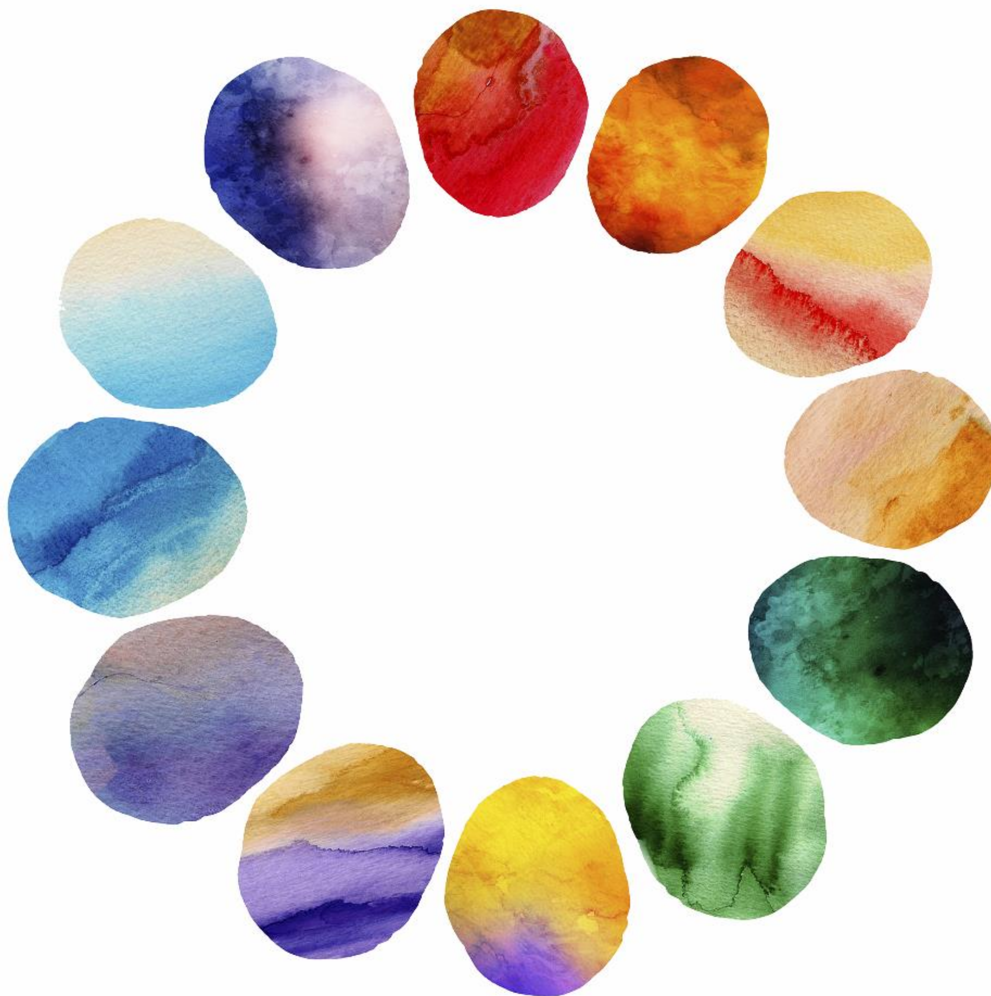
Deloitte.



U.S. GAAP and IFRS Standards

Understanding the differences

December 2020

The FASB Accounting Standards Codification® material is copyrighted by the Financial Accounting Foundation, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116, and is reproduced with permission.

This publication contains copyright © material and trademarks of the IFRS Foundation®. All rights reserved. Reproduced by Deloitte LLP with the permission of the IFRS Foundation. Reproduction and use rights are strictly limited. For more information about the IFRS Foundation and rights to use its material please visit www.ifrs.org.

Disclaimer: To the extent permitted by applicable law the Board and the IFRS Foundation expressly disclaims all liability howsoever arising from this publication or any translation thereof whether in contract, tort or otherwise (including, but not limited to, liability for any negligent act or omission) to any person in respect of any claims or losses of any nature including direct, indirect, incidental or consequential loss, punitive damages, penalties or costs.

This publication has been written in general terms and we recommend that you obtain professional advice before acting or refraining from action on any of the contents of this publication. Deloitte LLP accepts no liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London, EC4A 3HQ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NSE LLP do not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

© 2020 Deloitte LLP. All rights reserved.

Acknowledgments

This publication reflects the deep experience of Deloitte's Global Capital Markets Group developed over many years through assisting companies in identifying differences between U.S. GAAP and IFRS Standards. It also reflects the thoughts and contributions of respective subject matter teams in Deloitte's U.S. and UK National Offices. Julian Thomas from the Global Capital Markets Group in London supervised the overall preparation of this publication and extends his deepest appreciation to all professionals who helped in its development both within the Global Capital Markets Group in London as well as professionals in the respective National Offices. In particular, Leonardo Ferreira who was closely involved in the development of the various sections of the publication that address financial instruments. Bob Uhl, Ignacio Perez, and Magnus Orrell in the U.S. National Office provided leadership necessary to critically review the differences identified and ensure that the key differences reflected differences in the underlying standards. Robert Hughes, Rohan Lobo, Valeria Villa Duque, Elise Liu, Dan Glaser, Effie Tuneva, William Fritchie, Angel Campuzano, Vesna Ciringer, Johnny Hitchcock, Saltanat Beispayeva, Marco Ng, Francesca Gabella, Jaynitsa Paul, Jason Rak, Marina Lanzillotta, Mary Gotschall, Jessica Ryan, Sarah Digirolamo, Elana Andrews, Charles Phelps, Michele Martin, Kemp Johnson Jr, Michael Kramer, PJ Theisen and Andrea Buckley from Deloitte's Global Capital Markets team in London, Shivanthi Edwards, Susan Fennedy, Mike Lund, Alice Loo, Callie Reber, Courtney Clifford, Nicole Nelson, Catriona McGinley, Emily Childs, Michael Watson, Ann Airington, Michael Gyoerkoe, Sikandar Farooq, Michael Gorter, Edward Garcia from Deloitte's U.S. National office, Kerry Danyluk, Joyce Lam, Diana De Acetis, Ueda Keisuke, Omukai Toshio and Takashi Yamagami from Deloitte's Global IFRS Leadership Team in Canada and Japan made important contributions in developing and reviewing the publication. Amy Haworth, Tasha Gallie and Svetlana Cox tirelessly helped with the final publication of the material.

© Deloitte LLP. All rights reserved.

About Deloitte Global Capital Markets Group

Deloitte's Global Capital Markets Group is a large team of international experts in financial reporting under U.S. GAAP, IFRS Standards and the U.S. Securities and Exchange Commission ("SEC") rules and regulations. The Global Capital Market Group has extensive experience in accounting for complex transactions including group reorganisations, financial instruments, financing, securitizations and other off-balance sheet structures and business disposals involving carve-outs. It is also involved in the implementation of new accounting standards, SEC filings and U.S. listed external audits.

The Global Capital Markets Group draws upon this wide range of experience, resources and insight to provide you with the latest interpretations of accounting and financial reporting requirements.

© Deloitte LLP. All rights reserved.

Contents

Preface	**1**
Contacts	**3**
Section 1: First-time adoption	5
Assets	**20**
Section 2: Investments in loans and receivables	20
Section 3: Investments in debt and equity securities	27
Section 4: Investments – Equity method and joint ventures	42
Section 5: Inventories	53
Section 6: Intangible assets	58
Section 7: Property, plant, and equipment	67
Section 8: Impairment of non-financial assets	75
Liabilities	**83**
Section 9: Employee benefits	83
Section 10: Provisions and contingencies	103
Section 11: Distinguishing liabilities from equity and debt modifications	112
Section 12: Revenue recognition	126
Expenses	**135**
Section 13: Share-based payments	135
Section 14: Income taxes	155
Presentation	**183**
Section 15: Presentation of financial statements	183
Section 16: Noncurrent assets held for sale and discontinued operations	192
Section 17: Statement of cash flows	197
Section 18: Earnings per share	207
Section 19: Operating segments	216
Broad transactions	**219**
Section 20: Business combinations	219
Section 21: Consolidation	230
Section 22: Derivatives and hedging	237
Section 23: Fair value measurement	266
Section 24: Fair value option	269
Section 25: Foreign currency matters	273
Section 26: Interest	281
Section 27: Leases	295
Section 28: Service concession arrangements	318
Section 29: Derecognition of financial assets	322
Section 30: Government grants and other considerations	331
Appendices	**333**
Appendix A: Allowance for expected credit losses in loans and receivables and some debt securities	333
Appendix B: Abbreviations	356
Appendix C: IFRS Standards— Publication Section Index	358
Appendix D: U.S. GAAP — Publication Section Index	360

© Deloitte LLP. All rights reserved.

Index of questions

Section	Section description and questions	Page
1.	**First-time adoption**	**5**
1.1	Is the entity a first-time adopter of IFRS Standards under IFRS 1?	5
2.	**Investments in loans and receivables**	**20**
2.1	Does the entity have investments in loans or other receivables (classification and measurement)?	21
2.2	Does the entity have investments in loans or other receivables (impairment)?	22
2.3	Does the entity hold instruments measured at amortised cost?	24
3.	**Investments in debt and equity securities**	**27**
3.1	Does the entity have investments in debt securities?	28
3.2	Has the entity subsequently reclassified any of its investments in debt securities within the categories as described in Question 3.1 above?	30
3.3	Does the entity have any foreign exchange gains or losses on AFS/FVTOCI debt securities?	31
3.4	Does the entity have any debt securities classified as HTM or AFS/FVTOCI (impairment)?	32
3.5	Does the entity initially recognise its investment in debt or equity securities on the settlement date?	34
3.6	Was there any change in the value of debt or equity security between the trade date and settlement date?	35
3.7	Does the entity recognise interest income on debt securities using the effective interest method?	36
3.8	Has there been a change in estimated future cash flows (not as a result of modification) on a debt security when applying the effective interest method?	37
3.9	When purchasing AFS debt securities measured at fair value / financial assets measured at FVTOCI, are transaction costs considered in determining the cost basis of the securities at initial recognition?	38
3.10	Does the entity have any investments in equity securities not accounted for under the equity method of accounting?	39
3.11	Did the entity impair any of its investments in equity securities recorded at cost under the practicability exemption?	40
4.	**Investments – Equity method and joint ventures**	**42**
	Part A — Investments in associates and joint ventures (equity method investees)	42
4A.1	Does the end of the entity's (investor's) reporting period differ from that of any of its associates and joint ventures (equity method investees)?	42
4A.2	Are there differences between the accounting policies of the entity (investor) and any of its associates or joint ventures (equity method investees)?	43
4A.3	Has the reporting entity recorded investments in equity method investees at fair value?	44
4A.4	Is there objective evidence indicating that the investment in an associate or joint venture (equity method investee) may be impaired or has an impairment been recorded?	44
4A.5	Has the entity acquired an investment in an associate or joint venture (equity method investee) and held it with a view to its disposal within 12 months of acquisition?	45
4A.6	After the carrying value has been reduced to zero, does a loss-making associate's or joint venture's (equity method investee's) future profitability appear imminent and assured?	45
4A.7	Does the entity present separate or non-consolidated financial statements in addition to the consolidated financial statements?	46
4A.8	Has the entity invested in qualified affordable housing projects in the United States?	47
4A.9	Does the entity have any contingent consideration payable in respect of an investment in an equity method investee?	48
4A.10	Has the entity considered potential interests in evaluating significant influence?	48
4A.11	Has one of the entity's investments that is accounted for under the equity method recorded an impairment of goodwill in its own books?	49

© Deloitte LLP. All rights reserved.

Part B — Joint arrangements 50

4B.1 Has the entity entered into a joint arrangement or other agreement with a counterparty that is subject to joint control? 50

4B.2 Has the entity made a nonmonetary contribution of assets or a business, in exchange for an equity interest, in an associate or joint venture? 51

5. Inventories 53

5.1 Does the entity apply the LIFO or retail method and the replacement cost or net realisable value (NRV) of any item of inventory is lower than its original cost? 53

5.2 Has previously written-down inventory recovered in value? 54

5.3 Does the entity use the LIFO method to assign the cost of inventories? 54

5.4 Does the entity have inventory items not ordinarily interchangeable or goods or services produced and segregated for specific projects or does it apply the specific identification method for inventory costing? 55

5.5 Does the entity apply different costing formulas (e.g., FIFO, weighted average cost) to different components of inventory? 55

5.6 Has the entity recorded an Asset Retirement Obligation (ARO) related to the production of inventory? 56

5.7 Does the entity have inventories of precious metals, agricultural or forest products, or minerals or mineral products? 56

6. Intangible assets 58

6.1 Has the entity incurred expenditures on research and development ("R&D") activities, including activities for internal development of intangible assets? 58

6.2 Does the entity apply (or plan to choose as its accounting policy) the IAS 38 revaluation model for measurement of any intangible asset classes after initial recognition? 59

6.3 Has the entity incurred costs for developing computer software for its internal use or entered into a cloud computing arrangement? 60

6.4 Does the entity have computer software to be sold, leased, or otherwise marketed as a separate product or as part of a product or process? 62

6.5 Has the entity acquired an intangible asset (other than in a business combination) whose tax basis differs from the cost recognised? 62

6.6 Has the entity incurred expenditures on advertising and promotional activities? 63

6.7 Has the entity acquired an assembled workforce in connection with the acquisition of an asset group that is determined not to be a business? 65

6.8 Does the entity amortise intangible assets using a revenue-based method? 65

7. Property, plant, and equipment 67

7.1 Does the entity apply (or plan to choose as its accounting policy) the IAS 16 revaluation model for any PP&E asset classes after initial recognition? 67

7.2 Are any components of an item of PP&E significant relative to the total cost of that item of PP&E? 68

7.3 Has the entity incurred costs related to a major inspection or overhaul of PP&E? 69

7.4 Does the entity own any investment property? 70

7.5 Has the entity entered into a nonmonetary exchange of PP&E with "boot" of at least 25 percent (i.e., monetary consideration) that lacks commercial substance? 70

7.6 Does the entity own any biological assets? 71

7.7 Has the entity acquired PP&E (other than in a business combination) whose tax basis differs from the cost recognised? 72

7.8 Does the entity depreciate its PP&E using a revenue-based method? 73

7.9 Has an entity disposed-of any PP&E? 73

8. Impairment of non-financial assets 75

8.1 Were accounting differences between U.S. GAAP and IFRS Standards identified in the carrying value of assets or liabilities? 75

8.2 Has an impairment loss been recognised for tangible and finite-lived intangible assets, or are there potential indicators of impairment? 76

8.3 Does the entity have indefinite-lived intangible assets or intangible assets not yet available for use? 78

8.4 Do any impairment losses relate to assets accounted for under the IFRS revaluation model? 79

© Deloitte LLP. All rights reserved.

8.5 Are there any indications that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased? 79
8.6 Does the entity have goodwill? 80

9. Employee benefits **83**

Part A — Long-term employee benefits other than termination benefits and postemployment benefits 84
9A.1 Does the entity provide long-term employee benefits (other than termination benefits and postemployment benefits) to its employees? 84
9A.2 Is the discount rate selected for other long-term employee benefits on the basis of rates at which the benefits can be effectively settled determined other than by reference to high-quality corporate bonds? 85

Part B — Termination benefits 86
9B.1 Has the entity provided termination benefits to its employees? 86

Part C — Postemployment benefits 87
9C.1 Does the entity provide postemployment benefits to its employees? 87
9C.2 Does the entity participate in one or more multiemployer plans? 89
9C.3 Is the entity a subsidiary whose employees participate in a pension plan established by a parent entity? 89
9C.4 Does the entity participate in one or more multiple-employer plans in which unrelated employers pool assets for investment purposes? 90
9C.5 Does the entity have benefit plans where the actuarial present value of benefits is greater upon immediate termination than on the employee’s expected separation date? 91
9C.6 Has the entity recognised prior service cost arising from changes to benefit plans that either increase or reduce benefits related to services rendered in prior periods? 91
9C.7 Does the employer have postemployment benefits that are funded, such that the net periodic benefit cost includes an expected return on assets component? 92
9C.8 Does the reporting entity include an expected return on plan assets as a component of net periodic benefit cost? 92
9C.9 Has the entity recognised any actuarial gains and losses? 93
9C.10 Are benefits of the plan(s) covered by insurance policies? 94
9C.11 Are the defined benefit obligation and related plan assets of the postemployment plan(s) measured as of a date other than the entity’s reporting date? 95
9C.12 Does the entity sponsor postemployment benefits in which contributions, benefit payments, or both, are subject to a tax on the plan? 96
9C.13 Does the entity incur plan administration costs, other than the costs of managing the plan assets? 97
9C.14 Do plan assets exceed plan obligations, resulting in a defined benefit asset? 97
9C.15 Is an entity committed to making contributions into a plan (i.e. minimum funding requirement), such as to fund a shortfall that was determined on a different actuarial basis from the accounting shortfall? 98
9C.16 Has the entity recognised a gain or loss from a curtailment? 99
9C.17 Has the entity recognised a gain or loss from a settlement? 100
9C.18 Has the entity capitalised net periodic benefit cost in assets? 101

10. Provisions and contingencies **103**

10.1 Does the entity have any “reasonably possible” contingent liabilities with uncertain outcomes as of the end of the reporting period that do not meet the threshold for recognition on the balance sheet under U.S. GAAP? 103
10.2 Does the entity have any contingent liabilities with uncertain outcomes that must be measured and recognised as of the end of the reporting period? 104
10.3 Does the entity have any provisions in which discounting the related cash flows would be material? 105
10.4 If the entity has decommissioning provisions (also referred to as asset retirement obligations), has there been a change during the period in the estimated amount or timing of future cash flows or in the current discount rate? 105
10.5 Does the entity have any firmly committed executory contracts, other than operating lease contracts, in which the unavoidable costs of meeting the contractual obligations exceed the economic benefits expected to be received? 106
10.6 Has the entity announced or implemented any restructuring plans? 107
10.8 For entities that have not yet adopted the new leasing standards, has the entity recorded a provision for operating leases on properties? 108

© Deloitte LLP. All rights reserved.

10.9 Has the entity incurred any losses that may be covered by insurance? 109
10.10 Does the entity adjust any liabilities for exit or disposal costs or asset retirement/ decommissioning obligations due to the passage of time? 109
10.11 Is the entity subject to any levies? 110
10.12 Does the entity at the reporting date have obligations with a fixed total amount arising from joint and several liability arrangements? 111

11. Distinguishing liabilities from equity and debt modifications 112

11.1 Has the entity issued a financial instrument with both liability and equity components (e.g., a convertible debt security)? 113
11.2 Has the entity issued convertible debt that has been converted to shares in accordance with the original terms of the convertible debt? 114
11.3 Has the entity issued shares that are puttable by the holder or contingently redeemable upon the occurrence of a condition or contingency that is outside the control of the issuer? 115
11.4 Has the entity issued a convertible debt instrument that offers a cash settlement alternative upon conversion? 116
11.5 Has the entity issued a convertible debt instrument that has been redeemed early (extinguishment) in which the original conversion privileges are unchanged? 117
11.6 Has the entity issued nonredeemable shares with mandatory dividends? 118
11.7 Has the entity issued any written options on its own shares or shares of its subsidiaries under which the entity is required to purchase those shares? 119
11.8 Has the entity entered into any obligations to issue a variable number of equity shares? 120
11.9 Has the entity issued rights, warrants, or options to all existing shareholders (i.e., rights issues) to acquire a fixed number of the entity's own equity shares for a fixed amount of any currency (other than the entity's functional currency)? 123
11.10 Has the entity modified or restructured debt previously issued? 123

12. Revenue recognition 126

12.1 Has the entity evaluated the collectability threshold for recognising the revenue? 128
12.2 Has the entity reversed or should the entity reverse impairment losses on the assets, earlier recognised as costs to obtain or fulfil a contract? 128
12.3 Does the entity provide shipping and handling services, after control of the good is transferred to the customer? 129
12.4 Does the entity incur/collect any sales taxes from customers for goods and services transferred? 129
12.5 Does the entity provide any licensing rights to its customers? 130
12.6 Do the licensing rights contracts have a renewal clause? 131
12.7 Has the entity received any non-cash consideration? 131
12.8 Did the entity apply the modified retrospective method of transition to ASC 606 or IFRS 15 and elect the contract modification practical expedient? 132
12.9 Does the entity have any completed contracts at the time of transition to ASC 606 or IFRS 15 and is presenting interim financial information in the period of transition? 133
12.10 Does the entity have any provision for losses on construction-type and production-type contracts? 134

13. Share-based payments 135

13.1 Does the entity have share-based payment awards with graded vesting features? 136
13.2 Has the entity entered into share-based payment arrangements with non-employees? 137
13.3 Does the entity have share-based payment arrangements whose conditions are indexed to a factor in addition to the entity's share price and are not market, performance, or service conditions? 138
13.4 Does the entity have share-based payments whose service inception date precedes the plan approval date? 139
13.5 Has the entity modified an award with a service or performance condition that was not originally expected to vest (i.e. improbable), but is now expected to vest (i.e. probable) as a result of the modification? 140
13.6 Has the entity modified an equity-settled share-based payment arrangement to add an employee option to choose a cash alternative (i.e. equity to liability modification)? 141
13.7 Is the entity liable for payroll taxes (e.g., social security contributions) for share-based payments issued under employee compensation arrangements? 142
13.8 Has the entity granted share-based payment awards with contingent features? 143

© Deloitte LLP. All rights reserved.

13.9 Has the entity issued options or similar instruments under employee compensation arrangements that can be redeemed for cash at fair value upon the occurrence of a contingent event? 143

13.10 Has the entity granted share awards (e.g., non-vested awards) under employee compensation arrangements that require the entity to repurchase the shares, upon request by the employee, for cash equal to the shares' fair value? 144

13.11 Has the entity granted share-based payment awards with cash redemption features that are not solely within the control of the entity but are not otherwise classified as a liability under U.S. GAAP? 145

13.12 Has the entity granted share-based payment awards under employee compensation arrangements with a contingent call feature within the control of the entity? 146

13.13 Has the entity granted share-based payment awards that allow (or mandate) the employer to repurchase (or net settle) shares issued upon exercise (or vesting) to satisfy the employer's minimum statutory withholding requirements for an employee? 147

13.14 Does the entity have an employee share purchase plan ("ESPP") that provides a discount from the market price of the shares to be purchased by employees? 148

13.15 Does the entity have any employee share ownership plans ("ESOPs")? 148

13.16 Has a subsidiary granted share-based payment awards to employees of the subsidiary that are settled in the parent's equity? 149

13.17 Does the entity have awards with performance targets, which can be met after the requisite service period is completed? 150

13.18 Does the entity use intrinsic value for the purposes of the measurement of liability classified awards? 151

13.19 Has the entity modified a liability equity-settled share-based payment arrangement from cash-settled to equity settled (i.e. liability to equity modification)? 151

13.20 Has the entity issued share-based payment awards settled with a variable number of shares? 152

13.21 Has the entity used the simplified method to establish an expected term in determining the grant-date fair value of "plain vanilla" share-based payment awards under U.S. GAAP? 152

13.22 Does the entity have share-based payment awards granted to employees that are subject to forfeiture? 153

13.23 Has the entity granted share-based payment awards to employees that include a performance condition based upon the occurrence of a liquidity event (e.g., an IPO, an exit event or a change in control)? 154

14. Income taxes 155

Part A — General income tax considerations 157

14A.1 Did one tax-paying component transfer inventory to another tax-paying component of the same consolidated group with the inventory remaining in the consolidated group at the reporting date? 157

14A.2 Does the entity grant share-based payments (equity or liability classified) to its employees? 158

14A.3 Does the entity have any uncertain income tax positions that may require to be recognised and measured for financial reporting purposes? 159

14A.4 Has the entity had any changes in its opening deferred taxes where the related tax expense or benefit was originally charged or credited to equity? 161

14A.5 Has the entity changed its tax status from nontaxable to taxable or vice versa? 162

14A.6 Were there changes in tax laws or rates (enacted or substantively enacted) in any of the jurisdictions that an entity operates in? 162

14A.7 Does the entity have any assets or liabilities for which the tax base differs depending on the manner in which the asset is recovered? 163

14A.8 Does the entity have any DTAs not meeting the criteria for recognition on the balance sheet? 164

14A.9 Does local tax law impose a different tax rate on earnings based on whether such earnings are distributed or retained? 165

14A.10 Does the entity have subsidiaries whose functional currency is different from its local currency or whose jurisdictions permit or require indexation for income tax purposes? 166

14A.11 Has the entity acquired an asset or liability (in a transaction that is not a business combination) whose tax basis differs from the asset or liability recognised? 167

14A.12 Is the entity a lessor with transactions characterised as leveraged leases under U.S. GAAP? 168

14A.13 Does the entity benefit from jurisdiction-specific special deductions for tax purposes only (i.e., that will not be reported in the financial statements)? 169

14A.14 Is the entity subject to income tax under an alternative or parallel income tax system that imposes tax (or a different tax rate) on a modified taxable income calculation or a system that would require tax payments by entities that would otherwise not pay tax under the normal income tax regime (e.g., tax payments required on the basis of alternative tax calculations, even if the normal corporate tax computation results in a loss)? 169

© Deloitte LLP. All rights reserved.

14A.15 Is the entity a member of a consolidated tax return group, issuing separate financial statements? 170
14A.16 Is the entity subject to a "hybrid" tax regime? 171

Part B — Temporary differences related to investments (consolidated or not) 172

14B.1 Does the entity's carrying amount (book basis) exceed the tax basis of its investment in a domestic subsidiary or a domestic corporate joint venture that is essentially permanent in duration with undistributed earnings generated on or after 15 December 1992? 172
14B.2 Does the entity's book basis exceed the tax basis of its investment in a foreign subsidiary or a foreign corporate joint venture that is essentially permanent in duration? 173
14B.3 Does the entity's tax basis exceed the carrying value (book basis) of its investment in a subsidiary or corporate joint venture that is essentially permanent in duration (domestic or foreign)? 173
14B.4 Are there any outside basis differences between the entity's carrying amount (book basis) and its tax basis in its investment in a branch or associate (i.e., equity method investee that is not a corporate joint venture)? 174
14B.5A Has the entity increased its ownership interest in a domestic equity method investment such that it becomes a subsidiary and is consolidated for financial reporting purposes? 175
14B.5B Has the entity increased its ownership interest in a foreign equity method investment such that it becomes a foreign subsidiary and is consolidated for financial reporting purposes? 175
14B.5C Has the entity decreased its interest in a foreign subsidiary such that it is now accounted for under equity method of accounting and is not a corporate joint venture that is essentially permanent in duration? * 176

Part C — Accounting for income taxes in business combinations 177

14C.1 In a business combination, were share-based payment awards held by employees of the acquiree exchanged for share-based payments of the acquirer? 177

Part D — Interim financial reporting 179

14D.1 Has there been a change in circumstances that would result in a change in the beginning-of-the-year amount of DTAs recognised or the amount of valuation allowance in the interim period? 179
14D.2 In computing taxes for the interim period, has the entity identified any items described in Question 14.A.4 (changes in items that were originally charged to items other than continuing operations)? 180
14D.3 With respect to the calculation of the forecasted annual effective tax rate, does the entity operate in multiple jurisdictions with different tax rates? 181
14D.4 When computing the interim tax charge, has the entity incurred a loss on a year to date basis that exceeded the anticipated loss for the entire year? 181

15. Presentation of financial statements 183

Part A — General requirements 184

15A.1 Is the entity preparing financial statements, and will it therefore need to understand the general presentation considerations for financial statement line items and comparative information? 184
15A.2 Did the entity apply an accounting policy retrospectively or make a retrospective restatement (i.e. an error correction) or reclassification in its financial statements? 184
15A.3 Is the entity a wholly-owned subsidiary that is also a parent that has subsidiaries that it controls? 185
15A.4 Has the entity prepared or is it required to prepare the financial statements on a liquidation basis of accounting? 186
15A.5 Is the entity exposed to conditions or events that might raise substantial doubt over its ability to continue as a going concern? 187

Part B — Statement of financial position 188

15B.1 Has the entity refinanced bank loans on a long-term basis after the reporting period but before the issuance of the financial statements? 188
15B.2 Has the entity violated loan covenants as of the reporting date whereby the loan is payable on demand but obtained a waiver of the breach after period end? 188

Part C — Income statement 189

15C.1 Does the entity present (or intend to present) subtotals for different measures of profits in its IFRS financial statements (e.g., operating profit before restructuring costs) or use a columnar presentation to strip out certain items? 189
15C.2 Does the entity present (or intend to present) the expenses in the statement of comprehensive income according to the nature of the expense under IFRS Standards? 190

© Deloitte LLP. All rights reserved.

15C.3 Does the entity have net periodic benefit cost attributable to defined benefit plans? 190

16. Noncurrent assets held for sale and discontinued operations 192

16.1 Does the entity have a component that either has been disposed of or is classified as held for sale? 192
16.2 Is there an accumulated foreign currency translation adjustment associated with an equity method investment or a consolidated investment in a foreign entity classified as held for sale that is subject to impairment? 193
16.3 Has there been a subsequent increase in the fair value of an asset or disposal group classified as held for sale beyond the original amount recorded upon classification as held for sale where an impairment loss had been recorded related to the asset or disposal group before classification as held for sale? 194
16.4 Does the entity plan to distribute noncurrent assets or a disposal group to its owners? 194
16.5 Has the entity classified non-current assets or assets and liabilities of disposal groups as held for sale during the reporting period? 195
16.6 Does the entity have long-lived assets or asset groups that are held for sale? 195

17. Statement of cash flows 197

17.1 Has the entity chosen to use the indirect method to report cash flows from operating activities? 197
17.2 Does the entity have bank overdrafts? 198
17.3 Has the entity paid interest? 198
17.4 Has the entity received interest? 199
17.5 Has the entity paid dividends? 199
17.6 Has the entity received dividends from its investments (joint ventures, equity method investments, cost method investments)? 200
17.7 Has the entity paid income taxes? 200
17.8 Has the entity applied hedge accounting? 201
17.9 Does the entity have discontinued operations? 202
17.10 Does the entity have restricted cash or restricted cash equivalents? 203
17.11 Has the entity made cash payments to settle zero coupon bonds or other debt instruments having coupon interest rates that are insignificant in relation to the effective interest rate of the borrowings? 203
17.12 Has the entity paid contingent consideration after the acquisition date of a business combination? 204
17.13 Has the entity received cash proceeds from settlement of corporate-owned life insurance or bank-owned insurance policies insurance claims during the period? 205
17.14 Does the entity have a beneficial interest in securitised trade receivables and has it received cash payments from such securitised receivables during the year? 205
17.15 Were there cash receipts and payments which have more than one class of cash flows and cannot be separated by use or source? 206

18. Earnings per share 207

18.1 Is the reporting entity an investment company or wholly-owned subsidiary? 207
18.2 Has the entity issued any contracts that may be settled in common stock or cash at the issuer's or holder's option? 207
18.3 Has the entity applied the two-class method to participating securities (i.e. debt or equity instruments)? 208
18.4 Has the entity issued mandatorily convertible instruments? 209
18.5 Does the entity present diluted EPS on a quarterly basis under the treasury stock method? 209
18.6 Has the entity issued contingently convertible instruments with a market price trigger? 210
18.7 Does the entity give its shareholders the choice to receive a distribution in shares or cash, with a minimum aggregate amount of shares required in the distribution (i.e. with a limit on the total amount of cash)? 211
18.8 Has the entity issued mandatorily redeemable common shares and forward contracts that require physical settlement in a fixed number of shares for cash? 211
18.9 For Master Limited Partnerships (MLP), are there any dropdown transactions between entities under common control? 213
18.10 Does the entity have freestanding equity-linked financial instruments with down round features? 214
18.11 Does the entity have any share-based payment awards that have nonforfeitable rights to dividends and the entity accounts for forfeitures of such awards as they arise? 214

19. Operating segments 216

19.1 Does the entity have intangible assets? 216
19.2 Does the chief operating decision maker (CODM) receive information about segment liabilities? 217

© Deloitte LLP. All rights reserved.

19.3 Is the entity organised in a matrix form? 217
19.4 Does the entity aggregate any of its operating segments? 217

20. Business combinations **219**

20.1 Has the entity acquired an asset or group of assets that may qualify to be a business? 219
20.2 Is the acquiree in a business combination a variable interest entity (VIE)? 221
20.3 Did the entity acquire less than 100 percent of an acquiree in a business combination? 222
20.4 Did the entity hedge the foreign exchange risk of the purchase price in a business combination? 222
20.5 Did the entity enter into an arrangement (e.g., put or call option) with a seller to acquire the noncontrolling interest in a target? 223
20.6 Does the acquirer have an obligation to pay additional purchase consideration in a business combination if future events occur or conditions are met (commonly referred to as contingent consideration)? 223
20.7 Did the entity record contingent consideration as an asset or liability in a business combination? 224
20.8 Did the entity record contingent assets or liabilities in a business combination? 224
20.9 Was an operating lease acquired in a business combination? 225
20.10 Is the acquirer obligated to replace the acquiree's share-based payment awards in a business combination? 226
20.11 Did a business combination occur involving entities under common control? 227
20.12 Has the acquired entity applied pushdown accounting in its separate financial statements? 227
20.13 Did the entity have any measurement period adjustments in respect of a business combination? 228

21. Consolidation **230**

21.1 Does the reporting entity have an interest in entities which need to be evaluated for consolidation? 230
21.2 Does the entity hold potential voting interests in entities? 232
21.3 Does the end of the entity's reporting period differ from that of any of its subsidiaries? 232
21.4 Are there differences between the accounting policies of the parent and any of its subsidiaries? 233
21.5 Is the entity a parent company that is required to present consolidated financial statements under U.S. GAAP? Or, if already applying IFRS Standards, are the exceptions to presenting consolidated financial statements applicable? 234
21.6 Has the entity consolidated an entity on the basis of the concept that interests held by de facto agents or related parties are treated as the entity's own interests? 235
21.7 Does the entity own less than 50% of the voting interests in a voting interest entity but it still has the practical ability to control the entity? 236

22. Derivatives and hedging **237**

22.1 Does the entity hold derivatives with no notional amount or payment provision? 237
22.2 Are there derivatives that cannot be "net settled"? 238
22.3 Has the entity entered into prepaid interest rate swaps? 239
22.4 Does the entity have contracts where payments are indexed to the sales or service revenues of another party to the contract? 240
22.5 Has the entity entered into contracts for the purchase or sale of a non-financial item (e.g. purchases of raw materials, sales of products, etc.)? 241
22.6 Does the entity have any contracts that qualify for the NPNS or own use exemption but that have an embedded derivative where the economic characteristics and risks are not "closely related" to the asset delivered or the host contract? 242
22.7 Has the entity entered into commitments to originate loans (i.e. does the entity promise to provide funds to external parties at a fixed rate or on a fixed basis in relation to an interest-rate index)? 243
22.8 Embedded Derivatives. Does the entity have embedded puts, calls, and prepayment options on debt instruments issued? 243
22.9 Has the entity entered into contracts that have a non-financial host and that are denominated in a foreign currency that is commonly used to purchase or sell nonfinancial assets in the economic environment in which the transaction takes place but not more broadly in international commerce for that good or service? 245
22.10 Does the entity have any contracts that, if reassessed, would result in the recognition of an embedded derivative that is driven by a subsequent change in contract terms that caused the contract to meet the derivative "net settlement" criteria and vice versa? 246
22.11 Has the entity issued remarketable put bonds? 247
22.12 Does the entity have hybrid financial instruments? 247

© Deloitte LLP. All rights reserved.

22.13	Has the entity identified an embedded derivative within a financial asset under U.S. GAAP or classified a financial asset at fair value under IFRS 9 because it did not meet the solely payments of principal and interest test?	249
22.14	Does the entity have multiple derivatives embedded in a single hybrid instrument?	250
22.15	Did the change in the fair value of the hedging instrument differ from the change in the fair value of the hedged item in a cash flow hedge or net investment hedge?	250
22.16	Does the entity have compound derivatives with multiple underlyings as the hedging instrument in a net investment hedge?	251
22.17	Does the entity have a net investment hedge in which a first-tier subsidiary is hedging a net investment in a second-tier subsidiary?	251
22.18	Does the entity have held to maturity (HTM) securities or a firm commitment to acquire a business in a business combination that is designated as a hedged item for hedge accounting?	252
22.19	Has the entity assumed no ineffectiveness for a hedge relationship under U.S. GAAP for interest-rate swaps?	253
22.20	Has the entity designated cash flow hedges in which the underlying hedged forecasted transaction results in the recognition of a nonfinancial asset or liability (e.g., hedged forecasted purchase of equipment, or hedged forecasted purchase of inventory)?	254
22.21	Does the entity have hedged forecasted transactions that are no longer highly probable of occurring?	254
22.22	Were non-derivative financial instruments used as hedging instruments for foreign currency risk?	255
22.23	Has the entity used hedging instruments to modify the receipts or payments associated with a recognised, variable-rate asset or liability from one variable amount to another variable amount (e.g., a basis swap) or separated a derivative to hedge multiple exposures?	256
22.24	Has the entity entered into a foreign currency cash flow hedging relationship using an internal derivative and applied hedge accounting for this contract in the consolidated financial statements?	256
22.25	Has the entity applied net investment hedging or hedged a foreign currency risk in which the entity within the consolidated group that has the exposure is not the same as the one that entered into the hedging derivative?	257
22.26	Does the entity have synthetically created foreign-currency-denominated debt as a hedging instrument in a net investment hedge?	257
22.27	Has the entity used purchased options as hedging instruments in a cash flow hedge?	258
22.28	In a foreign currency cash flow hedge of a recognised asset or liability, is all the variability in the hedged item’s functional currency-equivalent cash flows eliminated by the effect of the hedge?	259
22.29	Has there been a change in the counterparty to a derivative instrument that has been designated as a hedging instrument?	260
22.30	Has the entity applied hedge accounting?	261
22.31	Has the entity chosen to voluntarily terminate a hedging relationship?	263
22.32	Is the entity seeking to designate as a hedged item an aggregate exposure that includes a non-derivative and a derivative instrument?	263
22.33	Is the entity looking to hedge credit risk?	264
22.34	Has the entity hedged a net position?	265
23.	**Fair value measurement**	**266**
23.1	Is there a difference between any transaction’s entry price (i.e. the price paid to acquire an asset or price received to issue a liability) and the respective exit price at the inception of the transaction provided by valuation models?	266
23.2	Has the entity measured an investment at fair value using net asset value per share of the issuer of the instrument?	268
24.	**Fair value option**	**269**
24.1	Did the entity designate or elect the fair value option for a financial asset or liability?	269
25.	**Foreign currency matters**	**273**
25.1	Has the entity changed its functional currency from the reporting currency (presentation currency) to a foreign currency or vice versa?	273
25.2	Does the reporting entity have a multitiered organisational structure, where subsidiaries and parent companies with different functional currencies are ultimately consolidated into the reporting entity?	274
25.3	Does the entity have operations in economies that may be considered highly inflationary?	275

© Deloitte LLP. All rights reserved.

25.4 Does the entity have subsidiaries, equity method investees (associates), or joint ventures in highly inflationary economies? 275
25.5 Does the entity have subsidiaries, equity method investees (associates), or joint ventures in economies that changed status from highly inflationary to non-highly inflationary? 276
25.6 Has the entity made a partial disposal of an investment in or within a foreign operation? 277
25.7 Has the entity lost significant influence or joint control over an equity method foreign investee during the period? 277
25.8 Has the entity entered into a partial disposal of an investment within a foreign entity, which does not result in a complete or substantially complete liquidation of the foreign entity? 278
25.9 Has the entity entered into a partial disposal of a foreign entity accounted for as an equity method investment, which resulted in loss of its significant influence over the equity method investment and the retained interest is measured at cost minus impairment? 279
25.10 Does the entity have foreign exchange transaction gains or losses related to available-for-sale (AFS) debt securities? 279
25.11 Does the entity have a foreign investee, which is held-for-sale (HFS), and being evaluated for impairment? 280

26. Interest **281**

Part A — Effective interest rate method 282

26A.1 Does the entity apply the effective interest method as a method for the calculation of interest for its investment in loans? 282
26A.2 Has the entity revised its estimates for pre payable loans of the entity? 282
26A.3 Has the entity received interest on an impaired loan? 283
26A.4 Does the entity apply the effective interest method as a method for the calculation of interest for its investment in debt securities? 285
26A.5 Has the entity revised its estimate of future cash flows for its investment in debt securities? 286
26A.6 Has the entity originated loans or receivables that are not accounted for at FVTPL? 287
26A.7 Is the entity amortising debt issuance costs over a period shorter than the contractual term? 288
26A.8 Does the entity hold beneficial interests in securitised financial assets (e.g., mortgage-backed securities or collateralised debt obligations)? 288
26A.9 Does the entity have short-term receivables and payables with no stated interest rate? 289

Part B — Borrowing Costs 289

26B.1 Does the entity hold assets whose preparation for their intended use will take time (including investments in equity method investees with such activities)? 290
26B.2 Has the entity incurred interest costs (or borrowing costs) that are directly attributable to the acquisition, construction, or production of a qualifying asset? 291
26B.3 Has the entity incurred exchange differences on foreign currency borrowings obtained to acquire a qualifying asset? 291
26B.4 Has the entity incurred derivative gains and losses arising from the effective portion of a derivative instrument that qualifies as a fair value hedge of a loan related to a qualifying asset? 292
26B.5 Did the entity borrow funds specifically to obtain a qualifying asset? 292
26B.6 Did the entity borrow funds generally and use them to obtain a qualifying asset or assets? 293
26B.7 Did the entity earn income on the temporary investment of the proceeds of borrowings obtained specifically to acquire a qualifying asset? 293
26B.8 Does the entity have qualifying assets acquired with gifts or grants that are restricted by the donor or grantor? 294

27. Leases **295**

Part A — Overall 298

27A.1 Has the entity entered into a contract that is considered as a lease? 298

Part B — Lessees 299

27B.1 Has the reporting entity entered into leasing arrangements with a lease term of 12 months or less, having a purchase option or whose lease term has been modified? 299
27B.2 Has the lessee entered into lease contracts where the value of the leased asset is low? 299
27B.3 Does the entity (lessee) have leases that qualify as operating leases under U.S. GAAP? 300
27B.4 Does the lessee have a lease containing variable lease payments? 301
27B.5 Has the lessee subsequently measured the ROU asset applying the revaluation model or fair value model? 303

 © Deloitte LLP. All rights reserved.

27B.6 Was the lease liability upon initial recognition measured using the lessee's incremental borrowing rate? 303
27B.7 Was there any modification that reduced the lease term for lessees? 304

Part C — Lessors 305
27C.1 Has the entity entered into lease arrangements as a lessor? 305
27C.2 Has the entity as lessor entered into a contract classified as a financing lease in which selling profit or loss is recorded? 307
27C.3 Has the entity as lessor incurred initial direct costs in relation to leases not classified as operating leases? 307
27C.4 Has a entity as lessor modified leases during the period, which have not been accounted for as a separate contract? 308
27C.5 Does the entity as lessor have lease contracts with non-lease components? 309
27C.6 Does the entity as lessor have contracts which involve sales tax or lessor costs? 311

Part D — Sale and leaseback transactions 312
27D.1 Has the entity entered into any sale and leaseback transactions? 312
27D.2 Has the entity as seller-lessee entered into a sale and leaseback transaction where the selling price exceeded the carrying amount in? 312
27D.3 Does the entity have a sale and leaseback transaction that does not qualify as a sale? 313

Part E — Other topics 314
27E.1 Has the entity as lessor entered into sub-lease arrangements? 314
27E.2 Is the entity other than a manufacturer or a dealer? 315
27E.3 Has the entity entered into any lease arrangements with a related party? 315

Part F — Transition 316
27F.1 Did the entity adopt the new leasing standard using a modified adoption method rather than full retrospective adoption? 316
27F.2 Did the entity have land easement contracts upon adoption of ASC 842 or IFRS 16? 316

28. Service concession arrangements 318
28.1 Is the entity party to a service concession arrangement? 318

29. Derecognition of financial assets 322
29.1 Has the entity transferred financial assets to another entity (including special-purpose entities), or does the entity have secured borrowings? 322
29.2 Did the entity's transfer involve the transfer of a portion of an entire financial asset (or group of entire financial assets)? 325
29.3 Has the entity transferred financial assets that are subject to a repurchase agreement? 327
29.4 Has the entity undertaken a servicing right (i.e. a servicing asset or servicing obligation) in connection with the transfer of financial assets? 328
29.5 Has the entity originated mortgaged loans that are either fully or partially guaranteed under government programs and have been foreclosed? 329

30. Government grants and other considerations 331
30.1 Does the entity receive government grants or other assistance? 331

Appendix A. Allowance for expected credit losses in loans and receivables and some debt securities 333
A.1 Does the entity have investments in loans or other receivables other than purchased credit-deteriorated assets, for which measurement of expected credit losses is required? 336
A.2 Does the entity have debt securities measured at fair value through other comprehensive income? 337
A.3 Does the entity have trade receivables and contract assets? 338
A.4 Is the entity a lessor with net investments resulting from finance leases and/or operating lease receivables? 338
A.5 Does the entity have off-balance sheet arrangements such as loan commitments, guarantees and standby letters of credit that are not accounted for as derivatives? 340
A.6 Does the entity have reinsurance receivables? 341
A.7 Does the entity have loans and receivables between entities under common control? 341
A.8 Does the entity measure expected credit losses for financial assets at amortised cost, using methods different to discounted cash flows (such as loss-rate methods, roll rate methods, probability of default methods, aging schedule using loss factors, etc.)? 342

© Deloitte LLP. All rights reserved.

A.9	Does the entity apply a definition of default that is not consistent with that used for internal credit risk management?	343
A.10	Does the entity have information available to measure a significant increase in credit risk for loans on an individual or collective basis?	343
A.11	Does the entity revert, when measuring the expected credit losses, to historical loss information for those periods on which it is not able to develop reasonable and supportable forecasts?	344
A.12	Does the entity stop accruing interest on its loans and receivables?	345
A.13	Does the entity use the collateral's fair value to measure the estimate of expected credit losses of the related loan or receivable?	346
A.14	Does the entity consider other credit enhancements different from collateral in the measurement of the expected credit losses?	346
A.15	Does the entity have financial assets measured at amortised cost for which the amount of the collateral securing the financial asset is continually adjusted as a result of changes in the fair value of the collateral?	348
A.16	Does the entity have financial assets measured at amortised cost for which the expectation of non-payment of the carrying amount is zero?	348
A.17	Does the entity use a single scenarios when measuring expected credit losses?	349
A.18	Does the entity have financial assets that have had their contractual terms modified?	349
A.19	Does the entity have purchased credit deteriorated assets?	351
A.20	Does the entity have financial assets measured at amortised cost designated as hedged items in a fair value hedge accounting relationship?	352
A.21	Does the entity have recognised financial guarantees granted that are not accounted for as insurance or measured at fair value through profit or loss?	353
A.22	Does the entity consider expected recoveries from financial assets that have been previously written off when estimating the expected credit losses?	354

© Deloitte LLP. All rights reserved.

Preface

December 2020

To our clients, colleagues, and other friends:

Overview

We are pleased to present our publication that seeks to assist in identifying key differences in an entity's recognition, measurement, and presentation of transactions under generally accepted accounting principles in the United States of America ("U.S. GAAP") and International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS Standards"). The publication reflects differences for standards that are mandatory as of 31 December 2019, for public business entities that have a calendar-year annual reporting period. It may be read in conjunction with our publication, *A Roadmap to Comparing IFRS Standards and U.S. GAAP: Bridging the Differences*, which explores some of the key differences between IFRS Standards and U.S. GAAP.

Over the years, these differences have decreased for some topics but have increased for others.

In 2002, the International Accounting Standards Board (IASB®) and the FASB issued a Memorandum of Understanding, which set out priorities and milestones to be achieved on major joint projects. The two boards worked together to improve their standards and seek convergence. The results were mixed with respect to convergence. We have seen significant convergence in topics such as business combinations and revenue recognition. However, key differences have increased for topics such as financial instruments and the subsequent measurement of leases. For now, the remaining projects under the Memorandum of Understanding have been deferred, and there are no current projects on which the boards are working together toward converged solutions.

An understanding of the differences between U.S. GAAP and IFRS Standards may be relevant for:

- U.S. entities that consolidate subsidiaries or other foreign operations that report under IFRS Standards (or foreign subsidiaries that report under IFRS Standards and provide financial statement information to a parent entity that reports under U.S. GAAP).
- U.S. entities that provide financial statement information to a parent entity that reports under IFRS Standards (or foreign entities that report under IFRS Standards and consolidate subsidiaries or other operations that report under U.S. GAAP).
- U.S. entities that negotiate transaction terms with entities that report under IFRS Standards (and vice versa).
- Investors and other users of financial statements that seek to compare financial statements prepared under U.S. GAAP and IFRS Standards.
- Standard setters and others that consider opportunities to converge accounting requirements.
- Parties that participate in discussions on or seek to influence the development of new accounting requirements under U.S. GAAP or IFRS Standards.

However, because U.S. GAAP and IFRS Standards are complex and rapidly evolving, the publication does not serve as a comprehensive checklist of all differences that apply to a particular entity's financial statements. Instead it focuses on some of the most common and significant differences that may affect financial statements when converting between U.S. GAAP and IFRS standards.

The publication generally does not cover (1) disclosure-related differences, (2) any guidance related to IFRS Standards for small and medium-sized entities, (3) any guidance related to Private Company Council alternatives for private companies under U.S. GAAP, or (4) any impact of U.S. GAAP industry-specific accounting guidance. It does cover

© Deloitte LLP. All rights reserved.

differences in segment reporting as the impairment rules under both frameworks depend upon the identification of operating segments.

The publication should be viewed as a starting point for identifying potential differences rather than as a comprehensive checklist. The publication is not a substitute for a careful reading of the appropriate U.S. GAAP and IFRS Standards literature, as well as other Deloitte publications on U.S. GAAP and IFRS Standards.

This publication is intended to facilitate the conversion from U.S. GAAP to IFRS Standards and vice versa. However, as discussed in section 1, First-time adoption, converting to U.S. GAAP is typically more complex than converting to IFRS Standards as U.S. GAAP does not include specific guidance on first-time adoption unlike that available under IFRS Standards.

The significance of the differences noted in the publication — and potential other differences not included herein — will vary for 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 guidance and any relevant local laws or securities regulations is essential to an understanding of the specific differences.

Note that the information in this publication reflects guidance that was issued and effective as of 31 December 2019. Details of guidance issued or that is effective after that date is included at the start of each topic but detailed questions are not included for such guidance. However, since ASC 326, Financial Instruments – Credit Losses became effective for public business entities with fiscal years beginning after 15 December 2019, we have included Appendix A Allowance for expected credit losses in loans and receivables and some debt securities to highlight the key differences between ASC 326, Financial Instruments – Credit Losses and IFRS 9, Financial Instruments. Users of this publication should carefully consider literature that was issued or that is effective after 31 December 2019, to the extent that it applies to an entity's financial statements.

Use of this publication

The publication is not a substitute for an understanding of the guidance and the exercise of professional judgment. Users are presumed to have a working knowledge of the relevant literature and should refer to it as necessary when answering the questions.

This publication is organised by accounting topic. Each topic includes an introductory section that presents (1) an overview of the topic; (2) a discussion of recently issued but not yet effective guidance; and (3) a list of primary authoritative literature.

The introductory sections are followed by detailed questions. A "Yes" response to a question may represent a potential difference between U.S. GAAP and IFRS Standards that applies to the entity. Such responses should be evaluated more fully on the basis of the specific U.S. GAAP–IFRS difference as well as the entity's individual facts and circumstances.

In addition, section 1 of the publication explains the considerations for entities that are adopting U.S. GAAP or IFRS Standards for the first time, including a number of exemptions available together with some practical guidance. As the first time adoption of U.S. GAAP or IFRS Standards is complex, entities may need to use significant judgment in the conversion process and therefore consultation with independent professional advisers is recommended.

Note that although the questions in this publication are stated in various tenses (i.e., present, past, future), the questions should be viewed in light of the circumstances of the particular circumstances and the tenses of questions adapted accordingly.

© Deloitte LLP. All rights reserved.

Contacts

If you have questions about the information in this publication, please contact any of the following Deloitte professionals:

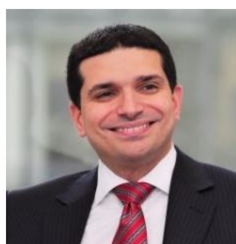
Deloitte Global Capital Markets Group – London Centre

Julian Thomas

Partner

Tel: +44 20 7007 3351

Email: jsthomas@deloitte.co.uk



Leonardo (Leo) Ferreira

Partner

Tel: +44 20 7303 3975

Email: leferreira@deloitte.co.uk

Rob Hughes

Partner

Tel: +44 207 303 7869

Email: rohughes@deloitte.co.uk

Sylvia Chai

Partner

Tel: +44 20 7303 3897

Email: sychai@deloitte.co.uk

Fran Yearsley

Partner

Tel: +44 20 7303 7148

Email: fyearsley@deloitte.co.uk

Kristen Hackett

Partner

Tel: +44 20 7007 5489

Email: kkhackett@deloitte.co.uk

Melanie Spurway

Partner

Tel: +44 20 7303 2843

Email: mespurway@deloitte.co.uk

Chris Overd

Director

Tel: +44 20 7303 7105

Email: coverd@deloitte.co.uk

Rohan Lobo

Director

Tel: +44 20 7007 0762

Email: rohanalobo@deloitte.co.uk

Valeria Villa Duque

Director

Tel: +44 20 7007 7874

Email: vavilladuque@deloitte.co.uk

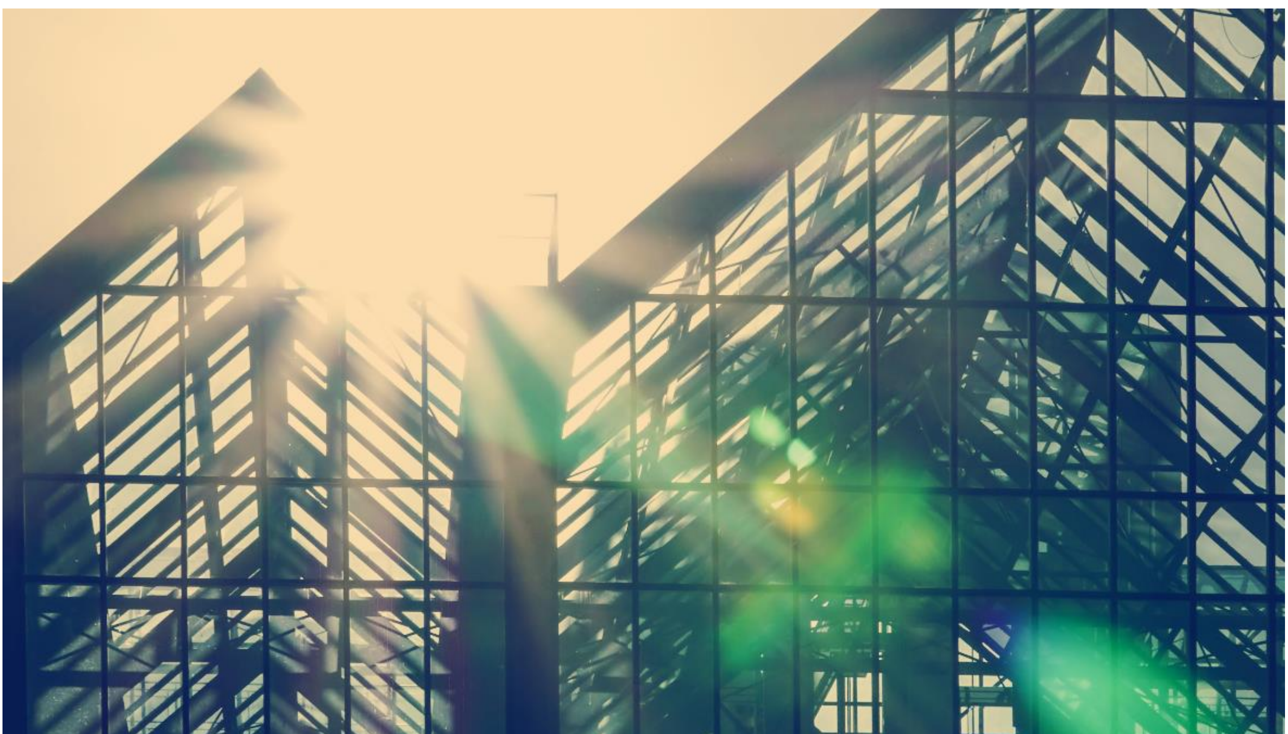
© Deloitte LLP. All rights reserved.

Deloitte U.S. National Office

Bob Uhl
Partner
Deloitte & Touche LLP
Tel: +1 203 761 3152
Email: ruhl@deloitte.com

Ignacio Perez
Managing Director
Audit & Assurance
Deloitte & Touche LLP
Tel: +1 203 761 3379
Email: igperez@deloitte.com

Magnus Orrell
Managing Director
Deloitte & Touche LLP
Tel: +1 203 761 3402
Email: morrell@deloitte.com



© Deloitte LLP. All rights reserved.

Section 1: First-time adoption

1. First-time adoption

Overview

An entity is required to apply IFRS 1 in its first IFRS financial statements. IFRS 1:3 defines an entity's first IFRS financial statements as "the first annual financial statements in which the entity adopts IFRSs, by an explicit and unreserved statement in those financial statements of compliance with IFRSs." See IFRS 1:3 for examples of when financial statements under IFRS Standards are considered to be an entity's first IFRS financial statements.

The general principle of IFRS 1 is that it requires full retrospective application of IFRS Standards effective as of the reporting date. However, because full retrospective application is sometimes extremely challenging, IFRS 1 allows for certain optional exemptions and mandatory exceptions, which are discussed below. The exemptions elected and the application of the mandatory exceptions may result in further differences when converting to U.S. GAAP since the accounting principles applied by the entity prior to the adoption of IFRS Standards may differ from the accounting under U.S. GAAP. Such differences are not addressed in this publication given the number of different GAAPs that could have been applied by entities prior to adopting IFRS Standards.

There is no specific guidance on first-time adoption under U.S. GAAP. Instead entities should review all historic transactions since their inception to determine whether the accounting for such transactions would have been different had U.S. GAAP been applied. This can be extremely challenging particularly where standards have changed over time and the subsequent standards cannot be early adopted. For example, it is necessary to consider all historic business combinations and whether there should be any amounts (goodwill, fair value adjustments to long-lived assets) that should be included in the opening balance sheet. The extent to which it is necessary to review historic transactions will depend upon the entity's corporate history, depreciation and amortisation periods and materiality.

Primary authoritative guidance

U.S. GAAP	IFRS Standards
• No specific U.S. GAAP guidance.	• IFRS 1, First-time Adoption of International Financial Reporting Standards

1.1 Is the entity a first-time adopter of IFRS Standards under IFRS 1?

Yes

No

A first-time adopter of IFRS Standards is an entity that presents its first IFRS financial statements (i.e., the first annual financial statements in which an entity adopts IFRS Standards by an explicit and unreserved statement of compliance with IFRS Standards). A first- time adopter is required to apply IFRS 1 in its first IFRS financial statements.

U.S. GAAP	IFRS Standards
No specific guidance exists for first-time application. Adopters generally use full retrospective application unless the transitional provisions in specific guidance require otherwise.	The general principle is full retrospective application of IFRS Standards effective as of the reporting date unless the specific exceptions and exemptions in IFRS 1 permit or require otherwise. Consequently, certain standards may need to be adopted before their effective date for companies already reporting under IFRS Standards.

© Deloitte LLP. All rights reserved.

U.S. GAAP–IFRS difference considerations

Converting to IFRS from U.S. GAAP

IFRS 1 generally requires a first-time adopter to retrospectively apply the version of IFRS Standards effective as of the reporting date. Therefore, the first IFRS financial statements are presented as if the entity had always presented financial statements in accordance with IFRS Standards.

A first-time adopter is required to prepare an opening IFRS statement of financial position on the date of transition to IFRS Standards, which is defined in Appendix A of IFRS 1 as "the beginning of the earliest period for which an entity presents full comparative information under IFRSs in its first IFRS financial statements." The opening statement of financial position should be prepared in accordance with the provisions of IFRS 1 as opposed to the specific transitional provisions of other individual standards. Adjustments arising from the transition to IFRS Standards are recognised directly in retained earnings or, if appropriate, another category of equity as of the date of transition to IFRS Standards (except for certain exceptions associated with reclassifications between goodwill and intangible assets).

Retrospective application of IFRS Standards can require an entity to expend significant resources and may, in certain situations, be impracticable. Accordingly, IFRS 1 provides several optional exemptions and certain mandatory exceptions to the general principle of retrospective application. IFRS 1 provides a first-time adopter with the ability to choose (1) whether to apply optional exemptions and (2) which optional exemptions to apply. Application of the IFRS 1 optional exemptions and mandatory exceptions can give rise to differences between U.S. GAAP and IFRS Standards in areas in which the accounting does not usually differ.

The general principle underlying IFRS 1 is that a first-time adopter should apply each version of each standard effective at the end of its first IFRS reporting period retrospectively. Therefore, the first IFRS financial statements are presented as if the entity had always applied IFRS Standards. For example, a company whose date of transition to IFRS Standards is 1 January 2017 whose first IFRS financial statements cover the years ended 31 December 2017 and 2018 would be required to adopt IFRS 15, Revenue from Contracts with Customers, as of 1 January 2017 notwithstanding the fact that the effective date of IFRS 15, for companies already reporting under IFRS Standards is 1 January 2018.

Many U.S. parent companies will adopt IFRS Standards for consolidated group reporting later than some of their non-U.S. subsidiaries. In their consolidated IFRS financial statements, parents should use the same carrying amounts they used in the subsidiary's IFRS financial statements, after adjusting for consolidation adjustments (e.g., alignment of accounting policies, elimination of profits on intragroup transactions) and acquisition adjustments (i.e., "the effects of the business combination in which the parent acquired the subsidiary") to measure the assets and liabilities of an existing IFRS-reporting subsidiary. This means that the IFRS 1 exemptions chosen by the parent cannot be used on existing IFRS-reporting subsidiaries (because an entity has only one chance to use IFRS 1 exemptions). The same guidance applies to associates and joint ventures that adopted IFRS Standards before the investor company.

Converting to U.S. GAAP from IFRS Standards

Whereas the key principle of IFRS 1 is to apply retrospectively all standards effective as of the reporting date of the entity's first IFRS financial statements (with some exceptions and exemptions), U.S. GAAP requires the application of the standard effective as of the transaction date and apply new or changes in accounting policies in accordance with the respective transition requirements of each standard. Therefore, entities should review all historic transactions since their inception to determine whether the accounting for such transactions would have been different had U.S. GAAP been applied and such differences would still be present at the start of the period for which U.S. GAAP financial information is presented.

For a first-time adopter of U.S. GAAP, the source of authoritative literature is the FASB Accounting Standards Codification Manual which includes all guidance effective for interim and annual periods ending after 15 September 2019. All previous level (a) to (d) U.S. GAAP standards issued by a standard setter were superseded. Level (a) to (d) U.S. GAAP refers to the previous accounting hierarchy. For long established companies converting to U.S. GAAP it may be necessary to refer back to the previous accounting hierarchy and original pronouncements (as amended) to determine the appropriate accounting for a particular transaction; this will likely be most common for historic business combinations where the acquired assets and liabilities are still recorded on the entity's balance sheet and the accounting for that business combination may have been different under IFRS Standards compared to U.S. GAAP.

Adding to the complexity of converting to U.S. GAAP, there are other elements such as (1) the existence of (a) different effective dates, (b) transition approaches and (c) guidance for public and non-public entities; (2) regulators

© Deloitte LLP. All rights reserved.

such as the SEC requiring under certain circumstances comparative information for more than one year; and (3) specific industry guidance, amongst others, that an entity needs to factor in.

From a process perspective, a first time U.S. GAAP adopter must look at the U.S. GAAP that was effective when the historical transactions occurred to determine if there is a difference other than the currently existing differences between IFRS Standards and U.S. GAAP presented in the different sections of this publication. As noted above first time adoption of U.S. GAAP is complex and entities may need to use significant judgment in any conversion process. Furthermore, consultation with qualified professional advisers is recommended.

Comments

The following table illustrates the main concepts of the optional exemptions that are available under IFRS 1.

Optional exemption	Description	IFRS 1 reference	Comments
Business combinations	A first-time adopter may elect not to retrospectively apply IFRS 3, Business Combinations, to business combinations that occurred before the date of transition to IFRS Standards. IFRS 1:C4 lists the consequences of an entity's choice of not applying IFRS 3 retrospectively to a past business combination. According to IFRS 1:C5, this optional exemption also applies to past acquisitions of investments in associates, interests in joint ventures and interests in joint operations in which the activity of the joint operation constitutes a business, as identified in IFRS 3. Furthermore, IFRS 1:C1 states that if a first-time adopter chooses to retrospectively apply IFRS 3 for a given business combination, it must restate for all later business combinations and must also apply IFRS 10 from that same date. For example, if a first-time adopter elects to restate a business combination that occurred on 30 June 2011, it shall restate all business combinations that occurred between 30 June 2011, and the date of transition to IFRS Standards, and it should also apply IFRS 10 from 30 June 2011. The selected date applies equally to acquisitions of investments in associates, interests in joint ventures and interests in joint operations in which the	C	

© Deloitte LLP. All rights reserved.

Optional exemption	Description	IFRS 1 reference	Comments
	activity of the joint operation constitutes a business, as defined in IFRS 3.		
Fair value adjustments and goodwill resulting from business combinations	A first-time adopter may elect not to apply IAS 21, The Effects of Changes in Foreign Exchange Rates retrospectively to fair value adjustments and goodwill arising in business combinations that occurred before the date of transition to IFRS Standards. Instead, the fair value adjustments and goodwill are treated as assets and liabilities of the entity rather than as assets and liabilities of the acquiree. Therefore, those goodwill and fair value adjustments either are already expressed in the entity's functional currency or are non-monetary foreign currency items that entities report by using the exchange rate they applied under previous GAAP.	C2 and C3	
Insurance contracts	A first-time adopter may apply the transitional provisions in IFRS 4, Insurance Contracts. IFRS 4 restricts changes in accounting policies for insurance contracts, including changes made by a first-time adopter.	D1(b) and D4	
Deemed cost	A first-time adopter may elect to measure PP&E, certain intangibles, and certain investment property at deemed cost in the opening IFRS statement of financial position at an amount on the basis of any of the following: • Fair value as of the date of transition to IFRS Standards. • A revaluation under previous GAAP at or before the date of transition to IFRS Standards that meets the criteria in IFRS 1:D6. • Fair value as of the date of an event such as privatisation or an initial public offering for events whose measurement date is at or before the date of transition to IFRS Standards. A first-time adopter is also permitted to use an event-driven fair value for events that occurred after the date of transition to IFRS Standards but during the period covered by the first IFRS financial statements. Such fair	D1(c) and D5– D8B	

© Deloitte LLP. All rights reserved.

Optional exemption	Description	IFRS 1 reference	Comments
	values may be used as deemed cost when the event occurs. The above deemed cost exemption may be used selectively for individual items of PP&E as well as individual intangible assets that meet certain criteria as outlined in IFRS 1:D7b. The election is also available for investment property if an entity elects to use the cost model in accordance with IAS 40, Investment Property, and right-of-use assets defined under IFRS 16, Leases, only for annual reporting periods beginning on or after 1 January 2019. For entities with operations subject to rate regulation (such as in the utilities industry), a first-time adopter may elect to measure items of PP&E, intangible assets, or right-of-use assets (only for annual reporting periods beginning on or after 1 January 2019) that are, or were, used in the operations subject to rate regulations by using the previous GAAP carrying amount as the deemed cost as of the date of transition to IFRS Standards. This election is available on an item-by-item basis, and the assets must be tested for impairment as of the date of transition to IFRS Standards. For oil and gas producing companies, a first-time adopter that uses the full-cost method of accounting under previous GAAP may elect to measure oil and gas assets by using the amounts calculated under previous GAAP as of the date of transition to IFRS Standards. These assets must be tested for impairment as of the date of transition to IFRS Standards.		
Leases	Under IFRS 1:D9, a first-time adopter may assess whether a contract existing at the date of transition to IFRS Standards contains a lease by applying paragraphs 9–11 of IFRS 16 to those contracts on the basis of facts and circumstances existing at that date. The first-time adopter (lessee) shall recognise right-of-use assets and lease liabilities for the lease contract. The right-of-use assets may be measured on a lease by lease basis either at: (1) their carrying amount as if IFRS 16 had been	D9 and D9B-D9E	

© Deloitte LLP. All rights reserved.

Optional exemption	Description	IFRS 1 reference	Comments
	applied since the commencement of the lease, discounted using the lessee's incremental borrowing rate on the date of transition to IFRS Standards, or, (2) by recognising an equal amount to the lease liability, adjusted by the accrued amount or any prepaid lease payments, recognised in the statement of financial position immediately before the date of transition to IFRS Standards. The lease liability on the date of transition to IFRS Standards may be measured at present value of the remaining lease payments discounted using the lessee's incremental borrowing rate at the date of transition to IFRS Standards. The lessee should apply IAS 36 to right-of-use assets at the date of transition to IFRS Standards. The first-time adopter (lessor) shall classify the leases based on the facts and circumstances subsisting at the inception date and not on the transition date. The classification of the lease shall be reassessed only if there is a lease modification and not merely based on change in estimates or circumstances.		
Cumulative translation differences	Two optional exemptions are available to a first-time adopter of IFRS Standards applying IFRS 1 with respect to foreign currency accounting: (1) resetting the foreign currency cumulative translation adjustment to zero as of the date of transition to IFRS Standards for all foreign operations and (2) the gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition to IFRS Standards and shall include later translation differences. The cumulative translation adjustment exemption is widely used in practice.	D1(f), D12, and D13	
Investments in subsidiaries, jointly controlled entities, and associates	In preparing its separate financial statements, if a first-time adopter accounts for such an investment at cost determined in accordance with IAS 27, it shall measure the investment either at cost, or at deemed cost, being (1) fair value at the entity's date of transition to IFRS Standards, or (2) previous GAAP carrying amount at that date. If a first-	D1(g), D14, D15 and D15A	

© Deloitte LLP. All rights reserved.

Optional exemption	Description	IFRS 1 reference	Comments
	time adopter accounts for such an investment using the equity method procedures as described in IAS 28: • the first-time adopter applies the exemption for past business combinations to the acquisition of the investment. • if the entity becomes a first-time adopter for its separate financial statements earlier than for its consolidated financial statements, and – later than its parent, the entity shall apply paragraph D16 in its separate financial statements. – later than its subsidiary, the entity shall apply paragraph D17 in its separate financial statements.		
Assets and liabilities of subsidiaries, associates, and joint ventures	A subsidiary that adopts IFRS Standards later than its parent can elect to do either of the following: • Apply IFRS 1 (i.e., use the subsidiary's date of transition to IFRS Standards). • Use the carrying amounts of its assets and liabilities included in the parent's consolidated IFRS financial statements (based on the parent's date of transition to IFRS Standards), subject to eliminating any consolidation or acquisition adjustments (this election is not available to a subsidiary of an investment entity, as defined in IFRS 10, that is required to be measured at fair value through profit or loss) A similar election is available to an associate or joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it. An entity that adopts IFRS Standards later than its subsidiary (or associate or joint venture) should measure the assets and liabilities of the subsidiary (or associate or joint venture) at the same carrying amounts as in the financial statements of the subsidiary (or	D1(h), D16, and D17	

© Deloitte LLP. All rights reserved.

Optional exemption	Description	IFRS 1 reference	Comments
	associate or joint venture), after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the subsidiary. Notwithstanding this requirement, a non-investment entity parent shall not apply the exception to consolidation that is used by any investment entity subsidiaries. Similarly, if a parent becomes a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements, it shall measure its assets and liabilities at the same amounts in both financial statements, except for consolidation adjustments.		
Compound financial instruments	A first-time adopter may choose not to separately identify the two equity components of a compound financial instrument (i.e., the original equity component and the portion in retained earnings representing the cumulative interest accreted on the liability component) if the liability component is no longer outstanding as of the date of transition to IFRS Standards.	D1(i) and D18	
Designation of previously recognised financial instruments	IFRS 9 permits a financial liability (provided it meets certain criteria) to be designated as a financial liability at fair value through profit or loss. Despite this requirement, an entity is permitted to designate, at the date of transition to IFRS Standards, any financial liability as at fair value through profit or loss provided the liability meets the criteria in IFRS 9:4.2.2 at that date. For a financial liability that is designated as a financial liability at fair value through profit or loss, an entity shall determine whether the treatment in IFRS 9:5.7.7would create an accounting mismatch in profit or loss on the basis of the facts and circumstances that existed at the date of transition to IFRS Standards. A first time adopter may designate a financial asset as measured at fair value through profit or loss in accordance with IFRS 9:4.1.5 on the basis of the facts and	D1(j) and D19–D19D	

© Deloitte LLP. All rights reserved.

Optional exemption	Description	IFRS 1 reference	Comments
	circumstances that exist at the date of transition to IFRS Standards. Also, an entity may designate an investment in an equity instrument as at fair value through other comprehensive income in accordance with IFRS 9:5.7.5 on the basis of the facts and circumstances that exist at the date of transition to IFRS Standards.		
Fair value measurement of financial assets or financial liabilities	An entity may apply the requirements in IFRS 9:B5.1.2A(b) prospectively to transactions entered into on or after the date of transition to IFRS Standards.	D1(k) and D20	
Decommissioning liabilities included in the cost of PP&E	A first-time adopter may choose not to comply with the requirements of IFRIC 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities for changes in decommissioning liabilities that occurred before the date of transition to IFRS Standards. A first-time adopter that uses the deemed cost exemption for oil and gas assets in IFRS 1:D8A(b) may not use this exemption. Instead, the entity must measure the decommissioning liability in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets as of the date of transition to IFRS Standards.	D1(l), D21, and D21A	
Service concession arrangements	A first-time adopter may elect to apply the transitional provisions in IFRIC 12, Service Concession Arrangements.	D1(m) and D22	
Borrowing costs	IFRS 1 permits a first-time adopter to choose either: • to apply the requirements of IAS 23 retrospectively; or • to apply the requirements of IAS 23 from the date of transition to IFRS Standards or from an earlier date However, it shall not restate the borrowing costs component that were capitalised under previous GAAP, and shall account for borrowing costs on qualifying assets already under construction.	D1(n) and D23	

© Deloitte LLP. All rights reserved.

Optional exemption	Description	IFRS 1 reference	Comments
Extinguishing financial liabilities with equity instruments	A first-time adopter may elect to apply the transitional provisions of IFRIC 19, Extinguishing Financial Liabilities With Equity Instruments.	D1(p) and D25	
Severe hyperinflation	A first-time adopter that had been subject to severe hyperinflation and ceases to be subject to such severe hyperinflation before the date of transition to IFRS Standards would be allowed to measure those assets and liabilities held before the date the entity was no longer subject to severe hyperinflation at fair value on the date of transition to IFRS Standards. An entity may use that fair value as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position.	D1(q) and D26– D30	
Joint arrangements	A first-time adopter may apply the transition provisions in IFRS 11, subject to two exceptions. • When applying the transition provisions in IFRS 11, a first-time adopter shall apply the transition provisions at the date of transition to IFRS Standards. • If a first-time adopter that does not apply IFRS 11 retrospectively in full, when changing from proportionate consolidation to the equity method, is required to test the investment for impairment in accordance with IAS 36 Impairment of Assets as at the date of transition to IFRS Standards, regardless of whether there is any indication that the investment may be impaired. Any resulting impairment should be recognised as an adjustment to retained earnings at the date of transition to IFRS Standards.	D1(r) and D31	
Stripping costs in the production phase of a surface mine	IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine applies to all types of natural resources that are extracted via the surface mining activity process. A first-time adopter may apply the transitional provisions in IFRIC 20:A1–A4.	D1(s) and D32	

© Deloitte LLP. All rights reserved.

Optional exemption	Description	IFRS 1 reference	Comments
Designation of contracts to buy or sell a non-financial item	A first time adopter is permitted to designate some contracts to buy or sell a non-financial item at inception as measured at fair value through profit or loss. Despite this requirement an entity is permitted to designate, at the date of transition to IFRS Standards, contracts that already exist on that date as measured at fair value through profit or loss but only if they meet the requirements of IFRS 9:2.5 at that date and the entity designates all similar contracts.	D1(t) and D33	
Revenue	A first-time adopter is not required to restate contracts that were completed before the earliest period presented. A completed contract is a contract for which the entity has transferred all of the goods or services identified in accordance with previous GAAP.	D1(u) and D34-D35	
Foreign currency transactions and advance consideration	A first-time adopter need not apply IFRIC 22, Foreign Currency Transactions and Advance Consideration to assets, expenses and income in the scope of that Interpretation initially recognised before the date of transition to IFRS Standards.	D1(v) and D36	

© Deloitte LLP. All rights reserved.

The table below illustrates the main concepts of the mandatory exceptions under IFRS 1.

Mandatory exception	Description	IFRS 1 reference	Comments
Estimates	A first-time adopter cannot use hindsight in creating or revising estimates. The estimates made under the first- time adopter's previous GAAP may be revised only to correct errors or to incorporate changes in accounting policies.	14–17	
Derecognition of financial assets and financial liabilities	A first-time adopter is required to apply the derecognition rules in IFRS 9 prospectively from the date of transition to IFRS Standards unless it elects to apply those derecognition rules retrospectively. A first time adopter can elect to apply IFRS 9 retrospectively from a date of the entity's choosing, provided that the information needed to apply IFRS 9 to the financial assets and financial liabilities derecognised as a result of past transactions was obtained at the time of initially accounting for those transactions.	B1(a), B2–B3	
Hedge accounting	At the date of transition to IFRS Standards, an entity shall measure all derivatives at fair value and eliminate all deferred losses and gains arising on derivatives that were reported in accordance with previous GAAP as if they were assets or liabilities. An entity shall not reflect in its opening IFRS statement of financial position a hedging relationship of a type that does not qualify for hedge accounting in accordance with IFRS 9. If, before the date of transition to IFRS Standards, an entity had designated a transaction as a hedge but the hedge does not meet the conditions for hedge accounting in IFRS 9, the entity shall discontinue hedge accounting. Transactions entered into before the date of transition to IFRS Standards shall not be retrospectively designated as hedges.	B1(b), B4–B6	
Non-controlling interests	A first-time adopter must apply certain requirements in IFRS 10 prospectively from the date of transition to IFRS Standards, including the following:	B1(c) and B7	

© Deloitte LLP. All rights reserved.

Mandatory exception	Description	IFRS 1 reference	Comments
	• IFRS 10:B94, under which total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. • IFRS 10:23 and B96 on the accounting for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control. • IFRS 10:B97–B99 on the accounting for a loss of control over a subsidiary and the related requirements in paragraph 8A of IFRS 5, Non-current Assets Held for Sale and Discontinued Operations. However, if a first-time adopter elects to retrospectively apply IFRS 3 to past business combinations, it must also apply IFRS 10 retrospectively in accordance with IFRS 1:C1.		
Classification and measurement of financial assets	A first-time adopter applying IFRS 9 should determine whether a financial asset meets the conditions in IFRS 9:4 on the basis of the facts and circumstances that exist as of the date of transition to IFRS Standards.	B1(d) and B8-B8C	
Impairment of financial assets	A first time adopter applying IFRS 9 will be required to apply the requirements per IFRS 9:5.5 retrospectively subject to paragraphs B8E–B8G and E1–E2 of IFRS 1. At the date of transition to IFRS Standards, an entity shall 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 recognised and compare that to the credit risk at the date of transition to IFRS Standards.	B1(e) and B8D-B8G	
Embedded derivatives	A first-time adopter applying IFRS 9 should determine whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative on the basis of facts and circumstances that	B1(f) and B9	

© Deloitte LLP. All rights reserved.

Mandatory exception	Description	IFRS 1 reference	Comments
	existed at the later of the date it first became a party to the contract or the date a reassessment is required under IFRS 9:B4.3.11.		
Government loans	As of the date of transition to IFRS Standards, a first-time adopter shall classify all government loans received as either a financial liability or as an equity instrument in accordance with the requirements of IAS 32, Financial Instruments: Presentation. First-time adopters should apply the requirements in IFRS 9 and IAS 20 prospectively to government loans existing at the date of transition to IFRS Standards. When these requirements are applied prospectively: • the first-time adopter should not recognise the corresponding benefit of the government loan at a below-market interest rate as a government grant; • if the first-time adopter did not, under its previous GAAP, recognise and measure a government loan at a below-market rate of interest on a basis consistent with IFRS Standards, the previous GAAP carrying amount of the loan at the date of transition is used as the carrying amount of the loan in the opening IFRS statement of financial position; and IFRS 9 is applied in measuring the loan after the date of transition. For any government loan originated before its date of transition to IFRS Standards, an entity may choose to apply retrospective approach provided that the information needed to do so was obtained at the time of initially accounting for that loan.	B1(g) and B10– B12	
Insurance Contracts	**For annual reporting periods beginning on or after 1 January 2021:** An entity shall apply the transition provisions in paragraphs C1–C24 and C28 in Appendix C of IFRS 17 to contracts within the scope of IFRS 17. The references in those paragraphs in IFRS 17 to the transition date shall be	B1(h) and B13	

© Deloitte LLP. All rights reserved.

Mandatory exception	Description	IFRS 1 reference	Comments
	read as the date of transition to IFRS Standards.		

© Deloitte LLP. All rights reserved.

Assets

Section 2: Investments in loans and receivables

2. Investments in loans and receivables

Overview

This Section focuses on significant differences between ASC 310, Receivables and IFRS 9, Financial Instruments with respect to investments in loans and receivables.

U.S. GAAP classifies financial instruments as a receivable or a debt security depending on the contractual characteristics of the instrument. According to ASC 310-10-05-4, "[r]eceivables may arise from credit sales, loans, or other transactions. Receivables may be in the form of loans, notes, and other types of financial instruments and may be originated by an entity or purchased from another entity". Furthermore, ASC 310-10-20 defines a loan as "[a] contractual right to receive money on demand or on fixed or determinable dates that is recognised as an asset in the creditor's statement of financial position. Examples include but are not limited to accounts receivable (with terms exceeding one year) and notes receivable". The classification is determined on an instrument-by-instrument basis. Loans and receivables are typically measured at amortised cost less impairment, unless originated for the purpose of sale in the short term or the fair value option (FVO) pursuant to ASC 825 is elected at initial recognition. U.S. GAAP also requires the separation of embedded derivatives from loans and receivables if these are not clearly and closely related to the host contract, among other criteria.

IFRS 9 has classification criteria for financial assets which depends on (a) the business model within which the financial asset is managed (the business model test) and (b) the contractual cash flow characteristics of each instrument (the solely payments of principal and interest ("SPPI") test). Loans and receivables are typically managed in hold-to-collect business models and, unless they do not meet the SPPI test, qualify for amortised cost accounting less impairment. Loans and receivables managed in a hold-to-collect-and-sell business model that meet the SPPI test require fair value through other comprehensive income (FVTOCI) accounting. Business models where the loans and receivables are managed for sale (including factoring transactions that qualify for derecognition) require fair value through profit and loss (FVTPL) accounting. Furthermore, loans and receivables can be designated at fair value through profit and loss (i.e., FVO) if certain conditions are met. As IFRS 9 includes a business model test and it does not allow for separation of embedded derivatives, loans and receivables in business models subject to more than an infrequent number of sales or that contain features that do not meet the SPPI test are accounted for at fair value through profit and loss even if not all loans and receivables in that business model are held for sale. Further differences may arise as further explained below.

Recently issued standards not yet reflected in this Section

In June 2016, the FASB issued ASU 2016-13, which creates ASC 326, Financial Instruments—Credit Losses. The standard amends the guidance on the impairment of financial instruments, and adds to U.S. GAAP an impairment model (known as the current expected credit loss (CECL) model) that is based on expected losses rather than incurred losses. Under the new standard, an entity recognises as an allowance its estimate of expected credit losses, which the FASB believes will result in more timely recognition of such losses. It is also intended to reduce the complexity of U.S. GAAP by decreasing the number of credit impairment models that entities use to account for debt instruments.

Based on the subsequent amendment made by ASU 2019-10, ASC 326 shall be effective as follows:

- For SEC filers (excluding those that meet the definition of a smaller reporting company), for fiscal years beginning after 15 December 2019, including interim periods within those fiscal years.

© Deloitte LLP. All rights reserved.

- For all other entities, for fiscal years beginning after 15 December 2022, including interim periods within those fiscal years.

Early application is permitted for fiscal years beginning after 15 December 2018, including interim periods within those fiscal years.

Once effective, ASC 326 will significantly change the accounting for credit impairment. To comply with the new requirements, banks and other entities with certain asset portfolios (e.g., loans, leases, debt securities etc.) will need to modify their current processes for establishing an allowance for credit losses and other-than-temporary impairments.

Question 2.2 and 2.3 in this Section will be impacted once ASC 326 becomes effective. The differences between ASC 326, Financial Instruments – Credit Losses and IFRS 9, Financial Instruments are discussed in Appendix A. Therefore, depending on the year of financial statements being assessed, users should carefully consider the response to these questions if they apply to the entity's financial statements.

Primary authoritative guidance

- ASC 310, Receivables

- IFRS 9, Financial Instruments
- IAS 32, Financial Instruments: Presentation

2.1 Does the entity have investments in loans or other receivables (classification and measurement)?

Yes

No

U.S. GAAP

Under U.S. GAAP, loan receivables are classified as either held for sale (HFS) or held for investment (HFI) on the basis of management's intent.

Depending on the classification, loan receivables are measured at either (1) the lower of cost or fair value (for HFS loans) or (2) amortised cost (for HFI loans).

Loan receivables are also eligible for the fair value option (FVO) election under ASC 825-10, in which case they would be carried at fair value, with changes in fair value recognised in earnings.

IFRS Standards

Debt instruments (e.g., loan receivables or debt securities) that (1) are held in a business model whose objective is to collect contractual cash flows and (2) have contractual cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding are classified and measured at amortised cost.

Debt instruments that satisfy the SPPI test, above, but are held as part of a business model whose objective is achieved by both collecting contractual cash flows and selling (on a more than infrequent basis) are classified and measured at fair value through other comprehensive income (FVTOCI).

All other debt instruments must be classified and measured at fair value through profit or loss (FVTPL). Debt instruments are eligible for the fair value option (FVO) in limited circumstances (i.e., if an accounting mismatch would otherwise arise). Upon qualification for and election of the FVO, the debt instrument would be carried at fair value, with changes in fair value recognised in profit and loss.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, loan receivables that are not in the form of debt securities generally are classified as either held for sale (HFS) or held for investment (HFI).

HFS loans should be carried at the lower of amortised cost or fair value in accordance with ASC 310-10-35-48 (non-mortgage loans) or ASC 948-310-35-1 (mortgage loans). Further, an entity can elect the FVO for loan receivables under ASC 825-10, in which case they would be carried at fair value with changes in fair value recognised in earnings. Loan receivables that are not HFS but that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are measured at their outstanding principal balance adjusted for any charge-offs, the allowance for loan losses and other amounts in accordance with ASC 310-10-35-47. Such loan receivables are classified as HFI.

© Deloitte LLP. All rights reserved.

Under IFRS Standards, a financial asset, other than cash and equity instruments, is defined by IAS 32:11 in part as “a contractual right: (i) to receive cash or another financial asset from another entity; or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity”. IFRS 9 does not define a loan or receivable. It focuses on the business model and contractual characteristics of financial assets to determine its classification and measurement.

IFRS 9:4.1.1–4.1.5 provide guidance on classifying and measuring financial assets. IFRS 9:4.1.2 requires that a financial asset (e.g., a loan receivable) that (1) is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (2) has contractual cash flows that are SPPI on the principal amount outstanding be classified and measured at amortised cost unless it is designated at fair value through profit and loss under the FVO.

In addition, IFRS 9:4.1.2A notes that a financial asset that (1) is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and (2) has contractual cash flows that are SPPI on the principal amount outstanding is classified and measured at FVTOCI unless it is designated at fair value through profit and loss under the FVO. All other financial assets held must be classified and measured at FVTPL.

If an accounting mismatch would arise otherwise, the holder of the financial asset may elect to measure it at FVTPL under the FVO (IFRS 9:4.1.5). Further, if an entity uses a credit derivative that is measured at FVTPL to manage the credit risk of a financial instrument, it may designate that financial instrument as at FVTPL to the extent it is so managed if certain conditions are met (IFRS 9:6.7.1).

Comments

2.2 Does the entity have investments in loans or other receivables (impairment)?

Yes

No

U.S. GAAP

Under U.S. GAAP, entities follow an “incurred-loss” approach for impairment. A loan is impaired if it is probable that a creditor will be unable to collect all amounts due. A loss on an impaired loan is recognised if the amount of the loss can be reasonably estimated.

Specific measurement methods are required for certain loans that are individually considered impaired.

Write-downs of loans and other receivables are recorded when the asset is deemed uncollectible or based on regulatory requirements for certain industries (e.g. banking).

IFRS Standards

Under IFRS Standards, entities follow an “expected-loss” approach for impairment testing. An impairment loss on a financial asset, other than an investment in an equity instrument, accounted for at amortised cost or FVTOCI is recognised immediately on the basis of expected credit losses (ECL).

Depending on the financial asset’s credit risk at inception and changes in credit risk from inception, as well as the applicability of certain practical expedients, the measurement of the impairment loss will differ. The impairment loss would be measured as either (1) the 12-months expected credit losses or (2) the lifetime expected credit losses.

Further, for financial assets that are credit-impaired at the time of recognition (purchased or originated credit impaired financial assets), the impairment loss will be based on the cumulative changes in the lifetime expected credit losses since initial recognition.

Write-downs of loans and other receivables are recorded when the entity has no reasonable expectation of recovering all or part of the contractual cash flows arising from the financial asset.

© Deloitte LLP. All rights reserved.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, an entity applies the incurred-loss approach to the recognition of loan impairment.

Under ASC 310-10-35-16, a loan is considered impaired if "it is probable that a creditor will be unable to collect all amounts due according to the contractual terms." ASC 310-10-20 defines "probable" as "likely to occur." A creditor recognises any allowance calculated in accordance with ASC 310, as well as allowances for credit losses on loans, if needed for compliance with the requirements for loss contingencies in ASC 450-20 (ASC 310-10-35-34). Under ASC 450-20-25-2, an estimated loss from a loss contingency related to an asset is recognised if it is probable that the asset has been impaired and the amount of the loss can be reasonably estimated.

Under ASC 310-10-35-22, the creditor measures impairment of loans that are individually identified for evaluation and deemed to be impaired on the basis of "the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, a creditor may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is a collateral-dependent loan."

Under IFRS Standards, an impairment loss on a financial asset accounted for at amortised cost or FVTOCI is recognised immediately on the basis of expected credit losses.

IFRS 9's dual-measurement approach requires an entity to measure the loss allowance for an asset accounted for at amortised cost or FVTOCI (other than one that is purchased or originated credit-impaired) at an amount equal to either (1) the 12-month expected credit losses or (2) lifetime expected credit losses.

The 12-month expected credit losses measurement, which reflects the expected credit losses arising from default events possible within 12 months after the reporting date, is required if the asset's credit risk is (1) low as of the reporting date or (2) has not increased significantly since initial recognition (IFRS 9:5.5.5 and 5.5.10). As noted in IFRS 9:B5.5.22, the credit risk is considered low if (1) "the financial instrument has a low risk of default", (2) "the borrower has a strong capacity to meet its contractual cash flow obligations in the near term," and (3) "adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations."

IFRS 9:B5.5.23 suggests that an "investment grade" rating might be an indicator of low credit risk.

IFRS 9:5.5.9 states that in assessing whether there has been a significant increase in a financial asset's credit risk, an entity is required to consider "the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses" since initial recognition. IFRS 9:B5.5.17 provides a non-exhaustive list of factors that may be relevant in determining whether there has been a significant increase in credit risk.

For financial instruments for which credit risk has significantly increased since initial recognition, the allowance is measured as the lifetime expected credit losses (IFRS 9:5.5.3), which Appendix A of IFRS 9 defines as the "expected credit losses that result from all possible default events over the expected life of a financial instrument" unless the credit risk is low as of the reporting date (IFRS 9:5.5.10). This measurement is also required for certain contract assets and trade receivables that do not contain a significant financing component in accordance with IFRS 15, Revenue from contracts with customers, and it is available as an accounting policy option for certain contract assets and trade receivables that contain significant financing components in accordance with IFRS 15 and for certain lease receivables (IFRS 9:5.5.15 and 5.5.16).

Purchased or originated credit-impaired financial assets (e.g., distressed debt) are treated differently under IFRS 9. IFRS 9:5.5.13 states that, for these assets, an entity recognises only "the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance." Changes in lifetime expected losses since initial recognition are recognised in profit or loss. Thus, any favourable change in lifetime expected credit losses since initial recognition of a purchased or originated credit-impaired financial asset is recognised as an impairment gain in profit or loss regardless of whether a corresponding impairment loss was recorded for the asset in previous periods.

Comments

© Deloitte LLP. All rights reserved.

2.3 Does the entity hold instruments measured at amortised cost?

Yes

No

U.S. GAAP

The effective interest rate ("EIR") is computed on the basis of the contractual cash flows over the contractual term of the loan, except for (1) certain loans that are part of a group of pre-payable loans and (2) purchased loans for which there is evidence of credit deterioration. Therefore, loan origination fees, direct loan origination costs, premiums, and discounts typically are amortised over the contractual term of the loan.

If estimated payments for certain loans that are part of a group of pre-payable loans are revised, an entity may adjust the net investment in the group of loans, on the basis of a recalculation of the effective yield to reflect actual payments to date and anticipated future payments, to the amount that would have existed had the new effective yield been applied since the loans' origination/acquisition, with a corresponding charge or credit to interest income.

There is no specific guidance on the recognition, measurement, or presentation of interest income on an impaired loan, except for certain purchased loans that have deteriorated more than significantly since origination. For certain loans that are impaired and placed in nonaccrual status, no interest income is recognised.

IFRS Standards

The effective interest rate is computed on the basis of the estimated cash flows that are expected to be received over the expected life of a loan by considering all of the loan's contractual terms (e.g., prepayment, call, and similar options), but excluding expected credit losses. Therefore, fees, points paid or received, direct and incremental transaction costs, and other premiums or discounts are deferred and amortised as part of the calculation of the effective interest rate over the expected life of the instrument.

If estimated receipts are revised, the carrying amount is adjusted to the present value of the future estimated cash flows, discounted at the financial asset's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). The resulting adjustment is recognised within profit or loss. This treatment applies not just to groups of pre-payable loans but to all financial assets that are subject to the effective interest method.

Interest revenue is calculated on the basis of the gross carrying amount, (i.e., the amortised cost before adjusting for any loss allowance) unless the loan (1) is purchased or originated credit-impaired or (2) subsequently became credit-impaired. In those cases, interest revenue is calculated on the basis of amortised cost (i.e., net of the loss allowance).

U.S. GAAP–IFRS Standards difference considerations

A) Interest method — Computation of the effective interest rate periods

Under U.S. GAAP, the effective interest rate used to recognise interest income on loan receivables generally is computed in accordance with ASC 310-20-35-26 on the basis of the contractual cash flows over the contractual term of the loan. Prepayments of principal are not anticipated. As a result, loan origination fees, direct loan origination costs, premiums, and discounts are typically amortised over the contractual term of the loan. However, ASC 310-20-35-26 indicates that if an entity "holds a large number of similar loans for which prepayments are probable and the timing and amount of prepayments can be reasonably estimated, the entity may consider estimates of future principal prepayments" in calculating the effective interest rate. In addition, if an entity purchases an investment in a loan for which the credit quality has deteriorated more than significantly since origination, the effective interest rate is computed on the basis of expected cash flows under ASC 310-30-30-2.

Under IFRS 9, an entity recognises interest income by applying the effective interest method. IFRS 9 defines the effective interest rate of a financial asset or liability as the "rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset […] to the gross carrying amount of a financial asset". Therefore, the effective interest method in IFRS 9, unlike that in ASC 310-20, requires an entity to compute the effective interest rate on the basis of the estimated cash flows over the expected life of the instrument considering all contractual terms (e.g., prepayment, extension, call, and similar options) but not expected credit losses. As a result, fees, points paid or received, direct and incremental transaction costs, and other premiums or discounts are deferred and amortised as part of the calculation of the effective interest rate over the expected life of the instrument. In its definition of an effective interest rate, IFRS 9 states that in rare cases in which it is not possible to reliably estimate the cash flows or the expected life of the financial instrument, an entity should "use the contractual cash flows over the full contractual term."

© Deloitte LLP. All rights reserved.

B) Interest method — Revisions in estimates

Under U.S. GAAP, whether and how an entity recognises a change in expected future cash flows of an investment depends on the instrument's characteristics and which effective interest method the entity is applying. ASC 310-20-35-26 indicates that in applying the interest method, an entity should use the payment terms required in the loan contract without considering the anticipated prepayment of principal to shorten the loan term. However, if the entity can reasonably estimate probable prepayments for a large number of similar loans, it may include an estimate of future prepayments in the calculation of the constant effective yield under the interest method. If prepayments are anticipated and considered in the determination of the effective yield, and there is a difference between the anticipated prepayments and the actual prepayments received, the effective yield should be recalculated to reflect actual payments received to date and anticipated future payments. The net investment in the loans should be adjusted to reflect the amount that would have existed had the revised effective yield been applied since the acquisition or origination of the group of loans, with a corresponding charge or credit to interest income. In other words, under U.S. GAAP, entities may use a "retrospective" approach in accounting for revisions in estimates related to such groups of loans.

Under IFRS Standards, the original effective interest rate must be used throughout the life of the instrument for financial assets and liabilities, except for certain floating-rate instruments that reset to reflect movements in market interest rates. Upon a change in estimates, IFRS 9 generally requires entities to use a "cumulative catch-up" approach when changes in estimated cash flows occur (IFRS 9:B5.4.6).

C) Interest recognition on impaired loans

While bank regulatory guidance exists about placing loans on nonaccrual status, the recognition, measurement, or presentation of interest income on an impaired loan is not directly addressed in U.S. GAAP, except for certain purchased loans that have deteriorated more than insignificantly since origination (i.e., a "PCD asset"). For certain loans that are impaired and placed in nonaccrual status, no interest income is recognised. Potential methods for recognising interest income on an impaired loan that are not PCD assets and not accounted for pursuant to bank regulatory guidance include:

- Interest method: Changes to the present value of a loan that are (1) attributable to the passage of time are accrued as interest income or (2) attributable to changes in the amount or timing of expected cash flows are recognised as bad-debt expense.
- Bad-debt expense method: The entire change in the present value of the loan is recognised as bad-debt expense that results in the same income statement impact as the interest method without reflecting the discount accretion from the time value of money.
- Cash basis method: Interest payments received are recognised as interest income as long as that amount does not exceed the amount that would have been earned under the effective interest rate.
- Modified cost recovery method: The entire payment received is applied against the investment in the loan. Once the recorded investment has been recovered, all excess amounts are recognised as interest income.

Under IFRS Standards, the application of the effective interest method depends on whether the financial asset is purchased or originated credit-impaired or on whether it became credit impaired after initial recognition.

When recognising interest revenue related to purchased or originated credit-impaired financial assets under IFRS 9:5.4.1(a), an entity applies a credit-adjusted effective interest rate to the amortised cost carrying amount. The calculation of the credit-adjusted effective interest rate is consistent with the calculation of the effective interest rate, except that it takes into account expected credit losses within the expected cash flows.

For a financial asset that is not purchased or originated credit-impaired, IFRS 9:5.4.1 requires an entity to calculate interest revenue by applying an unadjusted effective interest rate as follows:

- Gross method: If the financial asset has not become credit-impaired since initial recognition, the entity applies the effective interest rate method to the gross carrying amount. IFRS 9 defines the gross carrying amount as "the amortised cost of a financial asset, before adjusting for any loss allowance."
- Net method: If the financial asset has subsequently become credit-impaired, the entity applies the effective interest rate to the amortised cost balance, which is the gross carrying amount adjusted for any loss allowance.

© Deloitte LLP. All rights reserved.

An entity that uses the net method is required to revert to the gross method if (1) the credit risk of the financial instrument subsequently improves to the extent that the financial asset is no longer credit-impaired and (2) the improvement is objectively related to an event that occurred after the net method was applied (IFRS 9:5.4.2).

Comments

© Deloitte LLP. All rights reserved.

Section 3: Investments in debt and equity securities

3. Investments in debt and equity securities

Overview

This Section focuses on significant differences between ASC 320, Investments – Debt Securities and ASC 321, Investments – Equity Securities and IFRS 9, Financial Instruments with respect to investments in debt and equity securities.

Under U.S. GAAP, investments in debt securities are classified as trading, available-for-sale or held-to-maturity based on the entity's intent to trade or intent and ability to hold its financial instruments (ASC 320-10-35-1). The classification is determined on an instrument-by-instrument basis. Trading securities are measured at fair value with changes in fair value recognised in earnings. Available-for-sale securities are measured at fair value with unrealised changes in fair value recognised through other comprehensive income subject to special impairment requirements. Held-to-maturity securities are measured at amortised cost subject to special impairment requirements. U.S. GAAP also requires the separation of embedded derivatives from financial assets if these are not clearly and closely related to the host contract and other criteria are met and contains a fair value option (FVO). Investments in equity securities are accounted for at fair value with changes in fair value recognised in earnings unless the entity elects to measure (1) an equity security without a readily determinable fair value at cost less impairment, if any, plus or minus changes resulting from observable price changes (ASC 321-10-35-2) or (2) investments in certain entities that calculate net asset value (NAV) per share by using the NAV per share method (ASC 820-10-35-59).

IFRS 9 provides guidance on the recognition and measurement of financial assets and financial liabilities, including investments in debt and equity securities. In contrast to U.S. GAAP, IFRS 9 contains a model for classification of investments in financial assets that is driven by (a) the business model within which the financial asset is managed (the business model test) and (b) whether the contractual cash flow characteristics of each instrument represents solely payments of principal and interest on the principal amount outstanding (the SPPI test). As such, under IFRS 9:4.1.1, an entity's investments in debt securities are subsequently measured at amortised cost, fair value through other comprehensive income (FVTOCI) or fair value through profit or loss (FVTPL).According to IFRS 9:4.1.5, an entity may irrevocably elect on initial recognition to designate a financial asset that meets the condition for amortised cost or FVTOCI measurement as at FVTPL. Investments in equity securities are measured at FVTPL except where IFRS 9:4.1.4 allows an entity to make an irrevocable election at initial recognition for equity securities that would otherwise be measured at FVTPL to present subsequent changes at FVTOCI if such instrument is neither held for trading nor contingent consideration recognised by an acquire in a business combination under IFRS 3 (IFRS 9:5.7.5). Furthermore, IFRS 9:4.3.3 requires embedded derivatives to be separated from the host contract and accounted for as a derivative provided specific requirements are met.

After investments in debt instruments are initially recognised, both U.S. GAAP and IFRS Standards have specific guidance related to the ability to reclassify instruments between different categories and the assessment of impairment in each reporting period.

Recently issued standards not yet reflected in this Section

In June 2016, the FASB issued ASU 2016-13, which creates ASC 326, Financial Instruments—Credit Losses. The standard amends the guidance on the impairment of financial instruments, and adds to U.S. GAAP an impairment model (known as the current expected credit loss (CECL) model) that is based on expected losses rather than incurred losses. Under the new standard, an entity recognises as an allowance its estimate of expected credit losses, which the FASB believes will result in more timely recognition of such losses. It is also intended to reduce the complexity of U.S. GAAP by decreasing the number of credit impairment models that entities use to account for debt instruments.

Based on the subsequent amendment made by ASU 2019-10, ASC 326 shall be effective as follows:

- For SEC filers (excluding those that meet the definition of a smaller reporting company), for fiscal years beginning after 15 December 2019, including interim periods within those fiscal years.

© Deloitte LLP. All rights reserved.

- For all other entities, for fiscal years beginning after 15 December 2022, including interim periods within those fiscal years.

Early application is permitted for fiscal years beginning after 15 December 2018, including interim periods within those fiscal years.

Once effective, ASC 326 will significantly change the accounting for credit impairment. To comply with the new requirements, banks and other entities with certain asset portfolios (e.g., loans, leases, debt securities etc.) will need to modify their current processes for establishing an allowance for credit losses and other-than-temporary impairments. The differences between ASC 326, Financial Instruments – Credit Losses and IFRS 9, Financial Instruments are discussed in Appendix A.

Questions 3.4 and 3.8 in this Section will be impacted once ASC 326 becomes effective. Please refer to Question A.2 for discussion of the corresponding differences between ASC 326, Financial Instruments – Credit Losses and IFRS 9, Financial Instruments. Therefore, depending on the year of financial statements being assessed, users should carefully consider the responses to these questions if they apply to the entity's financial statements.

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. The relief provided by the ASU is elective and applies "to all entities, subject to meeting certain criteria, that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform." The amendments in this ASU are effective for all entities as of 12 March 2020 through 31 December 2022. The key provision of the ASU for debt and equity securities is the availability of a one time sale and/or transfer to available-for-sale or trading classification may be made for held-to-maturity (HTM) debt securities that both reference an eligible reference rate and were classified as HTM before 1 January 2020.

In August 2020, the IFRS Standards issued Interest Rate Benchmark Reform- Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16. The amendments enable entities to reflect the effects of transitioning from benchmark interest rates, such as interbank offered rates (IBORs) to alternative benchmark interest rates without giving rise to accounting impacts that would not provide useful information to users of financial statements. The amendments are effective for annual periods beginning on or after 1 January 2021 with early application permitted. The amendments results in changes to the basis for determining the contractual cash flows as a result of benchmark interest rate reform.

Primary authoritative guidance

- ASC 320, Investments – Debt Securities
- ASC 321, Investments – Equity Securities
- IFRS 9, Financial Instruments

3.1 Does the entity have investments in debt securities?

Yes

No

U.S. GAAP

ASC 320-10-20 defines, in part, a debt security as "[a]ny security representing a creditor relationship with an entity." (refer to ASC 320-10-20 for the full definition of 'security' and 'debt security'). Under U.S. GAAP, debt securities are classified as:

- Held-to-maturity, or
- Available-for-sale, or
- Trading securities.

Following is the accounting treatment and criteria for classification for debt securities:

- Held-to-maturity - an investment in a debt security classified as held to maturity (HTM) is accounted for at amortised cost. A debt security is classified as HTM

IFRS Standards

IFRS 9 does not define a debt security. It focuses on the business model and contractual cash flow characteristics of financial assets to determine its classification and measurement.

Under IFRS 9, financial assets are classified and measured at:

- Amortised cost, or
- Fair value through other comprehensive income (FV-TOCI), or
- Fair value through profit or loss (FVTPL).

Although the three categories are similar to the ones in U.S. GAAP, the criteria for classification is significantly different. Following is the accounting treatment and criteria for classification for debt securities:

© Deloitte LLP. All rights reserved.

if the entity has the "positive intent and ability" to hold it to maturity. • Trading securities - trading securities are accounted for at fair value through net income (FVTNI). A debt security is classified as a trading security if it is bought and held principally to sell in the near term. However, the absence of an intent to sell in the near term would not preclude a debt security from qualifying as a trading security. • Available-for-sale - an investment in a debt security classified as available for sale (AFS) is accounted for at fair value with certain changes in fair value recognised in OCI. A debt security is classified as AFS if it does not qualify for classification as a trading security or HTM security. The determination of which classification category is applicable depends, in part, on management's intent and ability to hold the securities and is made on an instrument-by-instrument basis. Further, ASC 825-10 permits the election of a fair value option under which the instrument would be accounted for at FVTNI.	• Amortised cost - The amortised cost classification applies to a financial asset (1) that is held within a business model for which the objective is to hold and collect the contractual cash flows of the instrument and (2) for which the contractual cash flows are solely payments of principal and interest (SPPI). • FVTOCI - The FVTOCI classification applies to a financial asset (1) that is held within a business model for which the objective is to both collect the contractual cash flows and sell financial assets and (2) for which the contractual cash flows are SPPI. • FVTPL - A financial asset is accounted for at FVTPL if (1) its contractual cash flows are not SPPI or (2) it is not held as part of a business model for which the objective is to manage assets to (a) collect contractual cash flows or (b) both collect contractual cash flows and sell financial assets. The classification is determined on the basis of the business model under which the financial assets are held as well as the financial asset's contractual cash flow characteristics. Further, at initial recognition, IFRS 9:4.1.5 permits the irrevocable designation of an instrument as measured at FVTPL, if doing so 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 recognising the gains and losses on them on different bases. Also, if an entity uses a credit derivative that is measured at FVTPL to manage the credit risk of a financial instrument, it may designate that financial instrument as at FVTPL to the extent it is so managed if certain conditions are met (IFRS 9:6.7.1).

U.S. GAAP–IFRS Standards difference considerations

Instruments accounted for at amortised cost

Under U.S. GAAP, investments in HTM securities are accounted for at amortised cost. ASC 320-10-25-1(c) allows an entity to classify investments in debt securities "as HTM only if the reporting entity has the positive intent and ability to hold those securities to maturity." However, an entity is not permitted to classify an investment in a debt security as HTM if it "can contractually be prepaid or otherwise settled in such a way that the holder of the security would not recover substantially all of its recorded investment" in the debt security, as noted in ASC 320-10-25-5(a).

Under IFRS Standards, IFRS 9:4.1.2 requires an entity to measure a financial asset at amortised cost if:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

IFRS 9:4.1.3(b) states, in part, that "interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin."

Instruments accounted for at fair value through other comprehensive income

Under U.S. GAAP, ASC 320-10-35-1(b) requires that investments in AFS debt securities are accounted for at fair value with certain changes in fair value recognised in OCI. ASC 320-10-35-1 also requires an entity to classify an investment in a debt security as AFS if the debt security does not otherwise qualify for classification as a trading security or HTM security (unless the entity elects the fair value option in ASC 825-10 for the investment).

© Deloitte LLP. All rights reserved.

Under IFRS Standards, IFRS 9:4.1.2A requires an entity to measure a financial asset at fair value with certain changes in fair value recognised in OCI if:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

Unlike the AFS category under U.S. GAAP, the FVTOCI category is not a "residual" category under IFRS Standards.

Instruments accounted for at fair value through net income or fair value through profit or loss

Under U.S. GAAP, trading securities are accounted for at fair value with changes in fair value recognised in net income (ASC 320-10-35-1(a)). A debt security is classified as trading if it is bought and held principally to sell in the near term. ASC 320-10-20 states that "trading generally reflects active and frequent buying and selling . . . with the objective of generating profits on short-term differences in price." However, ASC 320-10-25-1(a) clarifies that an entity is not precluded from classifying a debt security as trading "simply because the entity does not intend to sell it in the near term.

Under IFRS Standards, IFRS 9:4.1.4 requires entities to account for financial assets at FVTPL if they do not qualify for measurement at amortised cost or FVTOCI. Accordingly, a financial asset is accounted for at FVTPL if the asset's contractual cash flows are not SPPI or, as stated under IFRS 9:B4.1.5, the financial asset is "not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets." For example, IFRS 9:B4.1.6 notes that this would apply to a "portfolio of financial assets that is managed and whose performance is evaluated on a fair value basis . . . . For such portfolios, the collection of contractual cash flows is only incidental to achieving the business model's objective." Further, at initial recognition, IFRS 9:4.1.5 permits the irrevocable designation of an instrument as measured at FVTPL, if doing so 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 recognising the gains and losses on them on different bases. Also, if an entity uses a credit derivative that is measured at FVTPL to manage the credit risk of a financial instrument, it may designate that financial instrument as at FVTPL to the extent it is so managed if certain conditions are met (IFRS 9:6.7.1).

Comments

3.2	**Has the entity subsequently reclassified any of its investments in debt securities within the categories as described in Question 3.1 above?**	**Yes** **No**

U.S. GAAP

Under U.S. GAAP, entities are required to reassess the classification of its investments in debt securities as of each reporting date. An entity reclassifies its HTM debt securities if it:

1. no longer has the ability to hold HTM securities to maturity, or
2. sells or transfers one or more HTM securities before maturity for reasons that materially contradict the entity's stated intent to hold those securities until maturity, or
3. has a pattern of such sales.

Reclassifications of investments in or from the trading securities category should be rare.

Transfers of debt securities from AFS to HTM are possible if all requirements to qualify for HTM are met. The

IFRS Standards

IFRS 9 requires reclassification of financial assets only upon a change in the business model for managing those financial assets.

© Deloitte LLP. All rights reserved.

unrealised gains and losses in AOCI shall be amortised over the remaining life of the security.

U.S. GAAP–IFRS Standards difference considerations

For investments in debt securities initially classified as HTM, if an entity no longer has the ability to hold its securities to maturity, it should reclassify its HTM securities as the HTM classification would no longer be appropriate (ASC 320-10-35-5). In addition, sales and transfers of HTM debt securities before maturity that occur for a reason other than those specified in ASC 320-10-25-6, ASC 320-10-25-9 and ASC 320-10-25-14, call into question management's intent to hold its remaining HTM securities until maturity (ASC 320-10-35-8). Examples of permissible reasons include (1) a significant deterioration in the creditworthiness of the counterparty; (2) a major business combination or disposition that necessitates the sale or transfer of HTM securities; and (3) events that are isolated, nonrecurring, and unusual for the reporting entity, and that could not have been reasonably anticipated.

In accordance with ASC 320-10-35-9, the reclassification of all remaining HTM debt securities to the AFS classification is required if a sale or transfer "represents a material contradiction of the entity's stated intent to hold those securities [until] maturity or when a pattern of sales or transfers has occurred".

As for investments in debt securities initially classified as trading securities, ASC 320-10-35-12 further states that "given the nature of a trading security, transfers into or from the trading category . . . should be rare" (emphasis added).

If transfers are made from AFS to HTM, per ASC 320-10-35-10 (d), "unrealized holding gain or loss at the date of the transfer shall continue to be reported in a separate component of shareholders' equity, such as accumulated other comprehensive income, but shall be amortized over the remaining life of the security as an adjustment of yield in a manner consistent with the amortization of any premium or discount. For a debt security transferred into the held-to-maturity category, the use of fair value may create a premium or discount that, under amortized cost accounting, shall be amortized thereafter as an adjustment of yield pursuant to Subtopic 310-20".

Also, ASC 320-10-35-13 states that "available-for-sale securities shall not be automatically transferred to the trading category because the passage of time has caused the maturity date to be within one year or because management intends to sell the security within one year. Similarly, if an entity plans to sell a security from the held-to-maturity category in response to one of the conditions in paragraphs 320-10-25-6 and 320-10-25-9, the security shall not be automatically reclassified to available-for-sale or trading before the sale."

Under IFRS Standards, IFRS 9:4.4.1 states, in part, that "when, and only when, an entity changes its business model for managing financial assets it shall reclassify all affected financial assets." Further, IFRS 9:B4.4.1 states that "such changes are expected to be very infrequent," adding that "such changes are determined by the 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."

For financial assets classified as measured at amortised cost, IFRS 9:B4.1.3 clarifies that "although the objective of an entity's business model may be to hold financial assets in order to collect contractual cash flows, the entity need not hold all of those instruments until maturity. Thus an entity's business model can be to hold financial assets to collect contractual cash flows even when sales of financial assets occur or are expected to occur in the future."

Comments

3.3	**Does the entity have any foreign exchange gains or losses on AFS/FVTOCI debt securities?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Under U.S. GAAP, the unrealised change in fair value of an investment in a debt security classified as AFS that is attributable to changes in foreign currency rates must be recognised in OCI.	Under IFRS 9, the unrealised change in fair value of a debt instrument accounted for at FVTOCI that is attributable to changes in foreign exchange rates (calculated on the basis

© Deloitte LLP. All rights reserved.

	of the instrument's amortised cost) must be recognised in profit or loss.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 320-10-35-36 states that the "entire change in the fair value of foreign currency denominated AFS debt securities shall be reported in other comprehensive income."

However, as indicated in ASC 320-10-35-34A through 34E and 35-37, impairment losses of foreign currency denominated debt security may be required to be recognised in net income when the impairment is determined to be other than temporary. Such losses could potentially include foreign exchange gains or losses as well.

