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In This Issue:

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Work in Progress

SEC Compares IFRSs With U.S. GAAP and Analyzes IFRSs in Practice

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Overview

In February 2010, the SEC directed its staff to initiate a work plan to help it determine whether, when, and how to incorporate IFRSs into the U.S. financial reporting system.[1] Under the work plan, the staff was required to assess the sufficient development and application of IFRSs. As a result of this assessment, the staff published two papers on November 16, 2011:

- *A Comparison of U.S. GAAP and IFRS* — The SEC staff reviewed 29 U.S. GAAP Accounting Standards Codification (ASC) topics and compared them with corresponding guidance in IFRSs, as applicable, focusing on the more significant differences between the two sets of standards.
- *Analysis of IFRS in Practice* — The SEC staff analyzed a selection of annual IFRS consolidated financial statements of both SEC registrants and nonregistrants. The staff also identified topics frequently commented on by the SEC's Division of Corporation Finance in its reviews of the SEC filings of foreign private issuers that prepare their financial statements in accordance with IFRSs.

Editor's Note: In October 2010, the SEC staff issued its first public progress report on the staff's efforts and preliminary observations related to the areas identified in the work plan.[2] Subsequently, in May 2011 the staff issued *Exploring a Possible Method of Incorporation*,[3] which describes a possible framework for U.S. incorporation of IFRSs. The feedback received generally indicated broad support for a single set of high-quality globally accepted accounting standards as well as agreement with key elements of the approach outlined in the paper.

The SEC Staff's Comparison of U.S. GAAP and IFRSs

In comparing U.S. GAAP and IFRSs, the staff focused on identifying differences because similar requirements under the two sets of standards were presumed to be "of sufficiently high quality." One fundamental difference noted was that IFRSs contain "broad principles to account for transactions across industries, with limited specific guidance and stated exceptions to the general guidance," whereas U.S. GAAP requirements are often more detailed and specific. Thus, many of the standards' differences are related to industry or transaction-specific guidance that is contained in U.S. GAAP but not in IFRSs. The staff noted that the existence of specific guidance under U.S. GAAP may contribute to

[1] See Deloitte's February 26, 2010, *Heads Up* newsletter for additional information about the SEC's work plan.
[2] See Deloitte's November 1, 2010, *Heads Up* newsletter for additional information about the SEC's progress report.
[3] See Deloitte's June 1, 2011, *Heads Up* newsletter for additional information about the SEC's staff paper.

consistency in application within a particular industry but not always across industries, whereas the reliance on broad principles under IFRSs may help promote broader consistency across industries.

The staff also highlighted fundamental differences in the boards' conceptual frameworks — in particular, the level of authority of the two frameworks and the definitions and recognition criteria for assets and liabilities.[4] The staff suggested that unlike that of the FASB, the IASB's conceptual framework consists of authoritative guidance that applies in the absence of any specific standard or interpretation.

The SEC staff did not analyze differences in connection with the topics on the boards' current convergence agenda, including financial instruments, revenue, leases, consolidations, fair value measurement, financial statement presentation, derecognition, financial instruments with characteristics of equity, and insurance contracts. However, the staff did analyze differences associated with postemployment benefits and business combinations since the boards have completed their joint projects on these topics.[5]

Editor's Note: The SEC staff noted that on the basis of "the deliberations and tentative conclusions reached thus far, it is unclear whether the [boards] will be able to reach convergence on key aspects of all projects (e.g., [financial instruments]). Further, the [boards'] reprioritization of certain [joint projects] (e.g., financial instruments with characteristics of equity) makes it unclear . . . whether substantive progress towards convergence would be made before any Commission consideration of whether to incorporate [IFRSs] into the financial reporting system for U.S. issuers. [Development] of high-quality standards through the [joint projects] is important, and such development is an area of focus for the Staff, regardless of any ultimate determination of whether to incorporate [IFRSs]."

The staff analyzed the most recent annual consolidated financial statements of 183 companies that report under IFRSs.

See Appendix A of this *Heads Up* for a summary of the SEC staff's comparison of IFRSs and the ASC topics included in the staff's review.

