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Audit

IFRSs and US GAAP

A pocket comparison

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An IAS Plus guide

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A short history of convergence

Harmonising global accounting standards

From its inception in 1973, the former International Accounting Standards Committee (IASC) worked towards harmonising global accounting standards by developing standards that could serve as a model on which national standard setters could base their own requirements. The IASC was replaced by the International Accounting Standards Board (IASB) effective in 2001. Its mission became one of convergence of global accounting standards – development of a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions.

Convergence with US GAAP

The Norwalk agreement

In October 2002, following a joint meeting at the offices of the US Financial Accounting Standards Board (FASB) in Norwalk, Connecticut, the FASB and the IASB formalised their commitment to the convergence of generally accepted accounting principles in the United States (US GAAP) and International Financial Reporting Standards (IFRSs) by issuing a memorandum of understanding (sometimes called 'the Norwalk agreement'). The two boards pledged to use their best efforts to:

- make their existing financial reporting standards fully compatible as soon as is practicable; and
- coordinate their future work programmes to ensure that once achieved, compatibility is maintained.

"Compatible" means that the two sets of standards do not contain conflicts. Compatible does not mean word-for-word identical standards.

Sarbanes-Oxley

The Sarbanes-Oxley Act of 2002 provided some impetus and support for the Norwalk agreement. Section 108 of the Act permits the US Securities and Exchange Commission (SEC) to recognise standards established by a private-sector accounting standard setter (i.e. FASB) provided that the standard setter considers "the extent to which international convergence on high quality accounting standards is necessary or appropriate in the public interest and for the protection of investors". Section 109 of the Act provides US Government funding to the SEC-recognised standard setter.

Why the emphasis on convergence of IFRSs and US GAAP?

To a large extent, national standards in most countries of the world have been based either on IFRSs or US GAAP. Despite the tendencies of national standard setters to make small or large changes to those standards, they cannot and do not ignore those two substantial and advanced bodies of literature in developing their own national standards. Therefore, a sensible way to achieve a single set of global accounting standards in a reasonable time span is to work towards convergence of IFRSs and US GAAP – in turn causing a ‘trickle down effect’ in those countries that continue to maintain their national GAAPs. This is the approach that the IASB has adopted.

The IASB-FASB convergence process

The IASB and the FASB have various joint initiatives to accomplish the goal of convergence, including:

- twice-yearly joint board meetings;
- aligned agendas, including explicit consideration of convergence potential in all agenda decisions;
- joint staffing of major projects;
- short-term projects to revise their individual standards to eliminate as many inconsistencies as possible;
- a convergence research project seeking to identify all of the substantive differences between US GAAP and IFRSs and to develop strategies for resolving them. Any recognition, measurement, presentation or disclosure topic in which a specific accounting treatment would be permissible under one basis of accounting but would not be permissible under the other basis of accounting is included in the project scope; and
- coordination between their respective interpretive bodies (FASB’s Emerging Issues Task Force and the IASB’s International Financial Reporting Interpretations Committee).

Between December 2003 and March 2004, the IASB amended the majority of the standards that it inherited from its predecessor, and it also issued several new standards. Many of those changes were in the interest of convergence. The current international standard on business combinations and goodwill (IFRS 3), for instance, is virtually identical to the FASB’s recent standards. Likewise for the IASB’s standard on assets held for disposal (IFRS 5).

Short-term convergence projects

Specific short-term convergence projects currently under way include:

- By the IASB – provisions, segment reporting, government grants.
- By the FASB – earnings per share, fair value option for financial instruments, and research and development.
- Both boards – income taxes.

The following short-term convergence projects have been completed by the FASB:

- Financial Accounting Standard (FAS) 154, Accounting changes and error corrections.
- FAS 153, Exchanges of productive assets.
- FAS 151, Inventory.

Ongoing joint major projects include business combinations phase II, revenue recognition, performance reporting, and the conceptual framework.

Comparison of IFRSs and US GAAP

The table on the following pages sets out some of the differences between IFRSs and US GAAP as of 1 September 2005.

The summary does not attempt to capture all of the differences that exist or that may be material to a particular entity's financial statements. Our focus is on differences that are commonly found in practice.

The significance of these differences – and others not included in this list – will vary with respect to individual entities depending on such factors as the nature of the entity's operations, the industry in which it operates, and the accounting policy choices it has made. Reference to the underlying accounting standards and any relevant national regulations is essential in understanding the specific differences.