Under IFRS Standards, unrealised changes in the value of a foreign currency denominated financial asset accounted for at FVTOCI that are attributable to changes in the foreign exchange rates are recognised in profit or loss (IFRS 9:5.7.10). In accordance with IFRS 9:5.7.11, the amount recognised in profit or loss for financial assets accounted for at FVTOCI is the same as the amount that would be recognised in profit or loss for instruments accounted for at amortised cost. IFRS 9:B5.7.2A further clarifies that:

"For the purpose of recognising foreign exchange gains and losses under IAS 21, a financial asset measured at FVTOCI in accordance with paragraph 4.1.2A is treated as a monetary item. Accordingly, such a financial asset is treated as an asset measured at amortised cost in the foreign currency. Exchange differences on the amortised cost are recognised in profit or loss and other changes in the carrying amount are recognised in accordance with paragraph 5.7.10".

Note that under IFRS 9, the treatment discussed above does not apply to investments in equity securities for which an irrevocable election to account for these instruments at FVTOCI was made. An investment in such securities is accounted for in a manner consistent with the guidance under IFRS 9:B5.7.3, which states that "such an investment is not a monetary item. Accordingly, the gain or loss that is presented in OCI includes any related foreign exchange component."

Comments

3.4 Does the entity have any debt securities classified as HTM or AFS/FVTOCI (impairment)?

Yes

No

U.S. GAAP

Under U.S. GAAP, recognition of credit losses on HTM debt securities differs from that on AFS/FVTOCI debt securities. A provision for credit losses should be recognised as an allowance (a contra asset) when it is probable that the asset has been impaired and the amount of the loss can be reasonably estimated.

For AFS securities, impairment shall be recognised in earnings equal to the entire difference between the security's amortised cost basis and its fair value at the balance sheet date.

For HTM securities, impairment shall be separated into both the amount representing the credit loss and the amount related to all other factors. The impairment related to the credit loss shall be recognised in earnings and the amount related to other factors shall be recognised in other comprehensive income, net of applicable taxes. The carrying amount after recognition of an impairment is equal to fair value of the debt security at the date of the impairment. The new cost basis is equal to the previous amortised cost basis less the impairment

IFRS Standards

Under IFRS 9, entities apply an "expected loss" approach for impairment testing. An impairment loss on a financial asset accounted for at amortised cost or FVTOCI is recognised immediately on the basis of expected credit losses.

Under IFRS 9, the measurement of the impairment loss will differ depending on the financial asset's credit risk at inception and changes in credit risk from inception, as well as the applicability of certain practical expedients. The impairment loss is measured as either (1) the 12-month expected credit loss or (2) the lifetime expected credit loss.

Further, for financial assets that are credit-impaired at the time of initial recognition (whether purchased or originated credit impaired financial assets), the impairment loss will be based on the cumulative changes in the lifetime expected credit losses since initial recognition.

© Deloitte LLP. All rights reserved.

recognised in earnings. The impairment recognised in OCI is accreted to the carrying amount over its remaining life.	Therefore, an impairment loss is recognised to all investments even if they are in an unrealised gain position if there was a deterioration in the credit quality of the issuer since initial recognition.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 310-10 and ASC 450-20 require recognition of a loss when both of the following conditions are met:

1. Information available before the financial statements are issued or are available to be issued indicates that it is probable that an asset has been impaired at the date of the financial statements and;
2. The amount of the loss can be reasonably estimated.

Per ASC 310-10-35-22, when a loan is impaired, a creditor shall measure impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, a creditor may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is a collateral-dependent loan.

For AFS debt securities, per ASC 320-10-35-34B, if an entity intends to sell the security or more likely than not will be required to sell the security before recovery of its amortised cost basis less any current-period credit loss, the other-than-temporary impairment shall be recognised in earnings equal to the entire difference between the investment's amortised cost basis and its fair value at the balance sheet date.

For HTM debt securities, pursuant to ASC 320-10-35-34C, if an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortised cost basis less any current-period credit loss, the other-than-temporary impairment shall be separated into both of the following:

1. The amount representing the credit loss
2. The amount related to all other factors.

ASC 320-10-35-34D states the amount of the total other-than-temporary impairment related to the credit loss shall be recognised in earnings. The amount of the total other-than-temporary impairment related to other factors shall be recognised in other comprehensive income, net of applicable taxes.

Per ASC 310-10-35-47, loans and trade receivables that management has the intent and ability to hold for the foreseeable future or until maturity or payoff shall be reported in the balance sheet at outstanding principal adjusted for any chargeoffs, the allowance for loan losses (or the allowance for doubtful accounts), any deferred fees or costs on originated loans, and any unamortised premiums or discounts on purchased loans.

Under IFRS Standards, IFRS 9 employs a dual-measurement approach that requires an entity to measure the loss allowance for a financial asset accounted for at amortised or FVTOCI (other than one that is purchase or originated credit-impaired) at an amount equal to either (1) the 12-month expected credit losses or (2) lifetime expected credit losses.

The 12-month expected credit losses measurement, which reflects the expected credit losses arising from default events possible within 12 months of the reporting date, is required if the asset's credit risk has not increased significantly since initial recognition (IFRS 9:5.5.5). Further, an entity is permitted to apply a 12-month expected credit loss measurement if the credit risk, in absolute terms, is low as of the reporting date (IFRS 9:5.5.10). As noted in IFRS 9:B5.5.22, the credit risk is considered low if (1) there is a "low risk of default," (2) "the borrower has a strong capacity to meet its contractual cash flow obligations in the near term," and (3) "adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations." IFRS 9:B5.5.23 suggests that an "investment grade" rating might be an indicator of low credit risk.

IFRS 9:5.5.9 states that in assessing whether there has been a significant increase in a financial asset's credit risk, an entity is required to consider "the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses" since initial recognition. IFRS 9:B5.5.17 provides a nonexhaustive list of factors that may be relevant in determining whether there has been a significant increase in credit risk. Per IFRS 9:5.5.3, for financial instruments for which credit risk has significantly increased since initial recognition, the allowance is measured as full lifetime expected credit losses, which IFRS 9, Appendix A defines

© Deloitte LLP. All rights reserved.

as the "expected credit losses that result from all possible default events over the expected life of a financial instrument," unless the credit risk is low as of the reporting date.

Purchased or originated credit-impaired financial assets (e.g., distressed debt) are treated differently under IFRS 9. As stated in IFRS 9:5.5.13, for these assets, an entity recognises only "the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance." Changes in lifetime expected losses since initial recognition are recognised in profit or loss (IFRS 9:5.5.14). Thus, any favourable change in lifetime expected credit losses since initial recognition of a purchased or originated credit-impaired financial asset is recognised as an impairment gain in profit or loss regardless of whether a corresponding impairment loss was recorded for the asset in previous periods (IFRS 9:5.5.14).

Comments

3.5	**Does the entity initially recognise its investment in debt or equity securities on the settlement date?**	**Yes** **No**

U.S. GAAP	IFRS Standards
U.S. GAAP does not provide broadly applicable guidance on whether a debt or equity security that qualifies as a regular-way trade should be initially recognised on a trade-date or settlement-date basis. Certain industries require securities to be recognised on a trade-date basis.	Under IFRS Standards, an entity may elect as an accounting policy to apply trade-date or settlement-date accounting to each financial asset classification group defined in IFRS 9. However, trade-date or settlement-date accounting must be applied consistently to all financial assets in the same classification category.

U.S. GAAP–IFRS Standards difference considerations

The broker-dealer industry is an example where U.S. GAAP has a specific recognition requirement as to when debt and equity securities shall be recorded on the books. ASC 940-320-25-1 states that "the statement of financial condition shall reflect all regular-way trades on an accrual or trade-date basis. Risk, benefits, and economic potentials are created and conveyed at the trade date (that is, the inception of the contract), which is when the major terms have been agreed to by the parties. To properly reflect the economic effects of purchase and sale transactions for financial instruments (that is, to reflect the assumption of the risks and rewards resulting from changes in the value of financial instruments), broker-dealers shall account for the changes in value relating to all proprietary or principal transactions on a trade-date basis."

Another example of specific industry guidance for trade versus settlement date accounting is related to how investment companies shall account of purchases and sales of securities. ASC 946-320-25-1 states that "an investment company shall record security purchases and sales as of the trade date, the date on which the investment company agrees to purchase or sell the securities, so that the effects of all securities trades entered into by or for the account of the investment company to the date of a financial report are included in the financial report."

In addition, trade-date accounting is required for regular-way security trades for entities within the scope of the following guidance: ASC 942-325-25-2, Financial Services — Depository and Lending: Investments — Other, ASC 960-325-25-1, Plan Accounting — Defined Benefit Pension Plans: Investments — Other, and ASC 962-325-25-1, Plan Accounting — Defined Contribution Pension Plans: Investments — Other.

Further, ASC 815-10-15-141 and ASC 815-10-35-5 provide special guidance on purchases of non-derivative securities that will be accounted for under ASC 320 if the purchase contract (1) is either a purchased option contract with no intrinsic value at acquisition or a forward contract, (2) requires physical settlement by delivery of the security, and (3) is not a derivative instrument within the scope of ASC 815. Such purchase contracts are accounted for in accordance with ASC 815-10-35-5, which distinguishes the accounting treatment by initial classification category and whether the purchase contract is an option or a forward. Generally, if the purchase contract is a forward, the purchase is recognised on the settlement date, and if the purchase contract is an option, the purchase is recognised on the exercise date.

© Deloitte LLP. All rights reserved.

Transactions in debt and equity securities that qualify as regular-way trades under ASC 815-10-15-15, would be exempt from accounting for derivatives under ASC 815 and as such would have the option to apply trade-date or settlement-date accounting unless other applicable guidance prescribes a specific treatment. ASC 815-10-15-15 states: "Regular-way security trades are defined as contracts that provide for delivery of a security within the period of time (after the trade-date) generally established by regulations or conventions in the marketplace or exchange in which the transaction is being executed. For example, a contract to purchase or sell a publicly traded equity security in the United States customarily requires settlement within three business days. If a contract for purchase of that type of security requires settlement in three business days, the regular-way security trades scope exception applies, but if the contract requires settlement in five days, the regular-way security trades scope exception does not apply unless the reporting entity is required to account for the contract on a trade-date basis."

Under IFRS Standards, IFRS 9 indicates that for a regular-way purchase or sale, an entity may elect as an accounting policy to apply trade-date or settlement-date accounting to each category of financial assets. Specifically, IFRS 9:B3.1.3 states, in part:

"A regular way purchase or sale of financial assets is recognised using either trade-date accounting or settlement-date accounting . . . . An entity shall apply the same method consistently for all purchases and sales of financial assets that are classified in the same way in accordance with IFRS 9. For this purpose assets that are mandatorily measured at FVTPL form a separate classification from assets designated as measured at FVTPL."

As such based on the aforementioned guidance, an entity may elect to recognise financial assets that are accounted for at amortised cost on a settlement-date basis but elect to recognise financial assets that are mandatorily accounted for at FVTPL on a trade-date basis.

Comments

3.6	**Was there any change in the value of debt or equity security between the trade date and settlement date?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
ASC 320 and ASC 321 do not provide guidance on accounting for a change in value of a debt security between its trade-date and settlement-date.	IFRS 9 requires an entity that elects to apply settlement-date accounting to account for changes in fair value between the trade date and settlement date in a manner consistent with the entity's accounting for the related asset.

U.S. GAAP–IFRS Standards difference considerations

Even though ASC 320 and ASC 321 do not provide specific guidance for value changes between the trade-date and settlement-date, for purchases of non-derivative securities that qualify under ASC 815-10-15-141, ASC 815-10-25-17 and ASC 815-10-35-5 require an entity to account for changes in the fair value of such forward contracts and purchase options in a manner similar to how the underlying debt security will be accounted for once the contract is settled.

Under IFRS Standards, IFRS 9 allows a policy choice for the application of trade-date or settlement-date accounting for regular-way purchases or sales by classification category of the related financial assets. An entity that elects to initially recognise a financial asset on its settlement date must still account for changes in value between the trade date and settlement date in accordance with how the entity will account for the financial asset once it is acquired. Specifically, IFRS 9:B3.1.6 states, in part:

"When settlement-date accounting is applied an entity accounts for any change in the fair value of the asset to be received during the period between the trade date and the settlement date in the same way as it accounts for the acquired asset. In other words, the change in value is not recognised for assets measured at amortised cost; it is recognised in profit or loss for assets classified as financial assets measured at FVTPL and it is recognised in OCI for financial assets measured at FVTOCI in accordance with paragraph 4.1.2A and for investments in equity instruments accounted for in accordance with paragraph 5.7.5."

© Deloitte LLP. All rights reserved.

Comments

3.7	**Does the entity recognise interest income on debt securities using the effective interest method?**	**Yes** **No**

U.S. GAAP

The effective interest rate is computed on the basis of contractual cash flows over the contractual term of the instrument, with certain exceptions depending on the specific characteristics of a debt security, such as whether the debt security (1) is part of a group of prepayable debt securities, (2) is a beneficial interest in securitised financial assets or (3) is prepayable by the issuer and has a stated interest rate that increases over time.

IFRS Standards

Under IFRS 9, the effective interest rate is computed on the basis of estimated cash flows that the entity expects to receive over the expected life of the financial asset. The method used to calculate interest revenue depends on whether the financial asset (1) is purchased or originated credit-impaired or (2) has subsequently become credit-impaired after initial recognition.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, an entity recognises interest income on investments in debt securities accounted for at amortised cost or FVTOCI in accordance with ASC 310-20-35-18 and ASC 310-20-35-26 by applying the effective interest method on the basis of the contractual cash flows of the security. An entity should not anticipate prepayments of principal. However, the following are exceptions to this method of recognising interest income:

- If a debt security is part of a pool of prepayable financial assets and the timing and amount of prepayments are reasonably estimable, an entity is allowed to anticipate future principal prepayments when determining the appropriate effective interest rate to apply to the debt security under ASC 310-20-35-26.
- If an investment in a debt security is considered a structured note but does not contain an embedded derivative that must be separated under ASC 815, the interest method articulated in ASC 320-10-35-40, which is based on estimated rather than contractual cash flows, must be applied.
- If an investment in a debt security to which the interest method in ASC 310-20-35-18(a) applies has a stated interest rate that increases during the term such that "interest accrued under the interest method in early periods would exceed interest at the stated rate . . . , interest income shall not be recognised to the extent that the net investment . . . would increase to an amount greater than the amount at which the borrower could settle the obligation." Thus, a limit on the accrual of interest income applies to certain investments in debt securities that have a stepped interest rate and contain a borrower prepayment option or issuer call option.

Under IFRS 9, an entity calculates interest revenue on financial assets accounted for at amortised cost or FVTOCI by applying the effective interest method. Appendix A of IFRS 9 defines the effective interest rate of a financial asset as the "rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset . . . to the gross carrying amount of a financial asset". Therefore, the effective interest method in IFRS 9, unlike that in ASC 310-20, requires an entity to compute the effective interest rate on the basis of the estimated cash flows over the expected life of the instrument by considering all contractual terms (e.g., prepayment, extension, call, and similar options) but not expected credit losses. Under IFRS Standards, there is no limit on the accrual of interest income for investments in debt securities that have a stepped interest rate and contain a borrower prepayment option or issuer call option. Further, in its definition of an effective interest rate, IFRS 9 states that in rare cases in which it is not possible to reliably estimate the cash flows or the expected life of the financial instrument, an entity should "use the contractual cash flows over the full contractual term."

The application of the effective interest method depends on whether the financial asset is purchased or originated credit-impaired or on whether it became credit-impaired after initial recognition. When recognising interest revenue related to purchased or originated credit-impaired financial assets under IFRS 9, an entity applies a credit-adjusted effective interest rate to the amortised cost carrying amount (see IFRS 9 Appendix A). Further, the calculation of the credit-adjusted interest rate is consistent with that of the effective interest rate, except that the calculation of the credit-adjusted interest rate takes into account expected credit losses within the expected cash flows.

© Deloitte LLP. All rights reserved.

For a financial asset that is not purchased or originated credit-impaired, IFRS 9:5.4.1 requires an entity to calculate interest revenue on the basis of an unadjusted effective interest rate as follows:

- Gross method — If the financial asset has not become credit-impaired since initial recognition, the entity applies the effective interest rate to the gross carrying amount. Appendix A of IFRS 9 defines the gross carrying amount as the "amortised cost of a financial asset, before adjusting for any loss allowance."
- Net method — If the financial asset has subsequently become credit-impaired after initial recognition, the entity applies the effective interest rate to the amortised cost balance, which is the gross carrying amount adjusted for any loss allowance.
- An entity that uses the net method is required to revert to the gross method if (1) the credit risk of the financial instrument subsequently improves to the extent that the financial asset is no longer credit-impaired and (2) the improvement is objectively related to an event that occurred after the net method was applied (IFRS 9:5.4.2).

Comments

3.8	**Has there been a change in estimated future cash flows (not as a result of modification) on a debt security when applying the effective interest method?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Whether and how an entity recognises a change in expected future cash flows of an investment in a debt security depends on the characteristics of the debt security and the effective interest method applied.	An entity (1) recognises a change in estimate that is not a result of changes in the market rates of a floating-rate instrument by applying a cumulative "catch-up" method on the basis of a present value calculation that uses the original effective interest rate as a discount rate and (2) recognises the change in present value through profit or loss.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, interest income on investments in debt securities accounted for at amortised cost is typically recognised by applying the effective interest method on the basis of the contractual cash flows of the security. Under ASC 310-20-35-18(c), if the stated interest rate varies on the basis of future changes in an independent factor (e.g., LIBOR), the effective interest rate used to amortise fees and costs is "based either on the factor . . . that is in effect at the inception of the loan or on the factor as it changes over the life of the loan." For investments in debt securities for which recognition of interest income is based on estimated rather than contractual cash flows, there are several methods for recognising changes in estimated cash flows, depending on the type of the security:

- If an entity anticipates estimated prepayments when measuring interest income of an investment in a debt security that is part of a pool of prepayable financial assets in accordance with ASC 310-20-35-26, the entity must continually recalculate the appropriate effective yield as prepayment assumptions change. That is, if the estimated future cash flows of a debt security change, the effective yield of the debt security must be recalculated to take into account the new prepayment assumptions. The adjustment to the interest method under ASC 310-20-35-26 must be retrospectively applied to the debt security. That is, the amortised cost of the debt security is adjusted to reflect what it would have been had the new effective yield been used since the acquisition of the debt security with a corresponding charge or credit to current-period earnings.
- ASC 320-10-35-33E states that for debt securities that are beneficial interests in securitised financial assets within the scope of Subtopic 325-40, an entity shall determine the present value of cash flows expected to be collected considering the guidance in paragraphs 325-40-35-4 through 35-9 for determining whether there has been a decrease in cash flows expected to be collected from cash flows previously projected. In other words, the cash flows estimated at the current financial reporting date shall be discounted at a rate equal to the current yield used to accrete the beneficial interest. Additionally, for debt securities accounted for in accordance with Subtopic 310-30, an entity shall consider the guidance in that Subtopic in estimating the present value of cash flows expected to be collected from the debt security. A decrease in cash flows expected to be collected on an asset-

© Deloitte LLP. All rights reserved.

backed security that results from an increase in prepayments on the underlying assets shall be considered in the estimate of the present value of cash flows expected to be collected.

- If an investment in a debt security is a structured note within the scope of ASC 320-10-35-40, an entity must retrospectively recalculate the amount of accretable yield for the debt security on the basis of the current estimated future cash flows as of the reporting date. However, if the recalculated effective yield is negative, a zero percent effective yield is used instead.
- ASC 310-20-35-33 states that to the extent that the amortised cost basis of an individual callable debt security exceeds the amount repayable by the issuer at the earliest call date, the excess (that is, the premium) shall be amortised to the earliest call date, unless the guidance in paragraph 310-20-35-26 is applied to consider estimated prepayments. After the earliest call date, if the call option is not exercised, the entity shall reset the effective yield using the payment terms of the debt security. Securities within the scope of this paragraph are those that have explicit, non-contingent call features that are callable at fixed prices and on pre-set dates.

Under IFRS Standards, IFRS 9:B5.4.5-6 provide guidance on when an entity should recalculate the effective interest rate:

- For floating-rate instruments that pay a market-rate of interest, paragraph B5.4.5 specifies that the "periodic re-estimation of cash flows to reflect the movements in the market rates of interest alters the effective interest rate." However, paragraph B5.4.5 further notes that for such floating-rate financial instruments, "re-estimating the future interest payments normally has no significant effect on the carrying amount of the asset […]" if the asset was initially recognised at an amount that equals the principal receivable.
- For other instruments and for revisions of estimates, paragraph B5.4.6 requires an entity to recalculate the gross carrying amount of the financial asset "as the present value of the estimated future contractual cash flows that are discounted at the financial instrument's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets)." The resulting "catch-up" adjustment to the carrying amount of the financial asset is recognised in profit or loss (IFRS 9:B5.4.6).

Comments

3.9 When purchasing AFS debt securities measured at fair value / financial assets measured at FVTOCI, are transaction costs considered in determining the cost basis of the securities at initial recognition?

Yes

No

U.S. GAAP

There is no explicit guidance in ASC 320 as to whether transaction costs should be considered as part of the initial measurement of debt securities when purchased. As such, for AFS debt securities, there are varying practices where entities either expense transaction costs as incurred or capitalise such costs as part of the securities' cost basis and account for them as adjustments to the yield over the securities' life. For trading securities, entities usually recognise transaction costs through profit and loss at period end (in the period of acquisition) as part of the period-end adjustment when measuring fair value of such securities.

IFRS Standards

Per IFRS 9:5.1.1, at initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

U.S. GAAP–IFRS Standards difference considerations

ASC 320 is not explicit as it relates to the treatment of transaction costs; however, there is some industry specific guidance such as ASC 946-320 for investment companies. Per ASC 946-320-30-1, "An investment company shall initially measure its investments in debt and equity securities at their transaction price. The transaction price shall

© Deloitte LLP. All rights reserved.

include commissions and other charges that are part of the purchase transaction". Therefore, the transaction costs are capitalised by investment companies.

Because under U.S. GAAP there are different practices related to the accounting of transaction costs for AFS debt securities where they can be expensed or capitalised, potential differences can result as compared to the treatment prescribed by IFRS 9 where financial assets measured at FVTOCI are recorded at fair value plus or minus transaction costs upon initial recognition (IFRS 9:5.1.1) and the transaction costs are subsequently recognised in OCI as part of the change in fair value at the next remeasurement (IFRS 9:IG.E.1.1). Under IFRS 9, for financial assets measured at FVTPL, IFRS 9:IG.E.1.1 excludes the transaction costs from being added to the fair of the financial assets at initial recognition.

Comments

3.10	**Does the entity have any investments in equity securities not accounted for under the equity method of accounting?**	**Yes** **No**

U.S. GAAP

Under U.S GAAP, entities are required to measure investments in equity securities that are not accounted for under the equity method at fair value, with changes in fair value recognised in net income.

However, an entity may elect to measure equity securities that do not have readily determinable fair values at cost less impairment, plus or minus qualifying observable price changes.

Further, an entity may elect to apply a practical expedient in qualifying circumstances to measure the fair value of investments in certain entities that calculate NAV per share on the basis of NAV per share as of the measurement date.

IFRS Standards

Under IFRS 9, entities are required to measure investments in equity instruments that are not accounted for under the equity method at fair value, with changes in fair value recognised in profit or loss, except for a qualifying investment:

1. that is not held for trading and
2. that the holder irrevocably elects at initial recognition to account for at fair value through other comprehensive income (FVTOCI). An investment in an equity instrument that has been designated as FVTOCI cannot subsequently be reclassified to fair value through profit or loss (FVTPL).

Further, fair value gains and losses recognised in other comprehensive income (OCI) for such investments cannot be subsequently transferred to profit or loss.

In limited circumstances, IFRS 9 permits cost to be viewed as an appropriate estimate of fair value for unquoted equity investments.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 321-10-35-1 requires entities to measure investments in equity securities (including other ownership interests such as partnerships, unincorporated joint ventures, and limited liability companies as noted in ASC 321-10-15-4) at fair value through net income (FVTNI) except for investments without a readily determinable fair value for which the entity has qualified and elected an exception from fair value measurement pursuant to ASC 321-10-35-2. Under ASC 321, equity instruments cannot be measured at FVTOCI.

Under U.S. GAAP, ASC 820-10-35-59 indicates that an entity can elect, as a practical expedient, to measure the fair value of investments on the basis of NAV per share if the entity calculates NAV per share under ASC 946, Financial Services – Investment Companies, as of the measurement date.

For investments in equity securities that do not qualify for the NAV practical expedient, ASC 321-10-35-2 permits an entity to elect to measure the investment at cost less impairment, plus or minus observable price changes (in orderly transactions) of an identical or similar investment of the same issuer, if the equity securities do not have a readily determinable fair value.

Under IFRS Standards, IFRS 9 requires investments in equity instruments to be accounted for at FVTPL unless the investment is neither held for trading nor contingent consideration recognised by an acquirer in a business

© Deloitte LLP. All rights reserved.

combination to which IFRS 3 applies, and the holder elects at initial recognition to account for it at FVTOCI in accordance with IFRS 9:5.7.5. Investments in equity instruments that are designated as at FVTOCI at initial recognition cannot subsequently be reclassified because the designation is irrevocable (IFRS 9:5.7.5 and IFRS 9:BC5.25(d)). Further, IFRS 9 prohibits “recycling” to profit or loss of amounts initially recognised in OCI for investments in equity instruments that an entity has designated as FVTOCI (IFRS 9:B5.7.1).

IFRS Standards do not contain (1) any practical expedient in measuring the fair value of investments in entities that calculate NAV per share or (2) any elective exception from the fair value measurement requirement for investments in equity securities without a readily determinable fair value. However, IFRS 9:B5.2.3 indicates that “in limited circumstances, cost may be an appropriate estimate of fair value” for an unquoted equity investment. IFRS 9:B5.2.3 further states that this “may be the case if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.” IFRS 9:B5.2.6 states that “cost is never the best estimate of fair value for investments in quoted equity instruments (or contracts on quoted equity instruments).” In addition, IFRS 9:B5.2.4 states the following:

“Indicators that cost might not be representative of fair value include:

A. a significant change in the performance of the investee compared with budgets, plans or milestones.

B. changes in expectation that the investee’s technical product milestones will be achieved.

C. a significant change in the market for the investee’s equity or its products or potential products.

D. a significant change in the global economy or the economic environment in which the investee operates.

E. a significant change in the performance of comparable entities, or in the valuations implied by the overall market.

F. internal matters of the investee such as fraud, commercial disputes, litigation, changes in management or strategy.

G. evidence from external transactions in the investee’s equity, either by the investee (such as a fresh issue of equity), or by transfers of equity instruments between third parties.”

The above list is not all-inclusive. IFRS 9:B5.2.5 further indicates that an entity is required to consider all information regarding the performance and operations of the investee that is available after the date of initial recognition. If any indicators that the cost does not represent fair value exist, the entity would be required to measure the fair value. Under IFRS 9:BC5.18, the IASB noted that for particular entities, such as financial institutions and investment funds, the cost of equity investments cannot be considered representative of fair value.

Comments

3.11 Did the entity impair any of its investments in equity securities recorded at cost under the practicability exemption?

Yes

No

U.S. GAAP	IFRS Standards
U.S. GAAP contains impairment guidance on equity investments for which an entity has elected the practicability exception from fair value measurement. Entities assess such equity investments for impairment by qualitatively considering impairment indicators.	Under IFRS Standards, there is no requirement to assess impairment for equity instruments, which fall under the scope of IFRS 9. However, if the entity records an investment in equity instrument at cost under IFRS 9:B5.2.3, the recognition of an impairment charge under U.S. GAAP will likely indicate that a similar adjustment should be made to the cost of the investment under IFRS Standards.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, for an equity investment for which an entity has elected the practicability exception in ASC 321-10-35-2 of measuring the investment at cost less impairment, plus or minus qualifying observable price changes, the

© Deloitte LLP. All rights reserved.

entity is required to qualitatively assess whether impairment indicators exist as of each reporting period. ASC 321-10-35-3 provides the following impairment indicators as an example (this list is not viewed as exhaustive):

A. "A significant deterioration in the earnings performance, credit rating, asset quality, or business prospects of the investee

B. A significant adverse change in the regulatory, economic, or technological environment of the investee

C. A significant adverse change in the general market condition of either the geographical area or the industry in which the investee operates

D. A bona fide offer to purchase, an offer by the investee to sell, or a completed auction process for the same or similar investment for an amount less than the carrying amount of that investment

E. Factors that raise significant concerns about the investee's ability to continue as a going concern, such as negative cash flows from operations, working capital deficiencies, or noncompliance with statutory capital requirements or debt covenants."

If an entity determines that the investment is impaired on the basis of this qualitative assessment, the entity is required to estimate the fair value of the investment and recognise an impairment loss equal to the amount by which the security's carrying amount exceeds its fair value (ASC 321-10-35-4).

Under IFRS Standards, investments in equity instruments are not evaluated for impairment (IFRS 9:BC4.153). However, if the entity records an investment in equity instrument at cost under IFRS 9:B5.2.3, the recognition of an impairment charge under U.S. GAAP may indicate that a similar adjustment should be made to the cost of the investment under IFRS Standards.

IFRS 9:B5.2.3 indicates that "in limited circumstances, cost may be an appropriate estimate of fair value" for an unquoted equity investment. IFRS 9:B5.2.3 further states that this "may be the case if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range." IFRS 9:B5.2.6 states that "cost is never the best estimate of fair value for investments in quoted equity instruments (or contracts on quoted equity instruments)."

In addition, IFRS 9:B5.2.4 states the following:

"Indicators that cost might not be representative of fair value include:

A. a significant change in the performance of the investee compared with budgets, plans or milestones.

B. changes in expectation that the investee's technical product milestones will be achieved.

C. a significant change in the market for the investee's equity or its products or potential products.

D. a significant change in the global economy or the economic environment in which the investee operates.

E. a significant change in the performance of comparable entities, or in the valuations implied by the overall market.

F. internal matters of the investee such as fraud, commercial disputes, litigation, changes in management or strategy.

G. evidence from external transactions in the investee's equity, either by the investee (such as a fresh issue of equity), or by transfers of equity instruments between third parties."

Comments

© Deloitte LLP. All rights reserved.

Section 4: Investments – Equity method and joint ventures

4. Investments – Equity method and joint ventures

Overview

Part A — Investments in associates and joint ventures (equity method investees)

An entity over which an investor can exercise significant influence by way of participation in its financial and operating policy decisions is an associate. The equity method of accounting generally applies to investments in associates or joint ventures, though the use of fair value is permitted in certain cases. Associates are called equity method investees under U.S. GAAP. Although IAS 28 provides considerations similar to those in U.S. GAAP for the evaluation of significant influence over an investee, under U.S. GAAP an investment greater than 3% to 5% in a partnership or a limited liability company (LLC) is generally accounted for under the equity method. IFRS Standards do not provide explicit significant influence investment thresholds for partnerships or LLCs. Under U.S. GAAP an investor would consider only present voting privileges in applying the equity method of accounting; under IFRS Standards an investor should consider potential voting rights that are currently exercisable or convertible in evaluating significant influence.

Part B — Joint arrangements

IFRS 11 requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations arising from the arrangement. IFRS 11 establishes two types of joint arrangements: (1) joint operations and (2) joint ventures. These two types of joint arrangements are distinguished by the rights and obligations of the parties involved.

The questions in this Section focus on the differences between ASC 323 and IFRS 11/IAS 28 related to the general principles of accounting for interests in such joint operations and joint ventures in the financial statements of a venturer.

Recently issued standards not yet reflected in this Section

None

Primary authoritative guidance

- ASC 323, Investments — Equity Method and Joint Ventures
- ASC 808, Collaborative Arrangements
- IFRS 11, Joint Arrangements
- IAS 27, Separate Financial Statements
- IAS 28, Investments in Associates and Joint Ventures

Part A — Investments in associates and joint ventures (equity method investees)

4A.1	Does the end of the entity's (investor's) reporting period differ from that of any of its associates and joint ventures (equity method investees)?	Yes No

U.S. GAAP	IFRS Standards
There is no requirement to adjust financial statements for investor's share of an investee's significant transactions or events that occur during the lag period when the	Financial statements of an associate or joint venture should be adjusted for significant intervening transactions

© Deloitte LLP. All rights reserved.

reporting dates of an investor and an equity method investee differ for up to three months. However, disclosure may be required.	when the reporting dates of the entity and the associate (or joint venture) differ.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 323-10-35-6 states that an investor "ordinarily shall record its share of the earnings or losses of an investee from the most recent available financial statements." The difference between the reporting date of an investor and the date of the financial statements of an equity method investee may not exceed three months. Further, under U.S. GAAP an investor is not required to record its share of an investee's significant transactions or events that occur during the lag period. However, ASC 810-10-S99-2 states that "recognition should be given by disclosure or otherwise to the effect of intervening events which materially affect the [investor's] financial position or results of operations."

In a manner consistent with U.S. GAAP, under IFRS Standards the difference between the reporting date of the entity and the date of the financial statements of an associate or joint venture may not exceed three months. Furthermore, IAS 28:33 states that "when the end of the reporting period of the entity is different from that of the associate or joint venture, the associate or joint venture prepares, for the use of the entity, financial statements as of the same date as the financial statements of the entity unless it is impracticable to do so". However, IAS 28:34 states that when "the financial statements of an associate or joint venture used in applying the equity method are prepared as of a date different from that used by the entity, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the entity's financial statements".

Comments

4A.2	Are there differences between the accounting policies of the entity (investor) and any of its associates or joint ventures (equity method investees)?	Yes No

U.S. GAAP	IFRS Standards
There are no requirements to adjust financial statements when an investor and its equity method investees have different accounting policies as long as the accounting policies are acceptable under U.S. GAAP.	Adjustments must be made to an associate's or joint venture's financial statements to conform the associate's or joint venture's accounting policies to those of the investor for "like transactions and other events in similar circumstances" although an exception exists where the associate or joint venture is an investment entity.

U.S. GAAP–IFRS Standards difference considerations

ASC 323 does not require the financial statements to be adjusted to recognise the effect of any differences in accounting policies of an investor and its equity method investees as long as the policies used are acceptable under U.S. GAAP. However, investors may elect to conform its equity method investees' financial statements to its accounting policies.

Under IFRS Standards, IAS 28:36 states, "If an associate or a joint venture uses accounting policies other than those of the entity for like transactions and events in similar circumstances, adjustments shall be made to make the associate's or joint venture's accounting policies conform to those of the entity when the associate's or joint venture's financial statements are used by the entity in applying the equity method." Notwithstanding this requirement, paragraph 36A states that in case any entity (which is not an investment entity) "has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interest in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent."

© Deloitte LLP. All rights reserved.

Comments

4A.3	Has the reporting entity recorded investments in equity method investees at fair value?	Yes No

U.S. GAAP	IFRS Standards
All entities are permitted to elect the fair value option for investments that they would otherwise account for by using the equity method. Entities that are investment companies account for investments at fair value.	Investments in associates or joint ventures may only be measured at fair value if they are held by certain entities such as venture capital organisations and mutual funds.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 825-10-15-4 allows an investor to elect the fair value option for a recognised financial asset, which includes equity method investments. However, equity method investments that include a substantive future services component (for example, a general partner will often have an interest in a limited partnership and, in addition, have substantive management responsibilities over the limited partnership for which it is entitled to a management fee, which may include a "carried interest") are not eligible for the fair value option. Unless an investor has elected the fair value option, or it carries its investment at fair value under specialised industry accounting guidance applicable to investment companies, an investor must apply the equity method of accounting.

IFRS Standards include an exception for venture capital organisations, or mutual funds, unit trusts and similar entities, including investment-linked insurance funds from the requirement to measure investments in associates and joint ventures using the equity method. IAS 28:18 and IAS 28:19 permit an entity that has an investment in an associate, a portion of which is "held indirectly through a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds," may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9. An entity shall make this election separately for each associate or joint venture, at initial recognition of the associate or joint venture.

Comments

4A.4	Is there objective evidence indicating that the investment in an associate or joint venture (equity method investee) may be impaired or has an impairment been recorded?	Yes No

U.S. GAAP	IFRS Standards
Entities must record impairment or losses in value of an investment that represent an other-than-temporary decline. Impairment losses cannot be reversed in subsequent periods.	Entities must test an investment for impairment by comparing its recoverable amount with its carrying amount. Impairment losses should be reversed in subsequent periods to the extent that the recoverable amount increases.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 323-10-35-32 requires the recognition of an other-than-temporary decline in value of an equity method investment. Evidence of such impairment could be the inability "to recover the carrying amount of the investment or inability of the investee to sustain an earnings capacity that would justify the carrying amount of the investment." A reduction in the current fair value of an investment below its carrying amount may indicate a loss in

© Deloitte LLP. All rights reserved.

value of the investment; however, it is not necessarily determinative of a loss that is other-than-temporary. Impairment losses cannot be reversed in subsequent periods.

Under IFRS Standards, IAS 28:42 indicates that an entity tests the carrying amount of an investment in an associate or joint venture for possible impairment losses by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount whenever application of paragraphs 41A–41C indicates that the net investment may be impaired. IAS 28 also requires an investment in an associate or joint venture to be treated as a single asset for impairment testing. Therefore, an impairment loss is not allocated against any goodwill included in the equity-accounted investment balance. Further, impairment losses should be reversed in a subsequent period to the extent that the recoverable amount of the associate or joint venture increases.

Comments

4A.5	**Has the entity acquired an investment in an associate or joint venture (equity method investee) and held it with a view to its disposal within 12 months of acquisition?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Such investments are accounted for under the equity method.	Investments in associates or joint ventures acquired and held for sale are measured at the lower of the carrying amount ("frozen" equity accounted carrying amount) and fair value less costs to sell.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 323-10-15-3 requires all investments in common stock in which the investor has "the ability to exercise significant influence (see paragraph 323-10-15-6) over operating and financial policies of an investee" to be accounted for by the equity method. Further, equity method investments are not within the scope of ASC 360-10, Property, Plant, and Equipment: Overall. Therefore, an equity method investment may not be presented as held for sale until it has achieved discontinued operations classification under ASC 205-20.

Under IFRS Standards, IAS 28:20 indicates that such investments are classified as held for sale if the criteria in IFRS 5 are met and are measured at the lower of the carrying amount (i.e., the carrying amount as of the date of classification as held for sale ("frozen" equity accounted at carrying value) and fair value, less costs to sell). The entity must cease using equity accounting for the associate or joint venture from the date on which the requirements for classification as held for sale are met. Further, according to IAS 28:20, "Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale shall be accounted for using the equity method until disposal of the portion that is classified as held for sale takes place. After the disposal takes place, an entity shall account for any retained interest in the associate or joint venture in accordance with IFRS 9 unless the retained interest continues to be an associate or a joint venture, in which case the entity uses the equity method."

Comments

4A.6	**After the carrying value has been reduced to zero, does a loss-making associate's or joint venture's (equity method investee's) future profitability appear imminent and assured?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
After the carrying value has been reduced to zero, an investor should continue to recognise losses when the imminent return to profitable operations of an investee appears to be assured (even if the investor has not (1)	After the carrying value has been reduced to zero, an investor should generally discontinue loss recognition even if the associate's future profitability appears imminent and assured (as long as the investor has not

© Deloitte LLP. All rights reserved.

guaranteed obligations of the investee or (2) otherwise committed to provide further financial support to the investee).	incurred legal or constructive obligations or made payments on behalf of the associate).

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 323-10-35-20 generally requires an investor to stop using the equity method of accounting when the value of an investment reaches zero "unless the investor has guaranteed obligations of the investee or is otherwise committed to provide further financial support for the investee." However, ASC 323-10-35-21 states that an investor should continue to "provide for additional losses if the imminent return to profitable operations by an investee appears to be assured."

The guidance in IAS 28:38 and 39 is similar to that in U.S. GAAP and generally requires that an investor discontinue use of the equity method of accounting when the value of an investment reaches zero unless "the investor has incurred legal or constructive obligations or made payments on behalf of the associate." However, unlike U.S. GAAP, IFRS Standards prohibit an investor from continuing to provide for additional losses if an imminent return to profitable operations by an associate appears to be assured.

Comments

4A.7	**Does the entity present separate or non-consolidated financial statements in addition to the consolidated financial statements?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
An entity shall account for an investment in subsidiaries, joint ventures and associates using the equity method of accounting. In certain circumstances, it may elect to measure an investment in associates or joint ventures at fair value through profit or loss (refer Question 4.A.3).	An entity may, at its option, account for the investment in subsidiaries, joint ventures and associates at any of the following in its separate financial statements: A. at cost; B. in accordance with IFRS 9; or C. using the equity method per IAS 28.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, in instances where the parent entity is required to prepare separate financial statements in addition to consolidated financial statements, investments in associates and joint ventures are generally presented using the equity method. An exemption from applying the equity method of accounting is also available under ASC 825. As per such exemption, an entity can measure an investment in associates or joint ventures at fair value through profit or loss, regardless of whether it is a venture capital or similar organisation.

Under IFRS Standards, IAS 27:10 provides that when an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either:

A. at cost;

B. in accordance with IFRS 9; or

C. using the equity method as described in IAS 28.

The entity shall apply the same accounting for each category of investments. Investments accounted for at cost or using the equity method shall be accounted for in accordance with IFRS 5 when they are classified as held for sale or for distribution (or included in a disposal group that is classified as held for sale or for distribution). The measurement of investments accounted for in accordance with IFRS 9 is not changed in such circumstances.

© Deloitte LLP. All rights reserved.

Comments

4A.8 **Has the entity invested in qualified affordable housing projects in the United States?**	**Yes**
These are projects that qualify for low income housing tax credit in the United States.	**No**

U.S. GAAP	**IFRS Standards**
An entity investing in qualified affordable housing projects is permitted to make an accounting policy election to account for their investments using the proportional amortisation method, if certain conditions are met. Under this method the initial cost of investment is amortised in proportion to the tax benefits expected over the period. This accounting policy decision should be applied consistently to all qualifying affordable housing project investments.	IFRS Standards do not contain any specific guidance for an entity investing in qualified affordable housing projects.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 323-740-25-1 allows a reporting entity that invests in qualified affordable housing projects through limited liability entities (that is, the investor) to elect to account for those investments using the proportional amortisation method provided all the following conditions are met:

A. It is probable that the tax credits allocable to the investor will be available.

B. The investor does not have the ability to exercise significant influence over the operating and financial policies of the limited liability entity.

C. Substantially all the projected benefits are from tax credits and other tax benefits (for example, tax benefits generated from the operating losses of the investment).

D. The investor's projected yield based solely on the cash flows from the tax credits and other tax benefits is positive.

E. The investor is a limited liability investor in the limited liability entity for both legal and tax purposes, and the investor's liability is limited to its capital investment.

Under U.S. GAAP, ASC 323-740-35-2 addresses the methodology for measuring an investment in a qualified affordable housing project through a limited liability entity that is accounted for using the proportional amortisation method.

Additionally under ASC 323-740-35-4 as a practical expedient, an investor is permitted to amortise the initial cost of the investment in proportion to only the tax credits allocated to the investor if the investor reasonably expects that doing so would produce a measurement that is substantially similar to the measurement that would result from applying the requirement in paragraph 323-740-35-2.

Under ASC 323-740-35-5 any expected residual value of the investment shall be excluded from the proportional amortisation calculation. Under ASC 323-740-35-6 an investment in a qualified affordable housing project through a limited liability entity shall be tested for impairment when events or changes in circumstances indicate that it is more likely than not that the carrying amount of the investment will not be realised.

Under ASC 323-740-25-4 the decision to apply the method of accounting is an accounting policy decision to be applied consistently to all investments in qualified affordable housing projects that meet the conditions in paragraph 323-740-25-1 rather than applying it to individual investments that qualify for use of the proportional amortisation method.

Under IFRS Standards, there is no specific guidance on accounting for investments in qualified affordable housing projects.

© Deloitte LLP. All rights reserved.

Comments

4A.9	**Does the entity have any contingent consideration payable in respect of an investment in an equity method investee?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
U.S. GAAP only includes the initial measurement of contingent consideration in respect of the acquisition of an equity method investee when it satisfies the definition of a derivative or if there's a bargain purchase when including only the fixed consideration.	Although IFRS Standards do not provide explicit guidance, contingent consideration is generally recognised at fair value by analogy to IFRS 3.

U.S. GAAP–IFRS Standards difference considerations

Under ASC 323-10-30-2A, U.S. GAAP recognises contingent consideration payable with respect to the acquisition of an equity method investee at the acquisition date in only two circumstances. First, when it is required to be recognised by specific authoritative guidance other than ASC 805 (i.e. ASC 480, ASC 450 or ASC 815). For example, when the contingent consideration meets the definition of a derivative under ASC 815. Second, when the fair value of an investor's share of an investee exceeds the cost of the initial cost of the investment. When either of these conditions are satisfied, the liability is recognised in a manner consistent with ASC 323-10-20-2B. The measured amount of the contingent consideration is equal to the lessor of either i) the maximum amount of contingent consideration not otherwise recognised or ii) the excess of the investor's share of the investee's net assets over the initial cost measurement (including contingent consideration otherwise recognised). Also, important to note is ASC 323-10-20-2B (b) does not provide specific guidance on whether the investee's net assets are based on book value or fair value when determining the net assets of the investee.

Under IFRS Standards, IAS 28 does not provide any specific guidance on the measurement of the cost of acquiring an investment in an associate accounted for using the equity method. In practice, contingent consideration payable in respect of the acquisition of an associate is generally recognised at its fair value by analogy to IFRS 3. IFRS 3 generally recognises contingent consideration at fair value on the acquisition date. Subsequently, the liability is measured at fair value, with any changes recognised in the income statement.

Comments

4A.10	**Has the entity considered potential interests in evaluating significant influence?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
An investor would consider only "present voting privileges". "Potential voting privileges" that may become available shall be disregarded.	An investor should consider "potential voting rights that are currently exercisable or convertible" in evaluating significant influence. Instruments with potential voting rights contingent on future events or the passage of time would generally not be considered until the contingent event occurs or the specified time frame passes.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 323-10-15-9, an investor would consider only "present voting privileges". Therefore potential voting privileges are generally disregarded.

© Deloitte LLP. All rights reserved.

Under IFRS Standards, IAS28:7 and 28:8 state, in part: "The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether an entity has significant influence. Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event. In assessing whether potential voting rights contribute to significant influence, the entity examines 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 rights, except the intentions of management and the financial ability to exercise or convert those potential rights."

Comments

4A.11	**Has one of the entity's investments that is accounted for under the equity method recorded an impairment of goodwill in its own books?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
The entity should recognise its share of the goodwill impairment recorded by its equity-accounted investments.	The entity should make appropriate adjustments to its share of the investment's profit or loss for goodwill impairment recorded by its equity-accounted investments.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 350-20-35-48 requires a goodwill impairment loss recognised at a subsidiary level to be recognised in the consolidated financial statements only if the goodwill of the reporting unit in which the subsidiary resides is also impaired. However, whether an impairment is ultimately recognised in the consolidated financial statements of the subsidiary's parent does not affect whether an impairment is recognised by an equity method investor. Thus, if an equity method investee recognises a goodwill impairment charge in its separate financial statements, the investor should recognise its share of the impairment in its financial statements in the same manner in which it recognises other earnings of the investee.

Under IFRS Standards, IAS 28:32 provides that appropriate adjustments to the entity's share of the associate's or joint venture's profit or loss after acquisition are made for impairment losses such as for goodwill or property, plant and equipment. Appropriate adjustments should be interpreted as to remove the goodwill impairment relating to pre-acquisition goodwill in the investment, before the entity calculates and recognises its share of the investment's profit and loss.

Comments

© Deloitte LLP. All rights reserved.

Part B — Joint arrangements

4B.1	**Has the entity entered into a joint arrangement or other agreement with a counterparty that is subject to joint control?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
The term "joint venture" is defined in the context of a "corporate joint venture." Joint venture interests should generally be accounted for under the equity method (if the joint venture is not a VIE). However, proportionate consolidation is permitted for unincorporated joint ventures in the construction or extractive industries.	IFRS 11 requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations arising from the arrangement. IFRS 11 establishes two types of joint arrangements: (1) joint operations and (2) joint ventures. The two types of joint arrangements are distinguished by the rights and obligations of the parties involved.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, "joint venture" is defined in ASC 323-10-20, which states that a corporate joint venture is a "corporation owned and operated by a small group of entities (the joint venturers) as a separate and specific business or project for the mutual benefit of the members of the group." ASC 323-10-20 further states:

"A government may also be a member of the group. The purpose of a corporate joint venture frequently is to share 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. A corporate joint venture also usually provides an arrangement under which each joint venturer may participate, directly or indirectly, in the overall management of the joint venture. Joint venturers thus have an interest or relationship other than as passive investors. An entity that is a subsidiary of one of the joint venturers is not a corporate joint venture. The ownership of a corporate joint venture seldom changes, and its stock is usually not traded publicly. A non-controlling interest held by public ownership, however, does not preclude a corporation from being a corporate joint venture."

An entity should also assess whether the joint venture is a VIE under ASC 810. If the joint venture is a VIE, see Section 21 for further guidance on the U.S. GAAP accounting.

U.S. GAAP guidance

Jointly controlled assets

Under U.S. GAAP, the equity method is applied to jointly controlled assets only if an arrangement is carried out as a separate legal entity. If an arrangement is carried out without a legal entity, the investor continues to account for its owned assets. When a joint operator acquires an interest in the joint controlling assets which constitutes a business, then the joint operator shall apply the principles of business combination accounting to account for the acquired interest.

Jointly controlled operations

Under U.S. GAAP, ASC 323 does not address jointly controlled operations. However, ASC 808, Collaborative Arrangements, addresses the accounting for collaborative arrangements, which are jointly controlled operations that are not primarily conducted through a separate legal entity. To be within the scope of ASC 808, a venturer must be (1) an active participant in the joint operations conducted primarily outside of a legal entity and (2) exposed to significant risks and rewards dependent on commercial success of the joint activity. Under ASC 808-10-45-1 a venturer recognises its share of "costs incurred and revenue generated from transactions with third parties" (i.e., non venturers) in its income statement. Furthermore, a venturer is also required to record such amounts on a gross or net basis in its income statement in accordance with principal versus agent considerations in ASC 606-10-55-36 through 55-40. That is, a venturer would record the amounts gross if it was the principal on a sales transaction with a third party or net if it was an agent to a transaction with a third party.

Jointly controlled entities

Under U.S. GAAP, ASC 323-10-05-4 states that the "equity method also best enables investors in corporate joint ventures to reflect the underlying nature of their investment in those ventures." Therefore, investors should account

© Deloitte LLP. All rights reserved.

for investments in common stock of corporate joint ventures by the equity method in consolidated financial statements unless activities involve certain specialised industries. ASC 810-10-45-14 states, in part:

"[A] proportionate gross financial statement presentation is not appropriate for an investment in an unincorporated legal entity accounted for by the equity method of accounting unless the investee is in either the construction industry (see paragraph 910-810-45-1) or an extractive industry (see paragraphs 930-810-45-1 and 932-810-45-1). An entity is in an extractive industry only if its activities are limited to the extraction of mineral resources (such as oil and gas exploration and production) and not if its activities involve related activities such as refining, marketing or transporting extracted mineral resources."

IFRS Standards

IFRS 11 applies to all parties that have an interest in a joint arrangement, not just to those that have joint control. IFRS 11 defines a joint arrangement as an "arrangement of which two or more parties have joint control" and clarifies that joint control exists only when "decisions about the relevant activities require the unanimous consent of the parties that control the arrangement collectively." IFRS 11 establishes two types of joint arrangements, joint operations and joint ventures, which are distinguished by the rights and obligations of the parties to the arrangement. In a joint operation, the parties to the joint arrangement (referred to as "joint operators") have rights to the assets and obligations for the liabilities of the arrangement. By contrast, in a joint venture, the parties to the arrangement (referred to as "joint venturers") have rights to the net assets of the arrangement. IFRS 11 requires that a joint operator recognise its share of the assets, liabilities, revenues, and expenses in accordance with applicable IFRS Standards; however, a joint venturer would account for its interest by using the equity method of accounting under IAS 28. A party that does not have such control or significant influence will apply IFRS 9, as applicable. Proportional consolidation is not permitted.

The existence of a separate vehicle is a necessary, but not sufficient, condition for a joint arrangement to be considered a joint venture. IFRS 11 clarifies that, in the absence of a separate vehicle, the parties to a joint arrangement have direct rights to, and obligations for, the assets and liabilities of the arrangement and that the arrangement will therefore be classified as a joint operation in such cases. In an arrangement with a separate vehicle, an investor should consider the terms of the contractual arrangements and all relevant facts and circumstances in determining whether the parties to the arrangement have rights to the net assets of the arrangement. Further IFRS 11:21A provides that when an entity acquires an interest (including an additional interest) in a joint operation wherein the activity of the joint operation constitutes a business per IFRS 3, then the joint operator to the extent of its share shall apply all the principles of business combination accounting to account for its share as prescribed by paragraphs B33A-B33D.

Comments

4B.2	Has the entity made a nonmonetary contribution of assets or a business, in exchange for an equity interest, in an associate or joint venture?	Yes No

U.S. GAAP	IFRS Standards
The accounting depends on whether the investee is considered to be a customer in the transaction, the nature of the asset contributed, and in some cases, the legal form of the transaction.	The accounting depends on whether certain criteria are met.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, in the event a transfer is not with a customer, as defined in ASC 606, and not a transfer of a business or non-profit activity, as defined in ASC 810, the transferor should consider whether the transfer is within the scope of ASC 610-20, which applies to the transfer of non-financial assets and in-substance non-financial assets.

Under IAS 28:30, gains and losses resulting from a "contribution of a non-monetary asset to an associate or a joint venture in exchange for an equity interest in the associate or joint venture" are recognised only to the extent of unrelated investors' interests in the associate or joint venture, "except when the contribution lacks commercial

© Deloitte LLP. All rights reserved.

substance, as that term is described in IAS 16 Property, Plant and Equipment. If such a contribution lacks commercial substance, the gain or loss is regarded as unrealised.”

Comments

© Deloitte LLP. All rights reserved.

Section 5: Inventories

5. Inventories

Overview

This Section addresses the differences between ASC 330, Inventory and IAS 2, Inventories on the accounting for inventories and the amount of cost to be recognised as an asset in the statement of financial position and in the periodic measurement of income.

Recently issued standards not yet reflected in this Section

None.

Primary authoritative guidance

- ASC 330, Inventory
- IAS 2, Inventories

5.1 Does the entity apply the LIFO or retail method and the replacement cost or net realisable value (NRV) of any item of inventory is lower than its original cost?

Yes

No

U.S. GAAP

Except for entities that use LIFO or the retail method inventory is measured at the lower of cost or NRV, with NRV being defined as the estimated selling price less the costs of completion and sale. Where an entity follows the LIFO or retail method, (except in certain circumstances), inventory is stated at the lower of cost or market, with "market" being the current replacement costs of inventory.

IFRS Standards

All inventory is stated at the lower of cost or NRV, with NRV being the estimated selling price of inventory minus estimated costs to complete and sell.

U.S. GAAP–IFRS Standards difference considerations

For entities that apply LIFO or the retail method there may be a GAAP difference if the replacement cost or NRV is less than market. Under U.S. GAAP, ASC 330-10-35-2 indicates that inventories measured using LIFO or the retail method should be stated at the lower of cost or market. ASC 330-10-20 defines "market" as current replacement cost, provided that the cost does not exceed the NRV or is not less than the NRV reduced by a normal profit margin. Inventory write-downs may be required under U.S. GAAP, but not under IFRS Standards, when the replacement cost is lower than the current carrying value and the NRV exceeds the carrying value (see Example 2 below). ASC 330-10-20 defines NRV as the "[e]stimated selling price in the ordinary course of business less reasonably predictable costs of completion and disposal."

Under IFRS Standards, IAS 2:9 specifies that inventories are stated at the lower of cost or NRV, with NRV being 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."

Example 1 — Inventory valuation

Carrying value	$100
Replacement cost	$90
NRV	$95
NRV less normal profit margin	$80

Inventory would be recorded at $90 under U.S. GAAP and at $95 under IFRS Standards.

Example 2 — Inventory valuation

Carrying value	$100

© Deloitte LLP. All rights reserved.

Replacement cost	$90
NRV	$105
NRV less normal profit margin	$95

Inventory would be recorded at $95 under U.S. GAAP and at $100 under IFRS Standards (i.e., no write-down is required).

Note that industries that use the retail inventory method (RIM) may need special consideration. Under U.S. GAAP, permanent markdowns do not affect the gross margins used in applying the 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. Under IFRS Standards, permanent markdowns affect the average gross margin used in applying the RIM. Reduction of the carrying cost of inventory to below the lower of cost or NRV is not allowed.

Comments

5.2 Has previously written-down inventory recovered in value?

Yes

No

U.S. GAAP	IFRS Standards
The reversal of inventory write-downs is prohibited.	The reversal of inventory write-downs is required if certain criteria are met.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 330-10-35-14 states that reversal of any write-down is prohibited because the reduced amount is considered the cost basis for subsequent accounting.

Under IFRS Standards, when circumstances that previously caused inventories to be written down below cost no longer exist in subsequent periods, or when there is clear evidence of an increase in NRV because of changed economic circumstances, write-downs of inventories that have been recognised in previous periods must be reversed through profit or loss so that the new carrying amount is the lower of the cost and the revised NRV. Therefore, according to IAS 2:33, “the reversal is limited to the amount of the original write-down.”

Comments

5.3 Does the entity use the LIFO method to assign the cost of inventories?

Yes

No

U.S. GAAP	IFRS Standards
Application of the LIFO method is permitted.	Application of the LIFO method is prohibited.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 330-10-30-9 states that application of the LIFO method is permitted.

Under IFRS Standards, IAS 2:BC19 indicates that the IASB concluded that application of the LIFO method for assigning the cost of inventory should be prohibited.

© Deloitte LLP. All rights reserved.

Comments

5.4	**Does the entity have inventory items not ordinarily interchangeable or goods or services produced and segregated for specific projects or does it apply the specific identification method for inventory costing?**	**Yes** **No**

U.S. GAAP	IFRS Standards
No specific guidance.	The specific identification method is required for inventory items that are not ordinarily interchangeable and for goods or services produced and segregated for specific projects.

U.S. GAAP–IFRS Standards difference considerations

Under IFRS Standards, IAS 2:23 states that the cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects shall be assigned by using specific identification of their individual costs. IAS 2:24 defines specific identification as the specific costs attributed to identifiable items of inventory. This is the appropriate treatment for items that are segregated for a specific project, regardless of whether they have been bought or produced. However, it is important to note that specific identification of costs is not appropriate when there are large numbers of items of inventory that are ordinarily interchangeable. In such circumstances, the method of selecting those items that remain in inventories could be used to obtain predetermined effects on profit or loss. For inventory items not covered by paragraph 23, IAS2:25 specifically requires use of the FIFO or weighted-average cost method.

Under U.S. GAAP, the specific identification method is also an acceptable accounting method for measuring inventory. However, U.S. GAAP does not provide specific guidance on when it is required or allowed.

Comments

5.5	**Does the entity apply different costing formulas (e.g., FIFO, weighted average cost) to different components of inventory?**	**Yes** **No**

U.S. GAAP	IFRS Standards
Entities may apply different costing formulas to different components of inventory.	Entities shall not apply different costing formulas to different components of inventory when the inventory's nature and use to the entity are similar.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 330-10-30-13 permits an entity to apply different costing formulas to different components of its inventory. It states, in part:

"The 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."

Under IFRS Standards, IAS 2:25 requires that an entity "use the same cost formula for all inventories having a similar nature and use to the entity." IAS 2:26 provides the following example:

"For example, inventories used in one operating segment may have a use to the entity different from the same type of inventories used in another operating segment. However, a difference in geographical location of inventories (or in the respective tax rules), by itself, is not sufficient to justify the use of different cost formulas."

© Deloitte LLP. All rights reserved.

Comments

5.6	**Has the entity recorded an Asset Retirement Obligation (ARO) related to the production of inventory?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
An ARO that is created during the production of inventory is added to the carrying amount of the property, plant, and equipment (PP&E) used to produce the inventory.	An ARO that is created during the production of inventory is accounted for as a cost of the inventory in accordance with IAS 2 and may be added to the carrying amount of the inventory.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 410, Asset Retirement and Environmental Obligations, specifically ASC 410-20-25-5, states, in part:

"Upon initial recognition of a liability for an asset retirement obligation, an entity shall capitalize an asset retirement cost by increasing the carrying amount of the related long-lived asset by the same amount as the liability."

Additionally, under U.S. GAAP, ASC 410-20-35-2 requires the asset's retirement cost to be recognised subsequently as expense using a "systematic and rational method" (i.e. depreciated) over the long-lived asset's useful life.

Conversely, under IFRS Standards, IAS 16:18 states:

"An entity applies IAS 2 Inventories to the costs of obligations for dismantling, removing and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period. The obligations for costs accounted for in accordance with IAS 2 or IAS 16 are recognised and measured in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets."

In other words, IFRS Standards allow ARO costs to be added directly to the carrying amount of the inventory in the period in which they are incurred whereas under U.S. GAAP, ARO costs are added to the carrying amount of the related asset of PP&E.

Comments

5.7	**Does the entity have inventories of precious metals, agricultural or forest products, or minerals or mineral products?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Recording of inventories at NRV, even if this value is above cost, is permitted, but only for specific products (precious metals and certain agricultural inventories and broker-dealers' inventories of commodities).	Recording of inventories at NRV, even if this value is above cost, is permitted only for producers' inventories of agricultural and forest products and minerals and mineral products and broker-dealers' inventories of commodities.

U.S. GAAP–IFRS Standards difference considerations

The guidance under U.S. GAAP on this topic is similar to that under IFRS Standards, although a number of speeches the SEC staff delivered in 2000 have noted that the circumstances in which inventories may be recorded above cost are more limited under U.S. GAAP than under IFRS Standards. The following U.S. GAAP literature supports the recording of inventories above cost:

- ASC 330-10-35-15 supports recording precious metal inventories above cost.

© Deloitte LLP. All rights reserved.

- ASC 905-330-30-2 supports recording agricultural inventories within its scope above cost.

ASC 330-10-35-15 states, in part, “Only in exceptional cases may inventories properly be stated above cost . . . exceptions must be justifiable by inability to determine appropriate approximate costs, immediate marketability at quoted market price, and the characteristic of unit interchangeability.” ASC 905-330 allows entities in the agricultural industry to measure inventories at NRV in certain circumstances.

IAS 2:3 specifically excludes the following inventories from the measurement requirements of IAS 2:

A. producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at [NRV] in accordance with well- established practices in those industries. . . .

B. commodity broker-traders who measure their inventories at fair value less costs to sell.

Comments

© Deloitte LLP. All rights reserved.

Section 6: Intangible assets

6. Intangible assets

Overview

Under IAS 38, an intangible asset is defined as "an identifiable non-monetary asset without physical substance". Under ASC 350-30, intangible assets other than goodwill are defined as "assets (not including financial assets) that lack physical substance".

See Section 8 for U.S. GAAP–IFRS Standards differences related to impairment of intangible assets.

Recently issued standards not yet reflected in this Section

None.

Primary authoritative guidance

- ASC 340, Other Assets and Deferred Costs
- ASC 350, Intangibles — Goodwill and Other
- ASC 720, Other Expenses
- ASC 730, Research and Development
- ASC 740, Income Taxes
- ASC 985, Software
- IAS 12, Income Taxes
- IAS 38, Intangible Assets
- SIC-32, Intangible Assets — Web Site Costs

6.1 Has the entity incurred expenditures on research and development ("R&D") activities, including activities for internal development of intangible assets?

Yes

No

This question does not apply to assets acquired in a business combination that are used in R&D activities.

U.S. GAAP	IFRS Standards
Expenses for R&D activities (except for certain computer software and web site development costs) are expensed as incurred, unless the expenditure relates to an item with an alternative future use.	Expenses for research activities are expensed as incurred. Expenses for development activities that meet certain criteria are capitalised.

U.S. GAAP–IFRS Standards difference considerations

Although ASC 730 and IAS 38 define R&D similarly, an entity's accounting for development costs under U.S. GAAP may differ from that under IFRS Standards.

Under U.S. GAAP, ASC 730-10-25-1 indicates that R&D costs (except for certain computer software and web site development costs) are charged to expense as incurred.

Under IFRS Standards, IAS 38:54 states that expenditures on "research (or on the research phase of an internal project)" are charged to expense as incurred.

With respect to development costs, IAS 38:57 states:

"An intangible asset arising from development (or from the development phase of an internal project) shall be recognised if, and only if, an entity can demonstrate all of the following:

A. the technical feasibility of completing the intangible asset so that it will be available for use or sale.
B. its intention to complete the intangible asset and use or sell it.
C. its ability to use or sell the intangible asset.
D. how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate 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.

© Deloitte LLP. All rights reserved.

E. the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

F. its ability to measure reliably the expenditure attributable to the intangible asset during its development."

If the entity has met all of the above conditions, its accounting for development costs will differ under IAS 38 and ASC 730 (i.e., the entity will capitalise them under IFRS Standards but charge them to expense under U.S. GAAP). However, if the entity has not met all of the above conditions, it will expense development costs as incurred under IAS 38 in a manner consistent with ASC 730.

Refer to Questions 6.3 and 6.4 for potential accounting differences related to computer software development costs. The accounting for web site development costs will generally be the same under ASC 350-50 and SIC-32.

Comments

6.2 Does the entity apply (or plan to choose as its accounting policy) the IAS 38 revaluation model for measurement of any intangible asset classes after initial recognition?

Yes

No

Under IAS 38, an entity may choose, as its accounting policy for a class of intangible assets, the revaluation model, under which an intangible asset whose fair value can be measured by reference to an "active market" is carried at a revalued amount.

U.S. GAAP	IFRS Standards
Intangible assets are measured at historical cost; the revaluation model is not permitted.	An entity must adopt an accounting policy of using either the cost model or the revaluation model to measure a class of intangible assets. In practice it is rare for companies to adopt the revaluation model for intangible assets.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 350-30-35-6 through 35-19, intangible assets are recorded at historical cost less accumulated amortisation and impairment losses. The revaluation model is not permitted.

Under IFRS Standards, IAS 38:72 indicates that an entity must make an accounting policy choice to use either the cost model (the only model permitted under U.S. GAAP) or the revaluation model to measure intangible assets after initial recognition. The entity must apply the accounting policy it selects to the entire class of intangible assets, except as noted below.

Under the revaluation model, intangible assets are accounted for at a revalued amount, which is fair value at the date of revaluation less any subsequent accumulated amortisation and impairment losses. Fair value is determined by reference to an "active market," as defined in IFRS 13, Fair Value Measurement. Note that it is uncommon (though possible) for an active market with the characteristics described in IFRS 13 to exist for an intangible asset.

In accordance with IAS 38:75, revaluations shall be made with such regularity that at the end of the reporting period the carrying amount of the asset does not differ materially from its fair value.

If an intangible asset in a class of revalued intangible assets cannot be revalued because there is no active market, the asset is carried at cost less any accumulated amortisation and impairment losses in accordance with IAS 38:81.

According to IAS 38:85, the increase of an asset's carrying amount as a result of a revaluation is credited directly to other comprehensive income and accumulated in equity "under the heading of revaluation surplus"; however, to the extent that the upward revaluation reverses a revaluation decrease for the same asset previously recognised as an expense, the increase is recognised in profit or loss. A revaluation decrease is charged directly against any related revaluation surplus for the same asset. Any excess is recognised as an expense under IAS 38:86.

© Deloitte LLP. All rights reserved.

Comments

6.3 Has the entity incurred costs for developing computer software for its internal use or entered into a cloud computing arrangement?

Yes

No

Under ASC 350-40-15-2A, internal-use software has both of the following characteristics:

A. The software is acquired, internally developed, or modified solely to meet the entity's internal needs.

B. During the software's development or modification, no substantive plan exists or is being developed to market the software externally.

U.S. GAAP

Costs incurred to develop internal-use computer software during the application development stage should be capitalised. Costs to develop or obtain software that allows for access to or conversion of old data by new systems shall also be capitalised. All other costs are expensed as incurred.

If a cloud computing arrangement includes a license to internal-use software, an intangible asset is recognised for the software license and, to the extent that the payments attributable to the software license are made over time, a liability also is recognised. If a cloud computing arrangement does not include a software license, the entity should account for the arrangement as a service contract. This generally means that the fees associated with the hosting element (service) of the arrangement are expensed as incurred.

IFRS Standards

IFRS Standards do not provide any specific guidance for software and accordingly general principles for intangible assets apply. Costs incurred in the development phase are capitalised if certain criteria are met; all other costs are expensed as incurred. The guidance is similar in principle to that in U.S. GAAP.

U.S. GAAP–IFRS Standards difference considerations

While there are some theoretical differences between ASC 350-40 and IAS 38, especially regarding the definitions used, an entity's accounting for computer software development costs under IFRS Standards generally should not differ from its accounting for them under U.S. GAAP.

Under U.S. GAAP, ASC 350-40-55-3 indicates that the stages of developing computer software are as follows:

A. Preliminary project stage (i.e., conceptual formulation of alternatives, evaluation of alternatives, determination of existence of needed technology, and final selection of alternatives).

B. Application development stage (i.e., design of chosen path, including software configuration and software interfaces; coding; installation to hardware; and testing, including parallel processing phase).

C. Post-implementation/operation stage (i.e., training, application maintenance).

ASC 350-40-25-1 through 25-6 state:

A. Preliminary project stage
   - Internal and external costs incurred during the preliminary project stage shall be expensed as they are incurred.

B. Application development stage
   - Internal and external costs incurred to develop internal-use computer software during the application development stage shall be capitalised.

© Deloitte LLP. All rights reserved.

- Costs to develop or obtain software that allows for access to or conversion of old data by new systems shall also be capitalised.
- Training costs are not internal-use software development costs and, if incurred during this stage, shall be expensed as incurred.
- Data conversion costs, except as noted above, shall be expensed as incurred. The process of data conversion from old to new systems may include purging or cleansing of existing data, reconciliation or balancing of the old data and the data in the new system, creation of new or additional data, and conversion of old data to the new system.

C. Post implementation-operation stage

- Internal and external training costs and maintenance costs during the post implementation-operation stage shall be expensed as incurred.

Therefore, costs of developing internal-use computer software that are incurred during the application development stage are capitalised as an asset under ASC 350-40. While ASC 350-40 does not provide guidance on the balance sheet classification of capitalised internal-use software costs, classifying such costs as an intangible asset is preferable under U.S. GAAP.

ASC 350-40-15-4A provides that the guidance for internal-use software that a customer obtains access to in a hosting arrangement only applies if both of the following criteria are met:

A. The customer has the contractual right to take possession of the software at any time during the hosting period without significant penalty.

B. It is feasible for the customer to either run the software on its own hardware or contract with another party unrelated to the vendor to host the software.

ASC 350-40-15-4B states that the term without significant penalty contains two distinct concepts:

A. The ability to take delivery of the software without incurring significant cost

B. The ability to use the software separately without a significant diminution in utility or value.

ASC 350-40-15-4C states that hosting arrangements that do not meet both criteria in paragraph 350-40-15-4A are service contracts and do not constitute a purchase of, or convey a license to, software.

Under IFRS Standards, there is no specific guidance on accounting for software development arrangements or cloud computing costs and therefore the general principles in IAS 38 should be applied. Specifically an entity should recognise an intangible asset arising from development of internal-use computer software or cloud computing arrangements only if the entity can demonstrate that the intangible asset meets all of the conditions in IAS 38:57 (see Question 6.1).

Once the computer software is installed into the related hardware, an entity should look to IAS 38:4 to determine whether to account for the asset under IAS 16 or under IAS 38. IAS 38:4 indicates that “computer software for a computer-controlled machine tool that cannot operate without that specific software is an integral part of the related hardware and it is treated as property, plant and equipment [under IAS 16]. The same applies to the operating system of a computer.”

However, IAS 38:4 states that “[w]hen the software is not an integral part of the related hardware, computer software is treated as an intangible asset”. In such cases, the recognition and measurement principles of IAS 38 would apply.

Therefore, computer software may be classified differently under U.S. GAAP and IFRS Standards, and the difference in classification may give rise to a difference in recognition and measurement.

Comments

© Deloitte LLP. All rights reserved.

6.4	**Does the entity have computer software to be sold, leased, or otherwise marketed as a separate product or as part of a product or process?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Computer software to be sold, leased, or marketed is amortised annually on a product-by-product basis. Amortisation begins when the product is generally available to customers.	Computer software to be sold, leased, or marketed is amortised over its estimated useful life on a straight-line basis, unless another pattern of use can be determined reliably.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 985-20 provides guidance on accounting for costs of computer software to be sold, leased, or marketed (whether developed internally or purchased). ASC 985-20-35-1 states, in part:

"Capitalized software costs shall be amortized on a product-by-product basis. The annual amortization shall be the greater of the amounts computed using the following:

A. The ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product

B. The straight-line method over the remaining estimated economic life of the product including the period being reported on."

Furthermore, ASC 985-20-35-3 states, "Amortization shall start when the product is available for general release to customers."

ASC 985-20-35-2 indicates that given the uncertainties involved in estimating future revenues in the performance of a net realisable value test as of each balance sheet date, "amortization shall not be less than straight-line amortization over the product's remaining estimated economic life."

Under IFRS Standards, the costs of computer software to be sold, leased, or marketed are subject to the general provisions of IAS 38, as further discussed in Question 6.3. Under IAS 38:97, computer software is amortised "on a systematic basis" over its estimated useful life. IAS 38:97 states, in part, "The amortisation method used shall 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 shall be used."

Therefore, the way that capitalised costs of computer software to be sold, leased, or marketed are amortised could differ under U.S. GAAP and IFRS Standards (to the extent that the straight-line method is not used under U.S. GAAP).

Comments

6.5	**Has the entity acquired an intangible asset (other than in a business combination) whose tax basis differs from the cost recognised?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
The acquisition cost is assigned between the value of the asset and that of the deferred tax asset/liability.	The acquisition cost is assigned as the value of the asset; no deferred tax asset/liability is recorded.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 740-10-25-51, states that "[t]he tax effect of asset purchases that are not business combinations in which the amount paid differs from the tax basis of the asset shall not result in immediate income statement recognition" in the period of origination. The difference is a temporary difference, and a deferred tax asset/liability should be recognised for it.

Entities should use the simultaneous-equation method to assign the acquisition cost to the value of the asset and the related deferred tax asset/liability. ASC 740-10-55-172 through 55-176 illustrate the simultaneous-equation method in

© Deloitte LLP. All rights reserved.

the following example (which describes the purchase of a machine but applies equally to the purchase of an intangible asset):

[A]ssume that Entity A purchases a machine for $100 and its tax basis is . . . $150. Upon sale of the asset, there is no recapture of the extra tax deduction. The tax rate is 35 percent.

In accordance with paragraph 740-10-25-51, the amounts assigned to the equipment and the related deferred tax asset should be determined using the simultaneous equations method as follows (where FBB is Final Book Basis; CPP is Cash Purchase Price; and DTA is Deferred Tax Asset):

Equation A (determine the final book basis of the equipment): FBB – [Tax Rate × (FBB − Tax Basis)] = CPP

Equation B (determine the amount assigned to the deferred tax asset):

(Tax Basis − FBB) × Tax Rate = DTA

In this case, the following variables are known:

A. Tax Basis = $150

B. Tax Rate = 35 percent

C. CPP = $100.

The unknown variables (FBB and DTA) are solved as follows:

Equation A: FBB = $73

Equation B: DTA = $27

Accordingly, the entity would record the following journal entry.

Equipment	$73
Deferred tax asset	$27
Cash	$100

Under IFRS Standards, paragraphs 15 and 24 of IAS 12, Income Taxes, state that no deferred tax asset/liability should be recognised for the difference arising from "initial recognition of an asset or liability in a transaction that . . . is not a business combination . . . and . . . at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss)."

Thus, under IFRS Standards, such a difference between the book basis and tax basis should be regarded as a permanent difference, and the tax effect should be recognised in the period in which the difference originates.

Therefore, the carrying amount of an intangible asset could differ under U.S. GAAP and IFRS Standards.

Comments

6.6 Has the entity incurred expenditures on advertising and promotional activities?

Yes

No

U.S. GAAP	IFRS Standards
Advertising and promotional costs are generally expensed as incurred or the first time the advertising takes place; however, certain types of advertising and promotional costs are capitalised and amortised.	Advertising and promotional costs are generally expensed when the entity has a right to access the goods or has received the services; however, an entity may capitalise advance prepayments in certain circumstances.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 720-35-25-1 requires that the costs of advertising should be "expensed either as incurred or the first time the advertising takes place" (depending on the entity's accounting policy), except for those costs described in ASC 720-35-25-1A, which states that expenditures for some advertising costs are made after recognising revenues related to those costs. For example, some entities assume an obligation to reimburse their customers for

© Deloitte LLP. All rights reserved.

some or all of the customers' advertising costs (cooperative advertising). When revenues related to the transactions creating those obligations are recognised before the expenditures are made, those obligations shall be accrued and the advertising costs expensed when the related revenues are recognised. The accounting policy selected from the two alternatives shall be applied consistently to similar kinds of advertising activities.

Under ASC 340-20-25-4, the costs of direct-response advertising shall be capitalised if both of the following conditions are met:

A. The primary purpose of the advertising is to elicit sales to customers who could be shown to have responded specifically to the advertising. Paragraph 340-20-25-6 discusses the conditions that must exist in order to conclude that the advertising's purpose is to elicit sales to customers who could be shown to have responded specifically to the advertising.

B. The direct-response advertising results in probable future benefits. Paragraph 340-20-25-9 discusses the conditions that must exist in order to conclude that direct-response advertising results in probable future benefits.

Under ASC 340-20-25-6, in order to conclude that advertising elicits sales to customers who could be shown to have responded specifically to the advertising, there must be a means of documenting that response, including a record that can identify the name of the customer and the advertising that elicited the direct response. Examples of such documentation include the following:

A. Files indicating the customer names and the related direct-response advertisement

B. A coded order form, coupon, or response card, included with an advertisement, indicating the customer name

C. A log of customers who have made phone calls to a number appearing in an advertisement, linking those calls to the advertisement.

ASC 340-20-25-9 states that demonstrating that direct-response advertising will result in future benefits requires persuasive evidence that its effects will be similar to the effects of responses to past direct-response advertising activities of the entity that resulted in future benefits. Such evidence shall include verifiable historical patterns of results for the entity. Attributes to consider in determining whether the responses will be similar include the following:

A. The demographics of the audience

B. The method of advertising

C. The product

D. The economic conditions.

Under IFRS Standards, IAS 38:69 indicates that costs of advertising and promotional activities are expensed as incurred (i.e., when an entity has a right to access the goods or has received the services). According to IAS 38:BC46E, the timing of the physical delivery of the advertising by the supplier "should not be the determinant of when an expense should be recognised." Also, the entity should not wait to expense such costs until it uses the services to deliver another service (e.g., to deliver an advertisement to customers).

However, IAS 38:70 does not preclude recognising a prepaid asset when payment has been made "in advance of the entity obtaining a right to access those goods" or "receiving those services."

Therefore, costs of advertising and promotional activities (including mail order catalogues and samples) may be expensed earlier under IFRS Standards than under U.S. GAAP.

Comments

© Deloitte LLP. All rights reserved.

6.7	**Has the entity acquired an assembled workforce in connection with the acquisition of an asset group that is determined not to be a business?**	**Yes** **No**

An assembled workforce is "an existing collection of employees that permits the acquirer to continue to operate an acquired business from the acquisition date."

U.S. GAAP	IFRS Standards
An assembled workforce acquired outside of a business combination is recognised as an intangible asset if it meets certain asset recognition criteria.	Generally, an assembled workforce cannot be recognised as an intangible asset.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 805-20-55-6 describes an assembled workforce as "an existing collection of employees that permits the acquirer to continue to operate an acquired business from the acquisition date." For acquisitions of net assets outside of the scope of ASC 805 (i.e., net assets that are determined not to be a business), it is necessary to assess whether an assembled workforce qualifies for recognition as an intangible asset. ASC 350-30-25-4 states:

"Intangible assets that are acquired individually or with a group of assets in a transaction other than a business combination or an acquisition by a not-for-profit entity may meet asset recognition criteria in FASB Concepts Statement No. 5, Recognition and Measurement in Financial Statements of Business Enterprises, even though they do not meet either the contractual-legal criterion or the separability criterion (for example, specially-trained employees or a unique manufacturing process related to an acquired manufacturing plant). Such transactions commonly are bargained exchange transactions that are conducted at arm's length, which provides reliable evidence about the existence and fair value of those assets. Thus, those assets shall be recognised as intangible assets."

Under IAS 38:15, an entity may have a team of skilled staff and may be able to identify incremental staff skills leading to future economic benefits from training. The entity may also expect that the staff will continue to make their skills available to the entity. However, an entity usually has insufficient control over the expected future economic benefits arising from a team of skilled staff and from training for these items to meet the definition of an intangible asset. For a similar reason, specific management or technical talent is unlikely to meet the definition of an intangible asset, unless it is protected by legal rights to use it and to obtain the future economic benefits expected from it, and it also meets the other parts of the definition.

Therefore, an assembled workforce generally cannot be recognised as an intangible asset under IFRS Standards whereas it can be recognised as an intangible asset under U.S. GAAP if certain criteria are met.

Comments

6.8	**Does the entity amortise intangible assets using a revenue-based method?**	**Yes** **No**

U.S. GAAP	IFRS Standards
U.S. GAAP does not specifically restrict applying a revenue-based method of amortisation.	IFRS Standards only permit an entity to apply a revenue-based method of amortisation in the following circumstances: 1. The intangible is expressed as measure of revenue, or 2. It can be demonstrated that revenue and consumption of economic benefits of intangible assets are highly correlated.

U.S. GAAP–IFRS Standards difference considerations

U.S. GAAP does not specifically restrict applying a revenue based method of amortisation (ASC 350-40-35-4 and ASC 985-20-35-1).

© Deloitte LLP. All rights reserved.

Under IFRS Standards, IAS 38:98A establishes a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate. The revenue generated by an activity that includes the use of an intangible asset typically reflects factors that are not directly linked to the consumption of the economic benefits embodied in the intangible asset. For example, revenue is affected by other inputs and processes, selling activities and changes in sales volumes and prices. The price component of revenue may be affected by inflation, which has no bearing upon the way in which an asset is consumed. This presumption can be overcome only in the limited circumstances:

A. in which the intangible asset is expressed as a measure of revenue, as described in paragraph 98C; or

B. when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

Under IAS 38:98C, in the circumstance in which the predominant limiting factor that is inherent in an intangible asset is the achievement of a revenue threshold, the revenue to be generated can be an appropriate basis for amortisation.

Therefore, in certain circumstances, the amortisation of intangible assets could be accounted for differently under IFRS Standards than under U.S. GAAP.

Comments

© Deloitte LLP. All rights reserved.

Section 7: Property, plant, and equipment

7. Property, plant, and equipment

Overview

The description of property, plant, and equipment (PP&E) under U.S. GAAP (ASC 360) is similar to that under IFRS Standards (IAS 16), which defines PP&E as tangible items that "are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes" and "are expected to be used during more than one period."

The criteria for recognition of PP&E are also similar under U.S. GAAP and IFRS Standards. Under both U.S. GAAP and IFRS Standards, PP&E is recognised when it is probable that future economic benefits will flow to the entity and the cost can be measured reliably.

Recently issued standards not yet reflected in this Section

In May 2020, the IASB decided to amend IAS 16 to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognises such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with IAS 2 Inventories.

The IASB also decided to clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.

The amendments are effective for annual periods beginning on or after 1 January 2022. Early application is permitted.

Primary authoritative guidance

- ASC 360, Property, Plant, and Equipment
- ASC 908-360, Airlines: Property, Plant, and Equipment

- IAS 16, Property, Plant and Equipment
- IAS 40, Investment Property
- IAS 41, Agriculture
- IFRIC 18, Transfers of Assets from Customers

7.1 Does the entity apply (or plan to choose as its accounting policy) the IAS 16 revaluation model for any PP&E asset classes after initial recognition?

Yes

No

Under IAS 16, an entity may choose, as its accounting policy for a class of PP&E the revaluation model, under which an item of PP&E whose fair value can be measured reliably is carried at a revalued amount.

U.S. GAAP	IFRS Standards
PP&E is measured at historical cost, and the revaluation model is not permitted.	An entity must make an accounting policy choice to use either the cost model or the revaluation model to measure a class of PP&E.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, PP&E is recorded at historical cost less accumulated depreciation and impairment losses. The revaluation model is not permitted.

© Deloitte LLP. All rights reserved.

Under IFRS Standards, IAS 16:29 indicates that an entity must make an accounting policy choice to use either the cost model (same as under U.S. GAAP) or the revaluation model to measure a class of PP&E. The accounting policy that is selected must be applied to the entire class of PP&E.

Under the revaluation model, an item of PP&E whose fair value can be measured reliably is carried at a revalued amount, which is its fair value as of the date of revaluation less subsequent accumulated depreciation and impairment losses. In accordance with IAS 16:31, entities must revalue PP&E frequently enough to ensure that the carrying amount does not differ materially from the fair value.

In accordance with IAS 16:39, an increase in an asset's carrying amount "as a result of a revaluation [is] recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus"; however, to the extent the increase "reverses a revaluation decrease of the same asset previously recognised" as an expense, it is recognised in profit or loss. A decrease in the asset's carrying amount due to a revaluation is recognised in other comprehensive income and charged directly against any related "revaluation surplus" for the same asset, with any excess recognised as an expense in profit or loss, in accordance with IAS 16:40.

If an entity adopts the revaluation model under IFRS Standards, its accounting will differ from that under U.S. GAAP. An entity converting from U.S. GAAP to IFRS Standards can avoid such accounting differences by adopting the IAS 16 cost model for PP&E.

Comments

7.2 Are any components of an item of PP&E significant relative to the total cost of that item of PP&E?

Yes

No

For example, the cost of an aircraft engine is likely to be significant relative to the total cost of the aircraft.

U.S. GAAP	IFRS Standards
A "components" approach for depreciation is permitted but not required.	Significant components of an item of PP&E with different useful lives or different patterns of depreciation are depreciated separately (i.e., a "components" approach).

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, an item of PP&E composed of significant parts is generally depreciated over a weighted-average useful life for the item as a whole. A components approach for depreciation is permitted but not required.

Under IFRS Standards, IAS 16:43 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 shall be depreciated separately" (i.e., as if each component was a separate asset in its own right). The determination of whether the cost of an item is significant requires a careful assessment of the facts and circumstances. These assessments would include at a minimum:

- Comparing the cost allocated to the component to the total cost of the PP&E.
- Determining how componentising and not componentising affect depreciation expense differently.

For example, the cost of the airframe, engines, and cabin interior of an aircraft is likely to be significant.

Under IAS 16, these parts are separately identified at the time the aircraft is acquired, and each is depreciated separately over an appropriate useful life. An approximation technique, such as a weighted-average useful life for the aircraft as a whole, would not be appropriate in this scenario.

There may be a number of significant parts that, although separately identifiable, have the same useful life and for which the same depreciation method is appropriately used. Such items will generally be grouped together in the calculation of the depreciation charge, as noted in IAS 16:45.

In practice, entities may need to involve operations personnel and engineers (in addition to accounting personnel) in the componentisation analysis. Scheduling parts of PP&E for replacement or overhaul could indicate that separate

© Deloitte LLP. All rights reserved.

components exist for that PP&E. Capital expenditure budgets may be a useful source of information for the componentisation analysis.

Given the above guidance, an entity converting from U.S. GAAP to IFRS Standards will need to review, as of the date of transition to IFRS Standards, any items of PP&E composed of significant parts and use the estimated useful lives of the different parts of the item to determine the impact of applying a components approach.

Comments

7.3 Has the entity incurred costs related to a major inspection or overhaul of PP&E? **Yes**

Examples include costs related to the inspection of an aircraft and costs related to the dry-dock overhaul of a vessel. **No**

U.S. GAAP	IFRS Standards
There are three alternative methods of accounting for costs related to major inspection or overhaul: (1) direct expensing, (2) built-in overhaul, and (3) deferral.	Costs related to major inspection and overhaul are recognised as part of the carrying amount of PP&E if they meet the asset recognition criteria in IAS 16.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, the principal source of guidance on the accounting for planned major inspections or overhauls is ASC 908-360-25-2, which permits three methods of accounting for planned major maintenance activities:

- Direct expensing method — Actual costs are expensed as incurred.
- Built-in overhaul method — The cost of components subject to inspection or overhaul are segregated at purchase. These are amortised to the date of the initial inspection or overhaul. The cost of the initial inspection or overhaul is then capitalised and amortised to the next inspection or overhaul, at which time the process is repeated.
- Deferral method — Actual costs are capitalised and amortised to the next inspection or overhaul.

These methods are widely used in other industries. The method chosen by an entity is an accounting policy decision and must be consistently applied. Use of the accrue-in-advance method is prohibited by ASC 360-10-25-5.

Under IFRS Standards, IAS 16:14 indicates that the costs of major inspection or overhaul are capitalised as part of the cost of the PP&E as long as the recognition criteria in IAS 16:7 are met. The remaining carrying amount resulting from any previous inspection or overhaul is derecognised. According to IAS 16:14, the same approach applies even if the cost of the major inspection or overhaul was not separately identified and depreciated when the item of PP&E was acquired or constructed. However, in practice, the expectation is that the major inspection or overhaul would be separately identified and depreciated separately because of the components approach to depreciation required by IAS 16.

The accounting treatment under IFRS Standards is similar to the built-in overhaul method under U.S. GAAP, but practice is likely to vary. Therefore, accounting may differ under U.S. GAAP and IFRS Standards depending on an entity's facts and circumstances.

Comments

© Deloitte LLP. All rights reserved.

7.4	Does the entity own any investment property?	Yes
	Investment property is property held to earn rentals or for capital appreciation or both. See IAS 40:5–9 for the definition and examples of investment property.	No

U.S. GAAP	IFRS Standards
Investment property is generally accounted for at historical cost.	An entity must make an accounting policy choice to use either the fair value model or the cost model to measure investment property.

U.S. GAAP–IFRS Standards difference considerations

There is no guidance under U.S. GAAP on accounting for investment property, other than specific rules for entities that qualify as investment companies under the Investment Companies Act of 1940. Refer to ASC 946, Financial Services — Investment Companies, for further information. For entities that are not investment companies, investment property is accounted for in the same way as PP&E — at historical cost less accumulated depreciation and any accumulated impairment losses.

Under IFRS Standards, IAS 40:30 states that an entity must make an accounting policy choice to adopt either the fair value model or the cost model to account for investment property. With two limited exceptions (see IAS 40:32A), the policy that is elected must be applied to all investment property.

Under the fair value model, the gain or loss due to a change in the fair value of the investment property is recognised in profit or loss for the period in which it arises in accordance with IAS 40:35. The asset is not depreciated.

Under the cost model, investment property is measured at historical cost less accumulated depreciation and any accumulated impairment losses (except for investment property that meets the criteria under IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, to be classified as held for sale). The IAS 40 cost model is consistent with the accounting treatment under U.S. GAAP. Therefore, an entity converting from U.S. GAAP to IFRS Standards can avoid accounting differences by adopting the IAS 40 cost model for investment property. However, the fair value of investment property must still be disclosed under IFRS Standards when an entity uses the IAS 40 cost model.

Comments

7.5	Has the entity entered into a nonmonetary exchange of PP&E with "boot" of at least 25 percent (i.e., monetary consideration) that lacks commercial substance?	Yes No

U.S. GAAP	IFRS Standards
A nonmonetary exchange is measured at fair value (unless the exchange transaction lacks commercial substance). However, if the boot is at least 25 percent of the fair value, the transaction is accounted for as a monetary transaction.	A nonmonetary exchange is measured at fair value (unless the exchange transaction lacks commercial substance). There is no specific guidance on the consideration of boot.

U.S. GAAP–IFRS Standards difference considerations

Under ASC 845-10-30-1, Nonmonetary Transactions: Overall, and IAS 16:24–26, a nonmonetary exchange of PP&E is measured at the fair value of the assets involved (provided that the transaction had commercial substance), and a gain or loss for the difference between the carrying amount of the surrendered asset and its fair value is recognised.

If the exchange involves "boot" (i.e., monetary consideration), ASC 845-10-25-6 indicates that the transaction "shall be considered monetary (rather than nonmonetary) if the boot is [at least] 25 percent of the fair value of the exchange."

IAS 16 does not address amounts of boot in a nonmonetary exchange. Consequently, the accounting under U.S. GAAP and IFRS Standards could differ for transactions in which the boot amount causes the transaction to be considered monetary under U.S. GAAP and nonmonetary under IFRS Standards, or vice versa.

© Deloitte LLP. All rights reserved.

Comments

7.6 Does the entity own any biological assets?	**Yes**
A biological asset is a living animal or plant.	**No**

U.S. GAAP	**IFRS Standards**
Biological assets are generally measured at historical cost.	Biological assets are generally measured at fair value less estimated point-of-sale costs, with changes in fair value recognised in the statement of comprehensive income. However bearer plants, which are used solely to grow produce, should be measured in accordance with IAS 16 so that they are accounted for in the same way as PP&E.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, biological assets are generally accounted for at historical cost. However, ASC 905-330-35-2 through 35-4, Agriculture: Inventory, notes the following:

Developing animals to be held for sale and growing crops shall be measured in accordance with ASC 330-10: refer to Section 5.

Animals held for sale and harvested crops shall be valued at either of the following:

A. The amount determined using the measurement guidance in ASC 330-10.

B. Net realisable value, if all the following conditions exist:

1. The product has a reliable, readily determinable, and realisable market price.
2. The product has relatively insignificant and predictable costs of disposal.
3. The product is available for immediate delivery.

Under IFRS Standards, IAS 41:12 states that biological assets are generally measured at fair value less estimated point-of-sale costs (e.g., commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, transfer taxes and duties). A change in fair value is recognised in profit or loss for the period in which it arises. If the fair value cannot be measured reliably, the biological asset is measured at its cost (less accumulated depreciation and accumulated impairment losses) in accordance with IAS 41:30.

IAS 41:30 states there is a presumption that fair value can be measured reliably for a biological asset. However, that presumption can be rebutted only on initial recognition for a biological asset for which quoted market prices are not available and for which alternative fair value measurements are determined to be clearly unreliable. In such a case, that biological asset shall be measured at its cost less any accumulated depreciation and any accumulated impairment losses. Once the fair value of such a biological asset becomes reliably measurable, an entity shall measure it at its fair value less costs to sell. Once a non-current biological asset meets the criteria to be classified as held for sale (or is 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, it is presumed that fair value can be measured reliably.

IAS 41:2(b) states the standard does not apply to bearer plants related to agricultural activity. However, the Standard applies to the produce on those bearer plants.

Comments

© Deloitte LLP. All rights reserved.

7.7	**Has the entity acquired PP&E (other than in a business combination) whose tax basis differs from the cost recognised?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
The acquisition cost is assigned between the value of the asset and that of the deferred tax asset/liability.	The acquisition cost is assigned as the value of the asset; no deferred tax asset/liability is recorded.

U.S. GAAP–IFRS Standards difference considerations

Differences may also arise as a consequence of the different definition of a business under U.S. GAAP and IFRS: refer to Section 20 for further details.

Under U.S. GAAP, ASC 740-10-25-51, Income Taxes: Overall, states that "[t]he tax effect of asset purchases that are not business combinations in which the amount paid differs from the tax basis of the asset shall not result in immediate income statement recognition" in the period of origination. The difference is considered to be a temporary difference, and a deferred tax asset/liability should be recognised for it.

Entities should use the simultaneous-equation method to assign the acquisition cost to the value of the asset and the related deferred tax asset/liability. ASC 740-10-55-172 through 55-176 present the following example to illustrate the simultaneous-equation method:

- To illustrate, assume that Entity A purchases a machine for $100 and its tax basis is automatically increased to $150. Upon sale of the asset, there is no recapture of the extra tax deduction. The tax rate is 35 percent.

In accordance with paragraph 740-10-25-51, the amounts assigned to the equipment and the related deferred tax asset should be determined using the simultaneous equations method as follows (where FBB is Final Book Basis; CPP is Cash Purchase Price; and DTA is Deferred Tax Asset):

Equation A (determine the final book basis of the equipment): FBB – [Tax Rate × (FBB − Tax Basis)] = CPP

Equation B (determine the amount assigned to the deferred tax asset): (Tax Basis − FBB) × Tax Rate = DTA

In this Case, the following variables are known:

A. Tax Basis = $150

B. Tax Rate = 35 percent

C. CPP = $100.

The unknown variables (FBB and DTA) are solved as follows: Equation A: FBB = $73

Equation B: DTA = $27.

Accordingly, the entity would record the following journal entry.

Equipment	$73
Deferred tax asset	$27
Cash	$100

Under IFRS Standards, paragraphs 15 and 24 of IAS 12, Income Taxes, state that no deferred tax asset/liability should be recognised for the difference resulting from "initial recognition of an asset or liability in a transaction that . . . is not a business combination . . . and . . . at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss)."

Thus, under IFRS Standards, such a difference between the book basis and tax basis should be regarded as a permanent difference, and the tax effect should be recognised in the period in which the difference originates. Therefore, the value of PP&E could differ under U.S. GAAP and IFRS Standards.

Comments

© Deloitte LLP. All rights reserved.

7.8	Does the entity depreciate its PP&E using a revenue-based method?	Yes No

U.S. GAAP	IFRS Standards
U.S. GAAP does not have specific restrictions on applying a revenue-based method of depreciation.	IFRS Standards prohibit the use of a revenue-based method of depreciation.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 360-10-35-2 addresses the concept of depreciation accounting and the various factors to consider in selecting the related periods and methods to be used in such accounting.

ASC 360-10-35-7 indicates that the declining-balance method is an example of one of the methods that meet the requirements of being systematic and rational. If the expected productivity or revenue-earning power of the asset is relatively greater during the earlier years of its life, or maintenance charges tend to increase during later years, the declining-balance method may provide the most satisfactory allocation of cost. That conclusion also applies to other methods, including the sum-of-the-years'-digits method, that produce substantially similar results.

Under IFRS Standards, IAS 16:62A states that "A depreciation method that is based on revenue generated by an activity that includes the use of an asset is not appropriate."

Comments

7.9	Has an entity disposed-of any PP&E?	Yes No

U.S. GAAP	IFRS Standards
Under U.S. GAAP, ASC 610-20 applies when the sale or transfer of nonfinancial assets or in substance nonfinancial assets is made to noncustomers. The entity must lose control of the assets while also satisfying the criteria for transfer of control to another party under ASC 606 before derecognising nonfinancial assets and recognising a gain or loss. However, a transfer of a nonfinancial asset or an in substance nonfinancial asset in a contract with a customer is not within the scope of ASC 610-20: instead ASC 606 applies.	Under IFRS Standards, an entity derecognises the PP&E on the date at which the recipient obtains control over the assets as per IFRS 15. IFRS Standards do not prescribe any further conditions related to derecognition of PP&E.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, when the sale or transfer of nonfinancial assets or in substance nonfinancial assets is made to noncustomers, ASC 360-10-40-3A states that an entity shall account for the derecognition of a nonfinancial asset, including an in substance nonfinancial asset and an asset subject to a lease, in accordance with Subtopic ASC 610-20 on gains and losses from the derecognition of nonfinancial assets.

ASC 360-10-40-3C states that if an entity transfers a nonfinancial asset in accordance with paragraph 360-10-40-3A, and the contract does not meet all of the criteria in paragraph ASC 606-10-25-1, the entity shall not derecognise the nonfinancial asset and shall follow the guidance in paragraphs 606-10-25-6 through 25-8 to determine if and when the contract subsequently meets all the criteria in paragraph 606-10-25-1. Until all the criteria in paragraph 606-10-25-1 are met, the entity shall continue to do all of the following:

A. Report the nonfinancial asset in its financial statements

B. Recognise depreciation expense as a period cost unless the assets have been classified as held for sale in accordance with paragraphs 360-10-45- 9 through 45-10

© Deloitte LLP. All rights reserved.

C. Apply the impairment guidance in Section 360-10-35.

For a transfer of a nonfinancial asset or an in substance nonfinancial asset in a contract with a customer, the entity should follow the guidance in ASC 606. A customer is defined as "A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration."

Under IFRS Standards, IAS 16:69 indicates that the disposal of an item of property, plant and equipment may occur in a variety of ways (e.g. by sale, by entering into a finance lease or by donation). The date of disposal of an item of property, plant and equipment is the date the recipient obtains control of that item in accordance with the requirements for determining when a performance obligation is satisfied in IFRS 15.

Comments

© Deloitte LLP. All rights reserved.

Section 8: Impairment of non-financial assets

8. Impairment of non-financial assets

Overview

A non-financial asset is impaired when an entity will not be able to recover the asset's carrying value, either by using the asset or selling it.

ASC 360-10-35-21 and IAS 36:12 provide examples of events and circumstances that indicate that an asset may be impaired. ASC 360-10-35-21 states that such events and circumstances would include:

A. A significant decrease in the market price of a long-lived asset (asset group);

B. A significant adverse change in the extent or manner in which a long-lived asset (asset group) is being used or in its physical condition;

C. A significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset (asset group), including an adverse action or assessment by a regulator;

D. An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset (asset group);

E. 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 (asset group);

F. A current expectation that, more likely than not, a long-lived asset (asset group) will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. The term more likely than not refers to a level of likelihood that is more than 50 percent.

IAS 36:12 provides additional examples of potential indicators, including increases in market interest rates, the carrying amount of the net assets of the entity is more than its market capitalisation and potential indicators when an investment in a subsidiary, joint venture or associate may be impaired.

Indicators notwithstanding, goodwill, intangible assets with indefinite lives, and intangible assets not yet available for use are required to be tested for impairment at least annually in accordance with U.S. GAAP and IFRS Standards.

This Section addresses impairment of tangible and intangible assets, including goodwill. See Section 2 and 3 and Appendix A for a discussion of impairment of financial assets and see Section 23 for a discussion of the differences in the way fair value is measured under U.S. GAAP and IFRS Standards.

Recently issued standards not yet reflected in this Section

None.

Primary authoritative guidance

- ASC 350, Intangibles — Goodwill and Other
- ASC 360, Property, Plant, and Equipment
- IAS 36, Impairment of Assets

8.1 Were accounting differences between U.S. GAAP and IFRS Standards identified in the carrying value of assets or liabilities?

Yes

No

U.S. GAAP	IFRS Standards
N/A	N/A

© Deloitte LLP. All rights reserved.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP and IFRS Standards, assets are tested for impairment at the individual asset level where possible. If differences between U.S. GAAP and IFRS Standards in other standards affect the carrying value of tangible or intangible assets, the outcome of asset impairment tests may differ. See Sections 1, 6, and 7, for further information.

Similarly, when assets are tested for impairment at an aggregated level (e.g., at an asset group, reporting unit, or CGU level), differences between U.S. GAAP and IFRS Standards that affect the carrying value of any assets and liabilities in the aggregated group may also result in differences in the outcome of asset impairment tests.

Therefore, the asset impairment tests will need to be performed after the differences between U.S. GAAP and IFRS Standards that affect the carrying value of assets and liabilities have been identified and quantified.

Comments

8.2 Has an impairment loss been recognised for tangible and finite-lived intangible assets, or are there potential indicators of impairment?

Yes

No

If indicators of impairment are present, an impairment review under both IFRS Standards and U.S. GAAP is required.

U.S. GAAP	IFRS Standards
Assets are tested at the asset group or the individual asset level, depending on an analysis of the interdependence of the cash flows, which is generally based on the net cash flows. Entities use a two-step approach to measure impairment loss based on fair value.	Assets are tested at the cash-generating unit (CGU) level or at the individual asset level, depending on an analysis of the cash inflows from assets being tested that are largely independent of the cash inflows from other assets or groups of assets. Entities use a one-step approach to measure impairment loss, calculated as the excess of the asset's carrying amount over its recoverable amount, defined as the higher of fair value less costs to sell and value in use.

U.S. GAAP–IFRS Standards difference considerations

Testing level

Under U.S. GAAP, assets are tested at the asset group or the individual asset level. As asset group is defined as the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. This assessment is based on the net cash flows.

Under IFRS Standards, assets are tested at the cash-generating unit (CGU) level or at the individual asset level. A cash-generating unit 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.

Due to the different requirements it is possible that assets will be tested for impairment at a lower level under IFRS Standards than under U.S. GAAP.

Methodology

Under U.S. GAAP, ASC 360-10-35-17 states that entities use a two-step approach to measure impairment. In step 1, entities perform a recoverability test by comparing the expected undiscounted future cash flows to be derived from the asset with its carrying amount. If the asset fails the recoverability test, step 2 is required, and the entity must record an impairment loss calculated as the excess of the asset's carrying amount over its fair value.

Fair value is defined as "[t]he price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date," in accordance with ASC 820-10, Fair Value Measurement: Overall. This definition of fair value focuses on the price that would be received to sell the asset (an exit price) and assumes the highest and best use of the asset that will maximise its value to a market participant. The highest and best use can be based on either an "in-use" or an "in-exchange" valuation premise. The in-use premise

© Deloitte LLP. All rights reserved.

would provide maximum value to a market participant through the asset's use in combination with other assets. The in-exchange premise would provide maximum value if the assets within the group were sold separately.

Under ASC 360-10-35-20, an impairment loss should trigger the adjustment of the carrying amount of a long- lived asset to a new cost basis. ASC 360-10-35-20 further states, "For a depreciable long-lived asset, the new cost basis shall be depreciated (amortised) over the remaining useful life of that asset." That is, the asset's accumulated depreciation or amortisation should be written off to reset the value of the asset.

Under IFRS Standards, IAS 36 indicates that the impairment loss is calculated as the excess of the asset's carrying amount over its recoverable amount. The recoverable amount is the higher of an asset's (1) fair value less costs of disposal and (2) value in use.

Fair value is defined as "[t]he price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" in accordance with IFRS 13, Fair Value Measurement. Under IAS 36:6, costs of disposal are "incremental costs directly attributable to the disposal of an asset or cash **-** generating unit, excluding finance costs and income tax expense."

The term "fair value less costs of disposal" under IFRS Standards is similar to the U.S. GAAP "in-exchange" fair value definition in ASC 820-10; the main difference is that under IAS 36, costs of disposal are deducted from the fair value calculation, whereas under ASC 820-10, subtraction of such costs is prohibited.

According to IAS 36:30–57, the asset's value in use should be determined by (1) measuring the asset's future cash inflows and outflows and future cash flows from the ultimate disposal of the asset (on a pre-tax basis) and (2) applying an appropriate pre-tax discount rate. The term "value in use" under IFRS Standards is similar to the income approach under the "in-use" valuation premise in ASC 820-10 with some differences. Under U.S. GAAP, ASC 820-10-05-1 requires a valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk, while IFRS Standards may be based on entity-specific information. Furthermore, IFRS Standards (IAS 36:33-36) place limits on the assumptions that may be used to estimate value in use; for example, terminal growth rates should use a steady or declining growth rate for later years, unless an increasing rate can be justified. This growth rate should not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified. In addition, there are other parameters under IFRS Standards related to the estimation of value in use.

Under IAS 36:58–64, an entity records an impairment loss by reducing the carrying amount to the recoverable amount.

Differences in the way fair value is measured under U.S. GAAP and IFRS Standards are further discussed in Section 23.

Under U.S. GAAP (ASC 360), if the recoverability test in step 1 using undiscounted cash flows is passed, impairment is not recorded even if the fair value of the asset is less than its carrying amount. Accordingly, an impairment loss may be recorded under IAS 36 but may not be recorded under ASC 360 under the same set of circumstances.

Allocation of impairment loss

Under U.S. GAAP, ASC 360-10-35-28 states:

"An impairment loss for an asset group shall reduce only the carrying amounts of a long-lived asset or assets of the group. The loss shall 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 shall not reduce the carrying amount of that asset below its fair value whenever that fair value is determinable without undue cost and effort. See Example 1 (paragraph 360-10-55-20) for an illustration of this guidance."

Under IFRS Standards, (IAS 36:104, 105) where the impairment assessment has been performed at the cash-generating unit level any impairment loss should be allocated pro rata to the carrying amount of each asset in the CGU provided that the carrying amount of an assets is not reduced below the highest of (a) its fair value less costs of disposal (if measurable); (b) its value in use (if determinable); and (c) zero.

When an impairment loss is recorded under both ASC 360 and IAS 36, the amount of the impairment loss may not be the same under U.S. GAAP and IFRS Standards because (1) the carrying value of the asset (or asset group/reporting unit/ CGU) may differ (see Question 8.1) and (2) the fair value (under U.S. GAAP) and recoverable amount (under IFRS Standards) may differ.

© Deloitte LLP. All rights reserved.

Comments

8.3	**Does the entity have indefinite-lived intangible assets or intangible assets not yet available for use?**	**Yes** / **No**

Examples of an intangible asset not yet available for use are software development projects for own use and in-process research and development acquired in a business combination.

U.S. GAAP	IFRS Standards
Indefinite-lived intangible assets are tested separately for impairment at least annually. They may not be combined with other assets (e.g. goodwill or finite-lived intangible assets) for the purposes of an impairment test. An entity may perform an optional qualitative assessment to determine whether a quantitative assessment is required.	If an indefinite-lived intangible asset does not generate independent cash inflows, the asset is included in a CGU (or group of CGUs) and tested for impairment at least annually.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 350-30-35-18 states that entities test indefinite-lived intangible assets, including intangible assets not yet available for use, separately for impairment at least annually by comparing the fair value of the intangible asset with its carrying amount. If the carrying amount of the intangible asset exceeds its fair value, an impairment loss is recognised in an amount equal to that excess. Fair value should be calculated as "[t]he price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" in accordance with ASC 820-10.

In accordance with ASC 350-30-35-21, separately recorded indefinite-lived intangible assets are "combined into a single unit of accounting for purposes of testing impairment if they are operated as a single asset and, as such, are essentially inseparable from one another." Under ASC 350-30-35-26, indefinite-lived intangible assets cannot be tested for impairment in combination with finite-lived assets or goodwill.

ASC 350-30-35-18A through 18F states that an entity testing indefinite-lived intangible assets for impairment has the option of performing a qualitative assessment to determine whether it must perform a quantitative assessment. If the entity determines on the basis of qualitative factors that the indefinite-lived intangible asset is more likely than not (that is, a likelihood of more than 50 percent) impaired, the entity would need to calculate the fair value of the asset.

Under IFRS Standards, IAS 36:10 states, in part, that entities test an indefinite-lived intangible asset or an intangible asset not yet available for use for impairment at least annually by comparing its carrying amount with its recoverable amount (i.e., the higher of (1) fair value less costs of disposal and (2) value in use), irrespective of whether there is any indication of impairment. The recoverable amount is determined for an individual asset, unless the "asset does not generate cash inflows from continuing use that are largely independent of those from other assets or groups of assets" (IAS 36:24), in which case the asset is included in a CGU (or group of CGUs) and tested for impairment. See Question 8.2 for further discussion of the recoverable amount.

In practice, under IFRS Standards, indefinite-lived intangible assets are often tested for impairment in a CGU (or with groups of CGUs). For example, a trade name used to support production of a product typically does not generate independent cash inflows, as revenues from the sale of the product cannot be divided between the revenue for the trade name and revenue for the production costs. Therefore, a trade name is generally tested for impairment with the related manufacturing CGU (or group of CGUs). Nevertheless, there may be circumstances in which a trade name is tested for impairment alone, such as when a company licenses a trade name to a third party in exchange for a license fee.

Under IAS 36:104, an impairment loss on a CGU is allocated to the carrying amount of the assets as follows:

A. first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units); and

B. then, to the other assets of the unit (groups of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units).

© Deloitte LLP. All rights reserved.

In the allocation of the impairment charge, each asset cannot be reduced below the higher of its fair value less costs of disposal (if measureable), its value in use (if determinable), or zero, in accordance with IAS 36:105.

Note that IAS 36 does not allow entities to perform a qualitative assessment for impairment testing similar to that permitted under ASC 350. Thus, the application of the optional qualitative assessment under U.S. GAAP could give rise to a difference between U.S. GAAP and IFRS Standards.

Comments

8.4	**Do any impairment losses relate to assets accounted for under the IFRS revaluation model?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Impairment losses are accounted for in the income statement.	Impairment losses for revalued assets are offset against the revaluation surplus in other comprehensive income and, if applicable, excess losses are recorded in profit or loss.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, revaluation of long-lived assets is not permitted. Therefore, all impairment losses are accounted for in the income statement.

Under IFRS Standards, IAS 36:60 indicates that an impairment loss of an asset accounted for under the revaluation model is treated as a revaluation decrease. Under IAS 36:61, the impairment loss is "recognised in other comprehensive income to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset." Only when the impairment loss exceeds the amount in the revaluation surplus for that same asset is any further impairment recognised in profit or loss.

Comments

8.5	**Are there any indications that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Reversal of an impairment loss is not permitted.	Reversal of an impairment loss is required for assets other than goodwill if certain criteria are met.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, the reversal of an impairment loss for assets to be held and used is prohibited under ASC 350-30-35-20 and ASC 360-10-35-20 because the impairment loss results in a new cost basis for the asset.

Under IFRS Standards, IAS 36:110 states, in part, "An entity shall assess at the end of each reporting period whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased." See IAS 36:111 for indicators of a potential decrease in impairment loss (which mainly mirror the indicators of a potential impairment loss). IAS 36:114 states, in part, "An impairment loss recognised in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised."

When reversing the impairment loss of an asset under IFRS Standards, the entity should not increase the carrying amount of the asset above the carrying amount that would have existed if no impairment loss had been recognised

© Deloitte LLP. All rights reserved.

(i.e., the otherwise net carrying amount after regular depreciation/amortisation expense is deducted). After the reversal of an impairment loss, the depreciation/amortisation amount for the asset should be adjusted on the basis of the new value of the asset, its residual value, and its remaining useful life.

Comments

8.6 Does the entity have goodwill?

Yes

No

U.S. GAAP

Impairment is tested at the reporting unit level and a qualitative assessment may be performed to determine whether a quantitative impairment calculation is required. If the qualitative assessment is not performed or it is more likely than not that the fair value of the reporting unit is less than its carrying amount, an impairment test must be performed.

Before adoption of ASU 2017-04

A two-step impairment test is performed and the second step calculates the impairment, if any, based on the implied fair value of goodwill.

After adoption of ASU 2017-04

A single-step goodwill impairment test is performed comparing the fair value of the reporting unit with its carrying amount including goodwill.

IFRS Standards

A one-step goodwill impairment test is performed at the CGU level (or for a group of CGUs). The recoverable amount of the CGU or group of CGUs (i.e., the higher of its fair value less costs of disposal and its value in use) is compared with its carrying amount.

IFRS Standards do not permit a formal qualitative assessment to be performed although the concept of materiality may be applied.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, entities have the option of performing a qualitative assessment before applying the quantitative test. If entities determine, on the basis of qualitative factors, that the fair value of a reporting unit is more likely than not less than the carrying amount then the quantitative test would be required. Otherwise, no further testing would be required.

ASC 350-20-35-28 states that goodwill is tested for impairment at least annually (at the same time each year) at the reporting unit level. A reporting unit is an operating segment (as determined under ASC 280-10, Segment Reporting: Overall) or one level below an operating segment. Different reporting units may be tested for impairment at different times.

The goodwill impairment test under U.S. GAAP was modified by ASU 2017-04, which is applied prospectively for accounting periods as follows:

- A public business entity that is a SEC filer for its annual or any interim goodwill impairment tests in fiscal years beginning after 15 December 2019.
- A public business entity that is not an SEC filer for its annual or any interim goodwill impairment tests in fiscal years beginning after 15 December 2020.
- All other entities that are adopting the amendments for their annual or any interim goodwill impairment tests in fiscal years beginning after 15 December 2021.
- Early adoption is permitted for interim or annual goodwill impairment tests.

Before adoption of ASU 2017-04

A two-step goodwill impairment test is performed as follows:

© Deloitte LLP. All rights reserved.