The SEC Staff's Observations on the Application of IFRSs in Practice

The staff analyzed the most recent annual consolidated financial statements of 183 companies that report under IFRSs. The selection was made from the 2009 Fortune Global 500 ("FG 500") companies, which is a listing of the world's largest companies by revenue, and included 47 SEC registrants, 29 previous SEC registrants, and 107 nonregistrants. The companies selected were from 36 industries and domiciled in 22 countries.[6] The staff's analysis focused on compliance with measurement and recognition requirements of IFRSs, transparency and clarity of disclosures, and the comparability of financial statements.

Editor's Note: The staff noted that its intention was not to compare the application of IFRSs with the application of U.S. GAAP and that "similar observations may be present among companies reporting under U.S. GAAP."

The staff found that financial statements of the companies included in the analysis "generally appeared to comply with IFRS requirements." However, they noted that the disclosures could be more transparent and clear. In particular, some companies did not provide relevant accounting policy disclosures or, when such disclosures were given, they were not sufficiently detailed or clear (e.g., disclosures about the nature of significant company transactions). Some companies also used terms that were "inconsistent with the terminology in the applicable [IFRSs]." The staff noted that in certain cases, "the disclosures (or lack thereof) also raised questions as to whether the company's accounting complied with [IFRSs]."

[4] The boards are participating in a joint project to develop an improved, common conceptual framework.

[5] See Deloitte's November 11, 2011, *Accounting Roundup — Special Edition* for an update on the status of the various projects.

[6] The industries in the analysis were banking, petroleum refining, telecommunications, food and drug stores, utilities, engineering and construction, motor vehicles and parts, insurance, and mining and crude oil production. Approximately 80 percent of the companies were from the European Union, with more than half from Germany, France, and the United Kingdom.

In addition, the staff found that diversity in the application of IFRSs diminished comparability of financial statements across countries and industries. The staff suggested this diversity is due to a variety of factors, such as explicit options permitted by IFRSs, the lack of guidance in some areas, and noncompliance with IFRSs. Appendix B of this *Heads Up* contains an overview of the staff's detailed observations related to the application of IFRSs in practice.

As part of its analysis, the SEC staff also provided a summary of topics that the staff has focused on in its reviews of the most recent SEC filings of 140 foreign private issuers that prepare their financial statements in accordance with IFRSs as issued by the IASB.[7] The topics commented on most frequently, as measured by the percentage of IFRS registrants that received comments, were financial instruments (nearly 70%) and financial statement presentation (about 50%).

Percentage of IFRS Registrants That Received Comments	Areas of Comment
More than 60%	Financial instruments
Between 30% and 60%	Financial statement presentation
Between 20% and 30%	Impairment of assets Consolidation, associates, and joint ventures Revenue recognition Operating segments
Between 10% and 20%	Income taxes Property, plant, and equipment Employee benefits Provisions and contingent liabilities Business combinations

See Appendix C of this *Heads Up* for an overview of topics of frequent comment by the SEC staff in its reviews of filings prepared in accordance with IFRSs.

7 There are approximately 170 foreign private issuers registered with the SEC that prepare their financial statements in accordance with IFRSs. These issuers are from more than 30 countries, with approximately half from the United Kingdom, Israel, China, Australia, Chile, and Brazil. They are mainly in the banking, telecommunications, energy, natural resources, pharmaceutical, and transportation industries. About one fourth of these issuers are in the 2009 FG500.

Appendix A: The SEC Staff's Comparison of U.S. GAAP and IFRSs

The table below summarizes the SEC staff's analysis of how IFRSs compare to the 29 U.S. GAAP ASC topics included in the staff's review.