The rate of progress being achieved by both the FASB and the IASB in their convergence agendas means that a comparison between standards can only reflect the position at a particular point in time. You can keep up to date on later developments via our IAS Plus website, which sets out the IASB agendas and timetables, as well as project summaries and updates.

Abbreviations used in this publication are as follows:

FAS	Financial Accounting Standard (US)
FASB	Financial Accounting Standards Board (US)
GAAP	Generally Accepted Accounting Principles
GAAS	Generally Accepted Auditing Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IAS(s)	International Accounting Standard(s)
IFRIC	International Financial Reporting Interpretations Committee
IFRS(s)	International Financial Reporting Standard(s)
SEC	Securities and Exchange Commission (US)
SPE(s)	Special Purpose Entity(ies)

End-note references indicated in superscript in the comparison table are located on page 28.

IAS/ IFRS	Topic	IFRSs	US GAAP
–	General approach	More “principles-based” standards with limited application guidance.	More “rules-based” standards with specific application guidance.
IAS 1	Financial statement presentation	Specific line items required.	Certain standards require specific presentation of certain items. Public companies are subject to SEC rules and regulations, which require specific line items.
IAS 1	Comparative prior year financial statements ¹	One year comparative financial information required.	No specific requirement under US GAAP to present comparatives. Generally at least one year of comparative financial information is presented. Public companies are subject to SEC rules and regulations, which generally require two years of comparative financial information.
IAS 1	Reporting “comprehensive income” ¹	Total presented in the statement of changes in equity.	Can be presented in statements of income, comprehensive income or changes in shareholders’ equity, or within the notes to the financial statements.

Comparison of IFRSs and US GAAP

IAS/ IFRS	Topic	IFRSs	US GAAP
IAS 1	Departure from a standard when compliance would be misleading	Permitted in “extremely rare” circumstances to achieve a fair presentation. Specific disclosures are required.	Not directly addressed in US GAAP literature, although an auditor may, under Generally Accepted Auditing Standards (GAAS) rule 203, conclude that by applying a certain GAAP requirement the financial statements are misleading, thereby allowing for an “override”. ²
IAS 1	Classification of liabilities on refinancing ¹	Non-current if refinancing is completed before balance sheet date.	Non-current if refinancing is completed before date of issuance of the financial statements.
IAS 1	Classification of liabilities due on demand due to violation of debt covenant ¹	Non-current if the lender has granted a 12-month waiver before the balance sheet date.	Non-current if the lender has granted a waiver for a period greater than one year (or operating cycle, if longer) before the issuance of the financial statements or when it is probable that the violation will be corrected within the grace period, if any, prescribed in the long-term debt agreement.
IAS 1	Extraordinary items ¹	Prohibited.	Extraordinary items are permitted, but are restricted to items that are both infrequent in occurrence and unusual in nature.

IAS/ IFRS	Topic	IFRSs	US GAAP
IAS 2	Reversal of inventory write-downs	Required, if certain criteria are met.	Prohibited.
IAS 2	Measuring inventory at net realisable value even if above cost	Permitted only for producers' inventories of agricultural and forest products and mineral ores and for broker-dealers' inventories of commodities.	Similar, but not restricted to producers and broker-traders.
IAS 2	Method for determining inventory cost	LIFO is prohibited.	LIFO is permitted.
IAS 7	Classification of interest received and paid in the cash flow statement ¹	May be classified as an operating, investing or financing activity.	Must be classified as an operating activity.
IAS 7	Inclusion of bank overdrafts in cash	Included if they form an integral part of an entity's cash management.	Excluded.
IAS 11	Method of accounting for construction contracts when the percentage of completion cannot be determined	Cost recovery method.	Completed contract method.