1. The fair value of the reporting unit, including goodwill, is compared to its carrying amount. If the fair value of the reporting unit is less than the book value, step 2 below must be performed.
2. The goodwill impairment is measured as the excess of the carrying amount of goodwill over its implied fair value. A hypothetical purchase price allocation, in which the fair value determined in the first step is allocated to the various assets and liabilities included in the reporting unit, is used to determine the implied fair value of goodwill in the same manner that goodwill is determined in a business combination.

After adoption of ASU 2017-04

Under ASC 350-20-35-4 the quantitative goodwill impairment test, used to identify both the existence of impairment and the amount of impairment loss, compares the fair value of a reporting unit with its carrying amount, including goodwill.

Fair value should be calculated as "[t]he price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date," in accordance with ASC 820-10. See Question 8.2 for further discussion of fair value.

Under IFRS Standards, IAS 36:10(b) indicates that goodwill is tested for impairment at least annually (at the same time each year) at the CGU level or for a group of CGUs. 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 (IAS 36:6).

Although IFRS Standards do not include an equivalent qualitative assessment to U.S. GAAP IAS 36:15 states, in part "the concept of materiality applies in identifying whether the recoverable amount of an asset needs to be estimated. For example, if previous calculations show that an asset's recoverable amount is significantly greater than its carrying amount, the entity need not re-estimate the asset's recoverable amount if no events have occurred that would eliminate that difference." Similarly, IAS 36:99 states:

"The most recent detailed calculation made in a preceding period of the recoverable amount of a cash-generating unit to which goodwill has been allocated may be used in the impairment test of that unit in the current period provided all of the following criteria are met:

A. the assets and liabilities making up the unit have not changed significantly since the most recent recoverable amount calculation;
B. the most recent recoverable amount calculation resulted in an amount that exceeded the carrying amount of the unit by a substantial margin; and
C. based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable amount calculation, the likelihood that a current recoverable amount determination would be less than the current carrying amount of the unit is remote."

Goodwill associated with different CGUs (or groups of CGUs) may be tested for impairment at different times during the year. However, in accordance with IAS 36:96, goodwill is required to be tested for impairment during the year in which the goodwill is acquired.

IAS 36:80 requires that:

Each unit or group of units to which the goodwill is so allocated shall:

A. represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and
B. not be larger than an operating segment as defined by paragraph 5 of IFRS 8, Operating Segments before aggregation.

A one-step goodwill impairment test is performed in which the recoverable amount (i.e., the higher of (1) fair value less costs of disposal and (2) value in use) of the CGU (or group of CGUs) is compared to its carrying amount. The impairment loss is recognised as the excess of the carrying amount over the recoverable amount. See Question 8.3 for further discussion of the recoverable amount.

Depending on the level of aggregation, a reporting unit under U.S. GAAP may differ from a CGU (or group of CGUs) under IFRS Standards.

Impact of non-controlling interests

For companies that elect to use the proportionate-share method under IFRS Standards to measure the non-controlling interest (see Section 20), the accounting may differ under U.S. GAAP and IFRS Standards for impairment of

© Deloitte LLP. All rights reserved.

goodwill recorded in a business combination where less than 100 percent of the entity was acquired. All else being equal, the goodwill amount recognised under the fair value method (required under ASC 805, Business Combinations) will be higher than the goodwill amount recognised under the proportionate-share method in IFRS Standards.

IAS 36:C4 states that goodwill recognised under the proportionate-share method (including goodwill acquired in a business combination that is less than 100 percent and accounted for under IFRS 3, Business Combinations) must be "grossed up" for impairment testing under IAS 36. In other words, the notional amount of goodwill attributable to the non-controlling interest is added to the recorded amount of goodwill and included in the carrying amount of the CGU (or group of CGUs) being tested for impairment. Although goodwill is evaluated for impairment under both U.S. GAAP and IFRS Standards on the basis of the full fair value of goodwill (because of the "gross up" requirement under IFRS Standards), only the impairment related to the recorded goodwill is recognised as an impairment loss under IFRS Standards; the impairment that relates to the notional goodwill is not recognised under IFRS Standards. Therefore, any resulting impairment charge may differ under U.S. GAAP and IFRS Standards as a result of differences in the amount of goodwill recognised as of the acquisition date and the impairment testing method.

Comments

© Deloitte LLP. All rights reserved.

Liabilities

Section 9: Employee benefits

9. Employee benefits

Overview

Employee benefits include the different types of consideration given by an entity in exchange for service provided by an employee. This broad definition encompasses long-term benefits that are traditionally associated with employee benefits, such as retirement or other postretirement benefits, 401(k) plans, postemployment health care benefits, long-term disability benefits, deferred compensation, jubilee (long-service) awards, and long-term termination benefits. The definition also includes short-term benefits that are expected to be paid within 12 months, such as wages, salaries, social security contributions, pay for compensated absences (e.g., sick leave and paid vacation), profit-sharing and bonus arrangements, short-term termination benefits, and other nonmonetary benefits (e.g., housing, medical, and other subsidised goods). In general, the accounting for short-term employee benefits is similar under U.S. GAAP and IFRS Standards: amounts are measured on an undiscounted basis and recognised when the employee renders service. Under U.S. GAAP, short-term benefits related to compensated absences (e.g., vacation, sick days, and holidays) are within the scope of ASC 710-10. Other short-term employee benefits as defined under IAS 19:5 are not explicitly addressed by the U.S. GAAP guidance on compensation; however, differences in recognition and measurement would not be expected.

The guidance under U.S. GAAP is located within various parts of the codification. It is therefore critical to determine which part of the codification applies to a particular employee benefit being considered since the recognition and measurement requirements under the different sections of the codification may be different. Under IFRS Standards all of the relevant guidance is contained within IAS 19 as interpreted by IFRIC 14.

Note that the applicable guidance under U.S. GAAP and IFRS Standards relates to employee benefits provided under formal plans and arrangements as well as under informal practices that may not be in writing. Entities need to understand all the benefits provided to their current or retired employees to determine the applicability of the questions in this Section.

Although share-based payments between an entity and employee compensate employees for services rendered, they are not discussed in this Section. See Section 13 for a discussion about share-based payment arrangements.

Recently issued standards not yet reflected in this Section

None.

Primary authoritative guidance

- ASC 420, Exit or Disposal Cost Obligations
- ASC 710, Compensation — General
- ASC 712, Compensation — Nonretirement Postemployment Benefits
- ASC 715, Compensation — Retirement Benefits
- IAS 19, Employee Benefits
- IFRIC 14, IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction

© Deloitte LLP. All rights reserved.

Part A — Long-term employee benefits other than termination benefits and postemployment benefits

9A.1	**Does the entity provide long-term employee benefits (other than termination benefits and postemployment benefits) to its employees?**	**Yes** **No**

Examples of other long-term employee benefits may include: long-service leave or sabbatical leave; jubilee or other long-service benefits; long-term disability benefits; profit-sharing and bonuses; and deferred remuneration.

U.S. GAAP

Long-term disability benefits and other nonretirement postemployment benefits are within the scope of ASC 712. Deferred compensation or similar long-term compensation arrangements are within the scope of ASC 710. Nonretirement postemployment benefits are usually measured on a present value basis. Many other long-term employee benefits described in IFRS Standards are not addressed by U.S. GAAP guidance on compensation.

IFRS Standards

Other long-term employee benefit obligations are defined as "all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits." They are measured at present value according to a simplified method of accounting that is similar to that often used to measure postemployment benefits under U.S. GAAP. Under this method, remeasurements are not recognised in OCI.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, other long-term benefits related to nonretirement postemployment benefits (often referred to as other postemployment benefits) such as long-term disability benefits are within the scope of ASC 712. Specifically other postemployment benefits that vest or accumulate as described in ASC 710-10-25-1 are accounted for under ASC 710-10. These liabilities are usually measured on a present value basis; entities may elect to use measurement approaches prescribed for defined benefit retirement plans set forth in ASC 715-30 and ASC 715-60. Some of the other long-term benefits defined in IFRS Standards under IAS 19:153 that are payable to active employees are not addressed by U.S. GAAP guidance on compensation (e.g., jubilee plans, which typically provide payments to employees while they are in active service, are not considered postemployment benefits under ASC 712 but rather would be accounted for under ASC 715). ASC 712 also requires that other postemployment benefits that vest or accumulate as described in ASC 710-10-25-1 should be accounted for under ASC 710-10.

Under IFRS Standards, other long-term employee benefits are all such benefits that are not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Under IAS 19:153, examples of other long-term employee benefits include:

A. long-term paid absences such as long-service or sabbatical leave;

B. jubilee or other long-service benefits;

C. long-term disability benefits;

D. profit-sharing and bonuses; and

E. deferred remuneration.

IAS 19:154 states that IAS 19 requires a simplified method of measurement and recognition for other long-term employee benefits because such benefits are not usually subject to the same degree of uncertainty as the measurement of postemployment benefits and introducing or changing such benefits will rarely cause a material amount of past service cost. The simplified method of accounting for these long-term employee benefits requires the obligation to be measured at present value, with actuarial gains and losses and past service costs recognised immediately in profit or loss. This is similar to the method many entities use to measure and recognise other postemployment benefits under U.S. GAAP.

Deferred compensation arrangements

Under U.S. GAAP, ASC 710-10-30-1 requires that the amounts accrued periodically shall result in an accrued amount at the full eligibility date equal to the then present value of the future benefits expected to be based. Such estimates shall be based on the life expectancy of each individual concerned (based on the most recent mortality tables

© Deloitte LLP. All rights reserved.

available) or on the estimated cost of an annuity contract rather than on the minimum payable in the event of early death. Therefore the measurement depends on the characteristics of the plan's benefit formula.

In the United States deferred compensation arrangements may be done through a Rabbi Trust. Rabbi trusts are grantor trusts generally set up to fund compensation for a select group of management or highly paid executives. To qualify as a rabbi trust for income tax purposes, the terms of the trust agreement must explicitly state that the assets of the trust are available to satisfy the claims of general creditors in the event of bankruptcy of the employer. As a result the employer is not relieved of the obligation to pay the employee.

Rabbi trusts may provide for settlement in shares of employer stock or may permit diversification into other assets. Diversified assets held in a Rabbi Trust shall be accounted for in accordance with U.S. GAAP for the particular asset. At acquisition, securities held by the Rabbi Trust may be classified as trading, with changes in fair value recorded in earnings. Where the assets are diversified the deferred compensation obligation should be adjusted with a charge (or credit) to compensation to reflect changes in the fair value of the amount owed to the employee.

Under IFRS Standards, there is no specific guidance for deferred compensation arrangements and the general principles under IAS 19 should be applied. Where the deferred compensation liability is not expected to be settled within 12 months of the reporting date the project unit credit method must be used to calculate the actuarial present value of the obligation. Changes in the measurement of the liability should be recognised in net income. Diversified assets held in a Rabbi Trust do not meet the definition of a plan asset under IAS 19 and therefore would be accounted for in accordance with the relevant IFRS Standard, which would be IFRS 9 with respect to financial instruments.

Comments

9A.2	**Is the discount rate selected for other long-term employee benefits on the basis of rates at which the benefits can be effectively settled determined other than by reference to high-quality corporate bonds?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
If the benefit obligation is measured on a discounted basis, the selected discount rate should reflect the rates at which the benefits can be effectively settled. Circumstances in which there is no deep market in high-quality corporate bonds are not specifically addressed. An entity is allowed to "select" high-quality corporate bonds to match the currency and maturity of the pension obligation.	The selected discount rate should be determined at the end of the reporting period by reference to market yields on high-quality corporate bonds in the same currency as the benefits are to be paid and with similar durations as the benefit obligations. For currencies where there is no deep market in such high-quality corporate bonds, the use of the government bond rate is required. Under IFRS Standards, high-quality corporate bonds are selected on a more systematic basis than under U.S. GAAP.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 715-30-35-43 states that when determining the discount rate at which the benefits can be effectively settled, an entity may estimate that discount rate by referring to either (1) rates implicit in current prices of annuity contracts that could be used to settle the obligation or (2) 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. The guidance does not specifically address circumstances in which there is no deep market in high-quality corporate bonds. As a result, the selected discount rate may differ under U.S. GAAP and IFRS Standards as entities may not default to government bonds when no deep market in high-quality corporate bonds exist.

Under IFRS Standards, IAS 19:83 states that the discount rate is 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 bonds, the market yields (at the end of the reporting period) on government bonds denominated in that currency shall be used."

© Deloitte LLP. All rights reserved.

Comments

Part B — Termination benefits

9B.1 Has the entity provided termination benefits to its employees?	**Yes**
An employer may provide termination benefits to employees in connection with the termination of employment, including lump-sum payments, periodic future payments, or both. This question does not apply to termination indemnities (payable regardless of the reason for the employee's departure), which are considered postemployment benefits.	**No**

U.S. GAAP	IFRS Standards
A distinction is made between types of termination benefits. Termination benefits are recognised according to the circumstances of the termination and the type of benefit.	No distinction is made between special and other termination benefits. Termination benefits are recognised at the earlier of the date when an entity can no longer withdraw an offer of those benefits and when the entity recognises costs for a restructuring that includes termination benefits.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, termination benefits are addressed in ASC 420-10, ASC 712-10, ASC 715-30 and ASC 715-60. Determining which part of the codification addresses a particular employee benefit is critical as the recognition thresholds are different.

ASC 715-30 and ASC 715-60 contain guidance for certain types of termination benefits that are similar to retirement benefits. A distinction is made between "special termination benefits" and "contractual termination benefits." Special termination benefits are those that are offered only for a short time to induce voluntary terminations. By definition, these benefits are not offered under an existing plan (although they may be enhancements to existing plans). Contractual termination benefits are those that are required by the terms of a plan and payable only when a specified event occurs (e.g., a plant closing).

The distinction between these two types of termination benefits is important for recognition purposes. For special termination benefits, a liability and a loss must be recognised when the employee accepts the offer and when the amount of benefits can be reasonably estimated. For contractual termination benefits, a liability and a loss must be recognised when it is probable that the specified event that triggers the termination will occur and the amount of benefits can be reasonably estimated.

ASC 420-10 discusses costs associated with exit activities. These costs include termination benefits provided to current employees who are involuntarily terminated under one-time benefit arrangements that are not accounted for under ASC 712-10, ASC 715-30, and ASC 715-60. These termination benefits are referred to as "one-time termination benefits" and are not considered ongoing benefit arrangements, unlike those described under ASC 712-10, ASC 715-30, and ASC 715-60. An ongoing benefit arrangement may be established by a published HR policy, legislation (e.g. it is common for countries within the EU for the law to establish certain minimum payments to be made to employees that are made redundant) or past practice by an employer. An entity should carefully determine which guidance to apply to termination benefits associated with exit activities.

A plan of termination that meets the criteria in ASC 420-10-25-4 and has been communicated to the employees constitutes a one-time benefit arrangement. Recognition and measurement for one-time termination benefits depend on (1) whether service must be rendered until termination for the employee to receive the benefits and (2) whether the employee will be retained to render service beyond a minimum retention period. As a result, the timing of

© Deloitte LLP. All rights reserved.

recognition and measurement for one-time termination benefits may differ from that for special and contractual termination benefits under ASC 712-10, ASC 715-30, and ASC 715-60. In addition, in certain cases, a plan of termination may include both one-time termination benefits and special termination benefits for voluntary terminations as noted in ASC 420-10-25-10. In such cases, a liability is recognised for the one-time termination benefits under ASC 420, and the incremental special termination benefits (i.e. excess amounts of the special termination benefit over the one-time termination benefit) are recognised under ASC 712-10-25-1 through 25-3.

Under IFRS Standards, IAS 19 requires that termination benefits are recognised at the earlier of the date when an entity can no longer withdraw an offer of those benefits or when the entity recognises costs for a restructuring (under IAS 37, Provisions, Contingent Liabilities and Contingent Assets) that includes termination benefits.

In addition, IAS 19:169 states:

"An entity shall measure termination benefits on initial recognition, and shall measure and recognise subsequent changes, in accordance with the nature of the employee benefit, provided that if the termination benefits are an enhancement to post-employment benefits, the entity shall apply the requirements for post-employment benefits. Otherwise:

A. if the termination benefits are expected to be settled wholly before twelve months after the end of the annual reporting period in which the termination benefit is recognised, the entity shall apply the requirements for short-term employee benefits.

B. if the termination benefits are not expected to be settled wholly before twelve months after the end of the annual reporting period, the entity shall apply the requirements for other long- term employee benefits."

Comments

Part C — Postemployment benefits

9C.1 Does the entity provide postemployment benefits to its employees? **Yes** **No**

Examples of postemployment benefits include defined benefit plans, defined contribution plans, postemployment life insurance, and medical care.

U.S. GAAP	IFRS Standards
Postemployment benefits are divided into (1) retirement benefits and (2) nonretirement postemployment benefits (also referred to as other postemployment benefits). The accounting depends on the type of benefit provided. Other postemployment benefit plans do not have to be classified as a defined contribution plan or a defined benefit plan.	The different types of postemployment benefits are not divided into different categories as they are under U.S. GAAP. If a postemployment benefit plan is not a defined contribution plan, it is designated as a defined benefit plan.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, a distinction is made between retirement benefits and nonretirement ("other") postemployment benefits. Consequently, the accounting depends on the type of benefit provided.

Entities account for retirement benefits as either defined benefit plans or defined contribution plans. Defined benefit plans are accounted for by using the projected-unit-credit method, as described in ASC 715-30 and ASC 715-60.

ASC 712 requires that other postemployment benefits that vest or accumulate as described in ASC 710-10-25-1 should be accounted for under ASC 710-10. However, other postemployment benefits that are within the scope of ASC 712

© Deloitte LLP. All rights reserved.

that do not vest or accumulate are accounted for in accordance with ASC 450, Contingencies. As a result, the recognition and measurement of such other postemployment benefits may differ greatly from the recognition and measurement of retirement benefits. Note that ASC 712 does not specifically discuss how to measure postemployment benefits. Measuring other postemployment benefit obligations under ASC 715-30 and ASC 715-60 is permitted but not required.

Under IFRS Standards, no distinction is made between how to account for retirement benefits and other postemployment benefits. Rather, the accounting guidance is based on the economic substance of the plan in order to determine if it is accounted for as a defined contribution plan or defined benefit plan.

Classification based on defined contribution or defined benefit

Under U.S. GAAP, nonretirement postemployment benefit plans do not have to be classified as either defined contribution plans or defined benefit plans. Rather, these other postemployment benefit plans are accounted for according to the type of benefit they provide. Thus, entities applying U.S. GAAP may account for these plans differently from entities applying IFRS Standards. See the discussion above on overall accounting treatment for more information on accounting for other postemployment benefits.

Under IFRS Standards, according to IAS 19:27, "[p]ost-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions." If a postemployment benefit plan does not meet the definition of a defined contribution plan, it is designated as a defined benefit plan.

Under U.S. GAAP, ASC 715-30-20 defines a defined contribution plan as follows:

"A plan that provides an individual account for each participant and provides benefits that are based on all of the following:

A. Amounts contributed to the participant's account by the employer or employee

B. Investment experience

C. Any forfeitures allocated to the account, less any administrative expenses charged to the plan."

IAS 19 focuses on the contributions to be made by a plan sponsor to the plan as a whole whereas under U.S. GAAP the focus is on the contributions to be made to individual plan participant accounts. This difference means that a plan accounted for as a defined benefit plan under U.S. GAAP could be accounted for as a defined contribution plan under IFRS Standards. The following example illustrates this point.

A plan in which an entity transfers the benefit obligation payments to an unrelated party by contributing either fixed or variable amounts might qualify as a defined contribution plan under IAS 19 but not under U.S. GAAP. The contributions (1) can be made in cash or stock, (2) may be fixed amounts, or (3) may be based on future performance. In these arrangements, the entity typically transfers, or will transfer later, the amounts to an independent trust which is then solely responsible for payment of benefits to the participant. In such a situation, the entity asserts that (1) it is not responsible for any additional payments if the funding is not sufficient to pay benefits and (2) it has converted its defined benefit plan to a defined contribution plan. In such an arrangement, an independent board is established to determine the benefit formula and make investment decisions, and the trust follows this board's instructions. Under U.S. GAAP, if the amount of consideration transferred to the trust is not designated for specific individual participant accounts, such a plan could not be accounted for as a defined contribution plan. However, the accounting for this type of arrangement is based on an entity's individual facts and circumstances. The entity should therefore carefully analyse all terms of the arrangement to determine the appropriate accounting.

It is unclear how such a plan would be accounted for under IAS 19 because of the way the standard defines defined contribution plans. If a fixed contribution must be made to the trust in the form of instalment payments, this type of plan could be considered a defined contribution plan under IAS 19. However, to ensure appropriate classification and recognition, an entity should analyse the economic substance of the plan on the basis of its structure and terms and consider the guidance on defined contribution plans in IAS 19:28 and 29.

The accounting for defined contribution plans under IFRS Standards is the same as that under U.S. GAAP.

© Deloitte LLP. All rights reserved.

Comments

9C.2	**Does the entity participate in one or more multiemployer plans?**	**Yes**
	A multiemployer plan is one to which unrelated employers contribute and that may be used to provide benefits to employees of other participating employers, usually pursuant to a collective bargaining agreement. For example, several employers under similar trade groups or unions may contribute to a multiemployer plan.	**No**

U.S. GAAP	**IFRS Standards**
A multiemployer plan is classified as a defined contribution plan.	A multiemployer plan may be classified as either a defined contribution plan or a defined benefit plan depending on the economic substance of the plan's terms. However, if defined benefit accounting is not possible the plan is treated as a defined contribution plan with additional disclosures.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 715-80-35-1 requires that an employer participating in a multiemployer plan should account for the plan as a defined contribution plan. The employer should recognise the contribution for the period as a net benefit cost and contributions due and unpaid as a liability. ASC 715-80-35-2 indicates that if withdrawing from the plan may result in an employer's obligation to the plan for a portion of its unfunded benefit obligation, the employer must account for the contingent liability in accordance with the provisions of ASC 450.

Under IFRS Standards the definition of multiemployer plans is similar to that under U.S. GAAP. However, unlike U.S. GAAP, IAS 19:32 states that a multiemployer plan may be classified as either a defined contribution plan or a defined benefit plan. The classification is based on the economic substance of the plan's terms. If an entity determines that a multiemployer plan's terms result in classification of the plan as a defined benefit plan, the entity must "account for its proportionate share of the defined benefit obligation, plan assets and cost" as it would for other defined benefit plans. However, according to IAS 19:34, if the entity does not have the necessary information to use defined benefit plan accounting, it would account for a multiemployer defined benefit plan as a defined contribution plan. For example, an entity may not be able to identify its share of the underlying financial position and performance of a plan reliably because (1) it does not have access to information about the plan to carry out the requirements of defined benefit accounting or (2) there is no consistent and reliable basis to allocate the obligation, plan assets, or other costs to the individual entities. In this example, the plan would be accounted for as a defined contribution plan. In addition, IAS 19 also has considerations around recognition of contractual agreements around deficit funding or surplus distributions and wind-up liabilities which may be different than ASC 450.

Comments

9C.3	**Is the entity a subsidiary whose employees participate in a pension plan established by a parent entity?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
A subsidiary that participates in a parent entity's pension plan usually would account for it as a multiemployer plan (i.e. a defined contribution plan) in its separate financial statements.	A subsidiary that participates in a parent entity's defined benefit pension plan in its separate financial statements would account for the defined benefit cost based on the

© Deloitte LLP. All rights reserved.

	contractual arrangement with the parent or the contribution payable if no arrangement is in place.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 715-30-55-64 states that when presenting its financial statements, if the assets in a parent entity-sponsored plan, where the parent entity is the legal sponsor, are not segregated or restricted by subsidiary, the subsidiary should account for the plan as a multiemployer plan when its employees participate in a parent entity's pension plan. At the consolidated level, the parent entity should account for the plan as a single-employer pension plan.

Under IFRS Standards, IAS 19:40 and 41 state that a plan in which a subsidiary participates in a parent entity's plan is not considered a multiemployer plan. In such a "group plan," if there is a contractual agreement or stated policy that each individual group entity is charged a portion of the plan's total defined benefit cost, each entity recognises the defined benefit cost allocated to it in its separate individual financial statements. If there is no contractual agreement or policy, the group entity that is the legally sponsoring employer of the plan recognises the net defined benefit cost in its separate or individual financial statements, and the other group entities recognise a cost in their separate or individual financial statements equal to their contribution payable for the period. Therefore if the pension cost amount required to be recorded by a subsidiary is clearly specified on the basis of whether a contractual agreement or stated policy exists this may result in different net periodic pension costs under U.S. GAAP and IFRS Standards being recorded in a subsidiary's separate or individual financial statements.

Comments

9C.4 Does the entity participate in one or more multiple-employer plans in which unrelated employers pool assets for investment purposes?

Yes

No

Multiple-employer plans are those in which two or more unrelated employers pool their assets for investment purposes to reduce plan administration costs.

Such plans are different from multiemployer plans (see Question 9D.2) in that they typically (1) do not involve collective bargaining agreements, (2) may contain features that allow participating employers to use different benefit formulas, and (3) maintain a separate account for each employer so that the contributions benefit only its employees.

U.S. GAAP	IFRS Standards
A multiple-employer plan is classified and accounted for as either a defined benefit plan or a defined contribution plan, depending on the economic substance of the plan's terms. Most are classified as defined benefit plans.	A multiple-employer plan may be classified and accounted for as either a defined benefit plan or a defined contribution plan, depending on the economic substance of the plan's terms.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, multiple-employer plans are, in substance, aggregations of single-employer plans. Thus, they should be accounted for as single-employer plans by the reporting entity rather than as multiemployer plans, as described in Question 9C.2, and usually are classified as defined benefit plans.

Under IFRS Standards, IAS 19:38 describes plans with the same characteristics as multiple-employer plans as "group administration plans." These plans are also deemed to be, in substance, aggregations of single-employer plans. IFRS Standards indicate that these plans may be classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan's terms (including constructive obligation that goes beyond the formal terms).

© Deloitte LLP. All rights reserved.

Comments

9C.5	**Does the entity have benefit plans where the actuarial present value of benefits is greater upon immediate termination than on the employee's expected separation date?**	Yes No

U.S. GAAP	IFRS Standards
U.S. GAAP provides an accounting policy choice as to whether the amount recognised is either the actuarial present value of the vested benefits to which the employee is entitled if the employee separates immediately or the actuarial present value of the vested benefits to which the employee is currently entitled but based on the employee's expected date of separation or retirement.	There is no specific discussion of these types of plans under IFRS Standards, and thus the plans must be valued and accrued according to the actuarial method (projected unit credit) required by IAS 19.

U.S. GAAP–IFRS Standards difference considerations

Legislation may require employers to provide employees with a greater actuarial present value of benefits upon immediate termination than the actuarial present value of benefits accrued to date on the basis of the expected separation date. For example, Italian severance pay statutes require that the benefits accrued that are based on service until termination are payable immediately upon termination. United Kingdom legislation requires that an employee's vested benefit be revalued upon termination. ASC 715-30-35-41 states that in these situations the VBO "may be determined as either the actuarial present value of the vested benefits to which the employee is entitled if the employee separates immediately or the actuarial present value of the vested benefits to which the employee is currently entitled but based on the employee's expected date of separation or retirement." This is an accounting policy choice that should be applied consistently and disclosed.

Under IFRS Standards, there is no specific guidance on such scenarios. Therefore, the actuarial present value of the vested benefits to which the employee is entitled is based on the employee's expected separation date.

Comments

9C.6	**Has the entity recognised prior service cost arising from changes to benefit plans that either increase or reduce benefits related to services rendered in prior periods?**	Yes No

U.S. GAAP	IFRS Standards
Prior service cost is initially recognised in OCI and then amortised into income over the plan participants' remaining service periods (or life expectancy if all, or almost all, the participants are inactive).	Past service cost is recognised immediately in profit or loss, regardless of whether it relates to vested or unvested benefits.

U.S. GAAP–IFRS Standards difference considerations

Prior service costs generally result when an entity makes changes to a benefit plan that either increases (i.e. a positive plan amendment) or reduces (i.e. a negative plan amendment) benefits related to services rendered in prior periods.

Under U.S. GAAP, ASC 715-30-35-11 requires that the prior service cost be amortised as a component of net periodic benefit cost over the remaining service periods of those active employees who are expected to receive benefits under the plan, regardless of whether the benefits are vested or unvested. If substantially all of a plan's participants are inactive, the prior service cost is amortised over the participants' life expectancy. A negative plan amendment

© Deloitte LLP. All rights reserved.

(i.e. reduction in benefits) creates prior service credit, which first reduces any unamortised prior service costs in AOCI. Remaining prior service credit is then recognised on the same basis as a positive plan amendment. ASC 715-60-35-17 includes similar provisions for postretirement benefit plans other than pension plans.

Under IFRS Standards, IAS 19:103 requires an entity to recognise in profit or loss both vested and unvested past service cost when the plan amendment that gives rise to the past service cost occurs.

Comments

9C.7	**Does the employer have postemployment benefits that are funded, such that the net periodic benefit cost includes an expected return on assets component?**	**Yes** / **No**

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

U.S. GAAP	IFRS Standards
The expected return on plan assets reflects the expected long-term rate of return on the target investment portfolio.	The return on plan assets is included in the net interest on the net defined benefit liability (asset). Therefore the expected return reflects the same discount rate as that used for the defined benefit obligation, which is likely to be lower than the expected long-term rate of return on the target investment portfolio.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, the expected return on assets depends on the target investment portfolio; it is determined by using an expected long-term rate of return. The difference between the expected return on plan assets and the actual return on plan assets would be recorded in OCI and subject to amortisation based on the entity's accounting policy related to market related value (See Question 9C.8 for more details).

Under IFRS Standards (IAS 19), net interest on the net defined benefit liability (asset) is determined by multiplying the net liability (asset) by the discount rate. The net interest can be viewed as comprising interest income on plan assets and interest cost on the benefit obligation (and interest on the effect of the asset ceiling, if applicable — see Question 9C.14). The interest income on plan assets is a component of the return on plan assets. The difference between the interest income on plan assets and the actual return on plan assets is included in the remeasurement of the net defined benefit liability (asset) recorded in OCI.

Comments

9C.8	**Does the reporting entity include an expected return on plan assets as a component of net periodic benefit cost?**	**Yes** / **No**

U.S. GAAP	IFRS Standards
Plan assets used in the determination of net periodic benefit cost are based on the "market-related value" of the plan assets, which is either the fair value or a calculated value that incorporates asset-related gains and losses over a period of no more than five years.	There is no "expected return on assets" component used in the determination of net periodic benefit cost.

© Deloitte LLP. All rights reserved.

U.S. GAAP–IFRS Standards difference considerations

The expected return on plan assets and recognition of actuarial gains and losses are components of net periodic benefit cost. When the fair value of plan assets is not used in the calculation of the expected return on plan assets a further difference (in addition to that described in Question 9C.7) will exist because the value of assets used to determine the expected return on plan assets under U.S. GAAP will likely differ from that used to compute the interest income on the plan assets.

Under U.S. GAAP, ASC 715-30-20 requires that the measurement of the expected return on plan assets be based on the "market-related value" of the plan assets, which may be "either fair value or a calculated value that recognizes changes in fair value in a systematic and rational manner over not more than five years."

Under IFRS Standards, IAS 19 requires that plan assets be measured at fair value. IAS 19:125 indicates that the interest income on plan assets is measured on the basis of the fair value of the plan assets, which generally will be the market value of the assets as of the measurement date, but may not necessarily be the same as "market-related value" as defined in U.S. GAAP.

Note that the "expected return on assets" does not factor in the determination of net period benefit cost. However, the interest income on plan assets is offset against the interest on the present value of the defined benefit obligation.

Comments

9C.9	Has the entity recognised any actuarial gains and losses?	Yes No

U.S. GAAP	IFRS Standards
In general, unless an alternate election is made to immediately recognise gains and losses in the income statement, such actuarial experience is initially recognised in OCI and the cumulative balance is amortised through the income statement in the future under the corridor amortisation approach (or alternate faster approach if elected).	All actuarial gains and losses are recognised immediately in OCI, with no recycling to profit or loss in future periods.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 715-30-25-1 and ASC 715-60-25-1 require that the overfunded or underfunded status of a defined benefit plan be recognised in the balance sheet. Actuarial gains and losses, and prior service costs and credits, are recognised as decreases or increases in the employer's assets or liabilities and as corresponding adjustments to OCI. However, actuarial gains and losses may have delayed recognition in the income statement.

That is, the net gain or loss recognised in OCI is amortised into the income statement over a specified period, which is generally the expected average remaining service period of the employees participating in the plan. If all or almost all of the plan's participants are inactive, the net gain or loss recognised in OCI is amortised over the remaining life expectancy of the inactive participants. ASC 715-30-35-24 and 35-25 and ASC 715-60-35-29 through 35-31 discuss the following acceptable methods for recognising actuarial gains and losses:

- Deferral method (i.e. "corridor" method) — Use of this method satisfies the minimum recognition requirement. An entity calculates a predetermined "corridor." If the amount of net actuarial gain or loss that is recorded in AOCI as of the beginning of the year is outside of this corridor, a portion of this excess amount should be amortised into the income statement (i.e. recognised in net benefit cost for the year). If the amount of net actuarial gain or loss that is recorded in AOCI is inside of this corridor, then the unrecognised portion of the actuarial gains and losses will be presented in AOCI and therefore deferred indefinitely. ASC 715-30-35-24 indicates that the corridor used for determining the minimum amortisation of net gain or loss is calculated as of the beginning of the year on the basis of the greater of (1) 10 percent of the market-related value of plan assets or (2) 10 percent of the projected benefit obligation.

© Deloitte LLP. All rights reserved.

- Systematic method — Under U.S. GAAP, any systematic method of recognition that results in faster recognition of actuarial gains and losses is permitted. ASC 715-30-35-25 and ASC 715-60-35-31 note that a systematic method may be applied provided that all of the following conditions are met:
  a. The minimum amortisation is recognised in any period in which it is greater (reduces the net gain or loss balance by more) than the amount that would be recognised under the method used.
  b. The method is applied consistently.
  c. The method is applied similarly to both gains and losses.

Under IFRS Standards, IAS 19 requires an entity to recognise all actuarial gains and losses immediately in OCI, with no recycling to profit or loss in future periods. However, IAS 19:122 permits an entity to transfer such amounts within equity.

Comments

9C.10 Are benefits of the plan(s) covered by insurance policies? **Yes** **No**

U.S. GAAP	IFRS Standards
Annuity contracts or insurance policies are generally excluded from plan assets, and the benefits covered by those contracts are excluded from the benefit obligation on the balance sheet. However, if the entity remains subject to the risks and rewards, these may be accounted for as plan assets.	Insurance policies are generally accounted for as plan assets, and the benefits covered by those contracts are not excluded from the benefit obligation (with exceptions).

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 715-60-20 defines an insurance contract as "[a] contract in which an insurance entity unconditionally undertakes a legal obligation to provide specified benefits to specific individuals in return for a fixed consideration or premium" from the employer or the plan. ASC 715-60-20 further states that "[a]n insurance contract is irrevocable and involves the transfer of significant risk from the employer (or the plan) to the insurance entity." ASC 715-60-35-109 states, "Benefits covered by insurance contracts shall be excluded from the accumulated postretirement benefit obligation." ASC 715-30-20 defines an annuity contract similarly. To the extent that an annuity or insurance contract provides certain participation rights to the employer or plan, the net present value of such participation rights may be recognised as an asset under ASC 715-30-25-7 and ASC 715- 60-25-3. ASC 715-30-35-60 states that certain other insurance contracts held by a plan that do not result in the transfer to the insurance entity of substantially all of the risks and rewards associated with the covered benefit obligation are not considered annuity contracts under ASC 715-30, and the benefit obligation will remain in the accumulated postretirement benefit obligation of the plan. These other insurance contracts are accounted for as plan assets and are considered investments.

Under IFRS Standards, IAS 19:46 states that when an entity pays insurance premiums to fund a postemployment benefit plan, the entity accounts for such an arrangement as a defined contribution plan unless the entity retains some obligation to "(a) pay the employee benefits directly when they fall due; or (b) pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods." IAS 19:49 provides further clarification that the related assets and liabilities are excluded from defined benefit valuation because the substance of such an insurance contract is the settlement of the employee benefit obligation.

However, when the entity retains a legal or constructive obligation as described above, the plan is treated as a defined benefit plan, and the insurance policy is in substance an investment to meet the obligation. Under IFRS Standards, a qualifying insurance policy is accounted for as a plan asset. IAS 19:8 defines qualifying insurance policies as insurance policies issued by an unrelated party that "(a) can be used only to pay or fund employee benefits under a defined benefit plan; and (b) are not available to the reporting entity's own creditors . . .and cannot be [returned] to the reporting entity" (with certain exceptions). IAS 19:48(a) states that a qualifying insurance policy is accounted for as a

© Deloitte LLP. All rights reserved.

plan asset and that the related benefit obligation is not removed from the financial statements. Therefore, contracts that meet the criteria to be included as plan assets may be treated differently under U.S. GAAP and IFRS Standards.

IAS 19:116 specifies that if an insurance contract does not meet the definition of a qualifying insurance policy, the right to reimbursement should be recognised as a separate asset, not as a deduction in the net defined benefit liability calculation. Otherwise, the reimbursement right is treated like a plan asset.

Therefore, an annuity or insurance contract under IFRS Standards typically does not result in the removal of the related benefit obligation unless the transaction meets the definition of a settlement (i.e. the transaction eliminates all further legal or constructive obligation for part or all of the benefits under the plan). If the employer retains a legal or constructive obligation to pay additional funds if the insurer does not pay the funds, the purchase of an insurance policy is not considered a settlement.

Comments

9C.11	Are the defined benefit obligation and related plan assets of the postemployment plan(s) measured as of a date other than the entity's reporting date?	Yes No

U.S. GAAP

The defined benefit obligation and related plan assets of subsidiaries and associates may be measured as of the date other than the reporting date if their fiscal period is different from that of the parent.

U.S. GAAP also allows an entity to elect an accounting policy where the employer's fiscal year-end does not coincide with the month-end. An entity can elect to use the month-end closest to the employer's fiscal year-end to measure plan assets and obligations.

Adjustments are required to be made to the funded status for contributions and other significant events that occur between the alternative measurement date and the employer's fiscal year-end.

IFRS Standards

The defined benefit obligation and related plan assets are measured as of the reporting date.

U.S. GAAP – IFRS difference considerations

Under U.S. GAAP, ASC 715-30-35-62 requires that the defined benefit obligation and fair value of plan assets be measured as of the balance sheet date unless the plan is sponsored by (1) a subsidiary that is consolidated using a fiscal period that is different from that of the parent or (2) an equity method investee, and the equity method accounting for that investee is applied for a fiscal period that is different from that of the investor. These exceptions typically are not permitted under IFRS Standards.

ASC 715-30-35-63A indicates that if an employer's fiscal year-end does not coincide with a month end, the employer may measure plan assets and benefit obligations using the month-end that is closest to the employer's fiscal year-end. That election shall be applied consistently from year to year and consistently to all of its defined benefit plans if an employer has more than one defined benefit plan.

ASC 715-30-35-63B indicates that if an employer measures plan assets and benefit obligations in accordance with paragraph 715-30-35-63A and a contribution or significant event caused by the employer (such as a plan amendment, settlement, or curtailment that calls for a remeasurement) occurs between the month-end date used to measure plan assets and benefit obligations and the employer's fiscal year-end, the employer shall adjust the fair value of plan assets and the actuarial present value of benefit obligations so that those contributions or significant events are recognised in the period in which they occurred. An employer shall not adjust the fair value of plan assets and the actuarial present value of benefit obligations for other events occurring between the month-end date used to measure plan assets and benefit obligations and the employer's fiscal year-end that may be significant to the

© Deloitte LLP. All rights reserved.

measurement of defined benefit plan assets and obligations, but are not caused by the employer (for example, changes in market prices or interest rates).

Under IFRS Standards, the defined benefit obligation and fair value of plan assets are measured as of the end of the reporting period. There is no explicit requirement for how frequently the defined benefit obligation and plan assets must be measured. However, IAS 19:58 states:

"An entity shall determine the net defined benefit liability (asset) with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period. [Emphasis added]"

The guidance in IFRS Standards generally requires the financial statements of a subsidiary or equity investee included in the consolidated financial statements to be as of the same date as the financial statements of its parent or investor, unless this requirement is impracticable. If such a requirement is impracticable, the difference between the two reporting dates should be no more than three months. If the reporting date of the subsidiary or investee is different, adjustments should be made for the effects of significant transaction or events that occur between that date and the date of the parent's financial statements. See Sections 4 and 21 for further discussion of subsidiaries and associates (equity method investees), respectively, with different reporting dates. Because IFRS Standards differ from U.S. GAAP on this topic, plans sponsored by a subsidiary that is consolidated using a fiscal period that is different from that of the parent or sponsored by an equity method investee for which the equity method of accounting is applied over a different fiscal period from that of the investor, may be measured as of a different date from those of entities applying IFRS Standards.

Comments

9C.12 Does the entity sponsor postemployment benefits in which contributions, benefit payments, or both, are subject to a tax on the plan? **Yes** **No**

U.S. GAAP	IFRS Standards
Taxes payable by the plan should be recognised as a component of net benefit cost in the period in which the contribution is made.	The defined benefit obligation includes the taxes when they relate to service before the reporting date or are imposed on benefits resulting from that service; other taxes payable by the plan are included as a reduction to the return on plan assets.

U.S. GAAP – IFRS difference considerations

Under U.S. GAAP, taxes payable by the plan should be recognised as a component of net benefit cost in the period in which the contribution is made.

Under IFRS Standards, IAS 19:BC121 clarifies that:

A. the estimate of the defined benefit obligation includes the present value of taxes payable by the plan if they relate to service before the reporting date or are imposed on benefits resulting from that service, and

B. other taxes should be included as a reduction to the return on plan assets.

IAS 19 requires an entity to estimate the ultimate cost of providing long-term employee benefits. Thus, if the plan is required to pay taxes when it ultimately provides benefits, the taxes payable will be part of the ultimate cost. Similarly, the ultimate cost would include any taxes payable by the plan when a social security contribution relates to service before the period (such as in the case of contributions to reduce a deficit).

Comments

© Deloitte LLP. All rights reserved.

9C.13	**Does the entity incur plan administration costs, other than the costs of managing the plan assets?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
The entity accounts for non-investment plan administration expenses as a reduction to the expected return on plan assets.	Plan administration expenses other than the costs of managing plan assets are required to be recognised when they are incurred in the income statement. Generally only the expenses of managing the plan assets are deducted in determining the return on plan assets.

U.S. GAAP – IFRS difference considerations

Under U.S. GAAP, there is no specific guidance on non-investment plan administration expenses; historically, they have been treated as a reduction to the expected return on plan assets.

Under IFRS Standards, IAS 19 requires administration costs to be recognised when the administration services are provided. Costs relating to the management of plan assets are deducted from the actual return on plan assets; other plan administration costs are recognised in the income statement either outside of plan accounting or included with the service cost when incurred.

Comments

9C.14	**Do plan assets exceed plan obligations, resulting in a defined benefit asset?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
There is no limitation on the amount that can be recognised.	A defined benefit asset is subject to a "ceiling" that limits its measurement to the lower of (1) the surplus in the defined benefit plan and (2) the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

U.S. GAAP – IFRS difference considerations

Under U.S. GAAP, when plan assets exceed the benefit obligation, they are recognised as assets on the balance sheet. There is no limitation on the amount that can be recognised.

Under IFRS Standards, the amount of the net defined benefit obligation calculated in accordance with IAS 19:57 may be negative, resulting in a pension asset. However, unlike U.S. GAAP, IFRS Standards stipulate that the resulting asset is subject to a limitation on the amount recognised (i.e. a "ceiling"). The ceiling is intended to prevent an entity from recognising an asset amount that exceeds what could be refunded from the plan or used to offset future contributions. Therefore, under IAS 19:64, the resulting asset is measured at the lower of (1) the surplus in the defined benefit plan or (2) the asset ceiling, which is determined by using the discount rate specified in IAS19:83.

Generally, the asset ceiling is the present value of the future economic benefits that are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. IFRIC 14 provides additional guidance on the application of the asset ceiling requirements of IAS 19:64, as described in Question 9C.15.

Comments

© Deloitte LLP. All rights reserved.

9C.15	**Is an entity committed to making contributions into a plan (i.e. minimum funding requirement), such as to fund a shortfall that was determined on a different actuarial basis from the accounting shortfall?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Recognition of a liability for minimum funding requirements is not required.	To the extent that the contributions payable will not be available after they are paid into the plan, an entity must recognise a liability when the contribution obligation arises.

U.S. GAAP – IFRS difference considerations

Under U.S. GAAP, the recognition of an additional liability is not required because of the existence of minimum funding requirements.

Under IFRS Standards, IAS 19:64 states that the amount recognised as an asset is subject to a ceiling amount. The ceiling amount is calculated as either (1) the defined benefit liability or (2) the amount in IAS 19:64(b), as applicable, a component of which is the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. IFRIC 14 also addresses instances in which there is a minimum funding requirement, but the contributions will not be available as refunds or a reduction in future contributions, and what their effect is in the application of IAS 19:64.

IFRIC 14:18 states, "An entity shall analyse any minimum funding requirement at a given date into contributions that are required to cover (a) any existing shortfall for past service . . . and (b) future service." IFRIC 14:19 indicates that "[c]ontributions to cover any existing shortfall [for past service] may give rise to a liability" depending on whether the contributions payable will be available as a refund or reduction in future contributions after they are paid. To the extent that the required contributions will not be available for such purposes after they are paid into the plan, the entity recognises a liability when the contribution obligation arises. The liability reduces the defined benefit asset or increases the defined benefit liability so that no gain or loss is expected to result from the application of the provisions of IAS 19:64 when the contributions are paid.

Further, when contributions are made in relation to future accrual of benefits, IFRIC 14:20 requires an entity to determine "the economic benefit available as a reduction in future contributions" as the sum of:

A. any amount that reduces future minimum funding requirement contributions for future service because the entity made a prepayment (i.e. paid the amount before being required to do so); and

B. the estimated future service cost in each period . . . less the estimated minimum funding requirement contributions that would be required for future service in those periods if there were no prepayment as described in (a).

IFRIC 14:22 states:

"[I]f the future minimum funding requirement contributions for future service exceed the future IAS 19 service cost in any given period, that excess reduces the amount of the economic benefit available as a reduction in future contributions. However, the amount described in paragraph 20(b) can never be less than zero."

Accordingly, if there is a minimum funding requirement, the net defined benefit asset or liability recognised under IFRS Standards may differ from that recognised under U.S. GAAP as a result of the application of IFRIC 14.

Comments

© Deloitte LLP. All rights reserved.

9C.16 Has the entity recognised a gain or loss from a curtailment?	Yes
Under U.S. GAAP, ASC 715-30-20 defines a curtailment as “[a]n event that significantly reduces the expected years of future service of present employees or eliminates for a significant number of employees the accrual of defined benefits for some or all of their future services.”	No

U.S. GAAP	IFRS Standards
A reduction (but not complete cessation) in the accrual of defined benefits for future service may not meet the definition of a curtailment. 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. The significance test is based on the number of the years of service eliminated, not the number of employees. A curtailment gain or loss is made up of a portion of net prior service cost (credit), a portion of any remaining net transition obligation, and the change in the PBO exceeding any offsetting unamortised actuarial gain or loss.	A curtailment occurs only when the entity significantly reduces the number of employees covered by the plan. Curtailment is recognised at the earlier of when the plan amendment or curtailment occurs or when the entity recognises related restructuring or termination costs. The change in the defined benefit obligation resulting from the curtailment is recorded as a part of the past service component of defined benefit cost in the income statement

U.S. GAAP – IFRS difference considerations

Definition

Under U.S. GAAP, ASC 715-30-20 defines a plan curtailment as an “event that significantly reduces the expected years of future service of present employees or eliminates for a significant number of employees the accrual of defined benefits for some or all of their future services.” The significance test under ASC 715-30 is based on the years of service eliminated, not the number of employees.

IAS 19:105 states that a “curtailment occurs when an entity significantly reduces the number of employees covered by a plan.” Under IAS 19:100, the entity need not distinguish past service cost resulting from a curtailment from that generated by a plan amendment if the events occur together.

Because of the different definitions of a curtailment, an event may be considered a curtailment under one set of standards but not the other.

Timing of recognition

Under U.S. GAAP, ASC 715-30-15-6(a)(2) states that plan curtailments include the following:

“i. Termination of employees’ services earlier than expected, which may or may not involve closing a facility or discontinuing a component of an entity.

ii. Termination or suspension of a plan so that employees do not earn additional defined benefits for future services. In the latter situation, future service may be counted toward vesting of benefits accumulated based on past service.”

ASC 715-30-35-94 states that the timing for recognition of a gain on a curtailment differs from the timing for recognition of a curtailment loss. Curtailment gains are “recognized in earnings when the related employees terminate or the plan suspension or amendment is adopted.” Curtailment losses are “recognized in earnings when it is probable that a curtailment will occur and the effects described are reasonably estimable.”

Under IFRS Standards, IAS 19:103 states:

“An entity shall recognise past service cost as an expense [resulting from the curtailment] at the earlier of the following dates:

A. when the plan amendment or curtailment occurs; and

© Deloitte LLP. All rights reserved.

B. when the entity recognises related restructuring costs (see IAS 37 [Provisions, Contingent Liabilities and Contingent Assets]) or termination benefits (see paragraph 165)."

Calculation

Under U.S. GAAP, ASC 715-30-35-92 and 35-93 state that curtailment gains and losses are made up of a portion of net prior service cost, and the change in the PBO exceeding any offsetting unamortised net gain or loss. The portion of prior service cost or credit to be recognised is measured on the basis of the years of service that will no longer be rendered. Any change in the PBO resulting from the curtailment is first offset against the plan's previously existing unamortised net loss or gain included in AOCI (inclusive of any remaining net transition asset, which shall be treated as a gain), and any excess is then recognised as part of the curtailment gain or loss. This offset prevents an entity from recognising a curtailment gain or loss independently from other previously existing net gains and losses that have not yet been recognised in net periodic benefit cost.

Under IFRS Standards, IAS 19 indicates that curtailment gains and losses are treated as one form of past service cost. Under IAS 19:102, a past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment. All past service cost is required to be recognised immediately in the income statement.

Comments

9C.17 Has the entity recognised a gain or loss from a settlement?

Yes

No

A settlement is an irrevocable action that relieves an employer of primary responsibility for a pension benefit obligation. Examples of settlement include lump-sum cash payments to participants in exchange for their rights to receive pension benefits, and purchasing nonparticipating annuity contracts to cover vested benefits.

U.S. GAAP

The definition of "settlement" provides specific criteria for when to account for a transaction as a settlement.

An entity is permitted, but not required, to recognise a settlement gain or loss if the cost of all settlements in a year is less than or equal to the sum of the service cost plus interest cost components of net periodic pension cost for the plan for the year. If a settlement gain or loss is recognised, it is determined on the basis of a pro rata portion of the sum of (1) the unrecognised net gain or loss in AOCI plus (2) remaining unrecognised net transition gain in AOCI, which is different from the measurement of a curtailment.

IFRS Standards

A transaction that eliminates all further legal or constructive obligations is considered a settlement. A lump-sum cash payment under the terms of the plan is not a settlement (it is included in the actuarial assumptions).

There is no specific threshold prescribed for when settlement accounting must be performed (under U.S. GAAP, the service-cost-plus-interest-cost threshold is used). In determining the applicability of settlement accounting under IFRS Standards, the entity should consider the facts and circumstances, including the size of the settlement, materiality of the settlement charge/credit, consistency from period to period, and other relevant factors. A settlement is measured similarly to a curtailment.

U.S. GAAP – IFRS difference considerations

The definition of a settlement provides specific criteria for when to account for a transaction as a settlement. Under U.S. GAAP, ASC 715-30-20 defines a settlement as a "transaction that is an irrevocable action, relieves the employer (or the plan) of primary responsibility for a pension or postretirement benefit obligation, and eliminates significant risks related to the obligation and the assets used to effect the settlement." All of these criteria must be met for a transaction to be accounted for as a settlement.

Generally, a settlement does not occur if the obligation for part of a participant's vested benefits is settled and the employer is not relieved of the balance of the participant's vested benefits. In addition, when a participant elects and is eligible to receive a lump sum payment, the definition of a settlement is met provided such lump-sum cash

© Deloitte LLP. All rights reserved.

distributions meet all of the conditions specified in ASC 715-30-20. The fact that such distributions are made pursuant to the provisions of a plan does not preclude treatment as a settlement. An entity would account for such lump-sum distributions as partial settlements and recognise a pro rata portion of the net gain or loss and remaining net transition asset remaining in AOCI.

Under IFRS Standards, IAS 19:111 indicates that "a transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan" is considered a settlement. No additional criteria must be met for a transaction to qualify as a settlement. Therefore, a partial settlement occurs when the obligation for part of the participants' vested benefits is settled.

The definition of a settlement in IAS 19:8 states that a settlement excludes "a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions." Accordingly, if an existing plan gives plan members the option to choose to receive a lump-sum payment at retirement instead of receiving ongoing payments (i.e. distribution is made pursuant to the provisions of a plan), such distributions do not qualify as a settlement.

Recognition

Under U.S. GAAP, ASC 715-30-35-82 permits, but does not require, gain or loss recognition if the cost of all settlements in a year is less than or equal to the sum of the service cost plus interest cost components of net periodic pension cost for the plan for the year. The accounting policy should be applied consistently year over year. When a settlement gain or loss is recognised, ASC 715-30-35-79 states that the settlement gain or loss recognised in earnings is limited to (1) the unamortised net experience gain or loss in AOCI plus (2) any unamortised transition asset from initial application of the standards remaining in AOCI. If the entire PBO is settled, this maximum amount is recognised. If only part of the PBO is settled, an entity recognises the pro rata portion of the maximum amount equal to the percentage by which the PBO is reduced.

Unlike U.S. GAAP, there is no specific threshold prescribed under IFRS Standards for when settlement accounting must be performed (the service-cost-plus-interest-cost threshold is used under U.S. GAAP). In determining the applicability of settlement accounting under IFRS Standards, the entity should consider the facts and circumstances, including the size of the settlement, materiality of the settlement charge/credit, consistency from period to period, and other relevant factors. IAS 19:109 states that the settlement gain or loss is 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 entity in connection with the settlement." The basis of measurement for a settlement is similar to that of a curtailment.

Comments

9C.18	Has the entity capitalised net periodic benefit cost in assets?	Yes No

U.S. GAAP	IFRS Standards
Only the service cost component can be capitalised as part of the cost of assets (e.g. inventory, PP&E etc.)	An appropriate proportion of the components of net periodic benefit costs (including net interest and remeasurements of the net defined benefit liability) should be capitalised as part of the cost of assets.

U.S. GAAP – IFRS difference considerations

Under U.S. GAAP (ASC 330-10-55-6A) only the service cost component of net periodic postretirement benefit costs may be capitalised as part of the cost of the construction or production of an asset as that is the only component that directly arises from employees' services provided in the current period.

Under IFRS Standards, IAS 19:120,121 state that an appropriate proportion of service cost, net interest on the net defined benefit liability (asset) both included in profit and loss and remeasurements of the net defined benefit liability (asset) recognised included in other comprehensive income should be capitalised as part of the cost of assets such as inventory and PP&E. However, IAS 19 does not provide any guidance as to what an 'appropriate' proportion of these

© Deloitte LLP. All rights reserved.

items might be. Therefore, judgement should be applied in determining an appropriate amount of each component to be capitalised as part of the cost of an asset. Consideration should be given to the requirements in IAS 2 and IAS 16 which require that costs be “directly attributable” to the asset in order to qualify for capitalisation.

Comments

© Deloitte LLP. All rights reserved.

Section 10: Provisions and contingencies

10. Provisions and contingencies

Overview

IFRS Standards define a "provision" as a liability of uncertain timing or amount. A provision under IFRS is similar to a recognised contingent liability under U.S. GAAP. Characteristics common to these two definitions include the following:

- The timing of settlement or amount required to settle the obligation is uncertain.
- The obligation currently exists because of the occurrence of a past event.
- It is probable that a loss has been incurred.
- The loss can be reasonably estimated.

However, the definition of "contingency" under IFRS Standards differs from the definition of "contingency" under U.S. GAAP. Under IAS 37, a contingency represents an item that should not be recognised in the financial statements because it is not probable that the entity will incur outflows of economic resources to settle the obligation, or (2) the obligation cannot be reliably estimated. Under U.S. GAAP, contingencies should be recognised if 1) a future event or events are likely to occur (i.e. probable) that will confirm whether a loss had been incurred at the end of the reporting period (i.e. possible or remote items are not recorded), 2) and the amount of the loss can be reasonably estimated.

Recently issued standards not yet reflected in this Section

In May 2020, the IASB decided to amend IAS 37 by specifying that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). The amendments are effective for annual periods beginning on or after 1 January 2022. Early application is permitted. The amendment will add further clarification to Question 10.5.

Primary authoritative guidance

- ASC 410, Asset Retirement and Environmental Obligations
- ASC 420, Exit or Disposal Cost Obligations
- ASC 450, Contingencies
- IAS 37, Provisions, Contingent Liabilities and Contingent Assets
- IFRIC 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities
- IFRIC 21, Levies

10.1 Does the entity have any "reasonably possible" contingent liabilities with uncertain outcomes as of the end of the reporting period that do not meet the threshold for recognition on the balance sheet under U.S. GAAP?

Yes

No

This question relates to the recognition criteria for "reasonably possible" liabilities.

U.S. GAAP	IFRS Standards
Accruals for liabilities with uncertain outcomes (i.e., contingent liabilities) are recorded when a loss is "probable"; the "probable" threshold is "likely to occur" and is therefore higher than the "more-likely-than-not" threshold in IFRS Standards.	Accruals for liabilities with uncertain outcomes (i.e., provisions) are recorded when a loss is more likely than not (i.e., its chance of occurring is greater than 50 percent).

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 450-20-25-2 indicates that accruals are recorded for contingent liabilities if it is probable that a future event or events will occur that will confirm the loss, and the loss is reasonably estimable. ASC 450-20-20

© Deloitte LLP. All rights reserved.

defines probable as “likely to occur,” which, although not defined in percentage terms, has been interpreted to mean a higher threshold (generally at least 70 %) than the more-likely-than-not (greater than 50%) threshold in IFRS Standards.

Under IFRS Standards, IAS 37:14 indicates that an entity should recognise a provision when (1) it has a “present obligation,” (2) “it is probable that” it will need an “outflow of resources . . . to settle the obligation,” and (3) it can reliably estimate the obligation’s amount.

IAS 37:23 defines probable as “more likely than not to occur” (i.e., a greater than 50 percent chance of occurring). Therefore, the accounting for contingent liabilities under U.S. GAAP could differ from that under IFRS Standards if a contingent event is considered more likely than not but less than probable (as that term is used in U.S. GAAP).

Comments

10.2 Does the entity have any contingent liabilities with uncertain outcomes that must be measured and recognised as of the end of the reporting period?

Yes

No

This question relates to the measurement of liabilities with uncertain outcomes.

U.S. GAAP	IFRS Standards
For probable losses, an entity is required to accrue the amount of loss that is most likely to occur (i.e., the outcome with the highest probability). Where all possible amounts in a range are equally likely the minimum amount should be recorded.	For probable losses, an entity is required to accrue the “best estimate” of the amount that will be required to settle the obligation. Depending on the facts and circumstances, such as where “expected value” is used to measure the best estimate, this may or may not be the outcome with the highest probability. Where all possible amounts in a range are equally likely the mid-point of the range should be recorded.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 450-20-25-2 states that one criterion for accrual of an estimated loss from a loss contingency is that the “amount of loss can be reasonably estimated.” In addition, ASC 450-20-30-1 indicates that when there is a range of possible outcomes, this reasonable estimate must be the amount of the most likely outcome (i.e., the outcome with the highest probability).

Under U.S. GAAP, ASC 450-20-30-1, if all possible amounts in the range are equally likely (i.e., no amount in the range is more likely than any other amount in the range), the liability should be measured at the minimum amount of the range.

Under IFRS Standards, IAS 37:36 indicates that the amount to be recognised as a provision is the “best estimate” of the expenditure required to settle the present obligation at the end of the reporting period. IAS 37 provides further guidance on how to measure the “best estimate” of the obligation.

IAS 37:39 indicates that when a provision involves a “large population of items,” it is appropriate for an entity to use an “expected value” method to arrive at a best estimate of an obligation. Under this method, an entity uses probabilities to weigh all possible outcomes.

However, when a single obligation is being measured, IAS 37:40 indicates that the individual most likely outcome may be the best estimate of the liability. Even in such a case, it will be necessary for the entity to consider other possible outcomes. When the other possible outcomes are mostly higher than the most likely outcome, the best estimate will be a higher amount. Alternatively, when the other possible outcomes are mostly lower than the most likely outcome, the best estimate will be a lower amount. Generally, when the most likely outcome is close to the expected value, it will be appropriate to recognise the most likely outcome, since expected value provides evidence of the probable outflow of benefits. However, when the most likely outcome and the expected value are not close together, it will often be appropriate to recognise whichever possible outcome is nearest to the expected value.

© Deloitte LLP. All rights reserved.

Under IFRS Standards, if all possible amounts in the range are equally likely, an entity should measure the liability at the midpoint of the range.

Comments

10.3 Does the entity have any provisions in which discounting the related cash flows would be material?

Yes

No

U.S. GAAP	IFRS Standards
Discounting provisions is only acceptable when the aggregate amount of, and the timing of cash payments for, the liability are fixed or readily determinable or the liability is an asset retirement obligation accounted for under ASC 410-20.	Provisions should be discounted when the time value of money is material.

U.S. GAAP–IFRS Standards difference considerations

The SEC Staff guidance, codified in ASC 450-20-S99-1, indicates that discounting is only appropriate when the payment pattern and ultimate cost are fixed and determinable on an individual claim basis, and the discount rate is reasonable. Additionally, ASC 410-30-35-12 states the following related to environmental remediation liabilities that many consider when determining whether discounting is appropriate for similar loss contingencies “The measurement of the liability, or of a component of the liability, may be discounted to reflect the time value of money if the aggregate amount of the liability or component and the amount and timing of cash payments for the liability or component are fixed or reliably determinable.”

Other than asset retirement obligations that have specific guidance within ASC 410-20-30-1, discounting contingent liabilities is only acceptable (but not required) when the aggregate amount of, and the timing of cash payments for, the liability is fixed or readily determinable.

Under IFRS Standards, IAS 37:45 requires that provisions be discounted “[w]here the effect of the time value of money is material.” IAS 37:47 specifies that “[t]he discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted.” Therefore under IFRS Standards the provision must be discounted if the impact is material even where the timing of the cash payments is neither fixed nor readily determinable.

Comments

10.4 If the entity has decommissioning provisions (also referred to as asset retirement obligations), has there been a change during the period in the estimated amount or timing of future cash flows or in the current discount rate?

Yes

No

U.S. GAAP	IFRS Standards
An entity should recognise changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows as an increase or a decrease in (1) the carrying amount of the liability and (2) the cost capitalised as part of the carrying amount of the related long-lived asset.	The discount rate selected should be pre-tax, reflect the current market assessments of the time value of money, and reflect risks specific to the liability. If the discount rate changes, the current discount rate must be used to recalculate the entire provision. Therefore, under IFRS Standards, there is no “layering” as decommissioning provisions are built up.

© Deloitte LLP. All rights reserved.

In the absence of changes to the estimates of amounts or timing of cash flows, the liability should be accreted over the period to retirement at the credit-adjusted risk-free rate that existed when the liability, or portion thereof, was initially measured.	Any part of a previously recorded provision that is no longer required should be reversed.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, the guidance in ASC 410-20-35-1 through 35-9 discusses the measurement of asset retirement obligations after initial recognition. ASC 410-20-35-8 states, in part, "Upward revisions in the amount of undiscounted estimated cash flows shall be discounted using the current credit-adjusted risk-free rate." Use of current discount rates to re-measure the entire obligation is not permitted. Because incremental cash flows must be discounted at a current rate, while the existing cash flows included in the asset retirement obligation are discounted at their original rate, the provision is built up in cash flow "layers." ASC 410-20-35-8 further states, "Downward revisions in the amount of undiscounted estimated cash flows shall be discounted using the credit-adjusted risk-free rate that existed when the original liability was recognized" (i.e., the component of the liability that is no longer required is removed at the amount (including any accretion) at which it is currently recorded).

Under IFRS Standards, there is no "layering" as decommissioning provisions are built up. IFRIC 1 requires that if there is a change in the discount rate, the current discount rate must be used to recalculate the entire provision. IAS 37:47 requires that the discount rate be a pre-tax rate that reflects "current market assessments of the time value of money and the risks specific to the liability." An entity should be careful when determining a pre-tax discount rate by adjusting a post-tax discount rate. Because the tax consequences of cash flows may occur in different periods, the pre-tax rate of return is not always the post-tax rate of return grossed up by the standard rate of tax. Note that while IAS 37:47 states that the discount rate should reflect risks specific to the liability, the same result can be achieved in practice by reflecting risk in the estimation of undiscounted cash flows.

The recording of decommissioning provisions under U.S. GAAP may further differ from that under IFRS Standards if different discount rates are used. An entity should carefully select the appropriate rate to use under each set of standards.

Comments

10.5	Does the entity have any firmly committed executory contracts, other than operating lease contracts, in which the unavoidable costs of meeting the contractual obligations exceed the economic benefits expected to be received?	Yes No

U.S. GAAP	IFRS Standards
Losses on firmly committed executory contracts typically are not recognised unless the entity has terminated the contract or ceased using the benefits under the contract.	A provision should be recorded when the unavoidable costs of meeting the contractual obligations exceed the economic benefits expected to be received.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, losses on firmly committed executory contracts (e.g., purchase or sale contracts) typically are not recognised. Where the contract has been terminated or the entity has ceased using the benefits under the contract then it would generally be appropriate to record a liability: refer to the U.S. GAAP-IFRS Standards difference considerations discussion under Question 10.6 below for further details.

Certain firmly committed executory contracts meet the definition of a derivative and should be accounted for under ASC 815, Derivatives and Hedging. In addition, certain industry-specific and transaction-specific guidance is provided elsewhere in the accounting literature on other firmly committed executory contracts (e.g., ASC 420, ASC 330). Currently, there is no authoritative accounting guidance, other than as discussed above, that would support the recording of a contingent liability when the fair value of remaining contractual rights of a firmly committed executory contract declines below the remaining costs to be incurred.

© Deloitte LLP. All rights reserved.

Under ASC 420-10-25-11 (not applicable for companies that have adopted ASC 842, Leases), it would not be appropriate for a lessee to accrue a liability for losses associated with an operating lease agreement until the lessee has either terminated the lease in accordance with the agreement or it has ceased use of the leased property (refer Question 10.8). This guidance is often applied by analogy by the SEC to other types of executory contracts.

Under IFRS Standards, IAS 37:66–69 require an entity to recognise and measure the present obligation under an onerous contract as a provision. An onerous contract is one "in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it."

Certain firmly committed executory contracts meet the definition of a derivative and should be accounted for under IFRS 9, Financial Instruments. However, it should be noted that there are differences in the definition of a derivative under U.S. GAAP and IFRS Standards. Refer to Section 22 for further details.

Comments

10.6	**Has the entity announced or implemented any restructuring plans?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Entities should examine each type of cost individually to determine whether it should be accrued.	Emphasis is placed on the recognition of the costs of the exit plan as a whole.

U.S. GAAP–IFRS Standards difference considerations

Regarding the accrual of restructuring costs, the principal difference between U.S. GAAP and IFRS Standards is that U.S. GAAP requires that entities examine each type of cost individually to determine when it may be accrued, while IFRS Standards emphasise the recognition of the costs of the exit plan as a whole. Therefore, the timing of the recognition (accrual) of restructuring costs under U.S. GAAP may differ from that under IFRS Standards.

Under U.S. GAAP, the guidance in ASC 420-10-25-11 through 25-13 states that costs associated with the termination of a contract may only be accrued when the contract is terminated by the entity in accordance with the contract terms or when the entity stops using the right granted under the contract (the cease-use date). Under ASC 420-10-25-14 and 25-15, other costs (i.e., except employee termination costs) may only be recognised when the liability is incurred (generally when goods or services are received).

The date of recognition of involuntary employee termination costs depends on whether:

- The amounts are payable under an existing plan, such as an employment contract, a union agreement, or local law. Under ASC 712-10-25-4, Compensation — Nonretirement Postemployment Benefits: Overall, if the amounts payable vest or accumulate over time (e.g., on the basis of years of service), they are recorded when payment is probable and the amount is reasonably estimated, which may occur before communication of termination to the employees.
- The amounts are, in accordance with ASC 715-30-25-9, Compensation — Retirement Benefits: Defined Benefit Plans — Pension, "contractual termination benefits required by the terms of a plan only if a specified event, such as a plant closing, [occurs]." Under ASC 715-30-25-10, a liability is recognised when it is probable that employees will be entitled to the benefit and it can be reasonably estimated.
- The amounts are payable under a one-time benefit arrangement. (Rules that govern the accounting for such costs are described in ASC 420-10-25-4 through 25-10.)

Under ASC 712-10-25-1 and ASC 715-30-25-10, special termination benefits (those that are only offered for a short period) to encourage voluntary redundancy are recognised "when the employees accept the offer and the amount can be reasonably estimated."

Any amounts accrued under ASC 420-10 must be recorded at fair value.

© Deloitte LLP. All rights reserved.

Under IFRS Standards, restructuring provisions are determined on a more holistic basis, rather than as separate components with individual recognition criteria. IAS 37:70 states:

The following are examples of events that may fall under the definition of restructuring:

A. sale or termination of a line of business;

B. the closure of business locations in a country or region or the relocation of business activities from one country or region to another;

C. changes in management structure, for example, eliminating a layer of management; and

D. fundamental reorganisations that have a material effect on the nature and focus of the entity's operations.

Under IAS 37:71, a provision for restructuring is recognised when the general recognition criteria in IAS 37 for provisions are met. Further guidance on those recognition provisions is in IAS 37:72–83.

With respect to employee terminations IAS 19:133 states:

An entity shall recognise termination benefits as a liability and an expense when, and only when, the entity is demonstrably committed to either:

A. terminate the employment of an employee or group of employees before the normal retirement date; or

B. provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

As described in IAS 19:136, certain termination benefits may be treated similarly to postemployment benefits under ASC 712-10. IAS 19:165 states:

An entity shall recognise a liability and expense for termination benefits at the earlier of the following dates:

A. when the entity can no longer withdraw the offer of those benefits; and

B. when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

See also Section 9 for potential accounting differences related to termination benefits.

10.8 For entities that have not yet adopted the new leasing standards, has the entity recorded a provision for operating leases on properties? **Yes** **No**

U.S. GAAP	IFRS Standards
A provision can only be recognised if the entity has terminated the lease in accordance with its terms or it has ceased use of the property.	A provision should be recorded when there is a commitment (typically through communication to the landlord) to vacate the property.

U.S. GAAP–IFRS Standards difference considerations

This question only applies to entities that have not yet adopted the new leasing standards (ASC 842 and IFRS 16).

Under U.S. GAAP, a provision can only be recognised under ASC 420-10-25-11 through 25-13 if the entity has terminated the lease in accordance with its terms or it has ceased use of the property. A commitment to vacate excess space is not sufficient. The cease-use requirements are applied stringently. For example, it is generally not appropriate to make a provision for excess space. However, a provision may be appropriate if the abandoned space is clearly distinguishable and separable from the rest of the property.

ASC 420-10-30-8 requires estimates of sublease rentals to be taken into account even if the entity does not intend to sublease the facility.

Under IFRS Standards, IAS 37:66 states that a provision should be recognised for onerous contracts. A provision should be recorded for properties when there is a commitment (legal or constructive, typically through communication to the landlord) to vacate the property. There is no explicit guidance on the treatment of sublease rentals under IFRS Standards. IAS 37:68 states that "[t]he unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it" (emphasis added). Entities should exercise judgment in determining whether any sublease rental income should be included in computing provisions for onerous leases under IFRS Standards.

As a result of the above provisions for operating leases may be recorded earlier under IFRS Standards than under U.S. GAAP.

© Deloitte LLP. All rights reserved.

Comments

10.9	**Has the entity incurred any losses that may be covered by insurance?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Recoveries may be recorded up to the amount of recorded contingent losses, or direct, incremental costs incurred to obtain the recovery, when recovery is probable.	Reimbursement should be recognised only when it is virtually certain to be received if the entity settles the obligation.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, an entity that incurs a loss attributable to impairment of an asset or incurrence of a liability and expects to recover all or a portion of that loss should record an asset for the amount considered probable of recovery (not to exceed the amount of the total losses recognised). Subsequent recognition of amounts greater than an amount initially deemed probable of recovery should be only of those amounts considered probable of recovery to the extent that they do not exceed actual additional covered losses or direct, incremental costs incurred to obtain the recovery. Any recovery expected that is greater than covered losses or direct, incremental costs incurred represents a gain contingency and therefore requires a higher recognition threshold.

Under IFRS Standards, IAS 37:53 states that a “reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation.” Note that it is the existence, rather than the amount, of the reimbursement asset that must be virtually certain. An entity may be virtually certain that it has insurance coverage for a particular provision but may not be certain of the exact amount that would be received from the insurance company. The entity can record the reimbursement asset as long as it can arrive at a reliable prudent estimate that is based on a range of possible recoveries, even though the amount ultimately received may be different.

Comments

10.10	**Does the entity adjust any liabilities for exit or disposal costs or asset retirement/ decommissioning obligations due to the passage of time?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
The increase in the carrying amount of a liability due to the passage of time is recorded in the income statement as an operating item and cannot be classified as interest expense. This amount is referred to as accretion expense.	The increase in the carrying amount of a liability due to the passage of time is recorded in profit or loss and classified as a borrowing cost.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, an entity measures changes in the liability for an asset retirement obligation or exit or disposal activities, or due to the passage of time, by applying an interest method of allocation to the amount of the liability at the beginning of the period. ASC 410-20-35-5 and ASC 420-10-35-4 requires that the amount adjusted as change in liability be recognised as an increase in the carrying amount of the liability and as an expense classified as accretion expense.

ASC 410-20-45-1 states that accretion expense attributable to an asset retirement obligation is classified as an operating item in the income statement.

© Deloitte LLP. All rights reserved.

ASC 420-10-45-3 indicates that in reporting costs associated with exit or disposal activities, entities should include accretion expense in income from continuing operations before income taxes. Accretion expense qualifies as a cost associated with an exit or disposal activity and therefore should be included in operating income. The determination of whether to separately report accretion expense, or to combine and report accretion expense with exit costs, is a matter of professional judgment.

Further, ASC 835-20-15-7, Interest: Capitalization of Interest, states, "Accretion expense related to exit costs and asset retirement obligations shall not be considered to be interest cost for purposes of applying [ASC 835-20]" (emphasis added).

Under IFRS Standards, IAS 37:60 indicates that when discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised and classified as a borrowing cost.

Comments

10.11 Is the entity subject to any levies?	**Yes** **No**

U.S. GAAP	**IFRS Standards**
U.S. GAAP does not prescribe any specific guidance on accounting for levies.	IFRIC 21 prescribes guidance for when to recognise a liability for a levy imposed by the government if that liability is within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP there is no specific guidance on the accounting for levies. In general ASC 450 Contingencies is applied unless specific guidance exists within the scope of other standards (e.g. environmental obligations under ASC 410-30 Environmental obligations).

Under IFRS Standards, IFRIC 21 provides specific guidance on accounting for levies. The Interpretation covers the accounting for outflows imposed on entities by governments (including government agencies and similar bodies) in accordance with laws and/or regulations. Its scope does not include income taxes (see IAS 12 Income Taxes), fines and other penalties, liabilities arising from emissions trading schemes and outflows within the scope of other Standards. The interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. The Interpretation clarifies that 'economic compulsion' and the going concern principle do not create or imply that an obligating event has occurred.

IFRIC 21 provides the following guidance on recognition of a liability to pay levies:

- If the obligating event occurs over a period, then the liability is recognised progressively.
- If an obligation is triggered on a minimum threshold, the liability is recognised when that threshold is reached.

Because of these specific rules under IFRS Standards, differences are possible in the accounting for levies under U.S. GAAP and IFRS Standards.

Comments

© Deloitte LLP. All rights reserved.

10.12	Does the entity at the reporting date have obligations with a fixed total amount arising from joint and several liability arrangements?	Yes No

U.S. GAAP	IFRS Standards
An entity is required to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, as the sum of the amount the reporting entity agreed to pay based on its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors.	IFRS Standards do not have specific guidance on recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 405-40-30-1 states that obligations resulting from joint and several liability arrangements included in the scope of this Subtopic (i.e. where the total amount of the obligation is fixed at the reporting date) shall be measured as the sum of the following:

- The amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors.
- Any additional amount the reporting entity expects to pay on behalf of its co-obligors. If some amount within a range of the additional amount the reporting entity expects to pay is a better estimate than any other amount within the range, that amount shall be the additional amount included in the measurement of the obligation. If no amount within the range is a better estimate than any other amount, then the minimum amount in the range shall be the additional amount included in the measurement of the obligation.

Under IFRS Standards, there is no specific guidance for obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. The entity is required to account for its own share of liabilities in accordance with IAS 37. Further, the amount the entity expects to pay on behalf of its co-obligors would be evaluated for recognition, measurement and disclosure under the requirements of IAS 37.

Comments

© Deloitte LLP. All rights reserved.

Section 11: Distinguishing liabilities from equity and debt modifications

11. Distinguishing liabilities from equity and debt modifications

Overview

Entities often enter into complex financial instruments with characteristics of both liabilities and equity. The guidance under U.S. GAAP and IFRS Standards assists entities in classifying and measuring such financial instruments in their statements of financial position and operations.

U.S. GAAP is primarily driven by the legal form of the instrument (i.e., shares are equity instruments) and guides entities in determining whether certain financial instruments with both debt-like and equity-like characteristics should be accounted for "outside of equity" (i.e., as liabilities or, in some cases, assets) by the issuer. Under IFRS Standards, an issuer applies IAS 32 to determine whether the substance of the contractual arrangement (i.e. economic characteristics of an instrument) are equity-like or debt-like.

Both U.S. GAAP and IFRS Standards include a requirement to evaluate whether a compound instrument that has both characteristics of debt and equity include an embedded derivative that should be bifurcated and separately accounted for. As the definition of a derivative instrument is different under U.S. GAAP and IFRS Standards, it is possible that the evaluation of embedded features (e.g. conversion options) under U.S. GAAP and IFRS Standards result in different accounting treatments.

The guidance in this area is complex under both U.S. GAAP and IFRS Standards and therefore careful consideration of all of the contractual terms of the instrument against the requirements of the relevant literature will be necessary.

Recently issued standards not yet reflected in this Section

In August 2020, the FASB Issued ASU 2020-06: 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. The ASU simplifies the accounting for convertible instruments and contracts in an entity's own equity. The ASU is effective for public business entities for fiscal years beginning after 15 December 2021, including interim periods within those fiscal years. For all other entities, the ASU is effective for fiscal years beginning after 15 December 2023, including interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal years beginning after 15 December 2020, including interim periods within those fiscal years.

The ASU simplifies the guidance in U.S. GAAP on the issuer's accounting for convertible debt instruments. After adopting the ASU's guidance, entities will not separately present in equity an embedded conversion feature in (1) convertible debt with a cash conversion feature and (2) convertible instruments with a beneficial conversion feature. Instead, they will account for a convertible debt instrument wholly as debt, and for convertible preferred stock wholly as preferred stock (i.e., as a single unit of account), unless (1) a convertible instrument contains features that require bifurcation as a derivative under ASC 815 or (2) a convertible debt instrument was issued at a substantial premium. In addition, the ASU amends the requirements for a contract (or embedded derivative) that is potentially settled in an entity's own shares to be classified in equity, which will likely result in more contracts being classified in equity (and more embedded derivatives meeting the derivative scope exception).

Adoption of this ASU will impact Questions 11.2 and 11.5 below.

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. The relief provided by the ASU is elective and applies "to all entities, subject to meeting certain criteria, that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform." The amendments in this ASU are effective for all entities as of 12 March 2020 through 31 December 2022. The key provision of the ASU for investments in loans and receivables is that entities can account for contract modification as a continuation of the existing contract without additional analysis. Adoption of this ASU will impact Question 11.10 below when there are

© Deloitte LLP. All rights reserved.

changes to a debt agreement as a result of transitioning away from a referenced rate that is expected to be discontinued.

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 amendments enable entities to reflect the effects of transitioning from benchmark interest rates, such as interbank offer rates (IBORs) to alternative benchmark interest rates without giving rise to accounting impacts that would not provide useful information to users of financial statements. The amendments are effective for annual periods beginning on or after 1 January 2021 with early application permitted. The amendments results in changes to the basis for determining the contractual cash flows as a result of benchmark interest rate reform. Adoption of this amendment will impact Question 11.10 below when there are changes to a debt agreement as a result of transitioning away from a referenced rate that is expected to be discontinued.

Primary authoritative guidance

- ASC 470, Debt
- ASC 480, Distinguishing Liabilities from Equity
- ASC 815, Derivatives
- IAS 32, Financial Instruments: Presentation
- IFRS 9, Financial Instruments
- IFRIC 19, Extinguishing Financial Liabilities With Equity Instruments

11.1 Has the entity issued a financial instrument with both liability and equity components (e.g., a convertible debt security)? **Yes** **No**

U.S. GAAP

Convertible debt is generally accounted for as a liability in its entirety, unless the instrument was issued at a premium to its principal amount, contains a beneficial conversion feature (i.e., the conversion feature is “in the money”) at issuance or permits cash settlement, or partial cash settlement, upon conversion (i.e., a cash conversion feature). In such cases, the conversion feature may be required to be accounted for as a separate component classified within equity pursuant to ASC 470-20.

IFRS Standards

IAS 32 requires that non derivative instruments with both liability and equity components be separated into their component parts. The liability component is measured at fair value at inception, and any residual proceeds are allocated to the equity component. Convertible debt instruments generally do not contain an equity component unless the instrument meets IAS 32:22 “fixed-for-fixed” requirement.

U.S. GAAP–IFRS Standards difference considerations

Under ASC 470-20-25-12, a financial instrument issuer usually accounts for traditional convertible debt and debt with non-detachable equity conversion options entirely as debt. Separation of convertible debt into components is precluded unless one of the following conditions is satisfied:

- The convertible debt is issued at a substantial premium, pursuant to ASC 470-20-25-4 through 25-9, in which case, in accordance with ASC 470-20-25-13, the premium is treated as additional paid-in capital. This guidance only applies if the conversion feature is not required to be accounted for as a derivative under ASC 815 and is not subject to the guidance about beneficial conversion features or cash conversion features under ASC 470-20.
- The conversion option is in the money for the holder as of the commitment date of the convertible debt (generally this is the date on which a firm commitment to issue convertible debt was made). In this case, a portion of the proceeds that is equal to the intrinsic value of the option is allocated to equity in accordance with ASC 470-20-25-5. Under U.S. GAAP, such a conversion option is referred to as a “beneficial conversion feature.” Contingent beneficial conversion features are only separated upon the occurrence or non-occurrence of the contingent event. The guidance about beneficial conversion features only applies if the conversion feature is not required to be accounted for as a derivative under ASC 815 and is not subject to the guidance about cash conversion features under ASC 470-20.
- The convertible debt instrument is subject to the requirements of the Cash Conversion Subsections of ASC 470-20. In this case, in accordance with ASC 470-20-25-22 through 25-25, the liability and equity components of the convertible debt instrument must be separately accounted for in a manner that reflects the issuer's nonconvertible debt borrowing rate. This guidance only applies if the conversion feature is not required to be accounted for as a derivative under ASC 815.

© Deloitte LLP. All rights reserved.

- The conversion option meets the definition of a derivative under ASC 815 and does not qualify for the scope exception in ASC 815-10-15-74(a) for contracts issued by a reporting entity that are both (1) indexed to its own stock and (2) classified as stockholders' equity. In this case, the convertible debt is separated into two liability components (a debt host and an embedded derivative liability) (See also ASC 815-40-15 and ASC 815-40-25).
- The conversion option was bifurcated as a derivative, but no longer meets the bifurcation criteria for embedded derivatives in ASC 815-15 (see ASC 815-15-35-4).
- The convertible debt was modified or exchanged, which resulted in an increase in the fair value of the conversion feature, and the modification was not required to be accounted for as an extinguishment under ASC 470-50.

Under IFRS Standards, paragraphs 28 and 29 of IAS 32 explain that if a non-derivative financial instrument contains both a liability and an equity component, each component should be recognised and accounted for separately. For example, under IAS 32:22 if the equity conversion option in a convertible debt instrument settles "fixed-for-fixed" (i.e., a fixed number of own equity shares is to be exchanged for a fixed principal amount of debt denominated in the functional currency of the issuer), the convertible debt is separated into a liability and an equity component. In accordance with IAS 32:31, an issuer separates the instrument into its components by determining the fair value of the liability component and then deducting the liability component from the fair value of the instrument as a whole; the resulting residual amount is the equity component. The financial liability component is then measured under IFRS 9 according to its classification (i.e., a financial liability measured at fair value through profit or loss or a liability measured at amortised cost under the effective interest rate method). The equity component is classified as equity and is not remeasured. If the equity conversion option does not settle "fixed-for-fixed," it does not meet the conditions for equity classification under IFRS Standards and the convertible debt would be separated into two liability components: a debt host contract and an embedded derivative liability. However, under IFRS 9:4.3.3c, if the hybrid contract is measured at fair value with changes in fair value recognised in profit or loss then the embedded derivative does not need to be separated from the host.

Unlike U.S. GAAP, convertible debt securities that permit the issuer to settle wholly or partially in cash upon conversion are not separated into liability and equity components under IFRS Standards, but contain an embedded derivative that is required to be separated and accounted for at fair value or at the gross redemption amount depending on the redemption features.

Comments

11.2	**Has the entity issued convertible debt that has been converted to shares in accordance with the original terms of the convertible debt?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Conversion of convertible debt into equity in accordance with the original terms may result in the recording of a gain or loss upon conversion.	Conversion of the debt into equity in accordance with the original terms does not affect profit or loss.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, conversion of a convertible debt into equity could affect the income statement in the following situations:

- Conversion of a traditional convertible debt instrument that was not separated into liability and equity components under ASC 470-20 — The net carrying amount of the debt is credited to equity to reflect the stock issued; no gain or loss is recognised unless (1) the conversion occurred upon the issuer's exercise of a call option and (2) the conversion option was not substantive at issuance. If the debt became convertible upon the issuer's exercise of a call option and did not otherwise contain a substantive conversion feature as of its issuance date, debt extinguishment accounting applies.
- Conversion of a convertible debt instrument that was separated into its liability and equity components in accordance with the cash conversion feature ("CCF") guidance in ASC 470-20 — a portion of the fair value of the

© Deloitte LLP. All rights reserved.

consideration transferred upon conversion is allocated to the extinguishment of the liability component on the basis of the component's conversion-date fair value. Any difference between this amount and the net carrying amount of the extinguished liability component is recognised currently in income.

- Conversion of a convertible debt instrument that includes a separately presented beneficial conversion feature ("BCF") under ASC 470-20 — All of the unamortised discount remaining on the conversion date is recognised immediately as interest expense as of that date.
- Conversion of a convertible debt instrument that includes a separate equity component for reasons other than a CCF or BCF — All of the unamortised discount remaining on the conversion date is recognised immediately as interest expense as of that date.

Under IFRS Standards, IAS 32:AG32 indicates that when, upon conversion of convertible debt at maturity, an instrument is bifurcated into a financial liability and an equity component, the "original equity component remains as equity (although it may be [reclassified] from one line item within equity to another)" and the liability component is derecognised. No gain or loss is recognised upon conversion. In accordance with IAS 32:AG33, upon conversion of convertible debt 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 method used in allocating the consideration paid and transaction costs to the separate components is consistent with that used in the original allocation to the separate components of the proceeds received by the entity when the convertible instrument was issued, in accordance with IAS 32:28–32.

Therefore, a key difference between U.S. GAAP and IFRS Standards in the accounting for convertible debt is that under U.S. GAAP, conversion of convertible debt pursuant to the original conversion terms sometimes results in a gain or loss (as discussed above), while under IFRS Standards, conversion in accordance with the original conversion terms does not result in a gain or loss.

Comments

11.3	**Has the entity issued shares that are puttable by the holder or contingently redeemable upon the occurrence of a condition or contingency that is outside the control of the issuer?**	**Yes** **No**

U.S. GAAP

A redeemable financial instrument that "embodies a conditional obligation to redeem that instrument" may become mandatorily redeemable, and therefore accounted for as a liability, once the condition occurs or becomes certain to occur. Until that time redeemable financial instruments are generally classified as equity (or temporary equity for public entities and those private entities that have voluntarily elected to apply the SEC guidance in ASC 480-10-S99). The redeemable financial instrument does not represent a "mandatorily redeemable" liability under ASC 480-10-25-4 through 25-7 as redemption is contingent (i.e., conditional).

IFRS Standards

Typically, such instruments are classified as liabilities (IAS 32:25). There is no temporary equity classification under IFRS Standards. Exceptions are provided if the contingency is a) deemed not "genuine" (events which are extremely rare, highly abnormal and very unlikely to occur") or b) triggered only in the event of a liquidation of the entity.

A puttable financial instrument includes a contractual obligation for the issuer to repurchase or redeem that instrument for cash or another financial asset on exercise of the put, which meets the definition of a financial liability. However, there are a few limited exceptions described in IAS 32:16A through D that if met allow the financial instrument to be presented as an equity instrument.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, puttable or contingently redeemable equity securities typically are classified as equity, because redemption is not certain to occur. The definition of mandatorily redeemable financial instruments (which must be classified as financial liabilities) in ASC 480-10-20 "Glossary" is limited to "[a]ny of various financial instruments issued

© Deloitte LLP. All rights reserved.

in the form of shares that embody an unconditional obligation requiring the issuer to redeem the instrument by transferring its assets at a specified or determinable date (or dates) or upon an event that is certain to occur " Therefore, outstanding shares that could be redeemed at the option of the holder, or upon some contingent event that is outside the control of the issuer, generally are not classified as financial liabilities (i.e., they are classified as equity and not subsequently remeasured). Under ASC 480-10-25-5, redeemable equity securities that are not certain to be redeemed (e.g., those containing an equity conversion option that permits the securities to be converted into nonredeemable equity securities before the mandatory redemption date) would also be classified as equity. If redemption becomes certain to occur, the securities would be reclassified as, and accounted for, as a liability. ASC 480-10-S99-3A indicates that when a puttable instrument has a redemption feature that is not solely within the control of the issuer, an SEC registrant is required to present the instrument in the balance sheet between permanent equity and liabilities in a section entitled "temporary equity" or "mezzanine equity." Note, private entities may also voluntarily elect to apply the guidance in ASC 480-10-S99-3A.

IFRS Standards indicate that an instrument that gives the holder the right to put the instrument back to the issuer for cash or another financial asset (e.g., redeemable preferred shares) or that is automatically put back to the issuer upon the occurrence or non-occurrence of an uncertain future event (e.g., contingently mandatorily redeemable shares) should be accounted for as a liability. IAS 32:18(b) notes that the conditional redemption obligation creates a contractual obligation for the issuer to deliver cash or another financial asset. IAS 32:19(b) states that the fact that a contractual obligation is conditional upon the holder's exercising its right to require redemption does not negate the existence of a financial liability, since the issuer does not have the unconditional right to avoid delivering cash or another financial asset. Under IAS 32, the issuer is exempt, in limited circumstances, from the liability classification requirement for puttable financial instruments.

Specifically, IAS 32 requires that puttable instruments be presented as equity if the following four criteria are met:

1. The holder is entitled "to a pro rata share of the entity's net assets [at] liquidation."
2. "The instrument is in the class of instruments that is [the most] subordinate" and all instruments in that class are identical.
3. The instrument has no other characteristics that would meet the definition of a financial liability.
4. "The total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the entity."

Instruments, or components of instruments, that obligate the entity to deliver a pro rata share of the net assets of the entity only on liquidation should be presented as equity if they meet the criteria above, except for criteria (3) and (4). See IAS 32:16A-D for additional information.

Comments

11.4	**Has the entity issued a convertible debt instrument that offers a cash settlement alternative upon conversion?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Separation of the conversion option as an embedded derivative is required unless the issuer cannot be forced to settle for cash.	Separation of the conversion option as an embedded derivative that is not closely related to the debt host is required unless the fair value option is elected for the entire hybrid contract in accordance with IFRS 9:4.2.2.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, if the embedded conversion option is indexed to the issuer's shares and would be classified in shareholders' equity on a freestanding basis, it would not be bifurcated as an embedded derivative under ASC 815-10-15-74(a) and related guidance. However, the liability and equity components of a convertible debt instrument within the scope of the Cash Conversion Subsections (i.e. applies only to convertible debt instruments that, by their stated

© Deloitte LLP. All rights reserved.

terms, may be settled in cash (or other assets) upon conversion, including partial cash settlement) of ASC 470-20 shall be accounted for separately by doing both of the following (ASC 470-20-25-23):

A. First, determine the carrying amount of the liability component in accordance with the guidance in paragraph (ASC 470-20-30-27); and

B. Second, determine the carrying amount of the equity component represented by the embedded conversion option in accordance with the guidance in paragraph (ASC 470-20-30-28).

The accounting treatment above is very similar to the treatment prescribed by IFRS Standards for a compound instrument (see below).

Under IFRS Standards, IAS 32:26 indicates that an entity must separate the conversion option as an embedded derivative when any of the settlement alternatives result in a cash settlement upon conversion, unless the entity has elected to account for the entire financial instrument using the fair value option under IFRS 9:4.2.2.

Therefore, under U.S. GAAP, instruments with conversion options that may be settled in cash often do not result in bifurcation of embedded derivatives or are classified in equity, Under IFRS Standards such conversion options are separated and accounted for as embedded derivative liabilities unless the entity has elected to account for the entire financial instrument under the fair value option.

Comments

11.5	**Has the entity issued a convertible debt instrument that has been redeemed early (extinguishment) in which the original conversion privileges are unchanged?**	**Yes** **No**

U.S. GAAP

If an issuer redeems or repurchases traditional convertible debt, it recognises an extinguishment gain or loss that is equal to the difference between the reacquisition price and the net carrying amount of the extinguished debt. If the convertible debt is separated into liability and equity components under the CCF guidance in ASC 470-20, the reacquisition price of the extinguished debt is allocated between the liability and equity components on the basis of the extinguishment-date fair value of the liability component. If the convertible debt contains a separated BCF, a portion of the reacquisition price equal to the conversion feature's extinguishment-date intrinsic value is allocated to equity and the remaining amount is allocated to the extinguishment of the debt. For instruments that are within the scope of the CCF or BCF guidance in ASC 470-20, any difference between the portion of the reacquisition price allocated to the liability component and its net carrying amount is recognised currently in income as an extinguishment gain or loss.

IFRS Standards

The consideration paid is allocated to the liability and equity components using the same method as was used on initial recognition of the convertible debt instruments; the fair value of consideration paid is first allocated to the liability component with the residual being assigned to the repurchase of the equity component.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 470-50-40-4 indicates that upon redemption or repurchase of convertible debt that does not contain a beneficial conversion feature, an entity should recognise an extinguishment gain or loss equal to the difference between the reacquisition price and the net carrying amount of the extinguished debt. For convertible debt within the scope of the Cash Conversion Subsection of ASC 470-20, the reacquisition price of the extinguished debt is the portion of the redemption amount allocated to the extinguishment of the liability component (i.e., the fair value of the liability component as of the extinguishment date). ASC 470-20-40-3 states that if convertible debt that contains a beneficial conversion feature is extinguished before conversion, the amount of the reacquisition price

© Deloitte LLP. All rights reserved.

equal to the intrinsic value of the conversion feature as of the extinguishment date is allocated to equity and the remaining amount is allocated to the extinguishment of the debt.

Under IFRS Standards, IAS 32:AG33 indicates that when an entity redeems or repurchases a convertible instrument before its maturity (without altering the conversion feature), the consideration paid (including any transaction costs) is allocated to the liability and equity components using the same method as was used on initial recognition of the convertible debt instruments; the fair value of consideration paid is first allocated to the liability component with the residual being assigned to the repurchase of the equity component. To the extent that the amount of the consideration allocated to the liability component differs from the carrying amount of the liability component at that time, a gain or loss is recorded in the income statement. The amount of consideration allocated to the equity component is recorded in equity with no gain or loss recorded.

If the early redemption occurs as a result of the issuer exercising an embedded call option, the transaction can be accounted for under either IAS 32:AG33 discussed above or under IFRS 9:B5.4.6. Under IFRS 9:B5.4.6, the entity would account for the embedded call option as part of the debt instrument to which it is closely related. This would result in remeasuring the amortised cost of the financial liability component of the convertible debt by discounting the revised estimate of cash flows payable under the instrument at the original effective interest rate established at initial recognition of the financial liability component of the convertible debt. The difference between the previous amortised cost carrying amount and the newly remeasured amount would be recognised in profit or loss. The effect would likely be substantially the same as the remeasurement under IFRS 9:B5.4.6 or through IAS 32:AG33.

Under U.S. GAAP, other than for convertible debt accounted for in accordance with the Cash Conversion Subsection of ASC 470-20, entities either do not allocate consideration paid or allocate the consideration paid on the basis of the intrinsic value of the conversion feature as of the extinguishment date for instruments with beneficial conversion features. Under IFRS Standards, however, entities allocate the consideration paid between the liability and equity components on the basis of the fair value of the liability component.

Comments

11.6	**Has the entity issued nonredeemable shares with mandatory dividends?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Equity securities that are not required to be classified as liabilities under ASC 480 are classified as equity even if they specify fixed dividend payments.	IAS 32 requires that non-derivative instruments with the characteristics of both liabilities and equity be separated into liability and equity components.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, nonredeemable shares are presented as equity even if they specify fixed dividend payments.

Under IFRS Standards, shares with mandatory dividends should be bifurcated into liability and equity components. The fair value of the liability component will be equivalent to the present value of the mandatory dividend obligations over the term of the shares, discounted at the market interest rate for a similar instrument that does not retain a residual benefit to discretionary dividends. IAS 32:31 indicates that because equity instruments are evidence of a residual interest in the entity, the "equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component." On initial recognition, therefore, the liability and equity components will always equal the fair value ascribed to the instrument as a whole.

Comments

© Deloitte LLP. All rights reserved.

11.7 Has the entity issued any written options on its own shares or shares of its subsidiaries under which the entity is required to purchase those shares?

Yes

No

Such agreements include option agreements entered into as part of a business combination, such as agreements to buy the remaining shares of a newly acquired subsidiary in the future.

U.S. GAAP	IFRS Standards
A freestanding written option on an entity's (or subsidiary's) shares that obligates the entity to purchase its own (or its subsidiary's) shares is recorded at fair value, with subsequent changes in fair value recorded through the income statement.	If a freestanding written option that obligates an entity to purchase its own (or its subsidiary's) shares can be gross physically settled, the entity records a gross liability (the present value of the redemption amount), with subsequent changes to redemption amount accreted as interest expense through the income statement. This treatment reflects the fact that the entity does not have an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, the first consideration is whether these instruments are freestanding under ASC 480. ASC 480-10-30-1 and ASC 480-10-35-5 require that an entity initially record freestanding written options at fair value and record subsequent changes in fair value through the income statement. A freestanding financial instrument is defined in ASC 480-10-20 as follows:

A financial instrument that meets either of the following conditions:

- It is entered into separately and apart from any of the entity's other financial instruments or equity transactions.
- It is entered into in conjunction with some other transaction and is legally detachable and separately exercisable.

It may be difficult to determine whether a put/call option agreement entered into in connection with a business combination is a freestanding instrument. Such a put/call agreement usually is issued in connection with the acquisition of the majority interest and therefore does not meet the first part of the definition. It also may not meet the second part of the definition (i.e., the requirement that the instrument be legally detachable and separately exercisable). For example, if the put/call agreement cannot be transferred to a third party without the transfer of the shares, it would most likely not be considered freestanding. If the option does not meet the definition of freestanding, the entity should consider whether the feature must be bifurcated as an embedded derivative under ASC 815. If not, the entity should apply the provisions of ASC 480-10-S99-3A, which require the classification of the respective shares outside of permanent equity. For initial and subsequent measurement, the entity should apply ASC 480-10-S99-3A. Furthermore, certain fixed-price put/call arrangements on a non-controlling interest in which the exercise date for the put and call options is the same would be subject to the requirements of ASC 480-10-55-53 through 55-62 and as a result accounted for as a forward agreement to redeem the shares.

Under IFRS Standards, IAS 32:23 requires an entity to record a freestanding written option that may require it to repurchase "its own equity instruments [as] a financial liability for the present value of the redemption amount" by debiting equity for the same amount. Subsequently, an entity accretes the liability to the redemption amount by recognising interest expense through the income statement. Put options that are embedded in shares may affect the classification of the related shares as liability or equity instruments under IAS 32.

Comments

© Deloitte LLP. All rights reserved.

11.8	**Has the entity entered into any obligations to issue a variable number of equity shares?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Under ASC 480, a financial instrument that embodies an unconditional obligation, or a financial instrument other than an outstanding share that embodies a conditional obligation, that the issuer must or may settle by delivering a variable number of equity shares is classified as an asset or a liability if, at inception, the obligation's monetary value is based either solely or predominantly on (1) a fixed monetary amount, (2) variations in something other than the fair value of the issuer's equity shares, or (3) variations inversely related to changes in the fair value of the entity's equity shares.	If the number of shares required to settle an obligation varies such that the fair value of the shares delivered equals the amount of the contractual obligation (which itself may be fixed or may fluctuate in part or in full in response to a variable other than the market price of the shares) then the instrument is treated as a liability.
If the instrument is not within the scope of ASC 480, it should be evaluated under ASC 815. One of the conditions that must be met for a contract to qualify as equity is that the contract is considered indexed to the entity's own stock. To determine this, an entity should firstly perform a two-step analysis to 1) evaluate whether the contract contains any exercise contingencies that would disqualify the contract from being classified as equity, and 2) assess whether the settlement terms are consistent with equity classification. If the contract is considered indexed to the entity's own stock under both steps, the contract could qualify for classification as equity if it also meets the equity classification criteria in ASC 815-40-25.	Except for the situations as stated under IAS 32:22A, if the contract will be settled only by the entity receiving or delivering a fixed number of own equity shares for a fixed amount of cash or another financial instrument, then it is an equity instrument of the entity.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, although an obligation to deliver equity shares is not included in the definition of a liability in FASB Concepts Statement 6, certain of these obligations must be classified as liabilities under ASC 480-10-25-14. The FASB developed this requirement because it was concerned that some share-settled obligations have risks and benefits that are dissimilar from ownership interests. Thus, under U.S. GAAP, ASC 480-10-25-14 states:

"A financial instrument that embodies an unconditional obligation, or a financial instrument other than an outstanding share that embodies a conditional obligation, that the issuer must or may settle by issuing a variable number of its equity shares shall be classified as a liability (or an asset in some circumstances) if, at inception, the monetary value of the obligation is based solely or predominantly on any one of the following:

A. A fixed monetary amount known at inception (for example, a payable that will be settled in a variable number of the issuer's equity shares)

B. Variations in something other than the fair value of the issuer's equity shares (for example, a financial instrument indexed to the Standard and Poor's S&P 500 index and settleable with a variable number of the issuer's equity shares)

C. Variations inversely related to changes in the fair value of the issuer's equity shares (for example, a written put option that could be net share settled)."

Contracts whose monetary value moves directly with the fair value of the issuer's equity shares would not be accounted for as assets or liabilities under ASC 480-10-25-14 but rather as equity. These are some examples:

- Fixed-for-fixed net-share-settled forward contracts to sell the issuer's equity shares, or
- Fixed-for-fixed net-share-settled written call options on the issuer's equity shares.

If the instrument is not within the scope of ASC 480, it is evaluated under ASC 815-40, Contracts in Entity's Own Equity. Some contracts on an entity's own equity have the characteristics of a derivative instrument under ASC 815-10. Such contracts may fall within the scope of both ASC 815-10 and ASC 815-40. The guidance and conditions for

© Deloitte LLP. All rights reserved.

equity classification in ASC 815-40 apply to both freestanding and embedded derivative instruments in the evaluation of whether they are exempt from derivative accounting under ASC 815-10. That entails evaluating whether the instrument is indexed to the entity's own stock utilising the indexation literature in ASC 815-40-15, and would be classified in shareholders' equity utilising the equity classification literature in ASC 815-40-25. One of the conditions that must be met for a contract within the scope of ASC 815-40 to qualify as equity is that the contract is considered indexed to the entity's own stock in accordance with ASC 815-40-15. This condition must be met because:

- If a freestanding contract is not considered indexed to the entity's own equity, it cannot be accounted for in equity but must be accounted for as an asset or a liability (irrespective of whether it meets the definition of a derivative).
- If a freestanding derivative contract or an embedded derivative feature is not considered indexed to the entity's own equity, it does not qualify for the own-equity scope exception from derivative accounting in ASC 815-10-15-74(a).

To determine whether a contract is considered indexed to the issuer's own equity, an entity performs a two-step analysis under ASC 815-40-15-7:

Step 1 — Evaluate whether the contract contains any exercise contingencies and, if so, whether they disqualify the contract from being classified as equity.

Step 2 — Assess whether the settlement terms are consistent with equity classification.

Under Step 1, exercise contingencies that are based on an observable market or an observable index preclude a contract from being considered indexed to an entity's own equity unless they are based on either of the following:

- "[T]he market for the issuer's stock."
- "[A]n index calculated or measured solely by reference to the issuer's own operations."

An exercise contingency that is based on something other than an observable market or observable index does not preclude equity classification. If a freestanding contract contains more than one exercise contingency, the contract would not be considered indexed to the entity's own stock unless all the contingencies are consistent with equity classification.

For example, if an equity-linked contract can be exercised only if the issuer's stock exceeds a specified price, that exercise contingency would not preclude the contract from being considered indexed to the entity's own equity and classified as equity, because the issuer's stock price is considered to be based on the market for the issuer's stock. In addition, if an exercise contingency is based on an index calculated solely by reference to the issuer's own operations (e.g., sales of at least $100 million), it does not preclude a conclusion that the contract is indexed to the entity's own equity.

If after performing Step 1, an entity concludes that an instrument's exercise contingency provisions (if any) would not preclude a conclusion that the instrument is indexed to the entity's own stock, the entity must perform Step 2 to evaluate the instrument's settlement terms. Under step 2, an equity-linked instrument is considered indexed to the entity's own stock if either of the following two conditions is met:

- "[T]he instrument is a "fixed-for-fixed" forward or option on equity shares."
- "[T]he instrument is not fixed for fixed, but the only variables that could affect the instrument's settlement amount are inputs used in the pricing (fair value measurement) of a fixed-for-fixed forward or option on equity shares."

An instrument not passing the criteria in the indexation literature to be "indexed to" the entity's shares is not in the scope of the equity classification literature. The indexation literature itself precludes equity classification for such an instrument.

If the contract is considered indexed to the entity's own stock under both Step 1 and Step 2, the contract could qualify for classification as equity if it also meets the equity classification criteria in ASC 815-40-25.

ASC 815-40-25-1 provides that the initial balance sheet classification of contracts within the scope of this Subtopic generally is based on the concept that:

A. Contracts that require net cash settlement are assets or liabilities.
B. Contracts that require settlement in shares are equity instruments.

© Deloitte LLP. All rights reserved.

Further, ASC 815-40-25-2 provides that an entity shall observe both of the following:

A. If the contract provides the counterparty with a choice of net cash settlement or settlement in shares, this Subtopic assumes net cash settlement.

B. If the contract provides the entity with a choice of net cash settlement or settlement in shares, this Subtopic assumes settlement in shares.

In addition, ASC 815-40-25-10 provides that because any contract provision that could require net cash settlement precludes accounting for a contract as equity of the entity (except for those circumstances in which the holders of the underlying shares would receive cash), all of the following conditions must be met for a contract to be classified as equity:

A. Settlement permitted in unregistered shares. The contract permits the entity to settle in unregistered shares.

B. Entity has sufficient authorised and unissued shares. The entity has sufficient authorised and unissued shares available to settle the contract after considering all other commitments that may require the issuance of stock during the maximum period the derivative instrument could remain outstanding.

C. Contract contains an explicit share limit. The contract contains an explicit limit on the number of shares to be delivered in a share settlement.

D. No required cash payment if entity fails to timely file. There are no required cash payments to the counterparty in the event the entity fails to make timely filings with the SEC.

E. No cash-settled top-off or make-whole provisions. There are no cash settled top-off or make-whole provisions.

F. No counterparty rights rank higher than shareholder rights. There are no provisions in the contract that indicate that the counterparty has rights that rank higher than those of a shareholder of the stock underlying the contract.

G. No collateral required. There is no requirement in the contract to post collateral at any point or for any reason.

If a contract is considered qualified as equity under the guidance on indexation and equity classification in ASC 815-40, it shall be accounted for in permanent equity as long as it continues to be classified as equity. Subsequent changes in fair value shall not be recognised as long as the contracts continue to be classified as equity, as stated under ASC 815-40-35-2.

If a contract is considered indexed to the issuer's equity but fails the equity classification literature, it is then classified as an asset or liability and subsequently measured at fair value through earnings.

This area of U.S. GAAP is highly complex and consultation with an expert is recommended.

Under IFRS Standards, IAS 32:21 requires that a contractual obligation that an entity can settle by delivery of a variable number of its own equity shares so that the fair value of the entity's own equity instruments to be delivered equals the amount of the contractual obligation is classified as a liability.

Under IAS 32:22, a contract over an entity's own equity is accounted for as equity only when it will be settled by the entity delivering a fixed number of its own equity instruments and receiving a fixed amount of cash or another financial asset, except for the situations as stated under IAS 32:22A. Changes in fair value of such equity instruments are not recognised in the financial statements.

Most derivatives over own equity where settlement is not exclusively by the exchange of a fixed number of equity shares for a fixed amount of cash (or another financial asset) are treated as derivatives (derivative financial assets or liabilities) and are accounted for in accordance with the requirements of IFRS 9. A forward purchase or a written put option that may result in the entity receiving its own equity shares and being obligated to deliver cash (or another financial asset) is recognised as a financial liability that represents the entity's gross obligation to deliver cash or another financial asset to the counterparty. All other forward purchase and written put option contracts over own shares are measured at fair value through profit or loss.

Whilst both U.S. GAAP and IFRS Standards contain a "fixed-for-fixed" concept there are differences in the application of this concept which may result in different conclusions between the two frameworks. Furthermore, given the significant differences in how settlement amounts and settlement alternatives are treated under U.S. GAAP and IFRS Standards, freestanding equity derivatives may be classified differently. Settlement alternatives that are sometimes added to allow equity classification under U.S. GAAP will require asset/liability accounting under IFRS Standards. 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 U.S. GAAP. However, the consideration

© Deloitte LLP. All rights reserved.

of the entity's settlement choices in IFRS Standards may result in a different classification or perhaps a different measurement attribute.

"Down-round" features (also known as price protection or a ratchet feature) that trigger a downward adjustment to an instrument's strike price (or conversion price) do not cause a freestanding equity-linked instrument (or an embedded conversion option) to fail equity classification under U.S. GAAP when assessing whether the instrument is indexed to an entity's own equity. On the other hand under IFRS Standards a down-round feature is likely to result in liability classification. Also it should be noted that contracts over the equity of private companies will often meet the definition of a derivative under IFRS Standards but may not meet the definition of a derivative under U.S. GAAP as they will often fail net settlement (refer Question 22.2).

Comments

11.9	**Has the entity issued rights, warrants, or options to all existing shareholders (i.e., rights issues) to acquire a fixed number of the entity's own equity shares for a fixed amount of any currency (other than the entity's functional currency)?**	**Yes** **No**

U.S. GAAP	IFRS Standards
Rights issues denominated in a currency other than the entity's functional currency are accounted for as liabilities.	Rights issues denominated in a currency other than the entity's functional currency are classified as equity instruments.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 815-40-15-7I requires an issuer of an equity-linked financial instrument in which the strike price is denominated in a currency other than the functional currency of the issuer to treat such feature as not being indexed to the entity's own shares; therefore, it will be accounted for as a derivative liability.

Under IFRS Standards, IAS 32:11 and IAS 32:16 require that rights, options, or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount of any currency are equity instruments — regardless of the currency in which the exercise price is denominated — only 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.

Comments

11.10	**Has the entity modified or restructured debt previously issued?**	**Yes** **No**

U.S. GAAP	IFRS Standards
A modification or exchange of a debt instrument is accounted for as an extinguishment if the terms are substantially different, which may result in the recognition of an extinguishment gain or loss. The assessment is based, in part, on a "10 percent cash flow" test but also includes detailed guidance on qualitative considerations that would determine an extinguishment as well as guidance about modifications or exchanges that involve debt with equity conversion features. There is also detailed guidance on determining the present value of the cash flows.	An extinguishment gain or loss is recognised if the terms are substantially different. The assessment is based on a "10 percent cash flow" test. There is no detailed guidance on what qualitative considerations would determine an extinguishment or on how to determine the present value of the cash flows. For modifications that do not result in derecognition of the original debt and subsequent issuance of new debt, an entity recognises any adjustment to the amortised cost of the financial liability arising from such a modification or

© Deloitte LLP. All rights reserved.

If it is determined that the original and new debt instruments are not substantially different, then a new effective interest rate shall be determined based on the carrying amount of the original debt instrument, reflecting the modified terms. Therefore, the entity does not recognise a gain or loss as a result of a non-substantial modification.

Third-party costs (e.g., legal fees) — If an extinguishment occurs, the effective interest method is used to amortise such costs. If no extinguishment occurs, then such costs are expensed as incurred.

Fees paid to or received from the creditor – If an extinguishment occurs, such costs are included in the determination of the gain or loss on extinguishment. If no extinguishment occurs, then such costs are capitalised and the effective interest method is used to amortise such costs.

There is specific guidance on evaluating a modification that affects an embedded conversion option.

If troubled debt restructuring accounting applies, a restructuring gain is recognised only to the extent the debt's carrying amount exceeds the total amount of the undiscounted future cash flows of the restructured debt.

exchange in profit or loss at the date of the modification or exchange as a gain/loss on modification.

Third-party costs (e.g., legal fees) and fees paid/received from the creditor— If an extinguishment occurs, such costs are expensed. If no extinguishment occurs, the effective interest method is used to amortise such costs.

Under IFRS Standards there is no distinction between troubled and non-troubled debt restructurings as there is under U.S. GAAP and because of that, there is no special guidance for those modifications that would be accounted for as troubled debt restructurings under U.S. GAAP. However, there is guidance regarding debt-to-equity swaps (IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments") that is applicable in cases when debtors issue equity instruments to creditors to extinguish all or part of a financial liability.

U.S. GAAP–IFRS Standards difference considerations

IFRS 9:3.3.2, as well as ASC 470-50-40, require an assessment of whether the terms are substantially different in the determination of whether debt is modified or extinguished and replaced with new debt, and whether a gain or loss on extinguishment of the old debt should be recognised. Under both U.S. GAAP and IFRS Standards, the terms are considered substantially different if the discounted present value of the cash flows under the new terms (including any fees paid net of any fees received and discounted by using the original effective interest rate) is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability.

Under U.S. GAAP, there is specific guidance on how an entity should calculate the present value of the cash flows when applying the "10 percent cash flow" test (ASC 470-50-40-12) and the application of the guidance to debt that have embedded equity conversion features. IFRS Standards do not have similar detailed guidance. IFRS 9:3.3.2 and B3.3.6 focus on the application of the 10% test but do not include such detailed guidance.

Third party fees and fees/points paid to a counterparty

Under U.S. GAAP, ASC 470-50-40-17 and 40-18 distinguish between fees paid to a counterparty and third-party costs (e.g., legal fees) and prescribe different accounting for them, while IFRS 9:B3.3.6 does not make this distinction.

