

Similarities and Differences*

A comparison of IFRS, US GAAP and Belgian GAAP

January 2005



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This publication will be updated following the release of the final standards that will be mandatory from 1 January 2005.
This edition is up to date as at 30 June 2004.

Preface

International Financial Reporting Standards (IFRS) will be adopted for the first time in 2005 in many countries around the world including, for listed companies initially, in the European Union. The International Accounting Standards Board (IASB) has been busy putting in place a stable platform of IFRS for first-time adopters. Since 2002, the IASB and the US Financial Accounting Standards Board (FASB) have been committed to working towards converging the two frameworks. Belgian accounting legislation is also converging to IFRS. Despite convergence initiatives, there are many differences between the three frameworks, which this publication seeks to highlight.

There have been many changes in IFRS and US GAAP since the April 2004 version of this publication. This revised edition provides a means by which companies can quickly identify key similarities and differences between IFRS, US GAAP and Belgian GAAP.

To assist you in keeping pace with the changes, we hope you find this latest version of the publication useful in identifying the similarities and differences that exist between IFRS, US GAAP and Belgian GAAP.



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Introduction

This PricewaterhouseCoopers publication is for those who wish to gain a broad understanding of the key similarities and differences between **IFRS**, **US GAAP**, and **Belgian GAAP**. The first section provides details of convergence initiatives between **IFRS** and **US GAAP** on the one hand, and between **IFRS** and **Belgian GAAP** on the other hand. The second section provides a summary of the similarities and differences between **IFRS**, **US GAAP** and **Belgian GAAP** and then refers to individual sections where key divergences are highlighted and the likely impact of recent proposals explained.

No summary publication can do justice to the many differences of detail that exist between **IFRS**, **US GAAP** and **Belgian GAAP**. Even if the guidance is similar there can be differences in the detailed application, which could have a material impact on the financial statements. In this publication, we have focused on the measurement similarities and differences most commonly found in practice. When applying the individual accounting frameworks, readers must consult all the relevant accounting standards and, where applicable, their national law. Listed companies must also follow relevant securities regulations - for example the US Securities and Exchange Commission requirements and local stock exchange listing rules.

This publication takes account of authoritative pronouncements issued under **IFRS**, **US GAAP** and **Belgian GAAP** up to 30 June 2004 and is based on the most recent version of those pronouncements, should an earlier version of a pronouncement still be operative at the date of this publication.

PLEASE NOTE: This publication does not take account of the following developments, which have not been made into authoritative pronouncements as of 30 June 2004:

- Exposure draft of Proposed Amendments to IAS 19, Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
- Exposure draft of Proposed Amendments to IFRS 3, Business Combinations – Combinations by Contract Alone or Involving Mutual Entities
- Exposure draft of Proposed Amendments to IAS 39, Financial Instruments: Recognition and Measurement – Transition and Initial Recognition of Financial Assets and Financial Liabilities
- Exposure draft of Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions
- Exposure draft of Proposed Amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 4, Insurance Contracts – Financial Guarantee Contracts and Credit Insurance
- Exposure Draft of Proposed Amendments to IAS 39, Financial Instruments: Recognition and Measurement – The Fair Value Option.
- ED6, Exploration for and Evaluation of Mineral Resources
- ED7, Financial Instrument Disclosures
- IFRIC D3, Determining Whether an Arrangement Contains a Lease
- IFRIC D5, Applying IAS 29, Financial Reporting in Hyperinflationary Economies for the First Time
- IFRIC D6, Multi-Employer Plans
- IFRIC D7, Scope of SIC-12 Consolidations – Special Purpose Entities
- IFRIC D8, Members' Shares in Co-operative Entities
- IFRIC D9, Employee Benefit Plan with a Promised Return on Contributions or Notional Contributions
- Discussion paper – Preliminary Views on Accounting for Small and Medium-sized Entities

Convergence between IFRS and US GAAP

The following key initiatives aim to further the goal of convergence between **IFRS** and **US GAAP**, in addition to the IASB and the FASB's monitoring of the activities of the other board and their explicit consideration of the other board's agenda decisions:

Joint projects. Joint projects are the projects that both boards have agreed to conduct simultaneously in a co-ordinated manner. They involve sharing staff resources, and every effort is made to keep joint projects to a similar time schedule. The IASB and the FASB are currently conducting joint projects to address revenue recognition and business combinations.

The short-term convergence project. The short-term convergence project is an active agenda project that is being conducted jointly between the IASB and the FASB. The scope of the short-term convergence project is limited to those differences between **IFRS** and **US GAAP** in which convergence around a high-quality solution appears achievable in the short-term. Because of the nature of the differences, it is expected that a high-quality solution can usually be achieved by selecting either existing **IFRS** or **US GAAP**.

The convergence research project. The FASB staff is currently working on a research project related to convergence. The project seeks to identify all of the substantive differences between **US GAAP** and **IFRS** and to catalogue those differences. The project's scope includes differences in standards addressing recognition, measurement, presentation and disclosure. Any topic in which a specific accounting treatment would be permissible under one basis of accounting but would not be permissible under the other basis of accounting is included in the scope.

While significant progress towards international convergence is expected to be made in the next few years, the volume of differences and the complex nature of some issues means that many differences between **IFRS** and **US GAAP** will remain well beyond 2005.

Summary of standards and exposure drafts to date on convergence

In March 2004, the IASB issued IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, which converges with the main requirements of FAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets in relation to classification and measurement of non-current assets and disposal groups held for sale, as well as classification and presentation of discontinued operations. The standards have not converged in their impairment requirements. Under **IFRS**, impairment continues to be measured under IAS 36.

The FASB issued four exposure drafts in December 2003, as follows:

- **Proposed FAS, Accounting Changes and Error Corrections – a replacement of APB 20 and FAS 3**, which would require retrospective application for changes in accounting principle, unless it is impracticable to determine either the cumulative effect or the period-specific effects of the change. This proposed Statement would require a change in depreciation method to be accounted for as a change in accounting estimate and not as a change in accounting principle.
- **Proposed FAS, Earnings per Share – an amendment of FAS 128**, which would require the number of incremental shares included in year-to-date diluted EPS to be computed using the average market price of common shares for the year-to-date period. It also would eliminate the provisions of FAS 128 that allow an entity to rebut the presumption that contracts with the option of settling in either cash or stock will be settled in stock. Also, it would require that shares to be issued upon conversion of a mandatorily convertible security be included in the computation of basic EPS from the date that conversion becomes mandatory.
- **Proposed FAS, Exchanges of Productive Assets – an amendment of APB 29**, which would eliminate the exception to the general principle that exchanges of non-monetary assets should be recorded at the fair value of the assets exchanged. It would require exchanges of productive assets to be accounted for based on the fair values of the assets involved, unless the exchange transaction does not have commercial substance. Commercial substance would be assessed by comparing the expected cash flows of the entity immediately before and immediately after the exchange.
- **Proposed FAS, Inventory Costs – an amendment of ARB No. 43, Chapter 4**, which would require that items such as idle facility expense, excessive spoilage, double freight and rehandling costs to be classified as current-period charges.

Summary of tentative decisions

<p>Classification of liabilities on refinancing.</p>	<p>A long-term financial liability due to be settled within 12 months of the balance sheet date should be classified as a current liability, unless an agreement to refinance the liability on a long-term basis is completed on or before the balance sheet date.</p>
<p>Classification of liabilities due on demand because of violation of debt covenants.</p>	<p>A long-term financial liability payable on demand at the balance sheet date because the entity breached a condition of its loan agreement should be classified as current, unless:</p> <p>(a) a grace period was agreed on and took effect before the balance sheet date and that the grace period must expire within 12 months (or the operating cycle, if longer) of the balance sheet date, and/or;</p> <p>(b) i) the lender has agreed on or before the balance sheet date to provide a period of grace within which an entity can rectify the breach, (ii) the obligation is not callable during the period, and, (iii) either the entity rectifies the breach within the period of grace or at the time that the financial statements are issued, it is probable that the breach will be rectified within the period of grace.</p>
<p>Provisions for restructuring costs.</p>	<p>The definition of constructive obligation is revised to clarify that an entity's actions must result in other parties being able to 'reasonably rely' on the entity discharging its responsibilities. The existence and announcement of a restructuring plan does not by itself create an obligation. Costs that are often incurred in a restructuring are treated as follows:</p> <ul style="list-style-type: none"> • the cost of terminating a contract before the end of its term should be recognised when the entity terminates the contract. The liability for costs that will continue to be incurred under a contract for its remaining term without economic benefit to the entity should be recognised in accordance with the requirements for onerous contracts; • the recognition of involuntary termination benefits requires the communication of those benefits to the employees; • when employees are required to render services beyond any notification period to be entitled to the termination benefits and those benefits are not paid pursuant to any pre-existing benefit arrangement (i.e. they are one time benefits), those benefits should be recognised over the future service period; • voluntary termination benefits are recognised when employees accept the offer of voluntary termination.

Remaining issues to be discussed

Interim financial reporting.	IFRS requires interim financial reports to be prepared as if they covered a discrete period, with certain exceptions. US GAAP treats the interim period as an integral part of the annual report. The distinction has implications for the recognition of revenue and costs.
Research and development.	US GAAP requires research and development costs to be expensed when incurred, except for certain software development costs, which are capitalised if certain criteria are met. IFRS requires a distinction to be made between research and development, and requires development costs to be capitalised under certain circumstances.
Government grants.	The IASB is aware that IAS 20 is out of date and originally considered FAS 116 as a new model. However, it decided that it would be premature to specify a new model in light of the ongoing work on revenue recognition. The IASB therefore decided to amend IAS 20 by adopting the accounting model for government grants contained in IAS 41.
Intangible assets.	The project focuses on the recognition of intangible assets other than goodwill. The staff is currently identifying the existing differences between IFRS and US GAAP .
Income taxes.	IFRS and US GAAP have similar approaches to accounting for income taxes. The differences between IFRS and US GAAP guidance generally relate to the explicit exceptions to recognition of a deferred tax asset or liability. There are also some recognition and measurement differences.

Long-term convergence

Long-term convergence projects

Revenue recognition.	The primary objective is to develop a comprehensive set of principles for revenue recognition that will eliminate inconsistencies in the existing authoritative literature and accepted practices.
Business combinations (Phase II).	The following are within the scope of the application of the purchase method project: <ul style="list-style-type: none"> • issues relating to minority interest including the full goodwill model; • treatment of a business combination achieved through successive share purchases; • issues relating to the measurement of consideration: measurement date for equity instruments, date of acquisition, adjustments for the value of a block of securities issued, treatment of direct costs and contingent consideration; • issues relating to the recognition and measurement of the identifiable net assets acquired, including restructuring provisions, acquired deferred tax assets, fair values of liabilities, assets expected to be disposed of and contingencies of the acquiree.
Joint ventures.	Proportionate consolidation is permitted under IFRS . Proportionate consolidation is not permitted under US GAAP , except in very limited circumstances such as industry-specific situations. The equity method is required under US GAAP .

Convergence between IFRS and Belgian GAAP

For listed companies, a royal decree dated 4 December 2003 permits listed companies to early adopt in their 2003 and 2004 consolidated financial statements those **IFRS** that have been endorsed by the European Commission (EC) at the closing balance sheet date. Those companies that only have bonds listed may postpone the first-time adoption deadline from 2005 until 2007, as allowed by EU IAS regulation.

In December 2003, the ASC (Accounting Standards Commission), the Belgian standard-setter, published its proposals for applying **IFRS** in Belgium for industrial and commercial companies:

1) For consolidated financial statements of non-listed companies:

- companies should be allowed to early adopt **IFRS** in their 2004 consolidated financial statements (irrevocable choice), without having to seek dispensation from the Minister of Economic Affairs (option to be included in Belgian legislation);
- the long-term objective is that all companies would be required to prepare their consolidated financial statements in accordance with **IFRS** in order to maximise the comparability of published consolidated financial information. However, no deadline has been fixed yet;
- the 'Global Players' policy (based on specific authorisation by the Minister of Economic Affairs) would be maintained temporarily to allow companies - in specific situations - to adopt accounting frameworks other than **Belgian GAAP** or **IFRS** (e.g. **US GAAP**).

2) For company financial statements:

- the alignment of **Belgian GAAP** with **IFRS** for company financial statements is currently not allowed;
- the impact of such alignment on tax and company law and on SMEs (small and medium-sized entities) will be analysed in more detail. The starting point for this analysis will be an inventory of the differences between **IFRS** and **Belgian GAAP**, which will be kept up-to-date. A technical forum will lead the project, assisted by the ASC's technical committee for European and international accounting harmonisation;
- the conclusions of the technical forum will lead to proposed amendments of Belgian accounting legislation in order to bring it into line with **IFRS**. However, no time-schedule has been established for the project.

It should also be noted that the opinions of the ASC are more and more derived from **IFRS** and refer to international accounting practice.

3) As far as banks are concerned, the CBFA, the Belgian Securities Regulator, has stated its intention to require all banks preparing consolidated financial statements to use **IFRS** as from financial year 2006.

Summary of similarities and differences

SUBJECT	IFRS	US GAAP	Belgian GAAP	Page
Accounting framework				
Historical cost.	Uses historical cost, but intangible assets, property plant and equipment (PPE) and investment property may be revalued. Derivatives, biological assets and certain securities must be revalued.	No revaluations except some securities and derivatives at fair value.	Comparable to IFRS , with special rules to require/allow nominal value, present value or revaluation.	21
Fair presentation override.	In extremely rare cases, entities may override the standards where is essential to give a fair presentation.	Conceptually similar to IFRS , but not used in practice.	Comparable to IFRS .	22
First-time adoption of accounting frameworks.	Full retrospective application of all IFRSs effective at the reporting date for an entity's first IFRS financial statements, with some optional exemptions and limited mandatory exceptions.	First-time adoption of US GAAP requires retrospective application. In addition, particular standards specify treatment for first-time adoption of those standards.	Not applicable.	22
Financial statements				
Components of financial statements.	Two years' balance sheets, income statements, cash flow statements, changes in equity and accounting policies and notes.	Similar to IFRS , except three years required for public companies for all statements except balance sheet.	Two years' balance sheets, income statements, accounting policies and notes.	23
Balance sheet.	Does not prescribe a particular format; an entity uses a liquidity presentation of assets and liabilities, instead of a current/non-current presentation, only when a liquidity presentation provides more relevant and reliable information. Certain items must be presented on the face of the balance sheet.	Entities may present either a classified or non-classified balance sheet. Items presented on the face of the balance sheet are generally presented in decreasing order of liquidity. Public companies must follow SEC guidelines regarding minimum disclosure requirements.	Standard chart of accounts and presentation format prescribed by law.	24
Income statement.	Does not prescribe a standard format, although expenditure must be presented in one of two formats (function or nature). Certain items must be presented on the face of the income statement.	Present as either a single-step or multiple-step format. Expenditure must be presented by function.	Standard chart of accounts and presentation format prescribed by law.	25
Exceptional items.	Does not use the term, but requires separate disclosure of items that are of such size, incidence or nature that require separate disclosure to explain the performance of the entity.	Similar to IFRS , but individually significant items should be presented on the face of the income statement.	Not addressed.	26
Extraordinary items.	Prohibited.	Defined as being both infrequent and unusual, and are rare. Negative goodwill is presented as an extraordinary item.	The definition of extraordinary items is much broader than under IFRS and US GAAP . Extraordinary income and costs are presented separately in the income statement.	26

SUBJECT	IFRS	US GAAP	Belgian GAAP	Page
Financial statements - continued				
Statement of recognised gains and losses/ Other comprehensive income.	Separate the statement of recognised gains and losses as either in the notes or highlight separately in primary statement of changes in shareholders' equity.	Disclose total comprehensive income and accumulated other comprehensive income, either as a separate primary statement or combined with income statement, or with statement of changes in stockholders' equity.	Not required.	26
Statement of changes in shareholders' equity.	Statement showing capital transactions with owners, the movement in accumulated profit and a reconciliation of all other components of equity. The statement must be presented as a primary statement.	Similar to IFRS . SEC rules allow such information to be included in the notes.	Not required.	27
Cash flow statement – format and method.	Standard headings, but limited flexibility of contents. Use direct or indirect method.	Similar headings to IFRS , but more specific guidance for items included in each category. Use direct or indirect method.	Not required.	27
Cash flow statement – definition of cash and cash equivalents.	Cash includes overdrafts and cash equivalents with short-term maturities (less than three months).	Cash excludes overdrafts but includes cash equivalents with short-term maturities.	Not required.	28
Cash flow statement – exemptions.	No exemptions.	Limited exemptions for certain investment entities.	Not required.	28
Changes in accounting policies.	Restate comparatives and prior-year against opening retained earnings.	Include effect in current-year income statement. Disclose pro-forma comparatives. Include retrospective adjustments for specific items.	No restatement of opening balance of retained earnings is permitted. Must be recorded in current year income.	29
Correction of errors.	Restate comparatives.	Similar to IFRS .	Include effect in current year income.	29
Changes in accounting estimates.	Reported in income statement in the current period.	Similar to IFRS .	Comparable to IFRS .	29
Consolidated financial statements				
Definition of subsidiary.	Based on voting control or power to govern. The existence of currently exercisable potential voting rights is also taken into consideration.	Controlling interest through majority ownership of voting shares or by contract. Consolidate variable interest entities (VIEs) in which a parent does not have voting control but absorbs the majority of losses or returns.	Comparable to IFRS .	30
Special purposes entities (SPEs).	Consolidate where the substance of the relationship indicates control.	Consolidate SPEs if consolidation requirements for VIEs are met. To avoid consolidation, the SPE must be a qualifying SPE.	Not addressed.	30