Comparison of IFRSs and US GAAP

IAS/ IFRS	Topic	IFRSs	US GAAP
IAS 12	Classification of deferred tax assets and liabilities ³	Always non-current.	Classification is split between current and non-current components based on the classification of underlying asset or liability, or on the expected reversal of items not related to an asset or liability.
IAS 12	Subsequent recognition of a deferred tax asset after a business combination ³	First reduce goodwill to zero, any excess credited to net profit or loss.	First reduce goodwill to zero, then any other non-current intangible assets to zero, any excess credited to net profit or loss.
IAS 12	Reconciliation of actual and expected tax expense ³	Required for all entities applying IFRSs; expected tax expense is computed by applying the applicable tax rate(s) to accounting profit, disclosing also the basis on which the applicable tax rate(s) is(are) computed.	Required for public companies only; expected tax expense is computed by applying the domestic federal statutory tax rates to pre-tax income from continuing operations. Non-public companies must disclose the nature of the reconciling items but not amounts.
IAS 12	Calculation of tax benefits related to share-based payments ³	Deferred tax is computed based on the tax deduction for the share-based payment under the applicable tax law (i.e. intrinsic value).	Deferred tax is computed based on the GAAP expense recognised, and trued up at realisation of the tax benefit.
IAS 12	Impact of temporary differences related to intercompany profits ³	Deferred tax effect is recognised at the buyer's tax rate.	Deferred tax effect is recognised at the seller's tax rate, as if the transaction had not occurred.

IAS/ IFRS	Topic	IFRSs	US GAAP
IAS 12	Initial recognition exemption ³	Deferred tax not recognised for taxable temporary differences that arise from the initial recognition of an asset or liability in a transaction that is (a) not a business combination, and (b) does not affect accounting profit or taxable profit. Nor are changes in this unrecognised deferred tax asset or liability subsequently recognised.	No similar exemption.
IAS 12	Other specific exemptions to the basic principle that deferred tax is recognised for all temporary differences ³	Does not have all the exemptions comparable to those in US GAAP.	US GAAP has some six special exemptions from providing deferred tax including goodwill, leveraged leases, most undistributed earnings of subsidiaries, and intangible development costs in the oil and gas industry.
IAS 12	Tax rate for measuring deferred tax assets and liabilities ⁴	Use enacted or 'substantively enacted' tax rate.	Use enacted tax rate.
IAS 12	Measurement of deferred tax on undistributed earnings of a subsidiary ³	Must use rate applicable to undistributed profits.	Generally, US GAAP requires the use of the higher of the distributed and the undistributed rate.

Comparison of IFRSs and US GAAP

IAS/ IFRS	Topic	IFRSs	US GAAP
IAS 12	Changes in deferred taxes that were originally charged or credited to equity ('backwards tracing') ³	The tax effects of items credited or charged directly to equity during the current year are allocated directly to equity. A deferred tax item originally recognised by a charge or credit to shareholders' equity may change either from changes in assessments of recovery of deferred tax assets or from changes in tax rates, laws, or other measurement attributes. Consistent with the initial treatment, IAS 12 requires that the resulting change in deferred taxes also be charged or credited directly to equity.	SFAS 109 prohibits 'backwards tracing' and would require allocation to continuing operations.
IAS 14	Basis of reportable segments ⁵	Lines of business and geographical areas.	Components for which information is reported internally to top management, which may or may not be based on lines of business or geographical areas.
IAS 14	Types of segment disclosures ⁵	Required disclosures for both "primary" and "secondary" segments.	Only one basis of segmentation, although certain "enterprise-wide" disclosures are required such as revenue from major customers and revenue by country.

IAS/ IFRS	Topic	IFRSs	US GAAP
IAS 14	Accounting basis for reportable segments ⁵	Amounts are based on IFRS measures.	Amounts are based on whatever basis is used for internal reporting purposes. These amounts should be reconciled to the relevant amounts contained in the financial statements.
IAS 14	Segment result ⁵	Defined segment result.	No definition of segment result.
IAS 16	Basis of property, plant, and equipment	May use either revalued amount or historical cost. Revalued amount is fair value at date of revaluation less subsequent accumulated depreciation and impairment losses.	Generally required to use historical cost.
IAS 16	Major inspection or overhaul costs	Generally accounted for as part of the cost of an asset.	Generally expensed.
IAS 16	Measuring the residual value of property, plant and equipment	Current net selling price assuming the asset were already of the age and in the condition expected at the end of its useful life.	Generally the discounted present value of expected proceeds on future disposal.
IAS 17	Present value of minimum lease payments ⁶	Generally would use the rate implicit in the lease to discount minimum lease payments.	Lessors must use the implicit rate to discount minimum lease payments. Lessees generally would use the incremental borrowing rate to discount minimum lease payments unless the implicit rate is known and is the lower rate.