Under U.S. GAAP third-party costs are amortised over the term of the new debt instrument if extinguishment accounting applies and are expensed as incurred if extinguishment accounting does not apply. On the other hand, if the exchange or modification is to be accounted for in the same manner as a debt extinguishment and the new debt instrument is initially recorded at fair value, then the fees paid or received from a counterparty shall be associated with the extinguishment of the old debt instrument and included in determining the debt extinguishment gain or loss to be recognised. If extinguishment accounting does not apply, then the fees paid to, or received from a counterparty, shall be associated with the replacement or modified debt instrument and, along with any existing unamortised premium or discount, amortised as an adjustment of interest expense over the remaining term of the replacement or modified debt instrument using the effective interest method.

Under IFRS Standards, IFRS 9:B3.3.6 indicates that if an entity accounts for an exchange of debt instruments or modification of terms as an extinguishment, it recognises any costs or fees "as part of the gain or loss on the extinguishment." If, however, the entity does not account for the exchange or modification as an extinguishment, any costs or fees incurred will result in an adjustment to the carrying amount of the liability and will be amortised "over the remaining term of the modified liability.

© Deloitte LLP. All rights reserved.

Recognition of the changes in contractual cash flows

A substantial modification or exchange is accounted for as a debt extinguishment, which can result in either a gain or a loss under both accounting frameworks (ASC 470-50-40-13 and IFRS 9:3.3.2).

IFRS 9:BC4.252 and 253 provide the clarification for the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in the derecognition of the financial liability. An entity recognises any adjustment to the amortised cost of the financial liability arising from such a modification or exchange in profit or loss at the date of the modification or exchange.

Under U.S. GAAP, however, if it is determined that the original and new debt instruments are not substantially different, then a new effective interest rate shall be determined based on the carrying amount of the original debt instrument, reflecting the modified terms (ASC 470-50-40-14). Therefore, under U.S. GAAP the entity does not recognise a gain or loss as a result of a non-substantial modification as required under IFRS Standards.

In addition, under IFRS Standards, if an entity extinguishes all or part of a financial liability by issuing equity instruments to a creditor, it must also consider the requirements of IFRIC 19. IFRIC 19:5 clarifies that "the issue of an entity’s equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid [in determining a debt extinguishment gain or loss] in accordance with IFRS 9:3.3.3."

Under U.S. GAAP, ASC 310-40 and ASC 470-60, provide specific guidance on accounting for troubled debt restructurings for the creditor and debtor, respectively. ASC 470-60-15-5 and 15-6 define a troubled debt restructuring as follows:

“A restructuring of a debt constitutes a troubled debt restructuring for purposes of this Subtopic if the creditor for economic or legal reasons related to the debtor’s financial difficulties grants a concession to the debtor that it would not otherwise consider.”

“That concession is granted by the creditor in an attempt to protect as much of its investment as possible. That concession either stems from an agreement between the creditor and the debtor or is imposed by law or a court…”

Troubled debt restructurings under U.S.GAAP will only result in gain recognition for the debtor if the undiscounted sum of all revised cash flows is lower than the carrying amount of the debt before renegotiation. Any gain is limited to the difference between the sum of the undiscounted revised cash flows and the carrying amount of the debt. Subsequently, there is no interest expense recognition and all payments are recorded against the liability.

Under IFRS Standards, IFRS 9 does not contain specific guidance on troubled debt restructurings and therefore a gain can be recognised in a troubled debt restructuring as in any other debt modification/extinguishment.

Finally, ASC 470-50 contains specific guidance when a modification or exchange involves a third party intermediary. The accounting treatment will vary depending on whether such intermediary is considered an agent (the activity of the third party is treated as if it were the activity of the debtor) or a principal (the third party is considered a debt holder like other debt holders) in respect of the debtor. There is no such specific guidance about this issue under IFRS Standards.

Comments

© Deloitte LLP. All rights reserved.

Section 12: Revenue recognition

12. Revenue recognition

Overview

The FASB and the IASB issued their final standards on revenue from contracts with customers in May 2014, which were largely converged. The standards, issued as ASU 2014-09, Revenue from Contracts with Customers (with subsequent amending ASUs) by the FASB and as IFRS 15, Revenue from Contracts with Customers by the IASB, outline a single comprehensive model for entities to use in accounting for revenue from contracts with customers and supersede most legacy revenue recognition guidance, including industry-specific guidance.

The core principle of the standards is to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. This core principle is the underpinning of the entire revenue framework and addresses the two most fundamental questions concerning revenue:

1. When should revenue be recognised?

   When the entity satisfies its obligations under a contract by transferring goods or services to its customer. That is, when the entity performs, it should recognise revenue.

2. How much revenue should be recognised?

   The amount to which the entity expects to be entitled to under the contract (i.e., an expected amount, so estimates may be required). The FASB and the IASB intentionally used the wording “be entitled” rather than “receive” or “collect” to distinguish collectability risk from other uncertainties that may occur under the contract.

The core principle is supported by five steps in the new revenue framework:

Step 1: Identify the contract with the customer;

Step 2: Identify the performance obligations;

Step 3: Determine the transaction price;

Step 4: Allocate the transaction price to the performance obligations; and

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

ASC 606 was effective for public entities for annual reporting periods beginning after 15 December 2017. Non-public entities were allowed a one year deferral. ASU 2020-05 issued on 3 June 2020 provided a further one year delay for non-public entities that had not yet issued their financial statements reflecting the adoption of the new standard.

IFRS 15 was effective for annual reporting periods beginning on or after 1 January 2018 with early adoption permitted. Therefore, non-public companies could adopt the new standard later under U.S. GAAP.

Following the issuance of the respective standards each Board has made a number of amendments to their respective standards. The following table provides the respective amendments, which are expected to produce similar outcomes under ASC 606 and IFRS 15. The FASB has made more amendments than the IASB and as a result differences may arise between the two standards in these areas. For companies converting to U.S. GAAP it will be necessary to consider the more detailed guidance provided by ASC 606.

Topic	ASC 606	IFRS 15
Collectability — criterion explanation and examples (see paragraphs BC9 through BC20 of ASU 2016-12)	ASU 2016-12 provides an additional explanation of the collectability threshold’s objective, as well as implementation guidance and examples.	No additional guidance provided.
Collectability — recognition criterion for contracts that fail step 1 (see paragraphs BC21 through BC28 of ASU 2016-12)	ASU 2016-12 adds a third criterion to allow revenue recognition when a contract fails step 1 (ASC 606-10-25-1).	Additional criterion not provided.

© Deloitte LLP. All rights reserved.

Immaterial goods or services (see paragraphs BC8 through BC18 of ASU 2016-10)	When identifying performance obligations, an entity is not required to assess immaterial items in the context of the contract as promised goods or services.	No guidance added to IFRS 15. Instead, an entity would assess whether the performance obligation is immaterial to its financial statements as described in IAS 8.
Licensing — when to consider the nature of an entity's promise in granting a license (see paragraphs BC66 through BC69 of ASU 2016-10)	ASU 2016-10 contains explicit guidance to indicate that when a bundle of goods or services is determined to be a single performance obligation that includes a license of IP, an entity should apply the license implementation guidance to determine whether revenue related to the performance obligation should be recognised over time (including an appropriate measure of progress) or at a point in time.	Guidance provided is less explicit.
Licensing — contractual restrictions (see paragraphs BC41 through BC47 of ASU 2016-10)	ASU 2016-10 contains explicit guidance to indicate that contractual provisions that explicitly or implicitly require an entity to transfer control of additional goods or services to the customer (e.g., additional rights) should be distinguished from contractual provisions that define attributes of a single promised license (e.g., restrictions of time or geography).	No guidance added to IFRS 15; however, the Basis for Conclusions explains that the license implementation guidance does not override the general model — specifically, the requirements for identifying performance obligations.
Contract costs — impairment testing	ASU 2016-20 clarifies that when an entity tests capitalised contract costs for impairment, it should (1) consider expected contract renewals and extensions and (2) include any amount of consideration not yet recognised as revenue (i.e., consideration already received and amounts expected to be received in the future).	No additional guidance provided.
Contract modifications example	ASU 2016-20 amends Example 7 in ASC 606-10-55-125 through 55-128 to better align the wording with the contract modification guidance in ASC 606-10-25-10 through 25-13.	No additional guidance provided.
Contract asset versus receivable	ASU 2016-20 amends Example 38, Case B, in ASC 606-10-55-285 and 55-286 to provide a better link between the analysis and the receivables presentation guidance in ASC 606.	No additional guidance provided.
Refund liability	ASU 2016-20 amends Example 40 in ASC 606-10-55-293 to remove the reference to a contract liability as related to refund liabilities.	No additional guidance provided.

© Deloitte LLP. All rights reserved.

Recently issued standards not yet reflected in this Section

None.

Primary authoritative guidance

- ASC 606, Revenue from Contracts with Customers
- ASC 340-40, Contracts with Customers
- IFRS 15, Revenue from Contracts with Customers

12.1 Has the entity evaluated the collectability threshold for recognising the revenue?

Yes

No

U.S. GAAP	**IFRS Standards**
A contract must meet the collectability threshold before the entity applies the revenue standard. It should be "probable" that the entity will collect the consideration in exchange for the goods or services transferred. Under U.S. GAAP, "probable" means "likely to occur". In practice, "probable" is interpreted as signifying a higher percentage (e.g. 70 percent or higher) than that under IFRS Standards.	A contract must meet the collectability threshold before the entity applies the revenue standard. It should be "probable" that entity will collect the consideration in exchange of the goods or services transferred. Under IFRS Standards, "probable" means "more likely than not" (i.e. greater than 50 percent).

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 606-10-25-1(e) indicates that in order to qualify as a contract, it should be probable (as defined in ASC 606-10-20) that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. It further states, "In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession."

Under IFRS Standards, IFRS 15:9(e) requires an evaluation as to whether it is probable (as defined in IFRS 15 and IAS 37) that the entity will collect the consideration to which it is entitled under the contract. In order to make this assessment, the entity should only consider the customer's ability and intention to pay the consideration when it is due. It may be the case that the consideration to which an entity is ultimately entitled will be less than the price stated in the contract, because the customer may be offered a price concession.

Since the definitions of "probable" are different under U.S. GAAP and IFRS Standards, it is possible, although in practice it would be expected to be rare, that contracts that do not meet the collectability threshold under U.S. GAAP may meet the collectability threshold under IFRS Standards.

Comments

12.2 Has the entity reversed or should the entity reverse impairment losses on the assets, earlier recognised as costs to obtain or fulfil a contract?

Yes

No

U.S. GAAP	**IFRS Standards**
Reversal of impairment losses on capitalised costs to obtain or fulfil a contract is prohibited.	Reversal of impairment losses on capitalised costs to obtain or fulfil a contract is required if the impairment conditions no longer exist or have improved. Reversals should be limited to the carrying amount, net of amortisation, that would have been determined if no impairment loss had been recognised.

© Deloitte LLP. All rights reserved.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 340-40-35-6 states that an entity shall not recognise a reversal of an impairment loss previously recognised.

Under IFRS Standards, IFRS 15:104 provides that reversal of some or all of an impairment loss previously recognised in accordance with IFRS 15:101 is recognised in profit or loss when the impairment conditions no longer exist or have improved. The increased carrying amount of the asset cannot exceed the amount that would have been determined (net of amortisation) if no impairment loss had been recognised previously.

Comments

12.3	Does the entity provide shipping and handling services, after control of the good is transferred to the customer?	Yes No

U.S. GAAP	IFRS Standards
U.S. GAAP provides an accounting policy election to entities to treat shipping and handling services that occur after the customer has obtained control of a good as a fulfilment cost rather than as a separate performance obligation.	IFRS 15 does not provide an accounting policy election. Entities are required to evaluate whether shipping and handling services constitute a separate performance obligation.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 606-10-25-18B states that if shipping and handling activities are performed after a customer obtains control of the good, then the entity may elect to account for shipping and handling as activities to fulfil the promise to transfer the good. The entity shall apply this accounting policy election consistently to similar types of transactions. An entity that makes this election would not evaluate whether shipping and handling activities are promised services to its customers. If revenue is recognised for the related good before the shipping and handling activities occur, the related costs of those shipping and handling activities shall be accrued.

Under IFRS Standards, IFRS 15, no such policy election is allowed and IFRS 15:BC116R-BC116U states that shipping and handling activities undertaken after the customer has obtained control of the related goods may represent a performance obligation in which case part of the revenue would be deferred and recognised when that performance obligation was satisfied.

Comments

12.4	Does the entity incur/collect any sales taxes from customers for goods and services transferred?	Yes No

U.S. GAAP	IFRS Standards
U.S. GAAP provides a policy election to present all sales taxes collected from customers on a net basis.	IFRS 15 does not provide an accounting policy election. Presentation of sales taxes on a net or gross basis will depend on the jurisdiction in which the entity operates.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 606-10-32-2A indicates that an entity may make an accounting policy election to exclude from the measurement of the transaction price 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

© Deloitte LLP. All rights reserved.

example, sales, use, value added, and some excise taxes). Taxes assessed on an entity's total gross receipts or imposed during the inventory procurement process shall be excluded from the scope of the election. An entity that makes this election shall exclude from the transaction price all taxes in the scope of the election and shall comply with the applicable accounting policy guidance, including the disclosure requirements in paragraphs 235-10-50-1 through 50-6.

Under IFRS Standards, IFRS 15 does not provide an accounting policy election. Entities are required to identify whether they have primary responsibility to pay the taxes or are only acting as a collection agent. If they are the primary obligor, they must include those taxes in the transaction price. IFRS 15:47 maintains that an entity shall consider the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both.

Comments

12.5	**Does the entity provide any licensing rights to its customers?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Under U.S. GAAP, determination of whether a license is a right to use or a right to access is based on the classification of the intellectual property underlying the license as either functional (right to use) or symbolic (right to access). Revenue for a right to use license is recognised at a point in time, whereas revenue for a right to access license is recognised over time.	Under IFRS Standards, determination of whether a license is a right to use versus a right to access is based on whether the customer can direct the use of, and obtain substantially all of the benefits from, the license at the point in time the license is granted. The customer can direct the use of, and obtain substantially all of the benefits from, the license if the underlying IP is not significantly affected by the entity's ongoing activities.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 606-10-55-58 states that in evaluating whether a license transfers to a customer at a point in time or over time, the entity should consider whether the nature of the entity's promise in granting the license to a customer is to provide the customer with either:

A. A right to use the entity's intellectual property as it exists at the point in time at which the license is granted;

B. A right to access the entity's intellectual property as it exists throughout the license period (or its remaining economic life, if shorter).

ASC 606-10-55-59, indicates that to determine whether the entity's promise is to provide a right to access its intellectual property or a right to use its intellectual property, the entity should consider the nature of the intellectual property to which the customer will have rights. Intellectual property is either:

A. Functional intellectual property. Intellectual property that has significant standalone functionality (for example, the ability to process a transaction, perform a function or task, or be played or aired). Functional intellectual property derives a substantial portion of its utility (that is, its ability to provide benefit or value) from its significant standalone functionality.

B. Symbolic intellectual property. Intellectual property that is not functional intellectual property (that is, intellectual property that does not have significant standalone functionality). Because symbolic intellectual property does not have significant standalone functionality, substantially all of the utility of symbolic intellectual property is derived from its association with the entity's past or ongoing activities, including its ordinary business activities.

Under IFRS Standards, IFRS 15:B58 states that the nature of an entity's promise in granting a license is a promise to provide a right to access the entity's intellectual property if all of the following criteria are met:

© Deloitte LLP. All rights reserved.

1. the contract requires, or the customer reasonably expects, that the entity will undertake activities that significantly affect the intellectual property to which the customer has rights;
2. the rights granted by the license directly expose the customer to any positive or negative effects of the entity's activities identified in IFRS 15:B58(a); and
3. those activities do not result in the transfer of a good or a service to the customer as those activities occur.

IFRS 15:B61 states that if the criteria in IFRS 15:B58 are not met, the entity has in effect provided a right to use the intellectual property as that intellectual property exists (in terms of form and functionality) at the point in time at which the license is granted to the customer.

The differences in this area are subtle and detailed consideration of the requirements of each standard will be necessary on a case-by-case basis in order to determine whether a difference exists in this area.

Comments

12.6 Do the licensing rights contracts have a renewal clause?

Yes

No

U.S. GAAP	IFRS Standards
The renewal or extension is subject to the "use and benefit" guidance in ASC 606-10-55-58C, the application of which will generally result in revenue recognition at the beginning of the renewal period.	The "use and benefit" guidance does not explicitly refer to renewals and as a result, revenue may be recognised earlier than it would be under U.S. GAAP.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 606-10-55-58C states that notwithstanding paragraphs 606-10-55-58A through 55-58B, revenue cannot be recognised from a license of intellectual property before both:

A. An entity provides (or otherwise makes available) a copy of the intellectual property to the customer.

B. The beginning of the period during which the customer is able to use and benefit from its right to access or its right to use the intellectual property. That is, an entity would not recognise revenue before the beginning of the license period even if the entity provides (or otherwise makes available) a copy of the intellectual property before the start of the license period or the customer has a copy of the intellectual property from another transaction.

Under IFRS Standards, there is no specific guidance around license renewals. Instead an entity should apply the contract modification guidance when a license is renewed or extended to evaluate whether the renewal or extension should be accounted for as a new license or as a modification of the existing contract. Consequently, as noted in IFRS 15:B61, revenue may be recognised earlier compared to U.S. GAAP.

Comments

12.7 Has the entity received any non-cash consideration?

Yes

No

U.S. GAAP	IFRS Standards
Under U.S. GAAP, non-cash consideration is measured at the inception of contract.	IFRS Standards do not prescribe a measurement date or clarify the application of variable consideration guidance for non-cash consideration.

© Deloitte LLP. All rights reserved.

The guidance on variable consideration applies only to variability resulting from reasons other than the form of the non-cash consideration.	

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 606-10-32-21 states that to determine the transaction price for contracts in which a customer promises consideration in a form other than cash, an entity shall measure the estimated fair value of the noncash consideration at contract inception.

ASC 606-10-32-23 states that the fair value of the noncash consideration may vary after contract inception because of the form of the consideration (for example, a change in the price of a share to which an entity is entitled to receive from a customer). Changes in the fair value of noncash consideration after contract inception that are due to the form of the consideration are not included in the transaction price. If the fair value of the non-cash consideration promised by a customer varies for reasons other than the form of the consideration, an entity shall apply the guidance on variable consideration in paragraphs 606-10-32-5 through 32-14. If the fair value of the non-cash consideration varies because of the form of the consideration and for reasons other than the form of the consideration, an entity shall apply the guidance in paragraphs 606-10-32-5 through 32-14 on variable consideration only to the variability resulting from reasons other than the form of the consideration.

Under IFRS Standards, IFRS 15:66 provides when a customer promises consideration in a form other than cash, an entity measures the non-cash consideration (or promise of non-cash consideration) at fair value. However, IFRS 15 does not prescribe a particular measurement date.

The date selected is expected to be one of the following:

- at contract inception;
- when the non-cash consideration is received (receivable); or
- at the earlier of when the non-cash consideration is received (receivable) and when the related performance obligation is satisfied.

In IFRS 15 Example 31 the fair value of shares received in exchange for providing weekly services under a one-year contract is measured at the end of each week.

IFRS 15:68 states that the fair value of the non-cash consideration may vary because of the form of the consideration (e.g. a change in the price of a share that an entity is entitled to receive from a customer). If the fair value of the non-cash consideration promised by a customer varies for reasons other than only the form of the consideration (e.g. the fair value could vary because of the entity’s performance), the requirements with respect to constraining variable consideration are applied.

U.S. GAAP (ASC 606-10-32-22) and IFRS Standards (IFRS 15:67) are similar when the fair value of the non-cash consideration cannot be reasonably estimated. In this situation, the consideration is measured indirectly by reference to the stand-alone selling price of the goods or services promised to the customer (or class of customer) in exchange for the consideration.

Comments

12.8	**Did the entity apply the modified retrospective method of transition to ASC 606 or IFRS 15 and elect the contract modification practical expedient?**	**Yes** **No**

U.S. GAAP	IFRS Standards
If an entity uses the modified retrospective method of transition and elects to use the contract modification practical expedient, the entity must apply that practical expedient as of the date of initial application of the new revenue standard.	If an entity uses the modified retrospective method of transition and elects to use the contract modification practical expedient, the entity may apply that practical expedient as of either (1) the date of initial application of

© Deloitte LLP. All rights reserved.

	the new revenue standard or (2) the beginning of the earliest period presented.

U.S. GAAP–IFRS Standards difference considerations

When transitioning to the new revenue standard under U.S. GAAP, an entity can elect to use either the "full retrospective method" under ASC 606-10-65-1(d)1 or the "modified retrospective method" under ASC 606-10-65-1(d)2. The modified retrospective method requires entities to apply the new revenue standard only to the current year financial statements (i.e. the financial statements for the year in which the new revenue standard is first implemented). For entities that use the modified retrospective method under ASC 606-10-65-1(d)2, ASC 606-10-65-1(h) provides the following transition guidance:

"The entity shall recognize the cumulative effect of initially applying the [new revenue standard] as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) of the annual reporting period that includes the date of initial application. Under this transition method, an entity may elect to apply this guidance retrospectively either to all contracts at the date of initial application or only to contacts that are not completed contracts at the date of initial application (for example, January 1, 2018, for an entity with a December 31 year end). Under this transition method, an entity may apply the practical expedient for contract modifications in ASC 606-10-65-1(f)(4)."

Under U.S. GAAP, ASC 606-10-65-1(f)(4) states that for contracts that were modified before the beginning of the earliest reporting period presented in accordance with the new revenue standard, an entity need not retrospectively restate the contract for those contract modifications in accordance with paragraphs 606-10-25-12 through 25-13. Instead, an entity shall reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented in accordance with the new revenue standard when:

I. Identifying the satisfied and unsatisfied performance obligations;

II. Determining the transaction price;

III. Allocating the transaction price to the satisfied and unsatisfied performance obligations.

Under IFRS Standards, IFRS 15:C7A, states that an entity applying the modified approach may also use the practical expedient either:

1. for all contract modifications that occur before the beginning of the earliest period presented; or
2. for all contract modifications that occur before the date of initial application.

Comments

12.9	**Does the entity have any completed contracts at the time of transition to ASC 606 or IFRS 15 and is presenting interim financial information in the period of transition?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
U.S. GAAP defines a completed contract as "a contract for which all (or substantially all) of the revenue has been recognized under legacy GAAP before the date of initial application." It makes no changes related to the full retrospective method.	IFRS 15 defines a completed contract as "a contract for which the entity has transferred all of the goods or services." If an entity uses the full retrospective method of transition, then IFRS 15 provides a practical expedient to elect not to restate contracts that are completed as of the beginning of the earliest period presented.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 606-10-65-1(c) states that a completed contract is a contract for which all (or substantially all) of the revenue was recognised in accordance with revenue guidance that is in effect before the date of initial application.

© Deloitte LLP. All rights reserved.

Under IFRS Standards, IFRS 15:C2 states that a completed contract is one for which the entity has transferred all of the goods or services. IFRS 15:C5 indicates that when an entity opts to use the fully retrospective approach, it is permitted to use one or more of the following practical expedients:

For completed contracts, the entity is not required to restate contracts that:

1. begin and end within the same annual reporting period; or
2. are completed contracts at the beginning of the earliest period presented.

Therefore a difference may arise with respect to interim periods for a contract that begins and ends in the same annual reporting period.

Comments

12.10	Does the entity have any provision for losses on construction-type and production-type contracts?	Yes No

U.S. GAAP	IFRS Standards
Under U.S. GAAP, provisions for losses on construction-type and production-type contracts may be determined at either the contract or performance obligation level.	Under IFRS Standards the onerous test should be performed at the contract level.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, the guidance on loss contracts was retained in ASC 605 since ASC 606 did not include specific guidance on loss contracts. ASC 605-35-25-47 states that if a group of contracts are combined based on the guidance in paragraph 606-10-25-9, they shall be treated as a single unit in determining the necessity for a provision for a loss. If contracts are not combined, the loss is determined at the contract level (see paragraph 605-35-25-45). As an accounting policy election, performance obligations identified in accordance with paragraphs 606-10-25-14 through 25-22 may be considered separately in determining the need for a provision for a loss. That is, an entity can elect to determine provisions for losses at either the contract level (including contracts that are combined in accordance with the guidance in paragraph 606-10-25-9) or the performance obligation level. An entity shall apply this accounting policy election in the same manner for similar types of contracts.

Under IFRS Standards, the IASB decided not to include requirements on onerous contracts in the new revenue recognition standards (refer IFRS 15:BC294-296) as they agreed that the existing requirements in IFRS Standards could adequately identify onerous contracts.

IAS 37:66 stipulates the identification of onerous contracts it is necessary to consider individual contracts to assess whether unavoidable costs of meeting the obligations under any contract exceed the economic benefit expected to be received under such contract.

Comments

© Deloitte LLP. All rights reserved.

Expenses

Section 13: Share-based payments

13. Share-based payments

Overview

A share-based payment arrangement is one in which (1) a supplier of goods or services (including an employee, director or non-employee) receives an award of stock, options, or other equity instruments or (2) an entity incurs a liability whose amount is based on the price of the entity's stock or other equity instruments, or incurs a liability that may be settled through issuance of the entity's own stock. The fundamental principles in accounting for share-based payment arrangements between U.S. GAAP and IFRS Standards are largely converged. Both ASC 718 and IFRS 2, require that share-based payments are initially recorded in the financial statements on the basis of their grant-date fair value (with certain exceptions). The subsequent accounting for such awards depends on the classification as equity or liability awards.

Whilst the fundamental principles are similar there are many differences in detail that may lead to significant differences in practice. Furthermore, because calculations need to be performed on an award-by-award basis determining the adjustment required to convert from one GAAP to another can require significant work.

This Section focuses on the significant differences between ASC 718 and IFRS 2 with respect to share-based payments. Accounting under U.S. GAAP and IFRS Standards may differ in other areas as a result of factors such as terminology differences (e.g., the definition of "grant date") or specific guidance that exists in U.S. GAAP but not in IFRS Standards; however, this Section does not address such differences.

Note that throughout this Section, when the term "fair value" is used, (1) under U.S. GAAP it means the fair-value-based measure determined in accordance with ASC 718, and not fair value as used in ASC 820, Fair Value Measurement, and (2) under IFRS Standards it means the fair value determined in accordance with IFRS 2, and not fair value as used in IFRS 13, Fair Value Measurement.

Note that according to ASC 718-10-S99-1, the SEC staff believes that application of the guidance in IFRS 2 on the measurement of employee share-based payments would generally result in a fair value measurement that is consistent with the fair value objective in ASC 718. On that basis, except as otherwise discussed in the questions below, the fair values used under IFRS 2 and ASC 718 would typically be the same.

Recent issued standards not yet reflected in this Section

None.

Primary authoritative guidance

- ASC 505-50, Equity: Equity-Based Payments to Non-Employees
- ASC 718, Compensation — Stock Compensation
- ASC 480, Distinguishing Liabilities from Equity
- IFRS 2, Share-based Payment

© Deloitte LLP. All rights reserved.

13.1 Does the entity have share-based payment awards with graded vesting features?

Yes

No

Graded vesting refers to an award that vests in stages over the award's contractual term, such as an award of 100 options that vests in equal annual instalments of 25 options per year over a four-year period.

U.S. GAAP

Recognition — For graded vesting share-based payment awards that only contain a service condition an entity has to choose as an accounting policy either to (1) recognise a charge on an accelerated basis to reflect the vesting as it occurs (which is similar to the method under IFRS Standards) or (2) amortise the entire grant on a straight-line basis over the longest vesting period.

Measurement — An entity may choose to measure graded vesting share-based payment awards as either a single award or, in substance, multiple awards.

IFRS Standards

Recognition — A compensation charge is recognised on an accelerated basis to reflect the vesting as it occurs.

Measurement — Graded vesting awards may only be measured as, in substance, multiple awards.

U.S. GAAP–IFRS Standards difference considerations

Recognition

Under U.S. GAAP, ASC 718-10-35-8 provides two methods of recognising compensation expense for awards that have graded vesting features and service conditions[1] only:

- accelerated method — an entity recognises compensation cost "over the requisite service period for each separately vesting portion of the award as if the award was, in-substance, multiple awards". This approach is similar to the treatment under IFRS 2. Each portion is treated as a separate grant, because each portion has a different vesting period.
- straight-line method — an entity recognises compensation cost "[o]n a straight-line basis over the [total] requisite service period for the entire award (that is, over the requisite service period of the last separately vesting portion of the award)."

See ASC 718-20-55-25 through 55-34 for an illustration of both methods.

The choice of method is solely an accounting policy decision and does not affect an entity's choice of valuation technique (discussed further below) for such awards. The entity should make a policy election upon the first issuance of graded vesting awards, and apply the chosen policy consistently to all awards with similar features granted. If the entity uses the straight-line method, the amount of compensation cost that is recognised on any date should at least equal the grant-date fair value of the vested portion of the award on that date.

Under IFRS Standards, IFRS 2:IG11 states that share-based compensation expense is recognised on an accelerated method in a manner consistent with the accelerated method under U.S. GAAP, as described above.

Accounting under U.S. GAAP and IFRS Standards will differ for an entity that adopts the straight-line method under U.S. GAAP for share-based payment awards with graded vesting features and service conditions only. Compensation expense will be accelerated for entities converting from the U.S. GAAP straight-line method to IFRS Standards.

Measurement

Under U.S. GAAP, an entity is allowed to choose how it will measure its graded vesting share-based payment awards. That is, an entity may choose to value such an award as either a single award or, in substance, multiple awards. If an entity chooses to value its graded vesting award as a single award, the entity will determine a single grant-date fair-value-based measure for the entire award. In contrast, if an entity chooses to value a graded vesting award as, in substance, multiple awards, the entity will determine a separate grant-date fair-value-based measure for each separately vesting portion of the award.

Under IFRS Standards, an entity is required to measure its graded vesting awards as, in substance, multiple awards, in a manner consistent with the multiple award valuation method under U.S. GAAP, as described above.

[1] A service condition is a condition that requires an individual to remain employed by an entity for a specified period to earn the right to the related equity instrument (i.e. to vest).

© Deloitte LLP. All rights reserved.

Thus, an entity applying U.S. GAAP that chooses to value its graded vesting awards as a single award (whereby fair value is computed using an average expected term for all tranches in the aggregate as one award) will most likely record a different amount of total compensation cost for graded vesting awards than an entity applying IFRS Standards (whereby fair value is computed using different expected lives for each vesting tranche).

Finally, computing compensation expense may be more complicated under IFRS Standards than under the U.S. GAAP straight- line method because under IFRS Standards each tranche must be accounted for as a separate grant.

Comments

13.2 Has the entity entered into share-based payment arrangements with non-employees?

Yes

No

See ASC 718-10-20 and Appendix A of IFRS 2 for the definition of an employee, which differs under the two standards. An individual who does not satisfy the definition of an employee, or is not otherwise treated as an employee (such as a nonemployee director acting in his or her role as a member of the board of directors), is a nonemployee.

U.S. GAAP

Most of the guidance on share-based payments to nonemployees is aligned with the requirements for share-based payments granted to employees; however, differences to IFRS Standards will remain with respect to measurement whereby the fair value of nonemployee awards will always be measured based on the fair value of the equity instruments issued.

Nonemployee awards are measured in the same manner as employee awards under ASC 718. Equity instruments are measured at fair value on the grant date, with the exception of certain inputs used in the calculation of expected term.

IFRS Standards

Measurement date — The measurement date is the date the entity obtains the goods or the counterparty renders service.

Measurement — Measurement is based on the fair value of the goods or services received, except in rare cases when the fair value cannot be estimated reliably, in which case the fair value of the equity instruments issued is used. If the awards are subject to counterparty performance conditions, measurement must be based on the expected outcome of the performance condition for share-based payment awards issued.

Completion of performance — There is no guidance on the accounting treatment once performance is completed.

U.S. GAAP–IFRS Standards difference considerations

In June 2018 the FASB issued ASU 2018-07, to simplify the accounting for share-based payment awards to nonemployees for goods and services. ASU 2018-07 is effective for public business entities for fiscal years beginning after 15 December 2018 including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after 15 December 2019 and interim periods within fiscal years beginning after 15 December 2020. Early adoption is permitted if financial statements have not been issued (for public business entities) or yet been made available for issuance (for all other entities). The discussion below reflects the revised guidance under ASU 2018-07.

Measurement date

Under U.S. GAAP, ASC 718-10-30-3 states the measurement date for a non-employee equity classified award will be the grant date.

Under IFRS Standards, IFRS 2:13 states that the measurement date for non-employee equity instruments issued in share-based payment transactions is “the date the entity obtains the goods or the counterparty renders service.” Furthermore, IFRS 2:IG6 states, “If the goods or services are received on more than one date, the entity should measure the fair value of the equity instruments granted on each date when goods or services are received. The entity should apply that fair value when measuring the goods or services received on that date.” IFRS 2:IG7 also allows for the use of an approximation if the entity received services continually over a period.

Measurement

© Deloitte LLP. All rights reserved.

Under U.S. GAAP, non-employee awards are measured on the basis of the fair value of the equity instruments issued.

Under IFRS Standards, IFRS 2:13 states that there is a "rebuttable presumption that the fair value of the goods or services received" in a share-based payment transaction with nonemployees is more reliably measurable than the fair value of the equity instruments issued. Therefore, an entity should measure a share-based payment transaction with a non-employee at the fair value of the goods or services received. In the rare case that the fair value of the goods or services cannot be estimated reliably, the entity must use the fair value of the equity instruments issued.

In circumstances when the value of goods received, or services rendered, is greater than the value of the awards to nonemployees there will be differences between U.S. GAAP and IFRS Standards. When this scenario occurs U.S. GAAP will recognise a lower amount of compensation cost compared to IFRS Standards. Conversely, if the fair value of goods received (services rendered) is less than the value of the awards, the compensation cost recognised may be equal as IFRS 2 allows for the recognition of the excess amount.

Completion of performance

Under U.S. GAAP, classification of employee and nonemployee awards remain with the scope of ASC 718 unless they are modified after the awards vest and the nonemployee is no longer providing goods and services (except under an equity restructuring that meets certain criteria). An exception, however, is a non-employee award that is granted in the form of a convertible instrument and was originally in the scope of ASC 718. Such an award is subject to other guidance in U.S GAAP after it vests, including ASC 470-20.

Under IFRS Standards, there is no specific guidance on the accounting treatment once performance is completed. While the principles underlying IFRS Standards do not preclude an entity from reaching the same conclusion it would reach under U.S. GAAP, there may be accounting differences because the guidance in U.S. GAAP discussed above is not included in IFRS Standards. In addition, differences in the definition of a derivative, including scope exceptions, may also lead to a different conclusion under U.S. GAAP and IFRS Standards.

Comments

13.3 Does the entity have share-based payment arrangements whose conditions are indexed to a factor in addition to the entity's share price and are not market, performance, or service conditions?

Yes

No

Examples of awards indexed to something other than market, performance, or service conditions include (1) a stock option with an exercise price that is indexed to the market price of a commodity (e.g., platinum, soybeans, or live cattle); (2) an award that vests because of the appreciation of the price of a commodity (e.g., natural gas) and the entity's shares and is thus indexed to both the value of that commodity and the entity's shares; and (3) a stock option with an exercise price that is indexed to the CPI.

U.S. GAAP	IFRS Standards
Such arrangements are classified as a liability, and the additional factor should be reflected in the fair value of the award.	For classification, IFRS Standards focus on whether the award can be cash settled. The award may not be classified as a liability unless it is cash settled. The additional factor may meet the definition of a "non-vesting" condition and thus should be reflected in the fair value of the award.

U.S. GAAP–IFRS Standards difference considerations

An award may include conditions that affect vesting, exercisability, or other conditions relevant in the measurement of fair value that are not market, performance, or service conditions (see above for examples). Under U.S. GAAP, ASC 718-10-25-13 states that "the award shall be classified as a liability . . . and the additional factor shall be reflected in estimating the fair value of the award." For example, the CPI factor does not meet the definition of a market, performance, or service condition and, accordingly, an award with an exercise price indexed to the CPI will need to be classified as a liability and remeasured as of each reporting date until settlement.

© Deloitte LLP. All rights reserved.

Nevertheless, an exception under U.S. GAAP permits equity classification of certain awards (assuming the other criteria for equity classification are met). ASC 718-10-25-14 states:

"[A]n award of equity share options granted to an employee of an entity's foreign operation that provides for a fixed exercise price denominated either in the foreign operation's functional currency or in the currency in which the employee's pay is denominated shall not be considered to contain a condition that is not a market, performance, or service condition. Therefore, such an award is not required to be classified as a liability if it otherwise qualifies as equity. For example, equity share options with an exercise price denominated in euros granted to employees of a U.S. entity's foreign operation whose functional currency is the euro are not required to be classified as liabilities if those options otherwise qualify as equity. In addition, such options are not required to be classified as liabilities even if the functional currency of the foreign operation is the U.S. dollar, provided that the employees to whom the options are granted are paid in euros."

ASC 718-10-25-14A permits equity classification (if the other criteria for equity classification are met) of a share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades. For example, a parent entity whose functional currency is the Canadian dollar grants equity share options with an exercise price denominated in U.S. dollars to employees of a Canadian entity with the functional and payroll currency of the Canadian dollar. If a substantial portion of the parent entity's equity securities trades on a U.S. dollar denominated exchange, the options are not precluded from equity classification.

Under IFRS Standards, the key determinant of whether a share-based payment arrangement should be accounted for as a liability or as equity-settled is whether cash or equity instruments will be transferred in return for goods or services received. IFRS 2 states that only cash-settled share-based payment arrangements are recognised as liabilities. Therefore, share-based arrangements that are linked to a factor other than a market, performance, or service condition will not be classified as liabilities if equity instruments are provided as consideration for goods and services received. Note that in accordance with IFRS 2:21A, the additional factors are considered non-vesting conditions and should be taken into account when the fair value of the award is estimated.

Comments

13.4 Does the entity have share-based payments whose service inception date precedes the plan approval date?

Yes

No

The service inception date is the date on which the requisite service period begins and is usually the grant date. The grant date is the date on which an employer and an employee reach a mutual understanding of the key terms and conditions of a share-based payment award.

U.S. GAAP	IFRS Standards
The service inception date can precede the grant date, if certain conditions are met, but cannot precede the plan approval date.	The service inception date can precede the grant date, but there is no specific guidance on whether the service inception date can precede the plan approval date.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 718-10-35-6 distinguishes between the service inception date and the grant date. The service inception date is the date on which the requisite service period begins and is usually the grant date. While the service inception date can precede the grant date, the service inception date cannot precede the date on which the plan receives the necessary approvals (including shareholder approval). If the service inception date precedes the grant date, compensation cost is remeasured on the basis of the award's estimated fair value at the end of each reporting period to the extent that service has been rendered relative to the total requisite service period.

In the period the grant date occurs, cumulative compensation cost is adjusted to reflect the cumulative effect of measuring compensation cost on the basis of the grant date fair value. Refer to Example 6 in ASC 718-10-55-107 through 55-115 for an illustration.

Under IFRS Standards, IFRS 2:IG4 specifies a similar accounting treatment for awards for which the grant date occurs after the service inception date. However, IFRS 2 does not provide any conditions in which the service inception date

© Deloitte LLP. All rights reserved.

cannot precede the plan approval date. Accordingly, when it precedes the plan approval date, the service inception date may differ under U.S. GAAP and IFRS Standards.

Comments

13.5 Has the entity modified an award with a service or performance condition that was not originally expected to vest (i.e. improbable), but is now expected to vest (i.e. probable) as a result of the modification?

Yes

No

An entity may modify a share-based payment arrangement by substituting a vesting condition that is not expected to be achieved for one that is expected to be achieved. Under U.S. GAAP, this is referred to as a Type III (improbable-to-probable) modification.

U.S. GAAP	IFRS Standards
Compensation cost is based on the modified award's fair value as of the modification date.	Compensation cost is based on the grant-date fair value of the original award plus the incremental value of the modified award as determined on the modification date.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 718-20-35-2A states that an entity shall account for the effects of a modification as described in ASC 718-20-35-3 through 35-9, unless all the following are met:

A. the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification.

B. the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified.

C. the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified.

ASC 718-20-35-3 states that a modification of a share-based payment award "shall be treated as an exchange of the original award for a new award." Therefore, for a Type III (improbable-to-probable) modification, compensation cost is recognised for the modified award under U.S. GAAP on the basis of the fair value on the modification date in accordance with ASC 718-20-55-116 and 55-117. The award's original grant-date fair value is ignored.

Under IFRS Standards, IFRS 2:26–29 treat Type III modifications as affecting only the number of instruments that are likely to vest. That is, at a minimum, the fair value on the original grant date of the award is used to calculate the compensation cost. However, if the fair value of the modified award exceeds the fair value of the original award, as both determined on the modification date, IFRS 2 requires the entity to include the incremental fair value granted in the measurement of the compensation cost, in addition to the original grant date fair value.

The following example illustrates the differences under U.S. GAAP and IFRS Standards with respect to a Type III modification. On 1 February 2018, an entity grants its vice president of marketing 5,000 at-the-money options with a performance condition that the awards will vest only if the market share of Product A increases 20 percent by 31 December 2018. On 30 September 2018, Product A's market share has increased only 12 percent, and the 20 percent goal is not expected to be achieved. On that date, the entity modifies the performance condition to require only a 15 percent increase in market share, which is expected to be achieved. The fair value of each option was $50 on the grant date and $30 on the date of the modification.

Under ASC 718, total compensation cost of $150,000 ($30 fair value on the modification date × 5,000 options expected to vest under the modified target) is recognised over the remaining service period if the modified target in the example is ultimately satisfied.

© Deloitte LLP. All rights reserved.

Under IFRS 2, the modification in the example would be accounted for as a change only in the number of options expected to vest (from 0 to 5,000), and the full grant-date fair value of the award ($250,000, or $50 × 5,000) would be recognised over the remainder of the service period (in this example, no incremental value results from the modified award since the fair value of the modified award is equal to the fair value of the original award because both are determined as of the modification date). The result is the same as if the modified performance condition had been in effect on the grant date.

Accordingly, in accounting for share-based payment awards that are modified and are now expected to vest as a result of the modification (i.e. modified from improbable to probable), entities applying U.S. GAAP will record a lower amount of total compensation cost than entities applying IFRS Standards when the original grant-date fair value is higher than the modified-date fair value of the award.

Comments

13.6	**Has the entity modified an equity-settled share-based payment arrangement to add an employee option to choose a cash alternative (i.e. equity to liability modification)?**	**Yes** **No**

U.S. GAAP	IFRS Standards
When the fair value of a modified award is less than or equal to the fair value of the original award, the offsetting amount is recorded to additional paid in capital ("APIC"). When the fair value of a modified award is greater than the fair value of the original award, the excess is recognised as compensation cost.	The difference between the grant-date fair value of the original award and the carrying amount of the liability on the modification date is recognised in equity. Subsequent remeasurement of the liability to fair value at each reporting date and at the date of settlement is recognised in profit or loss.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 718-20-35-2A states that an entity shall account for the effects of a modification as described in ASC 718-20-35-3 through 35-9, unless all the following are met:

A. the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification.

B. the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified.

C. the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified.

An entity may decide, during the vesting period for an equity-settled transaction, to add an employee option to choose a cash alternative.

ASC 718-20-35-3 indicates that a modification that changes an award's classification from an item of equity to a liability is accounted for in the same manner as any other modification. To record the new liability award, the entity recognises a share-based liability for the portion of the award related to prior service, multiplied by the modified award's fair value. If the fair value of the modified award is less than or equal to the fair value of the original award, the offsetting amount is recorded to APIC (i.e. the final compensation cost cannot be less than the grant-date fair value). However, if the fair value of the modified award is greater than the fair value of the original award, the excess is recognised as compensation cost either immediately (for vested awards) or over the remaining service (vesting) period (for unvested awards). Because the award is now classified as a liability, it is remeasured at fair value each reporting period until its settlement. See ASC 718-20-55-123 through 55-133 for an example.

Under IFRS Standards, IFRS 2:27 states that an entity must recognise in profit or loss the effects of modifications that increase the total fair value of a share-based payment arrangement. The modification to the share-based payment to

© Deloitte LLP. All rights reserved.

add a cash alternative does not increase the total fair value of the share-based payment arrangement on the date of the modification. Therefore, when a cash alternative has been added to a share-based arrangement, the entity continues to recognise an IFRS 2 charge for the services received during the vesting period in accordance with the grant-date fair value of the shares.

However, the addition of the cash alternative creates an obligation to settle in cash. In accordance with IFRS 2:30–33, an entity must recognise a liability on the basis of its fair value on the modification date (considering the extent to which services have been rendered), with a corresponding entry to equity. Therefore, the difference between the grant-date fair value of the original equity award and the carrying amount of the liability on the modification date is recognised in equity.

Comments

13.7	**Is the entity liable for payroll taxes (e.g., social security contributions) for share-based payments issued under employee compensation arrangements?**	**Yes** **No**

U.S. GAAP	IFRS Standards
Liability is recognised in the period the payroll taxes are levied (generally on exercise of the award).	Liability is recognised as of the grant date or as services are provided over the vesting period and measured at fair value or intrinsic value.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 718-10-25-22 states that a liability for payroll taxes associated with share-based payment awards issued under employee stock compensation arrangements is recognised on the date of the event triggering the measurement and payment of the tax to the taxing authority. Therefore, the liability for payroll taxes is recognised only when the tax is levied — which typically occurs when the option is exercised.

Under IFRS Standards, IFRS 2 does not specifically address the accounting for payroll taxes related to share-based payments. However, the basic principles of IAS 37, Provisions, Contingent Liabilities and Contingent Assets, and IAS 19, Employee Benefits, apply, and accordingly, there are two possible methods for the recognition of payroll taxes related to share-based payments:

- under IAS 37 — a liability for payroll taxes is recognised as of the date of grant because the “obligating event” is the granting of the options by the entity rather than the exercise of them by the employees.
- under IAS 19 — since staff costs are generally within the scope of IAS 19, the liability for payroll taxes is built up over the vesting period as services are provided.

Measuring the liability at fair value on the same basis as that used under IFRS 2 is preferred, although it is acceptable to use the intrinsic value as of the reporting date rather than the fair value determined under an option pricing model, since the liability is outside the scope of IFRS 2.

Comments

© Deloitte LLP. All rights reserved.

13.8 Has the entity granted share-based payment awards with contingent features? **Yes** **No**

An example of a contingent feature is a clawback, which typically requires that an employee return the award if certain conditions are met (such as if the employee terminates the employment relationship and begins to work for a competitor).

U.S. GAAP	IFRS Standards
A contingent feature (e.g., clawback) of a share-based payment award must be excluded from the computation of grant-date fair value. Instead, a contingent feature is accounted for if and when the contingent event occurs.	A contingent feature is considered a non-vesting condition and included in the computation of grant-date fair value.

U.S. GAAP–IFRS Standards difference considerations

U.S. GAAP, ASC 718-10-30-24 indicates that a contingent feature of a share-based payment award (e.g., a clawback feature) that "might cause an employee to return to the entity" either (1) the vested award or (2) the realised gains from the sale of the shares issued upon exercise or vesting of the award are not reflected in the grant-date fair value of the award. Rather, ASC 718-20-35-2 states that the effect of such a contingent feature "shall be accounted for if and when the contingent event occurs." If contingent feature occurs, the transaction is accounted for by recognising the consideration received in the respective balance sheet account and recognising a credit to the income statement equal to the lessor of either (1) the recognised compensation cost of the share-based award subject to the contingent feature or (2) the fair value of the consideration received from the sale of the share-based award subject to the contingent feature.

Under IFRS Standards, IFRS 2 states that since a contingent feature is not included in the definition of a vesting condition, it is deemed a non-vesting condition and factored into the grant-date fair value of the share-based payment award (consistent with the measurement of all non-vesting conditions under IFRS Standards). Therefore, as long as the award is earned, the compensation cost will not be reversed regardless of whether the contingent event occurs.

Because the accounting for a contingent feature differs under U.S. GAAP and IFRS Standards, entities applying U.S. GAAP may not have to account for a contingent event. That is, the grant-date fair value of the share-based payment award excludes the impact of the contingent feature. In addition, if the contingent event does not occur, no additional accounting is required. In contrast, entities applying IFRS Standards include the contingent event in the grant-date fair value of the award (which most likely results in a lower grant-date fair value). However, under IFRS Standards, if the award is earned, regardless of whether the contingent event occurs, the entity will not be able to reverse the previously recognised compensation cost.

Comments

13.9 Has the entity issued options or similar instruments under employee compensation arrangements that can be redeemed for cash at fair value upon the occurrence of a contingent event? **Yes** **No**

U.S. GAAP	IFRS Standards
An exception to initial liability classification is provided for options and similar instruments that can be redeemed for cash at fair value upon the occurrence of a contingent event if the event's occurrence is not probable.	There is no specific exception to initial liability classification for awards that can be redeemed for cash at fair value upon the occurrence of a contingent event. However, for awards involving a contingent event that is outside the control of both the entity and the employee, a model similar to that described in U.S. GAAP is generally used. Thus, these awards initially may not be classified as liabilities.

© Deloitte LLP. All rights reserved.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 718-10-25-11(b) indicates that options or similar instruments issued as employee compensation that can be cash-settled only "upon the occurrence of a contingent event that is outside the employee's control" (e.g., upon a change in control) are classified as equity awards "until it becomes probable that [the contingent] event will occur." That is, ASC 718-10-25-11(b) provides an exception to initial liability classification for such instruments. ASC 718-10-25-9 provides a similar exception for contingently puttable shares. Note that SEC registrants are required to present such an award outside of permanent equity in accordance with SEC Accounting Series Release No. 268 (FRR Section 211), Redeemable Preferred Stocks, and ASC 480-10-S99-3A, Distinguishing Liabilities From Equity: Overall: SEC Materials.

ASC 718-10-35-15 also states, "An option or similar instrument that is classified as equity, but subsequently becomes a liability because the contingent cash settlement event is probable of occurring, shall be accounted for similar to a modification from an equity to liability award".

Under IFRS Standards, there is no specific guidance on awards that can be cash-settled on the basis of contingent events. That is, IFRS Standards do not provide an explicit exception to initial liability classification for such instruments. However, for awards that can be cash-settled upon events that are outside the control of both parties, the entity and the employee (e.g., a change in control), a model similar to that described in ASC 718-10-25-11(b) is generally used in practice. That is, if the contingent event's occurrence is probable, the share-based payment should be classified as cash settled. If the event's occurrence is not probable and the share-based payment would otherwise be classified as equity, it may be appropriate to classify as equity settled. Companies in these circumstances should consult with their advisers to ensure they have the most up-to-date views on the topic.

The assessment of whether the occurrence of a contingent event is probable should be made as of the grant date and as of each subsequent reporting period. If the assessment of the occurrence of the contingent event changes after the grant date, accounting for a change from an equity-settled share-based payment to a cash-settled share- based payment applies, as indicated in IFRS 2:27–29.

It should also be noted that the definition of probable differs under U.S. GAAP and IFRS Standards. Please see Question 10.1 for guidance.

Comments

13.10	**Has the entity granted share awards (e.g., non-vested awards) under employee compensation arrangements that require the entity to repurchase the shares, upon request by the employee, for cash equal to the shares' fair value?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
The award does not have to be classified as a liability if the employee bears the risks and rewards of share ownership for a period of at least six months after the requisite service has been provided.	The award must be classified as a liability.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 718-10-25-9 indicates that share awards (e.g., non-vested awards) that require an employer to repurchase shares upon an employee's rendering of the requisite service, at the employee's option, for cash equal to the shares' fair value (puttable shares) are classified as liability awards unless the repurchase feature subjects the employee to the risks and rewards of share ownership for a reasonable period. A "reasonable period" is considered to be six months or more after the date the requisite service is rendered and the shares are issued or in the case of options from the date of exercise. Therefore, share awards that can only be repurchased for cash at fair value more than six months after the date the requisite service is rendered are classified as equity awards (as long as they do not meet any other liability classification criteria provided in ASC 718). Note that if an employee can require an employer to repurchase share awards after the requisite service is rendered but elects not to have the employer repurchase the

© Deloitte LLP. All rights reserved.

awards and therefore holds the awards for a reasonable period, the employer may reclassify the awards from liability awards to equity awards after the expiry of such reasonable period.

Note that this exemption from liability classification does not preclude the application of the SEC guidance on the classification of redeemable securities to determine the classification of awards as provided in FRR Section 211 and ASC 480-10-S99-3A.

ASC 480-10-15-7A-F give non-public entities that are not SEC registrants an indefinite deferral from liability classification for shares that are mandatorily redeemable for cash at fair value. Therefore, if all other criteria for equity classification have been met, a share award (1) granted by a non-public entity that is not an SEC registrant, (2) that is mandatorily redeemable for cash at fair value, and (3) that otherwise would have been classified as a liability under ASC 480, if not for the exception in ASC 480-10-15-7A-7F, is classified as an equity award.

Under IFRS Standards, IFRS 2 states that share awards that require an employer to repurchase the shares upon an employee's rendering of the requisite service, at the employee's option, for cash equal to the shares' fair value (puttable shares) are classified as liability awards. That is, IFRS 2, unlike ASC 718, does not provide an exception to liability classification for share awards that can only be repurchased more than six months after the date a requisite service is rendered.

Note that the fair value of an equity award is measured as of the grant date and attributed over the service period, whereas a liability award is initially measured at fair value as of the grant date and then remeasured at fair value at each reporting period until settlement.

Comments

13.11 Has the entity granted share-based payment awards with cash redemption features that are not solely within the control of the entity but are not otherwise classified as a liability under U.S. GAAP?

Yes

No

An example of a share-based payment award that is not solely within the control of the entity includes shares that are redeemable at the employee's discretion after a six-month holding period.

U.S. GAAP	IFRS Standards
SEC registrants must classify redeemable share-based payment awards as temporary equity that would otherwise have been recorded in permanent equity.	There is no concept of temporary equity. Share-based payment awards are classified as either equity or liability awards.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, an SEC registrant that grants a share-based payment award with cash redemption features that are not solely within the entity's control and that otherwise would be classified as an equity award (as discussed in Questions 13.9 and 13.10) must classify that award in temporary equity in accordance with ASC 480-10-S99-3A(4). ASC 480-10-S99-3A(12a) and 3A(14–16) indicate the following:

- a redeemable equity instrument that is a share-based payment is initially included in temporary equity on the basis of its redemption amount (e.g., fair value, intrinsic value) and the proportion of consideration received in the form of employee service to date.
- share-based payment awards that are classified in temporary equity are subsequently remeasured at their redemption amount and the proportion of employee services received to date through retained earnings at the end of each reporting period.
- remeasurement of the redemption amount is not required for share-based payment awards that are classified in temporary equity and contingently redeemable if it is not probable they will become redeemable.

Note that, under U.S. GAAP, awards redeemable at fair value that are classified as temporary equity must be initially measured at their redemption amount and then, if currently redeemable, must be remeasured at this amount as of each reporting period through retained earnings until settlement.

© Deloitte LLP. All rights reserved.

Under IFRS Standards there is no concept of temporary equity and therefore the usual requirements for classifying a share-based payment award as an equity award or a liability award should be applied.

Comments

13.12 Has the entity granted share-based payment awards under employee compensation arrangements with a contingent call feature within the control of the entity?

Yes

No

For example, an entity may elect to repurchase shares if an employee is terminated without cause.

U.S. GAAP	IFRS Standards
Liability classification is required if it is considered probable that awards would be called before an employee bears the risks and rewards for a reasonable period (e.g., within a six-month period from the date of issuance).	Liability classification is required if an entity has a present obligation to settle in cash.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 718-10-25-9(b) requires liability classification of share-based awards when the issuer (employer) has the ability to call the shares upon the vesting of the award and it is probable that the call will be exercised before the employee has been subject to the normal risks and rewards associated with share ownership for a “reasonable period of time,” which is defined as a period of six months from the date the shares have vested.

The evaluation of contingent events should be reassessed each reporting period through the contingency period. If circumstances change and the award is reclassified from equity to liability, or vice versa, the classification should be accounted for in a manner similar to a modification under ASC 718-20-35-3.

Under IFRS Standards, an entity that has the ability to call the share-based awards is required under IFRS 2:41 to determine whether it has a present obligation to settle the awards in cash. IFRS 2:41 states, “The 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, or generally settles in cash whenever the counterparty asks for cash settlement.” In these cases, IFRS 2:42 requires the entity to account for the transaction as a cash-settled share-based payment and remeasure the fair value of the liability as of each reporting date until settlement.

Otherwise, if the entity has no present obligation to settle the transaction in cash, IFRS 2:43 states, in part:

“[T]he entity shall account for the transaction in accordance with the requirements applying to equity- settled share-based payment transactions, in paragraphs 10–29. Upon settlement:

A. if the entity elects to settle in cash, the cash payment shall be accounted for as the repurchase of an equity interest, i.e. as a deduction from equity . . . .

B. if the entity elects to settle by issuing equity instruments, no further accounting is required (other than a transfer from one component of equity to another, if necessary).”

Comments

© Deloitte LLP. All rights reserved.

13.13 Has the entity granted share-based payment awards that allow (or mandate) the employer to repurchase (or net settle) shares issued upon exercise (or vesting) to satisfy the employer's minimum statutory withholding requirements for an employee?

Yes

No

Note that "minimum statutory withholding" refers to the taxes due to the relevant tax authority by the employee (federal, state and local income taxes as well as employment taxes) at the time of exercise (or vesting) and withheld by the employer on the employee's behalf.

This question does not apply to a broker-assisted cashless exercise that meets the criteria in ASC 718-10-25-16.

U.S. GAAP	IFRS Standards
There is an exception to liability classification for share-based payment awards that can be redeemed, in part, for cash at fair value to cover the employer's statutory withholding requirements for an employee. However, if the settlement amount of the awards exceeds the withholding limit then, the entire award is classified as a liability.	An entity that is statutorily required to settle taxes of a share-based payment arrangement by withholding a portion of the equity instruments should classify the award as equity-settled in its entirety. If the settlement for the taxes exceeds the withholding limit then, only the excess number of equity shares withheld will be separated and accounted for as a cash-settled share-based payment.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 718-10-25-18 states that the amount withheld cannot exceed the maximum statutory tax rates in the employees' applicable tax jurisdictions. The maximum statutory tax rates are based on the applicable rates of the relevant tax authorities (for example, federal, state, and local), including the employee's share of payroll and similar taxes, as provided by the tax law, regulations, or the authority's administrative practices, not to exceed the highest statutory tax rate in that jurisdiction, even if that rate exceeds the highest rate that may be applicable to the specific award grantee.

Under IFRS Standards, IFRS 2:33E states that tax laws or regulations may oblige an entity to withhold an amount for an employee's tax obligation associated with a share-based payment and transfer that amount, normally in cash, to the tax authority on the employee's behalf. To fulfil this obligation, the terms of the share-based payment arrangement may permit or require the entity to withhold the number of equity instruments equal to the monetary value of the employee's tax obligation from the total number of equity instruments that otherwise would have been issued to the employee upon exercise (or vesting) of the share-based payment (i.e. the share-based payment arrangement has a 'net settlement feature').

IFRS 2:33F provides that the transaction described in IFRS 2:33E shall be classified in its entirety as an equity-settled share-based payment transaction if it would have been so classified in the absence of the net settlement feature.

IFRS 2:33G states that the entity applies IFRS 2:29 to account for the withholding of shares to fund the payment to the tax authority in respect of the employee's tax obligation associated with the share-based payment. Therefore, the payment made shall be accounted for as a deduction from equity for the shares withheld, except to the extent that the payment exceeds the fair value at the net settlement date of the equity instruments withheld.

IFRS 2:33H provides that the exception in IFRS 2:33F does not apply to:

1. a share-based payment arrangement with a net settlement feature for which there is no obligation on the entity under tax laws or regulations to withhold an amount for an employee's tax obligation associated with that share-based payment; or
2. any equity instruments that the entity withholds in excess of the employee's tax obligation associated with the share-based payment (i.e. the entity withheld an amount of shares that exceeds the monetary value of the employee's tax obligation). Such excess shares withheld shall be accounted for as a cash-settled share-based payment when this amount is paid in cash (or other assets) to the employee.

Note that the fair value of an equity award is measured as of the grant date, whereas a liability award is initially measured at fair value as of the grant date and then remeasured at fair value at each reporting period until settlement.

© Deloitte LLP. All rights reserved.

Comments

13.14 Does the entity have an employee share purchase plan ("ESPP") that provides a discount from the market price of the shares to be purchased by employees?

Yes

No

An ESPP is designed to promote broad-based employee ownership of an entity's stock. By using payroll deductions and avoiding brokers' commissions, ESPPs give employees a convenient and economical means of acquiring entity shares (often at a discount from the market price).

U.S. GAAP	IFRS Standards
No compensation cost is recognised if the ESPP qualifies as non-compensatory.	An ESPP is deemed compensatory, and therefore compensation cost is recognised for the discount. There is no concept of non-compensatory ESPPs.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, an ESPP is considered non-compensatory if all of the following criteria in ASC 718-50-25-1 are met:

- the purchase discount from the market price of the entity's shares must not exceed the per-share issuance cost the entity would have incurred in raising a significant amount of capital in a public offering. There is a safe harbour for discounts of 5 percent. A purchase discount greater than 5 percent that cannot be justified results in compensation cost for the entire amount of the discount.
- "substantially all" employees must be entitled to participate.
- the plan must include no option features.

If the ESPP qualifies as non-compensatory, no compensation cost is recognised for the plan. Otherwise, compensation similar to other employee awards should be provided.

Under IFRS Standards, IFRS 2:BC8–BC17 indicate that IFRS 2 is more stringent than ASC 718. Accordingly, compensation cost is recognised over the vesting period on the basis of the number of shares expected to vest multiplied by the per- share discount. The only exemption available for non-recognition of ESPPs under IFRS Standards is provided in IFRS 2:BC18, which states that a plan may not be considered compensatory when an entity engages in a transaction with an employee in his or her capacity as a holder of equity instruments rather than in his or her capacity as an employee. Therefore, if an employee receives such a right because he or she is a holder of that particular class of equity instruments, the granting or exercise of that right will not be subject to the requirements of IFRS 2.

Comments

13.15 Does the entity have any employee share ownership plans ("ESOPs")?

Yes

No

An ESOP is a unique form of a defined contribution retirement plan designated to invest primarily in the equity instruments of the employer. ESOPs can be either leveraged or non-leveraged. In a leveraged ESOP, the plan borrows money to purchase shares of the employer entity. In a non-leveraged ESOP, the employer generally contributes its shares or cash to the plan on behalf of its employees.

U.S. GAAP	IFRS Standards
Accounting for ESOPs is specified by ASC 718-40 and the grant date measurement is when the shares are committed to be released to the employees, which may differ from the grant date under ASC 718-20 for equity awards	ESOPs are within the scope of IFRS 2; and therefore, determination of grant date for equity awards would be the same as any other employee equity awards.

© Deloitte LLP. All rights reserved.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 718-40 addresses the accounting for ESOPs. Although employees can obtain stock through ESOPs from their employers as compensation for services, the equity instruments held by an ESOP were specifically excluded from the accounting requirements within ASC 718-20.

Under IFRS Standards, the scope of IFRS 2 includes accounting for ESOPs.

Measurement

Under U.S. GAAP, for leveraged ESOPs, the value of the ESOP shares and the related compensation cost is measured at the fair value of the shares on the dates the shares are committed to be released to the participant accounts. Since the shares generally are deemed to be committed to be released rateably during an accounting period as employees perform services, the average fair values of the shares during the period are used to determine the amount of compensation cost to be recorded over the reporting period.

For non-leveraged ESOPs, the shares or cash contributed to the ESOP are deemed to directly compensate the employees because the ESOP does not have a further obligation before it may commit to the release of the shares or cash to the participant accounts. Therefore, compensation cost is recognised at the fair value of the shares or cash contributed or committed to be contributed.

Under IFRS Standards, the value of the ESOP shares is measured at fair value as of the grant date.

Recognition

Under U.S. GAAP, the concept of vesting for ESOPs is not taken into consideration to attribute compensation cost to the services performed.

The compensation cost for leveraged and non-leveraged ESOPs is not attributed over the period that certain vesting conditions are expected to be satisfied. Rather, for leveraged ESOPs, in the period the ESOP shares have been committed to be released, the compensation cost is recognised rateably over the accounting period as employees perform the services in accordance with ASC 718-40-30-2. For non-leveraged ESOPs, the compensation cost recorded is equal to the contribution made in the period as required under the plan in accordance with ASC 718-40-25-19.

Under IFRS Standards, vesting is an important consideration in the accounting of shares held by an ESOP. Under IFRS 2, compensation cost is recognised when the goods or services have been received by the entity. Vesting conditions must be satisfied for the employee to be entitled to the shares since these conditions determine whether the services have been received by the entity. According to the vesting condition guidance in IFRS 2:19 and 20, service conditions or performance conditions determine the number of equity instruments that eventually vest. For instruments that are not expected to vest, no compensation cost is recognised. These vesting conditions may also directly specify or indicate the period over which compensation cost is recognised.

Comments

13.16 Has a subsidiary granted share-based payment awards to employees of the subsidiary that are settled in the parent's equity?

Yes

No

This potential difference is only applicable to the stand-alone financial statements of the subsidiary.

U.S. GAAP	IFRS Standards
Share-based payment awards granted by a subsidiary to employees of the subsidiary that are settled in the parent's equity are classified as equity awards in the stand-alone financial statements of the subsidiary.	Share-based payment awards granted by a subsidiary to employees of the subsidiary that are settled in the parent's equity are classified as liability awards in the stand-alone financial statements of the subsidiary.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, share-based payment awards granted by a subsidiary to employees of the subsidiary that are settled in the parent's equity are classified as equity awards in the stand-alone financial statements of the subsidiary.

© Deloitte LLP. All rights reserved.

Under IFRS Standards, IFRS 2:B55 indicates that share-based payment awards granted by a subsidiary to employees of the subsidiary and settled in equity shares of the parent are classified as liability awards in the stand-alone financial statements of the subsidiary.

Comments

13.17	**Does the entity have awards with performance targets, which can be met after the requisite service period is completed?**	**Yes** **No**

U.S. GAAP	IFRS Standards
Awards that have performance targets that may be met after the completion of the requisite service period even if the individual is no longer employed are treated as a performance vesting condition. Therefore the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost is recognised in the period in which it becomes probable that the performance target will be achieved.	Awards that have performance targets to be met after the completion of the requisite service period are treated as a non-vesting condition. Therefore they are reflected in estimating the grant-date fair value of the award.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 718-10-30-28 states:

"In some cases, the terms of an award may provide that a performance target that affects vesting could be achieved after an employee completes the requisite service period. That is, the employee would be eligible to vest in the award regardless of whether the employee is rendering service on the date the performance target is achieved. A performance target that affects vesting and that could be achieved after an employee's requisite service period shall be accounted for as a performance condition. As such, the performance target shall not be reflected in estimating the fair value of the award at the grant date. Compensation cost shall be recognised in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service already has been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost for which requisite service has not yet been rendered shall be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period shall reflect the number of awards that are expected to vest and shall be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. As indicated in the definition of vest, the stated vesting period (which includes the period in which the performance target could be achieved) may differ from the requisite service period."

Under IFRS Standards, IFRS 2 Appendix A defines a performance condition as follows:

A vesting condition that requires:

A. the counterparty to complete a specified period of service (i.e. a service condition); the service requirement can be explicit or implicit; and

B. specified performance target(s) to be met while the counterparty is rendering the service required in (a).

The period of achieving the performance target(s):

A. shall not extend beyond the end of the service period; and

B. may start before the service period, on the condition that the commencement date of the performance target is not substantially before the commencement of the service period.

Therefore a performance target that may be achieved after the employee has provided the requisite service is accounted for as a non-vesting condition, which is reflected in the determination of the fair value of the award.

© Deloitte LLP. All rights reserved.

Comments

13.18	**Does the entity use intrinsic value for the purposes of the measurement of liability classified awards?**	**Yes** / **No**

The intrinsic value is the difference between the fair value of the shares and the amount the individual has to pay.

U.S. GAAP	IFRS Standards
U.S. GAAP permits non-public companies to elect an intrinsic value approach for the measurement of share-based payments classified as liabilities.	IFRS Standards permit the use of an intrinsic value approach only where the fair value of the equity instruments cannot be estimated reliably, which is expected to be rare.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 718-30-30-2A states that a non-public entity can make the accounting policy election in ASC 718-30-30-2 to change its measurement of all liability-classified awards from fair value to intrinsic value in accordance with the transition provisions in ASC 718-10-65-10. Those transition provisions do not require a non-public entity to evaluate whether the change in accounting policy is preferable under Topic 250 on accounting changes and error corrections.

Under IFRS Standards, IFRS 2:24 provides an exemption from fair value when the fair value of the equity instruments issued cannot be reliably measured. In these rare cases, the grant is initially measured at its intrinsic value and adjusted at the end of each reporting period for any change in intrinsic value until the options are either exercised, forfeited or lapse.

Comments

13.19	**Has the entity modified a liability equity-settled share-based payment arrangement from cash-settled to equity settled (i.e. liability to equity modification)?**	**Yes** / **No**

U.S. GAAP	IFRS Standards
Upon modification, any difference between the liability derecognised and the amount recognised in equity is reflected immediately in equity if fair value of the modified award is less than the fair value of the liability. Conversely, any excess is recognised as compensation cost over the requisite service period when the fair value of the modified award exceeds that of the liability.	Upon modification, any difference between the liability derecognised and the amount recognised in equity is reflected immediately in the income statement.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 718-20 state that to account for the modification, an entity would, on the modification date, record the amounts previously recorded as a share-based compensation liability as a component of equity in the form of a credit to APIC. Because the award is no longer classified as a liability, it no longer has to be remeasured at a fair-value-based amount in each reporting period until settlement.

If the fair-value-based measure of the modified award is less than the fair value-based measure of the liability at the time of the modification, the difference is deemed to be a capital contribution and recognised in equity. If the fair-value-based measure of the modified award is greater than the fair-value based measure of the liability at the time of

© Deloitte LLP. All rights reserved.

the modification, the excess is generally recognised as compensation cost over the remaining employee's requisite service period or nonemployee's vesting period.

Under IFRS Standards, IFRS 2:B44 maintains that upon modification, the existing liability is derecognised. The fair value-based measure of the equity awards on the modification date is recognised in equity on the basis of which goods or services have been received (i.e. on the basis of the vesting period that has lapsed). Any difference between the liability derecognised and the amount recognised in equity is reflected immediately in the income statement.

Comments

13.20 Has the entity issued share-based payment awards settled with a variable number of shares?

Yes

No

U.S. GAAP	IFRS Standards
Awards settled with a variable number of share are classified as a liability when certain criteria are meet.	Awards settled with a variable number shares are classified as equity.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 480-10-25 and ASC 480-10-15-3 and 15-4 state that awards settled with a variable number of shares are classified as a liability if the monetary value is solely or predominantly based on a fixed monetary amount, 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.

Under IFRS Standards, awards that are settled with a variable number of shares are classified as equity.

Comments

13.21 Has the entity used the simplified method to establish an expected term in determining the grant-date fair value of "plain vanilla" share-based payment awards under U.S. GAAP?

Yes

No

See ASC 718-10-S99-1 for further information regarding the simplified method.

U.S. GAAP	IFRS Standards
Under certain circumstances, it is acceptable for an entity to use a simplified method to establish an expected term when determining the grant-date fair value of a share-based payment award.	Entities generally use their historical share option exercise experience to establish an expected term when determining the grant-date fair value of share-based payment awards. There is no explicit guidance on use of the simplified method to establish the expected term.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP in ASC 718-10-S99-1, SEC registrants are permitted to use a simplified method (only for "plain vanilla" share-based payment awards) to determine the expected term to calculate the grant-date fair value of share-based payment awards if it concludes that its historical share option exercise experience does not provide a reasonable basis upon which to estimate expected term. This exemption is applied on an award-by-award basis. Non-SEC registrants may, by analogy to this guidance, also use the simplified method in these circumstances.

Under IFRS Standards, IFRS 2 generally requires entities to use their historical share option exercise experience to establish an expected term in determining the grant-date fair value of a share-based payment award. There is no explicit guidance on use of the simplified method in lieu of determining the expected term of share-based payment

© Deloitte LLP. All rights reserved.

awards. A new entity that does not have historical share option exercise experience may consider looking to the historical share option exercise experience of its peer group.

Under the simplified method, in the calculation of a share-based payment award's grant date fair value, as long as the other variables used under U.S. GAAP are no different from those under IFRS Standards, an entity applying U.S. GAAP most likely would arrive at a different grant-date fair value than an entity applying IFRS Standards. The simplified method could result in a value greater than or less than the expected term of an award if entity-specific information was used to calculate the expected term.

Comments

13.22	**Does the entity have share-based payment awards granted to employees that are subject to forfeiture?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
For awards with service conditions, an entity makes an entity-wide accounting policy election (separately for employee awards and nonemployee awards) to either (1) estimate the total number of awards for which the employee's requisite service period or nonemployee's vesting period will not be rendered (i.e., estimate expected forfeitures) or (2) account for forfeitures when they occur.	An entity is required to estimate expected forfeitures.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 718-10-35-3 provides that the total amount of compensation cost recognised at the end of the requisite service period for an award of share-based compensation shall be based on the number of instruments for which the requisite service has been rendered (that is, for which the requisite service period has been completed). Previously recognised compensation cost shall not be reversed if an employee share option (or share unit) for which the requisite service has been rendered expires unexercised (or unconverted). To determine the amount of compensation cost to be recognised in each period, an entity shall make an entity-wide accounting policy election for all employee share-based payment awards to do either of the following:

A. Estimate the number of awards for which the requisite service will not be rendered (that is, estimate the number of forfeitures expected to occur). The entity shall base initial accruals of compensation cost on the estimated number of instruments for which the requisite service is expected to be rendered. The entity shall revise that estimate if subsequent information indicates that the actual number of instruments is likely to differ from previous estimates. The cumulative effect on current and prior periods of a change in the estimated number of instruments for which the requisite service is expected to be or has been rendered shall be recognised in compensation cost in the period of the change.

B. Recognise the effect of awards for which the requisite service is not rendered when the award is forfeited (that is, recognise the effect of forfeitures in compensation cost when they occur). Previously recognised compensation cost for an award shall be reversed in the period that the award is forfeited.

Under IFRS Standards, IFRS 2:20 states that the entity shall recognise an amount for the goods or services received during the vesting period based on the best available estimate of the number of equity instruments expected to vest and shall revise that estimate, if necessary, if subsequent information indicates that the number of equity instruments expected to vest differs from previous estimates. Therefore, IFRS Standards do not allow any policy election; forfeitures must be estimated.

© Deloitte LLP. All rights reserved.

Comments

13.23	**Has the entity granted share-based payment awards to employees that include a performance condition based upon the occurrence of a liquidity event (e.g., an IPO, an exit event or a change in control)?**	**Yes** **No**

U.S. GAAP	IFRS Standards
Compensation cost should be recognised only if it is probable that the performance condition will be achieved. "Probable" is defined as "likely to occur" under ASC 450.	Compensation cost should be recognised for awards that are expected to vest, which is generally interpreted as "more likely than not" to vest.
A liquidity event such as a change in control or an IPO is generally not considered probable until it occurs. Accordingly, an entity generally does not recognise compensation cost related to awards that vest upon a change in control or an IPO until the event occurs.	For awards in which a liquidity event is assessed as a performance condition, compensation cost is recognised if and when the liquidity event is expected to occur. Often, it will not be possible to conclude that a liquidity event such as an IPO is expected to occur until plans are well advanced.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 718-10-25-20 provides that accruals of compensation cost for an award with a performance condition shall be based on the probable outcome of that performance condition—compensation cost shall be accrued if it is probable that the performance condition will be achieved and shall not be accrued if it is not 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 "likely to occur."

An entity generally does not recognise compensation cost related to awards that vest upon certain liquidity events such as an IPO until the event takes place. That is, a change in control or an IPO is generally not considered probable until it occurs.

Under IFRS Standards, IFRS 2:19 – 20 state that the entity shall recognise an amount for the goods or services received during the vesting period based on the best available estimate of the number of equity instruments expected to vest. No amount is recognised for goods or services received if the equity instruments granted do not vest because of failure to satisfy a vesting condition (other than a market condition). Therefore, compensation cost should be recognised for awards that are expected to vest, which is generally interpreted as "more likely than not" to vest.

In practice, the determination as to whether it is probable that a liquidity event (e.g., an IPO or a change in control) will occur is difficult because it is dependent on factors outside the entity's control. Often it will not be possible to conclude that a change in control or an IPO is probable until plans are well advanced.

Since the "probable" threshold under U.S GAAP is interpreted to mean a higher threshold (generally at least 70 %) than the more-likely-than-not (greater than 50%) threshold in IFRS Standards (see Question 10.1), this may result in a difference in the timing of when an entity recognise compensation costs for such awards.

Comments

© Deloitte LLP. All rights reserved.

Section 14: Income taxes

14. Income taxes

Overview

The primary sources of guidance on accounting for income taxes under U.S. GAAP and IFRS Standards are ASC 740, Income Taxes and IAS 12, Income Taxes respectively. Both standards only apply to income taxes (domestic and foreign) that are based on taxable income or profit. ASC 740 and IAS 12 follow a comprehensive balance sheet method of accounting for income taxes, which recognises both the current tax consequences of transactions and events and the future tax consequences of recovery or settlement of an entity's assets and liabilities, respectively, at their carrying amounts. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognised, with limited exceptions, as deferred tax assets or liabilities. Deferred tax assets are recognised if they are more-likely-than-not to be realised under U.S. GAAP and if they are probable of recovery under IFRS Standards (generally interpreted to mean more-likely-than-not)[2]. Although the general income tax accounting framework under both U.S. GAAP and IFRS Standards share similar objectives and principles, there are significant differences in the details related to recognition and measurement of taxes.

Tax law can vary significantly between jurisdictions. The correct application of income tax accounting rules depends on an accurate understanding of tax law as it relates to individual facts and circumstances. Entities should consult a tax specialist to ensure a proper understanding of the requirements of the tax law of a particular jurisdiction. There are taxes determined to be in the scope of ASC 740 and IAS 12 that are not considered to be income taxes by the taxing authorities and vice versa.

Primary questions

Current and deferred taxes are computed on a tax-paying component basis when applying both ASC 740 and IAS 12. As such, all the questions within this section should be evaluated and answered for each tax-paying component of the consolidated group.

Secondary questions

For certain questions below there are also secondary questions, which are designed to assist the user in further assessing the nature of the difference being discussed or in identifying the means by which the relevant information may be collected. A “Yes” response to a secondary question may indicate that (1) additional potential differences between U.S. GAAP and IFRS Standards may apply to the entity and should be assessed by the engagement team and entity or (2) changes may need to be made in control processes and procedures under an IFRS Standards environment. A “No” response to a secondary question does not mean that the difference addressed in the primary question is not present.

Recently issued standards not yet reflected in this Section

ASU 2019-12, Simplifying the Accounting for Income Taxes, was issued in December 2019. For public business entities, ASU 2019-12 is effective for fiscal years, and interim periods within those fiscal years, beginning after 15 December 2020. 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 of the amendments is permitted, including adoption in any interim period for (1) public business entities for periods for which financial statements have not yet been issued and (2) all other entities for periods for which financial statements have not yet been made available for issuance. An entity that elects to early adopt the amendments in an interim period should reflect any adjustments as of the beginning of the annual period that includes that interim period. Additionally, an entity that elects early adoption must adopt all the amendments in the same period.

[2] IAS 12 is silent with regard to the meaning of 'probable' in the context of IAS 12:24. IAS 37 defines the term 'probable' as 'more likely than not'. The footnote to IAS 37:23 acknowledges that this definition is not necessarily applicable to other IFRS Standards. However, in the absence of any other guidance, the term 'probable' should be applied as 'more likely than not'. In March 2009, the Board issued an exposure draft (ED) containing proposals for an IFRS Standard that would replace IAS 12. Although a replacement Standard was not finalised, the ED provides useful guidance on the meaning of 'probable' because it uses the term 'more likely than not' and notes in the Basis for Conclusions that this is consistent with the term 'probable' as used in IAS 37 and IFRS 3.

© Deloitte LLP. All rights reserved.

ASU 2019-12 simplifies the accounting for income taxes by removing the following exceptions and thus eliminating some of the existing differences between U.S. GAAP and IFRS Standards:

1. Exception to the incremental approach for intraperiod tax allocation when there is a current-period loss from continuing operations and income or a gain from other items (for example, discontinued operations or other comprehensive income). Adoption of this ASU may affect the accounting differences noted in Questions 14.A.4 and 14.D.2.
2. Exception to the general principle requiring the recognition of a deferred tax liability ("DTL") for equity method investments when a foreign subsidiary becomes an equity method investment. Adoption of this ASU may affect the accounting differences noted in Question 14.B.5C.
3. Exception to the general principle prohibiting derecognition of a DTL for a foreign subsidiary when a foreign equity method investment becomes a subsidiary. Adoption of this ASU may affect the accounting differences noted in Question 14.B.5B.
4. Exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. Adoption of this ASU may affect the accounting differences noted in Question 14.D.4.

ASU 2019-12 also simplifies the accounting for income taxes by amending the following:

1. In a hybrid tax regime, reversing the order in which an entity determines the type of tax by requiring that an entity recognise a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax. Adoption of this ASU may affect the accounting differences noted in Question 14.A.16.
2. Requiring that an entity apply a framework to evaluate when a step-up in the tax basis of goodwill results in the recognition of a deferred tax asset ("DTA") (i.e., whether it should be considered part of the business combination in which the book goodwill was originally recognised or a separate transaction). Adoption of this ASU may affect the accounting differences noted in Question 14.A.11.
3. Specifying that an entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements. However, an entity may elect to do so (on an entity-by-entity basis) as long as the legal entity is (1) not subject to tax and (2) disregarded by the taxing authority. If elected, additional disclosures are required by ASC 740. Adoption of this ASU may affect the accounting differences noted in Question 14.A.15.
4. Requiring that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation (AETR) in the interim period that includes the enactment date of the new legislation.

The questions that are impacted by this ASU are marked with an asterisk.

For additional information, see the issued ASU, Accounting Standards Update 2019-12—Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes.

Primary authoritative guidance

- ASC 740, Income Taxes
- ASC 270-740, Interim Reporting of Taxes
- ASC 718-740, Compensation — Stock Compensation; Income Taxes
- ASC 805-740, Business Combinations: Income Taxes

- IAS 1, Presentation of Financial Statements
- IAS 12, Income Taxes
- IAS 34, Interim Financial Reporting
- IFRIC 23, Uncertainty over Income Tax Treatments
- SIC 25, Income Taxes — Changes in the Tax Status of an Entity or its Shareholders
- IFRS 3, Business Combinations

© Deloitte LLP. All rights reserved.

Part A — General income tax considerations

14A.1	Did one tax-paying component transfer inventory to another tax-paying component of the same consolidated group with the inventory remaining in the consolidated group at the reporting date?	Yes No

U.S. GAAP	IFRS Standards
Tax expense (current expense associated with taxes paid and deferred tax expense associated with reversal of temporary differences and use of tax attributes, if applicable) on an intra-entity transfer of inventory is deferred until the related inventory is sold outside the consolidated group (i.e., to a third party). In addition, deferred taxes are not recognised for the difference between the buyer's tax basis and the carrying amount of the inventory in the consolidated financial statements.	Tax expense on all intra-entity transfers is recognised in the seller's jurisdiction in the period of the transfer, and deferred taxes are recognised in the buyer's jurisdiction, for the difference between the basis of the transferred asset for financial reporting purposes and tax basis, at the buyer's statutory tax rate, subject to realisation assessment if a DTA is recognised on the basis difference.

U.S. GAAP–IFRS Standards difference considerations

An intra-entity transfer of inventory between members of the same consolidated group in different tax jurisdictions is generally a taxable event that results in a new tax basis for the inventory in the buyer's tax jurisdiction. The new tax base of the inventory is recoverable on the buyer's tax return when the inventory is sold to an unrelated party.

Under U.S. GAAP, ASC 740-10-25-3(e) requires that income taxes paid on intra-entity profits on inventory remaining within the group be accounted for under the consolidation guidance in ASC 810-10 and prohibits recognition of a DTA for the difference between the tax basis of the inventory in the buyer's tax jurisdiction and its cost as reported in the consolidated financial statements (i.e., after elimination of intra-entity profit). Specifically, ASC 810-10-45-8 states, "[i]f income taxes have been paid on intra-entity profits on inventory remaining within the consolidated group, those taxes shall be deferred or the intra-entity profits to be eliminated in consolidation shall be appropriately reduced."

The FASB concluded that in these circumstances, an entity's income statement should not reflect a tax consequence for intra-entity sales of inventory that are eliminated in consolidation. Under this approach, the tax paid or payable from the sale is deferred upon consolidation (as a prepaid income tax or as an increase in the carrying amount of the related asset) and is not included in tax expense until the inventory is sold to an unrelated third party. This prepaid tax is different from deferred taxes that are recorded in accordance with ASC 740 because it represents a past event whose tax effect has simply been deferred, rather than the future taxable or deductible differences addressed by ASC 740.

Under IFRS Standards, the current and deferred tax effects must be recognised for intra-entity sales in accordance with the general principles of IAS 12. For example, an intra-entity sale creates a temporary difference between the book carrying amount of the asset and its tax base. When intra-entity transactions occur between entities operating in different tax jurisdictions (e.g., foreign and/or state tax jurisdictions) or subject to different tax rates, the rate applied to the temporary difference is that at which the difference is expected to reverse, which generally is that of the buyer's tax jurisdiction. If the buyer's tax rate is different from the seller's tax rate, the deferred tax recognised may not entirely offset the current tax expense resulting from the intra-entity sale.

Comments

© Deloitte LLP. All rights reserved.

14A.2	Does the entity grant share-based payments (equity or liability classified) to its employees?	Yes No

U.S. GAAP	IFRS Standards
For awards that ordinarily give rise to a tax deduction in the jurisdiction in which the employee is in, deferred taxes are computed on the basis of compensation expense recognised for financial reporting purposes. Tax benefits in excess of or less than the related DTA are recognised in the income statement in the period in which the amount of the deduction is determined.	Deferred tax is computed on the basis of the expected tax deduction under applicable tax law.

U.S. GAAP–IFRS Standards difference considerations

In some tax jurisdictions, an entity receives a tax deduction that relates to remuneration paid in shares, share options, or other equity instruments of the entity. For example, under current U.S. tax law, allowable tax deductions are generally measured as the intrinsic value on the exercise or vesting date. For financial reporting purposes, the fair value of the awards is determined on the grant date and recognised as compensation expense during the service period.

Under U.S. GAAP (ASC 718-740-25 and ASC 718-740-35), the deferred tax recorded on share-based compensation is computed on the basis of the expense recognised in the financial statements for awards that ordinarily give rise to a tax deduction. Therefore, changes in an entity's share price during the vesting period do not affect the DTA recorded on the entity's financial statements.

All excess tax benefits (e.g., tax deduction on the award is in excess of cumulative compensation for financial reporting) and tax deficiencies (e.g., tax deduction on the award is less than cumulative compensation for financial reporting) are recognised as income tax expense or benefit in the income statement in the period in which the amount of the deduction is determined (typically when an award is exercised or expires, in the case of share options, or vests, in the case of non-vested stock awards). This results in a permanent difference between the amount of cumulative compensation for financial reporting purposes and the deduction taken for income tax purposes and has an impact on an entity's ETR in the period in which the excess or deficiency arises.

Under IFRS Standards, IAS 12:68A–68C require that the amount (if any) of a DTA be computed on the basis of the expected applicable tax deduction. IAS 12:68B states, in part, "If the amount the taxation authorities will permit as a deduction in future periods is not known at the end of the period, it shall be estimated, based on information available at the end of the period." For example, if the tax deduction is based on the intrinsic value, the intrinsic value is used to compute the DTA at the end of the reporting period and adjusted for changes in the entity's share price on each reporting date until exercised.

Further, IAS 12:58 requires that current and deferred tax "be recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from" the following:

A. a transaction or event which is recognised, in the same or a different period, outside profit or loss . . . or

B. a business combination.

For liability accounted awards (cash-settled share-based payment), because the book remuneration will be recorded in profit and loss, so too should the tax impact for cash-settled share-based payments, including any difference between the intrinsic value and compensation costs.

The following example illustrates the difference in measurement of the DTA under U.S. GAAP and IFRS Standards. On 1 January 2020, an entity grants 1,000 options with a grant-date fair value of $10 per share. The awards vest at the end of the fourth year of service (cliff vesting) and have an exercise price of $23. The share price on 31 December 2020 (the end of year 1), is $25. Under current tax law, the entity expects to receive a tax deduction based on the intrinsic value on the exercise date. The entity's applicable tax rate is 40 percent. Excluding the impact of forfeitures, the DTA as of 31 December 2020 (the end of year 1), is computed as follows:

- U.S. GAAP: expense (1,000 × $10 × 1/4 = $2,500) × 40% tax rate = $1,000
- IFRS Standards: intrinsic value (1,000 × ($25−$23) ×1/4 = $500) × 40% tax rate = $200

© Deloitte LLP. All rights reserved.

Note that if an entity does not receive any tax deductions at any time for its share-based payment arrangements, any compensation cost charged for such arrangements will be treated as a permanent difference for tax purposes.

See also Question 13.8.

Comments

14A.3	**Does the entity have any uncertain income tax positions that may require to be recognised and measured for financial reporting purposes?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
ASC 740 requires entities to apply a two-step process for recognition (step 1) and measurement (step 2) when accounting for uncertainties related to tax positions.	IFRIC 23 requires entities to assess whether it's probable its income tax treatment will be accepted or not by the income tax authority (the assessment is on both the technical merit of the treatment and the amount included on the tax return), and if not, recognise a liability for the effects of the uncertainty using either the most likely amount method or the expected value method that the entity expects to better predict resolution of the uncertainty.

U.S. GAAP–IFRS Standards difference considerations

Recognition and measurement

Under U.S. GAAP, the total tax expense reported in the financial statements should reflect the income tax effects of tax positions on the basis of the two-step process in ASC 740-10, recognition (step 1) and measurement (step 2). The recognition and measurement requirements should be applied only to uncertainties in income taxes and do not apply to non-income taxes such as sales tax, value-added tax, and payroll tax.

ASC 740-10-25-6 clarifies the accounting for uncertain tax positions and specifies that an entity cannot recognise a tax benefit in its financial statements unless it is "more likely than not" that the benefit will be sustained upon examination by the taxing authority solely on the basis of the technical merits of the associated tax position. In such an assessment, an entity must assume that the position will be (1) examined by a taxing authority that has full knowledge of all relevant information and (2) resolved in the court of last resort. In addition, offsetting or aggregate tax positions should not be considered. If the recognition threshold is not met, no benefit can be recognised in the financial statements for that tax position.

In determining the largest amount of tax benefit that is more than 50 percent likely to be realised upon ultimate settlement with a tax authority, an entity should give more weight to information that is objectively verifiable than to information that is not. The amount of tax benefit to recognise in financial statements should be based on reasonable and supportable assumptions. Some information used to determine the amount of tax benefit to be recognised in financial statements (amounts and probabilities of the outcomes that could be realised upon ultimate settlement) will be objectively determined, while other amounts will be determined more subjectively. The weight given to the information should be commensurate with the extent to which the information can be objectively verified. Because of the level of uncertainty associated with a tax position, an entity may need to perform a cumulative-probability assessment of the possible estimated outcomes when applying the measurement criterion. Since ASC 740 does not prescribe how to assign or analyse the probabilities of individual outcomes of a recognised tax position, this process involves judgment. Ultimately, an entity must consider all available information about the tax position to form a reasonable, supportable basis for its assigned probabilities.

Under IFRS Standards, IFRIC 23 provides that an entity has to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, that it used or plans to use in its income tax filing. The following approach is required:

A. If the entity concludes that it is probable that a particular tax treatment (both the amount included in the tax return and the technical merits) is accepted, the entity has to determine taxable profit (tax loss), tax bases,

© Deloitte LLP. All rights reserved.

unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in its income tax filings.

B. If the entity concludes that it is not probable that a particular tax treatment is accepted, the entity has to use the most likely amount or the expected value of the tax treatment when determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The decision should be based on which method provides better predictions of the resolution of the uncertainty.

The determination of whether to use the most likely amount or the expected value is not an accounting policy decision but is based on facts and circumstances.

IFRIC 23 requires an entity to use consistent judgements and estimates for both current tax and deferred tax, and to reassess the judgements made and estimates used in light of any changes in relevant facts and circumstances. Such changes are accounted for as a change in estimate.

IFRIC 23 applies to both current and deferred taxes if there is uncertainty about an income tax treatment that falls within the scope of IAS 12. However, if an entity does not apply IAS 12 to a particular amount payable or receivable, then IFRIC 23 does not apply to that amount, regardless of whether there is uncertainty.

Subsequent events

Under U.S. GAAP, changes in recognition and measurement of an uncertain tax position should be based on change in facts and circumstances, i.e. new information. The changes are accounted for in the period new information arises. Therefore, all new information is considered nonrecognised subsequent events under ASC 855, Subsequent Events.

Under IFRS Standards, changes should also be based on changes in facts and circumstances (i.e., new information). However, an entity shall apply IAS 10, Events after the Reporting Period, to determine whether a change that occurs after the reporting period is an adjusting or non-adjusting event.

Presentation of liabilities for uncertain tax positions may differ.

Under U.S. GAAP, ASC 740-10-45-11 requires an entity to "classify an unrecognised tax benefit that is presented as a liability in accordance with paragraphs 740-10-45-10A through 45-10B as a current liability to the extent the entity anticipates payment (or receipt) of cash within one year or the operating cycle, if longer," and the remainder is classified as noncurrent.

Under IFRS Standards, IAS 1 generally requires an entity to classify a liability as current when the entity does not have the unconditional right to defer settlement of the liability for at least 12 months after the reporting period (which is similar to the treatment for a demand payable).

Classification of interest and penalties that are recognised because of tax uncertainties may also differ.

Under U.S. GAAP, ASC 740-10-45-25 permits an entity, on the basis of its accounting policy election, to classify interest in the financial statements as either income taxes or interest expense and to classify penalties in the financial statements as either income taxes or another expense classification. The election must be consistently applied. An entity's accounting policy for classification of interest may be different from its policy for classification of penalties. For example, interest expense may be recorded above the line as part of interest expense and penalties may be recorded below the line as part of income tax expense.

Under IFRS Standards, classification of interest and penalties was discussed by the IFRS Interpretations Committee who, as reported in the September 2017 IFRIC Update, concluded that entities do not have an accounting policy choice between applying IAS 12 and applying IAS 37, Provisions, Contingent Liabilities and Contingent Assets to such amounts. Instead, judgement must be applied to determine whether a particular amount payable or receivable for interest and penalties is an income tax.

When there is no significant uncertainty with respect to the overall amount of income tax payable, but an entity deliberately delays payment of the amount, the resulting interest and penalties can be clearly distinguished from the assessed income tax. Accordingly, in such circumstances, the interest and penalties should not be presented as income tax in the financial statements but should be separately presented on the basis of their nature (i.e. either as a finance cost (interest) or operating expense (penalties)).

However, when there is significant uncertainty regarding the amount of income tax to be paid, an entity may, in the course of its discussions with the tax authorities, withhold payment for the full amount of tax possibly payable (to avoid, for example, prejudicing a future appeal against the amount claimed as due by the tax authorities) and, by so doing, risk incurring interest and penalties. In such circumstances, possible interest and penalties can be seen as being

© Deloitte LLP. All rights reserved.

part of the overall uncertain tax position and, as such, it is appropriate to consider them as part of tax expense (income).

Comments

14A.4 Has the entity had any changes in its opening deferred taxes where the related tax expense or benefit was originally charged or credited to equity?

Yes

No

Examples include:

- when the DTAs or DTLs related to prior-period transactions are remeasured (e.g., the applicable enacted tax rate changes);
- when a DTA that arose from a transaction in a prior period becomes realisable on the basis of income expected in future periods and therefore some or all of a valuation allowance previously established against that DTA is reversed or an unrecognised DTA may be recognised; or
- when DTAs or DTLs for pre-existing outside basis differences on investments are recognised because they are no longer subject to one of the exceptions.

U.S. GAAP	IFRS Standards
Changes in the beginning balances of DTAs resulting from changes in judgment regarding recoverability in future years or from changes in tax law or tax rate are reflected in continuing operations, even if the original taxes are recognised in another component (e.g., OCI). In other words, backward tracing is generally prohibited.	Changes in deferred taxes are reflected in the same manner in which the asset or liability was originally recorded. That is, if the deferred taxes were recorded in equity, subsequent changes to the beginning balance will be recorded in the same manner. This is commonly referred to as "backward tracing."

U.S. GAAP–IFRS Standards difference considerations

Both U.S. GAAP and IFRS Standards require the tax effects of items credited or charged directly to equity during the current year to be allocated directly to equity. They differ, however, in their allocation of the benefit or expense resulting from subsequent changes to items that were originally debited or credited to equity in a prior year. These are commonly referred to as "out-of-period" adjustments.

Under U.S. GAAP, ASC 740-20 and ASC 740-10 provide guidance on the intraperiod tax allocation of certain out-of-period adjustments. Such adjustments include (1) changes in valuation allowances that are attributable to changes in judgments about future realisation (see ASC 740-20-45-4), (2) changes in tax laws and tax rates (see ASC 740-10-45-15), and (3) changes in tax status (see ASC 740-10-45-19). In each of these instances, the related tax effects should be allocated to income from continuing operations, as stated in ASC 740-20-45-4, ASC 740-10-45-15, and ASC 740-10-45-19, respectively. (Note that there are limited exceptions to the above in ASC 740-10-45-20 and ASC 740-20-45-11(c)–(f).). In other words, "backward tracing" is generally prohibited.

Under IFRS Standards, however, subsequent-period changes in deferred taxes that were originally charged or credited to shareholders' equity are also allocated to shareholders' equity. Paragraph 61A of IAS 12 states, "Current tax and deferred tax shall be recognised outside profit or loss if the tax relates to items that are recognised, in the same or a different period, outside profit or loss." For example, a deferred tax item originally recognised by a charge or credit to shareholders' equity may change either because of changes in assessments of recovery of DTAs or changes in tax rates, laws, or other measurement attributes. In a manner consistent with the original treatment, IFRS Standards require that the resulting subsequent change in deferred taxes be charged or credited directly to equity as well. This is commonly referred to as "backward tracing".

Note: Adoption of ASU 2019-12 may affect the accounting differences described above. Refer to "Recently issued standards not yet reflected in this Section" at the beginning of this section for additional information.

© Deloitte LLP. All rights reserved.

Comments

14A.5	Has the entity changed its tax status from nontaxable to taxable or vice versa?	Yes No

U.S. GAAP	IFRS Standards
All changes in tax status are recorded in income from continuing operations on the approval date or filing date if approval is not necessary. If a change in tax status results from a change in tax law, the tax effects should be recorded in the period that includes the enactment date.	Changes must be included in profit or loss unless the items were originally recorded in OCI or shareholders equity.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, generally, the expense or benefit from recognising the DTLs and DTAs as a result of the change in tax status should be included in income from continuing operations. ASC 740-10-45-19 states:

"When deferred tax accounts are recognized or derecognized as required by paragraphs 740-10-25-32 and 740-10-40-6 due to a change in tax status, the effect of recognizing or derecognizing the deferred tax liability or asset shall be included in income from continuing operations."

Under IFRS Standards, SIC-25:4 states, in part:

"The current and deferred tax consequences of a change in tax status shall be included in profit or loss for the period, unless those consequences relate to transactions and events that result, in the same or a different period, in a direct credit or charge to the recognised amount of equity or in amounts recognised in other comprehensive income."

Comments

14A.6	Were there changes in tax laws or rates (enacted or substantively enacted) in any of the jurisdictions that an entity operates in?	Yes No

U.S. GAAP	IFRS Standards
Changes in tax law or rates are accounted for in the period that includes the enactment date.	Financial statements take into account tax rates (and tax laws) that have been enacted and announcements of tax rates (and tax laws) by the government that have the "substantive" effect of actual enactment.

U.S. GAAP–IFRS Standards difference consideration

Under U.S. GAAP, DTAs and DTLs are measured using the enacted tax rates only. ASC 740-10-10-3 states that "the objective is to measure a deferred tax liability or asset using the enacted tax rate(s) expected to apply to taxable income in the periods in which the deferred tax liability or asset is expected to be settled or realized." Therefore, all the approvals necessary for the change to become law in the tax jurisdiction must have been completed by the balance sheet date.

Further, the effect of a change in tax laws or rates on DTAs and DTLs should be recognised on the date of enactment of the change consistent with ASC 740-10-25-47 and ASC 740-10-35-4. A change in tax rate may affect the measurement of DTAs and DTLs. Those DTAs and DTLs that exist as of the enactment date and are expected to reverse after the effective date of the change in tax rate should be adjusted on the basis of the new statutory tax rate. Any

© Deloitte LLP. All rights reserved.

DTAs and DTLs expected to reverse before the effective date should not be adjusted to the new statutory tax rate. ASC 740-20-45-8 requires the full effect of changes in tax laws and tax rates to be allocated to continuing operations.

Under IFRS Standards, IAS 12:46 and 48 require deferred taxes to be measured at tax rates and under laws that are either enacted or "substantively enacted" for the period in which the asset or liability is expected to reverse. The determination of whether new tax rates are considered "substantively enacted" is a matter of careful judgment based on the specific facts and circumstances. Factors for entities to consider in making that determination include, but are not limited to, the following.

- The legal system and related procedures or processes necessary for enactment of the tax law change.
- The nature and extent of the remaining procedures or processes.
- The extent to which the remaining procedures or processes are perfunctory.
- The timing of the remaining procedures or processes.

The effects of changes to tax laws or rates are allocated to profit, loss, or equity in accordance with the broader principles of IAS 12. (This difference in allocation is discussed in greater detail in Question 14.A.4.)

Comments

14A.7 Does the entity have any assets or liabilities for which the tax base differs depending on the manner in which the asset is recovered?

Yes

No

For example, in some jurisdictions an asset may not qualify for tax depreciation (i.e., the writing down of allowances) but its original cost will still be taken into account in the computation of any gain or loss upon disposal.

U.S. GAAP	IFRS Standards
The tax basis of an asset is a question of fact under the tax law. Deferred tax is measured on the basis of an assumption that the underlying asset (or liability) is ultimately recovered or settled at its financial statement carrying amount.	Deferred taxes are measured to reflect the tax consequences from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of assets and liabilities.

U.S. GAAP–IFRS Standards difference considerations

Both U.S. GAAP and IFRS Standards require comprehensive recognition (with certain exceptions) of deferred taxes resulting from differences between the carrying amount of an asset or liability and its tax basis. Tax basis is defined in ASC 740-10-25-50 as:

"The tax basis of an asset is the amount used for tax purposes and is a question of fact under the tax law. An asset's tax basis is not determined simply by the amount that is depreciable for tax purposes. For example, in certain circumstances, an asset's tax basis may not be fully depreciable for tax purposes but would nevertheless be deductible upon sale or liquidation of the asset. In other cases, an asset may be depreciated at amounts in excess of tax basis; however, such excess deductions are subject to recapture in the event of sale."

Under IFRS Standards, IAS 12:7 defines the tax base of an asset as "the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an entity when it recovers the carrying amount of the asset. If those economic benefits will not be taxable, the tax base of the asset is equal to its carrying amount."

IAS 12:51 states, "The measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities" that give rise to temporary differences. In addition, IAS 12:51A states:

"In some jurisdictions, the manner in which an entity recovers (settles) the carrying amount of an asset (liability) may affect either or both of:

© Deloitte LLP. All rights reserved.

A. the tax rate applicable when the entity recovers (settles) the carrying amount of the asset (liability); and

B. the tax base of the asset (liability).

In such cases, an entity measures [DTLs] and [DTAs] using the tax rate and the tax base that are consistent with the expected manner of recovery or settlement."

Therefore, when an asset's tax basis for depreciation could differ from that for sale, the appropriate tax basis is determined according to whether the asset will be held and used or sold.

If an asset is not eligible for tax depreciation or amortisation, and management has no intention of selling it to realise the cost tax basis that would be available should the asset be sold, the tax basis would be zero. Note that upon the initial acquisition of such an asset, no DTL may have been recognised on this temporary difference (book over zero tax basis) because of the application of the initial recognition exemption under IAS 12:15. However, if the same asset were acquired in a business combination, a DTL would be required to be recognised. See Question 14A:13.

Under IAS 12:51C, when an entity uses the fair value model to measure investment property under IAS 40, Investment Property (see Question 7.5), the entity is permitted to measure deferred taxes associated with an asset on the basis of a presumption that recovery of the carrying amount will normally be through sale of the asset. The presumption can be rebutted if the investment property is depreciable and is held by an entity whose business model objective is to recover the asset's economic benefits throughout its useful life.

Comments

14A.8 Does the entity have any DTAs not meeting the criteria for recognition on the balance sheet?

(Note that this is typically a presentational difference only)

Yes

No

U.S. GAAP	IFRS Standards
DTAs are recognised in full and reduced by a valuation allowance if it is more likely than not that some or all of the DTAs will not be realised.	DTAs are recognised at the amount that is probable to be realised on a net basis (i.e., the asset is written down, and an allowance is not recorded).

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, there is a basic requirement to reduce DTAs by the amount that is not expected to be realised. ASC 740-10-30-2(b) states that the "measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realised." As discussed in ASC 740-10-30-5(e), entities should:

"Reduce deferred tax assets . . . if, based on the weight of available evidence, it is more likely than not (a likelihood of more than 50 percent) that some portion or all of the deferred tax assets will not be realised. The valuation allowance shall be sufficient to reduce the deferred tax asset to the amount that is more likely than not to be realised."

Under U.S. GAAP (ASC 740-10-50-2), the total of all DTAs would be disclosed in the footnotes (on a gross basis) with an offsetting valuation allowance.

Under IFRS Standards, IAS 12:24 and IAS 12:34 state that a DTA is recognised for all deductible temporary differences, unused tax losses, and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be used.

IAS 12 does not define the term "probable." Because IAS 12 contains no explicit guidance on the definition of the term probable, IAS 8 requires that "management shall use its judgement in developing and applying an accounting policy that results in information" that is reliable and relevant to users' economic decision-making.

Although IAS 12 is silent, IAS 37 defines "probable" as "more likely than not." Although there may be other differences under U.S. GAAP and IFRS Standards in the gross amount of quantified DTAs, the meaning of "probable" under IFRS Standards is interpreted to mean more-likely-than-not and therefore results in similar treatment under both standards. Accordingly, the difference in measurement of DTAs is typically presentational only.

© Deloitte LLP. All rights reserved.

Comments

14A.9	**Does local tax law impose a different tax rate on earnings based on whether such earnings are distributed or retained?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Generally, foreign stand-alone entities must use the undistributed rate when measuring the tax effects of temporary differences. However, the rate used by a parent in its consolidated financial statements is generally based on the distributed rate assuming the parent is not applying the indefinite reversal criteria.	Generally, entities must use the undistributed rate except when obligated to distribute profits. Then, the difference between the distributed and undistributed rate should be recorded as an adjustment to current tax expense.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 740-10-30-14 (which applies only to ***stand-alone entities*** in the applicable jurisdiction and not to subsidiaries of U.S. entities) states that an entity should use the ***undistributed rate*** to measure the tax effects of temporary differences, since it is appropriate to recognise the tax benefit from the future tax credit only when the entity had actually distributed assets to its shareholders and included the tax credit in its tax return. Recognising the tax benefit before that point would constitute an overstatement of the entity's assets and equity. This is similar to the accounting for a "special deduction" discussed in ASC 740-10-25-37.

However, the rate to be used in the applicable jurisdiction by a ***parent in its consolidated financial statements*** is different from that for stand-alone foreign entities. Specifically, ASC 740-10-25-41 states that "in the consolidated financial statements of a parent, the future tax credit that will be received when dividends are paid and the deferred tax effects related to the operations of the foreign subsidiary shall be recognized based on the ***distributed rate***," ***as long as the parent is not applying the indefinite reversal criteria*** of ASC 740-30-25-17. The basis for ASC 740-10-25-41 is that the parent has the unilateral ability to require the foreign subsidiary to pay dividends and that the consolidated financial statements reflect all other tax effects of distributing earnings. In addition, the consolidated financial statements are intended to provide users with information regarding the total amount of net assets and liabilities available to creditors. Requiring an entity to provide additional taxes at the parent level on the basis of repatriation of earnings, but not to record the tax benefit associated with that repatriation, would result in an understatement of the assets available to creditors.

Conversely, ASC 740-10-25-41 states that the "***undistributed rate*** shall be used in the consolidated financial statements to the extent that the parent has not provided for deferred taxes on the unremitted earnings of the foreign subsidiary as a result of applying the ***indefinite reversal criteria recognition exception***." This is consistent with ASC 740-30-25-14, which states, in part:

"A tax benefit shall not be recognized . . . for tax deductions or favorable tax rates attributable to future dividends of undistributed earnings for which a deferred tax liability has not been recognized under the requirements of paragraph 740-30-25-18."

In other words, it would be inappropriate to record a tax benefit attributable to a distribution when all other tax effects of distributing these earnings have not been recorded.

Under IFRS Standards, IAS 12:52A requires an entity to measure deferred taxes by using the "tax rate applicable to undistributed profits." However, IAS 12:52A–52B require that when there is an obligation to make a distribution of a portion of undistributed profits (declared), the difference between the distributed and undistributed rate is recorded as an adjustment to current tax expense.

© Deloitte LLP. All rights reserved.

Comments

14A.10 Does the entity have subsidiaries whose functional currency is different from its local currency or whose jurisdictions permit or require indexation for income tax purposes?

Yes

No

The functional currency is the currency of the primary economic environment in which an entity operates. See Section 25 for further details on functional currency.

U.S. GAAP	IFRS Standards
When the functional currency of an entity differs from the local currency (usually the tax currency), recording deferred taxes on temporary differences on nonmonetary assets and liabilities that result from either (1) changes in exchange rates or (2) adjustments to the tax basis from indexing, is prohibited.	Deferred taxes are recognised, including for basis differences on nonmonetary assets and liabilities, when the functional currency of an entity differs from the local currency.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP and IFRS Standards, an entity's functional currency is the currency of the primary economic environment in which the entity operates and may differ from the currency used in the entity's local jurisdiction. When the currencies differ, nonmonetary assets and liabilities are remeasured into the functional currency using historical exchange rates. Monetary assets are remeasured into the functional currency at the year-end exchange rate.

For financial reporting purposes, it is assumed that assets will be recovered and liabilities will be settled at their respective financial reporting carrying amounts. Therefore, if the exchange rate changes after a nonmonetary asset or liability is acquired or incurred, respectively, the amount of local currency needed to recover the asset or settle the liability will also change. However, the tax basis of the asset or liability will not change because it would have been established when the asset was acquired or the liability was incurred (in the local currency). Therefore, changes in the exchange rate result in a difference between the amount of local currency needed to recover the functional-currency-denominated carrying value and the local currency tax basis.

In addition to fluctuations in the exchange rate, basis differences may arise for nonmonetary assets and liabilities as a result of indexing that is permitted or required under the local tax law. Specifically, certain countries (especially those with economies that are considered highly inflationary) may permit or require taxpayers to adjust the tax basis of an asset or liability to take into account the effects of inflation. The inflation-adjusted tax basis of an asset or liability would be used to determine the future taxable or deductible amounts.

Under U.S. GAAP, ASC 740-10-25-3(f) prohibits "recognition of a deferred tax liability or asset for differences related to assets and liabilities that, under Subtopic 830-10, are remeasured from the local currency into the functional currency using historical exchange rates and that result from changes in exchange rates or indexing for tax purposes." In other words, deferred taxes are not recorded for basis differences related to nonmonetary assets and liabilities that result from changes in exchange rates.

Under IFRS Standards, IAS 12 does not provide a similar exception and requires recognition of a DTL or DTA for such temporary differences. IAS 12:41 states, in part:

"If the entity's taxable profit or tax loss (and, hence, the tax base of its non-monetary assets and liabilities) is determined in a different currency, changes in the exchange rate give rise to temporary differences that result in a recognised deferred tax liability or . . . asset. The resulting deferred tax is charged or credited to profit or loss."

See also paragraph 17 of subsection A and paragraph 13 of subsection B of the Illustrative Examples on IAS 12.

© Deloitte LLP. All rights reserved.

Comments

14A.11 Has the entity acquired an asset or liability (in a transaction that is not a business combination) whose tax basis differs from the asset or liability recognised?

Yes

No

Such transactions may include:

- The acquisition of an asset or liability for which the amount paid differs from the tax base received.
- A stock acquisition (with carryover tax basis in the assets and liabilities acquired) not meeting the criteria of a business combination.

U.S. GAAP	IFRS Standards
Entities record deferred taxes by adjusting the carrying value of the asset for the related DTA or DTL. Simultaneous equations are used to calculate both the carrying values of the asset and the DTA or DTL. Special rules apply to the subsequent step-up in the tax basis of goodwill.	Deferred income taxes are not recorded for temporary differences resulting from the initial recognition of an asset or liability in a transaction that is not a business combination and does not affect accounting profit nor taxable profit (tax loss) at the time of the transaction.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 740-10-25-51 states that the "tax effect of asset purchases that are not business combinations in which the amount paid differs from the tax basis of the asset shall not result in immediate income statement recognition." With certain exceptions, ASC 740-10-25-51 requires entities to recognise deferred taxes for any resulting temporary differences and to use the simultaneous-equations method to calculate the assigned value of the asset and the related DTA or DTL.

After a business combination, certain transactions or events may increase the tax basis of the entity's assets, including goodwill. ASC 740-10-25-4 prohibits recognition of a DTA for a subsequent step-up in the tax basis of goodwill that is related to the portion of goodwill from a prior business combination for which a DTL was not initially recognised, unless "the newly deductible goodwill amount exceeds the remaining balance of book goodwill."

Under IFRS Standards, IAS 12:15 and IAS 12:24 prohibit recognition of DTAs or DTLs for temporary differences that (1) result from "the initial recognition of an asset or liability in a transaction [that] is not a business combination" and (2) as of the transaction date, do not affect accounting profit nor taxable profit (tax loss). Furthermore, IAS 12:22 states explicitly that an entity would not subsequently recognise changes in the unrecognised DTA or DTL.

Note, however, that after initial recognition, temporary differences arising with respect to the same asset or liability but not due to initial recognition (e.g., that result from differing book and tax depreciable lives of the asset) are recognised in accordance with the general rules of IAS 12.

At the end of each period, entities must deduct from the temporary difference the proportion of the asset's carrying amount that represents the unrecognised temporary difference as of the date of acquisition, as reduced by subsequent depreciation. Deferred tax is provided for the remainder of the temporary difference (the recognised temporary difference) in accordance with the general rules of IAS 12.

See also Questions 7.8 and 6.5.

Note: Adoption of ASU 2019-12 may affect the accounting differences described above. Refer to "Recently issued standards not yet reflected in this Section" at the beginning of this section for additional information.

Comments

© Deloitte LLP. All rights reserved.

14A.12 Is the entity a lessor with transactions characterised as leveraged leases under U.S. GAAP?	Yes No

U.S. GAAP	IFRS Standards
While leveraged leases no longer exist under ASC 842; leveraged leases in existence prior to the adoption of ASC 842 are grandfathered. A DTL is not recorded for taxable temporary differences arising from leveraged leases.	IAS 12 contains no special rules on leveraged leases.

U.S. GAAP–IFRS Standards difference considerations

Grandfathered leverage leases

Under U.S. GAAP, ASC 740-10-25-3(c) states that leveraged leases are accounted for under ASC 840-30, Leases: Capital Leases.

According to ASC 840-10-25-43(c), a leveraged lease has all of the following characteristics at its inception:

1. "It meets the criteria . . . for a direct financing lease.
2. It involves at least three parties . . . ."
3. The financing provided by the long-term creditor is nonrecourse as to the general credit of the lessor . . . .
4. The lessor's net investment declines during the early years once the investment has been completed and rises during the later years of the lease before its final elimination. . . ."

Income recognition of a leveraged lease is affected by the associated tax accounting. ASC 840-30-35-33 states, in part:

"The investment in leveraged leases minus deferred taxes arising from differences between pretax accounting income and taxable income shall represent the lessor's net investment in leveraged leases for purposes of computing periodic net income from the leveraged lease."

