also qualifying as a discontinued operation and, accordingly, comparatives are not adjusted.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

IFRS 1 implications:

As part of its transition to IFRS, an entity will have to review components classified as held for sale or disposed of during the periods to be reported in order to determine whether they should be presented as discontinued operations under IFRS and make corresponding adjustments in its IFRS financial statements.

2. Does the entity have a component that either has been disposed of or is classified as held for sale?	Yes ☐	No ☐

US GAAP — ASC 205-20-45-1A through 45-1D	**IFRS — IFRS 5.31 through 32**
Under US GAAP, a discontinued operation is (1) a component of an entity that has been disposed of (by sale or other than by sale) or is classified as held for sale and represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results or (2) a newly acquired business or nonprofit activity that upon acquisition is classified as held for sale. A strategic shift could include the disposal of (1) a major line of business, (2) a major geographical area, (3) a major equity method investment or (4) other major parts of an entity. A component of an entity is defined as comprising operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component of an entity may be a reportable segment or an operating segment, a reporting unit, a subsidiary or an asset group.	IFRS 5 defines a discontinued operation as a component of an entity that either has been disposed or is classified as held for sale and (1) represents a separate major line of business or geographical area of operations, (2) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or (3) is a subsidiary acquired exclusively with a view to resale. A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. In other words, a component of an entity will have been a CGU or a group of CGUs while being held for use.

Implications:
Because the principles in ASC 205-20 and IFRS 5 are similar, we expect there will often be similar conclusions regarding whether a disposal group meets the criteria to be presented as a discontinued operation.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

IFRS 1 implications:

As part of its transition to IFRS, an entity will have to review components classified as held for sale or disposed of during the periods to be reported in order to determine whether they should be presented as discontinued operations under IFRS and make corresponding adjustments in its IFRS financial statements.

3. Does an accumulated foreign CTA exist that is associated with an asset or disposal group classified as held for sale?	Yes ☐	No ☐

US GAAP — ASC 830-30-45-13 through 45-15	**IFRS — IAS 21.48 and IFRS 5.BC37 through BC38**
The guidance in ASC 830-30-45-13 requires an entity that has committed to a plan that will cause CTA to be reclassified to earnings to include the CTA as part of the carrying amount of the asset or disposal group being tested for impairment, regardless of whether the CTA is a debit or credit balance. As such, the accumulated foreign currency adjustment will affect the amount of the impairment loss.	When an asset or a disposal group held for sale is part of a foreign operation with a functional currency that is different from the presentation currency of the group, an exchange difference is recognized in equity as a result of translating the asset or disposal group into the presentation currency of the group. IAS 21 requires the exchange difference to be excluded from the carrying amount of the long-lived asset being tested for impairment, but to be “recycled” (reclassified) from equity to profit or loss once the asset is disposed. Accordingly, under IFRS, exchange differences relating to an asset or disposal group classified as held for sale are not included as part of the carrying value of the assets and will not affect the impairment loss. The accumulated foreign currency adjustment is reflected in income when the long-lived asset is sold and not when the impairment loss is recorded.

Implications:
The amount of the impairment loss, as well as the timing of the loss, from the accumulated CTA relating to an asset or disposal group will differ between US GAAP and IFRS. Under US GAAP, any accumulated foreign CTA is reflected in the carrying value of the assets held for sale and will affect the amount of the impairment loss. However, accumulated foreign CTAs are reclassified to income only upon sale or substantially complete liquidation. Under IFRS, any accumulated foreign currency adjustment is not included as part of the carrying value of the asset when assessing impairment but reflected in income upon sale of the long-lived assets.

Identified difference?	Yes ☐	No ☐	Depends on policy election ☐
Describe: Click here to enter text.			

IFRS 1 implications:

As of an entity's opening IFRS balance sheet, it will have to adjust impairment losses on noncurrent assets held for sale that included the accumulated CTA in the determination of the impairment loss unless the fair value as deemed cost election is used. See "IFRS 1 implications" in the "Property, plant and equipment" section of this publication for additional information on the deemed cost election.

4. Has a subsequent increase in the fair value of an asset or disposal group held for sale occurred?	Yes ☐	No ☐

US GAAP — ASC 360-10-35-40 and ASC 360-10-40-5	**IFRS — IFRS 5.19 through 24, and IAS 36.110**
A gain should be recognized for any subsequent increase in fair value less cost to sell but not in excess of the cumulative impairment loss previously recognized since classification as held for sale (for a write-down to fair value less cost to sell). The loss or gain should adjust only the carrying amount of a long-lived asset in the scope of ASC 360-10, whether classified as held for sale individually or as part of a disposal group. A gain or loss not previously recognized is recognized when the long-lived asset (disposal group) is derecognized in accordance with applicable ASC Topics (e.g., ASC 610-20, ASC 810, ASC 860).	A gain should be recognized for any subsequent increase in fair value less costs to sell, but not in excess of the cumulative impairment loss previously recognized either while held for sale or held for use, on the noncurrent assets that are in the scope of the measurement requirements of IFRS 5. At the date of sale, any gain or loss not previously recognized is recognized.