Comparison of IFRSs and US GAAP

IAS/ IFRS	Topic	IFRSs	US GAAP
IAS 17	Recognition of a gain on a sale and leaseback transaction where the leaseback is an operating lease ⁶	The gain is recognised immediately.	Generally, the gain is amortised over the lease term.
IAS 17	Disclosure of lease maturities ⁶	Less detailed disclosure.	More detailed disclosure.
IAS 18	Revenue recognition guidance ⁷	General principles are consistent with US GAAP, but IFRSs contain limited detailed or industry-specific guidance.	More specific guidance, particularly industry-specific issues. In addition, public companies must follow more detailed guidance provided by the SEC.
IAS 19	Termination benefits ⁸	No distinction between “special” and other termination benefits. Termination benefits recognised when the employer is demonstrably committed to pay.	Recognise special (one-time) termination benefits generally when they are communicated to employees unless employees will render service beyond a “minimum retention period” in which case the liability is recognised ratably over the future service period. Recognise contractual termination benefits when it is probable that employees will be entitled and the amount can be reasonably estimated.

IAS/ IFRS	Topic	IFRSs	US GAAP
IAS 19	Measurement of gain or loss on curtailment of a benefit plan	A curtailment gain or loss comprises (a) the change in the present value of the defined benefit obligation, (b) any resulting change in fair value of the plan assets, and (c) a pro rata share of any related actuarial gains and losses, unrecognised transition amount, and past service cost that had not previously been recognised.	Unrecognised actuarial gains and losses arising subsequent to transition do not affect the curtailment gain or loss, while the amount of gain or loss would be offset by any portion of the unrecognised transition asset or liability.
IAS 19	Timing of recognition of gains/losses on curtailment of a benefit plan	Both curtailment gains and losses are recognised when the entity is demonstrably committed and a curtailment has been announced.	A curtailment loss is recognised when it is probable that a curtailment will occur and the effects are reasonably estimable. A curtailment gain is recognised when the relevant employees are terminated or the plan suspension or amendment is adopted, which could occur after the entity is demonstrably committed and a curtailment is announced.
IAS 19	Recognition of past service cost related to benefits that have vested	Recognised immediately.	Generally amortised over the remaining service period or life expectancy.

Comparison of IFRSs and US GAAP

IAS/ IFRS	Topic	IFRSs	US GAAP
IAS 19	Multi-employer plan that is a defined benefit plan	Should be accounted for as a defined benefit plan if the required information is available, otherwise as a defined contribution plan.	Accounted for as a defined contribution plan.
IAS 19	Minimum liability recognition for benefits under defined benefit plans	No minimum liability requirement.	At a minimum, the unfunded accumulated benefit obligation is recognised.
IAS 19	Limitation on recognition of pension assets	Pension assets cannot be recognised in excess of the net total of unrecognised past service cost and actuarial losses plus the present value of benefits available from refunds or reduction of future contributions to the plan.	No limitation on the amount that can be recognised.
IAS 19	Recognising actuarial gains and losses, when they arise, directly in the statement of equity	Permitted.	Not permitted.

IAS/ IFRS	Topic	IFRSs	US GAAP
IAS 23	Borrowing costs related to assets that take a substantial time to complete	Capitalisation is an available accounting policy choice.	Capitalisation is mandatory.
IAS 23	Types of borrowing costs eligible for capitalisation	Includes interest, certain ancillary costs, and exchange differences that are regarded as an adjustment of interest.	Generally includes only interest.
IAS 23	Income on temporary investment of funds borrowed for construction of an asset	Reduces borrowing costs eligible for capitalisation.	Does not reduce borrowing costs eligible for capitalisation except in limited circumstances.
IAS 27 9, 10	Basis for consolidation	Control (look to governance and risk and benefits).	Approach depends on the type of entity. For voting interests, entities generally look to majority voting rights. For variable interest entities, look to a risks and rewards model.
IAS 27	Special purpose entities ^{9,10}	Consolidate if "controlled". Generally follow the same principles as for commercial entities in determining whether or not control exists.	If SPE is not a "qualifying SPE", then consolidation generally based on majority voting interests (if SPE is a voting interest entity) or based on a risks and rewards model (if SPE is a variable interest entity). Special rules apply for consolidation of "qualifying SPEs".