In addition, in accordance with ASC 840-30-35-34:

"The net income a lessor recognises on a leveraged lease shall be composed of the following three elements:

A. Pretax lease income (or loss)
B. Investment tax credit
C. Tax effect of pretax lease income (or loss)."

ASC 840-30-35-35 further states:

"The pretax lease income (or loss) and investment tax credit elements shall be allocated in proportionate amounts from the unearned and deferred income included in the lessor's net investment (as described in paragraph 840-30-30-14[d]). The tax effect of the pretax lease income (or loss) recognised shall be reflected in tax expense for the year. The tax effect of the difference between pretax accounting income (or loss) and taxable income (or loss) for the year shall be charged or credited to deferred taxes."

The above guidance is an exception to the general guidance under ASC 740.

Under IFRS Standards, IAS 12 does not include any specific rules for leveraged leases. However, the application of the initial recognition exception should be considered.

© Deloitte LLP. All rights reserved.

14A.13 Does the entity benefit from jurisdiction-specific special deductions for tax purposes only (i.e., that will not be reported in the financial statements)?

Yes

No

Examples include:

- tax benefits for statutory depletion
- special deductions for certain health benefit entities (e.g., Blue Cross/Blue Shield providers)
- special deductions for small life insurance companies; and
- a deduction for domestic production activities

U.S. GAAP	IFRS Standards
The tax benefit of special deductions should be recognised no earlier than the year in which they are deductible on the tax return.	There is no specific guidance on special deductions.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 740-10-25-37 includes guidance on the recognition of tax benefits from transactions that result in special tax deductions. The term "special deduction" is not defined, but ASC 740-10-25-37 and ASC 740-10-55-27 through 55-30 offer four examples: (1) tax benefits for statutory depletion, (2) special deductions for certain health benefit entities (e.g., Blue Cross/Blue Shield providers), (3) special deductions for small life insurance companies, and (4) a deduction for domestic production activities. In addition, the deduction for foreign-derived intangible income (FDII) qualifies as a special deduction.

An entity is not permitted to anticipate tax benefits for special deductions when measuring the DTL for taxable temporary differences at the end of the current year. ASC 740-10-25-37 requires that the "tax benefit of special deductions ordinarily [be] recognised no earlier than the year in which those special deductions are deductible on the tax return." Although an entity is not permitted to anticipate future special deductions when measuring DTLs, the future tax effects of special deductions may nevertheless affect (1) "the average graduated tax rate to be used for measuring deferred taxes when graduated tax rates are a significant factor" and (2) "the need for a valuation allowance for deferred tax assets." ASC 740-10-25-37 states, "In those circumstances, implicit recognition is unavoidable because those special deductions are one of the determinants of future taxable income and future taxable income determines the average graduated tax rate and sometimes determines the need for a valuation allowance."

Under IFRS Standards, IAS 12 contains no similar guidance for special deductions. The general provisions of IAS 12 apply and govern the timing of the recognition of any benefits to be received and the rate at which current and deferred taxes are measured.

Comments

14A.14 Is the entity subject to income tax under an alternative or parallel income tax system that imposes tax (or a different tax rate) on a modified taxable income calculation or a system that would require tax payments by entities that would otherwise not pay tax under the normal income tax regime (e.g., tax payments required on the basis of alternative tax calculations, even if the normal corporate tax computation results in a loss)?

Yes

No

U.S. GAAP	IFRS Standards
The interaction between regular and alternative taxing systems must be considered for the entity to determine the appropriate tax rate to measure DTAs and DTLs.	No guidance is provided on alternative tax systems.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 740-10-30-12 states:

© Deloitte LLP. All rights reserved.

"If alternative tax systems exist in jurisdictions other than the U.S. federal jurisdiction, the applicable tax rate [for measuring DTAs and DTLs] is determined in a manner consistent with the tax law after giving consideration to any interaction (that is, a mechanism similar to the U.S. alternative minimum tax credit) between the two systems."

The Tax Cuts and Jobs Act (the Act) repealed the US federal corporate Alternative Minimum Tax ("AMT") system; however, guidance included in ASC 740 regarding the corporate AMT system will continue to be applicable in the U.S. and other jurisdictions that have similar alternative tax systems. For example, the Act established a minimum base erosion anti-abuse tax (BEAT), which can be analogised to an AMT system in place before enactment of the Act.

In January 2018, the FASB staff issued a Q&A document stating that companies should measure deferred taxes without regard to BEAT (i.e., should continue to measure deferred taxes at the regular tax rate), with any payment of incremental BEAT reflected as a period expense. Given that the BEAT computation is dependent on contingent or future events, entities may not be subject to the tax.

IFRS Standards provide no guidance for alternative tax systems. Whilst we believe that the FASB approach would be acceptable under IFRS Standards because there is no specific guidance, entities may apply different policies in practice.

Comments

14A.15 Is the entity a member of a consolidated tax return group, issuing separate financial statements?

Yes

No

Examples of such situations might be when:

- An IPO or spin off or sale complying with debt covenants
- The entity is regulated and must file separate financial statements with regulatory authorities.

U.S. GAAP	**IFRS Standards**
Consolidated amount of current and deferred taxes must be allocated among members of a group that files a consolidated tax return issuing separate financial statements in a manner that is consistent with the broad principles of ASC 740.	No specific requirement is provided.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 740-10-30-27 states, in part:

"The consolidated amount of current and deferred tax expense for a group that files a consolidated tax return shall be allocated among the members of the group when those members issue separate financial statements. . . . The [allocation] method adopted . . . shall be systematic, rational, and consistent with the broad principles established by [ASC 740]. For income tax accounting purposes, a "member" is generally a taxable legal entity (i.e., a corporation or an LLC that has elected to be taxed as a corporation) that is included in the parent's consolidated tax return.

ASC 740-10-30-27 does not prescribe a particular method for allocating current and deferred income tax expense to separate financial statements of a member. Several income tax allocation methods may meet the requirements of ASC 740-10-30-27, including the commonly applied separate-return and parent-company-down approaches. Choosing an income tax allocation method is an accounting policy decision, and the method should be consistently applied.

In addition, ASC 740-10-30-28 lists several allocation methods that would be inconsistent with the principles established in ASC 740, including:

A. A method that allocates only current taxes payable to a member of the group that has taxable temporary differences

B. A method that allocates deferred taxes to a member of the group using a method fundamentally different from the asset and liability method . . .

© Deloitte LLP. All rights reserved.

C. A method that allocates no current or deferred tax expense to a member of the group that has taxable income because the consolidated group has no current or deferred tax expense."

While ASC 740 does not require entities to choose a particular allocation method, the SEC has indicated in Question 3 of ASC 220-10-S99-3, Income Statement: Reporting Comprehensive Income, that the preferred method of allocation would be the "separate return" method, which allocates current and deferred tax as if each entity were a separate taxpayer. If income taxes have not been computed on a separate return basis in the historical financial statements, the SEC staff has required a pro forma income statement for the most recent year and interim period reflecting a tax provision calculated on a separate return basis.

If the member preparing the separate financial statements is not a taxable entity, there are additional considerations to be addressed under ASC 740.

IFRS Standards are silent on a required allocation method.

Note: Adoption of ASU 2019-12 may affect the accounting differences described above. Refer to "Recently issued standards not yet reflected in this Section" at the beginning of this section for additional information.

Comments

14A.16 Is the entity subject to a "hybrid" tax regime? **Yes**

Such regimes are tax jurisdictions that impose the greater of two taxes — one based on income and one based on items other than income (e.g., gross revenue or capital). **No**

U.S. GAAP	IFRS Standards
Where the tax based on income is greater than the one based on items other than income, the amount that exceeds the portion that is considered a non-income tax is subject to accounting under ASC 740.	No specific guidance is provided on such regimes.

U.S. GAAP–IFRS Standards difference considerations

In a hybrid tax regime, the entity commonly pays the greater of two tax computations, one of which is typically based on taxable profit and the other of which is not (e.g., it is based on gross revenue or capital). The tax rules and regulations of such a regime may state that an entity must always pay income tax but must also calculate taxes on the basis of the non-income-based measure(s).

ASC 740-10-15-4 and the related implementation guidance beginning in ASC 740-10-55-139 establish a framework that should be applied to all hybrid tax regimes. More specifically, the entity should consider the various tax computations that can apply for the year. The non-income-tax component can be identified on the basis of the amount of tax that would be payable if the entity has no taxable income. In other words, the amount payable in the absence of income would be a non-income tax that is outside the scope of ASC 740. The tax payable for the year in excess of the portion that is considered a non-income tax would be an income tax and within the scope of ASC 740.

IFRS Standards do not address the accounting for "hybrid" taxes and therefore differences may arise between the treatment under U.S. GAAP and IFRS Standards depending upon the policy adopted under IFRS Standards. However, entities are sometimes subject to a tax that has different components. It is necessary to exercise careful judgement when determining whether each of the components meets the definition of an income tax under IAS 12.

Note: Adoption of ASU 2019-12 may affect the accounting differences described above. Refer to "Recently issued standards not yet reflected in this Section" at the beginning of this section for additional information.

Comments

© Deloitte LLP. All rights reserved.

Part B — Temporary differences related to investments (consolidated or not)

An outside basis difference is the difference between the carrying amount of an entity's investment (consolidated or not) for financial reporting purposes and the underlying tax basis in that investment. Under U.S. GAAP, recognition of deferred taxes on an outside basis difference depends on the type of investment, whether the entity is domestic or foreign (determined based on the relationship of the investee to the tax jurisdiction of its immediate parent), and whether the temporary difference is taxable or deductible. Under IFRS Standards, recognition of deferred taxes on an outside basis difference is based on whether the temporary difference is taxable or deductible, regardless of whether the investment is in a subsidiary, branch and associate or an interest in joint arrangement.

For ASC 740 purposes, type of investments include: 1) a subsidiary (generally refers to a corporation which is controlled[3] directly or indirectly, by another corporation; 2) a corporate joint venture (as defined under ASC 740-10-20); and 3) an equity method investee (generally ownership of less than 50 percent but more than 20 percent) that is not a corporate joint venture.

For IAS 12 purposes, type of investments includes: 1) a subsidiary (generally refers to a parent/subsidiary relationship that involves the parent controlling its subsidiary, including the subsidiary's dividend policy); 2) branches and associates (those generally accounted for under the equity method of accounting); and 3) interests in joint arrangements (defined under IFRS 11).

14B.1	**Does the entity's carrying amount (book basis) exceed the tax basis of its investment in a domestic subsidiary or a domestic corporate joint venture that is essentially permanent in duration with undistributed earnings generated on or after 15 December 1992?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
A DTL must be recognised for the excess book over tax basis "unless the tax law provides a means by which the investment in a domestic subsidiary can be recovered tax free" and the entity expects that it will ultimately use that means. The holder of the investment must meet both criteria to avoid recording the DTL.	A DTL is recorded on excess book over tax basis unless the holder of the investment can control the timing of the reversal and it is probable that the difference will not reverse in the foreseeable future.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 740-30-25-7 applies to investments in a more-than-50-percent-owned domestic subsidiary[4] and assumes that the subsidiary would be consolidated under ASC 810. ASC 740-30-25-7 does not allow for the application of the indefinite reversal exception to the recognition of DTLs for undistributed earnings of a domestic subsidiary or corporate joint venture generated in fiscal years beginning on or after 15 December 1992. Therefore, under ASC 740-30-25-3, DTLs must be recognised "unless the tax law provides a means by which the investment in a domestic subsidiary can be recovered tax free" and the entity expects that it will ultimately use that means. The holder of the investment must meet both criteria to avoid recording the DTL.

Under IFRS Standards, IAS 12:39 requires that an entity recognise DTLs "for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements . . . [unless] the parent, investor, joint venturer or joint operator is able to control the timing of the reversal . . . **and** . . . it is probable that the temporary difference will not reverse in the foreseeable future" (emphasis added). "Probable" is defined by IAS 37 as "more likely than not," and the foreseeable future should, by analogy to IAS 1, be at least 12 months from the reporting date but, depending on the facts and circumstances, may be longer. IAS 12 does not distinguish between domestic and foreign subsidiaries or corporate joint ventures.

[3] The usual condition for control is ownership of a majority (over 50%) of the outstanding voting stock

[4] While ASC 740-30-25-7 states that it applies only to more-than-50-percent-owned domestic subsidiaries, an entity will need to use judgment to determine whether a recognition exception applies to a subsidiary that is consolidated under the VIE guidance when less than 50 percent of the voting interest is owned by the investor.

© Deloitte LLP. All rights reserved.

Comments

14B.2	**Does the entity's book basis exceed the tax basis of its investment in a foreign subsidiary or a foreign corporate joint venture that is essentially permanent in duration?**	**Yes** **No**

U.S. GAAP	IFRS Standards
A DTL is not recognised unless it becomes apparent that the excess book over tax basis difference is expected to reverse in the foreseeable future.	A DTL is recorded on excess book over tax basis unless the holder of the investment can control the timing of the reversal and it is probable that the difference will not reverse in the foreseeable future.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 740-30-25-18(a) states that a DTL is not recognised for an "excess of the amount for financial reporting over the tax basis of an investment in a foreign subsidiary" unless it becomes apparent that the temporary difference will reverse in the foreseeable future.

Under IFRS Standards, IAS 12:39 requires that an entity recognise DTLs "for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements . . . [unless] the parent, investor, joint venturer or joint operator is able to control the timing of the reversal . . . **and** . . . it is probable that the temporary difference will not reverse in the foreseeable future" (emphasis added). "Probable" is defined by IAS 37 as "more likely than not," and the foreseeable future should, by analogy to IAS 1, be at least 12 months from the reporting date but, depending on the facts and circumstances, may be longer. IAS 12 does not distinguish between domestic and foreign subsidiaries or corporate joint ventures.

14B.3	**Does the entity's tax basis exceed the carrying value (book basis) of its investment in a subsidiary or corporate joint venture that is essentially permanent in duration (domestic or foreign)?**	**Yes** **No**

U.S. GAAP	IFRS Standards
A DTA is recorded with respect to investments in a subsidiary or corporate joint venture that is essentially permanent in duration only if it is apparent that the temporary difference will reverse in the foreseeable future.	A DTA is recorded with respect to investments in subsidiaries, branches and associates, and interests in joint ventures only to the extent it is probable that the temporary difference will reverse in the foreseeable future and there will be taxable profit against which the temporary difference can be used.

U.S. GAAP–IFRS Standards difference considerations

For excess tax value over book carrying value (i.e., DTA), the following rules apply:

- Under U.S. GAAP, ASC 740-30-25-9 states that a DTA "shall be recognised for an excess of the tax basis over the amount for financial reporting of **an investment in a subsidiary or corporate joint venture that is essentially permanent in duration** [domestic or foreign] only if it is apparent that the temporary difference will reverse in the foreseeable future" (emphasis added). The need for a valuation allowance must also be assessed.
- Under IFRS Standards, IAS 12:44 requires that a DTA "for all deductible temporary differences arising from investments in subsidiaries, **branches and associates**, and interests in joint arrangements [be recognised] to the extent that, and only to the extent that, it is probable that: (a) the temporary difference will reverse in the foreseeable future; **and** (b) taxable profit will be available against which the temporary difference can be utilised" (emphasis added).

© Deloitte LLP. All rights reserved.

Comments

14B.4	**Are there any outside basis differences between the entity's carrying amount (book basis) and its tax basis in its investment in a branch or associate (i.e., equity method investee that is not a corporate joint venture)?**	**Yes** **No**

U.S. GAAP	IFRS Standards
A DTL is recorded on the excess of the financial reporting basis over the tax basis of the investment. A DTA is recognised for the excess of the tax basis of the investment over the amount for financial reporting and must be assessed for realisability (in most jurisdictions, the loss would be capital in character).	A DTL is recorded on excess book over tax basis unless the holder of the investment can control the timing of the reversal and it is probable that the difference will not reverse in the foreseeable future. A DTA is recorded with respect to investments in branches or, associates only to the extent it is probable that the temporary difference will reverse in the foreseeable future and there will be taxable profit against which the temporary difference can be used.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 740-30-25-5 provides:

"A deferred tax liability shall be recognised for both of the following types of taxable temporary differences:

A. An excess of the amount for financial reporting over the tax basis of an investment in a domestic subsidiary that arises in fiscal years beginning after December 15, 1992.

B. An excess of the amount for financial reporting over the tax basis of an investment in a 50-percent-or-less-owned investee except as provided in paragraph 740-30-25-18 for a corporate joint venture that is essentially permanent in duration."

ASC 740-30-25-9 does not apply to 50-percent-or-less-owned foreign or domestic investees that are not corporate joint ventures that are permanent in duration. Therefore, equity investors that hold a non-controlling interest in an investment that is not a corporate joint venture that is essentially permanent in duration always recognise a DTA for the excess tax basis of an equity investee over the amount for financial reporting purposes. As with all DTAs, in accordance with ASC 740-10-30-18, realisation of the related DTA "depends on the existence of sufficient taxable income of the appropriate character (for example, ordinary income or capital gain) within the carryback, carryforward period available under the tax law." If realisation of all or a portion of the DTA is not more likely than not, a valuation allowance is necessary.

Under IFRS Standards, IAS 12:39 requires that an entity recognise DTLs "for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements . . . [unless] the parent, investor, joint venturer or joint operator is able to control the timing of the reversal . . . **and** . . . it is probable that the temporary difference will not reverse in the foreseeable future" (emphasis added).

IAS 12:44 requires that an entity "recognise a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint arrangements, to the extent that, and only to the extent that, it is probable that:

A. the temporary difference will reverse in the foreseeable future; and

B. taxable profit will be available against which the temporary difference can be utilised."

Comments

© Deloitte LLP. All rights reserved.

14B.5A Has the entity increased its ownership interest in a domestic equity method investment such that it becomes a subsidiary and is consolidated for financial reporting purposes? **Yes** **No**

U.S. GAAP	IFRS Standards
If an entity previously accounted for a domestic investment under the equity method for which a DTL has been recognised and the entity subsequently acquires control, the DTL should be reversed through the income statement if the tax law provides a means by which the tax basis of the investment can be recovered in a tax-free transaction and the acquirer expects that it will ultimately use that means to recover its investment.	Any DTL would be reversed in the period in which the parent could control the reversal of the temporary difference and could assert that it would not reverse in the foreseeable future.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 740-30-25-7 states that the acquirer should assess whether the outside basis difference of an investment in a domestic subsidiary is a taxable temporary difference. If the tax law provides a means by which the tax basis of the investment can be recovered in a tax-free transaction and the acquirer expects that it will ultimately use that means to recover its investment, a DTL should not be recognised for the outside basis difference. Therefore, under these circumstances, the acquiring entity should reverse any DTL previously recognised for the outside basis difference, including any DTL associated with the remeasurement of the original investment. This reversal of the DTL should be recognised in the acquirer's statement of operations in the same period that includes the business combination.

Under IFRS Standards, changes to DTLs as a consequence of applying the exception in IAS 12:39 are recognised in profit or loss.

Comments

14B.5B Has the entity increased its ownership interest in a foreign equity method investment such that it becomes a foreign subsidiary and is consolidated for financial reporting purposes? **Yes** **No**

U.S. GAAP	IFRS Standards
If an entity previously accounted for a foreign investment under the equity method for which a DTL has been recognised and the entity subsequently acquires control, the entity is prohibited from derecognising the DTL previously recorded (may also include the DTL recognised on the remeasurement gain under the policy election).	Any DTL would be reversed in the period in which the parent could control the reversal of the temporary difference and could assert that it would not reverse in the foreseeable future.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 740-30-25-16 indicates that a parent company's "investment in common stock of an investee (other than a subsidiary or corporate joint venture) may change so that the investee becomes a subsidiary because the investor acquires additional common stock, the investee acquires or retires common stock, or other transactions affect the investment." ASC 740-30-25-16 further states that a "temporary difference for the investor's share of the undistributed earnings of the investee [recorded] prior to the date it becomes a subsidiary shall continue to be treated as a temporary difference" (i.e., the undistributed earnings as of that date will not qualify for the ASC 740-30-25-16 exception available for post-acquisition earnings). Therefore, "a deferred tax liability shall continue to be recognised to the extent that dividends from the subsidiary do not exceed the parent entity's share of the subsidiary's earnings subsequent to the date it became a subsidiary."

Under IFRS Standards, no similar guidance exists. Therefore, changes to DTLs as a consequence of applying the exception in IAS 12:39 are recognised in profit or loss.

© Deloitte LLP. All rights reserved.

Note: Adoption of ASU 2019-12 may affect the accounting differences described above. Refer to "Recently issued standards not yet reflected in this Section" at the beginning of this section for additional information.

Comments

14B.5C	**Has the entity decreased its interest in a foreign subsidiary such that it is now accounted for under equity method of accounting and is not a corporate joint venture that is essentially permanent in duration? ***	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Under U.S. GAAP if a parent entity did not previously recognise income taxes on the undistributed earnings of the foreign subsidiary because it asserted indefinite reinvestment of those earnings, a DTL for book greater than tax basis difference is not automatically recognised upon the ownership change until it becomes apparent that such undistributed earnings will be remitted.	A similar exception does not exist under IFRS Standards. Instead the normal principles in accounting for outside basis differences related to accounting for outside basis difference in investments will be applied.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, a parent entity would not recognise income taxes on its book greater than tax basis difference on its foreign subsidiary because of the exception in ASC 740-30-25-18(a) (i.e. an assertion of indefinite reinvestment). When the ownership in the foreign subsidiary decreases and the investment is accounted for under equity method of accounting, ASC 740-30-25-15 provides that a DTL for book greater than tax basis difference is not automatically recognised at the time of the ownership change until it became apparent that such undistributed earnings would be remitted.

Under IFRS Standards, when a parent entity did not previously recognise deferred tax liabilities in respect of temporary differences associated with the investment in the subsidiary (on the basis that it could control the timing of the reversal of such differences and it was not considered probable that the temporary differences would reverse in the foreseeable future), the change in status will generally require this determination to be revisited. Because an investor/associate relationship does not involve control, it will be determined in the majority of cases that the investor no longer has control over the timing of the reversal of the temporary differences associated with the investment, and deferred tax will need to be recognised in respect of the difference between the carrying amount of the investment in the associate and its tax base.

Note: Adoption of ASU 2019-12 may affect the accounting differences described above. Refer to "Recently issued standards not yet reflected in this Section" at the beginning of this section for additional information.

Comments

© Deloitte LLP. All rights reserved.

Part C — Accounting for income taxes in business combinations

14C.1	**In a business combination, were share-based payment awards held by employees of the acquiree exchanged for share-based payments of the acquirer?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
For replacement awards classified as equity that (1) are exchanged in a business combination and (2) ordinarily result in tax deductions, a DTA is recognised as of the acquisition date for the tax benefit of the fair-value-based measure of the acquirer's replacement awards included in the consideration transferred, generally with a corresponding reduction of goodwill. For the portion of the fair-value-based measure of the acquirer's replacement awards that is attributed to post-combination vesting and therefore included in post-combination compensation cost, a DTA is recorded over the remaining vesting period (i.e., as the post-combination compensation cost is recorded) similar to other equity classified awards under ASC 718-740.	When the acquirer issues equity-settled share-based payment awards to replace share options held by the employees of the acquiree in a business combination, a portion of the market-based measure of the replacement awards is attributed to pre-combination services and, therefore, forms part of the consideration transferred in the business combination. If the replacement awards are tax deductible, a DTA is recognised at the acquisition date based on the estimated tax deduction that will be received. For the portion of the market-based measure of replacement awards that is attributable to post-combination services and therefore included in post-combination compensation cost, a DTA is recorded in the manner described in Question 14.A.2.

U.S. GAAP–IFRS Standards difference considerations

In connection with a business combination, the acquiring entity may issue options to employees or management of the target entity. Such options may be for fully vested or partially vested options of the target, or they may be new options with new conditions and a new compensation expense recognised over a new vesting period. The options may generate tax deductions after the date of the business combination, thus potentially creating deductible temporary differences as of the opening balance sheet date.

Under U.S. GAAP, ASC 805-740-25-10 and 25-11 and ASC 805-740-45-5 and 45-6 provide guidance on the accounting for tax benefits to be received for share-based awards issued in connection with a business combination. ASC 805-740-25-10 states if a replacement award is classified as equity and would ordinarily result in post-combination tax deductions under current tax law, "an acquirer shall recognise a [DTA] for the deductible temporary difference that relates to the portion of the fair-value-based measure attributed to pre-combination exchange of goods or services and therefore included in consideration transferred in the business combination." This resulting DTA serves to reduce goodwill recognised in the business combination.

For the portion of the fair-value-based measure of the acquirer's replacement awards that is attributed to post-combination vesting and therefore included in post-combination compensation cost, a DTA is recorded over the remaining vesting period (i.e., as the post-combination compensation cost is recorded). In accordance with ASC 718, the DTA for replacement awards classified as equity is not subsequently adjusted to reflect changes in the entity's share price. By contrast, for replacement awards classified as a liability, the DTA is remeasured, along with the compensation cost, in every reporting period until settlement.

The income tax accounting upon vesting or exercise of such awards is consistent with the accounting required by ASC 718-740 for share-based payment awards classified as equity that are granted outside of a business combination. See Question 14.A.2.

Under ASC 805-740-25-11, an acquirer should not record a DTA as of the acquisition date for the tax benefits of the fair-value-based measure of its replacement share-based payment awards included in the consideration transferred that do not ordinarily result in a tax deduction (e.g., ISOs).

Under IFRS Standards, when the acquirer will issue equity-settled share-based payment awards to replace share options held by the employees of the acquiree in a business combination, a portion of the market-based measure of the replacement awards is attributed to pre-combination services and, therefore, forms part of the consideration transferred in the business combination.

© Deloitte LLP. All rights reserved.

If the replacement awards are tax deductible, a deferred tax asset is recognised at the acquisition date based on the estimated tax deduction that will be received. Subsequent to the acquisition date, the acquirer's share price may change, in which case the deferred tax asset should be remeasured to reflect the anticipated tax deduction.

There are two acceptable methods of accounting for the subsequent remeasurement of the deferred tax asset related to pre-combination services. An entity should select one as an accounting policy choice to be applied consistently to all similar transactions.

Alternative 1: apply the principle established in IAS 12:68A to 68C

IAS 12:68C states that, in the context of share-based payments, "[i]f the amount of the tax deduction (or estimated future tax deduction) exceeds the amount of the related cumulative remuneration expense, this indicates that the tax deduction relates not only to remuneration expense but also to an equity item. In this situation, the excess of the associated current or deferred tax should be recognized directly in equity".

In the context of replacement awards granted as part of a business combination, the cumulative remuneration expense is comprised of the amount attributed to pre-combination services at the acquisition date (as determined in accordance with paragraph B58 of IFRS 3) and the amount of compensation expense recognised for the replacement awards since the date of the business combination, if any. Therefore, the tax deduction related to the excess over the acquisition-date market-based value would be recognised in equity under the principle in IAS 12:68C.

Alternative 2: recognise all changes to the deferred tax assets related to pre-combination services in profit or loss

This alternative is based on the fact that Example 6 of IAS 12 does not appear to apply the principle in IAS 12:68C to distinguish whether a portion of the increase in the deferred tax asset should be recognised in equity rather than in profit or loss. The example indicates that, subsequent to the business combination, the intrinsic value of the options has increased above the market-based value of the replacement awards measured on the acquisition date. In the example, the entire change in the deferred tax asset appears to be recognised as "deferred tax income". Accordingly, based on Example 6 of IAS 12, it appears acceptable to recognise all movements in deferred tax assets related to pre-combination services in profit or loss.

For the portion of the market-based measure of replacement awards is attributable to post-combination services and recognised as post-combination compensation cost, see Question 14.A.2 for discussion related to the income tax accounting under IFRS Standards.

Comments

© Deloitte LLP. All rights reserved.

Part D — Interim financial reporting

Both U.S. GAAP and IFRS Standards require an entity to use a forecasted effective annual income tax rate in determining the tax expense or benefit that should be recorded in interim financial periods. This requirement is based on the premise that each interim period is an integral part of the annual period. Once the forecasted effective annual rate is derived, the entity applies it to its year-to-date earnings to determine its interim tax expense or benefit on earnings. The expense or benefit is then adjusted for the tax effect of any "discrete" items during the interim period. While U.S. GAAP and IFRS Standards are similar in their general approach, subtle language differences may cause the accounting under each to vary significantly.

14D.1	Has there been a change in circumstances that would result in a change in the beginning-of-the-year amount of DTAs recognised or the amount of valuation allowance in the interim period?	Yes No

U.S. GAAP	IFRS Standards
Any valuation allowance expected to be necessary at the end of the year for originating DTAs should be included in the forecasted effective annual rate (AETR). The effect of a change in the beginning-of-the-year balance of a valuation allowance as a result of a change in judgment about the realisability of the DTA's in future years is recognised discretely in the interim period that it is determined that the circumstances have changed. The tax benefit of an operating loss carryforward from prior years shall be included in the effective tax rate computation if the tax benefit is expected to be realised as a result of "ordinary" income in the current year. But discretely if it is expected to be realised as a result of income that is not "ordinary" income in the current year (e.g. discontinued operations).	For the recognition of previously unrecognised tax loss carryovers and unused tax credits, no distinction is provided between changes related to prior periods and changes related to current periods for interim forecasting of recognition of tax losses. All changes affect the forecasted effective tax rate. There is no specific guidance on the derecognition of previously recognised DTAs.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 740-270-30-7 states that "[t]he tax effect of a valuation allowance expected to be necessary" at the end of the year for a DTA originating in the current year should be included in the AETR.

A valuation allowance on beginning-of-the-year DTAs may increase or decrease during the year. ASC 740-270-30-11 states that "[t]he effects of changes in judgment about beginning-of-year valuation allowances . . . shall be excluded from the estimated annual effective tax rate calculation." However, ASC 740-270-25-4 states, in part:

"[t]he tax benefit of an operating loss carryforward from prior years shall be included in the effective tax rate computation if the tax benefit is expected to be realized as a result of ordinary income in the current year. Otherwise, the tax benefit shall be recognised in the manner described in paragraph 740-270-45-4 in each interim period to the extent that income in the period and for the year to date is available to offset the operating loss carryforward or, in the case of a change in judgment about realizability of the related deferred tax asset in future years, the effect shall be recognised in the interim period in which the change occurs."

The method of intraperiod tax allocation for annual periods also applies to reporting the tax benefit of an operating loss carryforward in interim periods. ASC 740-20-45-3 indicates that an entity determines the tax benefit of an operating loss carryforward recognised in a subsequent year under ASC 740 in the same way that it determines the source of the income in that year and not in the same way that it determines the source of (1) the operating loss carryforward or (2) the "expected future income that will result in realization of a deferred tax asset" for the operating loss carryforward. The tax benefit is allocated first to reduce income tax expense from continuing operations to zero with any excess benefit allocated to other sources of income that provide a means of realisation (e.g., gains from extraordinary items and from discontinued operations).

Under IFRS Standards, IAS 34:B12–B22 permit the recognition of previously unrecognised tax losses and unused tax credits to be included in the forecasted effective annual rate if a change of circumstance occurs during the interim

© Deloitte LLP. All rights reserved.

period and the criteria for the recognition of the DTA are met as of the interim reporting date. While the IAS 34 language refers specifically to tax losses and tax credits, in practice the recognition is applied to any DTA that meets the criteria as of the interim reporting date.

No specific guidance under IAS 34 addresses the derecognition of previously recognised DTAs. In practice, there are two acceptable approaches: (1) derecognition is included in the effective annual rate or (2) the DTAs are derecognised on the interim reporting date, and all amounts are assessed as not recoverable.

Comments

14D.2	**In computing taxes for the interim period, has the entity identified any items described in Question 14.A.4 (changes in items that were originally charged to items other than continuing operations)?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Any changes will generally be required to be included in continuing operations (i.e., no backward tracing) and the interim period principles in ASC 740 are applied to determine whether those tax effects should be included in the AETR or recognised discretely.	Consistent with annual periods, in interim periods changes are reflected in the same manner as the taxes arising from the transaction or event originally recorded, in profit or loss, or outside profit or loss, either in other comprehensive income or directly in equity. For example, if the taxes related to a transaction or event was originally recorded in equity, subsequent changes will also be recorded in equity for interim reporting purposes. This is commonly referred to as "backward tracing."

U.S. GAAP–IFRS Standards difference considerations

As discussed in Question 14.D.4, both U.S. GAAP and IFRS Standards require the tax effects of items credited or charged directly to equity during the current year to be allocated directly to equity. They differ, however, in their allocation of the benefit or expense resulting from subsequent changes to items that were originally debited or credited to equity in a prior year. In other words, the tax expense or benefit is recognised in a period after the original transaction occurs. These are commonly referred to as "out-of-period" adjustments. Since there is generally no backward tracing of recognising "out-of-period" adjustments under U.S. GAAP, these adjustments are generally recognised in continuing operations. And given that these adjustments are recognised in a period after the original transaction occurs, i.e. not related to current period ordinary income or loss, they are generally recognised discretely in the interim period.

Under IFRS Standards, since backward tracing is required, the out-of-period adjustments may not result in tax expense or benefit recognised in the profit and loss and therefore, would not be included in the computation of the projected rate nor recognised discretely.

Note: Adoption of ASU 2019-12 may affect the accounting differences described above. Refer to "Recently issued standards not yet reflected in this Section" at the beginning of this section for additional information.

Comments

© Deloitte LLP. All rights reserved.

14D.3	**With respect to the calculation of the forecasted annual effective tax rate, does the entity operate in multiple jurisdictions with different tax rates?**	Yes No

U.S. GAAP	IFRS Standards
Generally, entities that are subject to tax in multiple jurisdictions would compute one worldwide annual effective tax rate (AETR) for ordinary income in all jurisdictions during an interim period. There are two exceptions that may result in a jurisdiction being excluded from the worldwide AETR.	Each jurisdiction computes a projected rate, and that rate must be applied jurisdiction by jurisdiction to actual year-to-date income. Entities calculate the interim-period tax provision by multiplying the jurisdiction forecasted effective tax rate by the actual year-to-date earnings of each jurisdiction. The consolidated provision equals the sum of the provisions for each jurisdiction. If such a computation is not practicable, a weighted average of jurisdiction rates may be used if it is a reasonable approximation of the effect of using more specific rates.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP and the interim period income tax model, an entity is generally required to calculate its best estimate of the worldwide AETR for the full fiscal year at the end of each interim reporting period and to use that rate to calculate income taxes on a year-to-date basis. ASC 740-270-30-6 states, in part "At the end of each interim period the entity shall make its best estimate of the effective tax rate expected to be applicable for the full fiscal year." There is no requirement to separately analyse the effective tax rate for each interim period on the basis of each jurisdiction or category of taxable income. ASC 740-270-30 offers additional guidance on calculating the forecasted effective tax rate. For entities that are subject to tax in multiple jurisdictions, ASC 740-270-30-36 provides two exceptions, if applicable, would result in jurisdictions or tax paying components to be excluded from the worldwide AETR computation.

Under IFRS Standards, IAS 34:B.14 states, "To the extent practicable, a separate estimated average annual effective income tax rate is determined for each taxing jurisdiction" or each category of income, and the rate derived is applied individually to the interim-period pretax income of that jurisdiction or category. While that degree of precision is desirable, it may not be achievable in all cases, and a weighted average of rates is used throughout jurisdictions or categories of income if such average is a reasonable approximation of the effect of using more specific rates.

Comments

14D.4	**When computing the interim tax charge, has the entity incurred a loss on a year to date basis that exceeded the anticipated loss for the entire year?**	Yes No

U.S. GAAP	IFRS Standards
Limitations are applied to the amount of benefit recognised in an interim period when an entity incurs a year to date loss that exceeds the anticipated full year loss.	IFRS Standards provide no guidance with respect to when a year to date loss exceeds the anticipated loss for the entire year.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 740-270-30-28 provides additional guidance on situations in which an entity incurs a loss on a year-to-date basis that exceeds the anticipated loss for the year. In these situations, U.S. GAAP stipulates that the income tax benefit is limited to the amount that would be recognised if the year-to-date loss were the full year loss. This represents an exception to the general guidance in ASC 740-270.

IFRS Standards provide for no similar exception. Entities calculate the interim-period tax provision in the manner described in Question 14.D.3.

© Deloitte LLP. All rights reserved.

Note: Adoption of ASU 2019-12 may affect the accounting differences described above. Refer to "Recently issued standards not yet reflected in this Section" at the beginning of this section for additional information.

Comments

© Deloitte LLP. All rights reserved.

Presentation

Section 15: Presentation of financial statements

15. Presentation of financial statements

Overview

The purpose of general financial statements is to provide financial information to users in a standardised format. While the requirements under U.S. GAAP and IFRS Standards regarding financial statement components are similar, the presentation and classification of certain items can differ under each set of standards. This Section addresses some of these potential differences. Differences in the presentation of the statement of cash flows are addressed in Section 17.

Recently issued standards not yet reflected in this Section

In January 2020 the IASB issued Classification of Liabilities as Current or Non-current, which is effective for annual reporting periods beginning on or after 1 January 2021 retrospectively in accordance with IAS 8. Earlier application is permitted. The amendments:

- clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period;
- specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability;
- explain that rights are in existence if covenants are complied with at the end of the reporting period; and
- introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

These amendments are relevant to Question 15B.1 below.

Primary authoritative guidance

- ASC 210-10-S99, Balance Sheet: Overall: SEC Materials (SEC registrants only)
- ASC 220, Comprehensive Income
- ASC 225-10-S99, Income Statement: Overall: SEC Materials (SEC registrants only)
- ASC 250, Accounting Changes and Error Corrections
- ASC 470, Debt
- SEC Regulation S-X, Rule 3-01, Consolidated Balance Sheets (SEC registrants only)
- SEC Regulation S-X, Rule 3-02, Consolidated Statements of Income and Changes in Financial Position (SEC registrants only)

- IAS 1, Presentation of Financial Statements
- IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors

© Deloitte LLP. All rights reserved.

Part A — General requirements

15A.1	**Is the entity preparing financial statements, and will it therefore need to understand the general presentation considerations for financial statement line items and comparative information?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Specific presentation of particular financial statement line items is required under individual accounting guidance and SEC rules and regulations. There is no specific requirement to present comparative financial information; however, specific SEC regulations require comparative financial information for public registrants.	Particular financial statement line items are required. One-year comparative financial information is required, with certain exceptions.

U.S. GAAP–IFRS Standards difference considerations

There are more requirements under IFRS Standards (i.e. in IAS 1) governing line items than there are under U.S. GAAP. Differences in presentation may therefore occur, but typically they do not.

Under U.S. GAAP, other than SEC regulation S-X Articles 3 through 10 for SEC registrants there is no comprehensive guidance that requires specific financial statement line items. Rather, individual accounting guidance (and ASC 210-10-S99 and ASC 225-10-S99 for SEC registrants) require presentation of particular items. In addition, U.S. GAAP allows the presentation of financial statements without comparatives for the prior year. However, generally, at least one year of comparative financial information is presented (see ASC 205-10-45-2, Presentation of Financial Statements: Overall) and SEC regulations require one or two years of comparatives, depending upon the registrant's status.

Additionally, SEC Regulation S-X Articles 5 through 10 provide requirements for specific financial statement line items that are required based on specific industries, ownerships structures or sizes.

Under IFRS Standards, specific financial statement line items are required. IAS 1:54 lists the line items that must (at a minimum) be included in the statement of financial position. IAS 1:82 lists the line items that must (at a minimum) be included in the statement of comprehensive income. IAS 1 also requires additional information that must either be shown on the face of the statements or disclosed in the notes. Under IAS 1:38, unless they are permitted or required by another standard to do otherwise, entities must disclose previous-period comparative information for all amounts reported in the financial statements for the current period. Entities must include comparative information for "narrative and descriptive information when it is relevant to an understanding of the current period's financial statements."

Per IAS 1:38C, if an entity chooses to provide additional comparative information (e.g., disclosure of comparative information for any additional statements included beyond the minimum comparative financial statement requirements), it would need to present the information in accordance with IFRS Standards. Presenting additional comparative information voluntarily would not trigger a requirement to provide a complete set of financial statements.

Comments

15A.2	**Did the entity apply an accounting policy retrospectively or make a retrospective restatement (i.e. an error correction) or reclassification in its financial statements?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
There is no specific requirement regarding presentation of a statement of financial position for the earliest period.	Three statements of financial position (end of current period, end of comparative period, and beginning of earliest comparative period) are required.

© Deloitte LLP. All rights reserved.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, SEC registrants are generally required to provide one year of comparative financial information for balance sheets and two years of comparative financial information for income statements, statements of equity, and cash flows. However, neither ASC 250 nor SEC rules require the presentation of the statement of financial position for the earliest period presented whether an entity provides comparative income statement information for one or two years.

Under IFRS Standards, at a minimum, two statements of financial position and two of each of the other statements and related notes are required. However, in accordance with IAS 1:38D, three statements of financial position (end of current period, end of comparative period, and beginning of earliest comparative period) are required under IFRS Standards when "an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements."

Per IAS 1:40A, if an entity changes accounting policies retrospectively or makes a retrospective restatement or reclassification that has a material effect on the information in the statement of financial position at the beginning of the preceding period, it is required to present the statement of financial position at the end of the current period and the beginning and end of the preceding period. Entities are required to disclose certain specified information but are not required to provide the related footnotes to accompany the opening statement of financial position.

Comments

15A.3 Is the entity a wholly-owned subsidiary that is also a parent that has subsidiaries that it controls?

Yes

No

This question addresses an entity's presentation after the entity has determined that it has control over a subsidiary. See Section 21 for discussion regarding determination of control.

U.S. GAAP	IFRS Standards
Consolidated financial statements must be presented.	Present consolidated financial statements unless certain criteria are met.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, a parent must present consolidated financial statements in which it consolidates its subsidiaries.

Under IFRS Standards, IFRS 10:4(a) states the following:

A parent need not present consolidated financial statements if and only if:

A. 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;

B. 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);

C. the parent did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and

D. the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use and comply with International Financial Reporting Standards.

If a parent elects not to consolidate its subsidiary under IFRS Standards, the parent must account for its investment in that subsidiary (not otherwise classified as held for sale under IFRS 5, Non-current Assets Held for Sale and Discontinued Operations) at cost or at fair value in accordance with IFRS 9, Financial Instruments.

© Deloitte LLP. All rights reserved.

Comments

15A.4	**Has the entity prepared or is it required to prepare the financial statements on a liquidation basis of accounting?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
An entity needs to prepare financial statements on a liquidation basis of accounting when liquidation becomes imminent. The entity should present relevant information about the expected resources in liquidation by measuring and presenting the assets including those not previously recognised (e.g. trademarks) at the amount of the expected cash proceeds from liquidation.	IFRS Standards state that an entity should prepare financial statements on the going concern basis of accounting "unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so". IFRS Standards currently do not provide explicit guidance on when or how to apply the liquidation basis of accounting.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 205-30-25-1 provides that an entity shall prepare financial statements in accordance with the liquidation basis of accounting when liquidation is imminent unless the liquidation follows a plan for liquidation that was specified in the entity's governing documents at the entity's inception. There is guidance under U.S. GAAP on when and how an entity should prepare its financial statements using liquidation basis of accounting and describes the related disclosures that should be made with the scope exception for investment companies regulated under the Investment Company Act of 1940.

Liquidation becomes imminent when either of the following occurs:

A. A plan for liquidation has been approved by the person or persons with the authority to make such a plan effective, and the likelihood is remote that any of the following will occur:
   - Execution of the plan will be blocked by other parties (for example, those with shareholder rights)
   - The entity will return from liquidation.

B. A plan for liquidation is imposed by other forces (for example, involuntary bankruptcy), and the likelihood is remote that the entity will return from liquidation.

When using a liquidation basis of accounting, an entity should consider the following:

- Include items which were not previously recognised (e.g. Trademarks) which it expects to sell or use to settle the liabilities.
- Recognise liabilities in accordance with the recognition provisions of other Topics that otherwise would apply to those liabilities, including ASC 405-20-40-1.
- Accrue costs and income that it expects to incur or earn (for example, payroll costs or income from pre-existing orders that the entity expects to fulfil during liquidation) through the end of its liquidation if and when it has a reasonable basis for estimation.
- Accrue estimated costs to dispose of assets or other items that it expects to sell in liquidation and present those costs in the aggregate separately from those assets or items.

As per ASC 205-30-35-1 at each reporting date, an entity shall remeasure its assets, other items not previously recognised, liabilities (if required under the relevant Topic for those liabilities), and the accruals of disposal or other costs or income to reflect the actual or estimated change in carrying value since the previous reporting date in accordance with ASC 205-30-30-1 through 30-3.

ASC 205-30-45-1 and 2 requires an entity that applies the liquidation basis of accounting shall prepare a statement of net assets in liquidation and a statement of changes in net assets in liquidation, incorporating only changes in net assets that occurred during the period since liquidation became imminent.

© Deloitte LLP. All rights reserved.

Where liquidation becomes imminent post the reporting date but before issuance of the financial statements then the financial statements are prepared on a going concern basis. The entity should consider whether any of the assets were impaired at the reporting date and disclose the subsequent event in its financial statements.

Under IFRS Standards, IAS 1:25 requires the financial statements to be prepared on a going concern basis unless the management intends or has no realistic alternative other than to liquidate the entity or to stop trading. IFRS Standards do not provide explicit guidance on when or how to apply the liquidation basis of accounting and the financial statements should be prepared in accordance with IFRS Standards even if the entity ceases to be a going concern.

In case the entity ceases to be going concern after the reporting date but before the financial statements are authorised for issue, then the financial statements would not be drawn up on a going concern basis.

Comments

15A.5	**Is the entity exposed to conditions or events that might raise substantial doubt over its ability to continue as a going concern?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Management should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the 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 the date that the financial statements are available to be issued when applicable).	Management should assess the ability of the entity to carry on as a going concern for the foreseeable future. This is not restricted to a period of 12 months from the reporting date.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 205-40-50-1 provides that, in connection with preparing financial statements for each annual and interim reporting period, an entity's management shall 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 the date that the financial statements are available to be issued when applicable).

Further, an entity must provide certain disclosures if there is "substantial doubt about the entity's ability to continue as a going concern" as per ASC 205-40-50-12 through 50-14.

Under IFRS Standards, IAS 1:25 provides that while preparing the financial statements, management shall make an assessment of the entity's ability to continue as a going concern. An entity shall prepare its financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern for a period defined as the foreseeable future (at least, but not limited to, 12 months from the reporting date). If the entity is not a going concern and the financial statements are being prepared in accordance with IFRS Standards, disclosure requirements are still applicable.

IAS 1:26 provides that in assessing whether the going concern assumption is appropriate, management should consider 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 degree of consideration depends on the facts in each case.

© Deloitte LLP. All rights reserved.

Comments

Part B — Statement of financial position

15B.1	**Has the entity refinanced bank loans on a long-term basis after the reporting period but before the issuance of the financial statements?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Debt may be classified as a noncurrent liability.	Debt that is due to be settled within 12 months after the reporting period is generally classified as a current liability.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 470-10-45-13 and 45-14 indicate that a bank loan may be classified as noncurrent if refinancing on a long-term basis is completed after the balance sheet date but before the financial statements are issued, or if a financing agreement is entered into before the financial statements are issued that clearly permits the entity to refinance on a long-term basis and meet the conditions included in ASC 470-10-45-14(b).

Under IFRS Standards, IAS 1:72 states that a bank loan due to be settled within 12 months after the reporting period must be classified as current even if it is refinanced on a long-term basis after the reporting period but before the financial statements are issued. A refinancing after the reporting period is a non-adjusting event in accordance with IAS 10, Events after the reporting period, and should not affect the presentation of the entity's statement of financial position. If a refinancing is completed before the end of the reporting period to extend the obligation for at least 12 months after the reporting period, the financial liability is classified as noncurrent.

Notwithstanding, IAS 1:73 requires that:

"If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current."

Comments

15B.2	**Has the entity violated loan covenants as of the reporting date whereby the loan is payable on demand but obtained a waiver of the breach after period end?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Debt may be classified as a noncurrent liability if certain conditions are met.	Debt is classified as a current liability.

© Deloitte LLP. All rights reserved.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 470-10-45-11 indicates that a bank loan may be classified as noncurrent 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 cured within the grace period, if any, prescribed in the long-term debt agreement.

Under IFRS Standards, IAS 1:74–76 specify that a loan must be classified as current even if the lender has granted a 12-month waiver of the breach before the issuance of the financial statements. However, an entity may classify the loan as noncurrent if the lender agrees on or before the reporting date "to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment."

Comments

Part C — Income statement

15C.1	Does the entity present (or intend to present) subtotals for different measures of profits in its IFRS financial statements (e.g., operating profit before restructuring costs) or use a columnar presentation to strip out certain items?	Yes No

U.S. GAAP	IFRS Standards
SEC rules and regulations limit the use of subtotals.	Certain subtotals are permitted if not deemed misleading.

U.S. GAAP–IFRS Standards difference considerations

SEC rules and regulations limit the use of subtotals and non-GAAP financial measures. The SEC staff has commented on the appropriateness of certain subtotals presented on the face of the income statement under IFRS Standards. Several variations of income statement subtotals have been presented that exclude items that are deemed to be non-operating. While these presentations may be prevalent in certain industries or presented to meet local regulations, the SEC staff has challenged such subtotals and asked registrants to consider the guidance in IAS 1:BC56 and its own guidance on the use of non-GAAP measures. IAS 1:BC56 notes that when an entity decides to present the results of operating activities (i.e. operating income) or a similar line item, the amount should not exclude items of an operating nature, even if this is industry practice. Examples include inventory write-downs, restructuring charges, and share-based payments.

Under IFRS Standards , IAS 1:85 states, "An entity shall present additional line items, headings and subtotals in the statement of comprehensive income and the separate income statement (if presented), when such presentation is relevant to an understanding of the entity's financial [statement] performance." Furthermore IAS 1:85A states in part, "When an entity presents subtotals in accordance with paragraph 85, those subtotals shall: (a) be comprised of line items made up of amounts recognised and measured in accordance with IFRS." Therefore in presenting any sub-totals notional allocations of amounts before and after the sub-total should be avoided.

Comments

© Deloitte LLP. All rights reserved.

15C.2	**Does the entity present (or intend to present) the expenses in the statement of comprehensive income according to the nature of the expense under IFRS Standards?**	**Yes** / **No**

Under the nature of expense method, expenses are aggregated in the statement of comprehensive income according to their type (e.g., depreciation, purchases of materials, salaries, and advertising).

U.S. GAAP	**IFRS Standards**
SEC regulations require expenses to be classified by function although certain specific amounts are often separately disclosed on the face of the income statement; for example, restructuring costs or impairments.	Expenses may be classified either by nature or by function, with additional disclosures required if they are classified by function. Entities should not use a mixed presentation i.e. it is generally not appropriate to disclose restructuring costs as a separate line item when the entity has selected a functional presentation.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 220-10-S99-2 requires expenses to be classified by their function for SEC registrants. The functional or "cost-of- sales" method classifies expenses according to their function (e.g., as part of cost of sales, distribution, or general and administrative activities). However, depreciation expense may be presented as a separate income statement line item. ASC 220-10-S99-8 provides that in such instances, the caption "cost of sales" should be accompanied by the phrase "exclusive of depreciation" shown below and presentation of a gross margin subtotal is precluded.

Under IFRS Standards, IAS 1:99 discusses the way entities may present an analysis of expenses. According to IAS 1:99, an entity may present the analysis by "using a classification based on either their nature or their function within the entity, whichever provides information that is reliable and more relevant." Under the nature-of-expense method, expenses are aggregated in the statement of comprehensive income according to their type (e.g., depreciation, purchases of materials, salaries, and advertising) and are not reallocated among the various functions in the entity (e.g., costs of sales, costs of distribution, administrative activities). Accordingly, the presentation of gross profit or gross margin would not be appropriate. IAS 1:104 states that if an entity chooses to classify expenses by function, additional information about the nature of certain expenses (i.e. depreciation and amortisation, employee benefits) should be disclosed in the notes to the financial statements.

Comments

15C.3	**Does the entity have net periodic benefit cost attributable to defined benefit plans?**	**Yes** / **No**

U.S. GAAP	**IFRS Standards**
Service costs should be reported in the same line item as other compensation costs and all other components of net periodic benefit cost shall be reported separately from service cost and below operating profit, if such a sub-total is presented.	IFRS Standards do not specify how such amounts should be presented in the income statement.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 715-20-45-3A states:

"An employer shall report in the income statement:

A. The service cost component of net periodic pension cost and net periodic postretirement benefit cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period (except for the amount being capitalized, if appropriate, in connection with the production or construction of an asset such as inventory or property, plant, and equipment)

© Deloitte LLP. All rights reserved.

B. The other components as defined in paragraphs 715-30-35-4 and 715-60-35-9 separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components, that line item or items shall be described appropriately.

For the purpose of applying the guidance in this paragraph, a gain or loss from a settlement or curtailment or the cost of certain termination benefits accounted for under this Topic shall be reported in the same way as the other components in (b)."

Under IAS 19:20, an entity is required to recognise service cost and net interest on the net defined benefit liability (asset) in profit or loss. The Standard does not specify how an entity should present service cost and net interest on the net defined benefit liability (asset). The entity should determine an appropriate presentation under IAS 1.

Following from the requirements of IAS 19:134, entities have a choice as to whether to present service cost and net interest on the net defined benefit liability (asset) separately or as a single net figure. Such a decision is an accounting policy choice, and should therefore be disclosed appropriately and applied consistently for all plans.

Comments

© Deloitte LLP. All rights reserved.

Section 16: Noncurrent assets held for sale and discontinued operations

16. Noncurrent assets held for sale and discontinued operations

Overview

A noncurrent asset (or 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 if certain criteria are met. A noncurrent asset (or disposal group) classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell.

A discontinued operation is a component of an entity that meets certain criteria and has been disposed of or is classified as held for sale. A component of an entity comprises operations and cash flows that can be distinguished from the rest of the entity both operationally and for financial reporting purposes.

See Question 17.9 for a potential difference in the classification of cash flows from discontinued operations.

Recently issued standards not yet reflected in this Section

None.

Primary authoritative guidance

- ASC 205-20, Presentation of Financial Statements: Discontinued Operations
- ASC 360-10, Property, Plant, and Equipment: Overall
- ASC 830-30, Translation of Financial Statements
- IFRS 5, Non-current Assets Held for Sale and Discontinued Operations

16.1 Does the entity have a component that either has been disposed of or is classified as held for sale?

Yes

No

U.S. GAAP

A discontinued operation is a component that represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when any of the following occurs: the component of an entity or group of components of an entity meets the criteria to be classified as held for sale, is disposed of by sale, is disposed of other than by sale.

A discontinued operation can include a component of an entity or a group of components of an entity, or a business or non-profit activity. A component of an entity may be a reportable segment, an operating segment, a reporting unit, a subsidiary, or an asset group.

IFRS Standards

A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale.

A discontinued operation must be a separate major line of business or geographical area of operations, or a subsidiary acquired exclusively with a view to resale.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 205-20-45-1B requires discontinued operations classification for a component of an entity or a group of components of an entity if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when any of the following occurs:

A. The component of an entity or group of components of an entity meets the criteria in ASC 205-20-45-1E to be classified as held for sale.

© Deloitte LLP. All rights reserved.

B. The component of an entity or group of components of an entity is disposed of by sale.

C. The component of an entity or group of components of an entity is disposed of other than by sale in accordance with ASC 360-10-45-15 (for example, by abandonment or in a distribution to owners in a spin-off).

Within ASC 205-20-45-1C, the examples include the disposal of a major line of business or major geographic area, which in practice may result in insignificant differences with the definition under IFRS Standards below.

ASC 360-10-15-5 lists a number of assets (e.g., servicing assets, deferred policy acquisition costs, costs of computer software to be sold, certain oil and gas properties) that are outside the scope of the guidance in the subsections on impairment or disposal of long-lived assets. These scope exclusions apply only to the assets for which the accounting is prescribed by other GAAP, not to the entire entity with those assets. As a result, an entity may account for some assets in accordance with other GAAP and others in accordance with ASC 360-10.

Under IFRS Standards (IFRS 5:32), a discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and

A. represents a separate major line of business or geographical area of operations,

B. is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or

C. is a subsidiary acquired exclusively with a view to resale.

Except for assets that are outside the scope of the U.S. GAAP guidance on impairment or disposal of long-lived assets we believe it would be rare that there would be a GAAP difference in this area.

Comments

16.2	Is there an accumulated foreign currency translation adjustment associated with an equity method investment or a consolidated investment in a foreign entity classified as held for sale that is subject to impairment?	Yes No

U.S. GAAP	IFRS Standards
Accumulated foreign currency translation adjustments that are expected to be reclassified to earnings upon sale of the asset or disposal group should be included in impairment testing.	The accumulated foreign currency translation adjustment is not taken into account in assessing impairment.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, in accordance with the guidance in ASC 830-30-45-13, an entity that has committed to a plan that will cause the cumulative translation adjustment for an equity method investment or a consolidated investment in a foreign entity to be reclassified to the income statement at the time of sale, should include the cumulative translation adjustment as part of the carrying amount of the investment when evaluating that investment for potential impairment.

Under IFRS Standards, the cumulative translation adjustment is not included in the assessment of impairment.

Comments

© Deloitte LLP. All rights reserved.

16.3	**Has there been a subsequent increase in the fair value of an asset or disposal group classified as held for sale beyond the original amount recorded upon classification as held for sale where an impairment loss had been recorded related to the asset or disposal group before classification as held for sale?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Reversal of impairment loss recognised before classification as held for sale is not permitted.	Reversal of impairment loss recognised before classification as held for sale is required.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 360-10-35-40 limits the recognition of any subsequent fair value increases (less costs to sell) related to assets or asset groups classified as held for sale to the cumulative loss recognised upon and since classification as held for sale. The loss or gain shall adjust only the carrying amount of a long-lived asset, whether classified as held for sale individually or as part of a disposal group. Reversal of the impairment loss recorded before classification as held for sale is not permitted under ASC 360.

Under IFRS Standards, IFRS 5:21 requires an entity to "recognise a gain for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has [already] been recognised under IFRS Standards or IAS 36."

Comments

16.4	**Does the entity plan to distribute noncurrent assets or a disposal group to its owners?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
There is no held-for-distribution designation under U.S. GAAP; long-lived assets to be distributed to an entity's owners continue to be classified as held-and-used until they are disposed of.	The classification, presentation and measurement requirements that apply to items that are classified as held-for-sale generally also apply to a non-current asset or disposal group that is classified as held-for-distribution.

U.S. GAAP–IFRS Standards difference considerations

Under U.S, GAAP, there is no held-for-distribution designation. Therefore a disposal group to be distributed to shareholders in a spin-off transaction will continue to be classified as held for use until the date of the distribution. This also means that the disposal group will be reported as part of continuing operations until the date of disposal.

Under IFRS Standards, IFRS 5:12A states that:

"A non-current 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. For this to be the case, the assets must be available for immediate distribution in their present condition and the distribution must be highly probable. For the distribution to be highly probable, actions to complete the distribution must have been initiated and should be expected to be completed within one year from the date of classification. Actions required to complete the distribution should indicate that it is unlikely that significant changes to the distribution will be made or that the distribution will be withdrawn. The probability of shareholders' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the distribution is highly probable."

Therefore a disposal group to be spun-off to shareholders will be classified as a discontinued operation earlier under IFRS Standards than U.S. GAAP.

© Deloitte LLP. All rights reserved.

Comments

16.5	**Has the entity classified non-current assets or assets and liabilities of disposal groups as held for sale during the reporting period?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
There is no specific guidance for the entity to represent comparatives to reflect classification as held for sale during the year except if the disposal group qualifies as a discontinued operation.	An entity should not reclassify or represent comparatives in its statement of financial position to reflect classification as held for sale during the year.

U.S. GAAP–IFRS Standards difference considerations

Under U.S GAAP, there is no specific guidance on whether or not comparatives are to be represented to reflect the classification as held for sale at the current reporting date. The presentation may vary from entity to entity.

Under ASC 205-20-45-11 there is a requirement that for any discontinued operation initially classified as held for sale, in the current period, an entity shall either present on the face of the statement of financial position or disclose in the notes to financial statements (ASC 205-20-50-5B (e)) the major classes of assets and liabilities of the discontinued operation classified as held for sale for all periods presented in the statement of financial position.

Under IFRS Standards, it would not be appropriate to reclassify or re-present amounts presented for non-current assets or for the assets and liabilities of disposal groups classified as held for sale in the statements of financial position for prior periods to reflect the classification in the statement of financial position for the latest period presented.

Comments

16.6	**Does the entity have long-lived assets or asset groups that are held for sale?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Held-for-sale classification and presentation requirements do not apply to goodwill, servicing assets, certain financial instruments, deferred policy acquisition costs, deferred tax assets, long-lived assets to be distributed to owners, unproved oil and gas properties accounted for using the successful efforts method and oil and gas properties that are accounted for using the full cost method. Held-for-sale measurement requirements apply to employee benefit assets and insurance contracts.	Held-for-sale classification and presentation requirements apply to all non-current assets and disposal groups. Held-for-sale measurement requirements do not apply to employee benefit assets and insurance contracts.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 360-10-15-4 provides the list of transactions or activities to which guidance on the Impairment or Disposal of Long-Lived Assets Subsections does not apply. The following are such transactions or activities.

A. Goodwill;

B. Intangible assets not being amortised that are to be held and used;

C. Servicing assets;

© Deloitte LLP. All rights reserved.

D. Financial instruments, including investments in equity securities accounted for under the cost or equity method;

E. Deferred policy acquisition costs;

F. Deferred tax assets;

G. Unproved oil and gas properties that are being accounted for using the successful-efforts method of accounting;

H. Oil and gas properties that are accounted for using the full-cost method of accounting as prescribed by the SEC;

I. Other long-lived assets as prescribed by the standards.

Under IFRS Standards, the classification and presentation requirements of IFRS 5:2 apply to all recognised non-current assets and disposal groups of an entity, but specified classes of assets are not subject to its measurement requirements and instead continue to be measured in accordance with other standards.

IFRS 5:5 lists the following assets to which measurement requirements of IFRS 5 do not apply:

A. deferred tax assets;

B. assets arising from employee benefits;

C. financial assets within the scope of IFRS 9 Financial Instruments;

D. non-current assets that are accounted for in accordance with the fair value model in IAS 40 Investment Property;

E. non-current assets that are measured at fair value less costs to sell in accordance with IAS 41 agriculture; and

F. groups of contracts within the scope of IFRS 17 Insurance Contracts.

Comments

© Deloitte LLP. All rights reserved.

Section 17: Statement of cash flows

17. Statement of cash flows

Overview

This Section addresses the differences between ASC 230, Statement of Cash Flows and IAS 7, Statement of Cash Flows on the presentation and classification of cash flows within the statement of cash flows. Differences between U.S. GAAP and IFRS Standards that are not addressed in this Section include the following:

- Under U.S. GAAP, ASC 230 contains a scope exception for application by certain employee benefit plans and highly liquid investment companies that meet all the criteria in ASC 230-10-15-4(c). There are no similar scope exceptions under IAS 7.
- ASC 230-10-45-3 prohibits the presentation of cash flow per share, while IFRS Standards do not explicitly prohibit the presentation of cash flow per share.

For U.S. GAAP purposes, the guidance in AICPA Technical Practice Aid ("TPA") TIS Section 1300 still needs to be considered, even though it was not included in the FASB Accounting Standards Codification.

Recently issued standards not yet reflected in this Section

None.

Primary authoritative guidance

- ASC 230, Statement of Cash Flows
- AICPA Technical Practice Aid, TIS Section 1300, "Statement of Cash Flows"
- IAS 7, Statement of Cash Flows

17.1 Has the entity chosen to use the indirect method to report cash flows from operating activities?

Yes

No

U.S. GAAP	IFRS Standards
Net cash flow from operating activities must begin with net income, followed by adjustments to reconcile net income to net cash provided by operating activities.	IFRS Standards are not explicit as to the starting point for the reconciliation to net cash provided by operating activities.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 230-10-45-28 states that the indirect method of reporting net cash flows from operating activities adjusts reported net income for the effects of (1) "all deferrals of past operating cash receipts and payments, such as changes during the period in inventory, deferred income, and the like, and all accruals of expected future operating cash receipts and payments, such as changes during the period in receivables and payables" and (2) all items included in net income that do not affect net cash provided from, or used for, operating activities, including "all items whose cash effects are related to investing or financing cash flows, such as gains or losses on sales of property, plant, and equipment and discontinued operations (which relate to investing activities), and gains or losses on extinguishment of debt (which relate to financing activities)."

Under IFRS Standards, IAS 7:18 is not explicit as to the starting point for the reconciliation to net cash flows from operating activities. The illustrative examples start from profit before tax and therefore this is considered the preferred approach. However, entities that choose to present an operating result in the statement of comprehensive income (or separate statement of profit or loss) often use operating result as the starting point for the presentation of adjustments. Unless the entity has a discontinued operation, the items presented between operating result and profit/loss before taxation are generally non-operating cash flows (share of results of associates, interest paid, etc.). When this is the case, rather than using profit/loss before taxation as the starting point, and subsequently adjusting for all of the items between that amount and the operating result, it is generally acceptable to use the operating result

© Deloitte LLP. All rights reserved.

as the starting point. But entities should take into consideration of specific requirements by local regulators; for example, SEC registrants should note that this presentation is unlikely to be acceptable to the SEC staff.

Comments

17.2 Does the entity have bank overdrafts?	**Yes**
A bank overdraft is a negative bank account balance resulting from a bank covering cleared cheques as presented or covering rejected deposits.	**No**

U.S. GAAP	**IFRS Standards**
Changes in bank overdrafts during a period must be classified as part of financing activities. Bank overdrafts may not be offset against cash and cash equivalents.	Bank overdrafts are generally considered to be financing activities but are included in cash and cash equivalents when the use of overdrafts forms an integral part of an entity's cash management.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, the net change in bank overdrafts during a period is classified as a financing activity in accordance with TPA TIS Section 1300.15. Bank overdrafts may not be offset against cash and cash equivalents.

Under IFRS Standards, IAS 7:8 states that bank overdrafts are generally considered to be financing activities. However, there may be circumstances in which bank overdrafts repayable on demand are included as a component of (i.e., offset against) cash and cash equivalents, such as when the use of overdrafts forms an integral part of an entity's cash management practices. A characteristic of such banking arrangements is that the bank balance often fluctuates between being positive and being overdrawn.

Note that under IFRS Standards, the fact that a bank overdraft may be included in "cash and cash equivalents" in the statement of cash flows does not mean that the bank overdraft should be included in the "cash and cash equivalents" line item in the statement of financial position (unless the conditions for offset in IAS 32:42, Financial Instruments: Presentation, are met). Rather, the bank overdraft should be classified as a liability in the statement of financial position under IFRS Standards, as it would be under U.S. GAAP.

Comments

17.3 Has the entity paid interest?	**Yes**
	No

U.S. GAAP	**IFRS Standards**
Interest paid is generally classified as operating activities.	Interest paid is generally classified as either operating or financing activities.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 230-10-45-17(d) states that "[c]ash payments to lenders and other creditors for interest" are generally classified as operating activities. However, ASC 230-10-45-13(c) specifies that cash outflows related to the acquisition of PP&E and other productive assets, including capitalised interest, are classified as investing activities.

Under IFRS Standards, IAS 7 allows an entity to determine the classification of interest paid that is most appropriate to its business as long as the classification remains consistent from period to period. Under IAS 7:33, it is generally accepted that interest paid is classified as an operating activity for a financial institution. For nonfinancial institutions,

© Deloitte LLP. All rights reserved.

interest paid may be classified as an operating activity because it enters into the determination of profit or loss. Alternatively, interest paid may be classified as a financing activity because it is a cost of obtaining financial resources.

Note that under IAS 7:32, total interest paid in cash should be disclosed in the statement of cash flows irrespective of whether the cost is charged in the statement of comprehensive income or capitalised in accordance with IAS 23, Borrowing Costs. It may be appropriate to include the cash outflow related to capitalised borrowing costs under investing activities (if the qualifying asset is PP&E or an intangible) or operating activities (if the qualifying asset is inventory) provided that the total amount of interest paid is also disclosed either on the face of the statement of cash flows or in the footnotes.

Comments

17.4 Has the entity received interest?

Yes

No

U.S. GAAP	IFRS Standards
Interest received must be classified as operating activities.	Interest received may be classified as operating or investing activities.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 230-10-45-16(b) indicates that cash receipts from returns on loans and other debt instruments of other entities, including interest, are classified as operating activities.

Under IFRS Standards, IAS 7:31 allows an entity to classify interest received as an operating or an investing activity according to what is appropriate to its business as long as the classification remains consistent from period to period.

Comments

17.5 Has the entity paid dividends?

Yes

No

U.S. GAAP	IFRS Standards
Dividends paid must be classified as financing activities.	Dividends paid may be classified as financing or operating activities.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 230-10-45-15(a) states that dividends paid are classified as financing activities.

Under IFRS Standards (IAS 7:34), dividends paid may be classified as financing activities because they are a cost of obtaining financial resources. Alternatively, dividends paid may be classified as operating activities to assist users in determining the ability of an entity to pay dividends out of operating cash flows.

Comments

© Deloitte LLP. All rights reserved.

17.6	**Has the entity received dividends from its investments (joint ventures, equity method investments, cost method investments)?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Dividends received that are considered to be a return on equity securities are classified as operating activities. An entity shall make an accounting policy election to classify distributions received from equity method investees using either of the "cumulative earnings approach" or "nature of the distribution approach".	Dividends received may be classified as operating or investing activities.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, the guidance distinguishes between returns of investment, which ASC 230-10-45-12(b) indicates should be classified as investing activities, and returns on investment, which ASC 230-10-45-16(b) indicates should be classified as operating activities. In addition, ASC 230-10-45-21D indicates that when distributions are received from equity method investees, they should be classified as either operating activities or investing activities by making an accounting policy election below:

A. Cumulative earnings approach: Distributions received are considered returns on investment and shall be classified as cash inflows from operating activities unless the investor's cumulative distributions received less distributions received in prior periods that were determined to be returns of investment exceed cumulative equity in earnings recognised by the investor (as adjusted for amortisation of basis differences). When such an excess occurs, the current-period distribution up to this excess is considered a return of investment and shall be classified as cash inflows from investing activities.

B. Nature of the distribution approach: Distributions received shall be classified on the basis of the nature of the activity or activities of the investee that generated the distribution as either a return on investment (classified as a cash inflow from operating activities) or a return of investment (classified as a cash inflow from investing activities) when such information is available.

If an entity elects to apply the nature of the distribution approach and the information to apply that approach to distributions received from an individual equity method investee is not available to the investor, the entity shall report a change in accounting principle on a retrospective basis by applying the cumulative earnings approach described in (a) above for that investee. In such situations, an entity shall disclose that a change in accounting principle has occurred with respect to the affected investee(s) due to the lack of available information and shall provide the disclosures required in ASC 250-10-501(b) and 250-10-50-2, as applicable. With either approach described in (a) or (b) above, an entity also shall comply with the applicable accounting policy disclosure requirements in ASC 235-10-50-1 through 50-6.

Under IFRS Standards (IAS 7:33), dividends received may be classified as operating activities because they enter into the determination of profit or loss. Alternatively, dividends received may be classified as investing cash flows as a return on investment.

Comments

17.7	**Has the entity paid income taxes?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Income taxes paid must be classified as operating activities.	Income taxes paid should be classified as operating activities unless they can be specifically identified with investing or financing activities.

© Deloitte LLP. All rights reserved.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 230-10-45-17(c) states that cash paid for income taxes is classified as an operating activity.

Under IFRS Standards, IAS 7:35 indicates that cash paid for income taxes should be classified as an operating activity unless it can be specifically identified with investing and financing activities.

In practice, income taxes paid are usually classified as operating activities under IAS 7 because it is often impracticable to match tax cash flows with specific investing and financing activities, and tax cash flows may arise in a period other than when the cash flows of the underlying transaction arose. However, 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.

Comments

17.8 Has the entity applied hedge accounting?	**Yes**
See Section 22 for further discussion of hedging activities.	**No**

U.S. GAAP	IFRS Standards
If certain criteria are met, companies may classify cash flows from hedge accounting activities in the same category as cash flows from the hedged items.	Companies must classify cash flows from hedge accounting activities in the same category as cash flows from the hedged items.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, an entity that accounts for a derivative instrument as a fair value hedge or cash flow hedge (in accordance with ASC 815, Derivatives and Hedging) may classify the cash flows from these hedging activities in the same category as cash flows from the hedged item as long as the entity meets both of the following ASC 230-10-45-27 criteria:

- "[T]he 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."
- "[T]he accounting policy is disclosed."

If "the derivative instrument includes an other-than-insignificant financing element at inception," the borrower should report all cash flows associated with that derivative instrument as financing activities.

If at inception the derivative instrument does not include an other-than-insignificant financing element, but the entity has not elected and disclosed an accounting policy stating that the cash flows from a derivative are classified in the same category as the cash flows from the items being hedged, the cash flows from the derivative should be classified according to how the derivative instrument and its related cash flows would be used in the entity's business.

Under IFRS Standards, because IAS 7:16 requires an entity to classify cash flows from hedge accounting activities in the same category as cash flows from the items being hedged, the accounting for classification under U.S. GAAP and IFRS Standards will differ when the criteria in ASC 230-10-45-27 are not met.

Comments

© Deloitte LLP. All rights reserved.

17.9 Does the entity have discontinued operations?	**Yes**
See Section 16 for further discussion of discontinued operations.	**No**

U.S. GAAP	**IFRS Standards**
An entity must disclose either of the following if it is not already presented on the face of the cash flows statement: • The total operating and investing cash flows of the discontinued operation. • The depreciation, amortisation, capital expenditures, and significant operating and investing noncash items of the discontinued operation.	Cash flows from discontinued operations must be disclosed under each category either on the face of the statement of cash flows or in the footnotes.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP ASC 205-20-50-5B(c), an entity shall disclose, to the extent not presented on the face of the financial statements as part of discontinued operations, either of the following in the notes to financial statements:

1. The total operating and investing cash flows of the discontinued operation for the periods in which the results of operations of the discontinued operation are presented in the statement where net income is reported.
2. The depreciation, amortisation, capital expenditures, and significant operating and investing noncash items of the discontinued operation for the periods in which the results of operations of the discontinued operation are presented in the statement where net income is reported.

Under IFRS Standards, it is not acceptable to present the cash flows arising from continuing operations and discontinued operations as separate sections in the statement of cash flows. IFRS 5:33(c) adds an additional disclosure requirement in respect of cash flows arising from discontinued operations but it does not amend the requirements of IAS 7; therefore, the requirement in IAS 7:10 to present cash flows classified by activity applies to the entity's total cash flows (i.e. the aggregate of continuing and discontinued operations). This is in contrast to the impact of IFRS 5 on the structure of the statement of comprehensive income, which results in the statement being divided into separate sections for continuing and discontinued operations, with no presentation of aggregate amounts (other than the total profit for the year).

Possible approaches to presenting the information required by IFRS 5:33(c) while still complying with IAS 7's disclosure requirements include:

- presenting a separate note setting out the specific information required by IFRS 5:33(c), with no split between continuing and discontinued activities on the face of the statement of cash flows;
- presenting each line item in the statement of cash flows as a total (i.e. the aggregate of continuing and discontinued operations), with additional sub-analyses of the total operating, investing, and financing cash flows between continuing and discontinued operations on the face of the statement of cash flows; and
- presenting additional columns in the statement of cash flows showing the amount attributable to discontinued operations and the amount attributable to continuing operations for each IAS 7 line item, together with a column showing the total for each line item.

Other approaches may be acceptable and entities will need to consider whether any proposed presentation will be accepted by local regulators.

Therefore, depending on the presentation elected by U.S. GAAP entities under ASC 205, the presentation and disclosure of discontinued operations may differ under IFRS Standards and U.S. GAAP.

Comments

© Deloitte LLP. All rights reserved.

17.10	Does the entity have restricted cash or restricted cash equivalents?	Yes No

U.S. GAAP

Restricted cash and restricted cash equivalents should be included in the balances of cash and cash equivalents when reconciling the beginning and the end of the period's total amounts in the statement of cash flows, regardless of whether they are included in cash and cash equivalents on the balance sheet.

IFRS Standards

There is no specific guidance under IFRS Standards for entities with respect to the disclosure of restricted cash or restricted cash equivalents in the statement of cash flows.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 230-10-45-24 provides that a statement of cash flows for a period shall report net cash provided or used by operating, investing, and financing activities and the net effect of those flows on the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents during the period. The statement of cash flows shall report that information in a manner that reconciles beginning and ending totals of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents.

Further, ASC 230-10-45-5 provides that transfers between cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents are not part of the entity's operating, investing, and financing activities, and details of those transfers are not reported as cash flow activities in the statement of cash flows.

Under IFRS Standards, IAS 7:6 defines cash and cash equivalents to include cash on hand, demand deposits, short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. However, there is no specific guidance for 'restricted' amounts (i.e. restricted cash or restricted cash equivalents).

Comments

17.11	Has the entity made cash payments to settle zero coupon bonds or other debt instruments having coupon interest rates that are insignificant in relation to the effective interest rate of the borrowings?	Yes No

U.S. GAAP

The cash payments towards settlement of zero coupon bonds or other debt instruments carrying an insignificant rate of interest in comparison to the effective interest rate on borrowings, are classified as follows:

- the portion attributable to the accreted interest related to the debt discount as cash outflows for operating activities, and
- the portion attributable to the principal as cash outflows for financing activities.

IFRS Standards

IFRS Standards do not have explicit guidance for the classification of the cash payments made to settle zero coupon bonds or other debt instruments having coupon interest rates that are insignificant in relation to the effective interest rate of the borrowings. Judgement is involved to determine the appropriate classification based on the nature of the activity to which the cash flow relates.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 230-10-45-15(b) provides that repayments of amounts borrowed, including the portion of the repayments made to settle zero-coupon debt instruments that is attributable to the principal or the portion of the repayments made to settle other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing that is attributable to the principal are to be classified as cash outflows from financing activities.

© Deloitte LLP. All rights reserved.

Further, ASC 230-10-45-17(d) provides that the portion of the payments made to settle zero-coupon debt instruments attributable to accreted interest related to the debt discount or the portion of the payments made to settle other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowings attributable to accreted interest related to the debt discount are to be classified as cash outflow from operating activities.

Under IFRS Standards, IAS 7 does not provide prescriptive guidance on cash payments towards settlement of zero-coupon bonds or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowings.

IAS 7:33 provides that interest paid is usually classified as an operating cash outflow for financial institutions, however there is no consensus on the classification of this cash outflow for other entities. IAS 7:17 provides that cash repayments of amounts borrowed would be classified as a financing cash flow but does not distinguish between the principal and interest. IAS 7:12 states that a single transaction may include cash flows that are classified differently. For example, when the cash repayment of a loan includes both interest and capital, an entity may bifurcate the transaction between the interest element, which is classified consistent with an entity's accounting policy, and the capital element which is classified as a financing activity.

Comments

17.12	**Has the entity paid contingent consideration after the acquisition date of a business combination?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
A. Cash payments of contingent consideration made soon after the acquisition date are classified as cash outflows from investing activities. B. Cash payments of contingent consideration not made soon after the acquisition date are classified as cash outflows from financing activities to the extent of the initial recognition of the contingent consideration, and any payment over and above the initial recognition should be classified as cash outflows from operating activities.	IFRS Standards do not have any explicit guidance for the classification of the cash payments made towards contingent consideration after the acquisition date of a business combination. Judgement is involved to determine the appropriate classification based on the nature of the activity to which the cash flow relates.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 230-10-45-13 (d) provides that cash payments made soon after the acquisition date of a business combination by an acquirer to settle a contingent consideration liability is to be classified as a cash outflow from investing activities.

However, where payments or a portion of the payments are not made soon after the acquisition date of a business combination by an acquirer to settle a contingent consideration liability up to the amount of the contingent consideration liability recognised at the acquisition date (including measurement-period adjustments, less any amounts paid soon after the acquisition date to settle the contingent consideration liability), then such payments shall be classified as cash outflows from financing activities as per ASC 230-10-45-15(f). The remaining cash payments which exceed the amount of the contingent consideration liability initially recognised at the acquisition date, including measurement-period adjustments, less any amounts paid soon after the acquisition date to settle the contingent consideration liability, shall be classified as cash outflows from operating activities per ASC 230-10-45-17(ee).

Under IFRS Standards, there is no explicit guidance for the classification of cash payments to settle contingent consideration. Under IFRS 3 it is only the acquisition-date fair value of contingent consideration that is recognised as part of the consideration transferred in exchange for the acquiree (and, consequently, affects goodwill). Changes in the fair value of contingent consideration that do not relate to facts and circumstances that existed at the acquisition date, but result from events after that date, do not adjust goodwill. When contingent consideration is not equity,

© Deloitte LLP. All rights reserved.

changes in its fair value will be recognised in profit or loss, consistent with changes in measurement for any financial liability or any liability under IAS 37. Because these changes are not treated as a cost of the acquisition, and do not adjust goodwill, the payment of contingent consideration could be presented as a financing cash flow; however, such presentation is not required.

Comments

17.13	**Has the entity received cash proceeds from settlement of corporate-owned life insurance or bank-owned insurance policies insurance claims during the period?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
The proceeds from settlement of corporate-owned life insurance or bank-owned insurance policies are classified as cash flows from investing activities.	There is no guidance for classification of cash proceeds received by entities from settlement of corporate owned life insurance or bank owned insurance policies under IFRS. Judgement is involved to determine the appropriate classification based on the nature of the activity to which the cash flow relates.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 230-10-45-21C provides that cash receipts resulting from the settlement of corporate-owned life insurance policies or bank-owned life insurance policies shall be classified as cash inflows from investing activities. However, cash payments for premiums on corporate-owned life insurance policies, including bank-owned life insurance policies, may be classified as cash outflows for investing activities, operating activities, or a combination of cash outflows for investing and operating activities.

IFRS Standards do not have guidance on the classification of cash flows arising settlement of corporate-owned life insurance policies and bank-owned life insurance policies. Entities are required to classify the transactions based on the nature of the activity i.e. based on the nature of the loss to whom the claim relates to.

Comments

17.14	**Does the entity have a beneficial interest in securitised trade receivables and has it received cash payments from such securitised receivables during the year?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Cash payments received from a transferor's beneficial interests in securitised trade receivables should be classified as cash inflows from investing activities.	There is no explicit guidance under IFRS Standards for classification of cash payments received from transferor's beneficial interests in securitised trade receivables.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 230-10-45-12(a) provides that collections on a transferor's beneficial interests in a securitisation of the transferor's trade receivables shall be classified as cash inflows from investing activities. Further, the transferor's beneficial interest obtained in a securitisation of financial assets should be disclosed as a non-cash activity.

Under IFRS Standards there is no explicit guidance for classification of the cash payments received from transferor's beneficial interests in securitised trade receivables.

© Deloitte LLP. All rights reserved.

Comments

17.15	**Were there cash receipts and payments which have more than one class of cash flows and cannot be separated by use or source?**	**Yes** **No**

U.S. GAAP	IFRS Standards
Entities are required to classify cash receipts and payments depicting more than one class of cash flow on the basis of their nature within operating, investing, or financing activities. In the absence of separately identifiable cash flows, an entity should present such cash flows collectively, based on the activity that is likely to be the predominant source or use of the cash flow.	When a single transaction contains multiple components, each should be classified according to its nature. IAS 7 does not provide guidance on situations in which individual components of a single transaction cannot be separately identified.

U.S. GAAP–IFRS Standards difference considerations

ASC 230-10-45-22A provides that in situations where cash receipts and payments have aspects of more than one class of cash flows and cannot be separated by source or use, the appropriate classification shall depend on the activity that is likely to be the predominant source or use of cash flows for the item.

Under IFRS Standards, IAS 7:12 provides that a single transaction may include cash flows that are classified differently. For example, when the cash repayment of a loan includes both interest and capital, the interest element may be classified as an operating activity (depending on an entity’s selected accounting policy, refer to Question 17.3) and the capital element is classified as a financing activity. IAS 7 does not allow classification based on the predominant source or use of the different cash flows.

Comments

© Deloitte LLP. All rights reserved.

Section 18: Earnings per share

18. Earnings per share

Overview

Earnings per share (EPS) are earnings (or losses) attributable to each share of common stock. ASC 260, Earnings Per Share under U.S. GAAP and IAS 33< Earnings per share under IFRS Standards apply to entities with publicly held common stock or potential common stock. If an entity has not issued common stock or potential common stock, and is not in the process of issuing common stock, the entity is not required to present EPS under either set of standards. However, an entity that chooses to present EPS in its financial statements must do so in accordance with the provisions of ASC 260 and IAS 33. Accordingly, this Section does not apply to entities that neither are required nor elect to present EPS.

Recently issued standards not yet reflected in this Section

None.

Primary authoritative guidance

- ASC 260, Earnings Per Share
- IAS 33, Earnings per Share

18.1 Is the reporting entity an investment company or wholly-owned subsidiary?

Yes

No

U.S. GAAP	IFRS Standards
Presentation of EPS for investment companies and wholly-owned subsidiaries is not required.	No scope exceptions are provided for presenting EPS for investment companies and wholly owned subsidiaries.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 260-10-15-3 provides a scope exception for investment companies that comply with the requirements of ASC 946 and wholly-owned subsidiaries. Investment companies are not required to present EPS even if their common stock or potential common stock is traded in a public market or they have made, or are making, a filing with a regulatory agency in preparation for the sale of such securities in a public market.

Under IFRS Standards, IAS 33:2 does not provide any scope exceptions for investment companies or wholly-owned subsidiaries. Thus, such entities are required to present EPS if their ordinary shares or potential ordinary shares are traded in a public market or they have made, or are making, a filing with a regulatory organisation to issue ordinary shares in the public market. However, in accordance with IAS 33:4, "[w]hen an entity presents both consolidated financial statements and separate financial statements" the entity is required to present EPS "only on the basis of the consolidated information."

Comments

18.2 Has the entity issued any contracts that may be settled in common stock or cash at the issuer's or holder's option?

Yes

No

An example of such a contract is a written put option that gives the holder a choice of settling in common stock or in cash.

U.S. GAAP	IFRS Standards
Inclusion of the shares in diluted EPS is based on a rebuttable presumption that the contracts will be settled	

© Deloitte LLP. All rights reserved.

in shares if the effect is more dilutive. This presumption may be overcome if the entity has past experience or a stated policy that provides a reasonable basis to believe that the contract will be paid partially or wholly in cash and the issuer controls the ability to settle it in cash or stock.	Inclusion of the shares in diluted EPS is required if the effect is dilutive. For contracts that may be settled in cash or ordinary shares at the issuer's option, diluted EPS must be based on a presumption that the contract will be settled in ordinary shares if the effect is dilutive. The presumption of share settlement may not be overcome. For contracts that may be settled in cash or ordinary shares at the holder's option, the more dilutive of cash settlement or share settlement must be used in calculating diluted EPS.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 260-10-45-45 establishes a rebuttable presumption that "the contract will be settled in common stock and the resulting potential common shares included in diluted EPS . . . if the effect is more dilutive." However, ASC 260-10-45-46 indicates that this 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."

Under IFRS Standards, IAS 33:58 states, "When an entity has issued a contract that may be settled in ordinary shares or cash at the entity's option, the entity shall presume that the contract will be settled in ordinary shares, and the resulting potential ordinary shares shall be included in diluted earnings per share if the effect is dilutive." Additionally, IAS 33:60 states, "For contracts that may be settled in ordinary shares or cash at the holder's option, the more dilutive of cash settlement and share settlement shall be used in calculating diluted earnings per share".

Comments

18.3	**Has the entity applied the two-class method to participating securities (i.e. debt or equity instruments)?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
The two-class method applies to participating securities irrespective of whether they are debt or equity instruments. The numerator (net income) is adjusted for the amount of interest expense recognised in profit or loss. ASC 260 provides detailed application guidance.	The two-class method applies only to participating securities that are equity instruments. It is not required for participating debt instruments (e.g., participating convertible debt). No detailed application guidance is provided.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 260-10-45-59A through 45-60A indicate that the two-class method of computing basic EPS applies both to debt and equity instruments if they are participating securities. The two-class method applies to both basic and diluted EPS.

Under IFRS Standards, IAS 33:A13 and A14 only require the application of the two-class method to participating equity instruments. Thus, under U.S. GAAP there are potentially more securities that require the application of the two-class method of computing EPS than there are under IFRS Standards.

Comments

© Deloitte LLP. All rights reserved.

18.4	Has the entity issued mandatorily convertible instruments?	Yes No

U.S. GAAP	IFRS Standards
Mandatorily convertible instruments are not directly addressed under U.S. GAAP. However, if the instrument is a participating security, entities should apply the two-class method (the result of doing so is similar to that achieved when an entity considers the shares outstanding) to calculate basic EPS and the more dilutive of the two-class method or if-converted method to calculate diluted EPS. If the instrument is not a participating security, entities do not adjust the numerator or denominator in computing basic EPS. Instead, the if-converted method is applied to calculate diluted EPS.	Ordinary shares that will be issued upon conversion are considered outstanding in the calculation of basic EPS from the date the contract is entered into, irrespective of whether the contract is participating. The result is similar to that achieved by applying the two-class method, but the presentation differs. However, the EPS result differs from that calculated under U.S. GAAP when the instrument is not a participating security. For diluted EPS, the shares are considered outstanding and no adjustment is made to the numerator.

U.S. GAAP–IFRS Standards difference considerations

Guidance under U.S. GAAP, unlike that under IFRS Standards, does not address the basic EPS implications of mandatorily convertible instruments. However, if an instrument is participating, an entity should apply the two-class method of computing EPS in accordance with ASC 260-10-45-59A through 45-60A. If an instrument is not participating, there is no impact on basic EPS. In addition, if an instrument is not participating and the effect is dilutive, an entity would apply the if-converted method for computing diluted EPS under ASC 260-10-45-40.

Under IFRS Standards, entities do not apply the two-class method to such instruments. Instead, IAS 33:23 indicates that entities should consider the shares outstanding "in the calculation of basic [EPS and diluted EPS] from the date the contract is entered into."

If an instrument is participating, the EPS presentation will differ because under U.S. GAAP, an entity must apply the two-class method for calculating both basic and diluted EPS, while under IFRS Standards an entity must consider the shares outstanding.

U.S. GAAP and IFRS Standards also differ when an instrument is not participating. This is because under U.S. GAAP, entities make no adjustment to the numerator or denominator for calculation of basic EPS, while under IFRS Standards the shares are considered outstanding, which increases the denominator. The net result is that basic EPS will be lower under IFRS Standards than under U.S. GAAP. For diluted EPS, results under U.S. GAAP and IFRS Standards will also differ because under U.S. GAAP an entity will apply the if-converted method (thereby increasing outstanding shares and removing from the numerator any income statement impact from the mandatorily convertible instrument), while under IFRS Standards the shares are considered outstanding and no adjustment is made to the numerator. The net result is that diluted EPS results are lower under IFRS Standards than under U.S. GAAP.

Comments

18.5	Does the entity present diluted EPS on a quarterly basis under the treasury stock method?	Yes No

U.S. GAAP	IFRS Standards
The number of incremental shares included in the denominator of the year-to-date diluted EPS is determined by using a weighted average of the number of incremental shares included in each quarterly diluted EPS computation.	The number of incremental shares in the diluted EPS calculation is determined independently for each period presented. The number of dilutive potential ordinary shares in the year-to-date period is not a weighted

© Deloitte LLP. All rights reserved.

	average of the dilutive potential ordinary shares included in each interim computation.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 260-10-55-3 states that the number of shares of potential common stock is a year-to-date weighted average of potential common stock included in each interim diluted EPS calculation. In addition, an average market price during the applicable quarterly reporting period shall be used in computing the incremental shares required to compute the quarterly diluted EPS.

Under IFRS Standards, IAS 33:37 states that the number of incremental shares is determined independently for each period presented. This is consistent with IAS 34:29, Interim Financial Reporting, which states that "the frequency of an entity's reporting shall not affect the measurement of its annual results." Thus, in accordance with IAS 33:37, 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." Instead, it is the weighted average for the year-to-date period.

Under U.S. GAAP, ASC 260-10-45-49 states, "For year-to-date [EPS] computations, contingent shares shall be included on a weighted-average basis. That is, contingent shares shall be weighted for the interim periods in which they were included in the computation of diluted EPS."

Comments

18.6	**Has the entity issued contingently convertible instruments with a market price trigger?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Contingently convertible instruments with a market price trigger are included in the calculation of diluted EPS (if dilutive) regardless of whether the market price trigger has been met.	Contingently issuable ordinary shares with a market price trigger are included in the calculation of diluted EPS (if dilutive) only if the market price trigger was met at the end of the reporting period. Note that this is true for contingencies other than a market price trigger.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 260-10-45-44 notes that contingently convertible instruments that have embedded conversion features that are contingently convertible or exercisable on the basis of a market price trigger are included in the diluted EPS (if dilutive) regardless of whether the market price trigger has been met. A market price trigger is defined in ASC 260-10-20 under Contingently Convertible Instruments as "a market condition that is based at least in part on the issuer's own share price." Examples of contingently convertible instruments include, but are not limited to, contingently convertible debt and contingently convertible preferred stock.

Under IFRS Standards, IAS 33 does not provide specific guidance on contingently convertible instruments that have embedded conversion features that are contingently convertible or exercisable on the basis of a market price trigger. Accordingly, the general concepts on accounting for contingently issuable ordinary shares should be applied. IAS 33:52 indicates that contingently issuable ordinary shares are included in the calculation of diluted EPS only when the contingency is met and the effect is dilutive. Therefore, in situations in which the market price trigger has not been met as of the end of the reporting period, there may be a difference between U.S. GAAP and IFRS Standards.

Comments

© Deloitte LLP. All rights reserved.

18.7	Does the entity give its shareholders the choice to receive a distribution in shares or cash, with a minimum aggregate amount of shares required in the distribution (i.e. with a limit on the total amount of cash)?	Yes No

U.S. GAAP	IFRS Standards
The stock portion of a qualifying shareholder distribution is treated as a share issuance and reflected prospectively in basic EPS.	No specific guidance.

U.S. GAAP–IFRS Standards difference considerations

U.S. GAAP provides guidance on the accounting for a distribution to shareholders that offers them the choice to receive dividends in shares or cash, with a minimum aggregate amount of shares required in the distribution (i.e. with a limit on the total amount of cash). ASC 505-20-15-3(d) and 15-3A indicate that a stock dividend does not include a distribution for which each shareholder is given an election to receive either cash or shares of common stock of an equivalent value, even if there is a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate. In calculating EPS under U.S. GAAP, an entity should account for the stock portion of the distribution as a share issuance and not as a stock dividend with respect to applying ASC 260 and ASC 505, Equity. In other words, the stock portion of the distribution should be reflected in basic EPS prospectively.

Under IFRS Standards, there is no specific guidance on distributions to shareholders that gives them the ability to elect to receive cash or stock. While the principles underlying IFRS Standards do not preclude an entity from reaching the same conclusion it would reach under U.S. GAAP, there may be accounting differences because the guidance in U.S. GAAP discussed above is not included in IFRS Standards.

Comments

18.8	Has the entity issued mandatorily redeemable common shares and forward contracts that require physical settlement in a fixed number of shares for cash?	Yes No

U.S. GAAP	IFRS Standards
Mandatorily redeemable common shares: Basic EPS — Exclude the common shares (and any related earnings effect) that are to be redeemed or repurchased in calculating EPS. Apply the two-class method of calculating EPS. Diluted EPS — No further adjustment to the numerator or the denominator is necessary. **Forward contracts that require physical settlement of a fixed number of shares for cash:** Basic EPS — Exclude the common shares (and any related earnings effect) that are to be redeemed or repurchased in calculating EPS. Apply the two-class method of calculating EPS.	**Mandatorily redeemable common shares:** Basic and Diluted EPS — These shares are excluded from the denominator. **Forward contracts that require physical settlement of a fixed number of shares for cash:** IFRS Standards do not provide explicit guidance on such contracts and different accounting treatments may be applied depending upon the entity's accounting policy election.

U.S. GAAP–IFRS Standards difference considerations

Basic EPS

Under U.S. GAAP, an entity should exclude shares that are to be redeemed or repurchased from the EPS denominator and apply the two-class method of EPS. ASC 480-10-45-4 states that when applying the two-class method, an entity deducts from net income available to common shareholders any "contractual (accumulated) dividends and

© Deloitte LLP. All rights reserved.

participation rights in undistributed earnings, attributable to shares that are to be redeemed or repurchased" unless they are already recognised as interest cost.

IFRS Standards do not contain basic EPS guidance on shares that are to be redeemed or repurchased since such instruments are likely considered to be financial liabilities under IFRS Standards.

Mandatorily redeemable common shares

Under IFRS Standards, IAS 33:10 indicates that the denominator in the basic EPS calculation is "the weighted average number of ordinary shares outstanding . . . during the period". IAS 33:5 states that an "ordinary share is an equity instrument that is subordinate to all other classes of equity instruments". Mandatorily redeemable common shares are classified as financial liabilities under IAS 32:18(a) because the entity has an obligation to deliver cash or other financial assets equal to the redemption price. Therefore the shares should not be included as outstanding ordinary shares (i.e. included in the denominator) in the calculation of basic EPS because, not being equity instruments, they do not meet the definition of ordinary shares under IAS 33:5.

The shares are also potentially not dilutive because they do not entitle the holder to ordinary shares; thus, they do not meet the definition of potential ordinary shares under IAS 33:5.

Forward contracts that require physical settlement in a fixed number of shares for cash

Under U.S. GAAP, ASC 480-10-45-4 requires that the weighted-average shares of common stock outstanding for basic and diluted EPS should exclude shares of common stock that will be repurchased under a forward contract that requires an entity to repurchase a fixed number of its shares of common stock. Such shares of common stock should be removed from the shares of common stock outstanding beginning on the date the forward contract is entered into. Any amounts, including contractual (accumulated) dividends and participation rights in undistributed earnings, attributable to shares that are to be redeemed or repurchased that have not been recognised as interest costs in accordance with ASC 480-10-35-3 shall be deducted in computing income available to common shareholders (the numerator of the EPS calculation), consistently with the two-class method set forth in ASC 260-10-45-60 through 45-70.

Questions often arise about whether it is appropriate to reduce the denominator in the calculation of basic EPS when an entity has a forward contract to repurchase a variable number of shares that must be physically settled. Although the EPS guidance in ASC 480-10-45-4 refers to contracts in which a fixed number of shares must be physically settled, it is generally appropriate to reduce the denominator by the minimum number of shares of common stock that will be repurchased, but only if the contract specifies a contractual minimum. In these circumstances, the entity should apply a method akin to the two-class method for the number of shares removed from the denominator if those shares are entitled to dividends during the period of the forward contract and the holder is not obligated to return those dividends to the entity.

Under IFRS Standards, when an entity enters into a forward purchase contract or written put option over its own equity that may be physically settled gross (i.e. cash or other financial assets exchanged for the shares repurchased), it is required under IAS 32.23 to recognise a financial liability for the present value of the amount payable under the contract (often referred to as the "gross obligation").

IAS 33 does not specify whether shares that are subject to a forward purchase contract or written put option when a gross obligation is recognised should be treated for EPS purposes as if the shares were acquired when the entity entered into the contract. The following two accounting policies are acceptable. The accounting policy adopted should be applied consistently and disclosed, if material.

Accounting policy 1

Shares subject to a forward purchase contract or written put option should be treated for EPS purposes as outstanding until the date the shares are acquired under the arrangement (i.e. until the consideration is paid and the shares are delivered to the entity). The number of ordinary shares included in the denominator is, therefore, not reduced by the number of shares that will be acquired under the forward contract, or potentially acquired under the written put option if the option is exercised. Therefore, the ordinary shares subject to delivery under the forward contract or written put are regarded as potential ordinary shares and may affect diluted EPS.

Accounting policy 2

Shares subject to a forward purchase contract or written put option should be treated for EPS purposes as if the shares were acquired when the entity entered into the arrangement. The number of ordinary shares included in the denominator is reduced by the number of shares that will be acquired under the forward contract or potentially

© Deloitte LLP. All rights reserved.

acquired under the written put option if the option is exercised. Because the ordinary shares subject to delivery under the forward contract or written put option are regarded as acquired at the inception of the contract, they are not potential ordinary shares and, therefore, cannot be dilutive. If the written put option expires unexercised, the number of shares will be added back to the denominator on the expiration date.

Diluted EPS

Under U.S. GAAP, no further adjustment is made for diluted EPS. According to ASC 480-10-45-4, the entity simply carries forward the basic two-class method for calculating diluted EPS.

Under IFRS Standards, mandatorily redeemable shares would be classified as financial liabilities and therefore excluded from the computation of EPS.

IAS 33:63 indicates that an entity would a forward repurchase agreement in calculating diluted EPS if the effect is dilutive (if policy 1 above is followed). Specifically IAS 33:63 states in part:

"If these contracts are 'in the money' during the period (i.e. the exercise or settlement price is above the average market price for that period), the potential dilutive effect on earnings per share shall be calculated as follows:

A. it shall be assumed that at the beginning of the period sufficient ordinary shares will be issued (at the average market price during the period) to raise proceeds to satisfy the contract;

B. it shall be assumed that the proceeds from the issue are used to satisfy the contract (i.e. to buy back ordinary shares); and

C. the incremental ordinary shares (the difference between the number of ordinary shares assumed issued and the number of ordinary shares received from satisfying the contract) shall be included in the calculation of diluted earnings per share."

Comments

18.9 For Master Limited Partnerships (MLP), are there any dropdown transactions between entities under common control?

Yes

No

A dropdown transaction is a transfer of net assets from a sponsor or general partner to a master limited partnership in exchange for consideration.

U.S. GAAP	IFRS Standards
For a MLP, the earnings (losses) of a transferred business before the date of a dropdown transaction should be allocated entirely to the general partner, for the purposes of calculating historical earnings per unit under the two-class method.	IFRS Standards do not provide any explicit guidance related to the calculation of earnings per unit for MLPs.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 260-10-55-111 states that a general partner may transfer net assets to a master limited partnership as part of a dropdown transaction that occurs after formation of the master limited partnership. If the master limited partnership accounts for the dropdown transaction under the Transactions Between Entities Under Common Control of ASC 805-50, in calculating the historical earnings per unit under the two-class method, the earnings (losses) of the transferred net assets before the date of the dropdown transaction should be allocated entirely to the general partner. In that circumstance, the previously reported earnings per unit of the limited partners for periods before the date of the dropdown transaction should not change as a result of the dropdown transaction.

IFRS Standards do not provide any specific guidance on the calculation of Earnings per unit for MLPs.

© Deloitte LLP. All rights reserved.

Comments

18.10	**Does the entity have freestanding equity-linked financial instruments with down round features?**	**Yes** **No**

A down round feature is a feature in a financial instrument that reduces the strike price of an issued financial instrument if the issuer sells shares of its stock for an amount less than the currently stated strike price of the issued financial instrument or issues an equity-linked financial instrument with a strike price below the currently stated strike price of the issued financial instrument.

U.S. GAAP	IFRS Standards
The effect of down round features for equity-linked financial instruments is treated as a dividend and as a reduction of income available to common shareholders in basic EPS when triggered.	IFRS Standards do not provide any similar exception, regarding the effect on EPS as a result of the existence of a down round feature in freestanding equity-linked financial instruments.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 260-10-25-1 states that an entity that presents earnings per share (EPS) shall recognise the value of the effect of a down round feature in an equity-classified freestanding financial instrument (that is, instruments that are not convertible instruments) when the down round feature is triggered. That effect shall be treated as a dividend and as a reduction of income available to common stockholders in basic earnings per share, in accordance with the guidance in ASC 260-10-45-12B. See ASC 260-10-55-95 through 55-97 for an illustration of this guidance.

IFRS Standards do not provide any similar exception, regarding the effect on EPS as a result of the existence of a down round feature in freestanding equity-linked financial instruments. It will also be necessary to consider the treatment of the instrument itself since the down round feature may cause the related instrument to be a derivative or the feature itself may be an embedded derivative. This may also result in a reduction in the income available to the common shares in calculating EPS.

Comments

18.11	**Does the entity have any share-based payment awards that have nonforfeitable rights to dividends and the entity accounts for forfeitures of such awards as they arise?**	**Yes** **No**

U.S. GAAP	IFRS Standards
U.S. GAAP permits an entity to elect an accounting policy to either account for the forfeitures in compensation cost when they occur or to estimate the number of forfeitures expected to occur. This policy election impacts the inclusion of dividends or dividend equivalents that are accounted for as compensation cost in distributed earnings when computing undistributed earnings to be allocated to share-based payment awards outstanding during the period where an entity has share-based payment awards that have nonforfeitable rights to dividends.	IFRS Standards do not provide any policy election.

© Deloitte LLP. All rights reserved.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP the accounting policy elected regarding the treatment of forfeitures will affect how the entity treats dividends in applying the two-class method when it has granted share-based payment awards that are participating securities because they contain nonforfeitable rights to dividends before vesting. Under U.S. GAAP, ASC 260-10-45-68B states that undistributed earnings shall be allocated to all share-based payment awards outstanding during the period, including those for which the requisite service is not expected to be rendered (or is not rendered because of forfeiture during the period, if an entity elects to account for forfeitures when they occur in accordance with ASC 718-10-35-3). An entity's estimate of the number of awards for which the requisite service is not expected to be rendered (or no estimate, if the entity has elected to account for forfeitures when they occur in accordance with ASC 718-10-35-3) for the purpose of determining EPS shall be consistent with the estimate used for the purposes of recognising compensation cost under ASC 718. ASC 718-10-35-3 requires that an entity apply a change in the estimate of the number of awards for which the requisite service is not expected to be rendered in the period that the change in estimate occurs. This change in estimate will affect net income in the current period; however, a current-period change in an entity's expected forfeiture rate would not affect prior-period EPS calculations.

The accounting policy an entity elects to account for forfeitures will affect the timing of the recognition of compensation expense but will have no impact on the cumulative amount of compensation expense recognised for a grant of equity-classified share-based payment awards to employees once the requisite service period is completed. Regardless of the policy an entity elects to account for forfeitures, the cumulative amount of compensation expense recognised will be based on the awards that vest. While it may be intuitive to think that the cumulative EPS impact under the two-class method would also be the same regardless of the policy elected, this is not necessarily true because ASC 260 does not permit a cumulative adjustment to distributed earnings in a reporting period to reflect the occurrence, or a change in the estimate, of forfeitures that would have affected the amount of prior-period distributed earnings. Cumulatively, basic EPS under the two-class method may be lower for an entity that elects to account for forfeitures as they occur because dividends on awards that are forfeited will ultimately be reflected in both distributed earnings and compensation cost (i.e. before forfeiture, the dividends represent distributed earnings, and in the period in which the forfeiture occurs, those same dividends must be reflected as compensation cost). The same phenomenon may not occur when an entity estimates forfeitures because dividends on the awards not expected to vest are initially treated as compensation cost (and therefore did not factor into distributed earnings). The cumulative differences that could arise between the two approaches (i.e. recognising forfeitures as they occur vs. estimating forfeitures) will ultimately depend on the facts and circumstances, including the level of forfeitures and the significance of changes in estimates when forfeitures are estimated for the purpose of recognising compensation cost.

Under IFRS Standards, IFRS 2 Share-based Payment requires that forfeitures are estimated rather than being accounted for as they arise. Therefore there may be an EPS difference if an entity has share-based payment awards where the recipients are entitled to dividends during the vesting period and under U.S. GAAP the entity elects to account for forfeitures as they occur.

Comments

© Deloitte LLP. All rights reserved.

Section 19: Operating segments

19. Operating segments

Overview

This Section focuses on the differences between ASC 280, Segment Reporting and IFRS 8, Operating Segments related to segment information. Segment information must be disclosed by entities whose equity or debt securities are publicly traded and by entities that are in the process of issuing equity or debt securities in public securities markets. If an entity is not required to disclose segment information but chooses to disclose it voluntarily in financial statements that comply with U.S. GAAP or IFRS Standards, that entity should comply fully with the requirements of ASC 280 and IFRS 8.

While the segment disclosure requirements are generally consistent under ASC 280 and IFRS 8 (except as noted below), the guidance in ASC 280 is more explicit than that in IFRS 8.

Recently issued standards not yet reflected in this Section

None.

Primary authoritative guidance

- ASC 280, Segment Reporting
- IFRS 8, Operating Segments

19.1 Does the entity have intangible assets?

Yes

No

U.S. GAAP	IFRS Standards
Intangible assets are excluded from the entity-wide disclosures of long lived assets by geographical area.	Intangible assets are included in the entity-wide disclosures of long-lived assets by geographical area.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 280-10-55-23 states the following:

"This Subtopic does not define what is intended to be included in long-lived assets. In addition, the provisions of this Subtopic allow for flexibility and judgment by the preparer. However, the purpose of the entity-wide disclosures is to provide information about risks and uncertainties in certain geographic areas. One of the reasons for requiring disclosure of long-lived assets in geographic areas as opposed to total assets is that long-lived assets are potentially at greater risk because they are difficult to move and are relatively illiquid. Long-lived assets, as that phrase is used in ASC 280-10-50-41, implies hard assets that cannot be readily removed, which would exclude intangibles."

Under IFRS Standards, noncurrent assets are defined as assets that do not meet the definition of a current asset (see Appendix A of IFRS 5, Non-current Assets Held for Sale and Discontinued Operations) and therefore would include intangible assets. In addition, IFRS 8:BC56 and BC57 indicate that there is no requirement to include a subtotal for tangible noncurrent assets in the disclosure of segment assets (although entities may choose to include the subtotal); IFRS 8:BC60 (a) indicates that this is different from the guidance in ASC 280.

Comments

© Deloitte LLP. All rights reserved.

19.2	Does the chief operating decision maker (CODM) receive information about segment liabilities?	Yes No

U.S. GAAP	IFRS Standards
Disclosure of segment liabilities is permitted but not required.	Disclosure of segment liabilities is required if they are regularly provided to the CODM.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 280-10-50, disclosure of segment liabilities is permitted but not required.

Under IFRS Standards, IFRS 8:23 requires the disclosure of segment liabilities if such information is regularly provided to the CODM.

Comments

19.3	Is the entity organised in a matrix form? In a matrix form of organisation, certain managers are responsible for product and service lines, while others are responsible for geographic areas. Financial information is available for both components, and operating results are regularly reviewed by each component's CODM.	Yes No

U.S. GAAP	IFRS Standards
Operating segments are identified on the basis of products and services if more than one set of components is reviewed by the CODM.	Operating segments are identified on the basis of the "core principle," regardless of the form of organisation used.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 280-10-50-9 requires that entities with a matrix form of organisation determine operating segments on the basis of products and services, rather than using geographical components or other bases.

Under IFRS Standards, IFRS 8:10 indicates that an entity with a matrix form of organisation should determine which set of components (i.e. products and services, or geographical) constitutes the operating segments by reference to "the core principle." The core principle, as stated in IFRS 8:1 and IFRS 8:20, is that operating segments must be identified in a manner that enables users of the financial statements "to evaluate the nature and financial effects of the business activities in which [the entity] engages and the economic environments in which it operates." Management will, therefore, be required to exercise judgment in determining which of the bases of segmentation satisfies this objective.

Comments

19.4	Does the entity aggregate any of its operating segments?	Yes No

U.S. GAAP	IFRS Standards
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

© Deloitte LLP. All rights reserved.

	economic indicators that have been assessed in determining economic similarity.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 280-10-50-21 requires disclosure of whether operating segments have been aggregated.

Under IFRS Standards (IFRS 8:22), an entity shall disclose whether operating segments have been aggregated and the judgments made by management in applying the aggregation criteria in IFRS 8:12. This includes a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics.

Comments

© Deloitte LLP. All rights reserved.

Broad transactions

Section 20: Business combinations

20. Business combinations

Overview

A business combination is the bringing together of separate entities or businesses into one reporting entity either by (1) acquiring net assets that constitute a business or equity interests or (2) otherwise obtaining control of an entity. The result of a business combination is that one entity (the acquirer) obtains control of one or more other businesses (the acquiree(s)).

Although the guidance on business combinations is substantially converged, some differences remain between the standards and there may be additional differences with respect to older business combinations when there were more differences between IFRS Standards and U.S. GAAP. Such differences may be relevant for companies converting to U.S. GAAP given the lack of an IFRS 1 equivalent. Furthermore, because the initial recognition and measurement guidance is outside the scope of business combinations in certain areas (e.g., share-based payments, income tax, employee benefits), accounting may differ under the applicable U.S. GAAP or IFRS Standards.

While business combinations under both U.S. GAAP and IFRS Standards are based on the premise of control, and assets that are acquired and liabilities that are assumed generally are accounted for at fair value, each set of standards defines “control” and “fair value” differently. Nevertheless, accounting differences based on these dissimilar definitions do not routinely occur in practice. See Sections 21 and 23 for a discussion of the differences in the way “control” and “fair value” are defined under U.S. GAAP and IFRS Standards.

Transactions involving ownership interests of an entity take many forms, and careful consideration should be given to guidance on the scope of business combinations. Transactions that are not within the scope of business combination guidance include (1) acquisition of an asset or group of assets that do not constitute a business (generally no accounting differences between U.S. GAAP and IFRS Standards except for (a) deferred tax — see Questions 14.C.1 and 6.5 and (b) assembled workforce — see Question 6.7), (2) formation of a joint venture (see Section 4), and (3) transfer of net assets or exchanges of equity interests between entities under common control (see Question 20.11 below).

For a discussion of differences between U.S. GAAP and IFRS Standards regarding income taxes in business combinations, see Section 14.

Recently issued standards not yet reflected in this Section

None.

Primary authoritative guidance

- ASC 805, Business Combinations
- ASC 810, Consolidation

- IFRS 3, Business Combinations
- IFRS 10, Consolidated Financial Statements
- IAS 27, Consolidated and Separate Financial Statements

20.1 Has the entity acquired an asset or group of assets that may qualify to be a business?

Yes

No

U.S. GAAP

U.S. GAAP provides a two-step analysis to determine whether a transaction will be considered as the

IFRS Standards

IFRS Standards provide a similar concentration test to U.S. GAAP that allows an entity to determine whether a

© Deloitte LLP. All rights reserved.

acquisition or disposal of a business or just the acquisition or disposal of an asset. Step 1 - Perform an initial screening test, which determines whether substantially all of the fair value of the gross assets acquired is concentrated in a single (or group of similar) identified assets. If the screening test is not met, then the entity proceeds to Step 2. Step 2 – Evaluate, whether an input and substantive process exist that together contribute to the ability to create outputs. If the transaction fulfils the above criteria then, it is considered to be a business.	set is not a business. However, the concentration test is optional. If the test is not met, further assessment is necessary to determine whether the set is a business. IFRS Standards provide that to be considered as a business, an integrated set of activities and assets ("the set") requires two essential elements—inputs and processes applied to those inputs. A business need not include all of the inputs or processes that the seller used in operating that business. However, to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output.

U.S. GAAP–IFRS Standards difference considerations

U.S. GAAP contains a mandatory screening test. Specifically ASC 805-10-55-5A states:

"If substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, the set is not considered a business. Gross assets acquired should exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. However, the gross assets acquired should include any consideration transferred (plus the fair value of any noncontrolling interest and previously held interest, if any) in excess of the fair value of net identifiable assets acquired."

If substantially all of the fair value is not concentrated in a single identifiable asset or group of similar identifiable assets then ASC 805-10-55-3A states that 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.

Under ASC 805-10-55-4, a business consists of inputs and processes applied to those inputs that have the ability to contribute to the creation of outputs. Although businesses usually have outputs, outputs are not required for an integrated set to qualify as a business.

ASC 805-10-55-5 provides that to be capable of being conducted and managed for the purposes described in ASC 805-10-55-3A, an integrated set of activities and assets requires two essential elements—inputs and processes applied to those inputs. However, to be considered a business, the set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. ASC 805-10-55-5D through 55-6 and 805-10-55-8 through 55-9 provide a framework to assist an entity in evaluating whether the set includes both an input and a substantive process.

Under IFRS Standards, IFRS 3:B7A sets out an optional test (the concentration test) to permit a simplified assessment of whether an acquired set of activities and assets is not a business. Although the test is similar to that under U.S. GAAP; unlike U.S. GAAP an entity may elect to apply, or not apply, the test. An entity may make such an election separately for each transaction or other event. The concentration test has the following consequences:

A. if the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

B. if the concentration test is not met, or if the entity elects not to apply the test, the entity shall then perform the assessment set out in IFRS 3:B8–B12D.