Topic	Comparison of IFRSs to U.S. GAAP
Accounting changes and error corrections	Both IAS 8[8] and ASC 250[9] provide guidance on "changes in accounting principle (or policy), corrections of errors, and changes in estimates." Key differences between the two standards include guidance on evaluating materiality, whether previously issued financial statements must be reissued after the correction of errors, whether there is an impracticability exception for certain error corrections, and whether retrospective presentation of statements of financial position is required when an accounting policy change is made.
Earnings per share (EPS)	The general requirements under IAS 33 and ASC 260 are similar for calculating EPS. However, there are differences in the detailed requirements. These differences are related to the detailed EPS year-to-date period shares calculation, instruments with multiple settlement alternatives, convertible instruments, the scope of the two-class method, the tax effect on application of the treasury stock method, and the permissibility of cash flow per share presentation.
Interim reporting	"Neither [IAS 34 nor ASC 270] requires interim reporting; however, both provide guidance in situations when interim reporting is required . . . or when an entity elects to report on an interim basis." Both standards require entities to use of the same accounting principles they use to prepare annual financial statements. However, under IAS 34, the interim period is considered a discrete period, while under ASC 270 the interim period is considered a portion of the annual period. The standards also differ in their guidance on the allocation of costs, the assessment of materiality for correction of an error, fourth-quarter activity, and certain disclosure requirements.
Risks and uncertainties	Disclosure of certain risks and uncertainties is addressed in IAS 1 and ASC 275. The overall principles are similar, but ASC 275 requires specific disclosures that are not required under IAS 1 (e.g., vulnerabilities due to certain concentrations).
Segment reporting	IFRS 8 and ASC 280 both provide guidance on segment reporting. The disclosure requirements are generally consistent under the two standards; however, the guidance in ASC 280 is more explicit than that in IFRS 8, which is based on a core disclosures principle.
Cash and cash equivalents	Cash and cash equivalents are defined similarly under IAS 7 and ASC 305; however, IAS 7 uses a less prescriptive approach than ASC 305. Therefore, certain instruments (e.g., money market funds) may be classified differently under IFRSs than they are under U.S. GAAP. There are additional differences related to the accounting for bank overdrafts.
Other investments	IFRS 11, IAS 28, and ASC 323 contain guidance on equity method investments and joint ventures. The more significant differences between the guidance under IFRSs and U.S. GAAP include those related to the scope of investments accounted for under the equity method, differences in the reporting periods, the approach to differences in accounting policies for investors/investees, the determination of significant influence, the accounting for an increase in the level of ownership or degree of influence or the loss of significant influence, and the recognition of additional losses in investees.
Inventory	The general requirements to record inventories initially at cost and to subsequently test for impairment are consistent under IAS 2 and ASC 330. However, "significant differences arise in the areas of allowable valuation methodologies, calculation of impairment and recognition of impairment reversals, and the accounting for inventories resulting from agricultural activities." For example, IFRSs preclude the use of the last-in, first-out method (LIFO), which is permitted under U.S. GAAP.
Other assets and deferred costs	The accounting for certain assets and costs (e.g., capitalized advertising costs) are addressed in ASC 340. Under U.S. GAAP, there is also industry-specific guidance on rate-regulated operations, real estate time-sharing deferred cost recognition, and costs of issuing certain Government National Mortgage Association securities. No specific standards cover these topics under IFRSs; however, they are addressed broadly (e.g., in IAS 38).
Intangibles	Accounting for intangible assets is addressed in IAS 38 and ASC 350. Certain aspects of the standards are similar (e.g., both "require initial capitalization of acquired intangibles and preclude the recognition of most internally-generated intangibles"); however, there are differences in the standards' guidance on the goodwill allocation approach and impairment testing as well as differences in the level of detail within the guidance.
Property, plant, and equipment (PP&E)	The principles under IAS 16 and ASC 360 are generally consistent; however, there are significant differences in the detailed guidance, which include asset depreciation, remeasurement of the residual value of PP&E, the option for revaluation, impairment, and impairment reversals.
Liabilities	Both IAS 39 and ASC 405 provide guidance on the extinguishment of liabilities. The guidance is generally consistent; however, unlike IAS 39, ASC 405 includes application guidance.
Asset retirement and environmental obligations	ASC 410 under U.S. GAAP and IAS 37 and IFRIC 1 under IFRSs contain specific models for asset retirement and environmental obligations. Differences between the two sets of standards include those related to recognition, initial and subsequent measurement, and disclosures.

[8] For titles of International Accounting Standards and International Financial Reporting Standards, see Deloitte's IAS Plus Web site.

[9] For titles of ASC topics, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."