Comparison of IFRSs and US GAAP

IAS/ IFRS	Topic	IFRSs	US GAAP
IAS 27	Different reporting dates of parent and subsidiaries ⁹	Reporting date difference cannot be more than three months. Must adjust for any significant intervening transactions.	Reporting date difference generally should not be more than three months. Must disclose effects of any significant intervening transactions.
IAS 27	Different accounting policies of parent and subsidiaries ⁹	Must conform policies.	No specific requirement to conform policies.
IAS 27	Accounting for investments in subsidiaries in parent's separate financial statements ⁹	Either cost method or use IAS 39 (i.e. apply the financial instrument rules) but not equity method.	Investments in subsidiaries may be presented either using equity or cost method.
IAS 27	Presentation of minority interest ⁹	In equity.	Outside of equity, between liabilities and equity.
IAS 28	Different reporting dates of investor and associate	Reporting date difference cannot be more than three months. Must adjust for any significant intervening transactions.	Reporting date difference generally should not be more than three months. Must disclose any significant intervening transactions.
IAS 28	Different accounting policies of investor and associate	Must conform policies.	No specific requirement to conform policies.

Comparison of IFRSs and US GAAP

IAS/ IFRS	Topic	IFRSs	US GAAP
IAS 28	Accounting for investments in associates in parent's separate financial statements	Either cost method or use IAS 39 (i.e. apply the financial instrument rules) but not equity method.	Equity method.
IAS 29	Adjusting financial statements of an entity that operates in a hyperinflationary economy	Adjust using a general price level index before translating.	Adjust the financial statements as if the reporting currency of the parent was the entity's functional currency.
IAS 31	Investments in joint ventures	May use either the equity method or proportionate consolidation.	Generally use the equity method (except in construction and oil and gas industries).
IAS 32	Classification of convertible debt instruments	Split the instrument into its liability and equity components and measure the liability at fair value with the equity component representing the residual.	Classify the entire instrument as a liability. However, the intrinsic value of the conversion feature at the commitment date of the instrument, if any, should be recognised as additional paid-in capital.
IAS 32	Offsetting amounts due from and owed to two different parties	Permitted when and only when a legally enforceable right and the intention to settle net exist.	Prohibited.

Comparison of IFRSs and US GAAP

IAS/ IFRS	Topic	IFRSs	US GAAP
IAS 33	Disclosures of earnings per share (EPS)	Basic and diluted income from continuing operations per share and net profit or loss per share.	Basic and diluted income from continuing operations, discontinued operations, extraordinary items, cumulative effect of a change in accounting policy, and net profit or loss per share.
IAS 33	Calculation of year-to-date (YTD) diluted EPS ¹²	Apply the treasury stock method on a YTD basis, that is, do not average the individual interim period calculations.	Average the individual interim period incremental shares.
IAS 33	Contracts that may be settled in ordinary shares or in cash, at issuer's option ¹²	Assume always that the contracts will be settled in shares.	Include based on rebuttable presumption that the contracts will be settled in shares.
IAS 34	Interim reporting – revenue and expense recognition	Interim period is a discrete reporting period (with certain exceptions).	Interim period is an integral part of the full year (with certain exceptions).
IAS 36	Impairment methodology for long-term assets other than goodwill that are subject to amortisation	Impairment is recorded when an asset's carrying amount exceeds the higher of the asset's value-in-use (discounted present value of the asset's expected future cash flows) and fair value less costs to sell.	Impairment is recorded when an asset's carrying amount exceeds the expected future cash flows to be derived from the asset on an undiscounted basis.

IAS/ IFRS	Topic	IFRSs	US GAAP
IAS 36	Measurement of impairment loss for long-term assets other than goodwill that are subject to amortisation	Based on the recoverable amount (the higher of the asset's value-in-use and fair value less costs to sell).	Based on fair value.
IAS 36	Level of impairment testing for goodwill and other indefinite-life assets	Cash generating unit (CGU) – the lowest level to which goodwill can be allocated.	Reporting unit – either an operating segment or one organisational level below.
IAS 36	Calculating impairment of goodwill	One-step: compare recoverable amount of a CGU (higher of (a) fair value less costs to sell and (b) value-in-use) to carrying amount.	Two steps. 1. Compare fair value of the reporting unit with its carrying amount including goodwill. If fair value is greater than carrying amount, no impairment (skip step 2). 2. Compare “implied fair value” of goodwill with its carrying amount recording an impairment loss for the difference.
IAS 36	Calculating impairment of indefinite-life intangible assets other than goodwill	Goodwill and other indefinite-life intangible assets are included in a CGU. The CGU is tested for impairment.	Goodwill is included in the CGU. Other indefinite-life intangible assets are tested separately.