Under IFRS 3, a business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

Under IFRS 3:B7, a business consists of inputs and processes applied to those inputs that have the ability to contribute to the creation of outputs.

IFRS 3:B8 provides that to be capable of being conducted and managed for the purpose identified in the definition of a business, an integrated set of activities and assets requires two essential elements - inputs and processes applied to those inputs. A business need not include all of the inputs or processes that the seller used in operating that business. However, to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output.

© Deloitte LLP. All rights reserved.

Comments

20.2 Is the acquiree in a business combination a variable interest entity (VIE)?

Yes

No

A VIE is a legal entity for which the equity investors do not have sufficient equity at risk to finance its activities without additional subordinated financial support or, as a group, the holders of the equity investment at risk lack certain characteristics and the VIE does not qualify for a scope exception in ASC 810.

The VIE model applies to all legal entities that do not qualify for either a general exception to the consolidation requirements or an exception to the application of the VIE model. Accordingly, application of the VIE model is not limited to SPEs. Rather, reporting entities must evaluate all legal entities in which they have an interest to determine whether the legal entities are subject to the VIE subsections. If a scope exception does not apply to a legal entity (SPE or otherwise), reporting entities would be required to evaluate whether the legal entity meets the definition of a VIE. Only if the legal entity qualifies for an exception to the application of the VIE subsections, or does not meet the definition of a VIE, would consolidation of the legal entity be evaluated under the voting interest model. The following four scope exceptions to application of the VIE model are (1) not for profit entities; (2) separate accounts of life insurance entities; (3) the exhaustive efforts exception for entities created before 31 December 2003 and (4) the business scope exception. For further details refer to ASC 810-10-15-17.

U.S. GAAP	IFRS Standards
The primary beneficiary of a VIE is always the accounting acquirer in a business combination.	There is no equivalent guidance on accounting for VIEs.

U.S. GAAP–IFRS Standards difference considerations

The first step in acquisition accounting under both U.S. GAAP and IFRS Standards is identifying the acquiring entity as of the acquisition date. Under U.S. GAAP, however, there is specific guidance on identifying the acquirer of a VIE. There is no such guidance under IFRS Standards.

Under U.S. GAAP, ASC 805-10-25-5 states that "in a business combination in which a variable interest entity (VIE) is acquired, the primary beneficiary of that entity always is the acquirer." Entities should follow the guidance in ASC 810 in determining which entity is the primary beneficiary. The primary beneficiary of the VIE under ASC 810 that meets the definition of a business must apply ASC 805 upon initial consolidation of the VIE."

If the acquisition does not involve a VIE, entities should use the remaining guidance in ASC 810 to identify the acquirer.

Under IFRS 3:7, the guidance in IFRS 10 should be used to identify the acquirer — the entity that obtains control of another entity, i.e. the acquiree. IFRS 10:6 states, "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 to Section 21 for more details and differences related to the consolidation models between IFRS Standards and U.S. GAAP that might create significant differences in this area.

Comments

© Deloitte LLP. All rights reserved.

20.3	**Did the entity acquire less than 100 percent of an acquiree in a business combination?**	**Yes**
When an entity acquires less than 100 percent of an acquiree, the acquirer (or parent company) records the interest retained by the minority shareholders (the "noncontrolling interest") (formerly referred to as the "minority interest") on the balance sheet.		**No**

U.S. GAAP	**IFRS Standards**
Noncontrolling interest is recorded at fair value (i.e. the "full goodwill" approach).	Entities must make an accounting choice, on an acquisition-by-acquisition basis, for measurement of certain components of the noncontrolling interest at either (1) the noncontrolling interest's proportionate share of the net fair value of the acquiree's identifiable net assets or (2) fair value (same as entities under U.S. GAAP).

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, when a parent company acquires control of a subsidiary, ASC 805-20-30-1 requires that the acquirer shall measure the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at their acquisition-date fair values. The acquirer must recognise the noncontrolling interest at its fair value as of the acquisition date and record total goodwill related to the controlling and noncontrolling interest holders on the balance sheet.

Under IFRS Standards the accounting may differ from that under U.S. GAAP depending on the election entities make for particular acquisitions. IFRS 3:19 allows entities to choose, on an acquisition-by-acquisition basis, to measure noncontrolling interest components that "are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation" as of the acquisition date either at (1) the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets (the "proportionate share method") or (2) fair value, which is consistent with the guidance in ASC 805. The choice of method will affect the amount recognised as goodwill in the statement of financial position. All other components of noncontrolling interests should be measured at their acquisition date fair value unless another measurement basis is required by IFRS Standards.

Under the proportionate share method, goodwill is recognised only for the controlling interest (i.e. no goodwill is recorded for the noncontrolling interest). Under the fair value method, goodwill is recognised for both the controlling and noncontrolling interests. Accordingly, an entity will recognise more goodwill under the fair value method than it will under the proportionate share method.

Note that in accordance with IAS 36:C4, goodwill recognised under the proportionate share method must be "grossed up" for impairment testing under IAS 36; in other words, the notional amount of goodwill attributable to the noncontrolling interest is added to the recorded amount of goodwill and included in the carrying amount of the CGU (or group of CGUs) being tested for impairment. Refer to Question 8.6 for further information.

Comments

20.4	**Did the entity hedge the foreign exchange risk of the purchase price in a business combination?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Hedging the foreign exchange risk of the purchase price of a business combination is prohibited.	The foreign exchange risk of the purchase price of a business combination is eligible for hedging.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 815, Derivatives and Hedging, prohibits hedging of the purchase price of a business combination. ASC 815-20-25-43(c)(5) states that an asset or liability is eligible for fair value hedging unless there is

© Deloitte LLP. All rights reserved.

"[a] firm commitment either to enter into a business combination or to acquire or dispose of a subsidiary, a noncontrolling interest, or an equity method investee." ASC 815-20-25-15(g) states that a forecasted transaction is eligible for cash flow hedging unless the forecasted transaction involves a business combination subject to the provisions of ASC 805.

Under IFRS Standards, IFRS 9:B6.3.1 states that the "a firm commitment to acquire a business in a business combination cannot be a hedged item, except for foreign currency risk, because the other risks being hedged cannot be specifically identified and measured. Those other risks are general business risks."

Comments

20.5 Did the entity enter into an arrangement (e.g., put or call option) with a seller to acquire the noncontrolling interest in a target? **Yes** **No**

U.S. GAAP	IFRS Standards
Noncontrolling interest is initially recorded at fair value at inception. Subsequent accounting depends on the terms of the arrangement.	Noncontrolling interest is often accounted for as a liability at the present value of the redemption amount. Subsequent changes in the present value are recorded through the income statement.

U.S. GAAP–IFRS Standards difference considerations

The accounting for noncontrolling interest under U.S. GAAP and IFRS Standards depends on the specific terms of the arrangement, and consultation with a specialist is therefore recommended. See Question 11.8 for discussion of potential accounting differences in such arrangements.

Comments

20.6 Does the acquirer have an obligation to pay additional purchase consideration in a business combination if future events occur or conditions are met (commonly referred to as contingent consideration)? **Yes** **No**

For example, the terms of the business combination may require the buyer to make an additional payment to the seller if the acquired entity achieves certain sales or revenue targets.

U.S. GAAP	IFRS Standards
Contingent consideration payable to the seller is recorded at fair value and classified as a liability or equity depending on the nature of the underlying instrument and in accordance with existing U.S. GAAP.	Contingent consideration payable to the seller is recorded at fair value and classified as a liability or equity depending on the nature of the underlying instrument and in accordance with existing IFRS Standards.

U.S. GAAP–IFRS Standards difference considerations

While both U.S. GAAP and IFRS Standards require contingent consideration payable to the seller to be recorded as either a liability or equity at fair value as of the acquisition date, the specific guidance that addresses this classification issue (liability vs. equity) is not converged, and differences in accounting may therefore result.

ASC 480, Distinguishing Liabilities From Equity, and ASC 815-40, Derivatives and Hedging: Contracts in Entity's Own Equity, among other applicable U.S. GAAP, provide guidance on the classification of contingent consideration. Refer to Section 11 for further details.

© Deloitte LLP. All rights reserved.

Under IFRS Standards, IAS 32, Financial Instruments: Presentation, among other applicable IFRS Standards, provides guidance on the classification of contingent consideration.

Contingent consideration payable to the seller that is required to be settled in cash or other assets should be classified as a liability under U.S. GAAP and IFRS Standards. Refer to Question 20.7 for a potential accounting difference related to contingent consideration classified as a liability in periods after the acquisition date.

In classifying contingent consideration payable to the seller that may be settled in an entity's own shares, entities must analyse the facts and circumstances of the transaction to determine whether to classify it as a liability or equity. Under U.S. GAAP and IFRS Standards, contingent consideration payable to the seller classified as equity is not remeasured in periods after the acquisition date, and the settlement is accounted for as equity.

Comments

20.7 Did the entity record contingent consideration as an asset or liability in a business combination?

Yes

No

U.S. GAAP	**IFRS Standards**
The contingent consideration asset or liability is remeasured at fair value with changes in fair value recognised in earnings unless contingent consideration is a hedging instrument in which changes in fair value are required to be reported in other comprehensive income under ASC 815.	The contingent consideration asset or liability is remeasured at fair value with changes in fair value recognised in profit or loss, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or a non-financial asset or liability.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 805-30-35-1(b) states that contingent consideration classified as an asset or a liability should be remeasured as of each reporting date on the basis of its current fair value until the contingency is resolved. Changes in fair value should be recognised in earnings unless the arrangement is a hedging instrument for which ASC 815 requires changes to be recognised in other comprehensive income.

Under IFRS Standards, IFRS 3:58 states that the acquirer accounts for changes in the fair value of contingent consideration that is not classified within equity and that are not measurement period adjustments within profit and loss irrespective of whether the contingent consideration is within the scope of IFRS 9 or not.

Comments

20.8 Did the entity record contingent assets or liabilities in a business combination?

Yes

No

A contingency is an existing condition, situation, or set of circumstances involving uncertainty regarding possible gain or loss to an entity that will ultimately be resolved upon the occurrence of a future event or events.

U.S. GAAP	**IFRS Standards**
Contingent asset and liability: Initial measurement - Amounts are recognised at fair value, if determinable, during the measurement period. If fair value is not determinable, entities follow ASC 450, Contingencies, if the recognition criteria are met as of the acquisition date.	Contingent asset: An entity is not permitted to recognise a contingent asset in a business combination. Contingent liability: Initial measurement - Entities recognise a contingent liability at fair value if it (1) is a present obligation that

© Deloitte LLP. All rights reserved.

Subsequent measurement - No specific guidance is provided.	results from a past event and (2) can be measured reliably. Subsequent measurement - Entities recognise a contingent liability at the higher of (1) the amount calculated under the best-estimate approach under IAS 37 or (2) the acquisition-date fair value less cumulative amortisation under IFRS 15.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, a contingent asset or liability in a business combination is initially measured as of the acquisition date at fair value, if determinable during the measurement period. If fair value is not determinable, then an asset or liability resulting from a contingency is recognised as of the acquisition date if the recognition criteria in ASC 450 are met. The guidance in ASC 805 and IFRS 3 related to initial measurement appears closely converged. However, the FASB has acknowledged it is possible that fewer contingent liabilities will be recognised under U.S. GAAP than under IFRS Standards. This is as a result of the guidance in IAS 37:25, which states that "except in extremely rare cases," it should be possible to determine a range of possible outcomes to measure a contingent liability reliably. In contrast, under U.S. GAAP, often the fair value of a contingency is not determinable (e.g., legal contingencies), and therefore, an entity will look to ASC 450 for recognition, which has a higher threshold for recognition than the "more likely than not" criteria under IAS 37.

Under U.S. GAAP, while there is no specific guidance on the subsequent measurement of an acquired contingency, ASC 805-20-35-3 states that an acquirer "shall develop a systematic and rational basis" for subsequently accounting for a preacquisition contingency recognised as of the acquisition date.

Under IFRS Standards, an entity is not permitted to recognise a contingent asset in a business combination. IFRS 3:56 states that after initial recognition and until a liability is settled, cancelled, or expires, an acquirer should measure a contingent liability recognised in a business combination at the higher of (1) the amount that would be recognised in accordance with IAS 37 or (2) the amount initially recognised less, if appropriate, cumulative amortisation recognised in accordance with IFRS 15. Note that this requirement does not apply to contracts accounted for in accordance with IFRS 9.

IFRS 3:BC276 states that "the IASB concluded that contingent assets should not be recognised, even if it is virtually certain that they will become unconditional or non-contingent."

Comments

20.9 Was an operating lease acquired in a business combination?

Yes

No

U.S. GAAP	IFRS Standards
If the acquiree is a lessor, the acquirer shall recognise an intangible asset if the terms of an operating lease are favourable relative to market terms and a liability if the terms are unfavourable relative to market terms. If the acquiree is a lessee, the acquirer shall adjust the measurement of the acquired right-of-use asset for any favourable or unfavourable terms.	Favourable or unfavourable terms of the operating lease, relative to current market terms or prices, are embedded in the fair value measurement of the leased asset; no separate asset or liability is presented.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 805-20-25-12 states that "Regardless of whether the acquiree is the lessee or the lessor, the acquirer shall determine whether the terms of each of an acquiree's operating leases are favorable or unfavorable compared with the market terms of leases of the same or similar items at the acquisition date. If the acquiree is a lessor, the acquirer shall recognize an intangible asset if the terms of an operating lease are favorable relative to

© Deloitte LLP. All rights reserved.

market terms and a liability if the terms are unfavorable relative to market terms. If the acquiree is a lessee, the acquirer shall adjust the measurement of the acquired right-of-use asset for any favorable or unfavorable terms in accordance with paragraph 805-20-30-24."

ASC 805-20-30-24 which states that "the acquirer shall measure the lease liability at the present value of the remaining lease payments, as if the acquired lease were a new lease of the acquirer at the acquisition date. The acquirer shall measure the right-of-use asset at the same amount as the lease liability as adjusted to reflect favorable or unfavorable terms of the lease when compared with market terms."

Under IFRS Standards (IFRS 3:B42), an acquirer does not recognise a separate asset or liability if the terms of the operating lease in which the acquiree is a lessor are favourable or unfavourable relative to the market terms of leases of the same or similar items. The lease terms are embedded into the fair value measurement of the underlying leased asset.

Comments

20.10	Is the acquirer obligated to replace the acquiree's share-based payment awards in a business combination?	Yes No

U.S. GAAP	IFRS Standards
The amount of the replacement award attributable to precombination service is included in consideration transferred. The remaining value of the acquirer's replacement award is recognised in postcombination earnings.	Same as U.S. GAAP, except the formula used to allocate the remainder of the replacement award may be different.

U.S. GAAP–IFRS Standards difference considerations

Under both U.S. GAAP and IFRS Standards, if the acquirer is obligated to replace the acquiree's share-based payment awards in a business combination, it must determine what portion of the replacement awards is attributable to (1) precombination service and therefore included in the consideration transferred and (2) postcombination service and therefore included in postcombination compensation cost.

Under U.S. GAAP, ASC 805-20-30-21 indicates that the "acquirer shall measure a liability or an equity instrument related to the replacement of an acquiree's share-based payment awards with share-based payment awards of the acquirer in accordance with the method in Topic 718." The amount is calculated as the value of the replaced award multiplied by the ratio of the precombination service period to the greater of the total service period or the original service period.

Under IFRS Standards, IFRS 2:BC24 states, in part, that "the cancellation, replacement, or other modifications to share-based payment arrangements because of a business combination or other equity restructuring should be accounted for in accordance with IFRS 2." The amount is calculated as the value of the replaced award multiplied by the ratio of the vesting period completed (which can include both service and performance conditions) to the greater of the total vesting period or the original vesting period.

Under both U.S. GAAP and IFRS Standards, the remaining value of the replacement award is recognised in postcombination earnings; however, the formula used to allocate the remainder of the replacement award is not consistent under ASC 805 and IFRS 3 because of differences between ASC 718 and IFRS 2. Refer to Section 13 for more information on the differences between ASC 718, Compensation — Stock Compensation, and IFRS 2, Share-based Payment.

Comments

© Deloitte LLP. All rights reserved.

20.11 Did a business combination occur involving entities under common control?	**Yes**
A business combination in which the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination would qualify as a combination under common control (i.e. control does not transfer as a result of the combination).	**No**

U.S. GAAP	**IFRS Standards**
Such transactions are generally recorded at the predecessor's cost (i.e. the transferor's carrying amount).	Entities may elect either the acquisition accounting method at fair value or the predecessor's cost (i.e. the transferor's carrying amount).

U.S. GAAP–IFRS Standards difference considerations

Business combinations involving entities under common control do not fall within the scope of either ASC 805 (see ASC 805-10-15-4) or IFRS 3 (see IFRS 3:2 and IFRS 3:B1–B4). There is, however, interpretive guidance under U.S. GAAP on accounting for such transactions, but not under IFRS Standards.

Under U.S. GAAP, ASC 805-50-30-5 lists specific rules for accounting for combinations of entities under common control. Such transactions are generally recorded on the receiving entity's books at the predecessor's cost, reflecting the transferor's carrying amount of the assets and liabilities transferred. Whether the predecessor's value or fair value is used by the transferring entity depends on a number of individual criteria, and careful consideration should be given to the interpretive guidance.

Under IFRS Standards there is no guidance on the accounting treatment of business combinations involving entities under common control, and diversity in practice therefore exists. Management can elect to apply either the acquisition method at fair value or the predecessor's cost in line with IFRS Standards. Once selected, the accounting policy can be changed only if the criteria in IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, are met.

Comments

20.12 Has the acquired entity applied pushdown accounting in its separate financial statements?	**Yes**
Pushdown accounting is a method of accounting whereby the acquiree's financial statements are adjusted to reflect the acquirer's accounting basis.	**No**

U.S. GAAP	**IFRS Standards**
U.S. GAAP provides an option to the acquiree to apply pushdown accounting in its separate financial statements, when an acquirer obtains the control of the acquiree.	IFRS does not provide specific guidance on pushdown accounting.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 805-50-25-4 states that an acquiree shall have the option to apply pushdown accounting in its separate financial statements when an acquirer—an entity or individual obtains control of the acquiree. An acquirer might obtain control of an acquiree in a variety of ways, including any of the following:

A. By transferring cash or other assets;

B. By incurring liabilities;

C. By issuing equity interests;

D. By providing more than one type of consideration; and

E. Without transferring consideration, including by contract alone as discussed in ASC 805-10-25-11.

Under ASC 805-50-25-6 the option to apply pushdown accounting may be elected each time there is a change-in-control event in which an acquirer obtains control of the acquiree. An acquiree shall make an election to apply pushdown accounting before the financial statements are issued (for a SEC filer) and a conduit bond obligor for

© Deloitte LLP. All rights reserved.

conduit debt securities that are traded in a public market) or the financial statements are available to be issued (for all other entities) for the reporting period in which the change-in-control event occurred. If the acquiree elects the option to apply pushdown accounting, it must apply the accounting as of the acquisition date.

ASC 805-50-25-7 states that if the acquiree does not elect to apply pushdown accounting upon a change-in-control event, it can elect to apply pushdown accounting to its most recent change-in-control event in a subsequent reporting period as a change in accounting principle in accordance with Topic 250 on accounting changes and error corrections. Pushdown accounting shall be applied as of the acquisition date of the change-in-control event.

ASC 805-50-25-8 states that any subsidiary of an acquiree also is eligible to make an election to apply pushdown accounting to its separate financial statements in accordance with the guidance in ASC 805-50-25-4 through 25-7 irrespective of whether the acquiree elects to apply pushdown accounting.

ASC 805-50-25-9 provides the decision to apply pushdown accounting to a specific change-in control event if elected by an acquiree is irrevocable.

IFRS Standards do not provide specific guidance for pushdown accounting but generally it would not be appropriate to change the carrying-value of the assets and liabilities of an acquiree following a business combination.

Comments

20.13	**Did the entity have any measurement period adjustments in respect of a business combination?**	**Yes** **No**

U.S. GAAP

Under U.S. GAAP, an acquirer would recognise the cumulative effect of adjustments to provisional amounts identified during the measurement period in the reporting period in which the adjustment amounts were determined. The acquirer is required to present separately on the face of the income statement or disclose in the notes the portion of the adjustment to each income statement line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognised as of the acquisition date.

IFRS Standards

Under IFRS Standards, the acquirer would retrospectively record the adjustments to the provisional amounts identified during the measurement period, as if accounting was completed at the acquisition date. The acquirer is required to revise comparative information for prior periods presented in the financial statements.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 805-10-25-13 states that if the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete.

ASC 805-10-25-17 states that during the measurement period, the acquirer shall recognise adjustments to the provisional amounts with a corresponding adjustment to goodwill in the reporting period in which the adjustments to the provisional amounts are determined. Thus, the acquirer shall adjust its financial statements as needed, including recognising in its current-period earnings the full effect of changes in depreciation, amortisation, or other income effects, by line item, if any, as a result of the change to the provisional amounts calculated as if the accounting had been completed at the acquisition date.

Under U.S. GAAP, retrospective adjustment to the financial statements for provisional amounts is not permitted.

Under IFRS Standards, IFRS 3:45 states that if the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, IFRS 3:49 requires that the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known,

© Deloitte LLP. All rights reserved.

would have affected the measurement of the amounts recognised as of that date. During the measurement period, the acquirer shall also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

Comments

© Deloitte LLP. All rights reserved.

Section 21: Consolidation

21. Consolidation

Overview

Consolidated financial statements present the results of operations and the financial position of a parent company and other companies that the parent controls either directly or indirectly as if the group were a single company. The concept of control is central to consolidation under U.S. GAAP and IFRS Standards. However, the determination of control differs under both frameworks, and accounting under U.S. GAAP and IFRS Standards may differ as a result.

Although this Section addresses a number of the specific differences between U.S. GAAP and IFRS Standards related to consolidation, entities intending to convert from one framework to the other should carefully consider the potential effects of such conversion in light of their specific facts and circumstances.

Recently issued standards not yet reflected in this Section

None.

Primary authoritative guidance

- ASC 810, Consolidation
- IFRS 10, Consolidated Financial Statements

21.1 Does the reporting entity have an interest in entities which need to be evaluated for consolidation?

Yes

No

U.S. GAAP

The basis for consolidating an entity requires consideration of whether the entity is a variable interest entity (VIE). If the entity is not a VIE, and does not qualify for a scope exception, the voting interest entity model should be followed.

When evaluating VIEs for consolidation, reporting entities look to power (i.e. the power to direct the activities that most significantly impact the VIE's economic performance) and economics (i.e. the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE) to determine whether the reporting entity is the primary beneficiary and needs to consolidate the VIE.

Under the voting interest model, reporting entities consolidate an entity when they have a controlling financial interest. This is generally evidenced by a majority of the voting rights but may also exist by contract.

IFRS Standards

Control is the single basis for consolidating an entity. The three elements of control are:

- Power over the investee;
- Exposure, or rights, to variable returns from involvement with the investee; and
- The ability to use power over the investee to affect the amount of the investor's returns.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, entities use two different models to determine whether consolidation is appropriate: the VIE model and the voting interest entity model.

ASC 810-10-05 provides that under the voting interest entity model, for legal entities other than limited partnerships, the usual condition for a controlling financial interest is ownership by one reporting entity, directly or indirectly, of more than 50 percent of the outstanding voting shares of another entity (ASC 810-10-15-8). For limited partnerships, the usual condition for a controlling financial interest is ownership by one limited partner, directly or indirectly, of more than 50 percent of the limited partnership's kick-out rights through voting interests (ASC 810-10-15-8A). If non-

© Deloitte LLP. All rights reserved.

controlling shareholders or limited partners have substantive participating rights, then the majority shareholder or limited partner with a majority of kick-out rights through voting interests does not have a controlling financial interest.

The VIE model applies to all types of legal entities which meet the specified criteria (ASC 810-10-15-14). Under the VIE model, a controlling financial interest is assessed differently than under the voting interest entity model. This difference in assessment is required because a controlling financial interest may be achieved other than by ownership of shares or voting interests. A controlling financial interest in the VIE model requires both of the following:

A. The power to direct the activities that most significantly impact the VIE's economic performance.

B. The obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

As per ASC 810-10-25-38A, the reporting entity having a controlling financial interest in a VIE is called the VIE's primary beneficiary. Only one reporting entity, if any, is expected to be identified as the primary beneficiary of a VIE. Although more than one reporting entity could have the characteristic in (b) above, only one reporting entity if any, will have the power to direct the activities of a VIE that most significantly impact the VIE's economic performance.

Fees paid to a VIE's decision maker should not be considered in the evaluation of the decision maker's economic exposure to the VIE, regardless of whether the reporting entity has other economic interests in the VIE, if the fees are commensurate with the level of effort required to provide those services and the service arrangement includes only terms, conditions, or amounts that are customarily present in arrangements for similar services negotiated at arm's length (ASC 810-10-25-38H).

The reporting entity shall present separately 1) assets of a consolidated VIE that can be used only to settle obligations of the consolidated VIE and 2) liabilities of a consolidated VIE for which creditors (or beneficial interest holders) do not have recourse to the general credit of the primary beneficiary on the face of the statement of financial position as required under ASC 810-10-45-25.

Where a reporting entity concludes that it does not control an entity under the VIE and voting interest models it should consider other applicable guidance under U.S. GAAP; for example ASC 323, Investments – Equity Method and Joint Ventures.

Under IFRS Standards consolidation is based on the concept of control. IFRS 10:6 states, "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." Furthermore, IFRS 10:7 identifies the following three elements of control:

A. power over the investee;

B. exposure, or rights, to variable returns from its involvement with the investee; and

C. the ability to use power over the investee to affect the amount of the investor's returns.

An investor must possess all three elements to conclude that it controls an investee. An investor must assess control on the basis of all facts and circumstances and reassess its conclusion if there are changes to at least one of the three elements.

Under IFRS 10, there is a single consolidation model that applies to all entities. Therefore, the concept of a VIE does not exist under IFRS 10. However, IFRS 10:B8 states, in part, that "an investee may be designed so that voting rights are not the dominant factor in deciding who controls the investee . . . . In such cases, an investor's consideration of the purpose and design of the investee shall also include consideration of the risks to which the investee was designed to be exposed, the risks it was designed to pass on to the parties involved with the investee and whether the investor is exposed to some or all of those risks. Consideration of the risks includes not only the downside risk, but also the potential for upside."

IFRS 10:10 defines power, in part, as "existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the investee's returns." Further, IFRS 10:12 clarifies that an "investor with the current ability to direct the relevant activities has power even if its rights to direct have yet to be exercised." IFRS 10:13 states that "if two or more investors each have existing rights that give them the unilateral ability to direct different relevant activities, the investor that has the current ability to direct the activities that most significantly affect the returns of the investee has power over the investee." In addition, IFRS 10:B22 states that "an investor, in assessing whether it has power, considers only substantive rights relating to an investee (held by the investor and others). For a right to be substantive, the holder must have the practical ability to exercise that right."

© Deloitte LLP. All rights reserved.

In accordance with IFRS 10:9, if two or more investors collectively control an investee (i.e. they must act together to direct the relevant activities that significantly affect the returns of the investee), it might be concluded that neither party controls the investee. Each investor would account for its interest in the investee in accordance with the relevant IFRS Standards, such as IFRS 11 Joint Arrangements, IAS 28 Investments in Associates and Joint Ventures or IFRS 9 Financial Instruments. There is no specific guidance under IFRS Standards on accounting for limited partnerships. It is therefore necessary to consider the general control guidance in IFRS 10.

Because the basis of consolidation differs under the two frameworks, it is possible that certain consolidation conclusions may differ under U.S. GAAP and IFRS Standards. A careful analysis of the facts is required.

Comments

21.2	Does the entity hold potential voting interests in entities?	Yes No

U.S. GAAP	IFRS Standards
When applying the voting interest model under U.S. GAAP, potential voting interests in the investee such as those in convertible instruments or options are generally not considered.	Potential voting interest rights such as those in convertible instruments or options are required to be considered in the assessment of control.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, potential voting rights in an investee are generally not considered when applying the voting interest entity model.

Under IFRS Standards, IFRS 10:B47 states that "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 (see paragraphs B22–B25)."

Comments

21.3	Does the end of the entity's reporting period differ from that of any of its subsidiaries?	Yes No

U.S. GAAP	IFRS Standards
A difference in reporting dates is permitted, however the difference is not to exceed three months. Material intervening transactions must be disclosed if not adjusted for in the financial statements.	The reporting date of the parent and subsidiary should be the same unless it is impracticable. If impracticable, the difference should not be more than three months and significant intervening transactions must be adjusted for in the financial statements.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 810-10-45-12 states that it is acceptable for an entity's reporting date for financial statements to differ from that of its parent by not more than about three months. Under the SEC's requirements in Regulation S-X, the difference cannot be more than 93 days (see ASC 810-10-S99-2(b)), and public companies must disclose (1) the closing date for the subsidiary and (2) the factors supporting the parent's use of different fiscal-year-end dates. If the difference is less than three months, a reporting entity may elect a policy of either disclosing all material intervening

© Deloitte LLP. All rights reserved.

events, or both disclosing and recognising them. If the reporting entity's policy is only to disclose material intervening events, the reporting entity may, in certain situations, be required to record some of these events in the consolidated financial statements of the parent. ASC 810-10-45-13 provides guidance on accounting for a change in the fiscal year-end lag between a subsidiary and its parent.

Under IFRS Standards, IFRS 10:B92 states that: "The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall have the same reporting date. When the end of the reporting period of the parent is different from that of a subsidiary, the subsidiary prepares, for consolidation purposes, additional financial information as of the same date as the financial statements of the parent to enable the parent to consolidate the financial information of the subsidiary, unless it is impracticable to do so."

Furthermore, IFRS 10:B93 states that: "If it is impracticable to do so, the parent shall consolidate the financial information of the subsidiary using the most recent financial statements of the subsidiary adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements. In any case, the difference between the date of the subsidiary's financial statements and that of the consolidated financial statements shall be no more than three months, and the length of the reporting periods and any difference between the dates of the financial statements shall be the same from period to period."

Comments

21.4	**Are there differences between the accounting policies of the parent and any of its subsidiaries?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
In the absence of justification for differences, the accounting policies of a parent and its subsidiaries should be conformed in the consolidated financial statements.	An entity is required to conform accounting policies for "reporting like transactions and other events in similar circumstances."

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, only in limited circumstances is it acceptable for the accounting policies of a parent and one or more of its subsidiaries to differ in the parent's consolidated financial statements. For example, entities may have different accounting policies for inventory, or they may use one method (e.g., LIFO) to measure some inventories and another method (e.g., FIFO or average cost) to measure others. Additionally, entities may, in some cases, be required to apply different accounting policies to comply with industry-specific guidance. ASC 810-10-25-15 states that "for the purposes of consolidating a subsidiary subject to guidance in an industry-specific Topic, an entity shall retain the industry-specific guidance applies by that subsidiary".

If an adjustment is made to conform the accounting policies of a subsidiary to those of the consolidated group, the adjustment should be allocated between the controlling and non-controlling interests.

Under IFRS Standards, IFRS 10:19 and IFRS 10:B87 indicate that when consolidating, a subsidiary must adjust its financial statements to bring its accounting policies in line with those of its parent for reporting "like transactions and other events in similar circumstances." For example, if a parent's accounting policy for measuring the cost of inventory of finished goods is to use the FIFO method, and the accounting policy of the subsidiary for similar finished goods is to use the weighted-average method, the subsidiary must use the FIFO method to revalue its finished goods in the consolidated financial statements.

Comments

© Deloitte LLP. All rights reserved.

21.5	**Is the entity a parent company that is required to present consolidated financial statements under U.S. GAAP? Or, if already applying IFRS Standards, are the exceptions to presenting consolidated financial statements applicable?**	**Yes** **No**

U.S. GAAP	IFRS Standards
Consolidated financial statements are presumed to be more meaningful and are required for SEC registrants. No exception is provided for preparing consolidated financial statements when either (1) a parent controls a subsidiary or (2) a reporting entity is determined to be the primary beneficiary of a VIE. With the exception of industry-specific guidance and circumstances listed under ASC 810-10-15-12, there are no exemptions from consolidating subsidiaries in general purpose financial statements.	IFRS 10 provides an exemption from preparing consolidated financial statements for a parent whose ultimate or intermediate parent prepares consolidated financial statements that are in accordance with IFRS Standards and publicly available. This is still available to a parent entity that is a subsidiary of an investment entity even if the investment entity measures all of its subsidiaries at fair value. If the exemption is taken, the parent must account for its investment in a subsidiary not held for sale at (1) cost; (2) fair value in accordance with IFRS 9; or (3) using the equity method under IAS 28.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 810 requires all majority-owned subsidiaries to be consolidated except when the control does not rest with the majority owner. For example, entities such as those that are under corporate reorganisation, bankrupt, or operating under foreign exchange restrictions or governmentally imposed uncertainties cast significant doubt on the parent's ability to control. In addition, ASC 810 requires consolidation when an entity is determined to be the primary beneficiary of a VIE. Industry-specific guidance under U.S. GAAP should also be considered. ASC 810-10-15-12 provides four general exceptions to the requirements for consolidating a legal entity. Broadly speaking, the exceptions apply to (1) employee benefit plans, (2) investment companies, (3) governmental entities, and (4) money market funds. If any of these exceptions are applicable, the reporting entity is not required to consolidate the related legal entity under the VIE model or voting interest entity model. As a result, the reporting entity is not required to determine whether the legal entity qualifies for an exception to the application of the VIE model or meets the definition of a VIE.

Under IFRS Standards, a parent entity would generally prepare consolidated financial statements that include all subsidiaries. However IFRS 10:4(a) states the following:

"[A] parent need not present consolidated financial statements if it meets all the following conditions:

I. it is 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;

II. its 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 market);

III. it did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and

IV. its ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with IFRSs, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS."

As noted in iv. above, the exemption is still available to a parent entity that is a subsidiary of an investment entity even if the investment entity measures all of its subsidiaries at fair value.

However, if a subsidiary provides investment related services or activities to the investment entity it should be consolidated. Note that this only applies to subsidiaries that are not themselves investment entities and whose main purpose is to provide services and activities that are related to the investment activities of the investment entity parent. All other subsidiaries of an investment entity should be measured at fair value. In the IASB's view, this is consistent with the requirement to consolidate those subsidiaries whose main purpose is to perform services that support the core investment activities of the investment entity parent or are ancillary to them. If the subsidiary is an

© Deloitte LLP. All rights reserved.

investment entity, it is clear that such services are not its main activity as it would otherwise not meet the definition of an investment entity.

If a parent elects not to consolidate its subsidiary, the parent must account for its investment in that subsidiary not classified as held for sale under IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, at (1) cost; (2) at fair value in accordance with IFRS 9; or (3) under the equity method in accordance with IAS 28.

It should be noted that the U.S. GAAP and IFRS Standards definitions of an investment company/entity are substantially the same, but do have some differences which should be considered.

Comments

21.6	**Has the entity consolidated an entity on the basis of the concept that interests held by de facto agents or related parties are treated as the entity's own interests?**	**Yes** **No**

U.S. GAAP	IFRS Standards
A reporting entity with a variable interest should treat, on a proportionate basis, its indirect variable interests in that same VIE held by its related parties as its own interests.	IFRS Standards contemplate related parties in the context of its single model for assessing control. An investor should consider the nature of its relationships with other parties when assessing control. IFRS 10 also provides guidance on when an investor may have a relationship with another party in which the investor directs the other party to act on the investor's behalf (referred to as a "de facto agent").

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 810-10-25-42 states, "For purposes of determining whether that single reporting entity, which is a single decision maker, is the primary beneficiary of a VIE, the single decision maker shall include its direct variable interests in the entity and, on a proportionate basis, its indirect variable interests in the entity held through related parties." That is, the single decision maker does not consider indirect interests held through related parties as equivalent to direct interests in determining whether it meets the economics criterion to be a primary beneficiary.

ASC 810-10-25-43 indicates that the term "related parties" includes those parties identified in ASC 850, Related Party Disclosures, and certain other parties that are acting as de facto agents or de facto principals of the variable interest holder.

In situations in which a reporting entity concludes that neither it nor one of its related parties has the characteristics in ASC 810-10-25-38A but, as a group, the reporting entity and its related parties (including the de facto agents) have those characteristics, then the party within the related-party group that is most closely associated with the VIE is the primary beneficiary under the tie breaker considerations noted in ASC 810-10-25-44.

Under IFRS Standards, IFRS 10 also includes a list of related parties and de facto agents similar to those included in ASC 810 under U.S. GAAP. However, IFRS 10 does not assume that related parties will act in concert. Instead IFRS 10:B73 provides guidance on when an investor may have a relationship with another party in which the investor directs the other party to act on the investor's behalf (referred to as a de facto agent). IFRS 10:B74 states that "the investor shall consider its de facto agent's decision-making rights and its indirect exposure, or rights, to variable returns through the de facto agent together with its own when assessing control of an investee." IFRS 10:B75 lists examples of de facto agents. The guidance on considering an investor's relationship with other parties is necessary because of the relationship that a group may have with an investee. An investor should consider the nature of its relationships with other parties when assessing control. An investor and its de facto agents may each have power and economic involvements that, when considered in isolation, may not result in a conclusion that either party has control but that together result in such a conclusion.

IFRS 10 does not have a related-party tie-breaker test similar to that under ASC 810. Further, IFRS 10 does not require an entity to consider on a proportionate basis all of its related-party interests as its own interests when it assesses

© Deloitte LLP. All rights reserved.

whether it, and its related parties as a group, should consolidate an entity. However, IFRS 10 does require the entity to consider its related-party interests when it performs a consolidation analysis.

Comments

21.7	**Does the entity own less than 50% of the voting interests in a voting interest entity but it still has the practical ability to control the entity?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
The de facto control concept does not apply. However, an investor holding 50% or less of the voting rights of a voting interest entity may control the entity under certain circumstances such as through contractual provisions.	An investor holding less than 50% of the voting rights may have de facto control of the investee if its voting rights give it the practical ability to exercise control over the investee.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP the de facto control concept (see below) does not apply. However there are certain limited circumstances under which, in the absence of participating rights held by other parties, an investor may have substantive control of a legal entity even if the investor does not own a majority of the voting interests in the legal entity. ASC 810-10-15-8 and 15-8A indicate that the power to control may also exist with a lesser percentage of ownership, for example, by contract, lease, agreement with other owners of voting interests, or court decree. Therefore, conclusions about control should be based on an evaluation of the specific facts and circumstances.

Under IFRS Standards, IFRS 10:B41 states that an investor with less than a majority of the voting rights may have rights that are sufficient to give it power over the investee when the investor has the practical ability to direct the relevant activities unilaterally. IFRS 10:B42 states that:

"When assessing whether an investor's voting rights are sufficient to give it power, an investor considers all facts and circumstances, including:

A. the size of the investor's holding of voting rights relative to the size and dispersion of holdings of the other vote holders, noting that:
   i. the more voting rights an investor holds, the more likely the investor is to have existing rights that give it the current ability to direct the relevant activities;
   ii. the more voting rights an investor holds relative to other vote holders, the more likely the investor is to have existing rights that give it the current ability to direct the relevant activities;
   iii. the more parties that would need to act together to outvote the investor, the more likely the investor is to have existing rights that give it the current ability to direct the relevant activities;
B. potential voting rights held by the investor, other vote holders or other parties (see paragraphs B47–B50);
C. rights arising from other contractual arrangements (see paragraph B40); and
D. any additional facts and circumstances that indicate the investor has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings."

This is commonly referred to as "de facto" control although it should be noted that IFRS 10 does not use this term.

Comments

© Deloitte LLP. All rights reserved.

Section 22: Derivatives and hedging

22. Derivatives and hedging

Overview

This Section focusses on significant differences between ASC 815, Derivatives and Hedging and IFRS 9, Financial Instruments and IAS 39, Financial Instruments: Recognition and Measurement [5] with respect to derivatives and hedging.

There are similarities between the two frameworks such as the accounting for derivatives at fair value, accounting for embedded derivatives separately from the host contract in financial liabilities, and hedge accounting permitted for cash flow, fair value and net investment hedges under both U.S. GAAP and IFRS Standards.

On the other hand, there are several differences between U.S. GAAP and IFRS Standards such as the option to elect normal purchase normal sale exemption under ASC 815 whereas under IFRS 9 the own-use exemption is not elective; items that would receive or not receive a derivative treatment under the different frameworks; different approaches in assessing if call/put options embedded in a debt instrument require bifurcation; and the application of hedge accounting (e.g. hedge effectiveness assessment, risks that are permitted to be hedged, use of the shortcut method, etc.).

Recently issued standards not yet reflected in this Section

None.

Primary authoritative guidance

U.S. GAAP	IFRS Standards
• ASC 815, Derivatives and Hedging	• IFRS 9, Financial Instruments • IAS 32, Financial Instruments: Presentation

22.1 Does the entity hold derivatives with no notional amount or payment provision?

Yes

No

U.S. GAAP	IFRS Standards
All derivatives are required to have a notional amount or payment provision or both. Certain contracts with no reliably determinable notional amounts are not accounted for as derivatives.	Derivatives are not required to have a reliably determinable notional amount or payment provision.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 815-10-15-83(a) requires that a derivative instrument include a notional amount or a payment provision. A notional amount can be defined as a number of currency units, shares pounds or other units specified in an instrument.

Examples of instances where a contract may not meet the definition of a derivative under ASC 815 because it lacks a reliably determinable notional amount are certain requirements contracts[6] and volumetric production payments contracts.

With respect to requirements contracts (covered in ASC 815-10-55-5 through 55-7), ASC 815-10-55-7 states that "the conclusion that a requirements contract has a notional amount as defined in this Subtopic can be reached only if a reliable means to determine such a quantity exists".

[5] IFRS 9 does not replace the requirements for portfolio fair value hedge accounting for interest rate risk (often referred to as the 'macro hedge accounting' requirements) since this phase of the project was separated from the IFRS 9 project due to the longer- term nature of the macro hedging project which is currently at the discussion paper phase of the due process. Consequently, the exception in IAS 39 for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply.

[6] ASC 815-10-55-5(a) describes a requirements contract as a contract where one party is required to buy "as many units as required to satisfy its actual needs (that is, to be used or consumed) for the commodity during the period of the contract".

© Deloitte LLP. All rights reserved.

With respect to volumetric production payments contracts (covered in ASC 815-15-55-15 through 55-24), although these contracts are not considered standalone derivative instruments within the scope of ASC 815 (ASC 815-15-55-16), such contracts would be evaluated under ASC 815-15-55-15 to 55-24 as hybrid instruments with an embedded derivative if such are contracts for "which the quantity of the commodity that will be delivered is reliably determinable" (ASC 815-15-55-15). However, per ASC 815-15-55-23, "if the quantity of the commodity that will be delivered under a volumetric production payment arrangement is not reliably determinable, the embedded commodity forward contracts in such volumetric production payment arrangements are considered not to contain a notional amount as that term is used in Subtopic 815-10" (i.e. such arrangement will not fall under the scope of ASC 815).

IFRS 9 Appendix A defines a derivative as a financial instrument or other contract within the scope of the standard with all three of the following characteristics:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying');
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- it is settled at a future date.

There is no requirement for the contract to have a reliably determinable notional amount or payment provision and therefore more contracts may meet the definition of a derivative instrument under IFRS Standards than under U.S. GAAP. For example, a requirements contract would meet the definition of a derivative under IFRS Standards.

Comments

22.2 Are there derivatives that cannot be "net settled"?

Yes

No

U.S. GAAP	IFRS Standards
In order to meet the definition of a derivative, a contract must require or permit net settlement, be able to readily settle net by a means outside the contract, or provide for delivery of an asset that puts the recipient in a position not substantially different from net settlement.	To meet the definition of a derivative, a contract does not need to be subject to net settlement. However, contracts to purchase, sell, or use nonfinancial items are only accounted for as derivatives if they can be settled net.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, the definition of a derivative in ASC 815 requires net settlement. Per ASC 815-10-15-83(c), "the contract can be settled net by any of the following means:

1. Its terms implicitly or explicitly require or permit net settlement.
2. It can readily be settled net by a means outside the contract.
3. It provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement."

ASC 815-10-15-99 also provides further clarification as follows: "a contract fits the description in paragraph 815-10-15-83(c) if its settlement provisions meet criteria for any of the following:

A. Net settlement under contract terms
B. Net settlement through a market mechanism
C. Net settlement by delivery of derivative instrument or asset readily convertible to cash."

© Deloitte LLP. All rights reserved.

Under IFRS Standards, a derivative is a contract (1) whose value changes in response to an underlying (2) that requires little or no initial net investment, and (3) that settles as of a future date (IFRS 9 Appendix A). Net settlement is not required under IFRS Standards.

However, in accordance with IFRS 9:2.4, contracts on nonfinancial items are subject to derivative accounting only if they are "settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments, with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements".

More financial instruments (e.g. contracts over non-public equity shares that can only be gross settled in the future) will be classified as derivatives under IFRS Standards as compared to U.S. GAAP. Therefore this can result in significant measurement differences for financial instruments that call for the delivery of a financial asset that is not readily convertible to cash, because they may be accounted for as derivatives under IFRS Standards. Differences for contracts involving nonfinancial items are likely to be rare due to the guidance under IFRS 9:2.4.

Comments

22.3	**Has the entity entered into prepaid interest rate swaps[7]?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
A prepaid interest rate swap would meet the definition of a derivative if the entity prepays its obligation under a pay-fixed, receive-variable interest rate swap only if the prepayment is less than the amount determined by applying the effective notional amount to the variable-rate underlying. Otherwise, such a swap must be evaluated to determine whether it contains an embedded derivative (debt host contract, with an embedded interest rate swap whose fair value equals zero at inception).	A prepaid interest rate swap would meet the definition of a derivative if the entity prepays its obligation under a pay-fixed, receive-variable arrangement.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, an entity must account for a prepaid interest rate swap where the entity has an obligation under pay-fixed and receive-variable as a freestanding derivative if the initial net investment (i.e. prepayment amount) is less than the amount determined by applying the effective notional amount to the underlying (see ASC 815-10-15-97 and ASC 815-10-55-148 through 55-168). Even if an arrangement does not meet the freestanding derivative criteria under U.S. GAAP, the entity must evaluate the arrangement for embedded derivatives.

Under IFRS Standards, IFRS 9:IG.B.4 requires that if the entity prepays its obligation under pay-fixed, receive variable interest rate swaps, an entity should account for this type of arrangement as a freestanding derivative. Per IFRS 9:IG.B.5, an arrangement in which the entity prepays its obligation under a pay-variable, receive-fixed interest rate swap does not meet the definition of a derivative.

[7] The U.S. GAAP Master Glossary defines a Prepaid Interest Rate Swap as follows "a contract that obligates one party to make periodic payments to another party that are based on a variable interest rate applied to an effective notional amount. It is characterized as an at-the-money interest rate swap for which the fixed leg has been fully prepaid, with the result that the party that receives the variable-leg-based payments has no obligation whatsoever to make any future payments under the swap. Under that characterization, the fair value of the fixed leg and the fair value of the variable leg are equal and offsetting because the at-the-money interest rate swap has an overall fair value of zero"

© Deloitte LLP. All rights reserved.

Comments

22.4	**Does the entity have contracts where payments are indexed to the sales or service revenues of another party to the contract?**	**Yes** / **No**

U.S. GAAP	IFRS Standards
Non-exchange-traded contracts whose pricing is based on sales volume or service revenue of one of the parties to the contract are not accounted for as derivatives.	It is acceptable to adopt one of two approaches as an accounting policy choice: 1. Unless a contract meets the definition of an insurance contract in IFRS 4, the contract is not scoped out of the definition of a derivative if the contract is fully (or partly, in the case of some embedded derivatives) in the scope of IFRS 9. 2. A contract (other than an insurance contract) that is either fully or partly in the scope of IFRS 9 may have a non-financial variable that is specific to a party to the contract and, consequently, it may not meet the definition of a derivative. Therefore, if policy 1 is adopted, contracts whose pricing is based on sales volume or sales revenue generally would be accounted for as derivatives or embedded derivatives. However, royalty agreements based on the volume of sales or service revenues are accounted for under IFRS 15, Revenue, and would not be accounted for as derivatives.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 815-10-15-13 (e) and ASC 815-10-15-59(d) states that “contracts that are not exchange-traded are not subject to the requirements of this Subtopic if the underlying on which the settlement is based is any one of the following: …. d) specified volumes of sales or service revenues of one of the parties to the contract. This scope exception applies to contracts with settlements based on the volume of items sold or services rendered, for example, royalty agreements. This scope exception does not apply to contracts based on changes in sales or revenues due to changes in market prices.”

Under IFRS Standards, the first of the three characteristics of a derivative identified in IFRS 9 Appendix A is that “its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the ‘underlying’)”.

Neither IFRS 9 nor other IFRS Standards address whether the exclusion from the definition of a derivative is limited to insurance contracts and the phrase continues to be subject to varying interpretations. Both the IASB and the Interpretations Committee have considered this question in the past, but to date no clarifying guidance has been issued.

Given the lack of specific guidance on this topic and the Interpretation Committee’s decision to leave the question open in responding to a submission received on Greek Government Bonds, it is acceptable to adopt either of the approaches set out below as an accounting policy choice. In developing the accounting policy, entities may need to take into consideration specific requirements by local regulators, if any:

Accounting policy 1

The inclusion of the term 'non-financial variable specific to a party to the contract' is limited to excluding insurance contracts from the definition of a derivative. Therefore, unless a contract meets the definition of an insurance

© Deloitte LLP. All rights reserved.

contract in IFRS 4, the contract is not scoped out of the definition of a derivative if the contract is fully (or partly, in the case of some embedded derivatives) in the scope of IFRS 9.

Accounting policy 2

The inclusion of the term 'non-financial variable specific to a party to the contract' is broader than simply excluding insurance contracts from the definition of a derivative. Therefore, a contract (other than an insurance contract) that is either fully or partly in the scope of IFRS 9 may have a non-financial variable that is specific to a party to the contract and, consequently, it may not meet the definition of a derivative.

If such an approach is applied, it is then necessary to assess what is 'specific to a party' and which variables are considered 'non-financial' (as these terms are not defined by IFRS Standards).

For some variables the determination of what is non-financial may be relatively straightforward when the variable has no financial element to it (for example, the tonnage of ore extracted from a mine or the number of units sold by a motor vehicle manufacturer). It is less clear whether a variable based on an amount derived from the financial statements of a party to the contract (for example, revenue, earnings before interest, taxes, depreciation, and amortisation or net assets) is 'non-financial'. The views of local regulators may need to be considered in developing a policy.

Comments

22.5	Has the entity entered into contracts for the purchase or sale of a non-financial item (e.g. purchases of raw materials, sales of products, etc.)?	Yes No

U.S. GAAP

ASC 815-10-15-22 provides an exemption from derivative accounting for contracts that qualify as “normal purchases and sales”. “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 delivered in quantities expected to be used or sold by the reporting entity over a reasonable period in the normal course of business.”

The NPNS exemption is elective; documentation of that election is required and election of the scope exception cannot be reversed.

IFRS Standards

Contracts to purchase or sell non-financial items are within the scope of IFRS 9 if they can be settled net unless the non-financial item will be purchased, used, or sold in the normal course of business (“own use”).

The own use exemption for qualifying contracts is not elective and does not require an entity to document its designation of the contract as “own use”.

U.S. GAAP–IFRS Standards difference considerations

Both IFRS Standards and U.S. GAAP provide scope exceptions from derivative accounting for contracts on nonfinancial items that will be purchased, sold, or used in the normal course of business; however, the IFRS Standards scope exception is not elective and does not require an entity to document its designation of a contract as "normal" or "own use."

Under U.S. GAAP, ASC 815-10-15-22 through 15-51 specify that a contract to purchase or sell a non-financial item that meets the definition of a derivative is exempt from derivative accounting if it meets the NPNS scope exception. NPNS treatment is elective (see ASC 815-10-15-39) and an entity is required to document this election (ASC 815-10-15-37).

Under IFRS Standards the own use exemption is not elective (IFRS 9:BCZ.2.26 & 2.27). IFRS 9:2.4 states that the “standard shall be applied to those contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments, with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity’s expected purchase, sale or usage requirements.” As such, own use contracts are excluded from the scope of IFRS 9 and no election is available to account for such contracts as derivatives.

© Deloitte LLP. All rights reserved.

Nevertheless, IFRS 9:2.5 provides that "a contract to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contract was a financial instrument, may be irrevocably designated as measured at fair value through profit or loss even if it was entered into for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements. This designation is available only at inception of the contract and only if it eliminates or significantly reduces a recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from not recognising that contract because it is excluded from the scope of this Standard". Therefore, per IFRS 9:BCZ2.28, the IASB allowed applying derivative accounting when this is consistent with the entity's business model and risk management strategy and noted that the actual type of settlement (whether the contract is net settled or not) would not be conclusive with respect to the determination of accounting treatment. If the entity's business model changes and the entity no longer manages commodity contracts at fair value, the contracts would revert to the own use scope exception.

Comments

22.6	**Does the entity have any contracts that qualify for the NPNS or own use exemption but that have an embedded derivative where the economic characteristics and risks are not "closely related" to the asset delivered or the host contract?**	**Yes** **No**

U.S. GAAP	IFRS Standards
The presence of a price adjustment feature that is not clearly and closely related to the underlying contract would preclude application of the NPNS scope exception from derivative accounting.	The presence of a price adjustment feature that is not closely related to the underlying contract will result in an embedded derivative that may need to be bifurcated and separately accounted for; however, this separation does not preclude the host contract from own use accounting.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP. per ASC 815-10-15-30, "contracts that have a price based on an underlying that is not clearly and closely related to the asset being sold or purchased (such as a price in a contract for the sale of a grain commodity based in part on changes in the Standard and Poor's index) or that are denominated in a foreign currency that meets none of the criteria in ASC 815-15-15-10(b) shall not be considered normal purchases and normal sales". Further, per ASC 815-10-15 -31, "for purposes of determining whether a contract qualifies for the normal purchases and normal sales scope exception, the application of the phrase not clearly and closely related to the asset being sold or purchased shall involve an analysis of both qualitative and quantitative considerations". As such, if determined that a price adjustment feature is not clearly and closely related to the underlying contract that will preclude application of the NPNS exemption and the guidance in ASC 815 would be applied.

Under IFRS Standards, IFRS 9:B4.3.5 states that if "the economic characteristics and risks of an embedded derivative are not closely related to the host contract" and "the conditions in paragraph 4.3.3(b) and (c) are met, an entity accounts for the embedded derivative separately from the host contract." As in this case the embedded derivative is bifurcated, the host contract would be separately evaluated to determine whether it would meet the scope exception per IFRS 9:2.4.

Comments

© Deloitte LLP. All rights reserved.

22.7	**Has the entity entered into commitments to originate loans (i.e. does the entity promise to provide funds to external parties at a fixed rate or on a fixed basis in relation to an interest-rate index)?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
An issuer's commitment to originate a mortgage loan that will be held for sale is within the scope of ASC 815 and is accounted for as a derivative and carried at fair value; other loan commitments are outside the scope of ASC 815 (ASC 815-10-15-69 through 15-71).	Loan commitments that can be settled net in cash or by delivering or issuing another financial instrument are accounted for as derivatives through profit or loss for both the issuer and holder. Loan commitments are also accounted for at FVTPL if the entity elects the fair value option or if the entity has a past practice of selling the assets resulting from the loan origination shortly after origination.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, the issuer's accounting depends on several factors, including the type of loan to be funded, the issuer's intent and elections, and whether industry-specific guidance applies. Commitments to originate mortgage loans that will be held for sale must be accounted for as derivatives at fair value (ASC 815-10-15-71). In addition, in some industries, issuers account for financial instruments, including loan commitments, at fair value (e.g., broker-dealers that are subject to the AICPA Audit and Accounting Guide Brokers and Dealers in Securities).

Under IFRS Standards, IFRS 9:2.3(b) states that "loan commitments that can be settled net in cash or by delivering or issuing another financial instrument … are derivatives. A loan commitment is not regarded as settled net merely because the loan is paid out in instalments (for example, a mortgage construction loan that is paid out in instalments in line with the progress of construction)". Therefore, more commitments will fall in the scope of IFRS 9 and be measured as derivatives as compared to U.S. GAAP that focuses on mortgage loan commitments held for sale.

Comments

22.8	**Embedded Derivatives.[8] Does the entity have embedded puts, calls, and prepayment options on debt instruments issued?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Prepayment features are considered clearly and closely related to a debt instrument that requires repayments of principal unless: (1) the investor is at risk of not recovering all of its initially recorded investment; or (2) the issuer could be forced to pay a return that would double the investor's initial return at a rate that is more than double the initial and current market return (the "double double" test). In addition, the features are considered clearly and closely related to the host unless (1) the debt involves a substantial premium or discount and (2) a contingently exercisable put or call option accelerates the repayment of the contractual principal amount; or the payoff is indexed to an underlying other than interest rates or credit risk.	Embedded puts, calls, and prepayment options are not closely related to the host debt contract unless the option's exercise price is approximately equal to the debt's amortised cost on each exercise date, or 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.

[8] Per ASC 815-10-20, an embedded derivative is defined as follows: "implicit or explicit terms that affect 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".

© Deloitte LLP. All rights reserved.

U.S. GAAP–IFRS Standards difference considerations

U.S. GAAP contains prescriptive guidance on whether calls and puts that can accelerate the settlement of debt instruments should be considered clearly and closely related.

An entity must consider ASC 815-15-25-26, which applies to an embedded derivative in which the only underlying is an interest rate or interest rate index, as follows:

"an embedded derivative in which the only underlying is an interest rate or interest rate index (such as an interest rate cap or an interest rate collar) that alters net interest payments that otherwise would be paid or received on an interest-bearing host contract that is considered a debt instrument is considered to be clearly and closely related to the host contract unless either of the following conditions exists:

A. The hybrid instrument can contractually be settled in such a way that the investor (the holder or the creditor) would not recover substantially all of its initial recorded investment (that is, the embedded derivative contains a provision that permits any possibility whatsoever that the investor's [the holder's or the creditor's] undiscounted net cash inflows over the life of the instrument would not recover substantially all of its initial recorded investment in the hybrid instrument under its contractual terms).
B. The embedded derivative meets both of the following conditions:
    1. There is a possible future interest rate scenario (even though it may be remote) under which the embedded derivative would at least double the investor's initial rate of return on the host contract (that is, the embedded derivative contains a provision that could under any possibility whatsoever at least double the investor's initial rate of return on the host contract).
    2. For any of the possible interest rate scenarios under which the investor's initial rate of return on the host contract would be doubled (as discussed in (b)(1)), 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 the relevant future interest rate scenario) 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."

An option that can be exercised only upon the occurrence or nonoccurrence of a specified event (e.g., an initial public offering or a change in control at the issuer) would always have a second underlying (the occurrence or nonoccurrence of the specified event). Therefore, the existence of this second underlying would exclude such contracts from the scope of ASC 815-15-25-26 unless the event is solely related to interest rates (e.g., a call that may only be exercised when LIBOR is at or above 5 percent), because the underlying would never be only an interest rate or interest rate index.

ASC 815-15-25-42 provides a four-step decision sequence for analysis of embedded prepayment features, as follows:

"Step 1: Is the amount paid upon settlement (also referred to as the payoff) adjusted based on changes in an index? If yes, continue to Step 2. If no, continue to Step 3.

Step 2: Is the payoff indexed to an underlying other than interest rates or credit risk? If yes, then that embedded feature is not clearly and closely related to the debt host contract and further analysis under Steps 3 and 4 is not required. If no, then that embedded feature shall be analyzed further under Steps 3 and 4.

Step 3: Does the debt involve a substantial premium or discount? If yes, continue to Step 4. If no, further analysis of the contract under paragraph 815-15-25-26 is required, if applicable.

Step 4: Does a contingently exercisable call (put) option accelerate the repayment of the contractual principal amount? If yes, the call (put) option is not clearly and closely related to the debt instrument. If not contingently exercisable, further analysis of the contract under paragraph 815-15-25-26, if applicable."

Under IFRS Standards, IFRS 9:B4.3.5(e) has different requirements when determining whether puts and calls are considered closely related to a debt host:

"A call, put, or prepayment option embedded in a host debt contract or host insurance contract is not closely related to the host contract unless:

I. the option's exercise price is approximately equal on each exercise date to the amortised cost of the host debt instrument or the carrying amount of the host insurance contract; or
II. 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. Lost interest is the product of the principal amount prepaid multiplied by the interest rate differential. The interest rate differential is the excess of the

© Deloitte LLP. All rights reserved.

effective interest rate of the host contract over the effective interest rate the entity would receive at the prepayment date if it reinvested the principal amount prepaid in a similar contract 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."

Comments

22.9	**Has the entity entered into contracts that have a non-financial host and that are denominated in a foreign currency that is commonly used to purchase or sell nonfinancial assets in the economic environment in which the transaction takes place but not more broadly in international commerce for that good or service?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
For nonfinancial contracts entered into by the entity, if the pricing terms are not denominated in a currency (1) that is either the local or functional currency of any substantial party to the contract, (2) that is routinely used in international commerce for the related good or service, or (3) used by a substantial party to the contract because its primary operating environment is highly inflationary, such pricing is not clearly and closely related to the host contract.	IFRS Standards additionally allow that pricing terms denominated in a currency that is commonly used to purchase or sell nonfinancial items in the economic environment in which the transaction takes place to be also closely related and therefore do not require bifurcation and separate accounting.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 815-15-15-10 states that "An embedded foreign currency derivative shall not be separated from the host contract and considered a derivative instrument under paragraph 815-15-25-1 if all of the following criteria are met:

A. The host contract is not a financial instrument.

B. The host contract requires payment(s) denominated in any of the following currencies:

   1. The functional currency of any substantial party to that contract
   2. The currency in which the price of the related good or service that is acquired or delivered is routinely denominated in international commerce (for example, the U.S. dollar for crude oil transactions)
   3. The local currency of any substantial party to the contract
   4. 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 (as discussed in paragraph 830-10-45-11).

C. Other aspects of the embedded foreign currency derivative are clearly and closely related to the host contract."

The exception in (b)(2) above is limited and requires that the item be transacted in the same currency in all markets worldwide.

Note that under ASC 815-10-15-22 through 15-51, if a nonfinancial contract contains an embedded foreign currency derivative that is not clearly and closely related, the NPNS exception is disqualified for the entire contract. In such cases, the entire contract would have to be accounted for as a derivative if it meets the other characteristics in the definition of a derivative in ASC 815-10.

Under IFRS Standards, IFRS 9:B4.3.8(d) requires payments to be denominated in one of the following currencies:

I. "the functional currency of any substantial party to that contract;

© Deloitte LLP. All rights reserved.

II. 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); or

III. a currency that is commonly used in contracts to purchase or sell non-financial 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)."

Under exception (iii) above, many contracts that are not outside the scope of derivative accounting under U.S. GAAP will most likely be outside the scope of derivative accounting under IFRS Standards because the exception only requires that transactions in the local market, not those in all markets worldwide, be denominated in the same currency.

Comments

22.10	**Does the entity have any contracts that, if reassessed, would result in the recognition of an embedded derivative that is driven by a subsequent change in contract terms that caused the contract to meet the derivative "net settlement" criteria and vice versa?**	**Yes** **No**

U.S. GAAP	IFRS Standards
With certain exceptions, an entity should evaluate a contract for embedded derivatives at inception or acquisition, whenever the contract's terms change and when certain events occur. Subsequent reassessments are driven by contract changes that would require a reassessment of whether a contract would meet the derivative definition including the criteria for "net settlement".	After initial recognition, IFRS Standards do not allow a reassessment of embedded derivatives unless there is a change in the terms of the contract that significantly modify the expected future cash flows. If a subsequent reassessment is required, IFRS Standards will not consider whether changed terms meet a "net settlement" requirement.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, an entity assesses whether an embedded derivative must be separated from the host contact at inception or acquisition of the contract, upon assessment subsequent to the acquisition of the contract, or "if events occur after the inception or acquisition of a contract that cause the contract to meet the definition of a derivative instrument" (for example an IPO) (ASC 815-10-15-3). Therefore, under U.S. GAAP, given the continuous ongoing reassessment requirement, a contract can be determined to be non-derivative at inception but subsequently become a derivative provided the derivative definition is met at a later date and vice versa which will lead into assessment of embedded derivatives. The key difference with IFRS Standards would be driven by the contract characteristics and whether the "net settlement" criteria per ASC 815-10-15-83 (c) is met. IFRS Standards do not require net settlement to classify a contract as a derivative.

ASC 815-15-15-10 provides guidance for embedded derivatives denominated in foreign currencies where the host contract is not a financial instrument where "the evaluation of whether a contract qualifies for the scope exception in this paragraph shall be performed only at inception of the contract".

Under IFRS Standards, IFRS 9:B4.3.11 states that "an entity shall assess 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."

© Deloitte LLP. All rights reserved.

Comments

22.11	**Has the entity issued remarketable put bonds?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
The issuer of a remarketable put bond does not account for an attached call option to which it is not a party.	If the issuer of a remarketable put bond could be required to participate in or facilitate the remarketing of debt as a result of the exercise of an attached call option, the issuer would perform an analysis to determine whether the attached call option should be bifurcated as a term extension option.

U.S. GAAP–IFRS Standards difference considerations

IFRS Standards and U.S. GAAP differ regarding the assessment of derivatives in remarketable put bonds. ASC 815-15-55-33 and 55-34 contain the following example of a remarketable put bond transaction:

A. "A debtor issues a resettable, puttable bond to an investment bank.

B. The investment bank sells to an investor that resettable, puttable bond with an attached call option.

C. The attached call option is a written option from the perspective of the investor and a purchased option from the perspective of the investment bank.

That is, the investor buys a resettable, puttable bond and simultaneously writes a call option giving the investment bank the right to call the bond and take advantage of the interest-rate-reset feature."

ASC 815-15-55-35(a) states that in analysing the above instrument for an embedded derivative, the "debtor should not account for the call option purchased by the investment bank from the investor. The debtor is not a party to the call option."

Under IFRS Standards, the issuer would follow the guidance in IFRS 9:B4.3.5(b), which states that "An option or automatic provision to extend the remaining term to maturity of a debt instrument is not closely related to the host debt instrument unless there is a concurrent adjustment to the approximate current market rate of interest at the time of the extension. If an entity issues a debt instrument and the holder of that debt instrument writes a call option on the debt instrument to a third party, the issuer regards the call option as extending the term to maturity of the debt instrument provided the issuer can be required to participate in or facilitate the remarketing of the debt instrument as a result of the call option being exercised."

U.S. GAAP and IFRS Standards thus differ because under U.S. GAAP the issuer does not evaluate the call option purchased by the investment bank from the investor as an embedded derivative, while under IFRS Standards the issuer of the remarketable put bond must evaluate the call option as a potential embedded derivative.

Comments

22.12	**Does the entity have hybrid financial instruments?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
U.S. GAAP provides detailed guidance in determining the nature of the host contract issued in the form of a share. Entities should consider all stated and implied terms and	IFRS Standards provide more limited guidance in determining the nature of the host contract.

© Deloitte LLP. All rights reserved.

features of a hybrid instrument to determine the nature of the host contract.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 815-15-25-17A states that "for a hybrid financial instrument issued in the form of a share, an entity shall determine the nature of the host contract by considering all stated and implied substantive terms and features of the hybrid financial instrument, weighing each term and feature on the basis of the relevant facts and circumstances. That is, in determining the nature of the host contract, an entity shall consider the economic characteristics and risks of the entire hybrid financial instrument including the embedded derivative feature that is being evaluated for potential bifurcation. In evaluating the stated and implied substantive terms and features, the existence or omission of any single term or feature does not necessarily determine the economic characteristics and risks of the host contract. Although an individual term or feature may weigh more heavily in the evaluation on the basis of the facts and circumstances, an entity should use judgment based on an evaluation of all of the relevant terms and features. For example, an entity shall not presume that the presence of a fixed-price, noncontingent redemption option held by the investor in a convertible preferred stock contract, in and of itself, determines whether the nature of the host contract is more akin to a debt instrument or more akin to an equity instrument. Rather, the nature of the host contract depends on the economic characteristics and risks of the entire hybrid financial instrument."

ASC 815-15-25-17B states that "the guidance in paragraph 815-15-25-17A relates to determining whether a host contract within a hybrid financial instrument issued in the form of a share is considered to be more akin to a debt instrument or more akin to an equity instrument for the purposes of evaluating one or more embedded derivative features for bifurcation under paragraph 815-15-25-1(a). It is not intended to address when an embedded derivative feature should be bifurcated from the host contract or the accounting when such bifurcation is required. In addition, the guidance in paragraph 815-15-25-17A is not intended to prescribe the method to be used in determining the nature of the host contract in a hybrid financial instrument that is not issued in the form of a share."

ASC 815-15-25-17C indicates that "when applying the guidance in paragraph 815-15-25-17A, an entity shall determine the nature of the host contract by considering all stated and implied substantive terms and features of the hybrid financial instrument, determining whether those terms and features are debt-like versus equity-like, and weighing those terms and features on the basis of the relevant facts and circumstances. That is, an entity shall consider not only whether the relevant terms and features are debt-like versus equity-like, but also the substance of those terms and features (that is, the relative strength of the debt-like or equity-like terms and features given the facts and circumstances). In assessing the substance of the relevant terms and features, each of the following may form part of the overall analysis and may inform an entity's overall consideration of the relative importance (and, therefore, weight) of each term and feature among other terms and features:

A. The characteristics of the relevant terms and features themselves (for example, contingent versus noncontingent, in-the-money versus out-of-the-money)
B. The circumstances under which the hybrid financial instrument was issued or acquired (for example, issuer-specific characteristics, such as whether the issuer is thinly capitalized or profitable and well-capitalized)
C. The potential outcomes of the hybrid financial instrument (for example, the instrument may be settled by the issuer issuing a fixed number of shares, the instrument may be settled by the issuer transferring a specified amount of cash, or the instrument may remain legal-form equity), as well as the likelihood of those potential outcomes. The assessment of the potential outcomes may be qualitative in nature."

IFRS Standards do not provide detailed guidance in determining the nature of the host contract. IFRS 9:B4.3.2 states "If the host contract has no stated or predetermined maturity and represents a residual interest in the net assets of the issuer, then its economic characteristics and risks are those of an equity instrument, and an embedded derivative would need to possess equity characteristics related to the same entity to be regarded as closely related. If the host contract is not an equity instrument and meets the definition of a financial instrument, then its economic characteristics and risks are those of a debt instrument."

More commonly, the host contract will not represent a residual interest in an entity and, thus, the economic characteristics and risks of a financial host contract will be considered that of a debt instrument. For example, even though an overall hybrid instrument that provides for repayment of the principal linked to the market price of the issuer's ordinary shares, the host contract may not involve any existing or potential residual rights in the net assets of the issuer (i.e. rights of ownership) and, thus, would not be an equity instrument. The host contract, instead, would be

© Deloitte LLP. All rights reserved.

considered to be a debt instrument, and the embedded derivative that incorporates the equity-based return would not be closely related to the host contract.

Comments

22.13	**Has the entity identified an embedded derivative within a financial asset under U.S. GAAP or classified a financial asset at fair value under IFRS 9 because it did not meet the solely payments of principal and interest test?**	**Yes** **No**

U.S. GAAP	IFRS Standards
Entities are required to separate embedded derivatives from the host contract if all the criteria within ASC 815-15-25-1 are satisfied. U.S. GAAP does not have separate rules in regard to the assessment of embedded derivative driven by the type of host in a hybrid contract (i.e. asset versus liability or a financial versus non-financial instrument).	Entities are required to apply IFRS 9:4.1.1 to 4.1.5 to the entire hybrid contract and measure the contract at amortised cost, at fair value through other comprehensive income or at fair value through profit and loss if the host of the hybrid contract is a financial asset within the scope of IFRS 9. As such, under IFRS 9 an embedded derivative will not be bifurcated from a financial asset. On the other hand, if the hybrid contract has a host that is not a financial asset within the scope of IFRS 9, the embedded derivative will be separated provided specific criteria are met.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 815-15-25-1 states that "an embedded derivative shall be separated from the host contract and accounted for as a derivative instrument pursuant to Subtopic 815-10 if and only if all of the following criteria are met:

A. 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.

B. The hybrid instrument is not remeasured at fair value under otherwise applicable generally accepted accounting principles (GAAP) with changes in fair value reported in earnings as they occur.

C. A separate instrument with the same terms as the embedded derivative would, pursuant to Section 815-10-15, be a derivative instrument subject to the requirements of this Subtopic. (The initial net investment for the hybrid instrument shall not be considered to be the initial net investment for the embedded derivative.)"

Under IFRS Standards, if a hybrid contract contains a host that is an asset within the scope of IFRS 9, an entity shall apply the requirements in IFRS 9:4.1.1–4.1.5 to the entire hybrid contract. The aforementioned paragraphs provide guidance on the subsequent measurement of financial assets at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset (IFRS 9:4.1.1) as well as what criteria need to be met for each category (IFRS 9:4.1.2-.5). (For additional information on recognition and measurement of Financial Assets, see Sections 2 and 3.)

IFRS 9:4.3.3 states that "if a hybrid contract contains a host that is not an asset within the scope of this Standard, an embedded derivative shall be separated from the host and accounted for as a derivative under this Standard if, and only if:

A. the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host (see paragraphs B4.3.5 and B4.3.8);

B. a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

C. the hybrid contract is not measured at fair value with changes in fair value recognised in profit or loss (i.e. a derivative that is embedded in a financial liability at fair value through profit or loss is not separated)."

© Deloitte LLP. All rights reserved.

Comments

22.14	**Does the entity have multiple derivatives embedded in a single hybrid instrument?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Multiple derivatives embedded in a single hybrid instrument are combined and measured as if they were a single, compound embedded derivative (even in cases where those derivatives represent different risks).	Multiple derivatives embedded in a single instrument are accounted for separately if they relate to different risk exposures and are "readily separable and independent of each other." In addition, embedded equity derivatives are accounted for separately from embedded derivatives classified as assets or liabilities.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 815-15-25-7 states that "if a hybrid instrument contains more than one embedded derivative feature that would individually warrant separate accounting as a derivative instrument under paragraph 815-15-25-1, those embedded derivative features shall be bundled together as a single, compound embedded derivative that shall then be bifurcated and accounted for separately from the host contract under this Subtopic unless a fair value election is made pursuant to paragraph 815-15-25-4." As such, entities must treat multiple features embedded in a single contract and requiring bifurcation as if they were a single, compound embedded feature, regardless of interdependencies between the features.

Also, per ASC 815-15-25-8, "an entity shall not separate a compound embedded derivative into components representing different risks (for example, based on the risks discussed in paragraphs 815-20-25-12[f] and 815-20-25-15[i]) and then account for those components separately."

Under IFRS Standards, IFRS 9:B4.3.4 states that "multiple embedded derivatives in a single hybrid contract are treated as a single compound embedded derivative. However, embedded derivatives that are classified as equity (see IAS 32 Financial Instruments: Presentation) are accounted for separately from those classified as assets or liabilities. In addition, if a hybrid contract has more than one embedded derivative and those derivatives relate to different risk exposures and are readily separable and independent of each other, they are accounted for separately from each other."

Comments

22.15	**Did the change in the fair value of the hedging instrument differ from the change in the fair value of the hedged item in a cash flow hedge or net investment hedge?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
An entity is not permitted to recognise hedge ineffectiveness associated with a cash flow hedge or net investment hedge	An entity must recognise hedge ineffectiveness associated with a cash flow hedge or net investment hedge in each reporting period (other than that arising from cumulative underhedges),

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 815-20-35-1, the entire change in the fair value of the hedging instrument in a designated and qualifying cash flow hedge or net investment hedge is recognised in other comprehensive income and reclassified to earnings when the hedged item affects earnings. An entity is not permitted to recognise hedge ineffectiveness

© Deloitte LLP. All rights reserved.

associated with a cash flow hedge or net investment hedge in earnings. If an entity excludes a component of the hedging instrument from the assessment of hedge effectiveness, an entity may elect to recognise either (1) the initial value of the excluded component in earnings by using a systematic and rational method over the life of the hedging instrument or (2) the excluded component of the gain or loss currently in earnings.

Under IFRS Standards, IFRS 9:6.5.11 and IFRS 9:6.5.13, only the effective portion of the change in the fair value of the hedging instrument in a designated and qualifying cash flow hedge or net investment hedge is recognised in other comprehensive income. The ineffective portion (other than that arising from cumulative underhedges) must be recognised in profit or loss in each reporting period.

Comments

22.16	**Does the entity have compound derivatives with multiple underlyings as the hedging instrument in a net investment hedge?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
An entity may not designate a cross-currency interest-rate swap with one fixed-rate leg and one floating-rate leg as the hedging instrument in a hedge of a net investment.	Such designation is not explicitly prohibited.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 815-20-25-67 through 25-71 prohibit an entity from using a compound derivative that has multiple underlyings (when at least one is not based on foreign exchange risk) as the hedging instrument in a net investment hedge. ASC 815-20-25-67 permits a cross-currency interest rate swap that has either two variable legs or two fixed legs to be designated in a net investment hedge. However ASC 815-20- 25-68A states that "a cross-currency interest rate swap with one fixed-rate leg and one floating-rate leg cannot be designated as the hedging instrument in a net investment hedge."

Under IFRS Standards, IFRS 9 does not explicitly prohibit an entity from designating a compound derivative with multiple underlyings as the hedging instrument in a net investment hedge. For example, an entity could designate a cross-currency interest-rate swap with one fixed-rate leg and one floating-rate leg as the hedging instrument in a hedge of a net investment, provided that the hedge is expected to be highly effective (note that IFRS 9 does not provide a specific guidance on how to assess ineffectiveness). However, such a hedging relationship would generally not be effective under IFRS 9.

Comments

22.17	**Does the entity have a net investment hedge in which a first-tier subsidiary is hedging a net investment in a second-tier subsidiary?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
A parent that has a functional currency different from that of its first-tier subsidiary may not hedge a net investment of that first-tier subsidiary in a second-tier subsidiary (ASC 815-20-25-27).	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.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 815-20-25-27 notes that "a parent that has a different functional currency cannot qualify for hedge accounting for a hedge of a net investment of a first-tier subsidiary in a second-tier subsidiary."

© Deloitte LLP. All rights reserved.

Under IFRS Standards, IFRIC 16:12 states, in part, that in a hedge of a net investment in a foreign operation, 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 (the immediate, intermediate or ultimate parent entity) of that foreign operation."

Thus, IFRS Standards would permit a parent with a functional currency different from that of a first-tier subsidiary to hedge the first-tier subsidiary's net investment in a foreign operation. U.S. GAAP would not permit this, unless the consolidated parent and the first-tier subsidiary have the same functional currency.

Comments

22.18	**Does the entity have held to maturity (HTM) securities or a firm commitment to acquire a business in a business combination that is designated as a hedged item for hedge accounting?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Changes in the total fair value of a prepayment option embedded in an HTM security can be designated as a hedged risk. Interest-rate risk cannot be designated as the hedged risk. A firm commitment to acquire a business in a business combination cannot be designated as a hedged item.	All risks can be designated as the hedged risk of financial assets measured at amortised cost. A firm commitment to acquire a business in a business combination can be designated as a hedged item for foreign currency risk.

U.S. GAAP–IFRS Standards difference considerations

HTM securities

Under U.S. GAAP, ASC 815-20-25-12(d) permits an entity to hedge the changes in fair value of an HTM security that are attributable to changes in the foreign exchange rates, credit risk, or both and prohibits hedging changes arising from interest-rate risk. ASC 815-20-25-12(d) also permits an entity to designate the "option component of a held-to-maturity security that permits its prepayment" as the hedged item in a fair value hedge. The hedged risk in such a relationship must be the total changes in the fair value of the option component. ASC 815-20-25-12(d) cautions, however, that "if the hedged item is other than an option component . . . that permits its prepayment, the designated hedged risk also shall not be the risk of changes in its overall fair value."

Under IFRS Standards, IFRS 9:6.3.7 states that "an entity may designate an item in its entirety or a component of an item as the hedged item in a hedging relationship. An entire item comprises all changes in the cash flows or fair value of an item. A component comprises less than the entire fair value change or cash flow variability of an item. In that case, an entity may designate only the following types of components (including combinations) as hedged items:

A. only changes in the cash flows or fair value of an item attributable to a specific risk or risks (risk component), provided that, based on an assessment within the context of the particular market structure, the risk component is separately identifiable and reliably measurable (see paragraphs B6.3.8–B6.3.15). Risk components include a designation of only changes in the cash flows or the fair value of a hedged item above or below a specified price or other variable (a one-sided risk).

B. one or more selected contractual cash flows.

C. components of a nominal amount, i.e. a specified part of the amount of an item (see paragraphs B6.3.16–B6.3.20)."

Therefore per the above guidance, IFRS 9 permits financial assets measured at amortised cost (which might be the equivalent of HTM under U.S. GAAP for certain entities) or a prepayment option component to be the hedged item in regard to credit risk, foreign exchange risk, change in fair value of prepayment option component, and interest rate risk.

© Deloitte LLP. All rights reserved.

Firm commitment

Under U.S. GAAP, ASC 815-20-25-43(c)(5) states, “with respect to fair value hedges only: a firm commitment either to enter into a business combination or to acquire or dispose of a subsidiary, a noncontrolling interest, or an equity method investee” shall not be designated as a hedged item. (Note that ASC 815-20-25-58 allows for a “derivative instrument or a nonderivative financial instrument that may give rise to a foreign currency transaction gain or loss” to “be designated as hedging changes in the fair value of an unrecognized firm commitment attributable to foreign currency exchange rates”. Hedging such a commitment however cannot be in relation to a business combination that is specifically disallowed under U.S. GAAP.)

Under IFRS Standards, IFRS 9:B6.3.1 states that “a firm commitment to acquire a business in a business combination cannot be a hedged item, except for foreign currency risk, because the other risks being hedged cannot be specifically identified and measured. Those other risks are general business risks.”

Comments

22.19	Has the entity assumed no ineffectiveness for a hedge relationship under U.S. GAAP for interest-rate swaps?	Yes No

U.S. GAAP	IFRS Standards
The shortcut method is allowed for hedging relationships involving an interest-rate swap and an interest-bearing financial instrument that meet specific requirements. However, there are strict criteria to qualify for the shortcut method.	IFRS 9 does not have a shortcut method or an equivalent of it. However, IFRS 9:B6.4.12 allows for a qualitative assessment of effectiveness if critical terms match.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 815-20-25-102 through 25-117, the shortcut method may be applied to qualifying hedging relationships of benchmark interest-rate risk that meet specific criteria. Under this method, periodic quantification of hedge assessment is not required because perfect effectiveness is assumed. However, strict criteria apply at inception and during the life of the hedge.

Under IFRS Standards, IFRS 9 does not include a shortcut method. Initial documentation of hedging must include a method of periodic quantification of assessment and measurement of ineffectiveness in each reporting period. IFRS 9:B6.4.12 states that “an entity shall assess at the inception of the hedging relationship, and on an ongoing basis, whether a hedging relationship meets the hedge effectiveness requirements. At a minimum, an entity shall perform the ongoing assessment at each reporting date or upon a significant change in the circumstances affecting the hedge effectiveness requirements, whichever comes first.” The standard does not specify a method for assessing whether a hedging relationship meets the hedge effectiveness requirements. Per IFRS 9:B6.4.14, “when the critical terms (such as the nominal amount, maturity and underlying) of the hedging instrument and the hedged item match or are closely aligned, it might be possible for an entity to conclude on the basis of a qualitative assessment of those critical terms that the hedging instrument and the hedged item have values that will generally move in the opposite direction because of the same risk and hence that an economic relationship exists between the hedged item and the hedging instrument”.

Therefore, unlike U.S. GAAP (which permits assuming perfect effectiveness if certain specific criteria are met), IFRS Standards require effectiveness testing and depending on the circumstances and method selected to assess effectiveness, the recognition of ineffectiveness is possible through the income statement for such hedging relationships (note that such ineffectiveness can result for various reasons such as, for example, credit risk).

In addition, as there is no detailed guidance under IFRS Standards in regards to which terms should match, it is possible that a relationship that qualifies for the qualitative assessment under IFRS Standards would not qualify for the short-cut method under U.S. GAAP.

© Deloitte LLP. All rights reserved.

Comments

22.20	**Has the entity designated cash flow hedges in which the underlying hedged forecasted transaction results in the recognition of a nonfinancial asset or liability (e.g., hedged forecasted purchase of equipment, or hedged forecasted purchase of inventory)?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
For cash flow hedges that result in an amount deferred in OCI and in which the underlying hedged forecasted transaction results in the recognition of a nonfinancial asset or liability, the AOCI is reclassified to earnings in the same period in which the underlying hedged forecasted transaction takes place.	For cash flow hedges that result in an amount deferred in equity and in which the underlying hedged forecasted transaction results in the recognition of a nonfinancial asset or liability, an entity shall adjust the cost basis recorded for that non-financial asset or nonfinancial liability.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 815 prohibits basis adjustments for forecasted transactions. Instead, under ASC 815-30-35-38, the amount accumulated in AOCI must be reclassified into earnings in the same period or periods in which the hedged transaction affects earnings.

Under IFRS Standards, IFRS 9:6.5.11(d) states that "if a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or a hedged forecast transaction for a non-financial asset or a non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the entity shall remove that amount from the cash flow hedge reserve and include it directly in the initial cost or other carrying amount of the asset or the liability. This is not a reclassification adjustment (see IAS 1) and hence it does not affect other comprehensive income."

Comments

22.21	**Does the entity have hedged forecasted transactions that are no longer highly probable of occurring?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
The cumulative gain or loss on a derivative should remain in accumulated OCI unless it becomes probable that the forecasted transaction will not occur by the end of the originally specified period or within an additional two-month period.	A forecasted transaction must be highly probable of occurring to qualify for hedge accounting. There is no mention of an additional two-month period. Entities are required to document the period in which the forecasted transaction is expected to occur within a reasonably narrow range of time.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 815-30-40-4 and 40-5 require an entity to reclassify the amount related to cumulative gains and losses on a cash flow hedge to earnings only if "it is probable that the forecasted transaction will not occur by the end of the originally specified time period (as documented at the inception of the hedging relationship) or within an additional two-month period of time thereafter." ASC 815-30-40-4 also notes that "in rare cases, the existence of extenuating circumstances that are related to the nature of the forecasted transaction and are outside the control or influence of the reporting entity may cause the forecasted transaction to be probable of occurring on a date that is beyond the additional two-month period of time, in which case the net derivative instrument gain or loss related to the discontinued cash flow hedge shall continue to be reported in accumulated other comprehensive income until it is

© Deloitte LLP. All rights reserved.

reclassified into earnings pursuant to paragraphs 815-30-35-38 through 35-41." In such rare cases, no amounts should be reclassified to earnings."

Under IFRS Standards, IFRS 9:6.3.3 states that "if a hedged item is a forecast transaction (or a component thereof), that transaction must be highly probable." IFRS 9:B6.5.27 further notes that "when the occurrence of some of the volume of the hedged item that is (or is a component of) a forecast transaction is no longer highly probable, hedge accounting is discontinued only for the volume of the hedged item whose occurrence is no longer highly probable. However, if an entity has a history of having designated hedges of forecast transactions and having subsequently determined that the forecast transactions are no longer expected to occur, the entity's ability to predict forecast transactions accurately is called into question when predicting similar forecast transactions. This affects the assessment of whether similar forecast transactions are highly probable (see paragraph 6.3.3) and hence whether they are eligible as hedged items."

IFRS 9:6.5.12 (b) states that "if the hedged future cash flows are no longer expected to occur, that amount shall be immediately reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment (see IAS 1). A hedged future cash flow that is no longer highly probable to occur may still be expected to occur."

Based on the above, it is possible that accumulated gains or losses recorded in OCI that arose from a cash flow hedge of a forecasted transaction could be reclassified out of OCI sooner under IFRS Standards than under U.S. GAAP because IFRS 9 does not have an additional two-month period to assess if a forecasted transaction is probable of occurring.

Comments

22.22	**Were non-derivative financial instruments used as hedging instruments for foreign currency risk?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Non-derivative financial instruments can only be used in hedges of net investments in foreign operations or hedges of unrecognised firm commitments.	Non-derivative financial instruments can be used in hedges of foreign currency risk (i.e. hedges of a forecasted transaction, a firm commitment, or a recognised asset or liability).

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 815-20-25-58 and ASC 815-20-25-66 permit the use of non-derivative financial instruments that "may give rise to a foreign currency transaction gain or loss under Subtopic 830" to hedge foreign currency risk for unrecognised firm commitments and net investments in foreign operations only. ASC 815-20-25-71(b) prohibits a non-derivative financial instrument as a hedging instrument in a fair value hedge of the foreign currency exposure of a recognised asset or liability, or of an available-for-sale debt security. Also, ASC 815-20-25-71(c)(1) prohibits the designation of a non-derivative financial instrument as a hedging instrument in a foreign currency cash flow hedge.

Under IFRS Standards, IFRS 9:6.2.2 states that "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… For a hedge of foreign currency risk, the foreign currency risk component 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 other comprehensive income in accordance with paragraph 5.7.5." As such, under IFRS Standards, there is no restriction to use a non-derivative instrument for hedging of foreign currency risk of unrecognised firm commitments and net investments in foreign operations only.

Comments

© Deloitte LLP. All rights reserved.

22.23	**Has the entity used hedging instruments to modify the receipts or payments associated with a recognised, variable-rate asset or liability from one variable amount to another variable amount (e.g., a basis swap) or separated a derivative to hedge multiple exposures?**	**Yes** **No**

U.S. GAAP	IFRS Standards
In certain circumstances, an entity is permitted to use a hedging instrument to modify interest receipts or payments from one variable rate to another (i.e., basis swap) in a hedge of both an asset and a liability.	IFRS 9 allows for a single instrument to hedge more than one risk or exposure, although the guidance does not specifically reference transactions including basis swaps.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 815-20-25-50 permits an entity to use a cash flow hedging strategy in which a "hedging instrument is used to modify the contractually specified interest receipts or payments associated with a recognized financial asset or liability from one variable rate to another variable rate" as long as the hedging instrument is a link between an existing designated asset and an existing designated liability (or groups of similar assets and liabilities), each of which has variable cash flows. In addition, the relationship must be highly effective at offsetting cash flows. ASC 815-20-25-51 notes that a link exists if "[t]he basis (that is, the rate index on which the interest rate is based) of one leg of an interest rate swap is the same as the basis of the contractually specified interest receipts for the designated asset" and "[t]he basis of the other leg of the swap is the same as the basis of the contractually specified interest payments for the designated liability."

Under IFRS Standards, IFRS 9:B6.2.6 states that "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."

Comments

22.24	**Has the entity entered into a foreign currency cash flow hedging relationship using an internal derivative and applied hedge accounting for this contract in the consolidated financial statements?**	**Yes** **No**

U.S. GAAP	IFRS Standards
In certain circumstances with respect to a foreign currency cash flow hedge, an entity is permitted to use a foreign currency derivative contract with another member of the consolidated group as a hedging instrument in the consolidated financial statements so long as the issuing affiliate that is not using the derivative instrument for hedge accounting has entered into a derivative with a third party to offset the exposure or certain rules related to netting of internal derivatives apply.	Equivalent guidance to provide an exception for foreign currency cash flow hedges based on internal derivatives in the consolidated financial statements is not provided in IFRS 9. As such internal derivatives cannot be designated as hedging instruments in consolidated financial statements.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 815-20-25-61 permits an entity to enter into a foreign currency derivative contract with another member of the consolidated group and to use that contract as a hedging instrument in a foreign currency cash flow hedge in its consolidated financial statements if certain conditions are met. Namely, the entity that uses the contract as a hedging instrument must satisfy the criteria for foreign currency cash flow hedge accounting in ASC 815-20-25-39. The other party to the contract (i.e. the other member in the consolidated group) must either (1) enter into a derivative contract with an unrelated third party to offset the exposure resulting from the internal derivative or (2) if the criteria in ASC 815-20-25-62 and 25-63 are met, it enters into derivative contracts with unrelated third parties that would offset the foreign exchange risk arising from multiple internal derivative contracts on a net basis for each foreign currency.

© Deloitte LLP. All rights reserved.

Under IFRS Standards, IFRS 9:6.2.3 states that "for hedge accounting purposes, only contracts with 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". Under IFRS Standards, an internal derivative may not be designated as the hedging instrument in the consolidated financial statements.

Comments

22.25 Has the entity applied net investment hedging or hedged a foreign currency risk in which the entity within the consolidated group that has the exposure is not the same as the one that entered into the hedging derivative?

Yes

No

U.S. GAAP

The guidance on the application of foreign currency hedging in U.S. GAAP is more restrictive than that in IFRS Standards. Either the operating unit that has the foreign currency exposure, or another member of the consolidated group that has the same functional currency as the operating unit, must be a party to the hedging instrument.

IFRS Standards

The operating unit that is exposed to the risk being hedged does not have to be a party to the hedging instrument or have the same functional currency.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 815-20-25-30(a) requires that either "(1) the operating unit that has the foreign currency exposure is a party to the hedging instrument [or] (2) [a]nother member of the consolidated group that has the same functional currency as that operating unit is a party to the hedging instrument." Furthermore, if another member of the consolidated group is a party to the hedging instrument, then there may be no intervening subsidiary with a different functional currency between the entity holding the hedging instrument and the entity with the foreign currency exposure.

Under IFRS Standards, IFRIC 16:14 states "A derivative or a non-derivative instrument (or a combination of derivative and non-derivative instruments) may be designated as a hedging instrument in a hedge of a net investment in a foreign operation. The hedging instrument(s) may be held by any entity or entities within the group, as long as the designation, documentation and effectiveness requirements of IFRS 9:6.4.1 that relate to a net investment hedge are satisfied. In particular, the hedging strategy of the group should be clearly documented because of the possibility of different designations at different levels of the group." As such, IFRS Standards do not have the same restriction as U.S. GAAP where the intragroup entity entering into hedging instrument to hedge foreign currency exposure of an operating unit has to have the same functional currency.

Comments

22.26 Does the entity have synthetically created foreign-currency-denominated debt as a hedging instrument in a net investment hedge?

Yes

No

U.S. GAAP

A foreign-currency-denominated debt instrument that was synthetically created by combining a debt instrument with a derivative instrument cannot be designated as the hedging instrument in a hedge of an entity's net investment in a foreign operation.

IFRS Standards

IFRS Standards do not restrict the combination of a derivative and non-derivative instrument as a hedging instrument for any qualifying risk including hedging a net investment in a foreign operation.

© Deloitte LLP. All rights reserved.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 815-20-55-49 states that "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." Also, ASC 815-20-25-71(d)(2) explicitly prohibit an entity from hedging a net investment in a foreign operation with a synthetically created single hedging instrument based on a derivative instrument and a cash instrument.

As an example, assume that a parent entity whose functional and reporting currency is the U.S. dollar has a net investment in a German subsidiary whose functional currency is the euro. The U.S. parent entity borrows in pounds sterling (GBP) on a fixed-rate basis while simultaneously entering into a receive-GBP, pay-euro currency swap (for all interest and principal payments) to synthetically convert the borrowing into a euro-denominated borrowing. The debt and the currency swap cannot be designated in combination as the hedging instrument for the U.S. parent entity's net investment in the German subsidiary.

ASC 815-20-55-51 indicates that measuring a derivative instrument (e.g., the cross-currency swap) and a non-derivative cash instrument (e.g., the debt) as a single unit at a current spot rate (used for translation of the hedged net investment) "violates the requirements of Subtopic 830-20 for translation of foreign-currency-denominated borrowings at the spot rate relevant to the currency of the borrowing." Further, the joint designation of the instruments as a single hedging instrument also violates the requirements of ASC 815-10 to measure all derivative instruments at fair value.

Under IFRS Standards, IFRS 9:6.2.2 states that "...For a hedge of foreign currency risk, the foreign currency risk component 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 other comprehensive income in accordance with paragraph 5.7.5."

IFRS 9:6.2.5 states that "An entity may view in combination, and jointly designate as the hedging instrument, any combination of the following (including those circumstances in which the risk or risks arising from some hedging instruments offset those arising from others (a) derivatives or a proportion of them; and (b) non-derivatives or a proportion of them."

Comments

22.27	**Has the entity used purchased options as hedging instruments in a cash flow hedge?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
The time value of an option that is designated as a hedging instrument can be either included in or excluded from the assessment of hedge effectiveness. An entity may elect to record the excluded component either by using a systematic and rational method over the life of the hedging relationship or by recording changes in the excluded component currently in earnings. Other changes in the fair value of the option are recorded in OCI.	When using a purchased option as a hedging instrument, whether the entity decides to designate the entire option, or separates the intrinsic value of the option as a hedging instrument, the change in the fair value due to the time value of the option is recorded in OCI.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, the use of purchased European-style options (that can only be exercised at maturity) to determine hedge effectiveness in a cash flow hedge relationship is more flexible. ASC 815-20-25-126 through 25-129 permit an entity to focus on the terminal value of a purchased option (i.e. its expected future payoff amount as of its maturity date) when determining whether a cash flow hedging relationship is expected to be highly effective as long as certain criteria are met. Furthermore, if additional criteria are met per ASC 815-20-25-129 (such as critical terms of the hedging instrument that completely match the related terms of the hedged forested transaction), an entity can

© Deloitte LLP. All rights reserved.

assume that a hedging relationship in which a European-style option is designated as the hedging instrument will be perfectly effective.

U.S. GAAP also allows to only designate the intrinsic value of a purchased option as a hedging instrument. ASC 815-20-25-82 states that "an entity may exclude all or a part of the hedging instrument's time value from the assessment of hedge effectiveness, as follows: (a) If the effectiveness of a hedge with an option is assessed based on changes in the option's intrinsic value, the change in the time value of the option would be excluded from the assessment of hedge effectiveness".

An entity may elect to record the excluded component either by using a systematic and rational method over the life of the hedging relationship or by recording changes in the excluded component currently in earnings. Other changes in the fair value of the option are recorded in OCI.

Under IFRS Standards, IFRS 9:6.2.4 permits "separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the change in intrinsic value of an option and not the change in its time value". IFRS 9:6.5.15 provides guidance on how to account for the change in fair value of the time value of an option when only the intrinsic value of that option is designated, where such change is recognised as part of OCI to the extent that it relates to the hedged item in a reserve separated from the cash flow reserve. Then, depending on whether the option hedges (1) a transaction related hedged item or (2) a time-period related hedged item, for (1) the aforementioned reserve will generally be reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged expected future cash flows affect profit or loss (unless the transaction results in the recognition of a non-financial asset, non-financial liability, or a firm commitment for which the fair value hedge accounting is applied – see IFRS 9:6.5.15 (b)(i)); and for (2) the time value at the date of the designation of the option shall be amortised in a systematic and rational basis from OCI to profit or loss as a reclassification adjustment.

Therefore, under IFRS 9, designating only the intrinsic value of a purchased option would reduce earnings volatility that results from the option's time value as such effects are deferred in OCI whereas per ASC 815-20-25-82 when intrinsic value is only designated as a hedging instrument, changes in the time value of the option are directly recognised in earnings.

Comments

22.28	**In a foreign currency cash flow hedge of a recognised asset or liability, is all the variability in the hedged item's functional currency-equivalent cash flows eliminated by the effect of the hedge?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
All variability in a hedged item's functional-currency-equivalent cash flows must be eliminated by the hedge (e.g., in a cash flow hedge of variable-rate foreign-currency-denominated debt).	No similar requirement exists under IFRS Standards.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 815-20-25-39(d) notes that to qualify as a foreign currency cash flow hedge "[i]f the hedged item is a recognized foreign-currency-denominated asset or liability, all the variability in the hedged item's functional-currency- equivalent cash flows shall be eliminated by the effect of the hedge." ASC 815-20-25-40 clarifies this requirement, stating that "an entity shall not specifically exclude a risk from the hedge that will affect the variability in cash flows."

IFRS Standards do not have a similar requirement; therefore, certain hedging relationships (e.g., a foreign currency cash flow hedge of variable-rate foreign-currency-denominated debt) may qualify as foreign currency cash flow hedges under IFRS Standards, yet not qualify for similar treatment under U.S. GAAP.

© Deloitte LLP. All rights reserved.

Comments

22.29	**Has there been a change in the counterparty to a derivative instrument that has been designated as a hedging instrument?**	**Yes** **No**

U.S. GAAP

A change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require discontinuation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The reason for change in counterparty is not limited to the requirements of law and regulations, but may include circumstances like financial institution mergers, intercompany transactions, an entity exiting a particular derivatives business or relationship, or an entity managing against internal credit limits.

IFRS Standards

If there is a change in the counterparty to a derivative instrument that has been designated as the hedging instrument, a hedging instrument is not considered to be expired or terminated if the change occurs as a consequence of laws or regulations or the introduction of laws or regulations and any other changes are limited to those necessary to replace the counterparty.

A discontinuation of the hedging relationship would be needed if the change to a counterparty is not a consequence of laws or regulations.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 815-30-40-1A states that for the purposes of applying the guidance in ASC 815-30-40-1, a change in the counterparty to a derivative instrument that has been designated as the hedging instrument in an existing hedging relationship would not, in and of itself, be considered a termination of the derivative instrument.

Also ASC 815-20-55-56A states that for the purposes of applying the guidance in ASC 815-20-55-56, a change in the counterparty to a derivative instrument that has been designated as 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.

Under IFRS Standards, IFRS 9:6.5.6 states that "An entity shall discontinue hedge accounting prospectively 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 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 a replacement or rollover is part of, and consistent with, the entity's documented risk management objective. Additionally, for this purpose there is not an expiration or termination of the hedging instrument if:

A. 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. For this purpose, a clearing counterparty is a central counterparty (sometimes called a 'clearing organisation' or 'clearing agency') or an entity or entities, for example, a clearing member of a clearing organisation or a client of a clearing member of a clearing organisation, that are acting as a counterparty in order to effect clearing by a central counterparty. However, when the parties to the hedging instrument replace their original counterparties with different counterparties the requirement in this subparagraph is met only if each of those parties effects clearing with the same central counterparty.

B. 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."

© Deloitte LLP. All rights reserved.

Comments

22.30	**Has the entity applied hedge accounting?**	**Yes** **No**

U.S. GAAP	IFRS Standards
Only certain risks related to financial assets and liabilities may be hedged. U.S. GAAP permits recognised loan servicing rights and nonfinancial firm commitments with financial components to be hedged for the same risks as financial assets and financial liabilities in accordance with ASC 815-20-25-12(e) and (f). For nonfinancial items, an entity may hedge overall changes in fair value, or for a cash flow hedge - the cash flows for an entire item's foreign currency risk, or a contractually specified component.	IFRS 9 is less restrictive regarding the risks related to financial assets and liabilities that may be hedged. IFRS Standards do not prescribe any designated benchmark interest rates. The interest rate used should be both a separately identifiable component of a financial instrument and reliably measurable. For nonfinancial items, IFRS 9 is less restrictive than U.S. GAAP in that entities are permitted to designate a component risk in nonfinancial items as hedged item even if it is not contractually specified provided that certain criteria are met.

U.S. GAAP–IFRS Standards difference considerations

When the hedged item is a financial asset or financial liability

Under U.S. GAAP, ASC 815 is more restrictive than IFRS Standards regarding the types of risks that may be hedged. For fair value hedges, ASC 815-20-25-12(f) states that the risk being hedged for a financial asset or liability can only be one of (or a combination of) the following:

1. "The risk of changes in the overall fair value of the entire hedged item
2. The risk of changes in its fair value attributable to changes in the designated benchmark interest rate (referred to as interest rate risk)
3. The risk of changes in its fair value attributable to changes in the related foreign currency exchange rates (referred to as foreign exchange risk) [or]
4. The risk of changes in its fair value attributable to both of the following (referred to as credit risk):
   i. Changes in the obligor's creditworthiness
   ii. Changes in the spread over the benchmark interest rate with respect to the hedged item's credit sector at inception of the hedge."

For cash flow hedges, ASC 815-20-25-15(j) states that the risk being hedged can be any of the following if the hedge transaction is the forecasted purchase or sale of a financial asset or liability, the interest payments on that financial asset or liability, or the variable cash inflow or outflow of an existing financial asset or liability:

1. "The risk of overall changes in the hedged cash flows related to the asset or liability, such as those relating to all changes in the purchase price or sales price (regardless of whether that price and the related cash flows are stated in the entity's functional currency or a foreign currency)
2. For forecasted interest receipts or payments on an existing variable-rate financial instrument, the risk of changes in its cash flows attributable to changes in the contractually specified interest rate (referred to as interest rate risk). For a forecasted issuance or purchase of a debt instrument (or the forecasted interest payments on a debt instrument), the risk of changes in cash flows attributable to changes in the benchmark interest rate or the expected contractually specified interest rate.
3. The risk of changes in the functional-currency-equivalent cash flows attributable to changes in the related foreign currency exchange rates (referred to as foreign exchange risk)

© Deloitte LLP. All rights reserved.

4. The risk of changes in its cash flows attributable to all of the following (referred to as credit risk):
    i. Default
    ii. Changes in the obligor's creditworthiness
    iii. Changes in the spread over contractually specified interest rate or the benchmark interest rate with respect to the related financial asset's or liability's credit sector at inception of the hedge."

ASC 815-20-25-6A states that in the United States the interest rates on direct Treasury obligations of the U.S. government, the London Interbank Offered Rate (LIBOR) swap rate and the Fed Funds Effective Swap Rate (also referred to as the Overnight Index Swap Rate), the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Rate, and the Secured Overnight Financing Rate Overnight Index Swap Rate are considered to be benchmark interest rates. In each financial market, generally only the most widely used and quoted rates may be considered benchmark interest rates.

Under IFRS Standards, IFRS 9:6.3.7 state that "an entity may designate an item in its entirety or a component of an item as the hedged item in a hedging relationship. An entire item comprises all changes in the cash flows or fair value of an item. A component comprises less than the entire fair value change or cash flow variability of an item." In case a component is designated, it has to be separately identifiable and reliably measurable. However, IFRS 9 does not list the specific types of risks that can be designated as being hedged in a hedging relationship in which the hedged item is a financial asset or financial liability. 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. As such, IFRS 9 is less restrictive in that more hedging relationships would qualify.

When the hedged item is a nonfinancial asset or nonfinancial liability

Under U.S. GAAP, for cash flow hedges, ASC 815-20-25-15(i) states that "if the hedged transaction is the forecasted purchase or sale of a nonfinancial asset, the designated risk being hedged is any of the following:

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.
3. The risk of variability in cash flows attributable to changes in a contractually specified component."

For fair value hedges of a nonfinancial asset or nonfinancial liability, ASC 815-20-25-12(e) permits an entity to designate only the overall changes in fair value, not foreign currency risks, as the risk being hedged (under U.S. GAAP, this guidance does not apply to a recognised loan servicing right or a nonfinancial firm commitment with financial components).

Under IFRS Standards, IFRS 9 allows for a separate risk component of a non-financial item to be identified as a hedged item. IFRS 9:B6.3.8 states that "to be eligible for designation as a hedged item, a risk component must be a separately identifiable component of the financial or the non-financial 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." IFRS 9:B6.3.9 further states that "when identifying what risk components qualify for designation as a hedged item, an entity assesses such risk components within the context of the particular market structure to which the risk or risks relate and in which the hedging activity takes place. Such a determination requires an evaluation of the relevant facts and circumstances, which differ by risk and market."

Comments

© Deloitte LLP. All rights reserved.

22.31 Has the entity chosen to voluntarily terminate a hedging relationship? Yes / No

U.S. GAAP	IFRS Standards
Under U.S. GAAP, the entity can elect to voluntarily terminate a hedging relationship at any time during the relationship.	Under IFRS Standards, the entity needs to meet specific conditions in order to terminate a hedging relationship and voluntary termination is not permitted.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 815-25-40-1(c) and ASC 815-30-40-1(c) state that an entity shall discontinue prospectively the accounting for an existing hedge if the entity removes the designation of the fair value or cash flow hedge.

Under IFRS Standards, IFRS 9:B6.5.26 states that "a hedging relationship is discontinued in its entirety when, as a whole, it ceases to meet the qualifying criteria. For example:

A. the hedging relationship no longer meets the risk management objective on the basis of which it qualified for hedge accounting (i.e. the entity no longer pursues that risk management objective);

B. the hedging instrument or instruments have been sold or terminated (in relation to the entire volume that was part of the hedging relationship); or

C. there is no longer an economic relationship between the hedged item and the hedging instrument or the effect of credit risk starts to dominate the value changes that result from that economic relationship."

Therefore, based on the above, a hedging relationship can be terminated sooner under U.S. GAAP than IFRS 9 where the entity would have to show a change in the risk management objective for which the entity initially qualified for hedge accounting.

Comments

22.32 Is the entity seeking to designate as a hedged item an aggregate exposure that includes a non-derivative and a derivative instrument? Yes / No

U.S. GAAP	IFRS Standards
A combination of a derivative and a non-derivative instrument would not qualify as a hedged item as they do not share the same risk exposure.	IFRS 9 allows an aggregate exposure that is made up of a derivative and a non-derivative to be a hedged item and be hedged for a particular risk.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, the following has to be met for a combination of assets/liabilities to be eligible as a hedged item:

- ASC 815-20-25-12(b)(1) – in a fair value hedge, "the hedged item is … a portfolio of similar assets or a portfolio of similar liabilities …, in which circumstance: if similar assets or similar liabilities are aggregated and hedged as a portfolio, the individual assets or individual liabilities shall share the risk exposure for which they are designated as being hedged. The change in fair value attributable to the hedged risk for each individual item in a hedged portfolio shall 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."
- ASC 815-20-25-15(a)(2) – in a cash flow hedge, "a group of individual transactions that share the same risk exposure for which they are designated as being hedged. A forecasted purchase and a forecasted sale shall not both be included in the same group of individual transactions that constitute the hedged transaction."
- ASC 815-20-25-15(d) – in a cash flow hedge, "the forecasted transaction is not the acquisition of an asset or incurrence of a liability that will subsequently be remeasured with changes in fair value attributable to the hedged risk reported currently in earnings."

© Deloitte LLP. All rights reserved.

- ASC 815-20-25-43(c) - "with respect to fair value hedges only: an asset or liability that is not remeasured with the changes in fair value attributable to the hedged risk reported currently in earnings"

Therefore, an aggregated exposure based on a combination of a non-derivative and a derivative instrument would not meet the requirement for such instruments to share the same risk exposure that would be hedged.

Under IFRS Standards, IFRS 9:B6.3.3 states that "paragraph 6.3.4 permits an entity to designate as hedged items aggregated exposures that are a combination of an exposure and a derivative. When designating such a hedged item, an entity assesses whether the aggregated exposure combines an exposure with a derivative so that it creates a different aggregated exposure that is managed as one exposure for a particular risk (or risks). In that case, the entity may designate the hedged item on the basis of the aggregated exposure." IFRS 9:B6.3.4 further states that "when designating the 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."

Comments

22.33 Is the entity looking to hedge credit risk? **Yes** **No**

U.S. GAAP	IFRS Standards
Credit risk can be hedged for specific transactions in both fair value and cash flow hedges.	Credit risk of a financial instrument cannot be hedged as it is not separately identifiable and it would not meet the eligibility criteria for a hedged item.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, in a fair value hedge, per ASC 815-20-25-12 (d), "an asset or a liability is eligible for designation as a hedged item …if the hedged item is all or a portion of a debt security (or a portfolio of similar debt securities) that is classified as held to maturity in accordance with Topic 320, the designated risk being hedged is the risk of changes in its fair value attributable to credit risk, foreign exchange risk, or both", and per ASC 815-20-25-12 (f), "if the hedged item is a financial asset or liability, a recognized loan servicing right, or a nonfinancial firm commitment with financial components, the designated risk being hedged is … 4. the risk of changes in its fair value attributable to both of the following (referred to as credit risk): (i) changes in the obligor's creditworthiness; and (ii) changes in the spread over the benchmark interest rate with respect to the hedged item's credit sector at inception of the hedge."

In a cash flow hedge, a forecasted transaction is eligible for designation as a hedged transaction if "the variable cash flows of the forecasted transaction relate to a debt security that is classified as held to maturity under Topic 320, the risk being hedged is the risk of changes in its cash flows attributable to any of the following risks: credit risk and foreign exchange risk" (ASC 815-20-25-15(f)), and "if the hedged transaction is the forecasted purchase or sale of a financial asset (or the interest payments on that financial asset or liability) or the variable cash inflow or outflow of an existing financial asset or liability, the designated risk being hedged is … 4. The risk of changes in its cash flows attributable to all of the following (referred to as credit risk): i) default, ii) changes in the obligor's creditworthiness, and iii) changes in the spread over the contractually specified interest rate or benchmark interest rate with respect to the related financial asset's or liability's credit sector at inception of the hedge" (ASC 815-20-25-15 (j)).

Under IFRS Standards, IFRS 9:BC6.476 states that "the qualification criteria in BC6.475 are set with a view to accommodating economic hedges of credit risk that would otherwise qualify for hedge accounting, but for the fact that the credit risk component within the hedged exposure cannot be separately identified and hence is not a risk component that meets the eligibility criteria for hedged items." Even though IFRS 9 does not permit hedging of a credit risk, the standard provides an alternative where fair value option can be elected "for a financial instrument (or a proportion of it) that is managed in such a way that an economic relationship on the basis of the same credit risk exists with credit derivatives (measured at fair value through profit or loss) that causes offset between changes in fair value of the financial instrument and the credit derivatives" (IFRS 9:BC6.475). This is also applicable for loan commitments that fall out of the scope of IFRS 9 (IFRS 9:BC6.475).

© Deloitte LLP. All rights reserved.

Comments

22.34	**Has the entity hedged a net position?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
An entity is not allowed to hedge net positions as the associated transactions will fail to meet the requirements for a group of similar assets or liabilities that share the same risk exposure.	IFRS 9 permits hedging of a net position (e.g. a forecasted purchase and an offsetting forecasted sale) when certain conditions are me

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, per ASC 815-20-25-12(b), for a fair value hedge "an asset or a liability is eligible for designation as a hedged item in a fair value hedge if … the hedged item is … a portfolio of similar assets or a portfolio of similar liabilities (or a specific portion thereof), in which circumstance: if similar assets or similar liabilities are aggregated and hedged as a portfolio, the individual assets or individual liabilities shall share the risk exposure for which they are designated as being hedged. The change in fair value attributable to the hedged risk for each individual item in a hedged portfolio shall 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… An entity may use different stratification criteria for the purposes of impairment testing and for the purposes of grouping similar assets to be designated as a hedged portfolio in a fair value hedge."

Per ASC 815-20-25-15(a), for a cash flow hedge "a forecasted transaction is eligible for designation as a hedged transaction in a cash flow hedge if … the forecasted transaction is specifically identified as … a group of individual transactions that share the same risk exposure for which they are designated as being hedged. A forecasted purchase and a forecasted sale shall not both be included in the same group of individual transactions that constitute the hedged transaction."

Under IFRS Standards, per IFRS 9:B6.6.1, "a net position is eligible for hedge accounting only if an entity hedges on a net basis for risk management purposes. Whether an entity hedges in this way is a matter of fact (not merely of assertion or documentation). Hence, an entity cannot apply hedge accounting on a net basis solely to achieve a particular accounting outcome if that would not reflect its risk management approach. Net position hedging must form part of an established risk management strategy. Normally this would be approved by key management personnel as defined in IAS 24."

Further per IFRS 9:B6.6.4, "when a group of items that constitute a net position is designated as a hedged item, an entity shall designate the overall group of items that includes the items that can make up the net position. An entity is not permitted to designate a non-specific abstract amount of a net position. For example, an entity has a group of firm sale commitments in nine months' time for FC100 and a group of firm purchase commitments in 18 months' time for FC120. The entity cannot designate an abstract amount of a net position up to FC20. Instead, it must designate a gross amount of purchases and a gross amount of sales that together give rise to the hedged net position. An entity shall designate gross positions that give rise to the net position so that the entity is able to comply with the requirements for the accounting for qualifying hedging relationships."

Comments

© Deloitte LLP. All rights reserved.