Topic	Comparison of IFRSs to U.S. GAAP
Exit or disposal cost obligations	Guidance on exit or disposal cost obligations is contained in IAS 19, IAS 37, and ASC 420. The accounting under IFRSs generally "focuses on the entire restructuring plan, whereas U.S. GAAP focuses on assessing the individual components of a restructuring plan." There are also differences related to the level of detail for subsequent measurement of restructuring costs and onerous contracts.
Commitments	ASC 440 addresses the disclosure requirements for certain types of commitments "that are intended to provide users with an understanding of certain future cash flows expected to result from existing arrangements." Under IFRSs, such requirements are contained in the standards on accounting for the underlying transactions. Under U.S. GAAP, there are also certain industry-specific disclosure requirements.
Contingencies	IAS 37 and ASC 450 both provide guidance that requires the recording of loss contingencies when a future economic outflow is probable. However, there are differences under the two standards in the definition of "probable" and in the measurement requirements when a loss contingency is to be recorded.
Guarantees	Under U.S. GAAP and IFRSs, there may be differences in the accounting for a guarantee "because of differences in the initial scoping assessment (e.g., a derivative under one set of standards and an insurance contract under the other) or as a result of differences in the accounting requirements for a given category of instrument (e.g., differences between IAS 39 and [ASC 815]."
Debt	The principles in IAS 39 and ASC 470 are similar regarding the accounting for debt. However, there are certain differences in the detailed guidance, including arrangement-specific guidance (e.g., product financing and participating mortgage debt), debt modifications and extinguishments, refinancing of current obligations, and classification of debt with covenant violations.
Compensation, excluding share-based payments	IAS 19 and ASC 710 and ASC 715 "contain requirements for the accounting and reporting of various compensation arrangements that are intended to allocate the costs of such arrangements to the appropriate periods and provide users with an understanding of the arrangements." Although the standards' principles are similar, there are differences in the detailed guidance for postemployment benefits, postretirement benefits, and presentation and disclosure.
Stock compensation	The share-based payment models are similar under IFRS 2 and ASC 718. The standards differ, however, with respect to the timing or amount of expense to be recognized. For example, there are differences in definitions, graded vesting provisions, and treatment of deferred taxes.
Other expenses	ASC 720 provides guidance on other expenses, including start-up costs, insurance costs, and advertising costs. Similar topics are covered in various standards under IFRSs. Under U.S. GAAP, there is also industry-specific guidance on certain topics, including extractive activities, broker-dealers, and investment companies.
Research and development	IAS 38 and ASC 730 contain guidance on the accounting for research and development costs. Once certain criteria are met, IAS 38 requires capitalization of the development costs. Such costs would be expensed as incurred before the criteria are met. Under ASC 730, however, costs are expensed as incurred, with the exception of certain costs related to the development of computer software.
Income taxes	Both IAS 12 and ASC 740 "require income taxes to be accounted for using an asset and liability approach that recognizes current tax effects and expected future tax consequences of events that have been recognized for financial or tax reporting (i.e., deferred taxes) each period." The overall approaches are similar, but there are several significant differences in the treatment of uncertain tax positions, deferred tax assets and the related valuation allowances, offsetting and classification, deferred tax effects on outside basis of investments, and disclosures.
Business combinations	The guidance under IFRS 3 and ASC 805 is similar on the accounting for business combinations. There are certain differences related to recognition and measurement related to contingencies, noncontrolling interests, contingent consideration, and combinations of entities under common control.
Foreign currency matters and inflation	Both IAS 21 and ASC 830 "require the financial statements of foreign operations to be translated into the reporting currency, with the effects of changes in exchange rates recognized in other comprehensive income." The standards differ significantly in their guidance on exchange rates for translation, cumulative translation adjustments and impairment, translation of entities with multi-level organizational structures, and monetary items forming part of net investment in foreign operations. In addition, both IAS 21 and ASC 830 prescribe the accounting for transactions in highly inflationary economies. However, the guidance on application and cessation of highly inflationary accounting is different under each standard.
Nonmonetary transactions	Under U.S. GAAP, ASC 845 contains the guidance on the accounting for nonmonetary transactions. Although there is no equivalent standard under IFRSs, other IFRSs contain similar guidance (e.g., IAS 18, IAS 16, and IFRIC 18).
Related-party disclosures	The general requirements for related-party disclosures are similar under IAS 24 and ASC 850. The standards differ in the specific disclosures required.
Reorganizations	ASC 852 provides guidance on fresh-start reporting for entities that are emerging from bankruptcy and other corporate reorganizations. There is no comparable guidance under IFRSs.
Subsequent events	IAS 10 and ASC 855 similarly define subsequent events and the period for which such events need to be evaluated. The length of the evaluation period and the required disclosures are treated differently under each standard.