Comparison of IFRSs and US GAAP

IAS/ IFRS	Topic	IFRSs	US GAAP
IAS 36	Subsequent reversal of an impairment loss	Required for all assets, other than goodwill, if certain criteria are met.	Prohibited.
IAS 37	Measurement of provisions ⁸	Best estimate to settle the obligation, which generally involves the expected value method. Discounting required.	Best estimate to settle the obligation. If no one item is more likely than another, use the low end of the range of possible amounts. Most provisions are not discounted.
IAS 37	Measurement of decommissioning provisions ⁸	Use the current, risk-adjusted rate to discount the provision when initially recognised. Adjust the rate at each reporting date.	Use the current, credit-adjusted risk-free rate to discount the provision when initially recognised. Do not adjust the rate in future periods.
IAS 37	Recognition of restructuring provisions ⁸	Recognise if a detailed formal plan is announced or implementation of such a plan has started.	Recognise when a transaction or event occurs that leaves an entity little or no discretion to avoid the future transfer or use of assets to settle the liability. An exit or disposal plan, by itself, does not create a present obligation to others for costs expected to be incurred under the plan.
IAS 37	Disclosures that may prejudice seriously the position of the entity in a dispute ⁸	“In extremely rare cases” amounts and details need not be disclosed, but disclosure is required of the general nature of the dispute and why the details have not been disclosed.	Disclosure is required.

IAS/ IFRS	Topic	IFRSs	US GAAP
IAS 38	Development costs ¹³	Capitalise, if certain criteria are met.	Expense (except for certain website development costs and certain costs associated with developing internal use software).
IAS 38	Subsequent expenditure on purchased in-process R&D	Capitalised if it meets the definition of development and certain criteria are met.	Expense.
IAS 38	Revaluation of intangible assets	Permitted only if the intangible asset trades in an active market.	Generally prohibited.
IAS 39	Option to designate any financial asset or financial liability to be measured at fair value through profit or loss	Option is allowed if certain criteria are met.	No such option.
IAS 39	Investments in unlisted equity instruments	Measured at fair value if reliably measurable; otherwise at cost.	Measured at cost less "other than temporary" impairments, if any.
IAS 39	Reclassification of financial instruments into or out of the trading category	Prohibited.	Permitted but expected to be rare.
IAS 39	Classification of financial assets as held-to-maturity	Puttable debt instruments cannot be classified as held-to-maturity.	No such prohibition exists.

Comparison of IFRSs and US GAAP

IAS/ IFRS	Topic	IFRSs	US GAAP
IAS 39	Effect of selling investments classified as held-to-maturity	Prohibited from using held-to-maturity classification for the next two years.	Prohibited from using held-to-maturity classification. SEC indicates that prohibition is generally for two years.
IAS 39	Subsequent reversal of an impairment loss recognised in the income statement	Required for loans and receivables, held-to-maturity, and available-for-sale debt instruments, if certain criteria are met.	Prohibited for held-to-maturity and available-for-sale securities. Reversals of valuation allowances on loans are recognised in the income statement.
IAS 39	Derecognition of financial assets	Combination of risks and rewards and control approach. Can derecognise part of an asset. No "isolation in bankruptcy" test. Partial derecognition allowed only if specific criteria are complied with.	Derecognise assets when transferor has surrendered control over the assets. One of the conditions is legal isolation. No partial derecognition.
IAS 39	Use of "Qualifying SPEs" ¹⁰	No such category of SPEs.	Necessary for derecognition of financial assets if transferee is not free to sell or pledge transferred assets.
IAS 39	Use of "partial-term hedges" (hedge of a fair value exposure for only a part of the term of a hedged item)	Allowed.	Although not explicitly prohibited, these items would most probably fail the correlation requirement of FAS 133 and hence not qualify for hedge accounting.