SUBJECT	IFRS	US GAAP	Belgian GAAP	Page
Consolidated financial statements - continued				
Non-consolidation of subsidiaries.	Dissimilar activities or temporary control are not a justification for non-consolidation.	Only if control does not rest with the majority owner and the owner is not the primary beneficiary of a VIE.	Comparable to IFRS except: 1.exclusion is optional 2.subsidiaries that are no longer going concerns should be excluded (equity method to be used) 3.subsidiaries with dissimilar activities can be excluded if their inclusion would undermine true and fair view (equity method to be used).	31
Definition of associate.	Based on significant influence: presumed if 20% interest or participation in entity's affairs.	Similar to IFRS .	Comparable to IFRS .	32
Presentation of associate results.	Use equity method. Show share of post-tax result.	Similar to IFRS .	Use equity method. Show share of post-tax result.	32
Disclosures about significant associates.	Give detailed information on significant associates' assets, liabilities and results.	Similar to IFRS .	Minimal.	32
Presentation of joint ventures.	Both proportional consolidation and equity method permitted.	Equity method is required except in specific circumstances.	Proportional method required, although equity method may be used where the activities of the joint subsidiary are not closely integrated with those of the parent.	33
Business combinations				
Types.	All business combinations are acquisitions.	Similar to IFRS .	Similar to IFRS for acquisitions of subsidiaries. The legal form should sometimes be followed in merger accounting.	36
Purchase method – fair values on acquisition.	Fair value the assets, liabilities and contingent liabilities of acquired entity. Only recognise liabilities for restructuring activities when the acquiree has an existing liability at acquisition date. Prohibited from recognising liabilities for further losses or other costs expected to be incurred as a result of the business combination.	Similar to IFRS , but specific rules for acquired in-process research and development (generally expensed) and contingent liabilities. Some restructuring liabilities relating solely to the acquired entity may be recognised in fair value exercise if specific criteria about restructuring plans are met.	Difference between the purchase price and the corresponding book value of the net assets acquired is allocated to recognise the fair values of acquired assets and liabilities (adjustments restricted to amount of the difference).	36
Purchase method – contingent consideration.	Include in cost of combination at acquisition date if adjustment is probable and can be measured reliably.	Not recognised until the contingency is resolved or the amount is determinable.	Recognised only when the event occurs.	37
Purchase method – minority interests at acquisition.	State at minority's proportion of the net fair value of acquired identifiable assets, liabilities and contingent liabilities.	Generally state at share of pre-acquisition carrying value of net assets.	State at share of fair value of net assets.	38

SUBJECT	IFRS	US GAAP	Belgian GAAP	Page
Business combinations - continued				
Purchase method – goodwill and intangible assets with indefinite useful lives.	Capitalise but do not amortise. Review goodwill and indefinite-lived intangible assets for impairment at least annually at the cash-generating unit level.	Similar to IFRS ; however, impairment measurement model is different.	Capitalise and amortise over useful life. If period is more than 5 years, justification in the notes (but no maximum stipulated).	39
Purchase method – negative goodwill.	Acquirer to reassess the identification and measurement of acquiree's identifiable assets, liabilities and contingent liabilities. Any excess remaining after that reassessment is recognised in income statement immediately.	Reduce proportionately the fair values assigned to non-current assets (with certain exceptions). Any excess is recognised in the income statement immediately as an extraordinary gain.	If relates to expected future under-performance or costs, recognise in income when these occur. Otherwise, maintain in separate caption within shareholders' equity, for subsequent re-cycling to income upon partial or total disposal of the related entity.	39
Purchase method – subsequent adjustments to fair values.	Fair values can be adjusted against goodwill within 12 months of the acquisition date. Record subsequent adjustments in income statement, unless they are to correct an error.	Similar to IFRS . Once the fair value allocation is finalised, no further changes are permitted except for the resolution of known pre-acquisition contingencies. Record against goodwill the adjustments made during the allocation period relating to data for which management was waiting to complete the allocation.	Not addressed.	40
Purchase method – disclosure.	Disclosures include names and descriptions of combining entities, date of acquisition, cost of combination, summary of fair values and pre-acquisition IFRS values of assets and liabilities acquired, and impact on results and financial position of acquirer.	Similar to IFRS , with additional disclosures regarding the reasons for the acquisition, and details of allocations.	Only amortization period of goodwill and aggregate movements in goodwill balances must be disclosed.	41
Uniting of interests method.	Prohibited.	Same as IFRS .	Not allowed, although accounting for tax-free mergers produces similar results.	42
Revenue recognition				
Revenue recognition.	Based on several criteria, which require the recognition of revenue when risks and rewards have been transferred and the revenue can be measured reliably.	Four key criteria. In principle, similar to IFRS . Extensive detailed guidance exists for specific transactions.	Not specifically addressed but, in practice, comparable to IFRS .	44
Construction contracts.	Accounted for using the percentage of completion method. Completed contract method prohibited.	Percentage of completion method is preferable; however, completed contract method is permitted in rare circumstances.	Either percentage-of-completion or completed-contract method may be used to recognise long-term contract revenues and profits.	46

Summary of similarities and differences

SUBJECT	IFRS	US GAAP	Belgian GAAP	Page
Expense recognition				
Interest expense.	Recognised on an accrual basis. Effective yield method used to amortise non-cash finance charges.	Similar to IFRS .	Not addressed although in practice similar to IFRS .	48
Employee benefits: pension costs – defined benefit plans.	Use projected unit credit method to determine benefit obligation.	Similar to IFRS conceptually, although several differences in detail.	Pension obligations arising since 1 January 1986 must be financed in a separate pension fund or with an independent insurance company. Companies are exempted from providing for unfunded pension obligations arising prior to that date. Since no specific rules exist for pension accounting, periodic pension costs are generally recognised on the basis of premiums paid or due, which may differ from amounts calculated under IFRS or US GAAP . Summary disclosure of pension arrangements in force.	48
Employee share compensation.	Recognise expense for services acquired. The corresponding amount will be recorded either as a liability or as an increase in equity, depending on whether the transaction is determined to be cash- or equity-settled. The amount to be recorded is measured at the fair value of the shares or share options granted.	Two alternative methods for determining cost: intrinsic value (market price at measurement date less any employee contribution or exercise price) or fair value at issue using option pricing model. Recognise cost of share awards or options over period of employee's performance.	Not addressed.	50
Termination benefits.	Account for post-retirement benefits as pensions. Requirements also exist for termination benefits arising from redundancies and other post-employment and long-term employee benefits. Account for termination indemnity plans as pensions.	Similar to IFRS for post-retirement benefits. More detailed guidance given for termination benefits. Termination indemnity accounted for as pension plans and calculated as either the vested benefit obligation or the actuarial present value of the vested benefits.	Not addressed specifically. Provision should be made for early-retirement obligations using appropriate actuarial assumptions.	52
Assets				
Acquired intangible assets.	Capitalise if recognition criteria are met; intangible assets must be amortised over useful life. Intangibles assigned an indefinite useful life must not be amortised but reviewed annually for impairment. Revaluations are permitted in rare circumstances.	Similar to IFRS . Revaluations not permitted.	Capitalise if recognition criteria met and amortise over useful life (but no maximum stipulated). Revaluations are not permitted.	53
Internally generated intangible assets.	Expense research costs as incurred. Capitalise and amortise development costs only if stringent criteria are met.	Expense both research and development costs as incurred. Some software and website development costs must be capitalised.	Research and development costs may be capitalised or expensed. Software development costs must be capitalised if stringent criteria are met.	53

Summary of similarities and differences

SUBJECT	IFRS	US GAAP	Belgian GAAP	Page
Assets - continued				
Property, plant and equipment.	Use historical cost or revalued amounts. Regular valuations of entire classes of assets are required when revaluation option is chosen.	Revaluations not permitted.	Usually acquisition cost, with revaluations permitted provided certain conditions are met.	55
Non-current assets held for sale.	Non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Measure a non-current asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell.	Similar to IFRS .	Not addressed.	58
Leases – classification.	A lease is a finance lease if substantially all risks and rewards of ownership transferred. Substance rather than form is important.	Similar to IFRS , but with more extensive form-driven requirements.	Finance lease if lease payments cover the higher of: (a) the lessor's invested capital plus interest and other costs; or (b) the fair value of the leased asset.	58
Leases – lessor accounting.	Record amounts due under finance leases as a receivable. Allocate gross earnings to give constant rate of return based on (pre-tax) net investment method.	Similar to IFRS , but with specific rules for leveraged leases.	Comparable to IFRS .	58
Impairment of assets.	If impairment indicated, write down assets to higher of fair value less costs to sell and value in use based on discounted cash flows. If no loss arises, reconsider useful lives of those assets. Reversals of losses permitted in certain circumstances.	Impairment is assessed on undiscounted cash flows for assets to be held and used. If less than carrying amount, measure impairment loss using market value or discounted cash flows. Reversals of losses prohibited. For assets held for disposal, impairment is based on lower of carrying amount and fair value less cost to sell.	If impairment indicated, write down assets to value in use or net realisable value. No specific methodology is stipulated.	60
Capitalisation of borrowing costs.	Permitted for qualifying assets, but not required.	Required.	Permitted for qualifying assets in respect of borrowings contracted specifically to finance the related assets.	61
Investment property.	Measure at depreciated cost or fair value, and recognise changes in fair value in the income statement.	Treat the same as for other properties (depreciated cost).	Treat as for other properties.	62
Inventories.	Carry at lower of cost and net realisable value. Use FIFO or weighted average method to determine cost. LIFO prohibited. Reversal is required for subsequent increase in value of previous write-downs.	Similar to IFRS ; however, use of LIFO permitted. Reversal of write-down is prohibited.	Comparable to IFRS , except that: (1) it is allowed not to include indirect production costs in cost; (2) LIFO is permitted.	63
Biological assets.	Measured at fair value less estimated point-of-sale costs.	Not specified. Generally historical cost used.	Not addressed.	64

Summary of similarities and differences

SUBJECT	IFRS	US GAAP	Belgian GAAP	Page
Assets - continued				
Financial assets – measurement.	Depends on classification of investment –if held to maturity or loan or receivable, then carry at amortised cost, otherwise at fair value. Unrealised gains/losses on fair value through income statement classification (including trading securities) recognised in the income statement and on available-for-sale investments recognised in equity.	Similar to IFRS ; however, no ability to designate any financial asset or liability as at fair value through profit or loss.	No comprehensive set of rules for financial instruments, although some specific guidelines are provided. For example, derivative instruments often remain unrecognised and thus no measurement issues arise.	64
Derecognition of financial assets.	Derecognise financial assets based on risks and rewards first; control is secondary test.	Derecognise based on control. Requires legal isolation of assets even in bankruptcy.	Not specifically addressed.	67
Liabilities				
Provisions – general.	Record the provisions relating to present obligations from past events if outflow of resources is probable and can be reliably estimated.	Similar to IFRS , with rules for specific situations (employee termination costs, environmental liabilities, loss contingencies, etc).	The probability that the entity will incur charges as a result of a past event is sufficient to recognise a provision. No obligation needs to exist at the balance sheet date. Accounting law stipulates that provision for major repair and maintenance costs must be made.	69
Provisions – restructuring.	Recognise restructuring provisions if detailed formal plan announced or implementation effectively begun.	Recognition of a liability based solely on commitment to a plan is prohibited. Must meet the definition of a liability, including certain criteria regarding the likelihood that no changes will be made to the plan or that the plan will be withdrawn.	Make restructuring provisions if a formal decision has been taken by the board of directors.	70
Contingencies.	Disclose unrecognised possible losses and probable gains.	Similar to IFRS .	Broadly comparable to IFRS .	70
Deferred income taxes – general approach.	Use full provision method (some exceptions) driven by balance sheet temporary differences. Recognise deferred tax assets if recovery is probable.	Similar to IFRS , but recognise all deferred tax assets and then provide valuation allowance if recovery is less than 50% likely. A number of specific differences in application.	Recognise any deferred tax liability to the extent that taxes will effectively be paid in the foreseeable future. Belgian GAAP do not further address accounting for deferred income taxes. Recognition of deferred tax assets in the consolidated financial statements is permitted if recovery is probable.	71
Deferred income taxes – main exceptions.	No temporary differences on non-deductible goodwill and initial recognition of assets and liabilities that do not impact on accounting or taxable profit.	Similar to IFRS regarding non-deductible goodwill. Initial recognition exemption does not exist.	Not addressed.	71

SUBJECT	IFRS	US GAAP	Belgian GAAP	Page
Liabilities - continued				
Government grants.	Recognise as deferred income and amortise. Entities may offset capital grants against asset values.	Similar to IFRS except long-lived asset contributions recorded as revenue.	Show net-of-tax under separate caption within shareholders' equity and amortise over useful economic life of related asset.	73
Leases – lessee accounting.	Record finance leases as asset and obligation for future rentals. Depreciate over useful life of asset. Apportion rental payments to give constant interest rate on outstanding obligation. Charge operating lease rentals on a straight-line basis.	Similar to IFRS . Specific rules must be met to record a finance or capital lease.	Comparable to IFRS .	74
Leases – lessee accounting: sale and leaseback transactions.	For a finance lease, defer and amortise profit arising on sale and finance leaseback. If an operating lease arises, profit recognition depends on sale proceeds compared to fair value of the asset. Also need to consider substance/linkage of the transactions.	Timing of profit and loss recognition depends on whether seller relinquishes substantially all or a minor part of the use of the asset. Immediately recognise losses. Consider specific strict criteria if a property transaction.	Defer any gain or loss for recognition over the depreciation period of the leased asset.	75
Financial liabilities – classification.	Classify capital instruments depending on substance of the issuer's obligations. Mandatorily redeemable preference shares are classified as liabilities.	Where an instrument is not a share, classify as liability when obligation to transfer economic benefit exists. Similar to IFRS .	Classify capital instruments according to their legal form.	76
Convertible debt.	Account for convertible debt on split basis, allocating proceeds between equity and debt.	Convertible debt is usually recognised as a liability.	Similar to IFRS .	77
Derecognition of financial liabilities.	Derecognise liabilities when extinguished. The difference between the carrying amount and the amount paid is recognised in the income statement.	Similar to IFRS .	Not specifically addressed.	77
Equity instruments				
Capital instruments – purchase of own shares.	Show as deduction from equity.	Similar to IFRS .	Show as marketable securities (treasury shares).	78
Derivatives and hedging				
Derivatives and other financial instruments – measurement of financial instruments and hedging activities.	Measure derivatives and hedge instruments at fair value; recognise changes in fair value in income statement except for effective cash flow hedges, where the changes are deferred in equity until effect of the underlying transaction is recognised in the income statement. Gains/losses from hedge instruments that are used to hedge forecast transaction may be included in cost of non-financial asset/liability (basis adjustment).	Similar to IFRS , except no 'basis adjustment' on cash flow hedges of forecast transactions.	Measure derivatives at lower of cost or market value, unless hedge accounting applies when specific criteria are met. Belgian GAAP do not distinguish explicitly between 'cash flow' and 'fair value' hedges. Further, hedging of future transactions does not give rise to income statement recognition until the transactions occur.	79

Summary of similarities and differences

SUBJECT	IFRS	US GAAP	Belgian GAAP	Page
Derivatives and hedging - continued				
Derivatives and other financial instruments – measurement of hedges of foreign entity investments.	Gains/losses on hedges of foreign entity investments are recognised in equity, including hedge ineffectiveness on non-derivatives. For derivatives, record hedge ineffectiveness in the income statement. Gains/losses held in equity must be transferred to the income statement on disposal of investment.	Similar to IFRS , except all hedge ineffectiveness is recognised in the income statement.	Foreign-currency borrowings that hedge non-monetary assets are not revalued to take account of fluctuations in exchange parities.	80
Other accounting and reporting topics				
Functional currency definition.	Currency of primary economic environment in which entity operates.	Similar to IFRS .	Comparable to IFRS .	83
Functional currency – determination.	If indicators are mixed and functional currency is not obvious, use judgement to determine the functional currency that most faithfully represents the economic results of the entity's operations by focusing on the currency of the economy that determines the pricing of transactions (not the currency in which transactions are denominated).	Similar to IFRS ; however, no specific hierarchy of factors to consider. Generally the currency in which the majority of revenues and expenses are settled.	Not specifically addressed. In practice comparable to IFRS .	83
Presentation currency.	When financial statements are presented in a currency other than functional currency, assets and liabilities are translated at exchange rate at balance sheet date. Income statement items are translated at exchange rate at dates of transactions, or use average rates if rates do not fluctuate significantly.	Similar to IFRS .	Not addressed.	83
Hyperinflationary economy – definition.	Hyperinflation indicated by characteristics of economic environment of country, which include: population's attitude towards local currency and prices linked to price index; and if cumulative inflation rate over three years is approaching, or exceeds, 100%.	Currency in highly inflationary environment (three-year inflation rate of approximately 100% or more).	Not specified.	84
Hyperinflationary economy – measurement.	Entities that have as functional currency the currency of a hyperinflationary economy must use it for measuring transactions. However, re-measurement of the measurement unit at the balance sheet date is required.	Generally does not permit inflation-adjusted financial statements; instead requires the use of a more stable currency as functional currency (usually the presentation currency). However, foreign issuers that use IFRS permitted to omit quantification of any differences that would have resulted from application of FAS 52.	No specific rules laid down. Companies must adopt an appropriate policy in the circumstances to ensure a true and fair view, and apply the policy consistently.	84