Implications:

Although the methods for recognizing subsequent increases or decreases in the fair value less costs to sell for assets held for sale are similar, the underlying carrying amounts of the long-lived assets in the disposal group could differ. A difference in the carrying amount of the assets will exist, for example, if an impairment loss was recognized before the assets were classified as held for sale and the impairment indicators that gave rise to the impairment have been abated. This difference arises because IFRS requires the reversal of an impairment charge if the impairment indicators no longer exist whereas reversals of impairment charges are not permitted under US GAAP. Accordingly, IFRS 5 requires subsequent increases in fair value less costs to sell of a disposal group to be recognized, even if those increases exceed the impairment loss recognized since the disposal group was classified as held for sale.

For example, consider an asset acquired on 1 January 20X1 for $1,000 that has a useful life of 10 years. On 31 December 20X2, the asset has a carrying amount of $800 but is impaired (i.e., a held for use impairment), and the entity records an impairment loss of $250 (assume that the impairment loss is the same under both US GAAP and IFRS). As a result, the new carrying amount is $550. On 31 December 20X3, the carrying amount is $481 (net of depreciation), and the entity classifies the asset as held for sale. The fair value less cost to sell at that date is $400, so the entity records a further impairment loss of $81. On 30 June 20X4, the entity determines that the fair value less costs to sell has increased to $500. Under US GAAP, the entity may not record a recovery in the fair value less costs to sell in excess of the loss recognized when the assets were classified as held for sale, so the entity would record a gain of only $81. Under IFRS, the entity could record a gain up to the original cost of the asset less any depreciation that would have been recorded over the 3.5

years since acquisition (i.e., $1,000 - $350, or $650). Accordingly, the entity could record the full recovery up to the fair value less costs to sell of $500 as of 30 June 20X4 (i.e., a gain of $100).

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

As part of its transition to IFRS, an entity will have to determine whether increases in the fair value less costs to sell of disposal groups should be recognized in excess of amounts previously recognized under US GAAP due to differences in the underlying cost of the assets in the disposal group if the deemed cost election is not used. See “IFRS 1 implications” in the “Property, plant and equipment” section of this publication for additional information on the deemed cost election.

5. Does the entity plan to distribute a noncurrent asset or disposal group to its owners?	Yes	No
	☐	☐

US GAAP — ASC 360-10-40-4, ASC 360-10-45-15 and ASC 205-20-45-1B	**IFRS — IFRS 5.5A, IFRS 5.12A, IFRS 5.15A, IFRS 5.25, and IFRS5.BC81 through BC82**
Classification and measurement A long-lived asset (or asset group) to be disposed of other than by sale (e.g., distributed to owners in a spinoff) is classified as held and used until it is disposed of. Accordingly, depreciation expense continues until the asset group is disposed of. If the asset group is tested for recoverability while it is classified as held and used, the estimates of future cash flows are based on the use of the asset for its remaining useful life, assuming that the disposal transaction will not occur.	*Classification and measurement* A noncurrent asset (or disposal group) is classified as held for distribution to owners when the entity is committed to distribute the asset (or disposal group) to the owners. The entity is considered to be committed to distribute such assets when the assets are available for immediate distribution in their present condition and the distribution is highly probable. As discussed in the introduction to this section, “highly probable” under IFRS generally represents a high degree of certainty. For the distribution to be highly probable, actions to complete the distribution (without significant change to the plan) must have been initiated and should be expected to be completed within one year from the date of classification. The probability of shareholders’ approval, if required, should be considered as part of the assessment of whether the distribution is highly probable. An asset group classified as held for distribution to owners is carried at the lower of its carrying amount or fair value less costs to distribute. Costs to distribute are the incremental costs directly attributable to the distribution, excluding finance costs and income tax expense. Depreciation expense ceases while the disposal group is classified as held for distribution to owners.

Presentation If an asset group (and liabilities) is to be distributed to owners in a spinoff as a group and that disposal group is a component of an entity, that component should be presented as a discontinued operation at the date it is disposed of provided the appropriate criteria are met. See questions 1 and 2.	*Presentation* A disposal group is presented as a discontinued operation when classified as held for sale, held for distribution to owners, or disposed of, provided that the appropriate criteria are met. See questions 1 and 2.

Implications:
Differences in the classification and measurement of assets or an asset group to be distributed to owners will exist. Additionally, the income statement presentation could differ. Under US GAAP, an asset group to be distributed to owners is classified as held and used until it is distributed. The asset group also is depreciated and evaluated for impairment as held and used until it is distributed. Under IFRS, if the held for distribution criteria are met, the asset group is classified as held for distribution, which is similar to held for sale classification. Accordingly, depreciation ceases and the asset is carried at the lower of its carrying amount or fair value less costs to distribute. The asset group is presented as a discontinued operation under IFRS if and when the held for distribution asset group meets the criteria for discontinued operations presentation, whereas under US GAAP the asset group would be presented as discontinued only when it is distributed and meets the appropriate criteria.

Identified difference?	Yes	No	Depends on policy election
Describe: Click here to enter text.	☐	☐	☐

IFRS 1 implications:

As part of its transition to IFRS, an entity will have to determine whether any asset groups to be distributed to owners and still classified as held and used under US GAAP should be reclassified as held for distribution to owners under IFRS 5. If such a reclassification is required, the fair value less costs to distribute of any such asset group will need to be determined at the point in time that the held for distribution to owners criteria were met. Additionally, depreciation should be reversed and the asset group should be carried at the lower of is carrying amount or fair value less costs to distribute from the point in time that the held-for-distribution criteria are met under IFRS.

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