IAS/ IFRS	Topic	IFRSs	US GAAP
IAS 39	Hedging foreign currency risk in a held-to-maturity investment	Can qualify for hedge accounting.	Cannot qualify for hedge accounting.
IAS 39	Assume perfect effectiveness of a hedge if critical terms match	Prohibited. Must always measure effectiveness.	Allowed for hedge of interest rate risk in a debt instrument if certain conditions are met – “Shortcut Method”.
IAS 39	Application of the effective interest rate method	Several differences exist between IFRSs and US GAAP on this topic. Given the case-by-case nature of such calculations, IFRSs and US GAAP specialists should be consulted as and when a comparative calculation is required.	
IAS 39	Impairment of debt and securities	All impairments must be recognised, no matter how temporary.	Impairment is recognised only when the decline in fair value is not temporary.
IAS 39	Use of "basis adjustment"	<p>Fair value hedge – required.</p> <p>Cash flow hedge of a transaction resulting in a financial asset or liability – same as US GAAP.</p> <p>Cash flow hedge of a transaction resulting in a non-financial asset or liability – choice of US GAAP or basis adjustment.</p>	<p>Fair value hedge – required.</p> <p>Cash flow hedge of a transaction resulting in an asset or liability – gain/loss on hedging instrument that had been reported in equity remains in equity and reclassified into earnings in the same period the acquired asset or incurred liability affects earnings.</p>

Comparison of IFRSs and US GAAP

IAS/ IFRS	Topic	IFRSs	US GAAP
IAS 39	Macro hedging ¹⁴	Fair value hedge accounting treatment for a portfolio hedge of interest rate risk is allowed if certain specified conditions are met.	Hedge accounting treatment is prohibited, though similar results may be achieved by designating specific assets or liabilities as hedged items.
IAS 39	Accounting for securities sold but not yet purchased	Short positions (sell) must use trade date value, i.e. no choice between trade date and settlement date value as for long positions (buy).	Buy and sell transactions are accounted for identically, i.e. at trade date value.
IAS 39	Written puts over own (treasury) shares	Recognise a gross obligation for the present value of the strike price.	Recognise a derivative together with subsequent changes in fair value.
IAS 40	Measurement basis for investment property	Option of (a) historical cost model (depreciation, impairment) or (b) fair value model with value changes through profit or loss.	Generally required to use historical cost model (depreciation, impairment).
IAS 40	Property interests held under an operating lease	Accounted for as investment property under IAS 40 if held for investment and if measured at fair value with value changes in profit or loss. Otherwise treated as a prepayment.	Always treated as a prepayment.
IAS 41	Measurement basis of agricultural crops, livestock, orchards, forests	Fair value with value changes recognised in profit or loss.	Historical cost is generally used. However, fair value less costs to sell is used for harvested crops and livestock held for sale.

IAS/ IFRS	Topic	IFRSs	US GAAP
IFRS 1	First-time adoption	General principle is retrospective application of IFRSs in force at the time of adoption. Certain exemptions and exceptions are given in IFRS 1 which differ from the transition provisions in the relevant standards.	No specific standard. Practice is generally full retrospective application unless the transition provisions in a specific standard require otherwise.
IFRS 2	Date for measuring share-based payment to non-employees ¹⁵	Modified grant date method.	Earlier of counterparty's commitment to perform (often a sufficiently large disincentive for non-performance exists) or actual performance.
IFRS 2	Use of historical volatility or industry index in measurement for non-public entities when it is not practicable to estimate expected volatility ¹⁵	Not permitted.	Permitted.
IFRS 2	Modification of an award by change in performance condition (improbable to probable) (Type III modifications) ¹⁵	Expense determined based on the grant date fair value plus any incremental fair value at the modification date.	Expense recognised is the fair value at the modification date.

Comparison of IFRSs and US GAAP

IAS/ IFRS	Topic	IFRSs	US GAAP
IFRS 3	Date on which consideration in a business combination is measured ¹¹	Acquisition date (date on which control passes).	Within a reasonable period before and after the date the terms of the acquisition are agreed to and announced.
IFRS 3	Recognising a liability for a planned post-acquisition restructuring ¹¹	Only if acquiree has already recognised a provision under IAS 37.	Can be recognised if the restructuring relates to the acquired business and certain conditions are met.
IFRS 3	Measuring minority interest ¹¹	Minority's percent of fair values.	Minority interest measured at fair value if entity consolidated under the risk and rewards model (FIN 46); otherwise, it is recorded at carrying value.
IFRS 3	Purchased in process R&D ¹¹	Can be recognised as an acquired finite life intangible asset (amortised), or as part of goodwill if not separately measurable (not amortised but subject to an annual impairment test).	Expense.
IFRS 3	Excess of fair value of net assets acquired over the acquisition costs ¹¹	Recognise immediately as a gain.	Allocate on a pro rata basis to reduce the carrying amounts of certain acquired non-financial assets, with any excess recognised as an extraordinary gain.
IFRS 3	Combinations of entities under common control ¹¹	Outside the scope of IFRS 3, though merger accounting (pooling of interests method) is generally used in practice.	Pooling of interests method is required.