Summary of similarities and differences

SUBJECT	IFRS	US GAAP	Belgian GAAP	Page
Other accounting and reporting topics - continued				
Earnings per share – diluted.	Use weighted average potential dilutive shares as denominator for diluted EPS. Use 'treasury share' method for share options/warrants.	Similar to IFRS .	Not addressed.	85
Related party transactions – definition.	Determine by level of direct or indirect control, joint control and significant influence of one party over another or common control of both parties.	Similar to IFRS .	Broadly comparable to IFRS .	86
Related party transactions – disclosures.	Disclose name of related party, nature of relationship and types of transaction. For control relationships, give disclosures regardless of whether transactions occur. Some exemptions available for separate financial statements of subsidiaries.	Similar to IFRS . Exemptions are narrower than under IFRS .	Disclose amounts of investments in, loans to/from, market investments with, guarantees/financial commitments in favour of/given by and results of financial transactions with related parties (affiliated companies and/or directors/managers who control the company).	86
Segment reporting – scope and basis of formats.	Public entities: report primary and secondary (business and geographic) segments based on risks and returns and internal reporting structure.	Public entities: report based on operating segments and the way the chief operating decision-maker evaluates financial information for purposes of allocating resources and assessing performance.	All large entities filing financial statements in accordance with accounting law. No specific format stipulated and very little information required.	87
Segment reporting – accounting policies.	Use group accounting policies.	Use internal financial reporting policies (even if accounting policies differ from group accounting policy).	Use accounting policy for sales reporting in income statement.	87
Segment reporting – disclosures.	Disclosures for primary segment include revenues, results, capex, total assets and liabilities, and other items. For secondary segment, report revenues, total assets and capex.	Similar disclosures to IFRS (primary segment) except liabilities and geographical capex not required. Depreciation, amortisation, tax, interest and exceptional/extraordinary items disclosed if reported internally. Disclosure of factors used to identify segments is required.	Limited to details of sales analysed by significantly different types of activity and geographical markets.	88
Discontinuing operations – definition.	Operations and cash flows that can be clearly distinguished for financial reporting and represent a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.	Similar to IFRS . Component that is clearly distinguishable operationally and for financial reporting can be a: reporting segment, operating segment, reporting unit, subsidiary or asset grouping.	Not specifically addressed, although some rules apply to entities that cannot be considered as a going concern.	89
Discontinued operations – measurement.	Measured at the lower of carrying amount or fair value less costs to sell.	Similar to IFRS .	For those entities or business segments for which the going concern assumption can no longer be maintained, write off any unamortised balance of start-up costs, write down assets to net realisable value and make provision for costs to be incurred as a result of the decision to discontinue operations.	89

SUBJECT	IFRS	US GAAP	Belgian GAAP	Page
Other accounting and reporting topics - continued				
Discontinued operations – presentation and main disclosures.	Disclose at a minimum a single amount on the face of the income statement with analysis further disclosed in the notes for both current and prior periods. Assets and liabilities of a discontinued operation to be presented separately from other assets and liabilities on the balance sheet.	Similar to IFRS . Report discontinued and held-for-sale operations as a separate line item on face of the income statement before extraordinary items and cumulative effect of accounting changes. Assets and liabilities of held-for-sale disposal groups segregated on balance sheet.	Not addressed.	89
Post balance sheet events.	Adjust financial statements for subsequent events, providing evidence of conditions at balance sheet date and materially affecting amounts in financial statements (adjusting events). Disclose non-adjusting events.	Similar to IFRS .	Comparable to IFRS . However, recording of an additional write-down required if net realisable value of inventories, contracts in progress and short-term investments decreases after the balance sheet date.	91
Interim financial reporting.	Not mandatory to prepare interim statements but must use the standard if prepared. Basis should be consistent with full year statements and include comparatives.	If issued, the contents of interim statements are prescribed and the basis must be consistent with full year statements. Quarterly reporting is required for SEC registrants (domestic US entities only).	Listed companies must publish condensed semi-annual financial information. No specific guidance is available. In practice, normal accounting policies are followed in preparing interim financial information.	92
Insurance and reinsurance contracts – definition.	Provides definition of insurance and reinsurance contracts.	No single definition of insurance contract. The resulting population of insurance contracts is a subset of the IFRS classification due to stricter criteria for reinsurance. Accounting requirements for 'universal-life-type' insurance contracts is deposit accounting rather than deferral and matching.	Insurance and reinsurance contracts are not specifically defined in Belgian accounting law.	93
Discretionary participation feature (DPF).	Provides definition of DPF and introduces certain requirements for financial instruments that contain such feature. Insurance contracts or financial instruments with DPF may have a compound nature and present a DPF equity component. Consideration received for financial instruments with DPF may be recognised as revenue with an expense representing the increase in the liability.	DPF not specifically covered, other than implicitly in SOP 95-1 for insurance contracts only. Insurance contracts and financial instruments with DPF are measured under existing GAAP and resulting equity component is not separately disclosed. Financial instruments with DPF are deposit accounted.	Belgian accounting law does not provide a definition of discretionary participation features. Participation features are recorded as a liability as soon as the company has decided on the profit-sharing allocation. There is no separated component in equity for DPF.	93
Insurance and reinsurance contract – measurement.	Subject to a few minimum requirements. The most important requirements are the tests on insurance liability adequacy and reinsurance asset impairment. Equalisation and similar provisions are prohibited.	Detailed measurement bases for the different types of insurance and reinsurance contracts. Also prescribes liability adequacy test and reinsurance impairment test and prohibits equalisation provisions.	Detailed measurement bases exist for all types of insurance and reinsurance contracts issued by insurance companies. A liability adequacy test is prescribed. Equalisation provisions are required for certain types of non-life insurance contracts.	94

SUBJECT	IFRS	US GAAP	Belgian GAAP	Page
Other accounting and reporting topics - continued				
Insurance and reinsurance contracts – deposit accounting and unbundling of deposit components.	<p>Deposit accounting required when measurement of deposit component is reliable and rights and obligations arising from it are not reflected in balance sheet.</p> <p>Unbundling permitted if deposit is reliably measurable. If unbundling is not required, deposit components may be recognised as revenue.</p>	<p>Concept of policyholders' account balance has been developed, and detailed rules require deposit accounting (under FAS 97).</p> <p>Deposit accounting for a component of a contract is covered by EITF 93-6. Reinsurance contracts that transfer only timing risk or only underwriting risk are deposit accounted.</p>	<p>Premiums are recorded in income with a related charge being recorded to reflect the increase in liability. Technical reserves are presented gross of the reinsurer's share, which is presented separately as an asset.</p> <p>The unbundling concept does not exist under Belgian GAAP.</p>	94
Insurance contracts sold by an insurer to its own defined benefit plan.	Eliminate and do not treat as plan assets in pension obligation accounting.	<p>No specific guidance.</p> <p>However, practice is to treat such contracts as plan assets under FAS 87.</p>	<p>No specific guidance.</p> <p>Insurance contracts relating to such plans follow the same accounting rules as for other insurance contracts.</p>	95
Insurance and reinsurance contracts – embedded derivatives.	<p>Exemptions from separation and fair value are given for certain embedded derivatives.</p> <p>Persistency bonuses are considered embedded derivatives.</p>	<p>Embedded derivatives must be separated and fair valued unless they are clearly and closely related.</p> <p>Fixed dollar persistency bonuses are not embedded derivatives but a variation of interest rates.</p>	<p>No separation required.</p> <p>Any option or guarantee should be reflected in the liability adequacy test (New RD on life insurance).</p>	95
Insurance and reinsurance contracts – disclosures.	<p>Extensive disclosure requirements focussed on the accounting policies adopted, material amounts reported and factors that affect the uncertainty of the amounts and timing of insurance and reinsurance cash flows.</p> <p>Claims development tables are required.</p>	<p>Disclosure requirements are less demanding. However, a number of disclosure items are covered in the MD&A and other non-audited sections of annual report.</p> <p>Claims development tables are disclosed outside financial statements.</p>	<p>Disclosure requirements are much less demanding.</p> <p>However, detailed statistical information on life and non-life business should be provided annually to the CBFA. Such statistical information is not available to the public.</p>	95
Separate accounts.	Single line presentation not permitted.	FAS 60 and SOP 03-1 allow single line presentation in the balance sheet and offsetting of investment results with changes in policyholder liabilities in the income statement.	Technical reserves and related investments are shown separately in the balance sheet, as are investment results and changes in technical reserves in the income statement.	95

Accounting framework

Conceptual framework

IFRS and **US GAAP** each include a conceptual framework. The principles set out in the two frameworks provide a basis for setting accounting standards, and a point of reference for the preparation of financial information where no specific guidance exists.

Qualitative characteristics of financial information

- IFRS** Financial information must possess certain characteristics for it to be useful. The **IFRS** Framework requires that financial information must be understandable, relevant, reliable and comparable.
- US GAAP** A series of concept statements set out similar characteristics to **IFRS**, with greater emphasis placed on the consistency of financial information.
- Belgian GAAP** No conceptual framework exists under **Belgian GAAP**. However, the principles set out in the **IFRS** Framework apply in practice.

Reporting elements

- IFRS** The **IFRS** Framework presents five reporting elements: assets, liabilities, equity, income (includes revenues and gains) and expenses (includes losses).
- Assets are resources controlled from a past event. Liabilities are present obligations arising from a past event. Assets and liabilities are recognised on the balance sheet when it is 'probable' that economic benefits will flow into or out from the entity, and those benefits must be able to be measured reliably.
- Equity is the residual interest in the assets after deducting the entity's liabilities.
- Income is increases in economic benefits that result in increases in equity other than those relating to contributions from equity participants. Expenses are decreases in economic benefits that result in decreases in equity other than those relating to distributions to equity participants.
- US GAAP** Reporting elements and the definition and recognition criteria are similar to **IFRS**. **US GAAP** concept statements contain additional elements: investments by and distributions to owners, comprehensive income and fair value measurements used in accounting. Other comprehensive income includes all changes in equity during a period, except those resulting from investments by and distributions to owners.
- Belgian GAAP** **Belgian GAAP** do not require a statement of cash flows although, in practice, many listed companies publish such a statement. Statements of recognised gains and losses are not required or published in Belgium.

Historical cost

- IFRS** Historical cost is the main accounting convention. However, **IFRS** permits the revaluation of intangible assets, property, plant and equipment (PPE) and investment property. **IFRS** also requires fair valuation of certain categories of financial instruments and certain biological assets.
- US GAAP** Prohibits revaluations except for certain categories of financial instruments, which have to be carried at fair value.
- Belgian GAAP** **Belgian GAAP** permit revaluations, notably for PPE that are demonstrably sustainable.

Fair presentation override

IFRS	Entities may depart from a standard in extremely rare circumstances in which management concludes that compliance with a requirement in an IFRS or an Interpretation of a Standard would be so misleading that it would conflict with the objective of financial statements set out in the Framework for the Preparation and Presentation of Financial Statements. IFRS requires disclosure of the nature of and the reason for the departure and the financial impact of the departure. The override does not apply where there is a conflict between local company law and IFRS ; in such a situation, the IFRS requirements must be applied.
US GAAP	Extremely rare in practice. The SEC will generally not accept such an override.
Belgian GAAP	Under Belgian GAAP , entities may depart from a standard in those very rare cases where its application would lead to misleading financial statements. Disclosures are required of the nature of and reason for the departure and its financial impact.

First-time adoption of accounting framework

IFRS	First-time adoption of IFRS as the primary accounting basis requires full retrospective application of all IFRSs effective at the reporting date for an entity's first IFRS financial statements, with exemptions primarily for PPE and other assets, business combinations and pension plan accounting and limited mandatory exceptions. Comparative information must be prepared and presented on the basis of IFRS . Almost all adjustments arising from the first-time application of IFRS must be adjusted against opening retained earnings of the first period presented on an IFRS basis. Some adjustments are made against goodwill or against other classes of equity.
US GAAP	Accounting principles must be consistent for financial information presented in comparative financial statements. US GAAP does not give any specific guidance on first-time adoption of its accounting framework. However, first-time adoption of US GAAP requires full retrospective application. Particular standards specify the transitional treatment upon first-time application of a standard. Specific rules apply for carve-out entities and first-time preparation of financial statements for the public.
Belgian GAAP	Not applicable.
REFERENCES:	IFRS: Framework, IAS 1, IAS 8, IAS 16, IAS 38, IAS 39, IAS 40, IAS 41, IFRS 1. US GAAP: CON 1-7, APB 20, FAS 115, FAS 130, FAS 133.

Financial statements

General requirements

Compliance

IFRS Entities must disclose that financial statements comply with **IFRS**. Compliance with **IFRS** should not be disclosed unless the financial statements comply with all the requirements of each applicable standard and each applicable interpretation.

US GAAP US companies with registered securities must comply with **US GAAP** and the SEC's rules and regulations and financial interpretations. Non-US companies with registered securities in the US may issue financial statements under **US GAAP** or another comprehensive basis of accounting principles (such as **IFRS**), provided that a reconciliation of net income and equity to **US GAAP** is given in the notes, together with **US GAAP** and SEC disclosures.

There is no regulatory reporting requirement for non-public US companies. However, certain regulated entities are subject to statutory reporting.

Belgian GAAP All Belgian companies must comply with Belgian accounting legislation. The most important source of accounting law is the Law of 17 July 1975 and its implementing royal decrees, mainly that of 30 January 2001.

Components of financial statements

A set of financial statements under **IFRS**, **US GAAP** and **Belgian GAAP** comprises the following components:

COMPONENT	PAGE	IFRS	US GAAP	Belgian GAAP
Balance sheet.	26	Required.	Required.	Required.
Income statement.	27	Required.	Required.	Required.
Statement of recognised gains and losses.	28	Required(a).	Other comprehensive income(b).	Not required.
Statement of changes in shareholders' equity.	28	Required(a).	Statement of changes in stockholders' equity.	Not required(c).
Cash flow statement.	28	Required.	Required.	Not required.
Accounting policies.	–	Required.	Required.	Required.
Notes to financial statements.	–	Required.	Required.	Required.

(a) Under **IFRS** recognised gains and losses can be presented in a statement of recognised gains and losses with the changes in equity displayed in a note. Alternatively, the other recognised gains and losses can be separately highlighted in the statement of changes in equity, which is presented as a primary statement.

(b) Under **US GAAP** other comprehensive income may also be presented as a separate component of either the income statement or the statement of changes in stockholders' equity.

(c) Under **Belgian GAAP**, statements showing the appropriation of results and changes in the share capital are foreseen in the standard format of the entity financial statements. A statement showing changes in the consolidation reserves is provided in the standard format of the consolidated financial statements.

Comparatives

IFRS	Requires one year of comparatives for all numerical information in the financial statements, with small exceptions.
US GAAP	SEC requirements specify that all registrants must give two years of comparatives (to the current year) for all statements except for the balance sheet, which requires one comparative year. This rule applies whichever accounting framework is used in the primary financial statements.
Belgian GAAP	Requires one year of comparatives for all numerical information in the financial statements.

Balance sheet

Each framework requires prominent presentation of a balance sheet as a primary statement

Format

IFRS	<p>Does not prescribe a particular balance sheet format, except that IFRS requires separate presentation of total assets and total liabilities. Management may use judgement regarding the form of presentation in many areas. Entities present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of their balance sheet except when a liquidity presentation provides more relevant and reliable information. In such cases, all assets and liabilities shall be presented broadly in order of liquidity. However, as a minimum, IFRS requires presentation of the following items on the face of the balance sheet:</p> <ul style="list-style-type: none"> • Assets: PPE, investment property, intangible assets, financial assets, investments accounted for using the equity method, biological assets, inventories, trade and other receivables, tax assets and cash and cash equivalents; and • Equity and liabilities: issued share capital and other components of parent shareholders' equity, financial liabilities, provisions, tax liabilities and trade and other payables, and minority interests (presented within equity).
US GAAP	Generally presented as total assets balancing to total liabilities and shareholders' funds. Items presented on the face of the balance sheet are similar to IFRS , but are generally presented in decreasing order of liquidity. The balance sheet detail must be sufficient to enable identification of material components. Public entities must follow specific SEC guidance.
Belgian GAAP	The presentation format for financial statements is strictly prescribed by the Belgian accounting law.

Current/non-current distinction

IFRS	The current/non-current distinction is not optional (except when a liquidity presentation is used). Where the distinction is made, assets must be classified as current assets where they are held for sale or consumption in the normal course of the operating cycle. Both assets and liabilities are classified as current where they are held for trading or expected to be realised within 12 months of the balance sheet date. Interest-bearing liabilities are classified as current when they are due to be settled within 12 months of the balance sheet date, even if the original term was for a period of more than 12 months; and when an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorised for issue.
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- US GAAP** Management may choose to present either a classified or non-classified balance sheet. If a classified balance sheet is presented, the requirements are similar to **IFRS**. The SEC provides guidelines for the minimum information to be included by public companies.
- Belgian GAAP** A distinction should be made between current and non-current assets, the former being amounts receivable after more than one year and after less than one year, inventories and contracts in progress, short-term investments, cash at bank and on hand, deferred charges and accrued income.

Offsetting assets and liabilities

- IFRS** Assets and liabilities must not be offset, except where specifically permitted by a standard. Financial assets and financial liabilities may be offset where an entity has a legally enforceable right to set off the recognised amounts and intends to settle transactions on a net basis.
- US GAAP** Offset permitted where the parties owe each other determinable amounts, where there is an intention of offset, and where the offset is enforceable by law.
- Belgian GAAP** Offsetting between assets, liabilities, rights and commitments or income and charges is not permitted, except for accumulated depreciation and amounts written-down and unless there is a legal right of set-off (where a receivable and a debt towards the same counter-party exist and both are due).

Income statement

Each framework requires prominent presentation of an income statement as a primary statement.

Format

- IFRS** **IFRS** does not prescribe a standard format for the income statement. The entity must analyse its expenditure by function or nature.
- As a minimum, **IFRS** requires presentation of the following items on the face of the income statement:
- revenue;
 - finance costs;
 - share of after-tax results of associates and joint ventures accounted for using the equity method;
 - tax expense;
 - pre-tax gain or loss attributable to the results and remeasurement of discontinued operations; and
 - net profit or loss for the period.
- The portion of the net income attributable to the minority interest should be disclosed separately in the income statement.
- US GAAP** Presented in one of two formats. Either:
- a single-step format where all expenses are classified by function and are deducted from total income to give income before tax; or
 - in a multiple-step format where cost of sales is deducted from sales to show gross profit, then other income and expense are presented to give income before tax.
- SEC regulations specify further line items.
- Belgian GAAP** A standard format is prescribed by Belgian law, requiring separate presentation of operating results; financial results; results from ordinary activities before taxes; extraordinary results; results before taxes; deferred taxes; current taxes; results for the period; transfer to/from untaxed reserves; results available for appropriation. In consolidated accounts minority interests and a group's share in the income of associates should be separately presented.