Section 23: Fair value measurement

23. Fair value measurement

Overview

This Section focusses on significant differences between ASC 820, Fair Value Measurement and IFRS 13, Fair Value Measurement with respect to fair value measurements. Both accounting frameworks broadly define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The respective guidance provides the framework for measuring fair values that is applicable under the various accounting topics that require (or permit) fair value measurements.

IFRS 13 was the result of a joint project between the FASB and the IASB to develop common requirements for measuring fair value and disclosing information about fair value measurements.

Although ASC 820 and IFRS 13 are largely converged, they are not identical.

Recently issued standards not yet reflected in this Section

None

Primary authoritative guidance

- ASC 820, Fair Value Measurement

- IFRS 13, Fair Value Measurement
- IFRS 9, Financial Instruments

23.1 Is there a difference between any transaction's entry price (i.e. the price paid to acquire an asset or price received to issue a liability) and the respective exit price at the inception of the transaction provided by valuation models?

Yes

No

Such a difference may result in inception (or "Day one") gains and losses.

U.S. GAAP

If an asset or a liability is measured initially at fair value, an entity needs to assess whether the transaction price represents fair value at inception by considering factors specific to the transaction. In many cases it is inappropriate to record an inception gain or loss as of the date of initial recognition of an asset or liability.

IFRS Standards

If an asset or a liability is initially measured at fair value, an entity needs to assess whether the transaction price represents fair value by considering factors specific to the transaction. Similar to U.S. GAAP in many cases it is inappropriate to record an inception gain or loss as of the date of initial recognition of an asset or liability. Furthermore, an entity cannot recognise inception gains or losses for the difference between the transaction price and fair value of a financial instrument unless the instrument's fair value is demonstrated by a quoted price in an active market for an identical asset or liability or based on a valuation technique in which an entity uses only observable market data.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, the exit price notion in ASC 820 provides for differences between the transaction price (an entry price) and fair value (an exit price). ASC 820-10-30-3A states:

"When determining whether fair value at initial recognition equals the transaction price, a reporting entity shall take into account factors specific to the transaction and to the asset or liability. For example, the transaction price might not represent the fair value of an asset or a liability at initial recognition if any of the following conditions exist:

A. The transaction is between related parties, although the price in a related party transaction may be used as an input into a fair value measurement if the reporting entity has evidence that the transaction was entered into at market terms.

© Deloitte LLP. All rights reserved.

B. The transaction takes place under duress or the seller is forced to accept the price in the transaction. For example, that might be the case if the seller is experiencing financial difficulty.

C. The unit of account represented by the transaction price is different from the unit of account for the asset or liability measured at fair value. For example, that might be the case if the asset or liability measured at fair value is only one of the elements in the transaction (for example, in a business combination), the transaction includes unstated rights and privileges that are measured separately, in accordance with another Topic, or the transaction price includes transaction costs.

D. The market in which the transaction takes place is different from the principal market (or most advantageous market). For example, those markets might be different if the reporting entity is a dealer that enters into transactions with customers in the retail market, but the principal (or most advantageous) market for the exit transaction is with other dealers in the dealer market."

Also ASC 820-10-55-46 illustrates situations in which the price in a transaction involving a derivative instrument might (and might not) equal the fair value of the instrument.

When an entity determines that the transaction price represents the fair value of a contract at inception but the entity's pricing model (used in initial and subsequent fair value measurements) generates an initial estimate of fair value that differs from the transaction price, the valuation technique is calibrated.

If it is concluded that fair value is not equal to the transaction price then ASC 820-10-30-6 states that "[i]f another Topic requires or permits a reporting entity to measure an asset or a liability initially at fair value and the transaction price differs from fair value, the reporting entity shall recognize the resulting gain or loss in earnings unless that Topic specifies otherwise."

Under IFRS Standards, IFRS 13:60 states:

"If another IFRS requires or permits an entity to measure an asset or a liability initially at fair value and the transaction price differs from fair value, the entity shall recognise the resulting gain or loss in profit or loss unless that IFRS specifies otherwise."

IFRS 13:B4 provides examples of factors (similar to those identified by U.S. GAAP above) that an entity should take account of when determining whether fair value at initial recognition equals the transaction price.

IFRS 13:64 also includes a similar requirement to U.S. GAAP. It states:

"If the transaction price is fair value at initial recognition and a valuation technique that uses unobservable inputs will be used to measure fair value in subsequent periods, the valuation technique shall be calibrated so that at initial recognition the result of the valuation technique equals the transaction price. Calibration ensures that the valuation technique reflects current market conditions, and it helps an entity to determine whether an adjustment to the valuation technique is necessary (eg there might be a characteristic of the asset or liability that is not captured by the valuation technique). After initial recognition, when measuring fair value using a valuation technique or techniques that use unobservable inputs, an entity shall ensure that those valuation techniques reflect observable market data (eg the price for a similar asset or liability) at the measurement date."

With respect to financial instruments, IFRS 9:B5.1.2A states, in part:

"If an entity determines that the fair value at initial recognition differs from the transaction price as mentioned in paragraph 5.1.1A, the entity shall account for that instrument at that date as follows:

1. at the measurement required by paragraph 5.1.1 if that 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. An entity shall recognise the difference between the fair value at initial recognition and the transaction price as a gain or loss.
2. in all other cases, at the measurement required by paragraph 5.1.1, adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the entity shall recognise that deferred difference 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."

© Deloitte LLP. All rights reserved.

Comments

23.2	**Has the entity measured an investment at fair value using net asset value per share of the issuer of the instrument?**	Yes No

U.S. GAAP	IFRS Standards
U.S. GAAP provides a practical expedient for measuring the fair value of investments in investment companies pursuant to which the holder can use the net asset value per share (NAV) as a measurement of fair value in specific circumstances. When the practical expedient is used, the holder does not include such investments in the fair value hierarchy for disclosure purposes.	IFRS Standards do not provide a practical expedient to measure the fair value of investments at net asset value per share.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 820-10-35-59 states: "A reporting entity is permitted, as a practical expedient, to estimate the fair value of an investment [in an investment company and that does not have a readily determinable fair value] using the net asset value per share (or its equivalent, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed) of the investment, if the net asset value per share of the investment (or its equivalent) is calculated in a manner consistent with the measurement principles of Topic 946 [Financial Services - Investment Companies] as of the reporting entity's measurement date." Further, ASC 820-10-35-54B states that such an investment shall not be categorised within the fair value hierarchy. In addition, the disclosure requirements in ASC 820-10-50-2 do not apply to that investment. Disclosures required for an investment for which fair value is measured using net asset value per share (or its equivalent) as a practical expedient are described in ASC 820-10-50-6A. Although the investment is not categorised within the fair value hierarchy, a reporting entity shall provide the amount measured using the net asset value per share (or its equivalent) practical expedient to permit reconciliation of the fair value of investments included in the fair value hierarchy to the line items presented in the statement of financial position in accordance with ASC 820-10-50-2B.

ASC 820-10-35-61 states that the practical expedient cannot be used if it is probable at the measurement date that the reporting entity will sell a portion of the investment at an amount different from the net asset value per share. In those situations the portion of the investment that is being sold must be accounted for at fair value. ASC 820-10-35-61 provides criteria for determining whether a sale is considered probable.

IFRS Standards do not provide a practical expedient to measure the fair value of investments at net asset value per share. As such, there could be a difference in the measured value of an investment in an investment company and related disclosures under the two frameworks.

Comments

© Deloitte LLP. All rights reserved.

Section 24: Fair value option

24. Fair value option

Overview

This Section focusses on significant differences between ASC 825, Financial Instruments and IFRS 9, Financial Instruments with respect to the fair value option (FVO). The FVO permits an entity to measure eligible financial instruments at their fair values.

Like ASC 825, IFRS Standards permit election of the FVO for certain financial assets and financial liabilities under specific circumstances. However, the IFRS 9 criteria are generally more restrictive than those in ASC 825.

Also, under both ASC 825 and IFRS 9, election of the FVO (1) in most circumstances must be made at initial recognition, (2) is generally irrevocable, and (3) causes changes in fair value to be recognised in earnings (referred to as "profit or loss" under IFRS Standards), except for changes in the fair value of financial liabilities associated with the issuer's own credit risk. In addition, both standards require that up-front fees and costs related to items for which the FVO is elected be recognised in earnings as incurred and not deferred.

Recently issued standards not yet reflected in this Section

ASU 2020-06 amended Subtopic 470-20, Debt—Debt with Conversion and Other Options, by removing accounting models for instruments with beneficial conversion features and cash conversion features. The amendments in ASU 2020-06 are effective for public business entities that meet the definition of a Securities and Exchange Commission (SEC) filer, excluding entities eligible to be smaller reporting companies as defined by the SEC, for fiscal years beginning after 15 December 2021, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after 15 December 2023, including interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal years beginning after 15 December 2020, including interim periods within those fiscal years. The FASB Board specified that an entity should adopt the guidance as of the beginning of its annual fiscal year.

Primary authoritative guidance

- ASC 825, Financial Instruments
- IFRS 9, Financial Instruments

24.1 Did the entity designate or elect the fair value option for a financial asset or liability?

Yes

No

U.S. GAAP

The fair value option can be elected for items eligible to be recorded at fair value under ASC 825-10. An entity may elect the fair value option for most financial assets and financial liabilities; its ability to elect the fair value option for eligible financial instruments is generally not limited.

For financial liabilities for which the fair value option has been elected, entities defer fair value changes associated with credit risk through other comprehensive income (OCI).

The balance in accumulated OCI (AOCI) is released into earnings upon derecognition of the financial liability.

IFRS Standards

The fair value option can be elected for items within the scope of IFRS 9 that meet certain qualifying criteria. The fair value option can be elected if the item is managed on a fair value basis (financial liabilities only), contains an embedded derivative (financial liabilities and nonfinancial hosts only), creates an accounting mismatch in the financial statements, or represents a credit exposure.

For financial liabilities for which the fair value option has been elected, entities defer fair value changes associated with credit risk through OCI, unless doing so would create or increase an "accounting mismatch".

The balance in AOCI is not released into profit or loss upon derecognition of the financial liability.

© Deloitte LLP. All rights reserved.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, an entity can elect to designate an item at fair value if the item is eligible to be recorded at fair value under ASC 825-10-15-4, which states:

"All entities may elect the fair value option for any of the following eligible items:

A. A recognized financial asset and financial liability except any listed in [ASC 825-10-15-5].

B. A firm commitment that would otherwise not be recognized at inception and that involves only financial instruments (for example, a forward purchase contract for a loan that is not readily convertible to cash — that commitment involves only financial instruments — a loan and cash — and would not otherwise be recognized because it is not a derivative instrument).

C. A written loan commitment.

D. The rights and obligations under an insurance contract that has both of the following characteristics: (1) [t]he insurance contract is not a financial instrument (because it requires or permits the insurer to provide goods or services rather than a cash settlement) [and] (2) [t]he insurance contract's terms permit the insurer to settle by paying a third party to provide those goods or services.

E. The rights and obligations under a warranty that has both of the following characteristics: (1) the warranty is not a financial instrument (because it requires or permits the warrantor to provide goods or services rather than a cash settlement) (2) the warranty's terms permit the warrantor to settle by paying a third party to provide those goods or services.

F. A host financial instrument resulting from the separation of an embedded nonfinancial derivative from a nonfinancial hybrid instrument under paragraph 815-15-25-1, subject to the scope exceptions in the following paragraph (for example, an instrument in which the value of the bifurcated embedded derivative is payable in cash, services, or merchandise but the debt host is payable only in cash)."

ASC 825-10-15-5 prohibits the election of the fair value option for the following financial assets and liabilities:

A. "An investment in a subsidiary that the entity is required to consolidate.

B. An interest in a variable interest entity (VIE) that the entity is required to consolidate.

C. Employers' and plans' obligations (or assets representing net overfunded positions) for pension benefits, other postretirement benefits (including health care and life insurance benefits), postemployment benefits, employee stock option and stock purchase plans, and other forms of deferred compensation arrangements, as defined in Topics 420; 710; 712; 715; 718; and 960.

D. Financial assets and financial liabilities recognized under leases as defined in Subtopic 842-10. (This exception does not apply to a guarantee of a third-party lease obligation or a contingent obligation arising from a cancelled lease.)

E. Deposit liabilities, withdrawable on demand, of banks, savings and loan associations, credit unions, and other similar depository institutions.

F. Financial instruments that are, in whole or in part, classified by the issuer as a component of shareholders' equity (including temporary equity) (for example, a convertible debt instrument with the scope of the Cash Conversion Subsections of Subtopic 470-20 or a convertible debt security with a non-contingent beneficial conversion feature).

Under IFRS Standards, an entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if it is in the scope of IFRS 9 and doing so 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 recognising the gains and losses on them on different bases (see IFRS 9:B4.1.29–B4.1.32).

For financial liabilities within the scope of IFRS 9, IFRS 9:4.2.2 states, "an entity may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when permitted by paragraph 4.3.5, or when doing so results in more relevant information, because either:

A. 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 recognising the gains and losses on them on different bases (see paragraphs B4.1.29–B4.1.32); or

© Deloitte LLP. All rights reserved.

B. a group of financial liabilities or 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 (as defined in IAS 24 Related Party Disclosures), for example, the entity's board of directors and chief executive officer (see paragraphs B4.1.33–B4.1.36)."

Under IFRS Standards, if "the host is not an asset" within the standard's scope, per IFRS 9:4.3.5, an entity may use the FVO for a hybrid contract that contains one or more embedded derivatives unless either of the following conditions applies:

A. "[T]he embedded derivative(s) do(es) not significantly modify the cash flows that otherwise would be required by the contract; or

B. [I]t is clear with little or no analysis . . . that separation of the embedded derivative(s) is prohibited, such as a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortised cost."

Under IFRS 9:6.7.1, "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 that it is so managed (i.e. all or a proportion of it) as measured at fair value through profit or loss if:

A. the name of the credit exposure (for example, the borrower, or the holder of a loan commitment) matches the reference entity of the credit derivative ('name matching'); and

B. 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 irrespective of whether the financial instrument that is managed for credit risk is within the scope of this Standard (for example, an entity may designate loan commitments that are outside the scope of this Standard). The entity may designate that financial instrument at, or subsequent to, initial recognition, or while it is unrecognised. The entity shall document the designation concurrently."

Under both ASC 825 and IFRS 9, an entity may elect the fair value option at initial recognition of a financial instrument. For financial instruments that represent credit exposures for which an entity uses a credit derivative to manage the exposure, IFRS 9 permits the election to be made after initial recognition or while the instrument is unrecognised. There is no similar guidance under ASC 825. While IFRS 9 allows designation of portions of a credit derivative used to manage credit risk, ASC 825-10-25-2(c) does not permit an entity to apply the FVO "to only specified risks, specific cash flows, or portions of that instrument."

Because the scope of ASC 825 differs from that of IFRS 9 in certain respects, election of the FVO is not always permitted for the same items. For example, ASC 825 permits election of the FVO for certain contracts that are outside the scope of IFRS 9 such as insurance contracts and warranties that are not financial instruments. Furthermore, ASC 825 permits application of the FVO to equity method investments, including when a previously recognised financial instrument becomes subject to the equity method of accounting. With limited exceptions, equity method investments (referred to as "associates") are outside the scope of the FVO under IFRS 9.

Presentation of fair value changes of financial liabilities

Under both ASC 825 and IFRS 9, changes in the fair value of a financial asset or financial liability for which the FVO has been elected are recognised in earnings (profit or loss). Further, for qualifying financial liabilities for which the FVO has been elected, both standards require that the fair value change associated with the liability's credit risk in most cases be recognised in OCI (ASC 825-10-45-5 and IFRS 9:5.7.1).

Under U.S. GAAP, upon derecognition of a liability for which fair value changes attributable to the liability's credit risk have been recognised through OCI, ASC 825-10-45-6 requires that the credit risk component be released through earnings upon derecognition of the financial liability. In contrast, IFRS 9:B5.7.9 of IFRS 9 does not permit the OCI component to be subsequently released into profit or loss upon derecognition of the liability. However, the entity may transfer the cumulative gain or loss within equity.

Unlike U.S. GAAP, however, IFRS 9:5.7.7 contains an exception under which deferral of the credit risk component through OCI is precluded if the deferral would "create or enlarge an accounting mismatch in profit or loss." (IFRS 9:B5.7.5–B5.7.7 and B5.7.10–B5.7.12 provide guidance on determining whether an accounting mismatch would be created or enlarged.)

© Deloitte LLP. All rights reserved.

Comments

© Deloitte LLP. All rights reserved.

Section 25: Foreign currency matters

25. Foreign currency matters

Overview

Foreign currency translation is the process of expressing in the functional currency (or presentation currency, defined as the currency in which an entity presents its financial statements) amounts that are denominated or measured in a different currency.

The concept of "functional currency" is crucial to an understanding of translation of foreign currency amounts in financial statements. Functional currency is defined as the currency of the primary economic environment in which an entity operates. This is normally, but not necessarily, the currency in which that entity principally generates and expends cash. Entities should consider economic factors such as cash flows, sales price, sales market, expense, financing, and intercompany transactions when determining the functional currency. Although under both U.S. GAAP and IFRS Standards entities consider similar economic factors in determining functional currency, an assessment under IFRS Standards requires the use of a hierarchy of indicators. Despite this requirement, the determination of functional currency is unlikely to differ under U.S. GAAP and IFRS Standards.

If an entity's functional currency differs from the presentation (also referred to as the reporting) currency, the entity's financial statements will need to be translated into the presentation currency, and adjustments will result. Translation adjustments are reported as a separate component of other comprehensive income within shareholders' equity.

See also the following discussions related to foreign currency:

- Impairment of a foreign operation held for sale: Question 16.2.
- Debt securities classified as available for sale that are denominated in a currency other than the functional currency: Question 3.3.

Recently issued standards not yet reflected in this Section

None.

Primary authoritative guidance

- ASC 830, Foreign Currency Matters

- IAS 21, The Effects of Changes in Foreign Exchange Rates
- IAS 29, Financial Reporting in Hyperinflationary Economies
- IFRS 5, Non-current Assets Held for Sale and Discontinued Operations

25.1 Has the entity changed its functional currency from the reporting currency (presentation currency) to a foreign currency or vice versa?

Yes

No

Once a functional currency is determined, a subsequent change can be made only if significant changes in facts and circumstances justify the change. Such instances are expected to be uncommon.

The reporting currency ("presentation currency" under IFRS Standards) is the currency in which an entity prepares its financial statements. For a U.S. entity, the reporting currency is typically the U.S. dollar.

U.S. GAAP	IFRS Standards
When the functional currency changes from the reporting currency to a foreign currency, an entity must translate the nonmonetary assets, as of the date of the change, into the new functional currency at the current exchange rate. If the change is from a foreign currency to the reporting	The effect of a change in functional currency is accounted for prospectively from the date of the change. Accordingly, an entity must translate all items into the new functional currency by using the exchange rate as of the date of the change. The resulting translated amounts

© Deloitte LLP. All rights reserved.

currency, the new cost bases for nonmonetary assets held in the period of change are the translated amounts at the end of the previous period.	for nonmonetary items are treated as their historical cost going forward.

U.S. GAAP–IFRS Standards difference considerations

Changes in functional currency should be uncommon and must be driven by changes in the factors that are required to be considered in determining the functional currency. Any such changes most likely will receive regulatory scrutiny regarding the specific events causing the change. U.S. GAAP and IFRS Standards differ in their treatment of changes in functional currency.

Under U.S. GAAP, ASC 830-10-45-9 and 45-10 indicate that the accounting treatment depends on whether the functional currency is changing from a foreign currency to the reporting currency or vice versa. In the former case, the accounting treatment is similar to that required under IFRS Standards, except that for nonmonetary assets held in the period of change, the new cost bases are the translated amounts at the end of the previous period. When changing from the reporting currency to the foreign currency the change is accounted for prospectively from the date of the change.

IAS 21:37 requires prospective accounting for a change in functional currency. It states that "an entity translates all items into the new functional currency using the exchange rate at the date of the change." The resulting translated amounts for nonmonetary items are treated as the new cost bases for those items (i.e. their historical cost going forward).

An entity must recognise the net effect of those translation adjustments to the accounting bases of the respective nonmonetary assets in other comprehensive income under U.S. GAAP and IFRS Standards.

Comments

25.2	Does the reporting entity have a multitiered organisational structure, where subsidiaries and parent companies with different functional currencies are ultimately consolidated into the reporting entity?	Yes No

U.S. GAAP	IFRS Standards
A reporting entity applies the step-by-step (i.e. bottom-up) method during the consolidation process.	A reporting entity has a policy choice between the step-by-step method and the direct method during the consolidation process.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, while not specifically addressed in ASC 810 or ASC 830, multitiered organisations apply the translation process in the same sequence as the consolidation process, i.e. on a step-by-step or bottom-up basis. Under this method, the financial results of each foreign entity (operation) would first be translated into the functional currency of its intermediate parent, which would in turn be translated into the functional currency of its intermediate parent (if any). Ultimately, the financial results of the foreign entity (operation) would be translated into the reporting (presentation) currency of the consolidated reporting entity.

Under IFRS Standards, (IFRIC 16:17), entities have a policy choice between the step-by-step method and the direct method. The direct method is the method of consolidation in which the financial statements of the foreign operation are translated directly into the functional currency of the ultimate parent. Whether the ultimate parent uses the direct or the step-by-step method of consolidation may affect the amount included in its foreign currency translation reserve at intermediate levels in respect of an individual foreign operation and can therefore also affect the recycling of such exchange rate differences upon disposal of an intermediate foreign operation.

© Deloitte LLP. All rights reserved.

Comments

25.3 Does the entity have operations in economies that may be considered highly inflationary? **Yes**

IFRS Standards use the term hyperinflationary rather than highly inflationary **No**

U.S. GAAP	IFRS Standards
An economy whose cumulative inflation is approximately 100 percent or more over a period of three years is considered highly inflationary. Data on highly inflationary economies is published by the US Center for Audit Quality.	In addition to applying the U.S. GAAP quantitative threshold, entities perform an analysis that takes into account various economic and behavioural factors in a particular country or economy to determine whether an economy is hyperinflationary.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 830-10-45-11 states that the only indicator of a "highly inflationary economy is [whether the economy] has cumulative inflation of approximately 100 percent or more over a 3-year period." Further guidance is also provided in ASC 830-10-45-12 and 45-13 as well as ASC 830-10-55-23 through 55-26. In addition, the Center for Audit Quality's International Practices Task Force periodically monitors and reports information about economies that have met, or may meet, the quantitative requirements under ASC 830-10 for an economy to be considered hyperinflationary. However, reporting entities are ultimately responsible for concluding whether an economy should be deemed hyperinflationary.

Under IFRS Standards, IAS 29:3 lists certain characteristics of a hyperinflationary economy, as follows:

A. the general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power;

B. the general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency;

C. sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short;

D. interest rates, wages and prices are linked to a price index; and

E. the cumulative inflation rate over three years is approaching, or exceeds, 100%.

In general, because IAS 29:3(a)–(d) apply to most unstable countries, the cumulative inflation rate is the most relevant characteristic. Differences between U.S. GAAP and IFRS Standards would therefore be unlikely in the determination of whether a country's economy is highly inflationary.

Comments

25.4 Does the entity have subsidiaries, equity method investees (associates), or joint ventures in highly inflationary economies? **Yes** **No**

See Question 25.3 for discussion of the definition of "highly inflationary."

U.S. GAAP	IFRS Standards
Entities adjust the financial statements as if the parent's reporting currency were the entity's functional currency.	Entities use a general price-level index before translation to adjust the financial statements.

© Deloitte LLP. All rights reserved.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 830-10-45-11 requires the financial statements of entities in economies that meet the definition of highly inflationary to be re-measured as if the parent's reporting currency were the entity's functional currency. Entities use the monetary/nonmonetary method to re-measure the financial statements. See ASC 830-10-45-17 and 45-18 for further guidance on re-measurement.

Under IFRS Standards, IAS 21:42–43 and IAS 29:7–8 require the financial statements of a foreign entity with a functional currency of a country that has a hyperinflationary economy to be restated to reflect changes in the general price level or index in that country before translation into the presentation currency. Paragraphs 3–5 and BC17 of IFRIC 7, Applying the Restatement Approach Under IAS 29 Financial Reporting in Hyperinflationary Economies, provide guidance on how an entity would restate its financial statements pursuant to IAS 29 in the first year after it identifies the existence of hyperinflation in the economy of its functional currency.

Comments

25.5 Does the entity have subsidiaries, equity method investees (associates), or joint ventures in economies that changed status from highly inflationary to non-highly inflationary?

Yes

No

See Question 25.3 for discussion of the definition of "highly inflationary."

U.S. GAAP	IFRS Standards
The entity should restate the functional currency accounting bases of nonmonetary assets and liabilities as of the date of change.	The carrying values of assets and liabilities in the entity's previous year-end financial statements will become the basis for carrying amounts in subsequent financial statements.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, there is specific guidance on the implications of an economy ceasing to be highly inflationary. The guidance in ASC 830-10-45-15 indicates that "[i]f an entity's subsidiary's functional currency changes from the reporting currency to the local currency because the economy ceases to be considered highly inflationary, the entity shall restate the functional currency accounting bases of nonmonetary assets and liabilities." The new bases are computed by translating the reporting currency amounts of nonmonetary items as of the date of change into the local currency at current exchange rates. In accordance with ASC 830-10-45-15 and ASC 830-740-25-3 the "functional currency bases generally will exceed the local currency tax bases of nonmonetary items. The differences between the new functional currency bases and the tax bases represent temporary differences under Subtopic 740-10, for which deferred taxes shall be recognized." The deferred taxes should be reflected as an adjustment to the cumulative translation adjustment.

Under IFRS Standards, IAS 29:38 states that when an economy ceases to be hyperinflationary and the application of IAS 29 is discontinued, the entity "shall treat the amounts expressed in the measuring unit current at the end of the previous reporting period as the basis for the carrying amounts in its subsequent financial statements." No adjustment is required to any balances in the financial statements.

Comments

© Deloitte LLP. All rights reserved.

25.6	Has the entity made a partial disposal of an investment in or within a foreign operation?	Yes No

U.S. GAAP

Only changes in a parent's ownership interest (equity investments in a foreign entity) may be treated as partial disposals that result in a reclassification or reattribution of the currency translation adjustment ("CTA"). See Question 25.7 below.

Accordingly, the sale or liquidation of the net assets within a foreign entity would not result in a release or reattribution of CTA (unless it results in a complete or substantially complete liquidation of the foreign entity). See Question 25.8 below.

IFRS Standards

IFRS Standards do not distinguish between partial disposals of investments in and those within a foreign operation.

Accordingly, an entity can elect either the proportionate or absolute reduction approach as an accounting policy and, if applicable, can choose how the absolute reduction approach is applied.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 830-30 requires an entity to identify whether the sale or liquidation is related to an investment in a foreign entity or an investment within a foreign entity as well as whether the investment is consolidated or accounted for under the equity method. An investment in a foreign entity is typically reflected via a direct ownership interest in the foreign entity. By contrast, an investment within a foreign entity reflects the net assets or ownership of the foreign entity and is indirect. For changes in a parent's ownership interest (equity investments in a foreign entity), please see Question 25.7 below. For the sale or liquidation of the net assets within a foreign entity, please see Question 25.8 below.

IFRS Standards do not distinguish between a partial disposal of an investment in and those within a foreign operation. Entities need to make an accounting policy choice between the proportionate and absolute reduction approaches and, if applicable, how the absolute reduction approach is applied. An entity's accounting policy adopted should be disclosed when material. The 'proportionate' approach is straightforward and easily understood and might, therefore, be seen as preferable. Under this method, a transaction that does not reduce the investor's percentage equity ownership of a foreign operation will not result in the reclassification or re-attribution of cumulative exchange differences previously recognised in other comprehensive income. Application of the 'absolute' approach, on the other hand, involves many challenges particularly in the context of partial disposals of subsidiaries. Under this method, reclassification or re-attribution of amounts held in the foreign currency translation reserve may arise in circumstances when the investor's percentage equity ownership does not change.

Comments

25.7	Has the entity lost significant influence or joint control over an equity method foreign investee during the period?	Yes No

U.S. GAAP

When significant influence or joint control is lost over an equity investee which is a foreign entity, a proportionate share of the CTA is released into the income statement from OCI. The remaining amount is transferred to the carrying value of the retained investment.

IFRS Standards

When significant influence or joint control is lost over an equity investee which is a foreign entity, the entire balance of the CTA is released into the income statement from OCI.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 830-30-40-2 requires that if the sale of part of an equity method investment that is a foreign entity results in the loss of significant influence, the pro rata portion of the currency translation adjustment

© Deloitte LLP. All rights reserved.

attributable to the remaining investment shall be offset against the carrying value of the investment until that balance is reduced to zero with the excess, if any, recorded in income.

Under IFRS Standards, IAS 21:48A states that when the retained interest after the partial disposal of an interest in a joint arrangement or a partial disposal of an interest in an associate that includes a foreign operation is a financial asset that includes a foreign operation the entire balance of the cumulative translation adjustment should be reclassified to the income statement.

Comments

25.8	**Has the entity entered into a partial disposal of an investment within a foreign entity, which does not result in a complete or substantially complete liquidation of the foreign entity?**	**Yes** **No**

U.S. GAAP	IFRS Standards
If the partial disposal relates to an investment within a foreign entity that does not result in a complete or substantially complete liquidation of the foreign entity, no CTA is transferred to the income statement.	If there is a partial disposal of a foreign operation, other than a partial disposal of a subsidiary that includes a foreign operation, a proportionate share of the CTA recognised in OCI is transferred to the income statement.

U.S. GAAP–IFRS Standards difference considerations

U.S GAAP distinguishes between investments in and those within a foreign operation. For partial disposals of investments in a foreign operation, there is no difference in the accounting treatment over CTA between U.S. GAAP and IFRS Standards, except for the difference discussed in Question 25.9 below.

For partial disposals of investments within a foreign operation, ASC 830-30-40-3 provides that although a partial liquidation by a parent of net assets held within a foreign entity may be considered to be similar to a sale of part of an ownership interest in the foreign entity if the liquidation proceeds are distributed to the parent extending pro rata recognition (release of the cumulative translation adjustment into net income) to such partial liquidations would require that their substance be distinguished from ordinary dividends. Such a distinction is neither possible nor desirable. For those partial liquidations, no cumulative translation adjustment is released into net income unless it represents a substantially complete liquidation of the investment in the foreign entity.

To qualify as a substantially complete liquidation, generally 90 percent or more of the net assets of a foreign entity should be liquidated. Further, the term “liquidate” means that any proceeds received have been transferred out of the liquidated foreign entity. If an entity’s sale of substantially all the net assets of one foreign entity is followed by a reinvestment in the same type of business and in the same location, the transaction would not qualify as a liquidation. If the transaction results in a complete or substantially complete liquidation of a foreign entity, 100 percent of the CTA should be released into earnings.

IFRS Standards do not distinguish between investments in and those within a foreign operation. IAS 21:48C provides that in a partial disposal of a foreign operation, other than a partial disposal of a subsidiary that includes a foreign operation, the entity shall reclassify to profit or loss the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income.

Comments

© Deloitte LLP. All rights reserved.

25.9	**Has the entity entered into a partial disposal of a foreign entity accounted for as an equity method investment, which resulted in loss of its significant influence over the equity method investment and the retained interest is measured at cost minus impairment?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
The proportionate amount of the CTA is reclassified from OCI to the income statement, with the remaining CTA balance reclassified in the carrying value of the retained interest.	The entire CTA associated with the equity method investment is reclassified from OCI to the income statement regardless of the measurement applied to the retained interest.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 830-30-40-2 provides that if a reporting entity sells part of its ownership interest in an equity method investment that is a foreign entity, a pro rata portion of the accumulated translation adjustment component of equity attributable to that equity method investment shall be recognised in measuring the gain or loss on the sale. If the sale of part of an equity method investment that is a foreign entity results in the loss of significant influence, an entity's proportionate share of an investee's equity adjustments for other comprehensive income (i.e. including the remaining CTA) shall be offset against the carrying value of the investment at the time significant influence is lost (ASC 323-10-35-39).

For the remaining interest in the equity investment, the initial measurement basis shall be the previous carrying amount of the investment (ASC 321-10-30-1). Subsequently, it should be measured at fair value (ASC 321-10-35-1) or at cost minus impairment, if the equity security does not have a readily determinable fair value (ASC 321-10-35-2).

Where the retained interest is measured at fair value, the remaining CTA included within the carrying value will be released to the income statement as part of the fair value measurement, resulting in the entire CTA being recognised in the income statement, which is similar to the impact under IFRS Standards.

Where the retained interest is measured at cost minus impairment, only the proportionate amount of the CTA is reclassified from OCI to the income statement. The remaining CTA balance is reclassified in the carrying value of the retained interest.

Under IFRS Standards, IAS 21:48 provides that on the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognised in other comprehensive income and accumulated in the separate component of equity, shall be reclassified from equity to profit or loss. IAS 21:48A (b) further provides that the same accounting treatment would also apply to a partial disposal, when the retained interest after the partial disposal of an interest in a joint arrangement or a partial disposal of an interest in an associate that includes a foreign operation is a financial asset that includes a foreign operation.

Comments

25.10	**Does the entity have foreign exchange transaction gains or losses related to available-for-sale (AFS) debt securities?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
The entity should report any gains or losses in other comprehensive income (OCI).	The entity reports any gains or losses in profit or loss.

U.S. GAAP-IFRS difference considerations

Under U.S. GAAP, ASC 830-20-35-6 refers to ASC 320-10-35-36, which requires that the entire change in the fair value of foreign-currency-denominated available-for-sale debt securities not related to the allowance for credit losses be reported in other comprehensive income.

© Deloitte LLP. All rights reserved.

Under IFRS Standards, IAS 21:28 specifies exchange differences arising on the settlement of monetary items, or on translating monetary items at different rates from those at which they were translated on initial recognition during the period or in previous financial statements, shall be recognised in profit or loss in the period in which they occur.

Comments

25.11	Does the entity have a foreign investee, which is held-for-sale (HFS), and being evaluated for impairment?	Yes No

U.S. GAAP	IFRS Standards
In certain circumstances, an entity is required to include related CTA in the carrying amount of an investment in a foreign entity that is being evaluated for impairment.	An entity is not permitted to include related CTA in the carrying amount of an investment in a foreign operation that is being evaluated for impairment.

U.S. GAAP-IFRS difference considerations

Under U.S. GAAP, an 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 to earnings shall include the cumulative translation adjustment as part of the carrying amount of the investment when evaluating that investment for impairment. This includes an investment in a foreign entity that is either consolidated by the reporting entity or accounted for by the reporting entity using the equity method.

Please note that 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 cumulative translation adjustment (ASC 830-30-45-14).

If the reporting entity sells part of its ownership interest in an equity method investment that is a foreign entity, a pro rata portion of the accumulated translation adjustment component of equity attributable to that equity method investment shall be recognised in measuring the gain or loss on the sale (ASC 830-30-40-2 through 4).

Under IFRS Standards, CTA differences should not be included when measuring the carrying amount of any HFS foreign investee. IAS 21 requires exchange differences to be reclassified from equity to profit or loss at the time of disposal of the operation. IFRS 5:BC37 and IFRS 5:BC38 specifies that exchange differences should not be reclassified at the time when the asset or disposal group is classified as held-for-sale. Any translation adjustments in the carrying amount of the foreign investee used to calculate an impairment loss would fall into this category (i.e. not allowed to be reclassified when the foreign investee is classified as held-for-sale). Therefore, any accumulated foreign CTA used to calculate impairment of a foreign investee should be excluded from its carrying amount, and instead, be recognised into earnings.

Comments

© Deloitte LLP. All rights reserved.

Section 26: Interest

26. Interest

Overview

Part A of this Section provides an overview of the application of the effective interest rate method on financial assets and liabilities. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The method of calculating effective interest rate differs between U.S. GAAP and IFRS Standards.

Part B discusses the circumstances in which interest should be capitalised in connection with the development of a long-lived asset. Whilst the principles under U.S. GAAP and IFRS Standards are similar in this area there are differences in the detailed application.

Recently issued standards not yet reflected in this Section

In June 2016, the FASB issued ASU 2016-13, which creates ASC 326, Financial Instruments—Credit Losses. The standard amends the guidance on the impairment of financial instruments, and adds to U.S. GAAP an impairment model (known as the current expected credit loss (CECL) model) that is based on expected losses rather than incurred losses. Under the new standard, an entity recognises as an allowance its estimate of expected credit losses, which the FASB believes will result in more timely recognition of such losses. It is also intended to reduce the complexity of U.S. GAAP by decreasing the number of credit impairment models that entities use to account for debt instruments.

Based on the subsequent amendment made by ASU 2019-10, ASC 326 shall be effective as follows:

- For SEC filers (excluding those that meet the definition of a smaller reporting company), for fiscal years beginning after 15 December 2019, including interim periods within those fiscal years.
- For all other entities, for fiscal years beginning after 15 December 2022, including interim periods within those fiscal years.

Early application is permitted for fiscal years beginning after 15 December 2018, including interim periods within those fiscal years.

Once effective, ASC 326 will significantly change the accounting for credit impairment. To comply with the new requirements, banks and other entities with certain asset portfolios (e.g., loans, leases, and debt securities) will need to modify their current processes for establishing an allowance for credit losses and other-than-temporary impairments.

Question 26A.8 in this Section will be impacted once ASC 326 becomes effective. Please refer to Appendix A Question A.2 for discussion of the differences between ASC 326, Financial Instruments – Credit Losses and IFRS 9, Financial Instruments. Therefore, depending on the year of financial statements being assessed, users should carefully consider the response to this question if it applies to the entity’s financial statements.

Primary authoritative guidance

- ASC 320, Investment – Debt Securities
- ASC 321, Investment – Equity Securities
- ASC 835-20, Capitalization of Interest
- ASC 835-30, Imputation of Interest

- IFRS 9, Financial Instruments

© Deloitte LLP. All rights reserved.

Part A — Effective interest rate method

26A.1	**Does the entity apply the effective interest method as a method for the calculation of interest for its investment in loans?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
The effective interest rate is computed based on the contractual cash flows over the contractual term of the loan, except for (1) certain loans that are part of a group of prepayable loans and (2) purchased loans for which there is evidence of credit deterioration. Therefore, loan origination fees, direct loan origination costs, premiums, and discounts typically are amortised over the contractual term of the loan.	The effective interest rate is computed on the basis of the estimated cash flows that are expected to be received over the expected life of a loan by considering all of the loan's contractual terms (e.g., prepayment, call, and similar options), excluding expected credit losses. Therefore, fees, points paid or received, transaction costs, and other premiums or discounts are deferred and amortised as part of the calculation of the effective interest rate over the expected life of the instrument.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, the effective interest rate used to recognise interest income on loan receivables generally is computed in accordance with ASC 310-20-35-26 on the basis of the contractual cash flows over the contractual term of the loan. Prepayments of principal are not anticipated. As a result, loan origination fees, direct loan origination costs, premiums, and discounts are typically amortised over the contractual term of the loan. However, ASC 310-20-35-26 indicates that if an entity "holds a large number of similar loans for which prepayments are probable and the timing and amount of prepayments can be reasonably estimated, the entity may consider estimates of future principal prepayments" in calculating the effective interest rate.

Under IFRS Standards, an entity recognises interest income by applying the effective interest method. IFRS 9 defines the effective interest rate of a financial asset or liability as the "rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset". Therefore, the effective interest method in IFRS 9, unlike that in ASC 310-20, requires an entity to compute the effective interest rate on the basis of the estimated cash flows over the expected life of the instrument considering all contractual terms (e.g., prepayment, extension, call, and similar options) but not expected credit losses. As a result, fees, points paid or received, transaction costs, and other premiums or discounts are deferred and amortised as part of the calculation of the effective interest rate over the expected life of the instrument. In rare cases in which it is not possible to reliably estimate the cash flows or the expected life of the financial instrument, IFRS 9 states that an entity should "use the contractual cash flows over the full contractual term", which would be aligned with U.S. GAAP.

Comments

26A.2	**Has the entity revised its estimates for pre payable loans of the entity?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Entities apply a retrospective approach when there are any revisions in estimates. If estimated payments for certain groups of prepayable loans are revised, an entity may adjust the net investment in the group of loans. It is done on the basis of a recalculation of the effective yield to reflect actual payments to date and anticipated future payments, to the amount that would have existed had the new effective yield been applied since the loans'	Entities apply a cumulative catch-up approach where there has been any revision in estimates. If estimated receipts are revised, the carrying amount is adjusted to the present value of the future estimated cash flows, discounted at the financial asset's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit impaired financial assets). The resulting adjustment is recognised within profit or loss. This treatment applies not just to groups of

© Deloitte LLP. All rights reserved.

origination/acquisition, with a corresponding charge or credit to interest income.	prepayable loans but to all financial assets that are subject to the effective interest method.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, whether and how an entity recognises a change in expected future cash flows of an investment depends on the instrument's characteristics and which effective interest method the entity is applying. ASC 310-20-35-26 indicates that in applying the interest method, an entity should use the payment terms required in the loan contract without considering the anticipated prepayment of principal to shorten the loan term. However, if the entity can reasonably estimate probable prepayments for a large number of similar loans, it may include an estimate of future prepayments in the calculation of the constant effective yield under the interest method. If prepayments are anticipated and considered in the determination of the effective yield, and there is a difference between the anticipated prepayments and the actual prepayments received, the effective yield should be recalculated to reflect actual payments received to date and anticipated future payments. The net investment in the loans should be adjusted to reflect the amount that would have existed had the revised effective yield been applied since the acquisition or origination of the group of loans, with a corresponding charge or credit to interest income. In other words, under U.S. GAAP, entities may use a "retrospective" approach in accounting for revisions in estimates related to such groups of loans.

Under IFRS Standards, the original effective interest rate must be used throughout the life of the instrument for financial assets and liabilities, except for certain reclassified financial assets and floating-rate instruments that reset to reflect movements in market interest rates. Upon a change in estimates, IFRS 9 generally requires entities to use a "cumulative catch-up" approach when changes in estimated cash flows occur. Specifically, IFRS 9:B5.4.6 states, in part:

"If an entity revises its estimates of payments or receipts (excluding modifications in accordance with paragraph 5.4.3 and changes in estimates of expected credit losses), it shall adjust the gross carrying amount of the financial asset to reflect actual and revised estimated contractual cash flows. The entity recalculates the gross carrying amount of the financial asset as the present value of the estimated future contractual cash flows that are discounted at the financial instrument's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit impaired financial assets). The adjustment is recognised in profit or loss as income or expense."

Comments

26A.3	**Has the entity received interest on an impaired loan?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
There is no specific guidance on the recognition, measurement, or presentation of interest income on an impaired loan, except for certain purchased loans that have deteriorated more than insignificantly since origination. For certain loans that are impaired and placed in nonaccrual status under bank regulatory guidance, no interest income is recognised.	Interest revenue is calculated on the basis of the gross carrying amount, (i.e. the amortised cost before adjusting for any loss allowance) unless the loan (1) is purchased or originated credit-impaired or (2) subsequently became credit-impaired. In those cases, interest revenue is calculated on the basis of amortised cost (i.e. net of the loss allowance).

U.S. GAAP–IFRS Standards difference considerations

The recognition, measurement, or presentation of interest income on an impaired loan is not specifically addressed in U.S. GAAP, except for certain purchased loans with credit deterioration (see ASC 310-10-35-53A through 35-53C), although no interest income is recognised on certain loans that are impaired and placed on nonaccrual status under bank regulatory guidance.

© Deloitte LLP. All rights reserved.

Potential methods for recognising interest income on an impaired loan include:

- Interest method — Changes to the present value of a loan that are (1) attributable to the passage of time are accrued as interest income or (2) attributable to changes in the amount or timing of expected cash flows are recognised as bad-debt expense.
- Bad-debt expense method — The entire change in the present value of the loan is recognised as bad-debt expense that results in the same income statement impact as the interest method without reflecting the discount accretion from the time value of money.
- Cash basis method — Interest payments received are recognised as interest income as long as that amount does not exceed the amount that would have been earned under the effective interest rate.
- Modified cost recovery method — The entire payment received is applied against the investment in the loan. Once the recorded investment has been recovered, all excess amounts are recognised as interest income.

Under IFRS Standards, the application of the effective interest method depends on whether the financial asset is purchased or originated credit-impaired or on whether it became credit impaired after initial recognition.

When recognising interest revenue related to purchased or originated credit-impaired financial assets under IFRS 9, an entity applies a credit-adjusted effective interest rate to the amortised cost carrying amount. The calculation of the credit-adjusted effective interest rate is consistent with the calculation of the effective interest rate, except that it takes into account expected credit losses within the expected cash flows.

For a financial asset that is not purchased or originated credit-impaired, IFRS 9:5.4.1requires an entity to calculate interest revenue as follows:

- Gross method — If the financial asset has not become credit-impaired since initial recognition, the entity applies the effective interest rate method to the gross carrying amount. IFRS 9 defines the gross carrying amount as “the amortised cost of a financial asset, before adjusting for any loss allowance."
- Net method — If the financial asset has subsequently become credit-impaired, the entity applies the effective interest rate to the amortised cost balance, which is the gross carrying amount adjusted for any loss allowance. An entity that uses the net method is required to revert to the gross method if (1) the credit risk of the financial instrument subsequently improves to the extent that the financial asset is no longer credit impaired and (2) the improvement is objectively related to an event that occurred after the net method was applied (see IFRS 9:5.4.2).

IFRS 9 defines a credit-impaired financial asset as follows:

“A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

A. significant financial difficulty of the issuer or the borrower;

B. a breach of contract, such as a default or past due event;

C. the lender(s) of the borrower, for economic or contractual reasons relating to the borrower’s financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

D. it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

E. the disappearance of an active market for that financial asset because of financial difficulties; or

F. the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.”

Comments

© Deloitte LLP. All rights reserved.

26A.4	**Does the entity apply the effective interest method as a method for the calculation of interest for its investment in debt securities?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
The effective interest rate is computed on the basis of contractual cash flows over the contractual term of the loan, with certain exceptions depending on the specific characteristics of a debt security, such as whether the debt security (1) is part of a group of prepayable debt securities, (2) is a beneficial interest in securitised financial assets or (3) is prepayable by the issuer and has a stated interest rate that increases over time.	The effective interest rate is computed on the basis of estimated cash flows that the entity expects to receive over the expected life of the financial asset. The method used to calculate interest revenue depends on whether the financial asset (1) is purchased or originated credit-impaired or (2) has subsequently become credit impaired.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, an entity typically recognises interest income on investments in debt securities accounted for at amortised cost or FVTOCI in accordance with ASC 310-20-35-18 and ASC 310-20-35-26 by applying the effective interest method on the basis of the contractual cash flows of the security. An entity should not anticipate prepayments of principal. However, the following are exceptions to this method of recognising interest income:

- If a debt security is part of a pool of prepayable financial assets and the timing and amount of prepayments are reasonably estimable, an entity is allowed to anticipate future principal prepayments when determining the appropriate effective interest rate to apply to the debt security under ASC 310-20-35-26.If an investment in a debt security is considered a structured note but does not contain an embedded derivative that must be separated under ASC 815, the interest method articulated in ASC 320-10-35-40, which is based on estimated rather than contractual cash flows, must be applied.
- If an investment in a debt security to which the interest method in ASC 310-20-35-18(a) applies has a stated interest rate that increases during the term such that "interest accrued under the interest method in early periods would exceed interest at the stated rate . . . , interest income shall not be recognized to the extent that the net investment . . . would increase to an amount greater than the amount at which the borrower could settle the obligation." Thus, a limit on the accrual of interest income applies to certain investments in debt securities that have a stepped interest rate and contain a borrower prepayment option or issuer call option.

Under IFRS Standards, IFRS 9, an entity calculates interest revenue on financial assets accounted for at amortised cost or FVTOCI by applying the effective interest method. Appendix A of IFRS 9 defines the effective interest rate of a financial asset or liability as the "rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability". Therefore, the effective interest method in IFRS 9, unlike that in ASC 310-20, requires an entity to compute the effective interest rate on the basis of the estimated cash flows over the expected life of the instrument by considering all contractual terms (e.g. prepayment, extension, call, and similar options) but not expected credit losses. Under IFRS Standards, there is no limit on the accrual of interest income for investments in debt securities that have a stepped interest rate and contain a borrower prepayment option or issuer call option. Further, in its definition of an effective interest rate, IFRS 9 states that in rare cases in which it is not possible to reliably estimate the cash flows or the expected life of the financial instrument, an entity should "use the contractual cash flows over the full contractual term."

The application of the effective interest method depends on whether the financial asset is purchased or originated credit-impaired or on whether it became credit-impaired after initial recognition. When recognising interest revenue related to purchased or originated credit-impaired financial assets under IFRS 9, an entity applies a credit-adjusted effective interest rate to the amortised cost of the financial asset. The calculation of the credit-adjusted interest rate is consistent with that of the effective interest rate, except that the calculation of the credit-adjusted interest rate takes into account expected credit losses within the expected cash flows.

© Deloitte LLP. All rights reserved.

For a financial asset that is not purchased or originated credit-impaired, IFRS 9:5.4.1 requires an entity to calculate interest revenue as follows:

- Gross method — If the financial asset has not become credit-impaired since initial recognition, the entity applies the effective interest rate to the gross carrying amount. Appendix A of IFRS 9 defines the gross carrying amount as the "amortised cost of a financial asset, before adjusting for any loss allowance.
- Net method — If the financial asset has subsequently become credit-impaired, the entity applies the effective interest rate to the amortised cost balance, which is the gross carrying amount adjusted for any loss allowance.

An entity that uses the net method is required to revert to the gross method if (1) the credit risk of the financial instrument subsequently improves to the extent that the financial asset is no longer credit-impaired and (2) the improvement is objectively related to an event that occurred after the net method was applied (see IFRS 9:5.4.2).

Comments

26A.5	**Has the entity revised its estimate of future cash flows for its investment in debt securities?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Recognition of changes in expected future cash flows of an investment in a debt security depends on the characteristics of the debt security and the effective interest method applied.	If estimated receipts are revised (other than as a result of changes in the market rates of a floating-rate instrument), the carrying amount is adjusted to the present value of the future estimated cash flows, discounted at the financial asset's original effective interest rate (cumulative catch-up approach). The resulting adjustment is recognised within profit or loss.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, interest income on investments in debt securities accounted for at amortised cost is typically recognised by applying the effective interest method on the basis of the contractual cash flows of the security, as discussed above. Under ASC 310-20-35-18(c), if the stated interest rate varies on the basis of future changes in an independent factor (e.g., LIBOR), the effective interest rate used to amortise fees and costs is "based either on the factor . . . that is in effect at the inception of the loan or on the factor as it changes over the life of the loan." For investments in debt securities for which recognition of interest income is based on estimated rather than contractual cash flows, there are several methods for recognising changes in estimated cash flows, depending on the type of the security:

- If an entity anticipates estimated prepayments when measuring interest income of an investment in a debt security that is part of a pool of prepayable financial assets in accordance with ASC 310-20-35-26, the entity must continually recalculate the appropriate effective yield as prepayment assumptions change. That is, if the estimated future cash flows of a debt security change, the effective yield of the debt security must be recalculated to take into account the new prepayment assumptions. The adjustment to the interest method under ASC 310-20 must be retrospectively applied to the debt security. That is, the amortised cost of the debt security is adjusted to reflect what it would have been had the new effective yield been used since the acquisition of the debt security with a corresponding charge or credit to current period earnings.
- When recognising interest income on purchased financial assets with credit deterioration, an entity shall not recognise as interest income the discount embedded in the purchase price that is attributable to the acquirer's assessment of expected credit losses at the date of acquisition. The entity shall accrete or amortise as interest income the non-credit-related discount or premium of a purchased financial asset with credit deterioration.
- If an investment in a debt security is a structured note within the scope of ASC 320-10-35-38, an entity must retrospectively recalculate the amount of accretable yield for the debt security on the basis of the current

© Deloitte LLP. All rights reserved.

estimated future cash flows as of the reporting date. However, if the recalculated effective yield is negative, a zero percent effective yield is used instead.

Under IFRS Standards, IFRS 9:B5.4.5 to IFRS 9:B5.4.6 provide guidance on when an entity should recalculate the effective interest rate.

- For floating-rate instruments that pay a market-rate of interest, IFRS 9:B5.4.5 specifies that the "periodic re-estimation of cash flows to reflect the movements in the market rates of interest alters the effective interest rate." However, IFRS 9:B5.4.5 further notes that for such floating-rate financial instruments, "re-estimating the future interest payments normally has no significant effect on the carrying amount of the asset or the liability" if the asset or liability was initially recognised at an amount that equals the principal receivable.
- For other instruments and for revisions of estimates, IFRS 9:B5.4.6 usually requires an entity to recalculate the gross carrying amount of the financial asset "as the present value of the estimated future contractual cash flows that are discounted at the financial instrument's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets)." The resulting "catch-up" adjustment to the carrying amount of the financial asset is recognised immediately in profit or loss. This catch-up approach of recognising changes in estimated cash flows is different from both the prospective and retrospective approaches used under U.S. GAAP.

Comments

26A.6	**Has the entity originated loans or receivables that are not accounted for at FVTPL?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Certain non-incremental internal costs related to loan origination are deferred and recognised in earnings as a reduction in yield (or interest) over the life of the loan.	The definition of transaction costs under IFRS Standards, which may be deferred if they are related to the loan origination, does not include non-incremental costs (whether internal or external).

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 310-20-35-2 indicates that direct loan origination costs are deferred and "recognized over the life of the loan as an adjustment of yield (interest income)." ASC 310-20-20 defines direct loan origination costs as follows:

"Direct loan origination costs of a completed loan shall include only the following:

A. Incremental direct costs of loan origination incurred in transactions with independent third parties for that loan.
B. Certain costs directly related to specified activities performed by the lender for that loan. Those activities include all of the following:
   1. Evaluating the prospective borrower's financial condition
   2. Evaluating and recording guarantees, collateral, and other security arrangements
   3. Negotiating loan terms
   4. Preparing and processing loan documents
   5. Closing the transaction.

The costs directly related to those activities shall include only that portion of the employees' total compensation and payroll-related fringe benefits directly related to time spent performing those activities for that loan and other costs related to those activities that would not have been incurred but for that loan."

Under IFRS Standards, IFRS 9 defines transaction costs as incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or a financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

© Deloitte LLP. All rights reserved.

Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and security exchanges, and transfer taxes and duties. However, debt premiums or discounts, financing costs, internal administrative costs and holding costs are not transaction costs.

Comments

26A.7	Is the entity amortising debt issuance costs over a period shorter than the contractual term?	Yes No

U.S. GAAP	IFRS Standards
Issuance costs affect the effective yield over the contractual term of the debt.	Issuance costs affect the effective yield over the expected life of the debt unless they specifically apply to a shorter period.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, fees and direct loan issuance costs are deferred and recognised over the contractual term of the loan through the application of the interest method (or, in the case of increasing-rate debt, its expected life).

Under IFRS Standards, IFRS 9:B5.4.4 provides that the definition of the effective interest rate requires the amortisation of premiums/discounts, fees, points paid or received and transaction costs (those that are taken into account in calculating the effective rate) over "the expected life of the financial instrument or, when appropriate, a shorter period". A shorter period will be appropriate if it is the period to which the relevant premiums/discounts, fees, points paid or received or transaction costs relate.

Comments

26A.8	Does the entity hold beneficial interests in securitised financial assets (e.g., mortgage-backed securities or collateralised debt obligations)?	Yes No

U.S. GAAP	IFRS Standards
Specific rules in ASC 325-40 and ASC 860, regarding recognition of interest revenue and impairments must be applied.	No special rules related to recognition of interest revenue or impairments apply to such assets.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, if upon evaluation of a beneficial interest within the scope of ASC 325-40, there is a favourable (or an adverse) change in cash flows expected to be collected from the cash flows previously projected, then the investor shall recalculate the amount of accretable yield for the beneficial interest on the date of evaluation as the excess of cash flows expected to be collected over the beneficial interest's reference amount. The reference amount is equal to the initial investment minus cash received to date minus other-than-temporary impairments recognised in earnings to date (as described in ASC 325-40-35-4(b)) plus the yield accreted to date.

Under IFRS Standards, there are no special rules regarding recognition of interest or impairments on beneficial interests in securitised financial assets. Instead the general requirements apply.

© Deloitte LLP. All rights reserved.

Comments

26A.9	Does the entity have short-term receivables and payables with no stated interest rate?	Yes No

U.S. GAAP	IFRS Standards
Trade receivables and payables maturing less than one year are not required to be discounted irrespective of the materiality.	For short-term receivables and payables with no stated interest rate, interest is not required to be imputed when the impact of discounting would be immaterial.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 835-30-15-3 states that presentation of discount and premium in the financial statements, which is applicable in all circumstances, and the guidance in ASC 835-30-55-2 through 55-3 regarding the application of the interest method, the guidance in this Subtopic does not apply to receivables and payables arising from transactions with customers or suppliers in the normal course of business that are due in customary trade terms not exceeding approximately one year.

Under IFRS 13:BC138A, short-term receivables and payables with no stated interest rate may be measured at invoice amounts without discounting, when the effect of not discounting is immaterial. This aligns with IAS 8:8, which states that "IFRSs set out accounting policies that the IASB has concluded result in financial statements containing relevant and reliable information about the transactions, other events and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial." IFRS 15, Revenue from Contracts with Customers, also provides a practical expedient in paragraph 63 that "an entity need not adjust the promised amount of consideration for the effects of a significant financing component if the entity expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less."

Comments

Part B — Borrowing Costs

Overview

Both U.S. GAAP and IFRS Standards contain provisions for capitalising certain costs associated with the financing of a qualifying asset as part of the asset's cost; however, the two sets of standards differ on which costs qualify for capitalisation and on the definition of a qualifying asset.

See Question 17.3 for a potential difference in the classification of cash flows for borrowing costs.

Recently issued standards not yet reflected in this Section

None.

Primary authoritative guidance

- ASC 835-20, Interest: Capitalization of Interest
- IAS 23, Borrowing Costs

© Deloitte LLP. All rights reserved.

26B.1 Does the entity hold assets whose preparation for their intended use will take time (including investments in equity method investees with such activities)?

Yes

No

Examples are assets that an entity constructs for its own use (e.g., facilities) and assets intended for sale or lease that are constructed as discrete projects (e.g., ships or real estate projects). Assets qualifying for interest capitalisation are herein referred to as “qualifying assets.”

U.S. GAAP

The definition of a qualifying asset is restricted to (1) assets that are constructed or otherwise produced or (2) investments in entities with such activities.

Interest costs on certain equity method investments may be capitalised. Qualifying assets under U.S. GAAP include:

- Assets that are constructed or produced for an entity’s own use.
- Assets intended for sale or lease that are constructed or produced as discrete projects (e.g., a building or a ship).
- Investments accounted for under the equity method 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.

IFRS Standards

The definition of a qualifying asset is generic and depends on whether time for completion is expected to be substantial.

Capitalisation of interest costs on equity method investments is not permitted.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 835-20-15-5 discusses qualifying assets, stating:

“Interest shall be capitalized for the following types of assets (qualifying assets):

A. Assets that are constructed or otherwise produced for an entity’s own use, including assets constructed or produced for the entity by others for which deposits or progress payments have been made.

B. Assets intended for sale or lease that are constructed or otherwise produced as discrete projects (for example, ships or real estate developments).

C. Investments (equity, loans, and advances) accounted for by the equity method 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 the purposes of interest capitalization.”

Under IFRS Standards, IAS 23:5 defines a qualifying asset as “an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.” Unlike the guidance in ASC 835-20, under IFRS Standards there is no requirement that assets intended for sale or lease be produced as “discrete projects” to be considered qualifying assets.

IAS 23:7 excludes financial assets from the definition of a qualifying asset. Therefore capitalisation of interest costs on equity method investments is not permitted.

Consequently, there may be assets that are considered qualifying assets under U.S. GAAP but not under IFRS Standards, and vice versa.

Comments

© Deloitte LLP. All rights reserved.

26B.2	**Has the entity incurred interest costs (or borrowing costs) that are directly attributable to the acquisition, construction, or production of a qualifying asset?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Interest costs must be capitalised for qualifying assets.	Borrowing costs must be capitalised for qualifying assets but more items qualify as borrowing costs under IFRS Standards.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 835-20 indicates that interest must be capitalised for qualifying assets during the capitalisation period (see ASC 835-20-25-2 through 25-7). IAS 23 requires capitalisation of “borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.”

The scope of costs that are eligible for capitalisation under U.S. GAAP is narrower than that under IFRS Standards. Under U.S. GAAP, only interest costs are eligible for capitalisation. Under ASC 835-20-20, the definition of “interest cost” includes “interest recognized on obligations having explicit interest rates, interest imputed on certain types of payables in accordance with Subtopic 835-30 and interest related to a finance lease determined in accordance with Topic 842. With respect to obligations having explicit interest rates, interest cost includes amounts resulting from periodic amortization of discount or premium and issue costs on debt.”

Under IFRS Standards, IAS 23:5 defines “borrowing costs” as “interest and other costs that an entity incurs in connection with the borrowing of funds.” IAS 23:6 states:

“Borrowing costs may include:

A. interest expense calculated using the effective interest rate method as described in IFRS 9.

B. interest in respect of lease liabilities recognised in accordance with IFRS 16 Leases; and

C. exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.”

See also Question 26B.3.

Consequently, certain costs may be eligible for capitalisation under IFRS Standards but not under U.S. GAAP.

Comments

26B.3	**Has the entity incurred exchange differences on foreign currency borrowings obtained to acquire a qualifying asset?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Exchange differences on foreign currency borrowings are not subject to capitalisation.	Exchange differences on foreign currency borrowings must be capitalised. However, the exchange difference adjustment should not exceed the difference between the interest rates on local and outside-market borrowings.

U.S. GAAP–IFRS Standards difference considerations

Question 26B.2 discusses the definition of capitalisable costs under U.S. GAAP (i.e. interest costs) and under IFRS Standards (i.e. borrowing costs). Under the U.S. GAAP definition, foreign exchange gains and losses are not considered a component of interest costs and therefore are not capitalised under ASC 835-20.

IFRS Standards require the capitalisation of exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. Entities commonly borrow funds in a stronger currency at lower interest rates as a substitute for borrowing locally in a soft currency with a higher interest rate. Under IFRS Standards, this exchange difference should be seen as a borrowing cost and should be treated as an

© Deloitte LLP. All rights reserved.

adjustment to interest costs. The resulting exchange difference should be capitalised as part of borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.

Comments

26B.4	**Has the entity incurred derivative gains and losses arising from the effective portion of a derivative instrument that qualifies as a fair value hedge of a loan related to a qualifying asset?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Derivative gains and losses arising from the effective portion of a derivative instrument that qualifies as a fair value hedge are part of the capitalised interest cost.	Guidance is not provided.

U.S. GAAP–IFRS Standards difference considerations

Question 26B.2 discusses the definition of capitalisable costs under U.S. GAAP (i.e. interest costs) and IFRS Standards (i.e. borrowing costs). As Question 26B.2 points out, IFRS Standards broadly define borrowing costs, while under U.S. GAAP only the capitalisation of interest costs is allowed.

According to ASC 815-25, Derivatives and Hedging: Fair Value Hedges, derivative gains and losses on the effective portion of a derivative instrument that qualifies as a fair value hedge of a loan related to a qualifying asset are part of capitalised interest cost under ASC 835-20. Specifically, ASC 815-25-35-14 and ASC 815-25-55-52 provide guidance on the appropriate interest rate to be used in capitalising interest related to fixed-rate debt designated as the hedged item in a fair value hedge.

Under IFRS Standards, IAS 23 does not address such derivative gains and losses (see IAS 23:BC21), and therefore the accounting may differ under U.S. GAAP and IFRS Standards.

Comments

26B.5	**Did the entity borrow funds specifically to obtain a qualifying asset?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
An entity may opt to use the rate on a borrowing as (1) the capitalisation rate or (2) the rate applicable to all borrowings outstanding during the period.	An entity must capitalise the actual borrowing costs incurred on a borrowing.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 835-20-30-3 discusses the amount of interest cost to be capitalised and states that it should "be determined by applying the capitalization rate to the average amount of accumulated expenditures for the asset during the period." If the entity entered into a borrowing specifically for the qualifying asset, the entity "may use the rate on that [specific] borrowing as the capitalization rate" to the extent that the accumulated expenditures for the asset do not exceed the total borrowing amount. ASC 835-20-30-3 indicates that if the average accumulated expenditures exceed the total amount of that borrowing, "the capitalization rate to be applied to such excess shall be a weighted average of the rates applicable to other borrowings of the entity." ASC 835-20-30-4 states, "In identifying the borrowings to be included in the weighted average rate, the objective is a reasonable measure of the cost of financing acquisition of the asset in terms of the interest cost incurred that otherwise could have been avoided.

© Deloitte LLP. All rights reserved.

Accordingly, judgment will be required to make a selection of borrowings that best accomplishes that objective in the circumstances".

Under IFRS Standards, IAS 23:12 states that, to the extent that funds are borrowed specifically to obtain a qualifying asset, the actual borrowing costs incurred on that borrowing are required to be capitalised. See Question 26B.7 for a discussion of the treatment of income earned on the temporary investment of borrowings for qualifying assets.

Comments

26B.6	**Did the entity borrow funds generally and use them to obtain a qualifying asset or assets?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Entities must use judgment in selecting borrowings to be included in the calculation of the capitalisation rate.	All outstanding borrowings, other than borrowings made specifically to obtain a qualifying asset, must be included in the determination of the capitalisation rate. If an entity has any outstanding specific borrowing, after the related asset is ready for its intended use or sale, then such borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

U.S. GAAP–IFRS Standards difference considerations

See Question 26B.5 for the U.S. GAAP guidance on calculation of the capitalisation rate.

IFRS Standards allow some flexibility in determining the capitalisation rate; however, IAS 23:14 states that an entity must use all outstanding borrowings "other than borrowings made specifically for the purpose of obtaining a qualifying asset."

In addition, it states:

"To the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to all borrowings of the entity that are outstanding during the period. However, an entity shall exclude from this calculation borrowing costs applicable to borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete. The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period."

Comments

26B.7	**Did the entity earn income on the temporary investment of the proceeds of borrowings obtained specifically to acquire a qualifying asset?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Income earned on the temporary investment of actual borrowings is generally not offset against the actual interest costs to be capitalised unless particular tax-exempt borrowings are involved.	Income earned on the temporary investment of actual borrowings is offset against the actual borrowing costs to be capitalised.

© Deloitte LLP. All rights reserved.

U.S. GAAP–IFRS Standards difference considerations

Financing arrangements for a qualifying asset may result in an entity's obtaining borrowed funds and incurring associated borrowing costs before some or all of the funds are used for expenditures on the qualifying asset. In such circumstances, the funds are often temporarily invested pending their expenditure on the qualifying asset.

Under U.S. GAAP, income earned on the temporary investment of actual borrowings is not generally deducted from the amount of borrowing costs to be capitalised. ASC 835-20-30-8 notes the exception to this general rule: "If qualifying assets are financed with the proceeds of tax-exempt borrowings and those funds are externally restricted to the acquisition of specified qualifying assets or to service the related debt, the amount of interest cost capitalized shall be determined in accordance with paragraphs 835-20-30-10 through 30-12."

Under IFRS Standards, IAS 23:12 states, "To the extent that an entity borrows funds specifically for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings."

Comments

26B.8	Does the entity have qualifying assets acquired with gifts or grants that are restricted by the donor or grantor?	Yes No

U.S. GAAP	IFRS Standards
Capitalisation of interest costs on assets acquired with gifts or grants that are restricted is prohibited.	Guidance is not provided.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 835-20-15-6(f) states that interest shall not be capitalised for "assets acquired with gifts and grants that are restricted by the donor or grantor to acquisition of those assets to the extent that funds are available from such gifts and grants. Interest earned from temporary investment of those funds that is similarly restricted shall be considered an addition to the gift or grant for this purpose."

Because such assets are not addressed under IFRS Standards, the accounting treatment may differ under U.S. GAAP and IFRS Standards.

Comments

© Deloitte LLP. All rights reserved.

Section 27: Leases

27. Leases

Overview

Both ASC 842, Leases and IFRS 16, Leases provide detailed guidance on identifying whether an arrangement contains a lease, how to account for leases at commencement and throughout the lease term, as well as presentation and disclosure requirements. The guidance is similar between the two standards, but with certain differences and scope exceptions.

Definition of a lease

The definition of a lease is consistent between the standards, with the main difference being the specification of the leased asset as property, plant, or equipment under U.S. GAAP.

Effective date

Under U.S. GAAP, public entities are required to adopt ASC 842 for annual periods, and interim periods within those annual periods, beginning after 15 December 2018. All preparers under IFRS Standards are required to adopt IFRS 16 for annual reporting periods beginning on or after 1 January 2019.

Transition options

IFRS 16 provides entities with the option of a full retrospective approach, under which entities restate comparative periods, and a modified retrospective approach, under which entities do not restate comparative periods but recognise a cumulative adjustment to retained earnings as of the date of adoption. ASC 842 requires a modified retrospective approach, but entities may elect to apply the transition approach either as of the beginning of the earliest period presented in the financial statements, in which case it would restate its comparative periods, or as of the beginning of the period of adoption, in which case it would not restate its comparative periods.

Scope exceptions

Both standards include short-term lease exemptions (leases with a term of 12 months or less). However, each standard includes certain caveats to applying this exemption. Additionally, IFRS 16 includes an exemption for lessees in terms of recognition and measurement of low value leased assets, whereas ASC 842 includes no such exemption.

Lessee accounting

Lease classification

U.S. GAAP requires classification as operating leases or finance leases for lessees, which is relevant for determining the timing of recognition and presentation on the income statement, while IFRS Standards contain one classification (effectively finance leases) for lessees.

Initial accounting

Both standards require lessees to record a right-of-use ("ROU") asset (representing the right to use the underlying asset) and a corresponding lease liability (representing lease payments to be made in the future) at lease commencement, but with a slight difference in the definition of the incremental borrowing rate used to discount the lease liability.

Subsequent accounting

Under both standards the ROU asset is amortised and interest expense is recognised on the lease liability. Under U.S. GAAP for a finance lease, the ROU asset is generally amortised on a straight-line basis. This amortisation, when combined with the interest on the lease liability, results in a front-loaded expense profile. Interest and amortisation are presented separately in the income statement. Under U.S. GAAP for an operating lease, the total lease expense is recognised on a straight-line basis (as the interest expense is generally declining over the lease term amortisation of the ROU asset is increasing over the lease term to provide a constant expense profile). Under IFRS Standards, there is a single accounting model. The ROU asset is generally amortised on a straight-line basis. This amortisation, when combined with the interest on the lease liability, results in a front-loaded expense profile. That is, the single lessee accounting model under IFRS 16 is similar to that of a finance lease under ASC 842. Under IFRS 16 and a finance lease

© Deloitte LLP. All rights reserved.

under U.S. GAAP, interest expense on the lease liability and amortisation of the ROU asset are presented separately in the income statement whereas for an operating lease under U.S. GAAP rent expense is presented in a single line item.

Lessor accounting

Lease classification

U.S. GAAP requires classification as operating leases or finance leases, further classified as sales-type leases or direct-financing leases for lessors, while IFRS Standards require finance lease and operating lease classifications for lessors.

Initial accounting

For a finance lease under both standards, lessors are required to derecognise the underlying asset and record a net investment in the lease. Both U.S. GAAP (for certain sales-type leases) and IFRS Standards also permit profit to be recognised at lease commencement. There is additional guidance applicable for lessors in accounting for sale and leaseback transactions. For an operating lease under U.S. GAAP and IFRS Standards, the underlying asset that is subject to the lease continues to be recognised by the lessor and depreciated over its useful life.

Subsequent accounting

For a finance lease under both IFRS Standards and U.S. GAAP, a lessor shall measure the net investment in the lease by increasing the carrying amount to reflect the interest income on the net investment in the lease and reducing the carrying amount to reflect the lease payments collected during the period. For an operating lease under U.S GAAP and IFRS Standards, the underlying asset that is subject to the lease continues to be recognised by the lessor and depreciated over its useful life. Lease income is recognised 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.

Recently issued standards not yet reflected in this Section

Effective date of ASC 842

In November 2019, the FASB issued ASU 2019-10 that defers the effective date of ASC 842 by one year for entities other than public business entities, not-for-profit entities that are conduit bond obligors and employee benefit plans that file or furnish financial statements with or to the SEC. In June 2020, the FASB further issued ASU 2020-05, which amends the effective dates of ASC 842 to give immediate relief to certain entities as a result of the widespread adverse economic effects and business disruptions caused by the coronavirus disease 2019 (COVID-19) pandemic. The following table shows the leasing standard's effective dates (1) as originally issued, (2) as amended by ASU 2019-10, and (3) as amended by ASU 2020-05.

	Public entities	Public not-for-profit entities	All other entities
As originally issued (ASU 2016-02)	Fiscal years beginning after 15 December 2018, and interim periods therein	Fiscal years beginning after 15 December 2018, and interim periods therein	Fiscal years beginning after 15 December 2019, and interim periods within fiscal years beginning after 15 December 2020.
As amended by ASU 2019-10	No changes	No changes	Fiscal years beginning after 15 December 2020, and interim periods within fiscal years beginning after 15 December 2021.
As amended by ASU 2020-05	No changes	Fiscal years beginning after 15 December 2019, and interim periods therein	Fiscal years beginning after 15 December 2021, and interim periods within fiscal years beginning after 15 December 2022.

Lease/rent concessions (Impacts Questions 27.B.7 and 27.C.4)

On 10 April 2020, the FASB issued a staff Q&A (the "Staff Q&A") to provide guidance on its remarks at the 8 April Board meeting about accounting for rent concessions resulting from the COVID-19 pandemic. Specifically, the Staff Q&A affirms the discussion at the 8 April meeting by allowing entities to forgo performing the lease-by-lease legal analysis to determine whether contractual provisions in an existing lease agreement provide enforceable rights and

© Deloitte LLP. All rights reserved.

obligations related to lease concessions as long as the concessions are related to COVID-19 and the changes to the lease do not result in a substantial increase in the rights of the lessor or the obligations of the lessee. In addition, the Staff Q&A affirms that entities may make an election to account for eligible concessions, regardless of their form, either by (1) applying the modification framework for these concessions in accordance with ASC 840 or ASC 842 as applicable or (2) accounting for the concessions as if they were made under the enforceable rights included in the original agreement and are thus outside of the modification framework.

However, the staff observed that the election not to apply modification accounting is only available when total cash flows resulting from the modified contract are “substantially the same or less” than the cash flows in the original contract. The FASB did not define “substantially the same” but expects companies to apply reasonable judgment in such situations. Further, the Board emphasised that clear and concise disclosure of the accounting policy election remains integral to allow stakeholders to understand the election chosen and the resulting financial reporting implications. Finally, we understand, on the basis of discussions with the SEC staff, that the staff would not object if an entity treats “forgiveness or deferrals” either as a contract modification or as if the concession was made under the enforceable rights included in the original agreement. In a manner similar to the FASB, the SEC would limit this option to activity that is both directly related to COVID-19 and does not result in a substantive increase in the remaining contract consideration.

In April 2020, the IASB issued an educational note that provides guidance on the accounting for COVID-19 related rent concessions under IFRS 16. While this educational note was issued before the IASB amended IFRS 16 in May 2020 to provide a practical expedient for lessees in accounting for COVID-19 related rent concessions, it may be useful to lessees that choose not to apply the practical expedient, to lessees after the practical expedient expires or to lessors. This educational note addresses when a change in lease payments is considered to be a lease modification, how a lessee and lessor might account for changes in payments that are not lease modifications, accounting by lessees for partial lease liability extinguishments, how rent concessions may give rise to impairments of non-financial assets under IAS 36 as well as disclosure considerations.

In May 2020, the IASB issued an amendment to IFRS 16, which exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. It applies to rent concessions that occur as a direct consequence of the COVID-19 pandemic and meet the following three conditions:(1) 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 (2) any reduction in lease payments affects only payments originally due on or before 30 June 2021, and (3) there is no substantive change to the other terms and conditions of the lease. The amendment is effective 1 June 2020 but, to ensure the relief is available when needed most, lessees can apply the amendment immediately in any financial statements—interim or annual—not yet authorised for issue at 28 May 2020.

There are differences in the concessions that the FASB and IASB have provided and in particular the IASB only provided relief for lessees whereas the FASB relief covers both lessees and lessors.

Primary authoritative guidance

- ASC 842, Leases
- IFRS 16, Leases

© Deloitte LLP. All rights reserved.

Part A — Overall

27A.1 Has the entity entered into a contract that is considered as a lease?	Yes No

U.S. GAAP	IFRS Standards
Lease accounting is applicable to contracts that convey the right to control the use of identified property, plant and equipment, subject to limited scope exceptions.	Lease accounting is applicable to contracts that give the right to control the use of identified assets (not limited to property, plant and equipment), subject to limited scope exceptions.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 842-10-15-3 provides that a contract is or contains a lease if that contract conveys the right to control the use of identified property, plant, or equipment (i.e. an identified asset) for a period of time in exchange for consideration. Per ASC 842-10-15-1, the following leases are not covered by ASC 842 and reference to other topics is to be made for the measurement of these transactions:

A. Leases of intangible assets;

B. Leases to explore for or use minerals, oil, natural gas, and similar non-regenerative resources;

C. Leases of biological assets, including timber;

D. Leases of inventory; and

E. Leases of assets under construction.

Additionally, although not mentioned in ASC 842, service concession arrangements are not in the scope of the lease standard.

Under IFRS Standards, IFRS 16:9 provides that a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Per IFRS 16:3 and 16:4, an entity shall apply guidance under IFRS 16 to all lease contracts, including a lease of a ROU asset in a sublease, except for:

A. Leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources;

B. Leases of biological assets within the scope of IAS 41, Agriculture held by lessees;

C. Service concession arrangements within the scope of IFRIC 12, Service Concession Arrangements;

D. Licenses of intellectual property granted by a lessor within the scope of IFRS 15 Revenue from Contracts with Customers; and

E. Rights held by lessees under licensing agreements within the scope of IAS 38 Intangible Assets for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

Lessees may, but are not required to, apply IFRS 16 to leases of intangible assets other than those described in (e) above.

Based on the above, reporters under IFRS Standards could have leases under other asset classes (e.g., intangibles) that are excluded from the scope of ASC 842.

Comments

© Deloitte LLP. All rights reserved.

Part B — Lessees

27B.1	Has the reporting entity entered into leasing arrangements with a lease term of 12 months or less, having a purchase option or whose lease term has been modified?	Yes No

U.S. GAAP	IFRS Standards
A short-term lease is defined as a lease that, at the commencement date, has a term of 12 months or less and does not include an option to purchase the underlying asset that the lessee is reasonably certain to exercise. A lease will no longer meet the definition of a short-term lease if either due to a modification or a reassessment event resulting from occurrence of certain discrete events or changes in circumstances within the lessee's control, (1) the lease term changes and the change causes the remaining term to extend more than 12 months beyond the end of the previously determined lease term, or (2) the lessee now concludes that the lessee's exercise of a purchase option is reasonably certain.	Leases with a term of 12 months or less do not qualify as a short-term lease if they include a purchase option, regardless of the likelihood of exercising the option. A lessee applying the short-term lease exception should consider the lease to be a new lease if there is a lease modification or there is any change in the lease term (e.g. the lessee exercises an option not previously included in its determination of the lease term).

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, a short-term lease is defined as a lease with a term of 12 months or less that does not include a purchase option that the lessee is reasonably certain to exercise. As an accounting policy election a lessee may elect not to apply ASC 842 to short-term leases. ASC 842-20-25-3 provides that if the lease term or the assessment of a lessee option to purchase the underlying asset changes such that, after the change, the remaining lease term extends more than 12 months from the end of the previously determined lease term or the lessee is reasonably certain to exercise its option to purchase the underlying asset, the lease no longer meets the definition of a short-term lease and the lessee shall apply the remainder of the guidance in ASC 842 as if the date of the change in circumstances is the commencement date.

Under IFRS Standards, one of the prerequisites for leases to be classified as a short-term lease is that the lease should not contain a purchase option. Leases that contain a purchase option cannot qualify as a short-term lease irrespective of the likelihood of the purchase option being exercised even if the lease term is 12 months or less.

Further IFRS 16:7 provides that if a lessee accounts for short-term leases applying the recognition exemption, where there is a lease modification or a change in the lease term, the lessee shall consider the lease to be a new lease for the purposes of IFRS 16.

Comments

27B.2	Has the lessee entered into lease contracts where the value of the leased asset is low?	Yes No

U.S. GAAP	IFRS Standards
There is no exemption from ASC 842 for lessees in terms of the recognition and measurement of low value leased assets.	There is an exemption for lessees in terms of recognition and measurement of low value leased assets (defined as US$5,000 or less).

© Deloitte LLP. All rights reserved.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, there is no exemption for lessees in terms of recognition and measurement of low value leased assets. However, the FASB believes that an entity will be able to adopt a reasonable capitalisation policy based on materiality.

Under IFRS Standards, IFRS 16:5 provides that lessees may elect, on a lease by lease basis, not to apply the requirements in IFRS 16:22-49 (i.e. primarily the recognition, measurement and presentation requirements) to :

A. short-term leases (see Question 27B.1); and

B. leases for which the underlying asset is of low value (as described in IFRS 16:B3–B8).

IFRS 16:B3-B8 provides that lessees shall assess the value of an underlying asset based on the value of the asset when it is new, regardless of the age of the asset being leased. An underlying asset can be of low value only if:

A. 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

B. the underlying asset is not highly dependent on, or highly interrelated with, other assets.

IFRS 16:BC100 states that "The IASB intended the exemption to apply to leases for which the underlying asset, when new, is of low value (such as leases of tablet and personal computers, small items of office furniture and telephones). At the time of reaching decisions about the exemption in 2015, the IASB had in mind leases of underlying assets with a value, when new, in the order of magnitude of US$5,000 or less. A lease will not qualify for the exemption if the nature of the underlying asset is such that, when new, its value is typically not low."

Comments

27B.3	**Does the entity (lessee) have leases that qualify as operating leases under U.S. GAAP?**	**Yes** **No**

U.S. GAAP

All leases other than those qualifying as finance leases are classified as operating leases by the lessee.

For operating leases, the lease expense generally results in a straight-line expense profile that is presented as a single line in the income statement. As interest on the lease liability is generally declining over the lease term, amortisation of the ROU asset increases over the lease term to provide a constant expense profile.

IFRS Standards

Lessees apply a single accounting model for all leases resulting in a lease liability and a ROU asset, similar to the accounting for a finance lease under U.S. GAAP.

The ROU asset is generally amortised on a straight-line basis. This amortisation, when combined with the interest on the lease liability, results in a front-loaded expense profile.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 842-10-25-2, lessees shall classify a lease as a finance lease when the lease meets any of the following criteria at the lease commencement date:

A. The lease transfers ownership of the underlying asset to the lessee by the end of the lease term;

B. The lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise;

C. The lease term is for the major part of the remaining economic life of the underlying asset. However, if the commencement date falls at or near the end of the economic life of the underlying asset, this criterion shall not be used for purposes of classifying the lease;

D. The present value of the sum of the lease payments and any residual value guaranteed by the lessee that is not already reflected in the lease payments in accordance with ASC 842-10-30-5(f) ("For a lessee only, amounts probable of being owed by the lessee under residual value guarantees") equals or exceeds substantially all of the fair value of the underlying asset; or

© Deloitte LLP. All rights reserved.

E. The underlying asset is of such a specialised nature that it is expected to have no alternative use to the lessor at the end of the lease term.

ASC 842-10-25-3 provides that when none of the criteria specified above are met, lessees shall classify the lease as an operating lease.

Under U.S. GAAP for operating leases, the lessee records the lease expense (i.e. interest expense on lease liability and amortisation of ROU asset) as a single line item of expense in the income statement generally on a straight-line basis.

Under IFRS Standards, there is a single model for lessees' classification of leases. Per IFRS 16:22, at the commencement date the lessee shall recognise a ROU asset and a corresponding lease liability initially measured according to IFRS 16:23 through 16.28. The single lessee accounting model under IFRS 16 is similar to that of a finance lease under ASC 842. Interest expense on the lease liability and amortisation of the ROU asset are presented separately in the income statement and the aggregate expense is front-loaded compared to a straight-line basis.

This different expense classification means that earnings before interest, taxes, depreciation, and amortisation ("EBITDA") reported under U.S. GAAP will be different to that reported under IFRS Standards.

Comments

27B.4 Does the lessee have a lease containing variable lease payments?

Yes

No

U.S. GAAP	IFRS Standards
Lessees reassess variable payments based on an index or rate only when the lease obligation is remeasured for other reasons (e.g., a change in lease term or modification). With respect to variable lease payments that do not depend on an index or a rate (e.g., payments based on the achievement of a target), the lessee should recognise these payments in the period in which achievement of the target that triggers the variable lease payments becomes probable. Lessees are required to allocate variable consideration between lease and non-lease components on a relative standalone selling price basis unless the lessee elected the practical expedient to account for each separate lease component of a contract and its associated non-lease components as a single lease component upon initial recognition.	Lessees reassess variable payments based on an index or rate whenever there is a change in contractual cash flows (e.g., the lease payments are adjusted for a change in the consumer price index) or when the lease obligation is remeasured for other reasons. With respect to variable lease payments that do not depend on an index or a rate (e.g., payments based on the achievement of a target), the lessee should recognise these variable lease payments in the period in which the target is achieved. Lessees may allocate variable consideration not dependent on an index or rate entirely to a non-lease component of a contract.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, the lessee does not remeasure the lease liability solely for changes in future lease payments arising from changes in an index or rate. ASC 842-10-35-4 provides that the lessee shall remeasure the lease payments only if either (1) the lease is modified (but not accounted for as a separate contract); (2) a contingency is resolved which results in variable lease payments becoming fixed payments for the remainder of the lease, however, a change in a reference index or a rate upon which some or all of the variable lease payments in the contract are based does not constitute the resolution of a contingency; or (3) there is a change in any of the following:

- The lease term. A lessee shall determine the revised lease payments on the basis of the revised lease term.
- The assessment of whether the lessee is reasonably certain to exercise or not to exercise an option to purchase the underlying asset. A lessee shall determine the revised lease payments to reflect the change in the assessment of the purchase option.

© Deloitte LLP. All rights reserved.

- Amounts probable of being owed by the lessee under residual value guarantees. A lessee shall determine the revised lease payments to reflect the change in amounts probable of being owed by the lessee under residual value guarantees.

When lessees remeasure the lease payments in accordance with the requirements noted above, variable lease payments that depend on an index or a rate shall be measured using the index or rate at the re-measurement date.

For variable lease payments that do not depend on a rate or an index, ASC 842-20-55-1 provides that the lessee should recognise these costs (in annual periods as well as in interim periods) before the achievement of the specified target that triggers the variable lease payments if achievement of the target is considered probable.

ASC 842-10-15-33 states:

“A lessee shall allocate (that is, unless the lessee makes the accounting policy election described in paragraph 842-10-15-37) the consideration in the contract to the separate lease components determined in accordance with paragraphs 842-10-15-28 through 15-31 and the nonlease components as follows:

A. The lessee shall determine the relative standalone price of the separate lease components and the nonlease components on the basis of their observable standalone prices. If observable standalone prices are not readily available, the lessee shall estimate the standalone prices, maximizing the use of observable information. A residual estimation approach may be appropriate if the standalone price for a component is highly variable or uncertain.

B. The lessee shall allocate the consideration in the contract on a relative standalone price basis to the separate lease components and the nonlease components of the contract.

Initial direct costs should be allocated to the separate lease components on the same basis as the lease payments.”

When variable payments not included in consideration in the contract are recognised, lessees allocate these amounts between lease and non-lease components on the same basis as the allocation of consideration in the contract as described above. 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.

Under IFRS Standards, IFRS 16:40 and 42 provide that lessees shall re-measure the lease liability if there is a change in any of the following:

- The lease term. A lessee shall determine the revised lease payments on the basis of the revised lease term.
- The assessment of an option to purchase the underlying asset, assessed considering the events and circumstances described in IFRS 16:20–21 in the context of a purchase option. A lessee shall determine the revised lease payments to reflect the change in amounts payable under the purchase option.
- The amounts expected to be payable under a residual value guarantee. A lessee shall determine the revised lease payments to reflect the change in amounts expected to be payable under the residual value guarantee.
- The future lease payments resulting from a change in an index or a rate used to determine those payments. The lessee shall remeasure the lease liability to reflect those revised lease payments only when there is a change in the cash flows (i.e. when the adjustment to the lease payments takes effect). A lessee shall determine the revised lease payments for the remainder of the lease term based on the revised contractual payments.

For variable lease payments that do not depend on a rate or an index, IFRS 16:38 (b) provides that the lessee shall recognise variable lease payments that are not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs or the target is achieved.

If the fixed payment and variable payment each represent the stand-alone price the lessor (or similar supplier) would charge separately for the lease and the non-lease component respectively, one acceptable method is to allocate the fixed payment to the lease component and the variable payment to the non-lease component.

This is consistent with illustrative example 12 accompanying IFRS 16 in which all of the variable consideration is allocated to the non-lease component, as the stand-alone price of the maintenance service includes the variable payment.

Allocating the variable consideration in the contract to a particular component, when the variability is attributable to that component is consistent with the accounting by the lessor. IFRS 16:17 requires the lessor to allocate the consideration in the contract in accordance IFRS 15:73 to 90. IFRS 15:84 and 85 acknowledge that variable consideration in a contract may be allocated entirely to one performance obligation when specific criteria are met.

© Deloitte LLP. All rights reserved.

Comments

27B.5	**Has the lessee subsequently measured the ROU asset applying the revaluation model or fair value model?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Lessees always measure the ROU asset at cost less accumulated amortisation and accumulated impairment losses.	Lessees are presented with additional measurement models, including the fair value model and the revaluation model, based on whether the ROU assets relate to investment property (per IAS 40) or property, plant and equipment (per IAS 16), respectively.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, lessees shall subsequently measure the ROU asset related to finance leases at cost less any accumulated amortisation and any accumulated impairment losses.

Lessees shall measure the ROU asset related to operating leases at the amount of the lease liability, adjusted for the following, unless the ROU asset has been previously impaired:

- Prepaid or accrued lease payments;
- The remaining balance of any lease incentives received;
- Unamortised initial direct costs; and
- Impairment of the ROU asset.

If a ROU asset is impaired, after the impairment it shall be measured at its carrying amount immediately after the impairment less any accumulated amortisation.

There is no option under U.S. GAAP for the lessee to subsequently measure the ROU asset at fair value or using the revaluation model.

Under IFRS Standards, IFRS 16:29 provides that after the commencement date, lessees shall measure the ROU asset applying a cost model, unless they apply either of the measurement models described in IFRS 16:34 and 35.

IFRS 16:34 provides that lessees applying the fair value model in IAS 40 to its investment property, shall also apply the fair value model to ROU assets that meet the definition of investment property in IAS 40.

IFRS 16:35 provides that where the ROU assets relate to a class of property, plant and equipment to which the lessee applies the revaluation model in IAS 16, lessees may elect to apply that revaluation model to all of the ROU assets that relate to that class of property, plant and equipment.

Comments

27B.6	**Was the lease liability upon initial recognition measured using the lessee's incremental borrowing rate?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Lessees' incremental borrowing rate is the rate a lessee would pay to borrow, on a collateralised basis over a similar term, an amount equal to the lease payments in a similar economic environment.	The lessee's incremental borrowing rate is the rate a lessee would pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset

© Deloitte LLP. All rights reserved.

	with a value similar to the ROU asset in a similar economic environment.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, the definition of the incremental borrowing rate is more general, and is defined as the rate that, at lease inception, the lessee would have incurred to borrow on a collateralised basis over a similar term an amount equal to the lease payments in a similar economic environment (ASC 842-10-20).

Under IFRS Standards, IFRS 16 is more specific, defining the 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 Appendix A).

As such, lessees under U.S. GAAP can assume any form of collateral as long as the rate reflects a fully collateralised borrowing, while lessees preparing under IFRS Standards must use collateral similar to the underlying ROU asset.

Comments

27B.7	Was there any modification that reduced the lease term for lessees?	Yes No

U.S. GAAP	IFRS Standards
A reduction in the lease term is not considered a decrease in the scope of the lease. A lessee should thus remeasure the lease liability, with a corresponding reduction in the ROU asset, but should not recognise any gain or loss as of the effective date of the modification unless the ROU asset is reduced to zero.	A reduction in the lease term is considered a decrease in the scope of the lease. A lessee should thus remeasure the lease liability, with a proportionate reduction in the ROU asset, and recognise a gain or loss for any difference as of the effective date of the modification.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 842-10-25-11(b) provides that a lessee shall reallocate the remaining consideration in the contract and remeasure the lease liability using a discount rate for the lease determined at the effective date of the modification if a contract modification extends or reduces the term of an existing lease (for example, changes the lease term from five to eight years or vice versa), other than through the exercise of a contractual option to extend or terminate the lease (as described in ASC 842-20-35-5).

Further, per ASC 842-10-25-12, in the case of ASC 842-10-25-11 (b) above, the lessee shall recognise the amount of the remeasurement of the lease liability for the modified lease as an adjustment to the corresponding right-of-use asset.

Since the remeasurement amount is directly recognised as an adjustment to the ROU asset, there is no income statement impact associated with this type of modification.

Under IFRS Standards, IFRS 16:45, for a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification a lessee shall:

A. allocate the consideration in the modified contract applying IFRS 16:13–16;

B. determine the lease term of the modified lease applying IFRS 16:18–19; and

C. remeasure the lease liability by discounting the revised lease payments using a revised discount rate. The revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the lessee’s incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined.

Under IFRS 16:46 the lessee shall account for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease in proportion to the reduction in the lease term. The lessee also remeasures the remaining lease liability at the original discount rate. The lessee shall recognise in profit or loss any gain or loss relating

© Deloitte LLP. All rights reserved.

to the partial or full termination of the lease representing the difference between the reduction in the ROU asset and the reduction in the lease liability.

Comments

Part C — Lessors

27C.1	**Has the entity entered into lease arrangements as a lessor?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Lessors shall classify leases as either an operating lease, sales-type lease or direct financing lease at lease commencement. If any one of the five criteria in ASC 842-10-25-2 are satisfied, a lease is classified as a sales-type lease. If none of these criteria are met, the lease is tested for two additional criteria under ASC 842-10-25-3, satisfying both of which would result in the lease being classified as a direct-financing lease. Otherwise, the lease would be classified as an operating lease.	Lessors shall classify leases as either an operating lease or a finance lease at lease inception. This classification is based on whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset to the lessee. There are a series of examples in IFRS 16:63 that are indicators of when substantially all of the risks and rewards incidental to ownership have transferred. Satisfaction of these individually or collectively would normally lead to the lease being classified as a finance lease.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 842-10-25-2 provides that a lessor shall classify a lease as a sales-type lease when the lease meets any of the following criteria at lease commencement:

A. The lease transfers ownership of the underlying asset to the lessee by the end of the lease term;

B. The lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise;

C. The lease term is for the major part of the remaining economic life of the underlying asset (unless the commencement date falls at or near the end of the economic life of the underlying asset , in which case, this criterion shall not be used to classify the lease);

D. The present value of the sum of the lease payments and any residual value guaranteed by the lessee that is not already reflected in the lease payments equals or exceeds substantially all of the fair value of the underlying asset; or

E. The underlying asset is of such a specialised nature that it is expected to have no alternative use to the lessor at the end of the lease term.

Where none of the criteria mentioned above are met, then per ASC 842-10-25-3(b) the lessor shall classify the lease as an operating lease unless both of the following criteria are met, in which case the lessor shall classify the lease as a direct financing lease:

A. The present value of the sum of the lease payments and any residual value guaranteed by the lessee that is not already reflected in the lease payments and/or any other third party unrelated to the lessor equals or exceeds substantially all of the fair value of the underlying asset; and

B. It is probable that the lessor will collect the lease payments plus any amount necessary to satisfy a residual value guarantee.

© Deloitte LLP. All rights reserved.

While assessing the criteria in ASC 842-10-25-2(c) through (d) and ASC 842-10-25-3(b)(1), the following would be considered as a reasonable approach:

- 75% or more of the remaining economic life of the underlying asset is a major part of the remaining economic life of that underlying asset.
- A commencement date that falls at or near the end of the economic life of the underlying asset refers to a commencement date that falls within the last 25% of the total economic life of the underlying asset.
- 90% or more of the fair value of the underlying asset amounts to substantially all the fair value of the underlying asset.

Under IFRS Standards, the lessor must perform a lease classification assessment as of the lease inception date. IFRS 16:62 provides that a lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset; otherwise, the lease is classified as an operating lease. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract.

IFRS 16:63 provides examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease, as follow:

A. The lease transfers ownership of the underlying asset to the lessee by the end of the lease term;

B. The lessee has the option to purchase the underlying asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception date, that the option will be exercised;

C. The lease term is for the major part of the economic life of the underlying asset even if title is not transferred;

D. At the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset;

E. The underlying asset is of such a specialised nature that only the lessee can use it without major modifications.

IFRS 16:64 provides examples of other situations that could also lead to a lease being classified as a finance lease, as follows:

A. If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;

B. Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of rent rebate equalling most of the sales proceeds at the end of the lease);

C. The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

Further, there is no explicit threshold provided in terms of what constitutes a "major part" or "substantially all" as mentioned in the indicators IFRS 16:63(c) and (d). It is necessary to consider the substance of a lease to determine its classification based on whether the agreement transfers substantially all of the risks and rewards of ownership.

Although the principles for classifying leases under U.S. GAAP and IFRS Standards 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 Standards the classification decision requires judgment. Further, under U.S. GAAP, collectability of lease payments is a determining factor in classification of a direct financing lease (see ASC 842-10-25-3(b) above). Under IFRS Standards, there is no explicit guidance for considering collectability of lease payments.

Comments

© Deloitte LLP. All rights reserved.

27C.2	**Has the entity as lessor entered into a contract classified as a financing lease in which selling profit or loss is recorded?**	**Yes** **No**

U.S. GAAP	IFRS Standards
For a lease classified as a direct financing lease, lessors must defer any selling profit and recognise it over the term of the lease.	For finance leases, a manufacturer or dealer lessor recognises any selling profit at commencement.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 842-30-30-2 provides that at the commencement date, for a direct financing lease, a lessor shall derecognise the underlying asset and record the net investment in the lease reduced by the amount of any selling profit.

If the net investment in the lease is less than the carrying value of the underlying asset, a selling loss should be recognised at commencement. If the net investment in the lease is greater than the carrying value, the selling profit should reduce the net investment in the lease and no profit would be recognised at commencement.

ASC 842-30-25-9 states that after the commencement date, a lessor shall recognise this "interest income" (excess of net investment in the lease over the carrying value of the underlying asset) over the lease term, regardless of when payment is received.

Under IFRS Standards, for a finance lease, for lessors which are manufacturers or dealers, the lessors derecognise the underlying asset, recognise a net investment in the lease, and record revenue (lower of FV of underlying asset and PV of future lease payments) and the cost of sale (cost or carrying amount of underlying asset less PV of unguaranteed residual value).

The difference between the revenue and cost of sale is the selling profit or loss, and IFRS 16 requires a manufacturer or dealer lessor to record this profit or loss in accordance with the lessor's policy for outright sales to which IFRS 15 applies. However, manufacturer or dealer lessors are required to recognise the selling profit or loss on a finance lease at the commencement date (IFRS 16:71).

Comments

27C.3	**Has the entity as lessor incurred initial direct costs in relation to leases not classified as operating leases?**	**Yes** **No**

U.S. GAAP	IFRS Standards
Initial direct costs in the case of a sales-type lease are either expensed or included in the initial measurement of the net investment in the lease, dependent upon whether the fair value of the underlying asset is equal to or different from its carrying amount.	Initial direct costs in the case of a finance lease are included in the initial measurement of the net investment in the lease and reduced from the amount of the income recognised over the lease term, with limited exceptions.

U.S. GAAP–IFRS Standards difference considerations

Under U.S GAAP, for sales-type leases, if the fair value of the underlying asset is different from its carrying amount (at commencement) then initial direct costs should be expensed. If the fair value of the underlying asset equals its carrying amount then initial direct costs are deferred at commencement and included in the measurement of the net investment in the lease (per ASC 842-30-25-1(c)).

For direct financing leases, initial direct costs are included in the measurement of the net investment in the lease (per ASC 842-30-25-8).

Under IFRS Standards, initial direct costs (other than those incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investment in the lease and reduced from the amount of income recognised over the lease term (per IFRS 16:69).

© Deloitte LLP. All rights reserved.

In case of a manufacturer or dealer, costs incurred in connection with obtaining a finance lease are expensed, as they are mainly related to earning the manufacturer or dealer's selling profit (IFRS 16:74).

Comments

27C.4	**Has a entity as lessor modified leases during the period, which have not been accounted for as a separate contract?**	**Yes** **No**

U.S. GAAP	IFRS Standards
Lessors account for a modification to an operating lease (not accounted for as a separate contract) dependent upon the classification of the modified lease (whether operating, sales-type or direct financing). Lessors' accounting for a modification to a sales-type or direct financing lease (not accounted for as a separate contract), is dependent upon the classification of both the original and modified lease.	Lessors account for a modification to an operating lease (not accounted for as a separate contract) as a new lease from the date of modification. Lessors accounting for a modification to a finance lease (not accounted for as a separate contract) is dependent upon whether the lease would have been classified as an operating lease had the modification been in effect at lease inception.

U.S. GAAP–IFRS Standards difference considerations

Modification of operating leases

Under U.S. GAAP, if a lessor modifies an operating lease and the modification is not accounted for as a separate contract, then the lessor shall account for the modification as if it were a termination of the existing lease and the creation of a new lease that commences from the modification date as follows (per ASC 842-10-25-15):

A. If the modified lease is classified as an operating lease, the lessor shall consider any prepaid or accrued lease rentals relating to the original lease as a part of the lease payments for the modified lease.

B. If the modified lease is classified as a direct financing lease or a sales-type lease, the lessor shall derecognise any deferred rent liability or accrued rent asset and adjust the selling profit or selling loss accordingly.

Under IFRS Standards, regardless of the new classification of the lease, a lessor shall account for modification to an operating lease as a new lease from the effective modification date taking into consideration any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Modification of sales-type/direct financing leases

Under U.S. GAAP, a lessor's accounting for a modification to a sales-type or direct financing lease depends on the original and modified lease classifications. If a lessor modifies a direct financing lease and the modification is not accounted for as a separate contract, then the lessor shall account for the modified lease as follows (per ASC 842-10-25-16 and 17):

A. If the modified lease is classified as a direct financing lease, the lessor shall adjust the discount rate for the modified lease so that the initial net investment in the modified lease equals the carrying amount of the net investment in the original lease immediately before the effective date of the modification.

B. If the modified lease is classified as a sales-type lease, the lessor shall account for the modified lease in accordance with the initial measurement guidance applicable to sales-type leases, with the commencement date of the modified lease being the effective modification date. When calculating the selling profit or selling loss on the lease, the fair value of the underlying asset shall be its fair value at the effective date of the modification and its carrying amount is the carrying amount of the net investment in the original lease immediately before the effective modification date.

C. If the modified lease is classified as an operating lease, the carrying amount of the underlying asset equals the net investment in the original lease immediately before the effective date of the modification.

© Deloitte LLP. All rights reserved.

If a sales-type lease is modified and the modification is not accounted for as a separate contract, then lessors shall account for the modified lease as follows (per ASC 842-10-25-17):

A. If the modified lease is classified as a sales-type or a direct financing lease, in the same manner as described in (a) above.

B. If the modified lease is classified as an operating lease, in the same manner as described in (c) above.

Under IFRS Standards, for a modification of a finance lease that is not accounted for as a separate lease, the lessor shall account for the modification as follows (per IFRS 16:80):

A. If the lease would have been classified as an operating lease had the modification been in effect at the inception date, the lessor shall:

   i. Account for the lease modification as a new lease from the effective date of the modification; and

   ii. Measure the carrying amount of the underlying asset as the net investment in the lease immediately before the effective modification date.

B. If the lease would still have been classified as a finance lease had the modification been in effect at the inception date, the lessor shall apply the requirements of IFRS 9.

Comments

27C.5	**Does the entity as lessor have lease contracts with non-lease components?**	**Yes** **No**

U.S. GAAP

U.S. GAAP provides a practical expedient for the lessor to not separate the non-lease components from the related lease components and instead to account for those components as a single component subject to meeting both of the following conditions:

A. The timing and pattern of transfer for the lease component are the same as those for the non-lease components associated with that lease component; and

B. The lease component, if accounted for separately, would be classified as an operating lease.

If the non-lease component or components associated with the lease component are the predominant component of the combined component, an entity is required to account for the combined component in accordance with ASC 606.

If the lessor does not elect or qualify for the practical expedient, the lessor is required to allocate the consideration in the contract on a relative standalone selling price basis to lease and non-lease components. Variable payments that do not depend on an index or rate and that relate to the lease component, even partially, are excluded from the consideration in the contract.

IFRS Standards

IFRS Standards do not provide lessors with any practical expedient. Lessors should allocate consideration between lease and non-lease components in accordance with the guidance in IFRS 15:73-90 (i.e. allocation based on stand-alone selling price, with other considerations).

© Deloitte LLP. All rights reserved.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, in accordance with ASC 842, an entity must separate lease components from non-lease components in a contract on a relative standalone price basis. The lease components are accounted for in accordance with the leases standard while the non-lease components are recognised in accordance with other Topics.

ASC 842-10-15-42A provides a practical expedient that a lessor may, as an accounting policy election, by class of underlying asset, choose to not separate non-lease components from lease components and, instead, to account for each separate lease component and the non-lease components associated with that lease component as a single component if the non-lease components otherwise would be accounted for under ASC 606, Revenue from Contracts with Customers and both of the following are met:

A. The timing and pattern of transfer for the lease component and non-lease components associated with that lease component are the same; and
B. The lease component, if accounted for separately, would be classified as an operating lease in accordance with ASC 842-10-25-2 through 25-3.

Per ASC 842-10-15-42B, a lessor that elects the practical expedient in ASC 842-10-15-42A shall account for the combined component:

A. As a single performance obligation entirely in accordance with ASC 606 if the non-lease component or components are the predominant component(s) of the combined component. In applying ASC 606, the entity shall do both of the following:
    1. Use the same measure of progress as used for applying ASC 842-10-15-42A(a); and
    2. Account for all variable payments related to any good or service, including the lease that is part of the combined component in accordance with the guidance on variable consideration in ASC 606.
B. Otherwise, as an operating lease entirely in accordance with ASC 842. The entity shall account for all variable payments related to any good or service that is part of the combined component as variable lease payments.

In determining whether a non-lease component or components are the predominant component(s) of a combined component, a lessor shall consider whether the lessee would be reasonably expected to ascribe more value to the non-lease component(s) than to the lease component.

If the lessor elects the practical expedient in ASC 842-10-15-42A, as per ASC 842-10-15-42C lessor shall combine all non-lease components that qualify for the practical expedient with the associated lease component and shall account for the combined component in accordance with ASC 842-10-15-42B.

If the lessor does not elect or qualify for the practical expedient, the lessor shall allocate the consideration in the contract to the separate lease components and the non-lease components in accordance with ASC 606. ASC 842-10-15-40 provides that if the terms of a variable payment amount, other than those in ASC 842-10-15-35, relate to a lease component, even partially, the lessor shall recognise those payments as income in profit or loss in the period when the changes in facts and circumstances on which the variable payment is based occur. The exceptions under ASC 842-10-15-35 are 1) any fixed payments (for example, monthly service charges) or in substance fixed payments, less any incentives paid or payable to the lessee and 2) any other variable payments that depend on an index or a rate, initially measured using the index or rate at the commencement date.

Under IFRS Standards, IFRS 16 does not include a practical expedient for lessors in relation to separating lease and non-lease components, and thus results in a difference between U.S. GAAP and IFRS Standards, where the practical expedient is elected under U.S. GAAP.

Comments

© Deloitte LLP. All rights reserved.

27C.6 Does the entity as lessor have contracts which involve sales tax or lessor costs?	Yes No

U.S. GAAP	IFRS Standards
ASC 842 requires lessors to analyse sales taxes and certain lessor costs to determine whether those are the primary obligation of the lessor (recognised as revenue) or whether those are collected by the lessor on behalf of third parties (excluded from revenue). Further, U.S. GAAP also provides an accounting policy election, to lessors to not perform the above assessment but account for those costs as if they are lessee costs. Consequently, a lessor will exclude all collections from lessees of taxes and lessor costs within the scope of the election.	There is no specified accounting with respect to taxes and lessor costs under IFRS Standards.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 842-10-15-39A provides that a lessor may make an accounting policy election to exclude from the consideration in the contract and from variable payments not included in the consideration in the contract all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific lease revenue-producing transaction and collected by the lessor from a lessee (for example, sales, use, value added, and some excise taxes). Taxes assessed on a lessor's total gross receipts or on the lessor as owner of the underlying asset shall be excluded from the scope of this election. A lessor that makes this election shall exclude from the consideration in the contract and from variable payments not included in the consideration in the contract all taxes within the scope of the election and shall comply with the disclosure requirements in ASC 842-30-50-14.

Also, ASC 842-10-15-40A provides that a lessor shall exclude from variable payments lessor costs paid by a lessee directly to a third party. However, costs excluded from the consideration in the contract that are paid by a lessor directly to a third party and are reimbursed by a lessee are considered lessor costs that shall be accounted for by the lessor as variable payments (this requirement does not preclude a lessor from making the accounting policy election in ASC 842-10-15-39A).

Such guidance and accounting policy election is not available under IFRS Standards thus leading to potential differences. Under IFRS Standards a lessor would need to assess if it is collecting sales tax on behalf of a tax authority and, if so, such payments could be excluded from lease payments and therefore would not form part of the net investment in the lease or operating lease income.

Comments

© Deloitte LLP. All rights reserved.

Part D — Sale and leaseback transactions

27D.1	Has the entity entered into any sale and leaseback transactions?	Yes No

U.S. GAAP	IFRS Standards
The transaction would not be considered a sale if (1) it does not qualify as a sale under ASC 606 or (2) the leaseback is a finance lease. A repurchase option would result in a failed sale unless (1) the exercise price of the option is at fair value and (2) alternative assets are readily available in the marketplace.	The transaction would not be considered a sale if it does not qualify as a sale under IFRS 15. A repurchase option would always result in a failed sale.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, the accounting for a sale and leaseback transaction depends on whether the initial transfer of the underlying asset is a sale in accordance with ASC 606, Revenue from Contracts with Customers. The transfer of the underlying asset is also not considered a sale if the leaseback is a finance lease. Additionally, an option for the seller-lessee to repurchase the asset would preclude the accounting for the transfer of the asset as a sale of the asset unless both of the following criteria are met (per ASC 842-40-25-3):

A. The exercise price of the option is the fair value of the asset at the time the option is exercised; and

B. There are alternative assets, substantially the same as the transferred asset, readily available in the marketplace.

Under IFRS Standards, the accounting for sale and leaseback transactions depends on whether the initial transfer of the underlying asset is a sale in terms of IFRS 15, Revenue from Contracts with Customers. Per IFRS 16:BC262(c), if an entity has a right to repurchase an asset (a "call option" per IFRS 15), the customer does not obtain control of the asset, because the customer is limited in its ability to direct the use of, and obtain substantially all of the remaining benefits from the asset, even though the customer may have physical possession of the asset. Consequently, if the seller-lessee has a substantive repurchase option with respect to the underlying asset, then no sale has occurred.

Comments

27D.2	Has the entity as seller-lessee entered into a sale and leaseback transaction where the selling price exceeded the carrying amount in?	Yes No

U.S. GAAP	IFRS Standards
The seller-lessee shall recognise the gain or loss as the difference between the sale price and the carrying amount of the underlying asset subject to sale and leaseback.	For transactions that qualify as a sale, the gain would be limited to the amount related to the portion of the asset sold. The amount of the gain related to the underlying asset leased back to the lessee would be offset against the lessee's ROU asset.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, if the sale and leaseback transaction constitutes a sale then the seller-lessee shall (per ASC 842-40-25-4):

1. Recognise the transaction price for the sale at the point in time the buyer-lessor obtains control of the asset;
2. Derecognise the carrying amount of the underlying asset; and
3. Account for the lease in accordance with ASC 842-20.

© Deloitte LLP. All rights reserved.

The entity is required to determine whether the sale and leaseback transaction is carried out at fair value or not. If the transaction is not at fair value, then adjustments are required (per ASC 842-40-30-2). However, in the case of a sale and leaseback transaction between related parties, neither party is required to make the adjustments required by ASC 842-40-30-2 (per ASC 842-40-30-4).

Under IFRS Standards, for a sale and leaseback transaction the seller-lessee shall measure the ROU asset arising from the leaseback in proportion to the previous carrying amount of the asset that relates to the ROU retained by the seller-lessee (per IFRS 16:100(a)). The seller-lessee shall accordingly recognise only the amount of gain or loss that relates to the right transferred to the buyer-lessor. If the fair value of the sales consideration does not equal the fair value of the asset or the lease payments are not market rates then the entity is required to make adjustments (per IFRS 16:101 through 102).

Comments

27D.3 Does the entity have a sale and leaseback transaction that does not qualify as a sale?

Yes

No

U.S. GAAP	IFRS Standards
Asset transfers that do not qualify as sales should be accounted for as financings. For the seller-lessee, ASC 842 requires adjustment to be made for the interest rate on the recognised financing in certain circumstances.	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 guidance on interest rate adjustments.

U.S. GAAP–IFRS Standards difference considerations

Under ASC 842-40-25-5, if the transfer of the asset is not a sale in accordance with ASC 842-40-25-1 through 25-3, both of the following apply:

A. The seller-lessee shall not derecognise the transferred asset and shall account for any amounts received as a financial liability in accordance with other Topics.

B. The buyer-lessor shall not recognise the transferred asset and shall account for the amounts paid as a receivable in accordance with other Topics.

In addition, ASC 842-40-30-6 also provides that the seller-lessee shall adjust the interest rate on its financial liability as necessary to ensure that both of the following apply:

A. Interest on the financial liability is not greater than the payments on the financial liability over the shorter of the lease term and the term of the financing. The term of the financing may be shorter than the lease term because the transfer of an asset that does not qualify as a sale initially may qualify as a sale at a point in time before the end of the lease term.

B. 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 (for example, the date at which a repurchase option expires if that date is earlier than the end of the lease term).

IFRS 16:103 states that if the transfer of an asset by the seller-lessee does not satisfy the requirements of IFRS 15 to be accounted for as a sale of the asset:

A. the seller-lessee shall continue to recognise the transferred asset and shall recognise a financial liability equal to the transfer proceeds. It shall account for the financial liability applying IFRS 9.

B. the buyer-lessor shall not recognise the transferred asset and shall recognise a financial asset equal to the transfer proceeds. It shall account for the financial asset applying IFRS 9.

IFRS 16 does not provide additional guidance on interest rate adjustments.

© Deloitte LLP. All rights reserved.

Comments

Part E — Other topics

27E.1	Has the entity as lessor entered into sub-lease arrangements?	Yes No

U.S. GAAP	IFRS Standards
Lessors shall classify the sublease as either a finance lease or an operating lease with reference to the underlying asset arising from the head lease.	Lessors shall classify the sublease as either a finance lease or an operating lease with reference to the ROU asset arising from the head lease.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, an entity shall classify the sublease with reference to the underlying asset (for example, the item of property, plant, or equipment that is the subject of the lease) rather than with reference to the ROU asset (per ASC 842-10-25-6).

Under IFRS Standards, an intermediate lessor shall classify the sublease as a finance lease or an operating lease as follows (per IFRS 16:B58):

A. if the head lease is a short-term lease that the entity, as a lessee, has accounted for applying the short-term lease exemption, the sublease shall be classified as an operating lease.

B. otherwise, the sublease shall be classified by reference to the ROU asset arising from the head lease, rather than by reference to the underlying asset (for example, the item of property, plant or equipment that is the subject of the lease).

Further, when classifying a sublease, an intermediate lessor should evaluate the lease by reference to the ROU asset arising from the head lease and not by reference to the underlying asset (per IFRS 16:BC233). This is because:

A. An intermediate lessor (i.e. the lessor in a sublease) does not own the underlying asset and does not recognise that underlying asset in its balance sheet.