Appendix B: The SEC Staff's Observations About the Application of IFRSs in Practice

The table below summarizes selected SEC staff observations related to the application of IFRSs in practice.

Topics	Subtopics	Observations
Accounting principles	Overall	• In the selection of accounting policies, some companies referred to local guidance while others adopted IFRS Interpretations on dates later than those specified by the Interpretations because their jurisdictions adopted them late. "This practice may delay the reductions in diverse accounting practices that the Interpretations are issued to address." • Disclosures of accounting policies differed in detail and clarity and were often unclear. • When retrospectively changing the financial statements as a result of a change in accounting policy or estimate or the correction of an error, some companies did not present an opening statement of financial position even though it is required by IFRSs.
Financial statement presentation	Statement of financial position and statement of comprehensive income	• Significant diversity in form, content, and presentation of financial statements. • In many cases, the financial statements were presented on the basis of a country's regulations. • Asset and liability classification on the face of the statement of financial position was generally comparable (e.g., current/noncurrent classification and ordering of line items) except for the banking and insurance industries. • Majority of companies reported a separate income statement with a separate statement of other comprehensive income immediately following it. • Diversity in presentation of expenses (half of the companies presented expenses by nature and the other half by function, with some missing disclosures about the nature of the amounts classified by function as required by IFRSs). • Diversity in the nature of subtotals and line items presented on the face of the income statement (e.g., presentation of non-GAAP measures as subtotals).
	Statement of cash flows	• Significant differences in (1) the presentation of the statement of cash flows, in particular in the profit or loss measure used as the starting point to determine operating cash flows; (2) the classification of items within the operating, investing, and financing categories; (3) the presentation of discontinued operations; and (4) the classification of items as cash equivalents.
	Footnotes	• Inclusion of different aspects of the same accounting area were in several cases included in multiple locations in the footnotes or outside the financial statements.
Accounting for assets	Inventory	• Most companies did not specify the nature of the costs that were capitalized as inventory or how inventory quantities were estimated to determine the cost of inventory that has been sold or transferred out of inventory. • Diversity in classification of inventory (some classified inventory as noncurrent assets).
	Intangibles	• Lack of clarity from many companies about what costs were capitalized as intangible assets. • Differences in the useful lives of intangible assets (finite versus indefinite) for the same type of assets (e.g., globally recognized brand names). • Almost all companies used cost model to account for intangible assets.
	PP&E	• Almost all companies used the straight-line method of depreciation for PP&E.
	Impairment of assets	• Differences in the levels defined as cash-generating units (the operating segments or levels below). • Failure to disclose some of the key assumptions and judgments used in determining the value in use and fair value less costs to sell.
	Financial instruments	• Application, by most companies in the banking industry, of the fair value option for a portion of their financial assets and liabilities, and recognition of financial instruments on the trade date. • Failure of many companies that applied hedge accounting to disclose their methods to assess effectiveness. • Diversity in the accounting policies for recognizing loan impairment, including the factors and time periods considered as well as the methods for evaluating loans for impairment; widespread use of the allowance method. • Diversity in the extent of and information provided in disclosures about (1) credit quality, including allowance methods, assessment of impaired loans, and charge-off and (2) loan renegotiation policies and credit risks, including balances of impaired, nonperforming, and past due loans. • Differences in fair value measurement disclosures, including inconsistencies in disclosures about Level 3 instruments and sensitivity disclosures.
	Investment property	• Companies mostly held those properties at cost. • Insufficient disclosures in several instances of methods and assumptions used to determine fair value of such investments.