Exceptional items

IFRS	Does not use the term ‘exceptional items’ but requires the separate disclosure of items of income and expense that are of such size, nature or incidence that their separate disclosure is necessary to explain the performance of the entity for the period. Disclosure may be on the face of the income statement or in the notes.
US GAAP	As under IFRS , the term exceptional items is not used, but significant material items must be disclosed separately on the face of the income statement in arriving at income from operations.
Belgian GAAP	Not defined in Belgian accounting law.

Extraordinary items

IFRS	Prohibited.
US GAAP	Are defined as being both infrequent and unusual. Extraordinary items are rare. Negative goodwill arising in a business combination is written off to earnings as an extraordinary gain, presented separately on the face of the income statement net of taxes. Disclosure of the tax impact is either on the face of the income statement or in the notes to the financial statements.
Belgian GAAP	The definition of extraordinary items under Belgian GAAP is broader than the definition under IFRS or US GAAP , in that it embraces all revenues and costs that do not result from the usual activities of the entity. Furthermore, the standard presentation of Belgian financial statements leads to the reporting of items as extraordinary that would be included in ordinary operations under IFRS and US GAAP .

Statement of recognised gains and losses/ other comprehensive income

Presentation

IFRS	Recognised gains and losses can be presented either in the notes or separately highlighted within the primary statement of changes in shareholders’ equity.
US GAAP	<p>One of three possible formats may be used:</p> <ul style="list-style-type: none"> • a single primary statement of income and comprehensive income containing both net income and other comprehensive income; or • a two-statement approach (as under IFRS); or • a separate category highlighted within the primary statement of changes in equity (as under IFRS). <p>In addition, US GAAP requires the cumulative amounts for each item of comprehensive income. The SEC will accept the statement prepared in accordance with IFRS without any additional disclosures.</p>
Belgian GAAP	Not required.

Format

IFRS	<p>The total of gains and losses recognised in the period comprises net income and the following gains and losses recognised directly in equity:</p> <ul style="list-style-type: none"> • fair value gains/(losses) on land and buildings, intangible assets, available-for-sale investments and certain financial instruments; • foreign exchange translation differences; • the cumulative effect of changes in accounting policy; and • changes in fair values on certain financial instruments if designated as cash flow hedges, net of tax, and cash flow hedges reclassified to income and/or the relevant hedged asset/liability.
US GAAP	<p>Similar to IFRS, revaluations of land and buildings are prohibited under US GAAP and would therefore be excluded.</p>

Statements of changes in shareholders' equity

IFRS	<p>The statement must be presented as a primary statement. It should show capital transactions with owners, the movement in accumulated profit and a reconciliation of all other components of equity.</p>
US GAAP	<p>Similar to IFRS. SEC rules allow such information to be included in the notes.</p>
Belgian GAAP	<p>A statement showing the appropriation of results and changes in the share capital is presented in the standard format of the entity financial statements. The format for consolidated financial statements includes a statement showing changes in consolidation reserves.</p>

Cash flow statement

Exemptions

IFRS	<p>No exemptions.</p>
US GAAP	<p>Limited exemptions for certain investment entities.</p>
Belgian GAAP	<p>Not required. However, many listed companies in Belgium include a statement of cash flows as part of their published annual financial report, on a voluntary basis. Principles similar to IFRS are often followed in practice.</p>

Direct/indirect method

IFRS	<p>Requires the cash flow statement to report inflows and outflows of 'cash and cash equivalents'. The cash flow statement may be prepared using either the direct method (cash flows derived from aggregating cash receipts and payments associated with operating activities) or the indirect method (cash flows derived from adjusting net income for transactions of a non-cash nature such as depreciation). The latter is more common in practice.</p>
US GAAP	<p>The purpose is to provide relevant information about 'cash receipts' and 'cash payments'. The direct method is encouraged; however, the indirect method is permitted. If the direct method is used, a reconciliation of net income to cash flows from operating activities must be disclosed. The indirect method is more common in practice.</p>

Definition of cash and cash equivalents

- IFRS** Cash includes overdrafts repayable on demand but not short-term bank borrowings, which are considered to be financing flows. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. An investment normally qualifies as a cash equivalent only when it has a maturity of three months or less from its acquisition date.
- US GAAP** The definition of cash equivalents is similar to that in **IFRS**, except that bank overdrafts are not included in cash and cash equivalents; accordingly, changes in the balances of overdrafts are classified as financing cash flows, rather than being included within cash and cash equivalents.

Format

- IFRS** Requires separate classification of cash flows from operating, investing and financing activities.
- US GAAP** Same as **IFRS**.

Classification of specific items

IFRS and **US GAAP** require the classification of interest, dividends and tax within specific categories of the cash flow statement. These are set out below:

ITEM	IFRS	US GAAP
Interest paid.	Operating or financing.	Operating.
Interest received.	Operating or investing.	Operating.
Dividends paid.	Operating or financing.	Financing.
Dividends received.	Operating or investing.	Operating.
Taxes paid.	Operating – unless specific identification with financing or investing.	Operating.

Changes in accounting policy and other accounting changes

Changes in accounting policy

IFRS Changes in accounting policy should be accounted for retrospectively, with comparative information restated and the amount of the adjustment relating to prior periods adjusted against the opening balance of retained earnings of the earliest year presented. An exemption applies when it is impracticable to change comparative information.

Policy changes made on the adoption of a new standard must be accounted for in accordance with that standard's transitional provisions. If transitional provisions are not specified, then the method described above must be used.

US GAAP Requires recognition and disclosure of the cumulative amount of the change in the income statement for the period of the change. The entity discloses pro-forma comparatives as if the change had been applied to those periods. However, retrospective adjustments are required in certain cases: changes in the method of accounting for inventory valuation; depreciation in the rail industry; construction contracts and adoption of the full-cost method in the extractive industry. Unlike **IFRS**, **US GAAP** treats a change in the depreciation method for previously recorded assets as a change in accounting principle. A component of the IASB/FASB convergence project includes proposals by the FASB that would require retrospective application for all voluntary accounting policy changes and changes resulting from the adoption of a new pronouncement, except when impracticable or when allowed under the transition provision of a new pronouncement. This convergence project (if adopted) will converge the treatment of changes in depreciation methods as changes in estimates.

Belgian GAAP Restatement of the opening balance of retained earnings is not permitted. Consequently, the effect of a change in accounting policy is recognised in income for the period in which the change occurs, with appropriate disclosure being provided in the notes to the financial statements.

Correction of errors

IFRS Requires same method as for policy changes. An entity must restate comparatives.

US GAAP Reported as a prior-period adjustment; restatement of comparatives is mandatory.

Belgian GAAP Restatement of the opening balance of retained earnings is not permitted. Consequently, the effect of a correction of an error is usually recognised in income for the period of the correction, with appropriate disclosure being provided in the notes to the financial statements. However, in the extremely rare circumstances where an error has been detected, the board of directors may seek the approval of the shareholders to issue corrected financial statements for the prior years affected.

Changes in accounting estimates

IFRS Changes in accounting estimates are accounted for in the income statement when identified. Changes in depreciation method and revised asset life are treated as a change in accounting estimate.

US GAAP Similar to **IFRS**, but treats change in depreciation method for previously recorded assets as a change in accounting principle. However, a change in the estimated useful lives of depreciable assets is a change in estimate, which is accounted for prospectively in the period of change and future periods.

Belgian GAAP Changes in accounting estimates are accounted for in the income statement when identified.

REFERENCES: **IFRS:** IAS 1, IAS 7, IAS 8, IAS 21, IAS 29, SIC-30.
US GAAP: CON 1-7, FAS 3, FAS 16, FAS 52, FAS 95, FAS 130, FAS 141, APB 20, APB 28, APB 30, ARB 43, SEC Regulation S-X.

Consolidated financial statements

Preparation

- IFRS** Requires the preparation of consolidated financial statements by a parent entity that includes all subsidiaries. An exemption applies to a parent that is wholly owned or if:
- the owners of the minority interests have been informed about and do not object to the parent not presenting consolidated financial statements and the parent's securities are not publicly traded;
 - it is not in the process of issuing securities in public securities markets; and
 - the immediate or ultimate parent publishes consolidated financial statements that comply with **IFRS**.
- US GAAP** There is no exemption for general-purpose financial statements. Consolidated financial statements are presumed to be more meaningful and are required for public companies.
- Belgian GAAP** Consolidated financial statements must generally be produced if a parent has one or more subsidiaries, although some exemptions from preparing consolidated financial statements are available for intermediate holding companies.

Subsidiaries

Definition

The definition of a subsidiary, for the purpose of consolidation, is an important distinction between **IFRS** and **US GAAP**.

- IFRS** Focuses on the concept of the power to control in determining whether a parent/subsidiary relationship exists. Control is the parent's ability to govern the financial and operating policies of a subsidiary to obtain benefits. Companies acquired (disposed of) are included in (excluded from) consolidation from the date on which control passes. Presently exercisable potential voting rights should also be considered.
- US GAAP** A dual consolidation decision model is required. All consolidation decisions should be evaluated under variable interest and traditional consolidation models. Variable interest entities (VIEs) in which a parent does not have a controlling voting interest but absorbs the majority of the VIE's expected losses or returns must also be consolidated.
- Belgian GAAP** Broadly comparable to **IFRS**, but the concept of presently exercisable potential voting rights is not addressed.

Special purpose entities

- IFRS** Requires the consolidation of special purpose entities (SPEs) where the substance of the relationship indicates that an entity controls the SPE. Indicators of control arise where:
- the SPE conducts its activities on behalf of the entity; or
 - the entity has the decision-making power; or
 - the entity has other rights to obtain the majority of the benefits of the SPE; or
 - the entity has the majority of the residual or ownership risks of the SPE, or of its assets.
- US GAAP** The consolidation of an SPE is required by its primary beneficiary only when the SPE meets the definition of a VIE and the primary beneficiary has a variable interest in the entity that will cause it to absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both.
- Specific criteria permit the transfer of financial assets to an SPE that is not consolidated. The SPE must be a qualifying SPE (as defined) and the assets must be financial assets (as defined). The assets must not arise from a structured transaction.
- Belgian GAAP** Not addressed.

Recent proposals – IFRS

In June 2004, IFRIC issued draft Interpretation D7 to amend the scope of SIC-12 relating to employee compensation and post-employment benefit plans. The draft interpretation proposes to remove the scope exception for equity compensation plans, thereby requiring an entity that controls an employee benefit trust (or similar entity) set up for the purpose of a share-based payment arrangement to consolidate that trust. Draft D7 also proposes to amend the post-employment benefits plans exclusion to include other long-term employee benefit plans in order to ensure consistency with the requirements in IAS 19.

Subsidiaries excluded from consolidation

IFRS	All subsidiaries are consolidated. If on acquisition a subsidiary meets the criteria to be classified as held for sale in accordance with IFRS 5, an entity will apply the presentation for assets held for sale (i.e., separate presentation of assets and liabilities to be disposed of), rather than normal line-by-line consolidation presentation.
US GAAP	Subsidiaries excluded from the consolidation are those for which control does not rest with the majority owner. There is no longer an exclusion based on temporary control under US GAAP . Unconsolidated subsidiaries are generally accounted for using the equity method unless overcoming the presumption of significant influence.
Belgian GAAP	Companies acquired/(disposed of) are included in/(excluded from) consolidation from the date control changes hands. Certain subsidiaries may be excluded from consolidation, typically if there are severe restrictions on the exercise of the parent's rights or if the subsidiary is acquired and held exclusively for subsequent re-sale in the near future.

The exclusion of subsidiaries with dissimilar activities is permitted if inclusion would impair fair presentation in the consolidated financial statements. The exclusion of entities that are no longer going concerns is required; the equity method should then be used.

Uniform accounting policies

IFRS	Consolidated financial statements must be prepared using uniform accounting policies for all of the entities in a group.
US GAAP	Similar to IFRS .
Belgian GAAP	Similar to IFRS . However, departures from this principle are permitted in exceptional circumstances, i.e. when application of different rules is justified in view of the economic or legal context. In such cases, appropriate disclosure should be made in the notes.

Reporting periods

IFRS	The consolidated financial statements of the parent and the subsidiary are usually drawn up at the same reporting date. However, IFRS does permit the consolidation of subsidiary accounts drawn up at a different reporting date, provided the difference between the reporting dates is not more than three months. Adjustments must be made for significant transactions that occur in the gap period.
US GAAP	Similar to IFRS .
Belgian GAAP	Similar to IFRS , except that appropriate disclosure of significant transactions between the two dates is sufficient.

REFERENCES:	IFRS: IAS 27, SIC-12, IFRS 5. US GAAP: ARB 51, FAS 94, SAB 51, SAB 84, EITF 96-16, FIN 46.
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Investments in associates

Definition

IFRS	An associate is an entity over which the investor has significant influence – that is, the power to participate in, but not control, the definition of an associate’s financial and operating policies. Participation in the entity’s financial and operating policies via representation on the entity’s board demonstrates significant influence. A 20% or more interest by an investor in an entity’s voting rights leads to a presumption of significant influence.
US GAAP	Similar to IFRS . Does not include unincorporated entities, although these would be generally accounted for in a similar way.
Belgian GAAP	Similar to IFRS .

Equity method

IFRS	An investor must account for an investment in an associate using the equity method. The investor presents its share of the associate’s profits and losses in the income statement. IFRS specifies that this must be shown at a post-tax level. The investor recognises in equity its share of changes in the associate’s equity that have not been recognised in the associate’s income statement. The investor must account for the difference, on acquisition of the investment, between the cost of the acquisition and investor’s share of fair value of the net identifiable assets, as goodwill. The goodwill is included in the carrying amount of the investment.
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The investor’s investment in the associate is stated at cost, plus its share of post-acquisition profits or losses, plus its share of post-acquisition movements in reserves, less dividends received. Losses that reduce the investment below zero are applied against any long-term interests that, in substance, form part of the investor’s net investment in the associate; for example, preference shares and long-term receivables and loans. Losses recognised in excess of the investor’s investment in ordinary shares are applied to the other components in reverse order of seniority. Further losses are provided for as a liability only to the extent that the investor has incurred legal or constructive obligations or made payments on behalf of the associate.

Disclosure of information is required about the results, assets and liabilities of significant associates.

US GAAP	Similar to IFRS .
Belgian GAAP	The equity method is used to account for associates in consolidated financial statements. The investor presents its share of the associate’s profits and losses, as well as its share of the associate’s net assets excluding any unamortised goodwill, since the acquisition of the associate. Any such unamortised goodwill is included with other goodwill arising on consolidation, with details being disclosed in the footnotes. Belgian GAAP do not require use of the equity method to account for investments in associates in company financial statements.

Belgian GAAP do not require disclosure of detailed information about the results, assets and liabilities of significant associates.

Impairment

IFRS	Apply the general impairment requirements of IFRS . In estimating future cash flows the investor may use its share of the future net cash flows in the underlying entity, or the cash flows expected to arise from dividends.
US GAAP	The methodology of determining impairment is different from IFRS . A loss in the value of an investment that is other than a temporary decline should be recognised. Many factors must be considered to determine whether a decline is other than temporary, including the significance and duration of the decline.
Belgian GAAP	Fixed assets shall be subject to exceptional depreciation, when due to their technical alteration or to changes in economic or technological circumstances, their carrying value exceeds the recoverable amount. Examples include retired assets or assets that ceased to be permanently in use. Exceptional depreciation may be reversed if it is economically justified. Other impairment losses and reversals should be presented as extraordinary items in the income statement.
REFERENCES:	See 'Investments in joint ventures' below.

Investments in joint ventures

Definition

IFRS	Defines a joint venture as a contractual agreement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control of an economic activity.
US GAAP	Defines a corporate joint venture as a corporation owned and operated by a small group of businesses as a separate and specific business or project for the mutual benefit of the members of the group.
Belgian GAAP	A joint subsidiary is an entity, which is subject to control exercised jointly by a limited number of shareholders when they have agreed that the decisions concerning the orientation of the entity's management policy cannot be taken without their mutual consent.

Types of joint venture

IFRS	Distinguishes between three types of joint venture: <ul style="list-style-type: none"> • jointly controlled entities - the arrangement is carried on through a separate entity (company or partnership); • jointly controlled operations - each venturer uses its own assets for a specific project; and • jointly controlled assets - a project carried on with assets that are jointly owned.
US GAAP	Only refers to jointly controlled entities, where the arrangement is carried on through a separate corporate entity.

Jointly controlled entities

IFRS	Requires either the proportionate consolidation method or the equity method. Proportionate consolidation requires the venturer's share of the assets, liabilities, income and expenses to be combined on a line-by-line basis with similar items in the venturer's financial statements, or reported as a separate line item in the venturer's financial statements.
US GAAP	Does not permit proportionate consolidation for corporate joint ventures. Venturers apply the equity method to recognise the investment in a jointly controlled entity. Equity accounting is also appropriate for investments in unincorporated joint ventures.
Belgian GAAP	The proportional consolidation method should be applied in most cases. The equity method can only be applied where the activities of joint subsidiaries are not closely integrated with the activities of the parent.

Contributions to a jointly controlled entity

- IFRS** Where a venturer contributes non-monetary assets, such as shares or fixed assets, to a jointly controlled entity in exchange for an equity interest in the jointly controlled entity, the venturer must recognise in the income statement the portion of the gain or loss attributable to the equity interests of the other venturers, except when:
- the significant risks and rewards of the contributed assets have not been transferred to the jointly controlled entity; or
 - the gain or loss on the assets contributed cannot be measured reliably; or
 - the asset is similar to those contributed by other venturers. Where a venturer receives assets dissimilar to those it contributed, it should recognise an appropriate proportion of the gain in the income statement.
- US GAAP** Little authoritative guidance exists regarding what basis to use in recording contributions to a jointly controlled entity. Practice has moved over time from a primarily step-up basis to a primarily predecessor basis. For joint ventures whose financial statements are filed with the SEC (or when one or more venturers are SEC registrants), step-up to fair value is only allowed when certain strict criteria are met. The formation of an entity that does not meet the definition of a joint venture should be accounted for as a business combination and not as the formation of a joint venture.
- Belgian GAAP** Not specifically addressed.