B. An intermediate lessor's risks associated with a ROU asset can be converted into credit risk by entering into a sublease, the term of which covers most or all of the term of the head lease.

C. If a sublease is for all of the remaining term of the corresponding head lease, the intermediate lessor no longer has the right to use the underlying asset, and should derecognise the ROU asset and recognise the net investment in the sublease.

Comments

© Deloitte LLP. All rights reserved.

27E.2	Is the entity other than a manufacturer or a dealer?	Yes No

U.S. GAAP	IFRS Standards
Lessors who are not manufacturers or dealers may use their cost, reflecting any volume or trade discounts that may apply, as the fair value of the underlying asset subject to the lease.	There is no such practical expedient under IFRS Standards.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 842-30-55-17A provides that notwithstanding the definition of fair value, if a lessor is not a manufacturer or a dealer, the fair value of the underlying asset at lease commencement is its cost, reflecting any volume or trade discounts that may apply. However, if there has been a significant lapse of time between the acquisition of the underlying asset and lease commencement, the definition of fair value shall be applied.

Under IFRS Standards, IFRS 16 does not provide any such practical expedient.

Comments

27E.3	Has the entity entered into any lease arrangements with a related party?	Yes No

U.S. GAAP	IFRS Standards
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, regardless of the substance of the arrangement.	IFRS 16 does not specifically address lease arrangements between related parties.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. 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).

Under IFRS Standards, IFRS 16 does not specifically address lease arrangements with a related party.

Comments

© Deloitte LLP. All rights reserved.

Part F — Transition

27F.1	**Did the entity adopt the new leasing standard using a modified adoption method rather than full retrospective adoption?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Lessees are allowed a cumulative effect approach of adoption under which the standard is effectively implemented either (1) as of the earliest period presented and through the comparative periods in the entity's financial statements or (2) as of the effective date of ASC 842, with a cumulative-effect adjustment to equity. The difference between the ROU asset and the lease liability is recorded in opening retained earnings in the period of adoption.	Lessees are allowed a modified retrospective approach similar to option (2) under U.S. GAAP. There is also an additional practical expedient may be applied whereby the ROU asset is recorded equal to the lease liability such that no entry to retained earnings is necessary.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 842-10-65-1 provides that an entity adopting ASC 842 may use a modified retrospective approach. Under this approach, the standard may be implemented either (1) as of the earliest period presented and through the comparative periods in the entity's financial statements or (2) as of the effective date of ASC 842, with a cumulative-effect adjustment to equity. The lessee would calculate a discounted lease liability and a ROU asset, and the difference between the two would be recorded in retained earnings as a cumulative "catch-up" adjustment in the period of adoption.

Under IFRS Standards, IFRS 16 includes a similar adoption method to method (2) under U.S. GAAP, wherein restatement of comparative periods is not required. However, IFRS 16:C8(b)(ii) goes further to allow a lessee the option of measuring the ROU asset at an amount equal to the lease liability. With no difference between the ROU asset and the lease liability, there would be no corresponding entry to retained earnings in the period of adoption.

Comments

27F.2	**Did the entity have land easement contracts upon adoption of ASC 842 or IFRS 16?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Lessees may elect not to assess whether land easements are or contain leases if they were not previously accounted for as leases. This election is made for all land easements.	There is no such practical expedient under IFRS Standards.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 842-10-65-1(gg) provides that an entity may elect a practical expedient to not assess whether existing or expired land easements that were not previously accounted for as leases under ASC 840 are or contain a lease under ASC 842. For purposes of (gg), a land easement (also commonly referred to as a right of way) refers to a right to use, access, or cross another entity's land for a specified purpose. This practical expedient shall be applied consistently by an entity to all its existing and expired land easements that were not previously accounted for as leases under ASC 840. An entity that previously accounted for existing or expired land easements as leases under ASC 840 shall not be eligible for this practical expedient for those land easements.

Under IFRS Standards, IFRS 16 does not provide any such expedient.

© Deloitte LLP. All rights reserved.

Comments

© Deloitte LLP. All rights reserved.

Section 28: Service concession arrangements

28. Service concession arrangements

Overview

ASC 853-10-05-1 and 05-2 define a service concession arrangement as follows:

"A service concession arrangement is an arrangement between a grantor and an operating entity for which the terms provide that the operating entity will operate the grantor's infrastructure (for example, airports, roads, bridges, tunnels, prisons, and hospitals) for a specified period of time. The operating entity may also maintain the infrastructure. The infrastructure already may exist or may be constructed by the operating entity during the period of the service concession arrangement. If the infrastructure already exists, the operating entity may be required to provide significant upgrades as part of the arrangement. Service concession arrangements can take many different forms.

In a typical service concession arrangement, an operating entity operates and maintains for a period of time the infrastructure of the grantor that will be used to provide a public service. In exchange, the operating entity may receive payments from the grantor to perform those services. Those payments may be paid as the services are performed or over an extended period of time. Additionally, the operating entity may be given a right to charge the public (the third-party users) to use the infrastructure. The arrangement also may contain an unconditional guarantee from the grantor under which the grantor provides a guaranteed minimum payment if the fees collected from the third-party users do not reach a specified minimum threshold."

Prior to the issuance of specific guidance by the FASB and the IASB on accounting for service concession arrangements, they were frequently accounted for as leases because they share certain characteristics of a leasing arrangement. It is therefore important that any such arrangements are carefully analysed to determine whether they meet the definition of a service concession arrangement or are within the scope of the leasing literature.

This Section focusses on significant differences between ASC 853, Service Concession Arrangements and IFRIC 12, Service Concession Arrangements.

Recently issued standards not yet reflected in this Section

None.

Primary authoritative guidance

- ASC 853, Service Concession Arrangements
- IFRIC 12, Service Concession Arrangements

28.1 Is the entity party to a service concession arrangement?

Yes
No
N/A

U.S. GAAP

Scope

Under ASC 853-10-15, the guidance applies to the accounting by operating entities of a service concession arrangement under which a public-sector entity grantor enters into a contract with an operating entity to operate the grantor's infrastructure.

In a service concession arrangement within the scope of ASC 853, the operating entity should not account for the infrastructure as a lease or as property, plant, and

IFRS Standards

Scope

Under IFRS Standards the scope is similar except that no special accounting applies to regulated operations. Service concession arrangements applies to both:

A. infrastructure that the operator constructs or acquires from a third party for the purpose of the service arrangement; and

© Deloitte LLP. All rights reserved.

equipment because the operator does not control the infrastructure. ASC 853 does not specify which aspects of U.S. GAAP should be applied; rather it encourages operating entities to refer to other Topics to account for various aspects of a service concession arrangement. Arrangements with the scope of ASC 980, Regulated operations, should be accounted for using that guidance instead of ASC 853.	B. existing infrastructure to which the grantor gives the operator access for the purpose of the service arrangement. Infrastructure within the scope of IFRIC 12 is not recognised as property, plant and equipment of the operator. This is because the operator does not have the right to control the asset, but merely has access to the infrastructure in order to provide the public service in accordance with the terms specified in the contract. Unlike ASC 853, IFRIC 12 provides specific guidance on how to account for a service concession arrangement. Specifically the operator's right to consideration is recognised as a financial asset, an intangible asset or a combination of the two.

U.S. GAAP–IFRS Standards difference considerations

Scope

Under U.S. GAAP, ASC 853-10-15-3, an arrangement is in the scope of the service concession arrangements literature when 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;
- at what price the services are provided; and
- through ownership, beneficial entitlement or otherwise, any residual interest in the infrastructure at the end of the term of the arrangement.

Service concession arrangements that are regulated operations are excluded from the scope of the service concession arrangements literature and accounted for under ASC 980 (ASC 853-10-15-4).

Under IFRS Standards, IFRIC 12:5, service concession arrangements are arrangements in which the public sector (the grantor) controls or regulates:

- what services the operator must provide with the infrastructure (control of services);
- to whom it must provide them (control of services);
- the price at which services are charged (control of pricing); and
- through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the term of the arrangement (control of the residual interest).

Therefore with the exception of service concession arrangements that meet the definition of regulated operations under U.S. GAAP the scope of the standards is similar.

The operator's right over the infrastructure

The guidance in ASC 853-10-25-2 is consistent with IFRIC 12:11 in that the operating entity in a service concession arrangement should not account for the infrastructure as a lease or as property, plant, and equipment because the operator does not control the infrastructure and, thus, does not enjoy the exclusive benefit of the assets during the term of the arrangement.

Recognition of revenue for construction/upgrade activities

Under U.S. GAAP, ASC 853 requires other sections of the Codification to be applied. U.S. GAAP will therefore require entities to determine whether the deliverables are distinct performance obligations under the revenue literature, i.e. ASC 606. When applying the revenue guidance in ASC 606, ASC 853 states that an operating entity in a service concession arrangement must consider the grantor the customer of the operation services it provides. Service concession arrangements meeting the regulated operations scope criteria in ASC 980 should be accounted for using that guidance.

Under ASC 606, determining the performance obligations for service concession arrangements requires judgement. In addition to the construction and operation of the infrastructure, there may be further specified activities in the

© Deloitte LLP. All rights reserved.

arrangement, such as specific improvements, additions to the infrastructure assets, or major maintenance activities at various points in the future. Judgment therefore needs to be applied in determining whether these additional specified activities are separate performance obligations or should be combined with the construction or operation components of the arrangement.

When revenue to be received is contingent on the future operation of the infrastructure, such revenue should be accounted for as variable consideration under ASC 606. Therefore it will need to be estimated and recognised as performance occurs, subject to the revenue constraint that it is highly probable a significant reversal of revenue will not occur. The other consequence is that it would no longer be appropriate to defer construction costs when applying ASC 606 since such costs would relate to a satisfied or partially satisfied performance obligation.

Under IFRS Standards, IFRIC 12:19, the nature of the consideration given by the grantor to the operator should be determined by reference to the contract terms and, when it exists, relevant contract law, and could be any of the following (IFRIC 12:15 to 12:17):

- a financial asset to the extent it receives an unconditional contractual right to receive cash or another financial asset in return for construction or upgrade services performed.
- an intangible asset to the extent it receives from the grantor the right to charge users for the use of the infrastructure in return for construction or upgrade services performed.
- both a financial asset and an intangible asset if the operating entity is paid for the construction or upgrade services partly by a financial asset and partly by an intangible asset.

For further details of the differences between the revenue standards under IFRS Standards and U.S. GAAP refer to Section 12.

Operation and maintenance services

Under U.S. GAAP revenue arising from these activities should be accounted for under ASC 606-10-25. Generally, the operation and maintenance (O&M) services are provided over time and, thus, the operating entity should allocate the amount of revenue to the O&M deliverable/performance obligation and recognise the revenue as the services are performed. Costs of O&M expenses should be expensed as incurred.

Under IFRS Standards, contractual obligations to maintain or restore infrastructure, except for any upgrade element, should be recognised and measured in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets, i.e. at the best estimate of the expenditure that would be required to settle the present obligation at the reporting date. The operator should account for any upgrade service in accordance with IFRS 15.

Borrowing costs

Under U.S. GAAP if the construction service gives rise to a qualifying asset, then the operator should capitalise the borrowing costs attributable to the aforementioned qualifying asset (ASC 835-20-15-5).

Under IFRS Standards, borrowing costs attributable to an arrangement should be capitalised during the construction phase, in accordance with IAS 23, if the operator has a contractual right to receive an intangible asset. Since a financial asset is not a qualifying asset, borrowing costs attributable to “financial asset” arrangements are expensed as incurred (IFRIC 12:22). Therefore, under the financial asset model, during the construction phase an entity recognises a contract asset and accounts for the significant financing component in the arrangement in accordance with IFRS 15. Once construction is complete, interest is imputed on the financial asset using the effective interest method in accordance with IFRS 9, Financial Instruments (IFRIC 12:IE7).

Items provided by the grantor to the operator

Under U.S. GAAP the grantor should always be considered as the customer because the grantor controls the infrastructure assets and hired the operator to construct the assets on its behalf. IFRIC 12 does not provide prescriptive guidance on who the customer is in a service concession arrangement.

An operator may be provided with infrastructure items by the grantor as part of the consideration payable by the grantor for the services, to keep or deal with as the operator wishes (i.e. they are not for the purposes of the service arrangement); such infrastructure items should be accounted for as part of the transaction price as defined in IFRS 15 (IFRIC 12:27). No specific guidance exists under U.S. GAAP for such items.

© Deloitte LLP. All rights reserved.

Comments

© Deloitte LLP. All rights reserved.

Section 29: Derecognition of financial assets

29. Derecognition of financial assets

Overview

This Section focusses on significant differences between ASC 860, Transfers and Servicing and IFRS 9, Financial Instruments with respect to derecognition of financial assets.

Under U.S. GAAP, ASC 860 provides guidance on accounting for transfers and servicing of financial assets.

Under IFRS Standards, IFRS 9 provides guidance on accounting for transfers of financial assets and initial recognition of servicing rights.

There are some key differences with respect to the derecognition of assets between the two frameworks. Under IFRS Standards, derecognition is a multistep analysis (1) in which the assessment of risk and rewards are always considered and (2) may include an assessment of control, whereas U.S. GAAP focuses on the assessment of control. U.S. GAAP and IFRS Standards also differ on when the transfer of a portion of an entire financial asset may qualify for derecognition. Further, under U.S. GAAP, there are specific provisions for determining whether a repurchase agreement would result in the transferor retaining effective control over a transferred asset and thereby not qualify for derecognition. Under IFRS Standards, there are no similar provisions.

U.S. GAAP and IFRS Standards differ with respect to the recognition and measurement of servicing rights that remain with the transferor as a result of the transfer of an asset (i.e. where U.S. GAAP would require the use of fair value at initial recognition, IFRS Standards would use its allocated previous carrying amount on the basis of its relative fair value as of the transfer date). Lastly, U.S. GAAP provides a specific guidance for derecognition of foreclosed mortgaged loans that are guaranteed under government programs while IFRS Standards do not provide such guidance.

Recently issued standards not yet reflected in this Section

None.

Primary authoritative guidance

- ASC 860, Transfers and Servicing
- ASC 310, Receivables
- IFRS 9, Financial Instruments

29.1 Has the entity transferred financial assets to another entity (including special-purpose entities), or does the entity have secured borrowings?

Yes

No

U.S. GAAP

Financial assets are derecognised only when control over the asset is surrendered. Consideration is also given to the concept of risks and rewards; however, to a lesser extent.

Note that the definition of control under U.S. GAAP is more restrictive than that in IFRS 9.

IFRS Standards

Derecognition is a multistep process that takes into account risks and rewards and may also include an assessment of control over the transferred financial asset.

In certain arrangements, derecognition may apply even when the asset is not legally transferred, but rather the entity has an offsetting obligation to pass through all or some of the cash flows of that asset.

U.S. GAAP–IFRS Standards difference considerations

Derecognition model

Under U.S. GAAP, derecognition of a financial asset is based on application of the financial components approach. Under this approach, an entity recognises the financial assets it controls and financial liabilities it has incurred and

© Deloitte LLP. All rights reserved.

derecognises a financial asset only when control is surrendered (ASC 860-10-40-4). ASC 860-10-40-5 provides specific criteria all of which must be met for control over a financial asset to be considered surrendered and for sale accounting (or derecognition) to be appropriate (see below for differences on the definition of control between U.S. GAAP and IFRS Standards).

Under IFRS Standards, IFRS 9 does not have a “legal isolation” criterion as part of the derecognition assessment. However, IFRS 9:3.2.6 has an explicit test that requires a transferor to assess whether it has transferred “substantially all the risks and rewards of ownership of a transferred financial asset.” In addition to the risks and rewards test, it also has a control test, which a transferor would have to apply if it concluded that it neither transferred nor retained substantially all the risks and rewards of ownership of the transferred asset (IFRS 9:3.2.6 (c)). Accordingly, under IFRS Standards, the consideration of risks and rewards is explicit and has primacy.

Control assessment

Under U.S. GAAP, ASC 860-10-40-5 and 40-5A indicate that a transfer in which a transferor surrenders control over a transferred financial asset should be accounted for as a sale only if all of the following conditions are met:

- The transferred financial assets have been [legally] isolated from the transferor — put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership. Transferred financial assets are isolated in bankruptcy or other receivership only if the transferred financial assets would be beyond the reach of the powers of a bankruptcy trustee or other receiver for the transferor or any of its consolidated affiliates included in the financial statements being presented.
- Each transferee (or, if the transferee is an entity whose sole purpose is to engage in securitisation or asset-backed financing activities and that entity is constrained from pledging or exchanging the assets it receives, each third-party holder of its beneficial interests) has the right to pledge or exchange the assets (or beneficial interests) it received, 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 "[p]rovides more than a trivial benefit to the transferor."
- The transferor, its consolidated affiliates included in the financial statements being presented, or its agents do not maintain effective control over the transferred financial assets or third-party beneficial interests related to those transferred assets . . . . A transferor’s effective control over the transferred financial assets includes, but is not limited to, any of the following:
    1. An agreement that both entitles and obligates the transferor to repurchase or redeem the transferred financial assets before their maturity . . .
    2. An agreement, other than through a cleanup call . . ., that provides the transferor with both of the following:
        a. The unilateral ability to cause the holder to return specific financial assets
        b. A more-than-trivial benefit attributable to that ability.
    3. An agreement that permits the transferee to require the transferor to repurchase the transferred financial assets at a price that is so favourable to the transferee that it is probable that the transferee will require the transferor to repurchase them.

If any of the above conditions is not met, a transfer of financial assets is not considered a sale and derecognition is not appropriate. Rather, the transferor must continue to recognise the transferred financial assets along with an associated secured borrowing for the consideration received. In addition, there is an exception for repurchase-to-maturity transactions in U.S. GAAP, under which such transactions must be accounted for as secured borrowings (ASC 860-10-40-5A).

Under IFRS Standards, an entity shall first assess the extent to which it retains the risks and rewards of ownership of the financial asset. IFRS 9:3.2.6 (a) and (b) state:

A. “if the entity transfers substantially all the risks and rewards of ownership of the financial asset, the entity shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer;

B. if the entity retains substantially all the risks and rewards of ownership of the financial asset, the entity shall continue to recognise the financial asset.”

IFRS 9:3.2.7 further states that “the transfer of risks and rewards (see paragraph 3.2.6) is evaluated by comparing the entity’s exposure, before and after the transfer, with the variability in the amounts and timing of the net cash flows of the transferred asset. An entity has retained substantially all the risks and rewards of ownership of a financial asset if

© Deloitte LLP. All rights reserved.

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 (e.g. because the entity has sold a financial asset subject to an agreement to buy it back at a fixed price or the sale price plus a lender's return). An entity has transferred substantially all the risks and rewards of ownership of a financial asset if its exposure to such variability is no longer significant in relation to the total variability in the present value of the future net cash flows associated with the financial asset (e.g. because the entity has sold a financial asset subject only to an option to buy it back at its fair value at the time of repurchase or has transferred a fully proportionate share of the cash flows from a larger financial asset in an arrangement, such as a loan sub-participation, that meets the conditions in paragraph 3.2.5)."

IFRS 9:3.2.6.(c) points out that control is only considered if substantially all risks and rewards have neither been transferred nor retained by the transferor. IFRS 9:3.2.9 requires the assessment of control to focus on whether the transferee has the ability to unilaterally sell the transferred asset. Per IFRS 9:BCZ3.12, "control should be evaluated by looking to whether the transferee has the practical ability to sell the asset. If the transferee could sell the asset (e.g. because the asset was readily obtainable in the market and the transferee could obtain a replacement asset if it needed to return the asset to the transferor), the transferor had not retained control because the transferor did not control the transferee's use of the asset. If the transferee could not sell the asset (e.g. because the transferor had a call option and the asset was not readily obtainable in the market, so that the transferee could not obtain a replacement asset), the transferor had retained control because the transferee was not free to use the asset as its own."

Note that IFRS Standards do not explicitly discuss whether a transferee has the ability to pledge the transferred asset or whether the transferor maintains effective control over the transferred asset.

Legal isolation

Under U.S. GAAP, ASC 860 includes a "legal isolation" notion in the derecognition analysis (see ASC 860-10-40-5 (a)).

Under IFRS Standards, IFRS 9 does not include such notion. Therefore, under IFRS Standards an entity might derecognise a financial asset even though its creditors have the ability to reclaim the transferred asset in the event of bankruptcy.

In contrast, per IFRS 9:3.2.16, "if an entity neither transfers nor retains substantially all the risks and rewards of ownership of a transferred asset, and retains control of the transferred asset, the entity continues to recognise the transferred asset to the extent of its continuing involvement". That is, the transferor does not continue to recognise the asset in its entirety but rather to the extent of the transferor's continuing involvement in the asset that results in it retaining control. Similarly, when a transferor continues to recognise an asset to the extent of its continuing involvement, it recognises an associated liability (IFRS 9:3.2.17). Unlike the scenario in which the transferor retains substantially all the risks and rewards of ownership of the transferred asset, the transferor subsequently measures the transferred asset that it continues to recognise to the extent of its continuing involvement and the associated liability on the basis of the rights and obligations that it has retained (IFRS 9:3.2.17).

In summary, under IFRS Standards, when an entity transfers a financial asset that fails derecognition, it might partially derecognise the asset in some scenarios, whereas under U.S. GAAP, the entity would continue to recognise the asset in its entirety.

Retaining the rights to the cash flows of a financial asset ("pass-through arrangements")

Under U.S. GAAP, ASC 860 does not allow for derecognition of a financial asset if the rights to the contractual cash flows of that financial asset are retained by the transferor. Because derecognition is a control model in ASC 860, the conditions in ASC 860-10-40-4 through 40-5A for derecognition are likely not met if a transferor retains the contractual rights to the cash flows of a transferred financial asset.

Under IFRS Standards, if the contractual rights to the cash flows of a financial asset are retained, an entity may still derecognise that financial asset if an offsetting obligation to pass though the cash flows to third parties exists, provided that three conditions are met. IFRS 9:3.2.5 states, in part, that when an entity retains the contractual rights to an asset's cash flows, it must treat the transaction as a transfer of the asset (that potentially could qualify for derecognition provided the other derecognition criteria are met) if the following conditions are met:

A. The entity has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset;

B. The entity is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows; and

© Deloitte LLP. All rights reserved.

C. The entity has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay.

Accounting for cleanup calls

Under U.S. GAAP, ASC 860-10-40-5(c)(2) and ASC 860-10-40-34 provide an exception to the derecognition provisions for a call option that meets the definition of a cleanup call option. In many cases, a call option that a transferor holds over transferred financial assets causes the transferor to maintain effective control over these assets, resulting in a failed sale. However, if a transferor is the servicer of transferred financial assets and holds a call option on these assets that meets the definition of a cleanup call, that call option is exempted from the derecognition provisions in ASC 860-10-40-5(c). That is, it does not preclude derecognition of the transferred financial assets.

Under IFRS Standards, IFRS 9 does not have a specific exception for cleanup calls. If a transferor that is the servicer retains a cleanup call on transferred financial assets, it might fail derecognition. Per IFRS 9:B3.2.16 (m), "provided that such 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".

In summary differences in accounting for transfers of financial assets are likely to arise between U.S. GAAP and IFRS Standards where legal control has been retained by the transferor and either substantially all risks and rewards have been transferred or the transferor neither transfers nor retains substantially all the risks and rewards. This is because under U.S. GAAP, financial assets derecognised when control over the asset is surrendered, however, derecognition under IFRS 9 focuses first on risks and rewards of ownership rather than legal control.

Comments

29.2	Did the entity's transfer involve the transfer of a portion of an entire financial asset (or group of entire financial assets)?	Yes No

U.S. GAAP	IFRS Standards
Derecognition of a portion of a financial asset is allowed if the portion of the asset meets the definition of a participating interest and certain conditions are met.	An entity must consider the conditions in IFRS 9 first to determine whether a specified portion of a financial asset may be assessed for derecognition. If the conditions are not met, derecognition must be assessed for the asset in its entirety.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, if an entity transfers a part of a financial asset, ASC 860 provides that the entity can assess that part for derecognition if that part meets the definition of participating interest per ASC 860-10-40-6A (see below) and also meets the sale criteria per ASC 860-10-40-4 through 40-5A. If it does not meet the participating interest definition, the entity will account for the transfer as a secured borrowing (ASC 860-10-40-4E). As such, the transferor continues to recognise the transferred part as its asset (as part of the entire financial asset that the transferor recognised before the transfer of part of it) and recognises a liability for the consideration received.

ASC 860-10-40-6A states:

"A participating interest has all of the following characteristics:

A. From the date of the transfer, it represents a proportionate (pro rata) ownership interest in an entire financial asset. The percentage of ownership interests held by the transferor in the entire financial asset may vary over time, while the entire financial asset remains outstanding as long as the resulting portions held by the transferor (including any participating interest retained by the transferor, its consolidated affiliates included in the financial statements being presented, or its agents) and the transferee(s) meet the other characteristics of a participating interest. For example, if the transferor's interest in an entire financial asset changes because it subsequently sells another interest in the entire financial asset, the interest held initially and subsequently by the transferor must meet the definition of a participating interest.

© Deloitte LLP. All rights reserved.

B. From the date of the transfer, all cash flows received from the entire financial asset are divided proportionately among the participating interest holders (including any interest retained by the transferor, its consolidated affiliates included in the financial statements being presented, or its agents) in an amount equal to their share of ownership. An allocation of specified cash flows is not an allowed characteristic of a participating interest unless each cash flow is proportionately allocated to the participating interest holders. In determining proportionate cash flows:

   1. Cash flows allocated as compensation for services performed, if any, shall not be included provided those cash flows meet both of the following conditions:

      i. They are not subordinate to the proportionate cash flows of the participating interest.

      ii. They are 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.

   2. Any cash flows received by the transferor as proceeds of the transfer of the participating interest shall be excluded provided that the transfer does not result in the transferor receiving an ownership interest in the financial asset that permits it to receive disproportionate cash flows.

C. The priority of cash flows has all of the following characteristics:

   1. The rights of each participating interest holder (including the transferor in its role as a participating interest holder) have the same priority.

   2. No participating interest holder's interest is subordinated to the interest of another participating interest holder.

   3. The priority does not change in the event of bankruptcy or other receivership of the transferor, the original debtor, or any other participating interest holder.

   4. Participating interest holders have no recourse to the transferor (or its consolidated affiliates included in the financial statements being presented or its agents) or to each other, other than any of the following:

      i. Standard representations and warranties

      ii. Ongoing contractual obligations to service the entire financial asset and administer the transfer contract

      iii. Contractual obligations to share in any set-off benefits received by any participating interest holder.

   That is, no participating interest holder is entitled to receive cash before any other participating interest holder under its contractual rights as a participating interest holder. For example, if a participating interest holder also is the servicer of the entire financial asset and receives cash in its role as servicer, that arrangement would not violate this requirement.

D. No party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to pledge or exchange the entire financial asset.

A set-off right is not an impediment to meeting the participating interest definition. For implementation guidance on the application of the term participating interest, see paragraphs 860-10-55-17I through 55-17N."

Under IFRS Standards, IFRS 9 also has restrictions on when an entity can assess a transferred part of a financial asset for derecognition. However, those restrictions are not as strict as those imposed by ASC 860. For example, ASC 860-10-40-6A(b) requires "all cash flows received from the entire financial asset to be divided proportionately among the participating interest holders . . . in an amount equal to their share of ownership" from the date of the transfer. IFRS 9:3.2.2 (a) has a similar provision that a part could comprise a proportionate share of the cash flows from a financial asset. However, unlike ASC 860, IFRS 9 also allows specifically identified cash flows from a financial asset to qualify as a part that an entity can assess for derecognition. As a result, per IFRS 9:3.2.2 (a)(i), "when an entity transfers an interest rate strip whereby the counterparty obtains the right to the interest cash flows, but not the principal cash flows from a debt instrument," the entity would apply the derecognition requirements in IFRS 9 to the interest rate strip. Provided it has no involvement with the interest rate strip following the transfer or otherwise meets the derecognition tests, the entity would derecognise the interest-rate-strip portion of the debt instrument and continue to recognise the principal-strip portion of that instrument. On the other hand, under ASC 860, the interest rate strip would not qualify as a "participating interest," and thus the entity would be required to account for the transfer as a secured borrowing.

© Deloitte LLP. All rights reserved.

IFRS 9:3.2.2(a) also provides the following other definitions of what a "part" would be comprised of that differs from the guidance in ASC 860:

- "The part comprises only a fully proportionate (pro rata) share of the cash flows from a financial asset (or a group of similar financial assets). For example, when an entity enters into an arrangement whereby the counterparty obtains the rights to a 90 per cent share of all cash flows of a debt instrument, paragraphs 3.2.3–3.2.9 are applied to 90 per cent of those cash flows. If there is more than one counterparty, each counterparty is not required to have a proportionate share of the cash flows provided that the transferring entity has a fully proportionate share."
- "The part comprises only a fully proportionate (pro rata) share of specifically identified cash flows from a financial asset (or a group of similar financial assets). For example, when an entity enters into an arrangement whereby the counterparty obtains the rights to a 90 per cent share of interest cash flows from a financial asset, paragraphs 3.2.3–3.2.9 are applied to 90 per cent of those interest cash flows. If there is more than one counterparty, each counterparty is not required to have a proportionate share of the specifically identified cash flows provided that the transferring entity has a fully proportionate share."

If none of the conditions in IFRS 9:3.2.2(a) are met, the entire financial asset must be assessed for derecognition. Additionally, when transferring a part of financial asset, the entity might be required to assess whether the transaction can be analysed as the transfer of a financial asset per IFRS 9:3.2.5 where the entity retains the contractual right to receive the cash flows but assumes a contractual obligation to pay those cash flows to one or more entities. To be considered a transfer, all of the following conditions must be met:

- "The entity has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset.
- The entity is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows.
- The entity has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the entity is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents (as defined in IAS 7 Statement of Cash Flows) during the short settlement period from the collection date to the date of required remittance to the eventual recipients, and interest earned on such investments is passed to the eventual recipients."

It is not possible to generalise as to whether derecognition of financial assets is easier under U.S. GAAP or IFRS Standards. On the one hand due to the requirement to meet the definition of a "participating interest" under U.S. GAAP certain transfers of a portion of a financial asset may meet the derecognition requirements under IFRS Standards but fail the requirements under U.S. GAAP. On the other hand, certain transfers may qualify for derecognition under U.S. GAAP but not under IFRS Standards because they fail the pass-through requirements under IFRS 9.

Comments

29.3 Has the entity transferred financial assets that are subject to a repurchase agreement?

Yes

No

U.S. GAAP	**IFRS Standards**
ASC 860 provides restrictive conditions that an entity must consider when determining whether continued recognition of a transferred asset subject to a repurchase agreement is appropriate.	IFRS 9 does not provide conditions for derecognition that are specific to repurchase agreements.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, a repurchase arrangement is an agreement entered into simultaneously between a transferor and transferee of financial assets to return a previously transferred financial asset to the transferor after a specified period

© Deloitte LLP. All rights reserved.

(ASC 860-10-20). An entity must consider the conditions in ASC 860-10-40-24 and 40-24A, in addition to the criteria in ASC 860-10-40-4 through 40-5A, to determine whether derecognition of a financial asset subject to a repurchase arrangement is appropriate. A transferor retains effective control over assets transferred in a repurchase agreement if all of the following conditions in ASC 860-10-40-24 are met:

- The financial 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 maturity, at a fixed or determinable price; and
- The agreement is entered into contemporaneously with, or in contemplation of, the transfer.

In addition, there is an exception for repurchase-to-maturity transactions in U.S. GAAP, under which such transactions must be accounted for as secured borrowings. ASC 860-10-40-24A states:

"Notwithstanding the characteristic in paragraph 860-10-40-24 that refers to a repurchase of the same (or substantially-the-same) financial asset, a repurchase-to-maturity transaction shall be accounted for as a secured borrowing as if the transferor maintains effective control."

ASC 860-10-40-25 states:

"With respect to the condition in (a) in paragraph 860-10-40-24 to maintain effective control under the condition in paragraph 860-10-40-5(c) as illustrated in paragraph 860-10-40-5(c)(1), the transferor must have both the contractual right and the contractual obligation to repurchase or redeem financial assets that are identical to those transferred or substantially the same as those concurrently transferred. Transfers that include only the right to reacquire, at the option of the transferor or upon certain conditions, or only the obligation to reacquire, at the option of the transferee or upon certain conditions, may not maintain the transferor's control, because the option might not be exercised or the conditions might not occur. Similarly, expectations of reacquiring the same securities without any contractual commitments (for example, as in wash sales) provide no control over the transferred securities."

Under IFRS Standards, IFRS 9 does not provide restrictive derecognition guidance that is specifically related to repurchase arrangements. Rather, an entity that transfers a financial asset subject to a repurchase arrangement must consider the derecognition provisions in IFRS 9:3.2.3, as it would for any financial asset transfer. In this case, derecognition is not appropriate if the repurchase arrangement results in the transferor's retaining substantially all the risks and rewards of ownership of the transferred financial asset (IFRS 9:3.2.6).

Because, under U.S. GAAP, financial assets that will be returned to the transferor as part of a repurchase agreement must be substantially the same as the original financial assets transferred for the transferor to maintain effective control, and because derecognition under IFRS 9 focuses first on risks and rewards of ownership, similar repurchase arrangements may be accounted for differently under U.S. GAAP than they would be under IFRS Standards.

Comments

29.4	**Has the entity undertaken a servicing right (i.e. a servicing asset or servicing obligation) in connection with the transfer of financial assets?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
A servicing asset must be initially recognised at fair value. An entity has the option to subsequently measure a servicing asset or liability at either fair value or amortised cost.	A servicing asset retained as part of a transfer of financial assets is considered a retained interest in those transferred assets. Therefore, the servicing asset is initially recognised at its allocated previous carrying amount on the basis of its relative fair value at the transfer date. No special guidance is provided on the subsequent measurement of a servicing right. Servicing assets are considered to be intangible assets, and servicing liabilities are considered to be provisions.

© Deloitte LLP. All rights reserved.

U.S. GAAP–IFRS Standards difference considerations

Initial recognition and measurement

Under U.S. GAAP, ASC 860-50-30-1, as amended by ASU 2009-16 requires an entity to initially measure at fair value servicing assets and liabilities that qualifies for separate recognition regardless of whether explicit consideration was exchanged.

Under IFRS Standards, IFRS 9:3.2.10, when a transfer of a financial asset qualifies for derecognition in its entirety and a right to service the financial asset is retained, that servicing right is recognised as a servicing asset or liability. If the fee received for servicing the asset is expected to more than adequately compensate the servicer, a servicing asset is initially recognised at the allocated previous carrying amount of the transferred financial asset on the basis of the relative fair values of the assets that continue to be recognised and the assets that are derecognised on the date of transfer (IFRS 9:3.2.13). A servicing asset under IFRS Standards, unlike a servicing asset under U.S. GAAP, is not initially recognised at fair value. Nevertheless, if the fee received for servicing the asset is not expected to adequately compensate the servicer, a servicing liability is recognised at fair value (IFRS 9:3.2.10).

Subsequent recognition and measurement

Under U.S. GAAP, ASC 860-50-35-1 allows an entity to subsequently measure a recognised servicing asset either at fair value or amortised cost. If the entity elects to subsequently measure the asset at fair value, it cannot revoke that election and must recognise the period change in the fair value of the servicing asset in the current period earnings. If the entity elects to subsequently measure the asset at amortised cost, it amortises the servicing asset into earnings in proportion to, and over the period of, estimated net servicing income (or loss).

Under IFRS Standards, while the initial recognition of a servicing asset or liability resulting from a transfer of financial assets is within the scope of IFRS 9, a servicing right is not considered a financial instrument. Therefore, the subsequent measurement of a servicing right is not within the scope of IFRS 9. If the servicing right recognised is an asset, an entity would refer to IAS 38, Intangible Assets, for guidance on subsequent measurement given the servicing asset meets the definition of an intangible asset per IAS 38:9. In that case, the servicing assets would be valued either by using the cost model per IAS 38:74 or the revaluation model, which is only available for assets traded in an active market per IAS 38:75. If a servicing liability is recognised, it would be within the scope of IAS 37, Provisions, Contingent Liabilities and Contingent Assets.

Comments

29.5	**Has the entity originated mortgaged loans that are either fully or partially guaranteed under government programs and have been foreclosed?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Under U.S. GAAP, an originated mortgage loan will be derecognised and a separate receivable will be recognised upon foreclosure if the conditions prescribed by the specific guidance are met. The amount of the separate receivable will be measured based on the loan balance (principal and interest) expected to be recovered from the guarantor.	IFRS Standards do not provide any guidance specific to the classification of originated foreclosed mortgage loans that are guaranteed by a government-sponsored program.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 310-40-40-7A states that a guaranteed mortgage loan receivable shall be derecognised and a separate other receivable shall be recognised upon foreclosure (that is, when a creditor receives physical possession of real estate property collateralising a mortgage loan in accordance with the guidance in ASC 310-40-40-6) if the following conditions are met:

A. The loan has a government guarantee that is not separable from the loan before foreclosure.

© Deloitte LLP. All rights reserved.

B. At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim. A creditor would be considered to have the ability to recover under the guarantee at the time of foreclosure if the creditor determines that it has maintained compliance with the conditions and procedures required by the guarantee program.

C. At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed.

ASC 310-40-40-7B indicates that upon foreclosure, the separate other receivable shall be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor.

IFRS Standards do not provide any guidance specific to the classification of foreclosed mortgage loans that are guaranteed by a government-sponsored program and therefore the derecognition guidance in IFRS 9 should be applied to determine whether the originated mortgage loan has been extinguished or transferred and a new receivable should be recognised.

Comments

© Deloitte LLP. All rights reserved.

Section 30: Government grants and other considerations

30. Government grants and other considerations

Overview

Government grants — An entity may receive assistance from a governmental entity (local, national, international) in the form of transfers of resources in return for compliance with certain conditions or restrictions associated with the operating activities of the entity. This type of assistance requires specialised accounting. IAS 20, Accounting for Government Grants and Disclosure of Government Assistance, is used to account for government grants under IFRS Standards. Under U.S. GAAP, no explicit guidance is provided related to government grants or other forms of government assistance other than industry guidance for not-for-profit entities. Some companies follow the same approach as outlined in IFRS Standards by analogy, but there is diversity in practice.

Other — There may be additional areas in which an entity's accounting under U.S. GAAP differs from that under IFRS Standards. Further, there may be areas in which U.S. GAAP and IFRS Standards do not contain comparable guidance but in which convergence may have developed in practice.

Recently issued standards not yet reflected in this Section

None.

Primary authoritative guidance

U.S. GAAP	IFRS Standards
• No specific guidance	• IAS 20, Accounting for Government Grants and Disclosure of Government Assistance

30.1 Does the entity receive government grants or other assistance?

Yes

No

U.S. GAAP	IFRS Standards
No specific guidance.	As stated in IAS 20:12, grants "shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate."

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP there is no specific guidance on accounting for government grants. While IAS 20 has been widely applied in practice by business entities in accounting for government grants, the application of ASC 450-30, Gain Contingencies, may also be acceptable since some business entities may have applied a gain contingency model by analogy for certain grants (e.g., the Electronic Healthcare Records program under the American Recovery and Reinvestment Act of 2009). Under this model, income from a conditional grant is viewed as akin to a gain contingency; therefore, recognition of the grant in the income statement is deferred until all uncertainties are resolved and the income is "realised" or "realisable." That is, an entity must meet all the conditions required for receiving the grant before recognizing income. For example, a grant that is provided on the condition that an entity cannot repurchase its own shares before a certain date may result in the deferral of income recognition until the compliance date lapses. Such a deferral may be required even if (1) the government funded the grant, (2) the entity incurred the costs that the funds were intended to defray, and (3) the remaining terms subject to compliance are within the entity's control and virtually certain of being met. That is, it would not be appropriate under a gain contingency model for an entity to consider the probability of complying with the requirements of the government grant when considering when to recognize income from the grant. Therefore, for many grants, the recognition of income under ASC 450-30 would most likely be later than the recognition of income under IAS 20.

© Deloitte LLP. All rights reserved.

In addition, it may be acceptable in practice to apply other U.S. GAAP for government grants. For example, while government grants to business entities are explicitly excluded from the scope of ASC 958, Not-for-Profit Entities, the FASB staff has noted that such entities are not precluded from applying that guidance by analogy when appropriate. Therefore, a business entity may conclude that it is acceptable to apply ASC 958 by analogy, particularly if the grant received by the business entity is similar to that received by a not-for-profit entity (e.g., certain subsidies provided to both nonprofit and for-profit health care providers).

Further, some may believe that loans obtained should be accounted for as debt in their entirety under ASC 470, Debt, even if all or a portion of the loan is expected to be forgiven. Under ASC 405-20, Extinguishment of Liabilities, income would not be recorded from the extinguishment of the loan until the entity is legally released from being the primary obligor.

Under IFRS Standards, IAS 20:7 states that government grants should not be recognised until "there is reasonable assurance that . . . the grants will be received" and that "the entity will comply with the conditions attaching to them," regardless of their form (e.g., cash, reduction of a liability). Furthermore, IAS 20:12 states that the grant "shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate." Therefore, such recognition should occur with no direct credit to shareholders' interests. In addition, IAS 20:20 stipulates that a "government grant that becomes 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 shall be recognised in profit or loss of the period in which it becomes receivable." Finally, IAS 20:24 specifies that an entity must present asset-related government grants in the statement of financial position "either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset."

Comments

© Deloitte LLP. All rights reserved.

Appendices

Appendix A: Allowance for expected credit losses in loans and receivables and some debt securities

Appendix A.	Allowance for expected credit losses in loans and receivables and some debt securities

Overview

ASC 326, Financial Instruments – Credit Losses and IFRS 9, Financial Instruments are the authoritative guidance in regards to measurement of expected credit losses under U.S. GAAP and IFRS Standards, respectively.

In June 2016, the FASB issued ASU 2016-13, codified now in ASC 326, and amended the Board's guidance on the impairment of financial instruments. The ASU added to U.S. GAAP an impairment model (known as the current expected credit loss (CECL) model) that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognises as an allowance its estimate of expected credit losses (ECL).

After considering the feedback received from the Transition Resources Group ("TRG") and other stakeholders since the issuance of ASU 2016-13, the FASB issued six final ASUs (2018-19, 2019-04, 2019-05, 2019-11, ASU 2020-03 and ASU 2020-10) in an attempt to (1) clarify the guidance in ASU 2016-13 and (2) provide relief from the costs of implementing the standard.

The effective date for the guidance in ASU 2016-13 is as follows:

- For public business entities that meet the definition of an SEC filer, excluding entities eligible to be a smaller reporting company as defined by the SEC, for fiscal years beginning after 15 December 2019, including interim periods within those fiscal years.
- For all other entities, ASC 326 is effective for fiscal years beginning after 15 December 2022, including interim periods within those fiscal years.

Entities are permitted to early adopt the guidance for fiscal years beginning after 15 December 2018, including interims periods within those years. The effective dates of the ASUs are aligned with that of ASU 2016-13.

If the entity is not yet required to apply ASC 326, for differences between the previous incurred loss model under U.S. GAAP and IFRS 9 see Question 2.2.

The version of IFRS 9 issued in July 2014, effective for reporting periods beginning on or after 1 January 2018, introduced the new guidance for measurement of expected credit losses (ECL) under IFRS Standards. Early adoption was allowed.

Part A focusses on significant differences between ASC 326 and IFRS 9 with respect to the measurement of expected credit losses for financial assets measured at amortised cost, specifically loans and receivables and debt securities classified as held to maturity. Differences in impairment for investments in other debt securities and equity securities are included in Section 3. As such, when using this publication, careful consideration should be given to the type of instrument under analysis and apply the respective guidance, based on the definitions below.

U.S. GAAP classifies financial instruments as a receivable or a debt security depending on the contractual characteristics of the instrument. According to ASC 310-10-05-4, "[r]eceivables may arise from credit sales, loans, or other transactions. Receivables may be in the form of loans, notes, and other types of financial instruments and may be originated by an entity or purchased from another entity". Furthermore, ASC 310-10-20 defines a loan as "[a] contractual right to receive money on demand or on fixed or determinable dates that is recognised as an asset in the

© Deloitte LLP. All rights reserved.

creditor's statement of financial position. Examples include but are not limited to accounts receivable (with terms exceeding one year) and notes receivable". The classification is determined on an instrument-by-instrument basis. Loans and receivables are measured at amortised cost if management has the intent and ability to hold them for the foreseeable future or payoff or for the long term at amortised cost less impairment, unless held for sale (in which case they are measured at the lower of amortised cost basis or fair value) or at fair value if the fair value option (FVO) pursuant to ASC 825 is elected at initial recognition.

U.S. GAAP defines a security as:

"A share, participation, or other interest in property or in an entity of the issuer or an obligation of the issuer that has all of the following characteristics:

A. It is either represented by an instrument issued in bearer or registered form or, if not represented by an instrument, is registered in books maintained to record transfers by or on behalf of the issuer.

B. It is of a type commonly dealt in on securities exchanges or markets or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment.

C. It either is one of a class or series or by its terms is divisible into a class or series of shares, participations, interests, or obligations."

ASC 320-10-20 defines a debt security as:

"Any security representing a creditor relationship with an entity. The term debt security also includes all of the following:

A. Preferred stock that by its terms either must be redeemed by the issuing entity or is redeemable at the option of the investor

B. A collateralized mortgage obligation (or other instrument) that is issued in equity form but is required to be accounted for as a nonequity instrument regardless of how that instrument is classified (that is, whether equity or debt) in the issuer's statement of financial position

C. U.S. Treasury securities

D. U.S. government agency securities

E. Municipal securities

F. Corporate bonds

G. Convertible debt

H. Commercial paper

I. All securitized debt instruments, such as collateralized mortgage obligations and real estate mortgage investment conduits

J. Interest-only and principal-only strips.

The term debt security excludes all of the following:

A. Option contracts

B. Financial futures contracts

C. Forward contracts

D. Lease contracts

E. Receivables that do not meet the definition of security and, so, are not debt securities, for example:

    1. Trade accounts receivable arising from sales on credit by industrial or commercial entities

    2. Loans receivable arising from consumer, commercial, and real estate lending activities of financial institutions."

Both the impairment model in ASC 326 and the impairment model in IFRS 9 are based on expected credit losses. The IASB differs from FASB in that the IFRS 9 ECL uses a three-stage approach under which, for those financial instruments in stage 1 –i.e. without a significant increase in credit risk at reporting date since origination - the loss allowance recognised will equal 12-month expected credit losses whereas for those in stages 2 and 3, the loss allowance recognised will equal lifetime expected credit losses.

© Deloitte LLP. All rights reserved.

In contrast, the FASB's CECL model requires entities to recognise lifetime expected credit losses for all assets, not just those for which there has been a significant increase in credit risk since initial recognition. Stated differently, the FASB's model follows a single credit-loss measurement approach, whereas IFRS 9 follows a dual credit-loss measurement approach in which expected credit losses are measured in stages to reflect deterioration over a period of time.

The above constitutes the main difference between both accounting frameworks; however, there are other differences an entity will need to consider. Note that there is also a significant difference related to what is classified as a troubled debt restructuring under U.S.GAAP as there is no such requirement under IFRS Standards. However, as this affects only disclosures, it is not discussed further. Companies seeking to fully implement U.S.GAAP, including disclosure requirements, should be aware of this classification requirement and disclosures in ASC 310-40, Troubled debt restructurings by creditors.

Recently issued standards not yet reflected in this Section

The FASB issued ASU 2020-03 to make certain technical corrections and improvements to the Codification. Two of those improvements pertain to ASC 326:

- *Aligning the contractual term of a net investment in a lease with its lease term when measuring expected credit losses* — ASC 326-20-30-6 requires an entity to measure expected credit losses over the financial asset's contractual life. In determining the contractual life, the entity would consider extension or renewal options that are not "unconditionally cancellable by the entity." However, ASC 842 requires a lessor to account for a net investment in a lease over the lease term. The lease term, as defined in ASC 842, includes lessee-controlled extension or renewal options whose exercise is reasonably certain and lessor-controlled extension or renewal options. As a result, the contractual term under ASC 326 could differ from the lease term determined under ASC 842.

  Because of this potential inconsistency, the ASU amends the guidance in ASC 326 to require a lessor to use the lease term (as defined in ASC 842) as the contractual term when measuring expected credit losses on a net investment in a lease.
- *Amending ASC 860-20 to clarify that an entity would measure an allowance for expected credit losses in accordance with ASC 326 when it regains control of financial assets previously sold* — ASC 860-20-25-13 states that an entity would not recognise a loss allowance on an asset that is "re-recognized pursuant to paragraph 860-20-25-10." As a result, an entity that regains control of an asset previously sold could recognise that asset without a corresponding allowance for expected credit losses, which could be inconsistent with ASC 326's requirement for an entity to measure expected credit losses on all financial assets within its scope. To avoid this potential inconsistency, the ASU amends the guidance in ASC 860-20-25-13 to require an entity to measure an allowance for expected credit losses on assets previously sold that are re-recognized in accordance with ASC 860-20-25-10.

In February 2020, FASB issued ASC 2020-02, to incorporate as part of the Accounting Codification Standard Codification, the updated SEC staff guidance in staff accounting bulletin No. 119 (SAB 119) in light of the FASB's issuance of ASU 2016-13. The SAB addresses the staff's expectation for management's policies, procedures, internal controls, and documentation of judgments related to ASC 326. An SEC registrant must apply the guidance in SAB 119 when it adopts ASU 2016-13.

Primary authoritative guidance

- ASC 326 – Financial Instruments – Credit Losses
- IFRS 9, Financial Instruments

© Deloitte LLP. All rights reserved.

A.1	**Does the entity have investments in loans or other receivables[9] other than purchased credit-deteriorated assets, for which measurement of expected credit losses is required?**	**Yes** **No**

For purchased credit deteriorated loans see Question A.19.

For trade receivables see Question A.3.

U.S. GAAP	**IFRS Standards**
Under U.S. GAAP, entities follow a "*current expected credit loss*" approach for the recognition and measurement of impairment. An estimate of the expected credit losses on loans and receivables should be recognized as an allowance (a contra asset) immediately, upon origination of the asset, and adjusted as of the end of each subsequent reporting period. The expected credit losses should (1) reflect losses expected over the contractual life of the asset and (2) consider historical loss experience, current conditions, and reasonable and supportable forecasts.	Under IFRS Standards, entities follow an "*expected credit loss*" approach for impairment measurement. An impairment loss on a financial asset accounted for at amortised cost is recognised immediately on the basis of expected credit losses (ECL). Depending on the financial asset's credit risk at inception and changes in credit risk from inception, as well as the applicability of certain practical expedients, the measurement of the impairment loss will differ from U.S. GAAP. The impairment loss would be measured as either (1) the 12-months expected credit losses or (2) the lifetime expected credit losses.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, an entity applies a "*current expected credit loss*" approach to the recognition of loan impairment. Per ASC 326-20-35-1, an entity should record an allowance for credit losses on a loan at the end of each reporting period. An entity compares its current estimate of expected credit losses to its prior estimate recorded, with any difference being recorded in net income as a credit loss expense or reversal of credit loss expense. There is no threshold for recognition.

There is flexibility under U.S. GAAP as to how an entity measures expected credit losses as long as it results in an allowance that (1) reflects a risk of loss, even if remote, (2) reflects losses expected over the contractual life of the asset, and (3) considers historical loss experience, current conditions, and reasonable and supportable forecasts.

Under IFRS Standards, an impairment loss on a financial asset accounted for at amortised cost is recognised immediately on the basis of expected credit losses. Expected credit losses are defined in Appendix A of IFRS 9 as the weighted average of credit losses with the respective risks of default occurring as the weights.

IFRS 9's dual-measurement approach requires an entity to measure the loss allowance for an asset accounted for at amortised cost (other than one that is purchased or originated credit-impaired) at an amount equal to either (1) the 12-month expected credit losses or (2) lifetime expected credit losses.

The 12-month expected credit losses measurement, which reflects the expected credit losses arising from default events possible within 12 months of the reporting date, is required if the asset's credit has not increased significantly since initial recognition (IFRS 9:5.5.5). In addition, an entity may assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date (IFRS 9:5.5.10)

As noted in IFRS 9:B5.5.22, the credit risk is considered low if (1) "the financial instrument has a low risk of default", (2) "the borrower has a strong capacity to meet its contractual cash flow obligations in the near term," and (3) "adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations."

IFRS 9:5.5.9 states that in assessing whether there has been a significant increase in a financial asset's credit risk, an entity is required to consider "the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses" since initial recognition. IFRS 9:B5.5.17 provides a non-exhaustive list of factors that may be relevant in determining whether there has been a significant increase in credit risk.

For financial instruments for which credit risk has significantly increased since initial recognition, the allowance is measured as the lifetime expected credit losses (IFRS 9:5.5.3), which Appendix A of IFRS 9 defines as the "expected

[9] For the definition of loans and receivables see Overview section.

© Deloitte LLP. All rights reserved.

credit losses that result from all possible default events over the expected life of a financial instrument", unless the credit risk is low as of the reporting date (IFRS 9:5.5.10).

Comments

A.2	**Does the entity have debt securities[10] measured at fair value through other comprehensive income?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Impairment for available-for-sale ("AFS") debt securities is assessed under a different model rather than the CECL model.	Debt securities measured at fair value through other comprehensive income are in scope of the ECL model in IFRS 9.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 326-20-15-2 includes held-to-maturity debt securities in scope of the current expected credit loss model and as such lifetime expected losses are measured for such instruments. One of the FASB's objectives related to developing a new impairment model was to reduce the complexity of U.S. GAAP by decreasing the number of credit impairment models that entities use to account for debt instruments. Accordingly, the FASB set out to establish a one-size-fits-all model for measuring expected credit losses on financial assets that have contractual cash flows. However, the FASB determined that the CECL model would not apply to available-for-sale debt securities, which will continue to be assessed for impairment in a different manner under ASC 320 (now codified in ASC 326-30).

The FASB decided to make targeted improvements to the existing Other Than Temporary Impairment ("OTTI") model in ASC 320 for AFS debt securities to eliminate the concept of "other than temporary" from that model. The targeted changes to the existing OTTI model can be summarised as follows:

- The entity must use an allowance approach (as opposed to permanently writing down the security's cost basis).
- The entity must limit the allowance to the amount at which the security's fair value is less than its amortised cost basis.
- The entity may not consider the length of time fair value has been less than amortised cost.
- The entity may not consider recoveries in fair value after the balance sheet date when assessing whether a credit loss exists.

These targeted changes do not apply to an AFS debt security if (1) the entity intends to sell the security or (2) it is more likely than not that the entity will be required to sell the security before the recovery of the security's amortised cost basis. In such cases, the entity would write down the debt security's amortised cost to its fair value, as required under existing U.S. GAAP.

Under IFRS Standards, debt securities are classified based on the business model of the portfolio the instrument is in and on the characteristics of the cash flows of the instrument. As such they are measured either at fair value through profit or loss, fair value through other comprehensive income or amortised cost. If the debt security is measured at amortised cost or fair value through other comprehensive income, the ECL model is applicable.

For an analysis of the differences in investment in debt securities, including impairment for debt securities measured at fair value through other comprehensive income see Section 2.

Comments

[10] For the definition of debt security under U.S. GAAP refer to Overview section.

© Deloitte LLP. All rights reserved.

A.3	**Does the entity have trade receivables and contract assets?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
The CECL model applies to all trade receivables and contract assets.	ECL for contract assets and trade receivables that do not contain a significant financing component, is measured under the simplified approach. If the financing component is considered significant, there is an accounting policy choice.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, the CECL model applies to trade receivables that result from revenue transactions within the scope of ASC 606, Revenue from contracts with customers. The example in ASC 326-20-55-37 through 40 illustrates that an entity can use a provision matrix to measure lifetime expected losses. Contract assets are also in scope of ASC 326 and an entity may measure the expected credit losses also using a provision matrix. An entity needs to consider the contractual life of a contract asset may differ from the contractual life of its trade receivables and reflect this in the measurement of the expected credit losses (either under a provision matrix approach or other methods).

Under IFRS Standards, the expected credit losses for contract assets and trade receivables that do not contain a significant financing component in accordance with IFRS 15, Revenue from contracts with customers, is measured under the simplified approach. Under the simplified approach, a lifetime expected loss allowance is always recognised. As a result, there is no need to identify significant increases (or decreases) in credit risk for the purpose of measuring the impairment allowance as required under the general ECL approach. A provision matrix is also acceptable as a method to estimate the expected credit losses.

The simplified approach is available as an accounting policy option for contract assets and trade receivables that contain significant financing components in accordance with IFRS 15 (IFRS 9:5.5.15 and 5.5.16) and it would be consistent to the use of a provision matrix under U.S. GAAP. However, if an entity does not use the simplified approach under IFRS Standards, it will be necessary to treat these receivables in the same way as any other loan classified in stage 1 (see Question A.1).

Comments

A.4	**Is the entity a lessor with net investments resulting from finance leases[11] and/or operating lease receivables?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
For a lessor, the net investment in a lease is in scope of ASC 326. The measurement of the allowance takes into consideration the collateral relating to the net investment in the lease which represents the cash flows that the lessor would expect to receive (or derive) from the lease receivable and the unguaranteed residual asset during and following the end of the remaining lease term. Operating lease receivables for a lessor however, are in scope of ASC 842.	For a lessor, lease receivables are in scope of IFRS 9. The allowance for expected credit losses is measured either under the general ECL method or the simplified approach, if elected as the accounting policy.

[11] Under U.S. GAAP from the perspective of a lessor a finance lease may be classified as a sales-type lease of a direct financing lease. A sales-type lease is a lease that meets one or more of the criteria in ASC 842-10-25-2, and a direct financing lease is a lease that meet none of the criteria in ASC 842-10-25-2 but meets all the criteria in ASC 842-10-25-3(b). See Section 27 for details of the differences between U.S. GAAP and IFRS Standards, related to leases.

© Deloitte LLP. All rights reserved.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, unlike receivables arising from operating leases, net investments resulting from sales-type or direct financing leases are within the scope of ASC 326 and lessors therefore need to determine expected credit losses for such instruments.

ASC 842-30-35-3 states: "A lessor shall determine the loss allowance related to the net investment in the lease and shall record any loss allowance in accordance with Subtopic 326-20 on financial instruments measured at amortised cost. When determining the loss allowance for a net investment in the lease, a lessor shall take into consideration the collateral relating to the net investment in the lease. The collateral relating to the net investment in the lease represents the cash flows that the lessor would expect to receive (or derive) from the lease receivable and the unguaranteed residual asset during and following the end of the remaining lease term."

Therefore, when evaluating the net investment in a sales-type or direct financing lease for impairment, a lessor should use the cash flows it expects to derive from the underlying asset during the remaining lease term as well as those it expects to derive from the underlying asset at the end of the lease term (i.e., cash flows expected to be derived from the residual asset). When determining the cash flows to be derived from the residual asset, the lessor should consider the amounts it would receive for re-leasing or selling the underlying asset to a third party but should not consider the expected credit risk of the potential future lessee or buyer of the underlying asset (i.e., it would not be appropriate for the lessor to include a credit risk assumption in its analysis since it does not know the identity of the theoretical future lessee or buyer).

In addition, receivables arisen from operating leases are out of scope of ASC 326 and an entity would apply ASC 842, Leases, rather than ASC 326-20 to account for changes in collectability assessment for operating leases. Per ASC 842-30-25-13, if the assessment of collectability changes after the commencement date of the operating lease, any difference between the lease income that would have been recognised in accordance with ASC 842-30-25-11 and the lease payments, that have been collected from the lessee are recognised as an adjustment to lease income.

Under IFRS Standards, lease receivables for a lessor are in scope of IFRS 9. An entity will measure expected credit losses under the ECL general model (see Question A.1), however, an entity also could choose as its accounting policy, to apply the simplified approach to its operating lease receivables and finance lease receivables. The simplified approach requires that lifetime expected credit losses are always recognised (see further information on the simplified approach in Question A.3).

IFRS 16:67 requires the lessor's net investment in the finance lease to be presented as a finance lease receivable. At initial recognition, the net investment in the finance lease is equal to the unguaranteed residual value accruing to the lessor plus the lease payments receivable, discounted at the interest rate implicit in the lease. Subsequent to initial recognition, the lessor is required:

- to recognise finance income on its net investment in the lease reflecting a constant periodic rate of return;
- to regularly review the estimated unguaranteed residual value; and
- to apply the impairment requirements of IFRS 9 (which are included in IFRS 9:5.5), recognising an allowance for expected credit losses on the lease receivable.

In addition to any impairment loss under IFRS 9 which arises as a result of an increase in credit risk of the lessee, losses in relation to the finance lease receivable may also arise due to decreases in the unguaranteed residual value of the leased asset in accordance with IFRS 16:77. Such a loss is not a credit loss as defined by IFRS 9.

The estimated unguaranteed residual value should be reviewed regularly for any potential reductions in the estimated amount. An entity should compare the current estimate of the unguaranteed residual value with the original estimate; any decrease in the unguaranteed residual value will be discounted using the interest rate implicit in the lease at inception to determine the loss to be recognised.

The recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the net investment in the finance lease. Finance income is recognised at the rate implicit in the lease on the total net investment including the unguaranteed residual value.

Subsequent to the recognition of a loss due to a decrease in the unguaranteed residual value, interest income will be accrued using the rate implicit in the lease on the basis of the revised carrying amount. The interest rate implicit in the lease determined at the inception of the lease remains unchanged.

© Deloitte LLP. All rights reserved.

Whilst IFRS 16:77 is clear that a reduction in the unguaranteed residual value affects the income allocation, there is no guidance on whether the allowance for expected credit losses adjusts the net investment in the lease balance and thus, affects recognition of finance lease income.

In the absence of specific guidance, it is acceptable to analogise to the effective interest method applied to financial assets in accordance with IFRS 9:5.4.1, under which interest income is calculated with reference to the gross carrying amount (i.e. before a deduction of a loss allowance) of a financial asset, except for credit-impaired financial assets for which interest income is calculated with reference to their amortised cost (i.e. after a deduction of the loss allowance). This approach is available irrespective of whether the simplified approach in IFRS 9:5.5.15 of recognising lifetime expected credit losses is applied to lease receivables.

This analogy reflects the fact that finance lease receivables are subsequently measured in a manner that is similar to financial assets measured at amortised cost (IFRS 9:BC5.131). However, due to notable differences in the application of the effective interest method as compared to the IFRS 16 requirements for the accounting treatment of lease receivables, other approaches may be appropriate (provided that, if the finance lease receivable is credit-impaired, interest income is recognised on the finance lease receivable after the deduction of the loss allowance).

Comments

A.5	Does the entity have off-balance sheet arrangements such as loan commitments, guarantees and standby letters of credit that are not accounted for as derivatives?	Yes No

U.S. GAAP	IFRS Standards
Off-balance-sheet arrangements, such as commitments to extend credit, guarantees, and standby letters of credit, are subject to credit risk; therefore, arrangements that are not considered derivatives under ASC 815 are within the scope of the CECL model. For an unfunded portion of a loan commitment, an entity must estimate expected credit losses over the full contractual period over which it is exposed to credit risk under an unconditional present legal obligation to extend credit.	Financial instruments that include both a loan and an undrawn commitment component and the entity's contractual ability to demand repayment and cancel the undrawn commitment does not limit the entity's exposure to credit losses to the contractual notice period. Expected credit losses are measured over the period that the entity is exposed to credit risk and expected credit losses would not be mitigated by credit risk management actions.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, "in estimating expected credit losses for off-balance-sheet credit exposures, an entity estimates the expected credit losses over the full contractual period in which the entity is exposed to credit risk via a present contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the issuer [...]" (ASC 326-20-30-11). Accordingly, under ASC 326, an entity's method for determining the estimate of expected credit losses on the funded portion of a loan commitment must be similar to its method for determining the estimate for other loans. For an unfunded portion of a loan commitment, an entity must estimate expected credit losses over the full contractual period over which it is exposed to credit risk under an unconditional present legal obligation to extend credit. Such an estimate takes into account both the likelihood that funding will occur and the expected credit losses on commitments to be funded. However, under CECL, if an entity has the unconditional ability to cancel the unfunded portion of a loan commitment, the entity would not be required to estimate expected credit losses on that portion, even if the entity has historically never exercised its cancellation right.

Under IFRS Standards, the maximum period over which expected credit losses should be measured is the maximum contractual period over which the entity is exposed to credit risk. However, some financial instruments include both a loan and an undrawn commitment component and the entity's contractual ability to demand repayment and cancel the undrawn commitment does not limit the entity's exposure to credit losses to the contractual notice period (IFRS 9:B5.5.39). For those financial instruments only, expected credit losses are measured over the period that the entity is exposed to credit risk and expected credit losses would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period (IFRS 9:5.5.20).

© Deloitte LLP. All rights reserved.

Therefore, entities will be required to measure expected credit losses over the period for which they are exposed to credit risk.

Comments

A.6	Does the entity have reinsurance receivables?	Yes No

U.S. GAAP	IFRS Standards
Reinsurance receivables that result from insurance transactions are within the scope of ASC 326.	Reinsurance receivables are not in scope of IFRS 9.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, all reinsurance receivables are within the scope of the CECL model, regardless of the asset's underlying measurement basis as clarified by the FASB in ASC 326-20-15-2(d). That is, an entity will need to apply the CECL model to reinsurance receivables measured on a discounted basis as well as those measured at amortised cost.

Under IFRS Standards, reinsurance receivables are not in scope of IFRS 9 but in scope of IFRS 4, Insurance Contract. Under IFRS 4, a reinsurance asset is impaired if, and only if (a) there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the cedant may not receive all amounts due to it under the terms of the contract; and (b) that event has a reliably measurable impact on the amounts that the cedant will receive from the reinsurer. IFRS 4 does not describe how impairment of reinsurance receivables should be measured but given that objective evidence of a loss event is required, entities apply an incurred loss model based on the guidance in IAS 39, Financial Instruments: Recognition and Measurement, superseded by IFRS 9. The impairment loss is recognised in profit or loss and its carrying amount should be reduced accordingly through a contra asset account.

IFRS 17, the new Standard on Insurance Contracts becoming effective from 1 January 2023, will introduce explicit guidance for the measurement of the non-performance risk borne by the cedant in relation to reinsurance receivables that is consistent with the principles of the expected credit loss model for credit-impaired assets under IFRS 9. IFRS 17 requires entities to use a fulfilment cash flow model to measure the present value of future cash flows for reinsurance contracts held. Under this model, the effect of expected credit losses shall be included in the measurement of reinsurance contracts held from their inception on a probability weighted basis with any changes in expected credit losses after initial recognition recognised directly in profit or loss when they occur.

Comments

A.7	Does the entity have loans and receivables between entities under common control?	Yes No

U.S. GAAP	IFRS Standards
Loans and receivables between entities under common control are out of scope of ASC 326.	IFRS 9 applies to loans and receivables between entities under common control.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, loans and receivables between entities under common control are specifically excluded from the scope of the CECL model (ASC 326-20-15-3(f)). At the June 2018 TRG meeting, the FASB staff indicated that this scope exception applies to all common-control arrangements at all stand-alone reporting levels (i.e., parent and subsidiaries); however, such application is not specifically addressed in ASC 326.

© Deloitte LLP. All rights reserved.

Under IFRS Standards, intercompany loans are in scope of the ECL general approach in IFRS 9 and in standalone financial statements the reporting entity is required to assess whether credit risk has increased significantly since origination, or whether they are credit impaired as at the reporting date, and therefore lifetime expected losses need to be recognised.

Comments

A.8 **Does the entity measure expected credit losses for financial assets at amortised cost, using methods different to discounted cash flows (such as loss-rate methods, roll rate methods, probability of default methods, aging schedule using loss factors, etc.)?**

Yes

No

Receivables here exclude trade receivables which are addressed in Question A.3 above.

U.S. GAAP	IFRS Standards
An entity can use a number of measurement approaches to determine the expected credit losses. Time value of money is explicitly reflected only when a discounted cash flow approach is used to estimate expected credit losses.	Expected losses must be discounted to the reporting date using the effective interest rate of the asset (or an approximation thereof) that was determined at initial recognition. As such, time value of money is required to be incorporated explicitly regardless of the methodology used to determine the expected credit losses.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 326-20-30-3 states that the allowance for credit losses may be determined using various methods and it is not required to utilise a discounted cash flow method to estimate expected losses neither to reconcile the estimation technique being used with a discounted cash flow method. When a discounted cash flow method is applied, the allowance for credit losses should reflect the difference between the amortised cost basis and the present value of the expected cash flows.

When an entity uses a method that projects future principal and interest cash flows (i.e. a discounted cash flow method), the discount rate will be the financial asset's effective interest rate, except for purchased credit impaired assets (see Question A.19). If the financial asset's contractual interest rate varies based on subsequent changes in an independent factor, the effective interest rate for such financial asset is calculated based on that factor as it changes over the life of the financial asset. An entity is also not required to project changes in the independent factor for the purposes of estimating expected future cash flows but if they do the same changes should be applied in determining the effective interest rate used to discount cash flows (ASC 326-20-30-4).

As an accounting policy election for each class of financing receivable or major security type, an entity may adjust the effective interest rate used to discount expected cash flows to consider the timing (and changes in timing) of expected cash flows resulting from expected prepayments. However, if the asset is restructured in a troubled debt restructuring, the effective interest rate used to discount expected cash flows is not adjusted because of subsequent changes in expected timing of cash flows.

Under IFRS Standards, expected credit losses are discounted to the reporting date using the effective interest rate determined at initial recognition. If a financial instrument has a variable interest rate, expected credit losses are discounted using the current effective interest rate determined in accordance with IFRS 9:B5.4.5. For purchased or originated credit-impaired financial assets, expected credit losses are discounted using the credit-adjusted effective interest rate determined at initial recognition (see Question A.19).

In addition, the determination of the effective interest rate under U.S. GAAP and IFRS Standards for the same financial asset may differ. Refer to Section 26.

© Deloitte LLP. All rights reserved.

Comments

A.9	Does the entity apply a definition of default that is not consistent with that used for internal credit risk management?	Yes No

U.S. GAAP	IFRS Standards
Default based statistic methods could be used to measure expected credit losses; however, ASC 326 does not define the term default.	Entities are required to define default consistent with that used for internal credit risk management. There is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, the term default is not defined. The allowance for credit losses on financial assets requires the determination of both the estimation technique and the assumptions inherent to that technique. ASC 326-20-55-6 notes that estimating expected credit losses is highly judgmental and one of the judgments for entities to make is to determine the definition of default for default based statistics. In practice, entities follow regulatory guidance or internal credit risk management practices for the definition of default but they are not required to do so and there is no rebuttable presumption of when an asset is in default.

Under IFRS Standards, the term default is not defined in IFRS 9 and an entity will have to establish its own policy for what it considers a default, and, in accordance with IFRS 9:B5.5.37, apply a definition consistent with that used for internal credit risk management purposes for the relevant financial instrument. This should consider qualitative indicators (e.g. financial covenants) when appropriate. IFRS 9:B5.5.37 also includes a rebuttable presumption that a default does not occur later than when a financial asset is 90 days past due unless an entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. The definition of default used for these purposes should be applied consistently to all financial instruments unless information becomes available that demonstrates that another default definition is more appropriate for a particular financial instrument.

The definition of default is also relevant to determine whether a financial asset should be classified in stage 1, stage 2 or stage 3.

Comments

A.10	Does the entity have information available to measure a significant increase in credit risk for loans on an individual or collective basis?	Yes No

U.S. GAAP	IFRS Standards
U.S.GAAP does not require an entity to measure significant increases in credit risk since the origination of a financial asset for the purpose of determining the measurement approach for expected credit losses. An entity must evaluate financial assets on a collective (i.e., pool) basis if they share similar risk characteristics. If a financial asset's risk characteristics are not similar to those of any of the entity's other financial assets, the entity would evaluate that financial asset individually. Both	IFRS Standards requires an entity to identify whether a financial asset suffered a significant deterioration in credit risk. When no reasonable information on an individual basis is available to assess significant increase in credit risk, collective evaluation is required.

© Deloitte LLP. All rights reserved.

assessments are done with the purpose of determining what the expected credit loss is.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, the unit of account for measuring expected credit losses is a pool of financial assets exhibiting similar risk characteristics. When a financial asset does not share those risk characteristics, expected credit losses are then assessed on an individual basis and such financial assets should not be included in a collective assessment (ASC 326-20-30-2).

Therefore, an entity reporting under U.S.GAAP is not required to track whether a financial asset suffered a significant deterioration in credit risk for the purpose of determining the measurement approach for expected credit losses.

Under IFRS Standards, the measurement of expected credit losses is based on the weighted average credit loss and therefore the measurement of the loss allowance should be the same regardless of whether it is measured on an individual basis or a collective basis. The assessment on a collective basis may be more practical for large portfolios of items.

However, specifically for the assessment of a significant increase in credit risk, IFRS 9:B5.5.1 indicates that "In order to meet the objective of recognising lifetime expected credit losses for significant increases in credit risk since initial recognition, it may be necessary to perform the assessment of significant increases in credit risk on a collective basis […]".

This is because an entity may not be able to identify significant changes in credit risk for individual financial assets before the financial asset becomes past due (e.g. there may be little or no information for an individual retail loan until a customer fails to pay). If changes in the credit risk for individual financial assets are not captured before they become past due, a loss allowance based only on credit information at an individual financial asset level would not faithfully represent the changes in credit risk since initial recognition. As such, when determining whether a significant increase in credit risk has occurred and forward looking information is not available at the individual financial asset level without undue costs and effort, an entity should use forward looking information aggregated at a higher level to perform the assessment.

Comments

A.11	Does the entity revert, when measuring the expected credit losses, to historical loss information for those periods on which it is not able to develop reasonable and supportable forecasts?	Yes No

U.S. GAAP	IFRS Standards
For the period beyond that for which the entity can make reasonable and supportable forecasts, the entity should revert to historical credit loss experience.	For periods that are far in the future, an entity may extrapolate projections from available, detailed information.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 326-20-30-9 indicates an entity should not rely only on past events. Such historical information should be adjusted to reflect current conditions and reasonable and supportable forecasts management expects to differ from those conditions that existed during the period on which such historical information was evaluated. However, an entity is not required to develop forecasts over the contractual term of the financial asset or group of financial assets. For those periods beyond which the entity is able to make or obtain reasonable and supportable forecasts of expected credit losses, it should revert to historical loss information.

Under IFRS Standards, it is not a requirement to incorporate forecasts of future conditions over the entire expected life of a financial instrument. IFRS 9:B5.5.50 states "[a]s the forecast horizon increases, the availability of detailed information decreases and the degree of judgement required to estimate expected credit losses increases. The estimate of expected credit losses does not require a detailed estimate for periods that are far in the future—for such periods, an entity may extrapolate projections from available, detailed information".

© Deloitte LLP. All rights reserved.

Both accounting frameworks require entities to consider all available and relevant information when estimating expected credit losses, including past events, adjustments for differences in asset-specific risk characteristics, current conditions and reasonable and supported forecasts. However, the measurement of expected credit losses may be impacted under U.S. GAAP and IFRS Standards, depending on the approach followed by an entity to determine the expected losses for periods after the last one forecasted using available and reasonable information (i.e. periods with increased uncertainty and decreased precision).

Comments

A.12	**Does the entity stop accruing interest on its loans and receivables?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
An entity may suspend the recording of interest in accordance with regulatory requirements or industry practice. Measurement of allowance for credit losses on accrued interest is an accounting policy election.	Nonaccrual practices are not allowed.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, amortised cost basis includes accrued interest as defined in ASC 326-20-20 “The amortized cost basis is the amount at which a financing receivable or investment is originated or acquired, adjusted for applicable accrued interest, accretion, or amortization of premium, discount, and net deferred fees or costs, collection of cash, writeoffs, foreign exchange, and fair value hedge accounting adjustments”.

Interest income on loans and receivables is recognised on a gross basis. Entities are allowed to measure the allowance for credit losses on accrued interest receivable balances separately from other components of the amortised cost basis of associated financial assets.

- However, ASC 326 includes certain accounting policy elections an entity is allowed to apply in regards to accrued interest, specifically:
- Make an accounting policy election not to measure an allowance for credit losses on accrued interest receivable amounts if an entity writes off the uncollectible accrued interest receivable balance in a timely manner (ASC 326-20-30-5A).

Make an accounting policy election to write off accrued interest amounts by reversing interest income or recognising credit loss expense, or a combination of both (ASC 326-20-35-8A).

Under IFRS Standards, interest income is always recognised regardless of the stage within the expected credit losses model the financial asset is in. For financial assets that are not credit-impaired, interest is calculated based on the gross carrying amount. For financial assets that have become credit-impaired assets and hence are in stage 3, interest is calculated on a net carrying amount after deducting the loss allowance (i.e. the amortised cost) (IFRS 9:5.4.1(b)).

The above does not apply to purchased credit deteriorated assets under U.S. GAAP and purchased or originated credit-impaired financial assets under IFRS Standards. See Question A.19.

Comments

© Deloitte LLP. All rights reserved.

A.13	**Does the entity use the collateral's fair value to measure the estimate of expected credit losses of the related loan or receivable?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
The measurement of expected credit losses for collateral-dependent loans when foreclosure is probable is based on the fair value of the collateral. If foreclosure is not probable, a practical expedient can be applied.	Expected future cash flows that will originate by the realisation of collateral are included in the measurement of expected credit losses regardless of whether foreclosure is probable.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, an entity considers, among other factors, how the collateral's fair value may affect the estimation of credit losses for a financial asset over its contractual life. As indicated in ASC 326-20-30-10, an entity should consider the nature of the collateral, potential future changes in the collateral's fair value and historical losses (adjusted for current conditions and reasonable and supportable forecasts) for financial assets secured with similar collateral.

If a financial asset is collateral-dependent and foreclosure is probable (i.e. if repayment is expected to be provided substantially through the operation or sale of collateral when the borrower is experiencing financial difficulty based on the entity's assessment as of the reporting date) ASC 326-20-35-4 requires an entity to measure the allowance for credit losses on the basis of the fair value of the collateral at the reporting date (less costs of sale, if applicable). Hence, the estimate of expected credit losses is the difference between the financial asset's amortised cost and the collateral's fair value (adjusted for selling costs, when applicable).

If the financial asset is collateral-dependent but foreclosure is not probable, in accordance with ASC 326-20-35-5 an entity may use, as a practical expedient, the fair value of the collateral to determine the allowance for credit losses in the same way as described in the paragraph above, but only "when the borrower is experiencing financial difficulty based on the entity's assessment as of the reporting date".

The phrase "when the borrower is experiencing financial difficulty" is consistent with the guidance in ASC 310-40 that an entity considers to determine whether a modification of a financial asset reflects a Troubled Debt Restructuring. Therefore, the guidance in ASC 310-40 that is used to determine whether a debtor is experiencing financial difficulties is relevant to the determination of an entity's ability to use the practical expedient for a collateral-dependent financial asset.

Under IFRS Standards, as indicated in IFRS 9:B.5.5.55, when an entity estimates the expected cash shortfalls it considers the cash flow expected from the collateral. The estimate of expected cash shortfalls on a collateralised financial instrument reflects the amount and timing of cash flows that are expected from foreclosure on the collateral less the discounted costs of obtaining and selling the collateral, irrespective of whether foreclosure is probable (i.e. the estimate of expected cash flows considers the probability of a foreclosure and the cash flows that would result from it). Consequently, any cash flows that are expected from the realisation of the collateral beyond the contractual maturity of the contract are included in this analysis.

Comments

A.14	**Does the entity consider other credit enhancements different from collateral in the measurement of the expected credit losses?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
The estimate of expected credit losses shall reflect how certain credit enhancements (different from freestanding contracts) mitigate expected credit losses on the financial asset. A freestanding contract is entered into either: A. Separate and apart from any of the entity's other financial instruments or equity transactions	The estimate of expected credit losses shall reflect how certain credit enhancements (other than freestanding contracts) mitigate expected credit losses on the financial asset. These credit enhancements should be an integral part of the contractual terms.

© Deloitte LLP. All rights reserved.

B. In conjunction with some other transaction and is legally detachable and separately exercisable.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 326-20-30-12 indicates an entity should consider how other credit enhancements mitigate the expected credit losses, including consideration of the financial condition of guarantors, willingness of the guarantor(s) to pay, etc.; however "an entity shall not combine a financial asset with a separate freestanding contract that serves to mitigate credit loss. As a result, the estimate of expected credit losses on a financial asset (or group of financial assets) shall not be offset by a freestanding contract (for example, a purchased credit-default swap) that may mitigate expected credit losses on the financial asset (or group of financial assets)"

Among other factors that may affect expected credit losses on a financial asset (or group of similar financial assets), an entity should consider whether the asset includes an embedded credit enhancement provided by a third-party guarantor (e.g., private mortgage insurance). In determining whether an enhancement feature is embedded or freestanding, an entity must consider the following definition of a freestanding contract in the ASC master glossary:

A freestanding contract is entered into either:

A. Separate and apart from any of the entity's other financial instruments or equity transactions

B. In conjunction with some other transaction and is legally detachable and separately exercisable.

If the financial asset includes an embedded credit enhancement feature, the entity should consider how the cash flows associated with such a feature should be incorporated into the expectation of cash flows that are recoverable on the financial asset. By contrast, the entity shall not consider cash flows associated with a freestanding credit enhancement contract (e.g., credit insurance purchased by the entity, including credit default swaps) even though the objective of obtaining such a contract is the same as if it were embedded in the financial asset (i.e., to mitigate credit exposure). To avoid double counting, an entity is prohibited from considering the effects of a freestanding credit enhancement feature when estimating expected credit losses. For example, the cash flows from a credit default swap that is a credit enhancement of a loan asset should not be included in the measurement of expected credit losses because such a swap would be recognised separately as a derivative financial instrument. Even if the freestanding credit insurance is not accounted for as a derivative, cash flows from freestanding credit insurance should not be considered in the estimation of expected losses on the related "covered" assets.

Under IFRS Standards, IFRS 9:B5.5.55 states that "the estimate of expected cash shortfalls shall reflect the cash flow expected from collateral and other credit enhancements that are part of the contractual terms and not recognised separately by the entity". The credit enhancement is not required to be an explicit term of an instrument's contract in order for it to be taken into account in the measurement of expected credit losses of the instrument. Consequently, it is not necessary for a credit enhancement to be explicitly stated in the terms of the contract for which expected credit losses are being measured, but it is necessary for the credit enhancement to be integral to those contractual terms.

There is no specific guidance in IFRS Standards explaining what is 'integral to the contractual terms' and, therefore, judgement will be required, considering all relevant facts and circumstances, to determine whether a credit enhancement meets this criterion. Also, to avoid double-counting, only credit enhancements that are not recognised separately can be included in the measurement of expected credit losses. For example, the cash flows from a credit default swap that is a credit enhancement of a loan asset should not be included in the measurement of expected credit losses because such a swap would be recognised separately as a derivative financial instrument.

Although both frameworks require credit enhancements to be considered when measuring expected credit losses, depending on the nature of the credit enhancement under consideration, differences may exist given the definition of a freestanding instrument under U.S. GAAP and the judgement involved around 'integral part to the contractual terms' under IFRS Standards.

Comments

© Deloitte LLP. All rights reserved.

A.15	**Does the entity have financial assets measured at amortised cost for which the amount of the collateral securing the financial asset is continually adjusted as a result of changes in the fair value of the collateral?**	**Yes** **No**

U.S. GAAP	IFRS Standards
When an entity reasonably expects the borrower to continue to replenish the collateral amount, the expected credit losses could be determined as the difference between the amortised cost and the fair value of the collateral at the reporting date.	Similar practical expedient does not exist for financial assets with collateral maintenance requirements.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 326-20-35-6 includes a practical expedient to measure expected credit losses for certain financial assets for which collateral is contractually required to be adjusted on a continuing basis.

In arrangements in which the borrower must continually adjust the collateral securing the asset to reflect changes in the collateral's fair value (e.g., reverse repurchase arrangements), the entity is permitted to measure its estimate of expected credit losses on these financial assets only on the basis of the unsecured portion of the amortised cost as of the balance sheet date (i.e., the difference between the amortised cost basis of the asset and the collateral's fair value). In such arrangements, the entity must reasonably expect that the borrower will continue to replenish the collateral as necessary. Under the practical expedient for the collateral maintenance provision, the entity may assume that there will be zero losses on the portion of the asset's amortised basis that is equal to the fair value of the collateral as of the balance sheet date. If the fair value of the collateral is equal to or greater than the amortised cost of the asset, the expected losses would be zero. If the fair value of the collateral is less than the amortised cost of the asset, the expected losses are limited to the difference between the fair value of the collateral and the amortised cost basis of the asset. Example 7 in ASC 326-20 illustrates application of this practical expedient.

Under IFRS Standards, a similar practical expedient does not exist. As described in Question A.1, expected credit losses are the weighted average of credit losses and therefore the risk of default of the borrower needs to be considered even if there is a requirement to update the collateral based on the changes in its fair value and such risk is low.

Comments

A.16	**Does the entity have financial assets measured at amortised cost for which the expectation of non-payment of the carrying amount is zero?**	**Yes** **No**

U.S. GAAP	IFRS Standards
If the expectation of non-payment of the carrying amount of a financial assets is zero, an entity is not required to measure expected credit losses for such financial asset.	An estimate of expected credit losses shall always reflect the possibility that a credit loss occurs even if the most likely outcome is no credit loss.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, an entity's estimate of expected credit losses shall include a measure of the expected risk of credit loss even if that risk is remote. However, ASC 326-20-30-10 also states that "an entity is not required to measure expected credit losses on a financial asset . . . in which historical credit loss information adjusted for current conditions and reasonable and supportable forecasts results in an expectation that nonpayment of the [financial asset's] amortized cost basis is zero." On the basis of Example 8 in ASC 326-20-55-48 through 55-50 and Deloitte's CECL Roadmap section 4.4.7, we believe that the FASB may have contemplated U.S. Treasury securities and other similar financial assets when it decided to allow an entity to recognise zero credit losses on an asset; however, there are no scope exceptions from ASC 326 on the basis of the level of an asset's credit risk.

Example 8 illustrates that although it may be easy to conclude that the risk of nonpayment is zero on a U.S. Treasury security, the entity should still apply the CECL model to financial assets, even if the risk of loss associated with those

© Deloitte LLP. All rights reserved.

assets is low. Consequently, the entity should apply the CECL model consistently to all of its financial assets regardless of the credit risk associated with each asset. That is, the entity should measure expected credit losses by considering all available relevant information, including details about past events, current conditions, and reasonable and supportable forecasts and their implications related to such losses.

Under IFRS Standards, in accordance with IFRS 9:5.5.18, an entity is required to consider the possibility that a credit loss occurs, even if the likelihood of that credit loss occurring is very low – "[it] should consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, […]". As such, IFRS 9 makes clear that an entity cannot simply assume that the most likely outcome is payment of the contract in full and therefore expected credit losses are nil. Such an approach does not include within the probability assessment the possibility that a credit loss could occur. The aim of a probability-weighted approach in IFRS 9 is to ensure that credit losses, regardless of how likely, form part of the measurement of the loss allowance.

In addition, IFRS 9:5.5.10 contemplates that an entity may assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. To determine whether a financial instrument has low credit risk, entities should consider the guidance in paragraphs IFRS 9:B5.5.22 through 24. One of the examples in paragraph 23 of low credit risk is a debt instrument with an external rating of investment grade.

Comments

A.17	**Does the entity use a single scenarios when measuring expected credit losses?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
It is acceptable to use a single forward-looking scenario.	Multiple forward-looking scenarios are required.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, there is no explicit requirement in regards to the number of forward looking scenarios to be applied to measure expected credit losses.

The CECL model requires an entity's estimate of credit losses to be based on relevant information about past events, including historical loss experience with similar assets, current conditions, and reasonable and supportable forecasts that affect the expected collectability of the financial assets' remaining contractual cash flows. The most likely scenario can be used to measure expected credit loss.

Under IFRS Standards, as indicated in IFRS9:B5.5.42, at least two scenarios are required as it is necessary to reflect the probability of the borrower making the payments and the probability of the borrower not making those payments.

Comments

A.18	**Does the entity have financial assets that have had their contractual terms modified?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
A loan subject to modification may satisfy the definition of a troubled debt restructuring loan (TDR).	When a loan is subject to a modification, the modified terms are analysed to assess whether the loan qualifies for modification or derecognition.

© Deloitte LLP. All rights reserved.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, guidance in ASC 310-40 is applied to identify whether a modification is a TDR. Such guidance in paragraph 15-5 states that "[a] restructuring of a debt constitutes a troubled debt restructuring . . . if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider". ASC 326 does not affect an entity's (1) process for determining whether a concession has been granted to the borrower as part of a modification, (2) analysis of whether the borrower is experiencing financial difficulty, and (3) accounting for the TDR on an individual loan basis.

Also, ASC 310-40-35-10 states that "[a] loan restructured in a troubled debt restructuring shall not be accounted for as a new loan because a troubled debt restructuring is part of a creditor's ongoing effort to recover its investment in the original loan." Therefore, an entity should not establish a new fair value for a loan restructured in a TDR. Further, ASC 310-40-35-12 reiterates that a TDR does not result in a new loan and requires that "the interest rate used to discount expected future cash flows on a restructured loan . . . be the same interest rate used to discount expected future cash flows on the original loan" and not the rate specified in the restructuring.

ASC 326 requires the allowance for expected credit losses to include all effects of a TDR when measuring expected credit losses. As such, an entity must use a discounted cash flows method or a reconcilable method if the TDR involves a concession that can only be measured by using a discounted cash flows method (e.g. an interest rate or term concession). The interest rate used to measure the expected credit losses should be the financial asset's pre-modification original effective interest rate (as opposed to a post-troubled- debt-restructuring modified rate).

Furthermore, ASC 326-20-30-6 allows an entity to extend the contractual term for expected extensions, renewals or modifications when at the reporting date the entity has a reasonable expectation that for an individual financial asset it will execute a TDR with the borrower. This guidance intends to accelerate the recognition of an economic concession granted in a TDR from when the TDR is executed to when the TDR is reasonably expected.

Under IFRS Standards, when a financial asset is renegotiated the entity needs to consider whether the modification results in the derecognition of the existing instrument and the recognition of a new instrument.

For modifications of financial assets (e.g. a renegotiation of the asset's contractual cash flows), derecognition can only occur when the contractual cash flows expire (i.e. IFRS 9:3.2.3(a) applies instead of IFRS 9:3.2.3(b) because the cash flows are not transferred but modified).

IFRS 9 does not include further guidance for assessing whether a modification of a financial asset results in derecognition. In the absence of more specific guidance on modifications or renegotiations of financial assets and in accordance with Deloitte iGAAP publication section B8:3.2.3, an appropriate way to assess whether a modification or renegotiation of a financial asset gives rise to derecognition is to consider the guidance on substantial modifications of financial liabilities. In doing so, a financial asset is derecognised if a modification or renegotiation gives rise to substantially different terms which, applying the reasoning in IFRS 9:3.3.2, should be accounted for as an extinguishment of the original financial asset and the recognition of a new financial asset. This approach is based on the IFRS Interpretation Committee's guidance issued in the context of the 2012 Greek government restructuring, however an entity should define its accounting policy to assess modification of financial assets.

Where the renegotiation or modification of the contractual cash flows of a financial asset lead to the derecognition of the existing financial asset in accordance with IFRS 9 the modified asset is considered a 'new' financial asset as indicated in IFRS 9:B5.5.25. Accordingly, the date of the modification should be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset. This typically means measuring the loss allowance at an amount equal to 12-month expected credit losses until the criteria for the recognition of lifetime expected credit losses is met (IFRS 9:B5.5.26). However, in some unusual circumstances following a modification that results in derecognition of the original financial asset, there may be evidence that the modified financial asset is credit-impaired at initial recognition, and thus, the financial asset should be recognised as an originated credit-impaired financial asset. This might occur, for example, in a situation in which there was a substantial modification of a distressed asset that resulted in the derecognition of the original financial asset. In such a case, it may be possible for the modification to result in a new financial asset which is credit-impaired at initial recognition.

If the contractual cash flows on a financial asset have been renegotiated or modified and the financial asset is not derecognised, an entity should assess whether there has been a significant increase in the credit risk of the financial instrument by comparing in accordance with IFRS 9:5.5.12:

A. the risk of a default occurring at the reporting date (based on the modified contractual terms); and

© Deloitte LLP. All rights reserved.

B. the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms).

When assessing whether there has been a significant increase in credit risk since initial recognition an entity should use all reasonable and supportable information that is available without undue cost or effort. This includes historical and forward-looking information and an assessment of the credit risk over the expected life of the financial asset, which includes information about the circumstances that led to the modification (IFRS 9:B5.5.27).

IFRS Standards also state in IFRS 9:B5.5.27 that if the contractual cash flows on a financial asset have been renegotiated or otherwise modified, but the financial asset is not derecognised, that financial asset is not automatically considered to have lower credit risk by simply making one payment on time following a modification of the contractual terms. Typically a customer would need to demonstrate consistently good payment behaviour over a period of time before the credit risk is considered to have decreased. Again, an entity defines their accounting policy in this regards.

It may be the case that financial assets considered TDR under U.S. GAAP would be treated as a new financial asset under IFRS Standards if derecognition is achieved under such standards. In that case, a difference in measurement of expected credit losses would exist related to 12 months ECL vs lifetime ECL which is the same difference that exist for any other financial asset (i.e. no TDRs) classified in stage 1 under IFRS Standards.

Comments

A.19	**Does the entity have purchased credit deteriorated assets?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
A purchased credit deteriorated asset (PCD) is an asset that at the date of acquisition has experienced a more than insignificant deterioration in credit quality since origination. An allowance for expected credit losses is recognised at initial recognition.	A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. The term purchased or originated credit impaired asset (POCI) is used to refer to such financial assets. No allowance for expected credit losses is recognised at initial recognition.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, a purchased credit deteriorated asset (PCD) is an acquired individual financial asset (or acquired group of financial assets with similar risk characteristics) that, as of the date of acquisition, has experienced a more-than-insignificant deterioration in credit quality since origination, as determined by an acquirer's assessment. PCD have an alternative credit loss and interest recognition model under ASC 326. The cause of a "more-than-insignificant deterioration" or the factors an entity should consider when performing the assessment are not specified in the guidance; nonetheless, ASC 326-20-55-57 through 55-60 provide an example illustrating a way in which an entity may evaluate the credit quality of purchased financial assets. Such example also refers to the factors that affect collectability listed in ASC 326-20-55-4 however the existence of those factors may not indicate that the asset should be considered PCD because an entity can only conclude that an asset is PCD if the deterioration of its credit quality has been more than insignificant since origination. Judgement will be required when performing the assessment.

Upon acquiring a PCD asset, the entity would recognise its allowance for expected credit losses as an adjustment that increases the asset's cost basis (the "gross-up" approach). After initial recognition of the PCD asset and its related allowance, the entity would continue to apply the CECL model to the asset — that is, any changes in the estimate of cash flows that the entity expects to collect (favourable or unfavourable) would be recognised immediately as credit loss expense (or a reduction of expense) in the income statement. Interest income recognition would be based on the purchase price plus the initial allowance accreting to the contractual cash flows. The allowance will reflect the total lifetime expected losses.

ASC 326-20-30-14 permits an entity to use various methods to estimate expected credit losses for PCD assets. If an entity uses the discounted cash flows method, the rate to discount expected credit losses is a "rate that equates the

© Deloitte LLP. All rights reserved.

present value of the purchaser's estimate of the asset's future cash flows with the purchase price of the asset". If another method is used, an entity estimates expected credit losses "on the basis of [the asset's] unpaid principal balance".

Under IFRS Standards, the definition of a credit-impaired financial asset in appendix A of IFRS 9 states that "[a] financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred". The definition of credit-impaired acknowledges that a financial asset may be credit-impaired at initial recognition when "the purchase or origination of a financial asset is at a deep discount that reflects the incurred credit losses". Such discount is assessed by comparing the fair value at initial recognition with the contractual par amount of the financial asset. An entity has to use judgement to assess whether a discount is 'deep' and reflects incurred credit losses.

In some unusual circumstances following a modification that results in derecognition of the original financial asset, there may be evidence that the modified financial asset is credit-impaired at initial recognition, and thus, the financial asset should be recognised as an originated credit-impaired financial asset. This might occur, for example, in a situation in which there was a substantial modification of a distressed asset that resulted in the derecognition of the original financial asset. In such a case, it may be possible for the modification to result in a new financial asset which is credit-impaired at initial recognition (IFRS 9:B5.5.26)

No loss allowance is recognised for POCI financial assets at initial recognition in accordance with IFRS 9:5.5.13, because the deep discount already reflects the incurred credit losses.

For a POCI financial asset, the credit-adjusted effective interest rate is applied. When calculating the credit-adjusted effective interest rate, an entity is required to estimate the expected cash flows by considering all contractual terms of the financial asset (e.g. prepayment, extension, call and similar options) and expected credit losses.

If a financial asset is purchased or originated credit-impaired then at the reporting date, as stated in IFRS 9:5.5.13, only the cumulative changes in lifetime expected credit losses since initial recognition are recognised as a loss allowance. The amount of the change in lifetime expected credit losses should be recognised as an impairment gain or loss in profit or loss (IFRS9:5.5.14).

Comments

A.20	**Does the entity have financial assets measured at amortised cost designated as hedged items in a fair value hedge accounting relationship?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Fair value hedge accounting adjustments are part of the amortised cost basis considered to measure expected credit losses.	When measuring expected credit losses for a financial asset designated as a hedged item in a fair value hedge of interest rate risk, an entity may be required to adjust the effective interest rate (EIR) to reflect the hedge accounting adjustment to the asset's carrying amount.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 326-20 defines amortised cost basis as "the amount at which a financing receivable or investment is originated or acquired, adjusted for applicable accrued interest, accretion, or amortization of premium, discount, and net deferred fees or costs, collection of cash, write-offs, foreign exchange, and fair value hedge accounting adjustments." Also, the allowance for credit losses is a valuation account that is deducted from, or added to, the amortised cost basis of the financial asset to present the net amount expected to be collected on the financial asset (ASC 326-20-30-1). As such fair value hedge accounting adjustments are considered when determining the allowance for expected credit losses.

As explained in Question A.8, an entity can use any method to measure the expected credit losses and the use of a discounted cash flow method is not mandatory. If the expected credit losses for a financial asset designated as a hedged item in a fair value hedge accounting relationship is measured using a discounted cash flow model, the effective interest rate to discount those expected cash flows is the rate of return implicit in the financial asset, that is,

© Deloitte LLP. All rights reserved.

the contractual interest rate adjusted for any net deferred fees or costs, premium or discount existing at the origination or acquisition of the financial asset. If another method is used, ASC 326-20-30-5 gives the option of estimating credit losses on the asset's amortised cost basis in the aggregate or by separately measuring the components of the amortised cost basis (e.g. premiums and discounts).

Under IFRS Standards, when measuring expected credit losses for a financial asset designated as a hedged item in a fair value hedge of interest rate risk, an entity may be required to adjust the effective interest rate (EIR) to reflect the hedge adjustment to the asset's carrying amount. It will depend on whether the financial asset designated as the hedged item is credit-impaired in accordance with IFRS 9:5.4.1(b) and whether, if it is not credit-impaired, the entity has adjusted the original EIR to amortise the hedge adjustment relating to the hedged item.

IFRS 9 has specific guidance on when to recalculate the EIR for fair value hedges. IFRS 9:6.5.10 states that the amortisation of a fair value hedge adjustment may begin as soon as an adjustment exists and should begin no later than when the hedged item ceases to be hedge adjusted. Accordingly, whether an entity uses an updated EIR for discounting expected credit losses will depend on the entity's approach for updating the EIR for fair value hedge accounting.

If an entity has chosen to amortise the fair value hedge accounting adjustment as soon as it exists, or from a point thereafter, the revised EIR reflecting the amortisation will be used in calculating the loss allowance.

If an entity has chosen not to amortise the fair value hedge accounting adjustment because it is permitted to do so (e.g. the hedge accounting relationship has not ceased), then the EIR will be the original effective interest that will be used in calculating the loss allowance. Although there is a reference to the 'original effective interest rate' in the definition of credit loss (IFRS 9:Appendix A and IFRS 9:B5.5.44), and so it could be argued to always exclude the amortisation of the fair value hedge adjustment, this would not be reasonable in accordance with Deloitte iGAAP section B6:5.3.6-1 given that IFRS 9:6.5.10 includes more specific guidance and an entity should apply one EIR consistently.

If the hedged item is credit-impaired, the specific guidance from IFRS 9:B5.5.33 applies to credit-impaired financial assets, as follows. "For a financial asset that is credit-impaired at the reporting date, but that is not a purchased or originated credit-impaired financial asset, an entity shall measure the expected credit losses as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Any adjustment is recognised in profit or loss as an impairment gain or loss."

This wording is almost identical to the wording used in IAS 39:63, IFRS 9's predecessor Standard; the guidance in IAS 39:IG.E.4.4 (which illustrated application of IAS 39:63) was clear that a recalculated EIR, rather than the original interest rate, should be used once a hedged loan becomes credit-impaired.

Comments

A.21	Does the entity have recognised financial guarantees granted that are not accounted for as insurance or measured at fair value through profit or loss?	Yes No

U.S. GAAP	IFRS Standards
The expected credit losses for the contingent aspect of the guarantee is accounted for in accordance with ASC 326-20.	The issuer of a financial guarantee contract subsequently measures it at the higher of: • the amount of the loss allowance determined in accordance with Section 5.5 of IFRS 9; and • the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

© Deloitte LLP. All rights reserved.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, off balance sheet exposures not accounted for as insurance nor within the scope of Topic 815 on derivatives and hedging are in scope of Topic 326-20.

In general, Topic 460 is the guidance applicable to guarantees under U.S. GAAP and specifically ASC 460-10-35-2 describes how a guarantor typically reduces the liability that it initially recognised; however, such guidance does not encompass the recognition and subsequent adjustment of the contingent liability related to the contingent loss for the guarantee. It only addresses the non-contingent component (ASC 460-10-35-4).

The contingent aspect of the guarantee shall be accounted for in accordance with Subtopic 450-20 unless the guarantee is accounted for as a derivative instrument under Topic 815 or the guarantee is within the scope of Subtopic 326-20 on financial instruments measured at amortised cost. For guarantees within the scope of Subtopic 326-20, the expected credit losses (the contingent aspect) of the guarantee is measured in accordance with CECL model and accounted for in addition to and separately from the fair value of the guarantee liability (the noncontingent aspect).

Under IFRS Standards, as set out in Appendix A of IFRS 9, if an entity has issued a financial guarantee contract to a third party, the entity will need to consider whether that instrument meets the definition of a financial guarantee contract or an insurance contract. The Standard defines such contracts as those that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. The issuer of such a contract initially recognises the financial guarantee contract at fair value and subsequently measures it at the higher of (IFRS 9:2.1(e)):

- the amount of the loss allowance determined in accordance with Section 5.5 of IFRS 9; and
- the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

Comments

A.22	**Does the entity consider expected recoveries from financial assets that have been previously written off when estimating the expected credit losses?**	**Yes** **No**

U.S. GAAP	**IFRS Standards**
Expected recoveries of financial assets previously written off are considered when determining the allowance for expected losses.	Write off is a derecognition event.

U.S. GAAP–IFRS Standards difference considerations

Under U.S. GAAP, ASC 326-20-35-8 indicates that an entity is required to write off a financial asset when it is deemed uncollectible. U.S. GAAP also requires entities to consider recoveries in its allowance for expected credit losses related to those financial assets that have been written off. Specifically, ASC 326-20-30-1, as amended by ASU 2019-04, states that "[e]xpected recoveries of amounts previously written off and expected to be written off shall be included in the valuation account and shall not exceed the aggregate of amounts previously written off and expected to be written off by an entity." As a result:

- Entities should include expected recoveries within the allowance for expected credit losses and should not directly write up the related assets.
- Because an entity recognises expected recoveries as an adjustment to the allowance for expected credit losses, the allowance may have a negative balance in situations in which a full or partial write-off has occurred.
- Expected recoveries should not exceed the aggregate of amounts previously written off and amounts that are expected to be written off by the entity.

Under IFRS Standards, when an entity has no reasonable expectation of recovering the contractual cash flows on a financial asset (in its entirety or a portion of it), IFRS 9:5.4.4 requires the gross carrying amount to be reduced directly

© Deloitte LLP. All rights reserved.

which also leads to a reduction in the required loss allowance. IFRS 9:5.4.4 further states that a write-off constitutes a derecognition event, which is reiterated in IFRS 9:B3.2.16(r) which includes write-off as an example of the application of the derecognition principles in IFRS 9.

Comments

© Deloitte LLP. All rights reserved.

Appendix B: Abbreviations

The following abbreviations are used in this publication:

AICPA	American Institute of Certified Public Accountants (U.S.)
AFS	Available-for-sale
AOCI	Accumulated other comprehensive income
APIC	Additional paid-in capital
ARO	Asset retirement obligation
ASC	FASB Accounting Standards Codification (U.S.)
ASU	FASB Accounting Standards Update (U.S.)
BC	Basis for Conclusions (IFRS Standards)
CCF	Contractual cash flows
CECL	Current expected credit loss
CGU	Cash generating unit
CODM	Chief operating decision maker
CPI	Consumer price index
DTA	Deferred tax asset
DTL	Deferred tax liability
EIR	Effective interest rate
ECL	Expected credit losses
EPS	Earnings per share
ESOP	Employee stock ownership plan
ESPP	Employee share purchase plan
FASB	Financial Accounting Standards Board (U.S.)
FIFO	First in, first out
FRR	SEC Financial Reporting Release
FVTOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
FVTNI	Fair value through net income
FVO	Fair value option
GAAP	Generally accepted accounting principles
HTM	Held-to-maturity

© Deloitte LLP. All rights reserved.

HFS	Held for sale
HFI	Held for investment
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IG	Implementation Guidance (IFRS Standards)
IPO	Initial public offering
LIBOR	London Interbank Offered Rate
LIFO	Last in, first out
NPNS	Normal purchases or normal sales
NRV	Net realisable value
OCI	Other comprehensive income
PBO	Projected benefit obligation
PP&E	Property, plant, and equipment
R&D	Research and development
RIM	Retail inventory method
SEC	Securities and Exchange Commission (U.S.)
SIC	Standing Interpretations Committee
SIFMA	Securities Industry and Financial Markets Association
SPE	Special-purpose entity
SPPI	Solely Payments of Principal and Interest
S-X	SEC Regulation S-X (U.S.)
TIS	Technical Inquiry Service
TPA	AICPA Technical Practice Aid (U.S.)
VBO	Vested benefit obligation
VIE	Variable interest entity

© Deloitte LLP. All rights reserved.

Appendix C: IFRS Standards—Publication Section Index

IFRS Standards	Publication Section
IFRS 1 (Revised 2008): First-time Adoption of International Financial Reporting Standards	Section 1: First-time adoption
IFRS 2: Share-based Payment	Section 13: Share-based payments
IFRS 3 (revised 2008): Business Combinations	Section 20: Business combinations
IFRS 4: Insurance Contracts	Not within the scope of this publication
IFRS 5: Non-current Assets Held for Sale and Discontinued Operations	Section 16: Noncurrent assets held for sale and discontinued operations
IFRS 6: Exploration for and Evaluation of Mineral Resources	Not within the scope of this publication
IFRS 7: Financial Instruments: Disclosures	Not within the scope of this publication
IFRS 8: Operating Segments	Section 19: Segment reporting
IFRS 9 (2014): Financial Instruments	Section 2: Investments in loans and receivables Section 3: Investments in debt and equity securities Section 22: Derivatives and hedging Section 24: Fair value option Section 26: Interest Section 29: Derecognition of financial assets
IFRS 10: Consolidated Financial Statements	Section 21: Consolidation
IFRS 11: Joint Arrangements	Section 4: Investments - Equity method and joint ventures
IFRS 12: Disclosure of Interests in Other Entities	Not within the scope of this publication
IFRS 13: Fair Value Measurement	Section 23: Fair value measurement
IFRS 14: Regulatory Deferral Accounts	Not within the scope of this publication
IFRS 15: Revenue from contract with customers	Section 12: Revenue recognition
IFRS 16: Leases	Section 27: Leases
IFRS 17: Insurance Contracts	Not within the scope of this publication
IAS 1 (Revised 2007): Presentation of Financial Statements	Section 15: Presentation of financial statements
IAS 2: Inventories	Section 5: Inventories
IAS 7: Statement of Cash Flows	Section 17: Statement of cash flows
IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors	No significant accounting differences between U.S. GAAP and IFRS Standards

© Deloitte LLP. All rights reserved.

IFRS Standards	Publication Section
IAS 10: Events after the Reporting Period	No significant accounting differences between U.S. GAAP and IFRS Standards
IAS 12: Income Taxes	Section 14: Income taxes
IAS 16: Property, Plant and Equipment	Section 7: Property, plant, and equipment
IAS 17: Leases	Replaced by IFRS 16
IAS 19 (Revised 2011): Employee Benefits	Section 9: Employee benefits
IAS 20: Accounting for Government Grants and Disclosure of Government Assistance	Section 30: Government grants and other considerations
IAS 21: The Effects of Changes in Foreign Exchange Rates	Section 25: Foreign currency matters
IAS 23 (Revised 2007): Borrowing Costs	Section 26: Interest
IAS 24 (Revised 2009): Related Party Disclosures	Not within the scope of this publication
IAS 26: Accounting and Reporting by Retirement Benefit Plans	Not within the scope of this publication
IAS 27 (Revised 2011): Separate Financial Statements	Section 21: Consolidation
IAS 28 (Revised 2011): Investments in Associates and Joint Ventures	Section 4: Investments – Equity method and joint ventures
IAS 29: Financial Reporting in Hyperinflationary Economies	Section 25: Foreign currency matters
IAS 32 : Financial Instruments: Presentation	Section 11: Distinguishing liabilities from equity and debt modifications Section 22: Derivatives and hedging
IAS 33: Earnings per Share	Section 18: Earnings per share
IAS 34: Interim Financial Reporting	Not within the scope of this publication
IAS 36: Impairment of Assets	Section 8: Impairment of non-financial assets
IAS 37: Provisions, Contingent Liabilities and Contingent Assets	Section 10: Provisions and contingencies
IAS 38: Intangible Assets	Section 6: Intangible assets
IAS 39 (as amended by IFRS 9(2014)) — Financial Instruments: Recognition and Measurement (for entities that have adopted IFRS 9 and are applying the hedging requirements in IAS 39)	Section 22: Derivatives and hedging
IAS 40: Investment Property	Section 7: Property, plant, and equipment
IAS 41: Agriculture	Not within the scope of this publication

© Deloitte LLP. All rights reserved.

Appendix D: U.S. GAAP — Publication Section Index

U.S. GAAP Codification	Publication section
105 — Generally Accepted Accounting Principles	Not within the scope of this publication
205 — Presentation of Financial Statements	Section 15: Presentation of financial statements
210 — Balance Sheet	Section 15: Presentation of financial statements
215 — Statement of Shareholder Equity	No significant accounting difference between U.S. GAAP and IFRS Standards
220 — Income Statement — Reporting Comprehensive Income	Section 15: Presentation of financial statements
225 — Income Statement	Section 15: Presentation of financial Statements
230 — Statement of Cash Flows	Section 17: Statement of cash flows
235 — Notes to Financial Statements	No significant accounting differences between U.S. GAAP and IFRS Standards
250 — Accounting Changes and Error Corrections	No significant accounting differences between U.S. GAAP and IFRS Standards
255 — Changing Prices	Not within the scope of this publication
260 — Earnings per Share	Section 18: Earnings per share
270 — Interim Reporting	Not within the scope of this publication
272 — Limited Liability Entities	Not within the scope of this publication
274 — Personal Financial Statements	Not within the scope of this publication
275 — Risks and Uncertainties	Not within the scope of this publication
280 — Segment Reporting	Section 19: Segment reporting
305 — Cash and Cash Equivalents	No significant accounting differences between U.S. GAAP and IFRS Standards
310 — Receivables	Section 2: Investments in loans and receivables Section 29: Derecognition of financial assets
320 — Investments — Debt and Equity Securities	Section 3: Investments in debt and equity securities Section 26: Interest
321 — Investments — Equity Securities	Section 3: Investments in debt and equity securities
323 — Investments — Equity Method and Joint Ventures	Section 4: Investments – Equity method and joint ventures
325 — Investments — Other	No significant accounting differences between U.S. GAAP and IFRS Standards

© Deloitte LLP. All rights reserved.

U.S. GAAP Codification	Publication section
326 — Financial Instruments — Credit Losses	Appendix A
330 — Inventory	Section 5: Inventories
340 — Other Assets and Deferred Costs	No significant accounting differences between U.S. GAAP and IFRS Standards
350 — Intangibles — Goodwill and Other	Section 6: Intangible assets Section 8: Impairment of non-financial assets Section 20: Business combinations
360 — Property, Plant, and Equipment	Section 7: Property, plant, and equipment Section 8: Impairment of non-financial assets Section 16: Noncurrent assets held for sale and discontinued operations
405 — Liabilities	No significant accounting differences between U.S. GAAP and IFRS Standards
410 — Asset Retirement and Environmental Obligations	Section 7: Property, plant, and equipment Section 10: Provisions and contingencies
420 — Exit or Disposal Cost Obligations	Section 9: Employee benefits
430 — Deferred Revenue	No significant accounting differences between U.S. GAAP and IFRS Standards
440 — Commitments	No significant accounting differences between U.S. GAAP and IFRS Standards
450 — Contingencies	Section 10: Provisions and contingencies
460 — Guarantees	No significant accounting differences between U.S. GAAP and IFRS Standards
470 — Debt	Section 3: Investments in debt and equity securities Section 11: Distinguishing liabilities from equity and debt modifications
480 — Distinguishing Liabilities From Equity	Section 11: Distinguishing liabilities from equity and debt modifications
505 — Equity	Section 11: Distinguishing liabilities from equity and debt modifications
605 — Revenue Recognition	Not within the scope of this publication
606 — Revenue From Contracts With Customers	Section 12: Revenue recognition
610 — Other Income	No significant accounting differences between U.S. GAAP and IFRS Standards
705 — Cost of Sales and Services	No significant accounting differences between U.S. GAAP and IFRS Standards
710 — Compensation — General	Section 9: Employee benefits

© Deloitte LLP. All rights reserved.

U.S. GAAP Codification	Publication section
712 — Compensation — Nonretirement Postemployment Benefits	Section 9: Employee benefits
715 — Compensation — Retirement Benefits	Section 9: Employee benefits
718 — Compensation — Stock Compensation	Section 13: Share-based payments
720 — Other Expenses	No significant accounting differences between U.S. GAAP and IFRS Standards
730 — Research and Development	Section 6: Intangible assets
740 — Income Taxes	Section 14: Income taxes
805 — Business Combinations	Section 20: Business combinations
808 — Collaborative Arrangements	No significant accounting differences between U.S. GAAP and IFRS Standards
810 — Consolidation	Section 21: Consolidation
815 — Derivatives and Hedging	Section 22: Derivatives and hedging
820 — Fair Value Measurement	Section 23: Fair value measurement
825 — Financial Instruments	Section 24: Fair value option
830 — Foreign Currency Matters	Section 25: Foreign currency matters
835 — Interest	Section 26: Interest
840 —Leases	Not within the scope of this publication
842 — Leases	Section 27: Leases
845 — Nonmonetary Transactions	No significant accounting differences between U.S. GAAP and IFRS Standards
848 – Reference Rate Reform	Not within the scope of this publication
850 — Related Party Disclosures	Not within the scope of this publication
852 — Reorganizations	No significant accounting differences between U.S. GAAP and IFRS Standards
853 — Service Concession Arrangements	Section 28: Service concession arrangements
855 — Subsequent Events	Not within the scope of this publication
860 — Transfers and Servicing	Section 29: Derecognition of financial assets
900 — Industry	Not within the scope of this publication

© Deloitte LLP. All rights reserved.

www.deloitte.com

About Deloitte

This publication has been written in general terms and we recommend that you obtain professional advice before acting or refraining from action on any of the contents of this publication. Deloitte LLP accepts no liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London EC4A 3HQ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NSE LLP do not provide services to clients. Please click here to learn more about our global network of member firms.

© Deloitte LLP. All rights reserved.