Topics	Subtopics	Observations
Accounting for liabilities	Overall	• Failure by most companies to provide either all of the required disclosures or limited disclosure of provisions, contingent liabilities, and contingent assets (e.g., financial exposure and the underlying uncertainties surrounding provisions and contingent liabilities).
Accounting for shareholders' equity	Overall	• In several instances, companies used separate accounts within shareholders' equity to comply with local laws or regulations even though there is no guidance under IFRSs on the presentation of these separate accounts.
Accounting for revenue	Overall	• Disclosure by some companies of "an accounting policy for revenue that did not fully explain how the revenue recognition guidance was applied to its transactions." • Failure by many companies that disclosed an accounting policy for sales transactions with multiple elements to explain how they determined the value of each element for which revenue was recognized. • Differences in the nature of items netted against revenue (e.g., rebates, discounts) and limited disclosure about how the netted amounts were measured. • For construction contracts, failure by most companies to address "the combining and segmenting of contracts, the components of contract revenue and contract costs, and the criteria applied to recognize changes in estimates."
Accounting for government grants and disclosure of government assistance	Overall	• Diversity in the classification of government grants as deferred income or net against the related asset.
Accounting for expenses	Share-based payments	• Unclear or incomplete disclosures of accounting policy for equity-settled or cash-settled share-based payments (not all recognition and measurement criteria in IFRS 2 were disclosed). • Reference by some companies to national standard-setter guidance to account for certain aspects of share-based payments. • Significant variety in details provided in disclosures (e.g., disclosures about the value of awards).
	Income taxes	• Accounting policy disclosures that did not include all recognition and measurement criteria required by IAS 12. • Differences in the determination of whether certain taxes were income taxes or operating expenses. • Inappropriate recognition of deferred tax assets and deferred tax asset valuation allowances. • Differences in the nature and extent of disclosures about income tax uncertainties.
	Employee benefits	• In some instances, the accounting for defined benefit pension plans that was "either based on or adjusted by local guidance." • Need for more clarity in disclosures about pension assumptions in some financial statements.
	Borrowing costs	• Frequent lack of clarity in disclosures about the accounting policy for borrowing costs.
Accounting for broad transactions	Business combinations	• Failure by certain companies to disclose an accounting policy for business combinations.
	Non-current assets held for sale and discontinued operations	• Unclear accounting policy disclosures. • For several companies, accounting and disclosures in this area that did not seem to comply with IFRS 5. • Presentation by a majority of companies of discontinued operations in a single-column format.
	Operating segments	• Failure by most companies to disclose whether operating segments were aggregated and to provide entity-wide disclosures regarding product and service revenue to external customers.
	Leases	• Failure by some companies to disclose an accounting policy for the classification of leases as either finance or operating. • Disclosure by some companies, but not all, of the lease recognition and measurement criteria (accounting for contingent rents, interest element in a finance lease). • Diversity in lessor classification of assets leased in an operating lease (inventory versus equipment).
	Consolidation of subsidiaries	• Disclosure by some companies of a consolidation accounting policy that either did not address all of the recognition and measurement criteria of IAS 27 or was otherwise unclear. • Limited disclosure by a majority of companies in the banking industry about the use of special-purpose entities (SPEs), including whether they were consolidated, and about the nature and amount of the SPEs' assets.

Topics	Subtopics	Observations
Accounting for broad transactions (continued)	Investments in associates	• Use by several companies of the equity method to account for investments in which a voting ownership interest was out of the 20% to 50% range, but failure to disclose the basis for the use of the equity method. • Failure by most companies to disclose the basis used to present summarized financial information for associates accounted for under the equity method.
	Interests in joint ventures	• Use of the proportionate consolidation accounting method by half of the companies that had joint ventures (typically in the energy, mining, crude oil production, and utilities industries), and use of the equity method (typically in the telecommunications, petroleum refining, motor vehicles, and banking industries) by the other half.
Accounting for industry-specific areas	Insurance contracts	• Significant differences in the accounting policies related to insurance contracts, including: o The accounting bases used to account for insurance operations. o Presentation of liabilities related to insurance and investment contracts (description and granularity). o Application of the fair value option to insurance liabilities. o Measurement of liabilities associated with unit-linked insurance contracts, unit-linked investment contracts, and investment products. o The accounting for policy acquisition costs. o The claims development table.
	Extractive industries	• Major differences in the accounting policy selected for the capitalization and classification of exploration and evaluation expenditures. The majority of companies engaged in oil and gas extractive activities expensed all exploration and evaluation costs as incurred, except for exploratory drilling costs, whereas the majority of companies engaged in mining activities capitalized all exploration and evaluation costs. • Classification of exploration and evaluation assets as intangible assets by most companies with significant oil and gas operations, and classification of these assets as tangible assets by most companies in the energy industry. • Failure by most companies in oil and gas and mining to disclose the guidelines used to determine natural resource reserve estimates. • Lack of clarity in disclosures about the method used to account for oil and gas activities.