Jointly controlled operations

- IFRS** Similar to jointly controlled entities without a specific incorporated structure. A venturer should recognise in its financial statements:
- the assets that it controls;
 - the liabilities it incurs;
 - the expenses it incurs; and
 - its share of income from the sale of goods or services by the joint venture.
- US GAAP** Not specified. However, certain industry practice would permit a venturer to account for its proportionate share of the assets, liabilities, revenues and expenses in its financial statements.
- Belgian GAAP** Limited rules exist. In general, when an entity acts in an operation conducted as a temporary association or a joint venture, the accounting system shall be adapted in such a way as to ensure the completeness of transactions recorded, both in respect of dealing with third parties and in respect of the responsibilities towards each other as partners and as manager if applicable. Note that jointly controlled operations or assets corresponds to the temporary association under Belgian rules.

Jointly controlled assets

- IFRS** Venturer should account for its share of the jointly controlled assets and any liabilities it has incurred.
- US GAAP** Not specified. However, proportionate consolidation is used in certain industries to recognise investments in jointly controlled assets.
- Belgian GAAP** Limited rules exist. In general, when an entity acts in an operation conducted as a temporary association or a joint venture, the accounting system shall be adapted in such a way as to ensure the completeness of transactions recorded, both in respect of dealing with third parties and in respect of the responsibilities towards each other as partners and as manager if applicable. Note that jointly controlled operations or assets corresponds to the temporary association under Belgian rules.

- REFERENCES:** **IFRS:** IAS 1, IAS 28, IAS 31, SIC-13.
US GAAP: APB 18, FIN 35.

Employee share ownership plans

Employee share ownership plans (ESOPs), are designed to facilitate employee shareholdings. Often they are combined with separate trusts that buy shares to be given or sold to employees.

Accounting

IFRS No specific guidance for such plans as they are excluded from scope of SIC-12. However, the guidance given for **US GAAP** would apply in practice.

US GAAP An ESOP trust's assets and liabilities are included in the sponsoring entity's balance sheet where the arrangements are such that the sponsoring entity has de facto control and bears the benefits and risks of the shares held by the ESOP trust.

Loans to ESOPs from outside lenders, often guaranteed by the sponsoring entity, are reported as liabilities in the sponsoring entity's balance sheet, with related interest costs recognised in the sponsoring entity's income statement. The entity charges the finance costs and administrative expenses of the trust as they accrue and not as funding payments are made to the ESOP trust.

Belgian GAAP No specific guidance.

Recent proposals – IFRS

In June 2004, IFRIC issued a draft Interpretation D7 to amend the scope of SIC-12 relating to employee compensation and post-employment benefit plans. The draft interpretation proposes to remove the scope exception for equity compensation plans, thereby requiring an entity that controls an employee benefit trust (or similar entity) set up for the purpose of a share-based payment arrangement to consolidate that trust. It also proposes to amend the post-employment benefits plan exclusion to include other long-term employee benefit plans in order to ensure consistency with the requirements in IAS 19.

REFERENCES: **IFRS:** IFRS 2.
US GAAP: SOP 76-3, SOP 93-6.

Business combinations

Types

A business combination involves the bringing together of separate entities or businesses into one reporting entity. Three types of business combination occur in practice. An acquisition is where one of the combining entities obtains control over the other, enabling an acquirer to be identified; this is the most common type of combination. A uniting of interests (pooling) occurs where the shareholders of the combining entities join in substantially equal arrangements to share control. A group reorganisation can arise from transactions among entities that operate under common control.

IFRS Business combinations are always accounted for as acquisitions. **IFRS** requires the purchase method of accounting to be used to portray the financial effect of an acquisition. The specific **IFRS** guidance about business combinations excludes from its scope transactions among entities under common control.

US GAAP Requires the use of the purchase method of accounting for all business combinations. Transfers of net assets or shares of entities under common control are accounted for at predecessor book basis.

Belgian GAAP For tax-free reorganisations, the accounting treatment is comparable to the pooling of interests method, with some exceptions. For taxable reorganisations, the method used is comparable to the purchase method of accounting, also with some exceptions. In consolidation, the purchase method of accounting should be followed.

Acquisitions

Date of acquisition

IFRS The date on which the acquirer obtains control over the acquired entity or business.

US GAAP The date on which assets are received or securities are issued (i.e. the transaction closes).

Belgian GAAP Same as **IFRS**.

Cost of acquisition

The cost of acquisition is the amount of cash or cash equivalents paid (or fair value of non-monetary assets exchanged). Where consideration comprises an exchange of shares, specific guidance applies under each framework.

IFRS Shares issued as consideration are recorded at their fair value as at the date of the exchange – the date on which the acquirer obtains control over the acquiree's net assets and operations. When the acquisition occurs in stages, the fair value of the shares issued as purchase consideration is determined at each exchange date.

In an active market, the published price of a share at the date of exchange is the best evidence of fair value.

US GAAP Shares issued as consideration are measured at their market price over a reasonable period of time (interpreted to be a few days) before and after the parties reach an agreement on the purchase price and the proposed transaction is announced. The date for measuring the value of marketable securities should not be influenced by the need to obtain shareholder or regulatory approval.

Belgian GAAP Not addressed but, in practice, comparable to **IFRS**.

Contingent consideration

- IFRS** If part of the purchase consideration is contingent on a future event, such as achieving certain profit levels, **IFRS** requires an estimate of the amount to be included as part of the cost at the date of the acquisition where it is probable that it will be paid and it can be reliably measured. Any revision to the estimate is subsequently adjusted against goodwill.
- US GAAP** Generally excluded from the initial purchase price. The additional cost is not recognised until the contingency is resolved or the amount is determinable. Any additional revision to the estimate is recognised as an adjustment to goodwill. Additional consideration to be paid on the condition of continued employment by former owner/manager is generally not included in the cost of the acquisition, but is recognised as compensation expense.
- Belgian GAAP** Adjustment is made when the contingent event occurs.

Recognition and measurement of identifiable assets and liabilities acquired

IFRS and **US GAAP** require separate recognition, by the acquirer, of the acquiree's identifiable assets, liabilities and contingent liabilities that existed at the date of acquisition. These assets and liabilities should be recognised at fair value at the date of acquisition. However, the two frameworks apply different criteria to the recognition of acquisition restructuring provisions.

Restructuring provisions

- IFRS** The acquirer may only recognise restructuring provisions as part of the acquired liabilities only when the acquiree has at the acquisition date an existing liability for restructuring recognised in accordance with IAS 37.
- US GAAP** As of the acquisition date, management, having the appropriate level of authority, must begin to assess and formulate a plan to exit an activity of the acquired entity. The plan must be completed in detail as soon as possible, but no more than one year after the consummation date, and management should communicate the termination or relocation arrangements to the employees of the acquired company. The restructuring provision should meet the definition of a liability in order to be recorded.
- Belgian GAAP** Not specifically addressed, but common practice is to take account of the acquirer's intentions.

Intangible assets

- IFRS** An intangible asset should be recognised separately from goodwill if it represents contractual or legal rights or is capable of being separated or divided and sold, transferred, licensed, rented or exchanged. Acquired in-process research and development (R&D) is recognised as a separate intangible asset if it meets the definition of an intangible asset and its fair value can be measured reliably. Non-identifiable intangible assets are subsumed within goodwill.
- US GAAP** In practice, similar intangible assets may be recognised under both **IFRS** and **US GAAP**. **US GAAP** similarly requires the fair value exercise to include acquired in-process R&D. However, the acquired in-process R&D should be expensed immediately unless it has an alternative future use.
- Belgian GAAP** Comparable to **IFRS**.

Contingent liabilities

- IFRS** Recognise separately the acquiree's contingent liabilities at the acquisition date as part of allocating the cost, provided their fair values can be measured reliably.
- US GAAP** If fair value can be determined during the allocation period, the contingent liabilities are included in the allocation of purchase price. If the fair value cannot be determined, the contingent liability should be included if it is probable and reasonably estimable.
- Belgian GAAP** Contingent liabilities are not recognised on acquisition.

Deferred tax recognised in purchase accounting

- IFRS** The recognition of a deferred tax asset of the acquirer not previously recognised that becomes recognisable because of a business combination is reported in income as a tax benefit.
- US GAAP** The recognition of a deferred tax asset of either the acquirer or the acquiree not previously recognised that becomes recognisable because of a business combination results in an adjustment to goodwill.
- Belgian GAAP** Not addressed.

Minority interests at acquisition

- IFRS** Where an investor acquires less than 100% of a subsidiary, any minority interest to be stated at the minority's proportion of the net fair value of the acquired assets, liabilities and contingent liabilities assumed.
- US GAAP** Fair values are assigned only to the parent company's shares of the net assets acquired. The minority interest is valued at its historical book value.
- Belgian GAAP** The minority interest includes its share of any fair-value adjustment made to the net assets acquired.

Goodwill

Goodwill arises as the difference between the cost of the acquisition and the fair value of identifiable assets, liabilities and contingent liabilities acquired. Purchased goodwill is capitalised as an intangible asset.

IFRS	Goodwill should not be amortised but should be reviewed for impairment at least annually at the cash-generating-unit level.
US GAAP	Similar to IFRS . Goodwill should not be amortised but should be reviewed for impairment at least annually at the reporting unit level. A reporting unit can be an operating segment, as defined in guidance on the disclosure of segments (see p88), if it meets the definition of a reporting unit, or one level below an operating segment.
Belgian GAAP	No maximum useful life is stipulated. However, if it exceeds five years, justification must be provided in the footnotes.

Impairment

IFRS	<p>Requires an impairment review of goodwill annually or whenever an indication of impairment exists. If some of the goodwill allocated to a CGU was acquired in a business combination during the current annual period, that CGU is required to be tested for impairment before the end of the current period.</p> <p>A one-step impairment test is performed. The recoverable amount of the CGU (i.e., the higher of its asset's net selling price and its value in use) is compared to its carrying amount. The impairment loss is recognised as the excess of the carrying amount over the recoverable amount. If the impairment loss exceeds the book value of goodwill, allocation should be made on a pro rata basis.</p>
US GAAP	<p>Goodwill is reviewed for impairment, at the reporting unit level, at least annually or whenever events or changes in circumstances indicate that the recoverability of the carrying amount must be assessed.</p> <p>A two-step impairment test is required:</p> <ol style="list-style-type: none"> 1) the fair value and the carrying amount of the reporting unit including goodwill should be compared. If the fair value of the reporting unit is less than the book value, goodwill would be considered to be impaired; then 2) the goodwill impairment should be measured as the excess of the carrying amount of goodwill over its implied fair value. The implied fair value of goodwill should be determined by allocating fair value to the various assets and liabilities included in the reporting unit in the same manner as goodwill is determined in a business combination. The impairment charge should be included in operating income.
Belgian GAAP	Goodwill should be subject to extraordinary amortisation where, as a result of changes economic or technological developments, this is economically justified. Subsequent reversal of impairment write-downs is required when the write-down is no longer economically justified.

Negative goodwill

IFRS	If any excess of fair value over the purchase price arises, the acquirer should reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination, and should recognise immediately in profit or loss any excess remaining after that assessment.
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US GAAP	<p>Any excess of fair value over the purchase price should be allocated on a pro-rata basis to all assets other than:</p> <ul style="list-style-type: none">• current assets;• financial assets (other than equity method investments);• assets to be sold;• prepaid pension assets; and• deferred taxes. <p>Any negative goodwill remaining is recognised as an extraordinary gain. If the business combination includes contingent consideration, the lesser of the maximum contingent consideration or the negative goodwill remaining is recorded as if it was a liability.</p>
Belgian GAAP	<p>Negative goodwill relating to expected future losses/costs identified in the acquirer's plan for the acquisition should be recognised in income when those losses/costs occur. Any remaining negative goodwill is maintained within shareholders' equity until disposal of the related subsidiary/associate, at which time it is recognised in income.</p>

Subsequent adjustments to assets and liabilities

IFRS	<p>Permits adjustments against goodwill to the provisional fair values recognised at acquisition provided those adjustments are made within 12 months of the acquisition date. Adjustments after the 12 months should be recognised in the income statement.</p>
US GAAP	<p>Similar to IFRS. However, favourable adjustments to restructuring provisions if made are always recognised as changes to goodwill, with unfavourable adjustments recognised as changes to goodwill if made during the allocation period, or charged to expense if made after the allocation period. The allocation period, which cannot extend beyond one year following the date of the acquisition, is for adjustments relating to information that management has been waiting for to complete its purchase price allocation. Adjustments related to pre-acquisition contingencies that are finalised after the allocation period or events occurring after the acquisition date should be recognised in the income statement.</p>
Belgian GAAP	<p>Not addressed.</p>

Subsequent adjustments to deferred tax

IFRS	<p>If a deferred tax asset relating to the acquiree is identified but not recognised at the time of the acquisition and is subsequently recognised in the acquirer's consolidated financial statements, the deferred tax income is recognised in the income statement. The acquirer must also adjust goodwill as if the deferred tax asset had been recognised at the acquisition date. The subsequent reduction in the net carrying amount of goodwill is recognised in the income statement as an expense.</p>
US GAAP	<p>Subsequent recognition of a deferred tax asset for which a valuation allowance was established on the acquisition date reduces goodwill, then reduces intangible assets, and finally reduces tax expense. Subsequent establishment of a valuation allowance (after the allocation period) related to a deferred tax asset recognised on an acquisition is recorded as expense.</p>
Belgian GAAP	<p>Not addressed.</p>

Disclosure

ITEM	IFRS	US GAAP	Belgian GAAP
General			
Names and descriptions of the combining entities.	Required.	Required. Also disclose the reasons for the business combination.	Required, as well as the equity ownership interest.
The effective date of the combination for accounting purposes (i.e. acquisition date).	Required.	Required.	Not specified.
The cost of acquisition and the form of the consideration given, including any deferred and contingent consideration.	Required.	Required. Also disclose the basis for determining the value of shares given as consideration. Disclose accounting treatment to be followed should contingent consideration be realised.	Not specified.
Operations to be disposed of.	Required.	Required.	Not specified.
The percentage of voting shares acquired.	Required.	Required.	Share of capital held should be disclosed.
Goodwill			
Goodwill – impairment charge.	Required.	Required.	Required.
Total amount of goodwill, the amount expected to be tax deductible and the amount of goodwill by reportable segment.	Not specified.	Required.	Not specified.
Reconciliation of the goodwill between opening and closing amount.	Required.	Required.	Required.
Factors giving rise to goodwill and a list of unrecognised intangible assets.	Required.	Only description of factors giving rise to goodwill required.	Not required.
Other financial disclosures			
Summary of fair value and pre-acquisition IFRS amounts of assets and liabilities acquired with separate disclosure of cash equivalents.	Required unless impracticable.	Provide condensed balance sheet disclosing amounts assigned to each balance sheet caption of the acquired entity.	Not required.
Provisions for terminating or reducing activities of acquiree.	Required, subject to meeting IAS 37 criteria.	Required.	Not required.
Effect of acquisition on the financial position at the balance sheet date and on the results since the acquisition.	Required unless impracticable.	Not required, but pro-forma income statement information is presented instead (see below).	Required if necessary to allow comparison with comparative figures.
Amount of purchased research and development assets acquired and written off in the period.	Not applicable.	Required.	Not required.
If the purchase price had not been finalised, disclose that fact and the reasons. Adjustments made to the initial allocations in subsequent periods should be disclosed.	Required.	Required.	Not specified.

ITEM	IFRS	US GAAP	Belgian GAAP
Other financial disclosures - continued			
Details of amounts allocated to intangible assets including total amounts, amortisable/non-amortisable, residual values and amortisation period by assets.	Required.	Required.	Not required.
Pro-forma income statement including comparatives.	Not required. However, the revenue and profit or loss for the period should be disclosed as though the acquisition date had been the beginning of that period, unless impracticable.	Required only for public entities.	Not required.
For a series of individually immaterial business combinations that are material in the aggregate: <ul style="list-style-type: none"> • the number of entities and brief description; • the aggregate cost, the number of entity interests issued or issuable and value; • aggregate amount of any contingent payments options or commitments. 	Required.	Required.	Not required.

Uniting of interests

Both **IFRS** and **US GAAP** prohibit the use of this method.

Under **Belgian GAAP**, a method comparable to the pooling of interests method, with some exceptions, is used to account for tax-free reorganisations. In other all circumstances, this method is not allowed.

Common control transactions

IFRS	There are two basic methods of accounting for business combinations – the purchase method and the pooling-of-interests method. IFRS does not require or prohibit the application of either method. Management can therefore elect to apply purchase accounting or the pooling-of-interests method to a transaction among entities under common control. Once selected, the accounting policy can be changed only when the criteria in IAS 8 are met. Related-party disclosures are used to explain the impact of transactions with related parties on the financial statements.
US GAAP	Specific rules exist for accounting for combinations of entities under common control. Such transactions are generally recorded at predecessor cost, reflecting the transferor's carrying amount of the assets and liabilities transferred. The use of predecessor values or fair values depends on a number of individual criteria.
Belgian GAAP	Does not specifically address such transactions. Predecessor accounting would be followed in practice.

Purchase and sale of non-controlling interest

- IFRS** Does not specifically address such transactions. Entities must develop and consistently apply an accounting policy either based on the economic entity concept or the parent company approach.
- US GAAP** The acquisitions of some or all of the non-controlling interest in a subsidiary should be accounted for using the purchase method. A gain from the reduction of an interest in a subsidiary may be recognised for a public offering only if the transaction is not part of a group re-organisation.
- Belgian GAAP** Does not specifically address such transactions.