IAS/ IFRS	Topic	IFRSs	US GAAP
IFRS 4	Rights and obligations under insurance contracts ¹⁶	IFRS 4 addresses recognition and measurement in only a limited way. It is an interim standard pending completion of a comprehensive project.	Several comprehensive pronouncements and other comprehensive industry accounting guides have been published.
IFRS 4	Derivatives embedded in insurance contracts	An embedded derivative whose characteristics and risks are not closely related to the host contract but whose value is interdependent with the value of the insurance contract need not be separated out and accounted for as a derivative.	An embedded derivative whose characteristics and risks are not closely related to the host contract must be accounted for separately.
IFRS 5	Definition of a discontinued operation	A reportable business or geographical segment or major component thereof.	A component which may be an operating segment, a reporting unit, a subsidiary, or an asset group (less restrictive than the IASB definition).
IFRS 5	Presentation of discontinued operations	Post-tax income or loss is required on the face of the income statement.	Pre-tax and post-tax income or loss is required on the face of the income statement.

Endnotes:

- 1 This issue is being addressed in the joint IASB/FASB Performance Reporting project.
- 2 The FASB will issue a GAAP hierarchy standard in the near future to address the issue from an accounting framework perspective (as opposed to an audit perspective).
- 3 The FASB and the IASB are addressing some IAS 12/FAS 109 differences in their short-term convergence projects.
- 4 The IASB will retain “substantively enacted” but clarify that it means “virtually certain”.
- 5 The joint IASB/FASB project has resulted in the IASB deciding to converge with US statement FAS 131. An exposure draft is expected in the 4th quarter of 2005.
- 6 The IASB has a comprehensive project on leases on its Research Agenda.
- 7 A joint IASB/FASB project on revenue recognition concepts is under way.
- 8 The differences may change once the final revised versions of IAS 19 and IAS 37 (exposure drafts released in June 2005) are published.
- 9 The differences may change once the final revised version of IAS 27 (exposure draft released in June 2005) is published.
- 10 The IASB has on its agenda a project on control including SPEs. This could potentially become a joint project.
- 11 The differences may change once the final revised version of IFRS 3 (Business Combinations Phase II) (exposure draft released in June 2005) is published.
- 12 As part of its convergence project, the FASB issued an exposure draft in December 2003 that would eliminate these differences. The exposure draft has not yet been finalised as a standard.
- 13 The FASB may address this in its short-term convergence project.
- 14 The FASB does not have a project to address macro hedging.
- 15 The differences as stated in this document are relevant provided the entity has adopted, for US GAAP reporting purposes, FAS123R.
- 16 The IASB is developing a comprehensive standard on accounting for rights and obligations under insurance contracts that is consistent with the IASB Framework definitions of assets and liabilities.

Deloitte IFRS resources

In addition to this publication, Deloitte Touche Tohmatsu has a range of tools and publications to assist companies in implementing and reporting under IFRSs. These include:

www.iasplus.com	Updated daily, iasplus.com is your one-stop shop for information related to IFRSs.
Deloitte's IFRS e-Learning Modules	e-Learning IFRS training materials, one module for each IAS and IFRS and the Framework, with self-tests, available without charge at www.iasplus.com .
IAS Plus Newsletter	A quarterly newsletter on recent developments in IFRSs and accounting updates for individual countries. To subscribe, visit www.iasplus.com .
IFRSs in your Pocket	Published in English, French, Spanish, Polish, Danish, Finnish, Chinese, and other languages, this pocket-sized guide includes summaries of all IASB Standards and Interpretations, updates on agenda projects, and other IASB-related information.
Presentation and disclosure checklist 2005	Checklist incorporating all of the presentation and disclosure requirements of Standards effective in 2005.
Model financial statements	Model financial statements illustrating the presentation and disclosure requirements of IFRSs.
iGAAP 2005 Financial Instruments: IAS 32 and IAS 39 Explained	Guidance on how to apply both of these complex Standards, including illustrative examples and interpretations.
First-time Adoption: A Guide to IFRS 1	Application guidance for the "stable platform" Standards effective in 2005.
Share-based Payment: A Guide to IFRS 2	Guidance on applying IFRS 2 to many common share-based payment transactions.
Business Combinations: A Guide to IFRS 3	Supplements the IASB's own guidance for applying this Standard.

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