Appendix C: Frequent Areas of Comment in SEC Reviews of Filings Prepared in Accordance With IFRSs

The table below identifies topics that the SEC staff has focused on in its reviews of foreign private issuers that prepare their financial statements in accordance with IFRSs as issued by the IASB.

Topic	Frequent SEC Staff Comments
Financial instruments (IAS 39, IAS 32, and IFRS 7)	• Insufficient disclosures about: o The methods, assumptions, and market data used to determine fair value and prepare sensitivity analyses. o The criteria applied to determine whether financial instruments were impaired and when financial instruments were derecognized. • Classification of financial instruments as liability or equity. • Accounting for investments at cost when the use of fair value seemed appropriate. • Asymmetrical accounting for financial instruments between counterparties when symmetrical accounting would have been expected.
Presentation of financial statements, including statements of cash flows (IAS 1and IAS 7)	• Insufficient disclosures about: o Why certain income or expense items were excluded from the profit or loss reported on the face of the income statement. o The nature of expenses for income statement line items when they are reported by function. • The classification of items in the statement of cash flows as operating, investing, or financing as well as the nature of financial assets classified as cash equivalents. • A missing opening statement of financial position in connection with a retrospective change in accounting policy, reclassification, or first-time adoption of IFRSs.
Impairment of assets (IAS 36)	• How management determined cash-generating units and the level to which goodwill should be allocated. • Whether value in use was calculated by using pretax assumptions (versus after-tax). • Insufficient disclosure about the (1) events and circumstances that led to the recognition of impairment losses and (2) circumstances in which a cash-generating unit's recoverable amount was close to its book value.
Consolidation, investments in associates and joint ventures (IAS 27, IAS 28, and IAS 31)	• Additional clarification of companies' determinations of control or significant influence that were not consistent with the voting power held (e.g., circumstances in which a registrant held more than 50% voting power but stated that it did not control the entity). • Insufficient disclosure about the nature and extent of restrictions to transfer funds. • The application of SIC-12, *Consolidation — Special Purpose Entities*.
Revenue recognition (IAS 18 and IAS 11)	• Insufficient disclosures about: o The revenue recognition criteria applied to sales transactions, including the nature of those transactions. o How and when related expenses, such as warranties, were recognized and measured.
Operating segments (IFRS 8)	• Insufficient disclosures about: o Factors considered to identify operating segments and information about whether operating segments were aggregated. o Entity-wide information on products and services, geographic areas, and major customers.
Income taxes (IAS 12)	• Insufficient disclosure about: o The amount of deferred tax assets that were not recognized and whether these unrecognized deferred tax assets were reevaluated at the end of each year. o When tax loss carryforwards will expire. o The source of the tax rate and the nature of the line item components used in the rate reconciliation.
Property, plant and equipment (IAS 16)	• Lack of disclosure about: o The depreciation methods used and useful lives of each class of property and equipment. o Whether a company performed the review of the residual value, the useful lives, and the depreciation method at least annually.
Employee benefits (IAS 19)	• Clarification of how frequently the company performed actuarial reviews of defined benefit plans as well as of the source of the discount rate. • Lack of disclosure of the accounting policy for curtailments and settlements.

Topic	Frequent SEC Staff Comments
Provisions and contingent liabilities (IAS 37)	• Request for expanded and more granular disclosures of each class of provision; the nature of the underlying matter; uncertainties in the amount or the timing of related payments; how the provisions were estimated, including the assumptions; and the amount of provisions reversed and the impact of discounting.
Business combinations (IFRS 3)	• Insufficient accounting policy disclosures about the recognition and measurement criteria of IFRS 3. • Accounting for acquisitions in which control was obtained initially, step-acquisitions in which control was obtained after initial investment, and acquisitions of noncontrolling interests. • The nature of adjustments to the measurement of the consideration transferred in a business combination and related disclosures. • The accounting for common control transactions.

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