Step acquisitions

- IFRS** The acquiree's identifiable assets, liabilities and contingent liabilities are remeasured to fair value at the acquisition date. Each significant transaction is treated separately for the purpose of determining the cost of the acquisition and the amount of goodwill. Any existing goodwill is not remeasured. The adjustment to any previously held interests of the acquirer in the acquiree's identifiable assets, liabilities and contingent liabilities is treated as a revaluation.
- US GAAP** Similar to **IFRS**, each significant transaction is treated separately for the purposes of determining the cost of the acquisition and the amount of the related goodwill. Any previous interest in the acquirer's net assets is not restated, resulting in the accumulation of fair values at different dates.
- Belgian GAAP** Does not specifically address such transactions.

Recent proposals – IFRS

The IASB issued an exposure draft to amend IFRS 3 in April 2004. The ED proposed to include in the scope of **IFRS** business combinations that involve two or more mutual entities, and combinations in which separate entities are brought together by contract alone. This proposal was dropped after the September 2004 IASB meeting.

- REFERENCES:** **IFRS:** IAS 12, IFRS 3, SIC-9.
US GAAP: FAS 38, FAS 121, FAS 141, FAS 142, EITF 95-3.

Revenue recognition

Revenue - Definition

IFRS	Income is defined in the Framework to include revenues and gains. A specific standard on revenue recognition defines revenue as the gross inflow of economic benefits during the period arising from the ordinary activities of an entity when the inflows result in an increase in equity, other than increases relating to contributions from equity participants.
US GAAP	Revenue is defined by the Concept Statement to represent actual or expected cash inflows (or the equivalent) that have occurred or will result from the entity's ongoing major operations.
Belgian GAAP	Belgian legislation does not address the concept of revenue recognition specifically, but includes a number of provisions relating directly or indirectly to income recognition, encompassing both revenue and gains.

Measurement

Both frameworks require measurement of revenues at the fair value of the consideration received or receivable.

This is usually the amount of cash or cash equivalents received or receivable. Where the inflow of cash or cash equivalents is deferred, discounting to a present value is required under **IFRS** and, in limited situations, under **US GAAP**.

Revenue Recognition

IFRS	<p>IFRS is the only one of the two frameworks to contain a specific standard on revenue recognition. The standard describes specific revenue recognition criteria for the sale of goods and for the rendering of services and interest, royalties and dividends. The revenue recognition criteria common to each of these are: the probability that the economic benefits associated with the transaction will flow to the entity, and that the revenue and costs can be measured reliably.</p> <p>Additional recognition criteria apply to revenue arising from the sale of goods. IFRS requires that the seller has transferred the significant risks and rewards of ownership to the buyer and retains neither management involvement in, nor control over, the goods. Revenue from the rendering of services must be recognised by reference to the state of completion of the transaction at the balance sheet date. Interest revenue must be recognised on a basis that takes into account the asset's effective yield. Royalties are recognised on an accrual basis, and dividends are recognised when the shareholder's right to receive payment is established.</p>
US GAAP	<p>The guidance under US GAAP is extensive. There are a number of different sources of revenue recognition guidance, such as SFAS, SOPs, EITFs and AAERs. US GAAP focuses more on revenues being realised (either converted into cash or cash equivalents or the likelihood of its receipt being reasonably certain) and earned (no material transaction pending and the related performance has occurred). Revenue recognition involves an exchange transaction - i.e., there should be no revenue recognition unless and until an exchange has taken place. Additional guidance for SEC registrants sets out criteria that an entity must meet before revenue is realised and earned (compared to IFRS in the table below). In addition, SEC pronouncements provide guidance related to specific revenue recognition situations.</p>
Belgian GAAP	<p>Belgian GAAP are broadly comparable to IFRS, but revenue is sometimes still recognized based on the legal form of the transaction.</p>

Revenue recognition criteria

IFRS	US GAAP
It is probable that economic benefits will flow to the entity.	Vendor's price to the buyer is fixed or determinable. Collectability is reasonably assured.
The amount of revenue can be measured reliably.	Vendor's price to the buyer is fixed or determinable.
The entity has transferred to the buyer the significant risks and rewards of ownership of the goods.	Persuasive evidence of an arrangement exists, and delivery has occurred or services have been rendered.
The entity retains neither continuing managerial involvement nor effective control over the goods.	Delivery has occurred or services have been rendered.
The costs incurred or to be incurred in respect of the transaction can be measured reliably.	Vendor's price to the buyer is fixed or determinable, and collectability is reasonably assured.
The stage of completion of the transaction can be measured reliably.	Vendor's price to the buyer is fixed or determinable.

Specific revenue recognition issues

Warranty and product maintenance contracts

IFRS	When a product's selling price includes an identifiable component for subsequent servicing, the latter is deferred and recognised over the warranty period.
US GAAP	Similar to IFRS , revenue should be recognised on a straight-line basis unless the pattern of costs indicates otherwise. Consistent with IFRS , a loss must be recognised immediately if the expected cost to provide services during the warranty period exceeds unearned revenue.
Belgian GAAP	Similar to IFRS .

Barter transactions – advertising

IFRS	An advertising barter arrangement exists when two companies enter into a non-cash transaction to exchange advertising services. Under IFRS , revenue may generally be recognised on the exchange of dissimilar goods and services if the amount of revenue can be measured reliably. The transaction must be measured at the fair value of goods or services received; however, where the fair value of goods or services received cannot be measured reliably, the fair value of the goods and services given up is used. The fair value of advertising received or provided in a barter transaction is generally measured by reference to equivalent non-barter transactions.
US GAAP	Revenue and expense must be recognised at the fair value of the advertising given. Fair value must be based on the entity's own historical practice of receiving cash for similar advertising from unrelated entities. Similar transactions used as a guide to fair value must not be older than six months prior to the date of the barter transaction. If the fair value of the advertising given cannot be determined within these criteria, then the carrying amount of the advertising surrendered, which is likely to be zero, must be used.
Belgian GAAP	Not addressed.

Multiple-element arrangements

IFRS	No detailed guidance for multiple-element revenue recognition arrangements exists. The recognition criteria are usually applied separately to each transaction. However, they are applied to two or more transactions together when they are linked in such a way that the whole commercial effect cannot be understood without reference to the series of transactions as a whole.
US GAAP	Revenue arrangements with multiple deliverables should be divided into separate units of accounting if the deliverables in the arrangement meet specified criteria outlined in EITF 00-21. The arrangement's consideration should be allocated among the separate units of accounting based on their relative fair values. Applicable revenue recognition criteria should be considered separately for separate units of accounting.
Belgian GAAP	Not addressed.

Multiple-element arrangements – software revenue recognition

IFRS	No specific software revenue recognition guidance exists. Fees from the development of customised software are recognised as revenue by reference to the stage of completion of the development, including completion of services provided for post-delivery service support.
US GAAP	Provides specific guidance on software revenue recognition for software vendors, and in particular for multiple-element arrangements. For these arrangements, a value is established for each element based on vendor-specific objective evidence (VSOE) or other evidence of fair value. VSOE is generally limited to the price charged when elements are sold separately. Consideration is allocated to separate units based on their relative fair values, and revenue is recognised as each unit is delivered.
Belgian GAAP	Not addressed.

Construction contracts

Scope

IFRS	Applies to fixed-price and cost-plus construction contracts of contractors (not defined), for the construction of a single asset or combination of assets.
US GAAP	Guidance is defined from the perspective of the contractor rather than the contract, as in IFRS . Scope is not limited to construction-type contracts, guidance is also applicable to unit-price and time-and-materials contracts.
Belgian GAAP	Although the wording is different and the scope of IAS 11 includes elements not explicitly foreseen in Belgian GAAP , the concepts of 'contracts in progress' and 'construction contracts' are similar. The key element - the existence of a negotiated contract - is present in both definitions.

Recognition method

IFRS	Requires the percentage of completion method to recognise revenue and expenses if the outcome can be measured reliably. The criteria necessary for a cost-plus contract to satisfy reliable measurement is less restrictive than for a fixed-price contract. When final outcome cannot be estimated reliably, IFRS requires the use of the zero-profit method, which recognises revenue only to the extent of contract costs incurred that are expected to be recovered. Provides limited guidance on the use of estimates.
US GAAP	The percentage of completion method is preferred. However, in rare circumstances, when the extent of progress towards completion is not reasonably measurable, the completed contract method should be used. Provides detailed guidance on the use of estimates.
Belgian GAAP	According to Belgian accounting legislation, either the percentage-of-completion method or the completed contract method (positive margin recognised upon completion) can be applied, provided it is done prudently and the accounting policy chosen is disclosed in the notes to the financial statements.

Applying the percentage of completion method

IFRS When the outcome of the contract can be estimated reliably, revenue and costs must be recognised by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognised as an expense immediately.

US GAAP Permits two different approaches:

- the revenue cost approach (similar to **IFRS**) multiplies the estimated percentage of completion by the estimated total revenues to determine earned revenue, and multiplies the estimated percentage of completion by the estimated total contract cost to determine the cost of earned revenue; and
- the gross-profit approach (different from **IFRS**) multiplies the estimated percentage of completion by the estimated gross profit to determine the estimated gross profit earned to date.

Losses are recognised when incurred or when the expected contract costs exceed the expected contract revenue, regardless of which accounting method is used.

Belgian GAAP Similar to **IFRS**.

Completed contract method

IFRS Prohibited.

US GAAP The percentage of completion method is preferred. However, the completed contract method is allowed in rare circumstances when estimates of costs to completion and the extent of progress towards completion cannot be determined with enough certainty. Revenue is recognised only when the contract is completed or substantially so. Losses are recognised when incurred or when the expected contract costs exceed the expected contract revenue, regardless of which accounting method is used.

Belgian GAAP The completed contract method can be used without any restriction provided the accounting policy selected is disclosed in the notes to the financial statements.

Combining contracts and segmenting a contract

IFRS Requires contracts to be combined when part of a package, or segregated when each contract is part of a separate proposal and when revenues and costs can be clearly identified.

US GAAP Combining contracts is permitted but not required.

Belgian GAAP Not addressed, but not contrary to the generally accepted viewpoint in Belgium.

REFERENCES: **IFRS:** IAS 11, IAS 18.
US GAAP: CON 5, SAB 104, SOP 81-1, SOP 97-2, EITF 99-17, EITF 00-21, FTB 90-1.

Expense recognition

Expenses - Definition

IFRS	Expenses are defined in the Framework to include losses. Expenses are decreases in economic benefits that result in a decrease in equity.
US GAAP	Expenses are defined by the Concept Statement to represent actual or expected cash outflows, or the equivalent, that have occurred or will result from the entity's ongoing major operations.
Belgian GAAP	No specific definition. The generally accepted concept is similar to IFRS .

Specific expense recognition issues

Interest expense

IFRS	Interest expense is recognised on an accrual basis. Where interest expense includes a discount or premium arising on the issue of a debt instrument, the discount or premium is amortised using the effective interest rate method. The effective interest rate is the rate that discounts the estimated future cash payments through the expected life of the debt instrument to the carrying amount of the debt instrument.
US GAAP	Similar to IFRS .
Belgian GAAP	Similar to IFRS .

Employee benefits – pensions

IFRS and **US GAAP** require the cost of providing these benefits to be recognised on a systematic and rational basis over the period during which employees provide services to the entity. Both frameworks separate pension plans into defined contribution plans and defined benefit plans, and define them in similar ways. **Belgian GAAP** do not include specific standards for the recognition and measurement of the cost of pensions and other post-retirement benefits. The accounting law requires entities to make provision for its obligations relating to retirement or survivors' pensions, early-retirement and other similar pensions or allowances. However, entities are also bound by law to fund their pension obligations with an independent pension fund or insurance company. Consequently, the usual practice in Belgium is to expense as incurred the premium charged by the insurance company or pension fund, on the assumption that the amount of the premium constitutes an appropriate measure of the economic cost of their pension obligations for the period concerned.

Defined contribution plans

Defined contribution plans are post-employment benefit plans that require the entity to pay fixed contributions into a fund. The entity is under no legal or constructive obligation to make further contributions to the fund even if losses are sustained. Under these plans it is the employee who is exposed to the risk attributable to the plan assets. **IFRS** and **US GAAP** require pension cost to be measured as the contribution payable to the fund on a periodic basis.

Defined benefit plans

Defined benefit plans oblige the employer to provide defined post-employment benefits of set amounts to employees. The risks associated with plan assets rest with the employer.

The methodology for accounting for defined benefit plans is similar under **IFRS** and **US GAAP**. The key features are:

ITEM	IFRS	US GAAP
Determination of pension and post-retirement expense.	Use projected unit credit actuarial method.	Similar to IFRS .
Discount rate for obligations.	Based on market yields for high quality corporate bonds. Government bond yields should be used when there is no deep market in high quality corporate bonds.	Similar to IFRS , except that government bonds are not used.
Valuation of plan assets.	Measure at fair value or using discounted cash flows if market prices unavailable.	Similar to IFRS , except for differences resulting from the rate applied to market related value of plan assets (see expected return on plan assets below).
Recognition of actuarial gains and losses.	Immediate recognition or amortise over expected remaining working lives of participating employees. At a minimum, a net gain/loss in excess of 10% of the greater of the defined benefit obligation or the fair value of plan assets at beginning of the year should be recognised.	Similar to IFRS , except that if all or almost all plan participants are retired, actuarial gains and losses are amortised over the remaining life expectancy of the plan participants.
Expected return on plan assets.	Based on market expectations at the beginning of the period for returns over the entire life of the related obligation. Reflects changes in the fair value of plan assets as a result of actual contributions and benefits paid. The rate is applied to the fair value.	Based on market conditions and nature of the assets. Includes changes in plan assets due to contributions and benefit payments. The rate is applied to the market-related value of the plan assets, which is either the fair or a calculated value (which incorporates asset-related gains and losses over a period of no more than five years).
Balance sheet asset limitation.	Asset limited to the lower of: a) the asset resulting from applying the standard; and b) the net total of any unrecognised actuarial losses and past service cost and the present value of any available refunds from the plan or reduction in future contributions to the plan.	No similar requirement.
Recognition of minimum pension liability.	Not required.	Additional minimum liability is required when the accumulated benefit obligation exceeds the fair value of the plan assets and the amount of the accrued liability.
Past-service cost.	Positive and negative past-service cost recognised over remaining vesting period. Where benefits have already vested, recognise past-service cost immediately.	Positive prior-service cost for current and former employees recognised over remaining service lives of active employees. Negative prior-service costs are used first to offset previous positive prior-service costs. Recognise excess as for positive prior-service cost.
Multi-employer plans.	Use defined benefit accounting unless sufficient information is not available.	Use defined contribution accounting.
Subsidiary's defined benefit pension plan forming part of a group plan.	No exemption. The plan is accounted for as a defined benefit plan.	The subsidiary should account for its participation in an overall group plan as a participant in a defined contribution (multi-employer) plan.
Curtailment/settlement (timing of recognition).	Gains and losses on curtailments are recognised when curtailments/settlements occur.	Curtailment losses are recognised when it is probable that a curtailment will occur and the effect of the curtailment is reasonably estimable. Curtailment gains are deferred until realised and are recognised in earnings, either when the related employees terminate, or the plan suspension or amendment is adopted. Settlement gains or losses are recognised when the event of settlement occurs.

ITEM	IFRS	US GAAP
Curtailment/settlement (calculation of gains and losses).	Gains and losses on curtailments/ settlements include changes in the present value of the defined benefit obligation, any resulting changes in the fair value of the plan assets and any related actuarial gains and losses and past service costs that had not previously been recognised.	Gains and losses on curtailments include unrecognised prior service cost for which services are no longer expected to be rendered, and changes in the projected benefit obligation (net of any unrecognised gains or losses and remaining transition asset). The maximum gain or loss on settlements to be recognised in profit or loss is equal to unrecognised net gain or loss plus any unrecognised transitional asset.

Recent proposals – IFRS

The IASB issued an exposure draft to amend IAS 19 in April 2004. It includes proposals (a) to give entities an option to show in full, pension deficits and available surpluses by recognising gains and losses through equity rather than the income statement, (b) to extend the application of multi-employer plan accounting to entities within a consolidated group, and (c) for additional disclosures.

IFRIC issued draft Interpretation D6 on IAS 19 in May 2004. It provides guidance on the IAS 19 requirements relating to multi-employer benefit plans.

IFRIC issued draft Interpretation D9 on IAS 19 in July 2004. It confirms that an employee benefit plan with a promised return on contributions is a defined benefit plan and proposes how to measure cash balance and similar types of plans.

REFERENCES: **IFRS:** IAS 19, IAS 39.
US GAAP: APB 21, FAS 87, FAS 88.

Employee share compensation

Recognition

IFRS	Requires recognition of the fair value of shares and options awarded to employees over the period to which the employees' services relate. The award is presumed to be for past services if the award is unconditional without any performance criteria.
US GAAP	Similar to IFRS .
Belgian GAAP	Not addressed. The IFRS and US GAAP accounting treatments conflict with generally accepted accounting principles in Belgium.

Measurement

IFRS	Shares and share options are often granted to employees as part of their remuneration package, in addition to salary and other employment benefits. IFRS 2 requires an entity to measure the fair value of the employee services received by reference to the fair value of the equity instruments granted. Extensive disclosures are also required.
US GAAP	Entities have a choice of accounting methods for determining the costs of benefits arising from employee share compensation plans. They may either follow an intrinsic value method or a fair value method.

Under the intrinsic value method, the compensation cost is the difference between the market price of the share at the measurement date and the price to be contributed by the employee (exercise price). Usually the measurement date is the date of grant. This method is widely used in practice.

The fair value method is based on the fair value of the option at the date of grant. This is estimated using an option-pricing model. If an entity chooses to follow the intrinsic value method, it must make, with comparable prominence and clarity, pro-forma disclosures of net income and earnings per share as if the fair value method had been applied.

Belgian GAAP Not applicable, as recognition is not currently allowed.

Employer's payroll tax payable on exercise of share options by employees

IFRS Employers' social security liability arising from share-based payment transactions should be recognised over the same period or periods as the share-based payment charge.

US GAAP Employer payroll taxes due on the exercise of share options should be recognised as an expense at the option's exercise date.

Belgian GAAP No specific guidance.

Non-employee share-based payment transactions

IFRS Goods or services acquired in a share-based payment transaction should be recognised when they are received. An expense or an asset arises out of a share-based payment transaction. The credit side of the entry will be a liability if the entity has an obligation to settle the transaction in cash. However, if there is no possibility of settling in cash, and the consideration for goods and services will therefore be achieved through the issuance of equity instruments, the credit entry is an increase in equity. IFRS 2 requires the fair value of the goods or services acquired by an entity to be determined and used as the value for an equity-settled share-based payment transaction.

US GAAP Similar to **IFRS**, except that the expense should be measured based on the fair value of either the goods and services received or the fair value of securities issued, whichever is more reliably measurable.

Belgian GAAP Not addressed.

Recent proposals – US GAAP

The FASB issued an exposure draft on share-based payments, on 31 March 2004. The ED proposes that the cost of all forms of equity-based compensation granted to employees, excluding employee stock ownership plans, be recognised in a company's income statement. The award's cost would be measured at fair value. This will replace FAS 123 and APB 25.

REFERENCES: **IFRS:** IAS 19, IAS 37, IFRS 2.
US GAAP: APB 25, FAS 123, FAS 148, FIN 44, EITF D-83, EITF 00-16.

Compensated absences

Includes long-term compensated absences such as long-term disability, long service and sabbatical. These benefits typically accumulate over the employee's service period. All three frameworks recognise the liability as the employee provides the service that gives rise to the right to the benefit.

Termination benefits

IFRS Termination benefits arising from redundancies are accounted for similarly to restructuring provisions.

If an offer is made to encourage voluntary redundancy, the measurement of termination benefits should be based on the number of employees expected to accept the offer.

Termination indemnities are generally payable regardless of the reason for the employee's departure. The payment of such benefits is certain (subject to any vesting or minimum service requirements) but the timing of their payment is uncertain. **IFRS** requires that termination indemnities be accounted for consistently with pension obligations (i.e., including a salary progression element and discounting).

US GAAP Sets out specific guidance addressing post-employment benefits, for example salary continuation, termination benefits, training and counselling. **US GAAP** distinguishes between four types of termination benefits with three different timing methods for recognition.

- 1) Special termination benefits – generally additional benefits offered for a short period of time to certain employees electing to accept an offer of voluntary termination, recognised at the date on which the employees accept the offer and the amount can be reasonably estimated;
- 2) Contractual termination benefits – which are benefits provided to employees when employment is terminated due to a specified event under an existing plan, recognised at the date when it is probable that employees will be entitled to the benefits and the amount can be reasonably estimated;
- 3) Termination benefits that are paid for normal severances pursuant to an ongoing termination benefit plan. Costs are recognised for probable and reasonably estimable payments as employee services are rendered, if the benefit accumulates, or when the obligating event occurs; and
- 4) One-time termination benefits – benefits provided to current employees that are involuntarily terminated under the terms of a one-time benefit arrangement.

A one-time benefit arrangement is one that is established by a termination plan that applies for a specified termination event or for a specified future period. These one-time benefits are recognised as a liability when the termination plan meets certain criteria and has been communicated to employees (the communication date). If employees are required to render future service in order to receive the one-time benefits, the liability is recognised rateably over the future service period.

Termination indemnity plans are considered to be defined benefit plans under **US GAAP**. Entities may choose whether to calculate the vested benefit obligation as the actuarial present value of the vested benefits to which the employee is entitled if the employee separates immediately, or as the actuarial present value of the vested benefits to which the employee is currently entitled, based on the employee's expected date of separation or retirement.

Belgian GAAP Similar to **IFRS** except that Belgian accounting law provides that the early retirement obligation (termination) should only be recognised when the early retirement is notified individually to the employees. IAS 19 (revised) requires the obligation to be accounted for when the entity is demonstrably committed to a termination. There is thus a conflict between the two sets of rule as regards the timing of recognition of an obligation.

REFERENCES: **IFRS:** IAS 19.
US GAAP: FAS 43, FAS 88, FAS 112, FAS 146, EITF 88-1.

Intangible assets

Definition

IFRS An intangible asset is an identifiable non-monetary asset without physical substance controlled by the entity and held for use in the production or supply of goods or services, for rental to others, or for administration purposes. It may be acquired or internally generated.

US GAAP Similar to **IFRS**.

Recognition – acquired intangibles ¹

IFRS General **IFRS** asset recognition criteria apply. Recognise if future economic benefits attributable to the asset are probable and the cost of the asset can be measured reliably.

US GAAP Similar to **IFRS**.

Belgian GAAP Permit the capitalisation of formation and certain start-up or restructuring costs, which must be amortised at an annual rate of at least 20%.

¹ For accounting for intangible assets acquired in a business combination see p36.

Recognition – additional criteria for internally generated intangibles

IFRS Requires classification of the costs associated with the creation of intangible assets by research phase and development phase. Costs in the research phase should always be expensed. Costs in the development phase are expensed unless the entity can demonstrate all of the following:

- the technical feasibility of completing the intangible asset;
- the intention to complete the intangible asset;
- the ability to use or sell it;
- how the intangible asset will generate future economic benefits - the entity must demonstrate the existence of a market or, if for internal use, the usefulness of the intangible asset;
- the availability of adequate resources to complete the development; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Development costs initially recognised as an expense cannot be capitalised in a subsequent period.

US GAAP Applies stricter recognition criteria than **IFRS**. Research and development costs should be expensed as incurred, making the recognition of internally generated intangible assets rare. However, separate rules apply to development costs for computer software that is to be sold. Here, capitalisation (and amortisation) applies once technological feasibility is established. Capitalisation ceases when the product is available for general release to customers. Similar rules apply to certain elements of development costs for computer software developed for internal use.

Belgian GAAP Research and development costs are defined as a single concept, and may be capitalised for amortisation on the basis of a rebuttable assumption that the maximum useful life does not exceed five years.

Research & development costs may be expensed as incurred or capitalised, depending on the entity's chosen accounting policy, except that costs of internal software development should be capitalised to the extent that the costs do not exceed a prudent estimate of their useful value or future profit contribution to the entity. They should be amortised over their estimated useful life, which should not exceed five years unless a longer period can be justified and the justification is disclosed in the footnotes.

Recognition – website development costs

IFRS	Costs incurred during the planning stage must be expensed. Costs incurred for activities during the website's application and infrastructure development stages must be capitalised, and costs incurred during the operation stage must be expensed as incurred.
US GAAP	Similar to IFRS .
Belgian GAAP	Not addressed specifically.

Measurement – acquired intangibles

IFRS	The cost of a separately acquired intangible asset at the date of acquisition is usually self-evident, being the fair value of the consideration paid.
US GAAP	Similar to IFRS .
Belgian GAAP	Similar to IFRS .

Measurement – internally generated intangibles

IFRS	The cost comprises all expenditure that can be directly attributed or allocated to creating, producing and preparing the asset from the date when the recognition criteria are met.
US GAAP	Costs that are not specifically identifiable and that have indeterminable lives or that are inherent in a continuing business and related to an entity as a whole should be recognised as an expense when incurred.
Belgian GAAP	It is possible to include only direct costs in the cost of an internally generated intangible asset.

Subsequent measurement – acquired and internally generated intangibles

IFRS	Intangible assets subject to amortisation are carried at historical cost less accumulated amortisation/impairment, or at fair value less subsequent amortisation/impairment. Intangible assets not subject to amortisation are carried at historical cost unless impaired. Subsequent revaluation of intangible assets to their fair value should be based on prices in an active market. Where an entity adopts this treatment (extremely rare in practice), the revaluations should be performed regularly and the revaluation of the entire class of intangible assets should take place at the same time.
US GAAP	Initial recognition is similar to IFRS . Revaluation is not allowed. Intangible assets subject to amortisation are carried at amortised cost unless impaired. Intangible assets not subject to amortisation are carried at historical cost unless impaired.
Belgian GAAP	Belgian GAAP do not permit revaluations of intangible assets.

Amortisation – acquired and internally generated intangibles

IFRS	Amortised if asset has a finite life. Do not amortise if the asset has an indefinite life, but test at least annually for impairment. There is no presumed maximum life.
US GAAP	Similar to IFRS .
Belgian GAAP	There is no generally applicable maximum useful life, except that justification for amortising research and development costs over more than five years must be disclosed. If formation or other start-up costs are capitalised, they must be amortised over a maximum of five years.

Impairment – acquired and internally generated intangibles

IFRS	Requires impairment reviews whenever changes in events or circumstances indicate that an intangible asset's carrying amount may not be recoverable. Annual reviews required, for intangible assets with indefinite useful lives and for assets not yet ready for use. Reversals of impairment losses are allowed under specific circumstances.
US GAAP	Similar to IFRS , except reversals of impairment losses are prohibited.
Belgian GAAP	Intangibles fixed assets are subject to exceptional amortisation when, due to changes in economic or technological circumstances, their carrying value exceeds their recoverable amount.
REFERENCES:	IFRS: IAS 36, IAS 38, SIC-32. US GAAP: FAS 86, FAS 142, APB 17, SOP 98-1.

Property, plant and equipment

Definition

IFRS	Property, plant and equipment (PPE) are tangible assets that are held by an entity for use in the production or supply of goods or services, for rental to others, or for administrative purposes. They are expected to be used during more than one period.
US GAAP	Similar to IFRS .
Belgian GAAP	Similar to IFRS .

Recognition

IFRS	General IFRS asset recognition criteria apply. Recognise if future economic benefits attributable to the asset are probable and the cost of the asset can be measured reliably.
US GAAP	Similar to IFRS .
Belgian GAAP	Similar to IFRS .

Initial measurement

IFRS	<p>Comprises the costs directly attributable to bringing the asset to the location and working condition necessary for it to be capable of operating in the way management intends, including costs of testing whether the asset is functioning properly. Start-up and pre-production costs must not be capitalised unless they are a necessary part of bringing the asset to its working condition. The following are also included in the initial measurement of the asset:</p> <ul style="list-style-type: none"> • the costs of site preparation; • initial delivery and handling costs; • installation and assembly costs; • costs of employee benefits, arising from construction or acquisition of the asset; • costs of testing whether the asset is functioning properly; • professional fees; and • fair value gains/losses on qualifying cash flow hedges relating to the purchase of PPE in a foreign currency. <p>The entity has the policy option to include the borrowing costs incurred during the period of acquiring, constructing or producing the asset for use (see p62).</p>
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Government grants received in connection with acquisition of PPE may be offset against the cost (see p73).

US GAAP Similar to **IFRS**, except that hedge gains/losses on qualifying cash flow hedges are not included. Relevant borrowing costs should be included if certain criteria are met. Consistent with **IFRS**, the fair value of a liability for an asset retirement obligation must be recognised in the period incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalised as part of the asset's carrying amount.

Belgian GAAP Practice is broadly similar to **IFRS**, except that grants cannot be deducted from the cost of PPE.

Recent proposals – US GAAP

The FASB issued an exposure draft of an Interpretation of FAS 143 in June 2004. The ED proposes accounting for conditional asset retirement obligations (for example, obligations to remove and dispose of asbestos). In particular, it would clarify that a legal obligation to perform an asset retirement activity that is conditional on a future event is within the scope of FAS 143.

Subsequent expenditure

IFRS Subsequent maintenance expenditure is expensed as incurred. Replacement of parts can be capitalised when new criteria are met. The cost of a major inspection or overhaul occurring at regular intervals is capitalised where the recognition criteria are satisfied. The net book value of any replaced component would be expensed at the time of overhaul.

US GAAP Similar to **IFRS**.

Belgian GAAP Not specifically addressed in Belgian accounting law. Belgian practice is similar to **IFRS**, except that the cost of major repairs and overhauls occurring at regular intervals is often provided for (provision for major repairs and maintenance) instead of being capitalised as asset cost when relevant recognition criteria are met.

Depreciation

IFRS The depreciable amount of an item of PPE must be allocated on a systematic basis over its useful life, reflecting the pattern in which the entity consumes the asset's benefits. Any change in the depreciation method used is treated as change in accounting estimate reflected in the depreciation charge for the current and prospective periods.

US GAAP Similar to **IFRS**, except that **US GAAP** classifies a change in the depreciation method for previously recorded assets as a change in accounting principle. The cumulative effect of the change is then reflected in the current year's income statement. However, a change in the estimated useful lives of depreciable assets is a change in estimate, which is accounted for prospectively in the period of change and future periods.

Belgian GAAP Similar to **IFRS** in theory but, in practice, depreciation is an area that is typically driven by tax considerations. Major differences can arise from the choice of certain options permitted by the Belgian accounting legislation (because they are permitted by tax legislation) but not under **IFRS**:

- depreciation rates and methods such as accelerated depreciation allowed for tax purposes;
- depreciation of ancillary costs at a rate (generally 100%) different from the rate applied to the asset to which they relate;
- depreciation of advance payments relating to acquisitions of fixed assets.

Subsequent measurement

IFRS The benchmark treatment (i.e. cost model) requires an asset to be carried at cost less accumulated depreciation and impairment. However, revaluation of PPE at fair value is permitted under the alternative treatment.

The revaluation model should be applied to an entire class of assets.

The increase of an asset's carrying amount as a result of a revaluation must be credited directly to equity under the heading 'revaluation surplus', unless it reverses a revaluation decrease for the same asset, previously recognised as an expense; then it must be recognised in the income statement. A revaluation decrease must be charged directly against any related revaluation surplus for the same asset, with any excess being recognised as an expense.

Disclosures of the historical cost equivalent (cost and accumulated depreciation) of assets carried at revalued amounts are required.

US GAAP PPE should be carried at cost less accumulated depreciation and impairment losses. Revaluation to fair value is not permitted. Consistent with **IFRS**, impairment testing is performed whenever events or changes in circumstances suggest the carrying value of an asset is not recoverable.

Belgian GAAP The subsequent use of revalued amounts in accounting for property, plant and equipment is also permitted. Revaluation surpluses are credited to a specific reserve account in shareholders' equity. Contrary to **IFRS**, revaluation may be a one-off exercise and can relate either to one single asset or to an entire class of assets.

Frequency of revaluations

IFRS The revaluations must be kept sufficiently up to date so that the carrying amount does not differ materially from the fair value. This requires regular revaluations of all PPE when the revaluation policy is adopted. Management must consider at each year-end whether fair value is materially different from carrying value.

US GAAP Not applicable.

Belgian GAAP No requirement to update revaluations.

Impairment of revalued PPE

IFRS An impairment loss (downward revaluation) may be offset against revaluation surpluses to the extent that it relates to the same asset; any uncovered deficit must be accounted for in the income statement.

US GAAP All impairments should be recognised in the income statement.

Belgian GAAP Comparable to **IFRS**.

REFERENCES: **IFRS:** IAS 16, IAS 23, IAS 36.
US GAAP: FAS 34, FAS 143, FAS 144, ARB 43, APB 6.

Non-current assets held for sale

IFRS An entity should classify a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The asset must be available for immediate sale in its present condition and its sale must be highly probable. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan must have been initiated. The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. Once classified as held for sale, the asset should be measured at the lower of its carrying amount and fair value less costs to sell.

US GAAP Similar to **IFRS**.

Belgian GAAP Not specifically addressed.

REFERENCES: **IFRS:** IFRS 5.
US GAAP: FAS 144.

Leases – lessor accounting

Classification

The concepts behind lease classification are similar in all three frameworks. However, while extensive form-driven requirements are present in **US GAAP**, substance rather than legal form is applied under **IFRS** and, to a lesser extent, under **Belgian GAAP**.

A finance (capital) lease exists if the agreement transfers substantially all the risks and rewards associated with ownership of the asset to the lessee. All three frameworks provide indicators for determining the classification of a lease. These are presented in the table below:

INDICATOR	IFRS	US GAAP	Belgian GAAP
Normally leads to a finance lease			
Ownership is transferred to the lessee at the end of the lease term.	Indicator of a finance lease.	Indicator of a finance lease.	Indicator of a finance lease.
A bargain purchase option exists.	Indicator of a finance lease.	Indicator of a finance lease.	Not specified.
The lease term is for the majority of the leased asset's economic life.	Indicator of a finance lease.	Specified as equal to or greater than 75% of the asset's life.	Not specified.
The present value of minimum lease payments is equal to substantially all the fair value of the leased asset.	Indicator of a finance lease.	Specified as 90% of the fair value of the property less any investment tax credit retained by the lessor.	The capital portion of the lease payments should reconstitute the fair value of the leased assets in order to qualify the transaction as a finance lease.
The leased assets are of a specialised nature that only the lessee can use without major modification.	Indicator of a finance lease.	Not specified.	Not specified.

INDICATOR	IFRS	US GAAP	Belgian GAAP
Could lead to a finance lease			
On cancellation, the lessor's losses are borne by the lessee.	Indicator of a finance lease.	Not specified.	Not specified.
Gains and losses from the fluctuation in the fair value of the residual fall to the lessee.	Indicator of a finance lease.	Not specified.	Not specified.
The lessee has the ability to continue the lease for a secondary period at below market rental.	Indicator of a finance lease.	Not specified.	Not specified.

Belgian GAAP are somewhat simpler, in that a finance lease is deemed to exist when the sum of the minimum lease payments is equal to or greater than the lessor's investment in the leased asset, including related interest and other transaction costs. Purchase options included in leases for assets other than property assets and that represent no more than 15 per cent of the lessor's investment are treated as minimum lease payments.

Recognition of the investment in the lease

IFRS and **US GAAP** require the amount due from a lessee under a finance lease to be recognised as a receivable at the amount of the net investment in the lease. At any point in time, this will comprise the total of the future minimum lease payments less gross earnings allocated to future periods. Minimum lease payments for a lessor include guarantees from a third party related to the leased assets under **IFRS**. **US GAAP** excludes these guarantees. The present value of minimum lease payments would generally use the implicit rate in the lease for discounting under **IFRS**. Under **US GAAP**, the lessor would also use the implicit rate.

The gross earnings are allocated between receipt of the capital amount and receipt of finance income on a basis so as to provide a constant rate of return. Initial direct costs should be amortised over the lease term. **IFRS** and **US GAAP** require use of the net investment method to allocate gross earnings, which excludes the effect of cash flows arising from taxes and financing relating to a lease transaction. An exception to this is for leveraged leases under **US GAAP** where tax cash flows are included.

Under **Belgian GAAP**, assets acquired for the purpose of being leased are classified as inventories. A receivable is recorded at inception of the lease in the amount of the sum of the capital portion of instalments to be received in future periods. The capital and interest portions of the lease instalments received are recorded as reductions of the receivable and finance income, respectively. Finance income is generally computed on the net receivable outstanding according to the agreed reimbursement schedule. The difference between acquisition cost of the leased asset and the amount recognised as a receivable at the inception of the lease is taken directly to income.

Operating leases

All three frameworks require an asset leased under an operating lease to be recognised by a lessor as PPE and depreciated over its useful life. Rental income is generally recognised on a straight-line basis over the lease term.

Incentives

Both **IFRS** and **US GAAP** require that the lessor must recognise the aggregate cost of incentives given as a reduction of rental income over the lease term on a straight-line basis, unless another systematic basis is more representative of the time pattern over which the benefit of the leased asset is diminished. **Belgian GAAP** does not provide specific guidance on this issue, however a similar treatment to **IFRS** would be followed in practice.

Recent proposals – US GAAP

IFRIC issued draft Interpretation D3 on IAS 17 in January 2004. This draft Interpretation proposes that when an arrangement that does not take the legal form of a lease, but conveys a right to use an item (for example, an item of PPE) for an agreed period of time in return for a payment or series of payments, it should be accounted for in accordance with IAS 17.

REFERENCES: **IFRS:** IAS 17.
US GAAP: FAS 13, FAS 66, FAS 98, FTB 88-1.

Impairment of assets

Recognition

IFRS An entity should assess annually whether there are any indications that an asset may be impaired. If there is any such indication, the assets must be tested for impairment. An impairment loss must be recognised in the income statement when an asset's carrying amount exceeds its recoverable amount. Assets classified as held for disposal must be measured at the lower of the carrying amount or fair value less selling costs.

US GAAP Management should consider each period whether there is reason to suspect that long-lived assets (asset groups) might not be recoverable. Several impairment indicators exist for making this assessment. For assets to be held and used, impairment is first measured by reference to undiscounted cash flows. If impairment exists, the entity must measure impairment by comparing the asset's carrying value to its fair value. If there is no impairment by reference to undiscounted cash flows, no further action is required but the useful life of the asset must be reconsidered. Assets classified as held for disposal must be measured at the lower of the carrying amount or fair value less selling costs.

Belgian GAAP An impairment loss is recognised when the carrying value of fixed assets exceeds their value in use or, in the case of idle tangible assets, their realisable value.

Measurement

IFRS The impairment loss is the difference between the asset's carrying amount and its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. Value in use is the future cash flows to be derived from the particular asset, discounted to present value using a pre-tax market-determined rate that reflects the current assessment of the time value of money and the risks specific to the asset.

US GAAP The impairment loss is measured as the excess of the carrying amount over the asset's fair value, being either the market value (if an active market for the asset exists), the best information available in the circumstances including the price for similar assets, or the sum of discounted future cash flows or other valuation techniques, using market assumptions. For assets to be disposed of, the loss recognised is the excess of the asset's carrying amount over its fair value less cost to sell. Costs to sell include incremental direct costs to transact the sale that would not have been incurred except for the decision to sell. Such assets are not depreciated or amortised during the selling period.

Belgian GAAP Not specified, although impairment is the difference between the carrying value and the recoverable amount due to economic or technological circumstances.

Reversal of impairment loss

IFRS	Requires reversal of impairment losses when there has been a change in economic conditions or in the expected use of the asset.
US GAAP	Prohibits reversals of impairment losses for assets to be held and used, as the impairment loss results in a new cost basis for the asset. Subsequent revisions to the carrying amount of an asset to be disposed of must be reported as adjustments to the asset's carrying amount, but limited by the carrying amount at the date on which the decision to dispose of the asset is made.
Belgian GAAP	Extraordinary depreciation/(amortisation) on fixed assets should be reversed through the income statement when this is no longer economically justified.
REFERENCES:	IFRS: IAS 16, IAS 36. US GAAP: FAS 143, 144.

Capitalisation of borrowing costs

Recognition

IFRS	An entity can choose to capitalise borrowing costs where they are directly attributable to the acquisition, construction or production of a qualifying asset. The choice should be applied consistently. A qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use or sale.
US GAAP	Requires capitalisation of borrowing costs, including the amortisation of discount premium and issue costs on debt, if applicable. US GAAP defines a qualifying asset in a similar manner to IFRS , except that investments accounted for using the equity method meet the criteria for a qualifying asset while the investee is actively preparing for its planned principal operations, provided that the investee's activities include the use of funds to acquire qualifying assets for its operations.
Belgian GAAP	An entity can choose between capitalising or not capitalising interest on specific borrowings to finance the construction of individual qualifying assets. Under Belgian GAAP , the cost of inventories and contracts that take more than a year to produce or execute, respectively, may include interest on capital borrowed to finance their production, to the extent that it is incurred during the normal period of production or execution. Belgian legislation also permits the capitalisation of debt-issue costs as formation expenses, to be amortised over the period of the related debt instrument.

Measurement

IFRS	The amount of interest eligible for capitalisation is either the actual costs incurred on a specific borrowing or an amount calculated using the weighted average method, considering all the general borrowings outstanding during the period for that entity. Interest can include foreign exchange differences, but under tightly defined conditions. Any interest earned on temporary investment of funds borrowed to finance the asset's production is netted with the interest to be capitalised. Capitalisation of interest must cease once the asset is ready for its intended use or sale.
US GAAP	Similar to IFRS , except that foreign exchange differences and interest earned on funds borrowed to finance the production of the asset cannot be netted against interest as appropriate for IFRS , except for certain governmental or private entities that finance qualifying assets through tax-exempt borrowings. In these cases, the interest costs to be capitalised are required to be reduced by the interest income.
Belgian GAAP	Similar to IFRS in practice, although less specific guidance is given.
REFERENCES:	IFRS: IAS 23 US GAAP: FAS 34, FAS 62.

Investment property

Definition

IFRS	Property (land and buildings) held in order to earn rentals and/or for capital appreciation. Does not include owner-occupied property or property held for sale.
US GAAP	There are no specific guidance for investment property, other than specific rules relating to entities qualifying as investment companies under the Investment Companies Act of 1940. For entities that are not investment companies, such property is accounted for in the same way as PPE.
Belgian GAAP	No separate rules for investment property, which is accounted for in the same way as property, plant and equipment.

Initial measurement

IFRS	The same cost-based measurement should be used for both acquired and self-constructed investment property. The cost of a purchased investment property comprises its purchase price and any directly attributable costs such as professional fees for legal services, property transfer taxes and other transaction costs. Self-constructed property must be accounted for as PPE until construction is complete, when it becomes an investment property. Property under finance or operating lease can also be classified as investment property.
US GAAP	No specific rules for investment property. Such property is accounted for in the same way as PPE.
Belgian GAAP	Such properties are treated in the same way as property, plant and equipment.

Subsequent measurement

IFRS	The entity can choose between the fair value model or depreciated cost for all investment property. When fair value is applied, the gain or loss arising from a change in the fair value is recognised in the income statement and the carrying amount is not depreciated.
US GAAP	The depreciated cost model must be applied.
Belgian GAAP	Such properties are treated in the same way as property, plant and equipment.

Transfers to/from investment property

IFRS	When there is a change in use of the investment property, there is detailed guidance for subsequent classification. Investment property to be sold is re-classified as inventories, and investment property to be owner-occupied is reclassified as PPE.
US GAAP	Not applicable.
Belgian GAAP	Not applicable.

Frequency and basis of revaluations

IFRS	The fair value of investment property must reflect the actual market conditions and circumstances as of the balance sheet date. The standard does not require the use of an independent and qualified valuer, but the use is encouraged. Revaluations must be made with sufficient regularity that the carrying amount does not differ materially from fair value.
US GAAP	Not applicable.
Belgian GAAP	Not applicable.
REFERENCES:	IFRS: IAS 40. US GAAP: ARB 43, APB 6. Belgian GAAP: RD 30 January 2001

Inventories

Definition

All three frameworks define inventories as assets that are: held for sale in the ordinary course of business; in the process of production or for sale in the form of materials; or supplies to be consumed in the production process or in rendering services.

Measurement

IFRS	Carried at the lower of cost or net realisable value (sale proceeds less all further costs to bring the inventories to completion). Reversal (limited to the amount of the original write-down) is required for a subsequent increase in value of inventory previously written down. Inventories of producers and dealers of agricultural and forest products and mineral ores allowed at net realisable value even if above cost.
US GAAP	Broadly consistent with IFRS , in that the lower of cost and market value is used to value inventories. Market value is defined as being current replacement cost subject to an upper limit of net realisable value (i.e., estimated selling price in the ordinary course of business less reasonably predictable costs of completion and disposal) and a lower limit of net realisable value less a normal profit margin. Reversal of a write-down is prohibited, as a write-down creates a new cost basis. Similar for inventories of agricultural and forest products and mineral ores. Mark-to-market inventory accounting is allowed for refined bullion of precious metals.
Belgian GAAP	Inventories are valued at the lower of cost or net realisable value.

Formula for determining cost

METHOD	IFRS	US GAAP	Belgian GAAP
LIFO.	Prohibited.	Permitted.	Permitted.
FIFO.	Permitted.	Permitted.	Permitted.
Weighted average cost.	Permitted.	Permitted.	Permitted.
Specific identification of costs.	Prohibited for ordinarily interchangeable items.	Prohibited for ordinarily interchangeable items.	Permitted.

Consistency of the cost formula for similar inventories

IFRS	Requires an entity to use the same cost formula for all inventories that have a similar nature and use to the entity.
US GAAP	Similar to IFRS .
Belgian GAAP	Not specifically addressed.

Allocation of fixed overheads

IFRS	Any allocation of fixed production overheads is based on normal capacity levels, with unallocated overheads expensed as incurred.
US GAAP	Idle capacity costs may also be absorbed into inventory costs in limited circumstances.
Belgian GAAP	Similar to IFRS , except that indirect production costs may be expensed directly, provided that the amount relating to closing inventories, if material, is disclosed in the footnotes.
REFERENCES:	IFRS: IAS 2. US GAAP: ARB 43.

Biological assets

IFRS	Should be measured on initial recognition and at each balance sheet date at its fair value less estimated point-of-sale costs. All changes in fair value should be recognised in the income statement in the period in which they arise.
US GAAP	Not specified, historical cost is generally used.
Belgian GAAP	Not addressed.
REFERENCES:	IFRS: IAS 41.

Financial assets

IFRS outlines the recognition and measurement criteria for all financial assets defined to include derivatives. The guidance in **IFRS** is broadly consistent with **US GAAP**. Belgian rules are very limited although some detailed provisions exist in respect of participating interests, shares classified as long-term financial assets, receivables and receivables under forward-exchange contracts.

Definition

IFRS and **US GAAP** define a financial asset in a similar way, to include: cash; a contractual right to receive cash or another financial asset from another entity or to exchange financial instruments with another entity under conditions that are potentially favourable; and an equity instrument of another entity. Financial assets include derivatives (under **IFRS**, these include many contracts that will or may be settled in the entity's own equity instruments). See p79 for accounting for derivatives.

Recognition and initial measurement

IFRS and **US GAAP** requires an entity to recognise a financial asset when and only when the entity becomes a party to the contractual provisions of a financial instrument. The initial measurement of the financial asset is its fair value, which is normally the consideration given, including directly related transaction costs.

Under **Belgian GAAP** participating interests and shares classified as long-term financial assets are initially measured at cost. Receivables are recorded at nominal amount. Receivables under currency forward contracts are off-balance sheet items. Put and call options acquired are treated as short-term investments and should be recorded at cost.

CLASSIFICATION	IFRS	US GAAP
Financial assets at fair value through profit or loss		
This category has two sub-categories: financial assets held for trading, and those designated to the category at inception. Any financial asset may, on initial recognition, be classified as fair value through profit or loss.	An irrevocable decision to classify a financial asset as fair value through profit or loss.	No such option.
Held-for-trading financial assets		
Debt and equity securities held for sale in the short-term. Includes derivatives.	The intention must be to hold the financial asset for a relatively short period, or as part of a portfolio for the purpose of short-term profit-taking. Subsequent measurement at fair value. Unrealised and realised gains and losses recognised in the income statement.	Similar to IFRS , and frequent buying and selling usually indicates a trading instrument. Similar to IFRS .
Held-to-maturity investments		
Financial assets held with a positive intent and ability to hold to maturity. Includes assets with fixed and determinable payments and maturities. Does not include equity securities because they have an indefinite life.	Entity must have the 'positive intent and ability' to hold a financial asset to maturity not simply a present intention. When an entity sells more than an insignificant amount of assets, classified as held-to-maturity, it is prohibited from using the held-to-maturity classification for two full annual reporting periods (known as tainting). The entity must also reclassify all its held-to-maturity assets as available-for-sale assets. Recognised at amortised cost using the effective yield method.	Similar to IFRS , although US GAAP is silent about when assets cease to be tainted. However, for listed companies, the SEC generally believes that the taint period for sales or transfers of held-to-maturity securities should be two years.
Loans and receivables		
Financial assets with fixed or determinable payments not quoted in an active market. May include loans and receivables purchased, provided their intention is similar but not interests in pools of assets (for example, mutual funds).	Reported at amortised cost.	All debts receivable that are not securities are recognised at amortised cost.
Available-for-sale financial assets		
All debt/equity financial assets not covered by the above categories. Includes equity securities, except those classified as held-for-trading.	Recognised at fair value. Changes in fair value are recognised net of tax effects in equity and recycled to the income statement when sold, impaired or collected.	As for IFRS , includes debt/equity securities not covered by above categories, but excludes unlisted equity securities that are carried at cost. Changes in fair value reported in other comprehensive income.

Under **Belgian GAAP**, participating interests should be valued at cost subject to impairment write-downs. Revaluation of such interests is allowed under **Belgian GAAP**. Receivables are valued at cost subject to impairment write-down. Acquired put and call options should be written off at maturity date unless exercised. If call options are exercised then the acquisition cost should be included in the carry value of underlying assets. If put options are exercised then the acquisition cost should be included in the acquisition cost of an underlying asset, the aggregate amount being compared to the strike price to determine the realised gain or loss.

Reclassification of assets between categories

IFRS Reclassifications between categories are relatively uncommon under **IFRS** and are prohibited into and out of the fair value through profit or loss category.

Reclassifications from the held-to-maturity category as a result of a change of intent or ability are treated as sales and, other than in exceptional circumstances, result in the whole category being 'tainted'. The most common reason for a reclassification out of the category, therefore, is when the whole category is tainted and has to be reclassified as available-for-sale for two years. In such circumstances, the assets are remeasured to fair value, with any difference recognised in equity.

An instrument may be reclassified into the category where the tainted held-to-maturity portfolio has been 'cleansed'. In this case, the financial asset's carrying value at the date of reclassification is recharacterised and becomes its amortised cost. Any unrealised gains and losses already recognised remain in equity until the asset is impaired or derecognised.

US GAAP The following rules apply under **US GAAP** to the transfer of financial assets between categories:

- Held-to-maturity investments

An entity must reclassify a financial asset from the held-to-maturity category when there has been a change of intent or ability, or there has been evidence of short-term profit taking. Where the reclassification is to held-for-trading, the asset must be re-measured to fair value with the difference recognised in the income statement. Where the financial asset is reclassified from held-to-maturity to available-for-sale, the asset must be re-measured to fair value with the difference recognised in equity. Similar to **IFRS**, such a transfer may trigger tainting provisions.

If an entity transfers an asset into the held-to-maturity category, the asset's fair value at the date of reclassification becomes its amortised cost. Any previous gain or loss recognised in equity must be amortised over the remaining life of the held-to-maturity investment. Any difference between the new amortised cost and the amount due at maturity must be treated as an adjustment of yield.

- Available-for-sale financial assets

Transfers from/(to) available-for-sale into/(or out of) trading should be rare. The phrase 'should be rare' has been interpreted by the SEC as 'should never occur'.

Impairment

Both **IFRS** and **US GAAP** have similar requirements for the impairment of financial assets. **IFRS** requires an entity to consider impairment when there is an indicator of impairment, such as: the deterioration in the creditworthiness of a counterparty; an actual breach of contract; a high probability of bankruptcy; the disappearance of an active market for an asset, or in the case of an investment in an equity instrument, whether there has been a significant or prolonged decline in the fair value of that investment below its cost.

US GAAP requires the write-down of financial assets when an entity considers a decline in fair value to be 'other than temporary'. Indicators of impairment are: the financial health of the counterparty; whether the investor intends to hold the security for a sufficient period to permit recovery in value, the duration and extent that the market value has been below cost and the prospects of a forecasted market price recovery.

Recent proposals – IFRS

The IASB issued an exposure draft of proposed amendments to IAS 39, Financial Instruments Recognition and Measurement The Fair Value Option, in April 2004. This exposure draft proposes to limit the use of the fair value option to specific circumstances and only when the fair value is verifiable.

Recent proposals – US GAAP

The FASB issued an exposure draft on fair value measurements in June 2004. The ED will enhance the current guidance on fair value measurements by establishing a measurement framework for financial and non-financial assets and liabilities that are measured at fair value under other authoritative pronouncements.

Both **IFRS** and **US GAAP** require that, for financial assets carried at amortised cost, the impairment loss is the difference between the asset's carrying amount and its estimated recoverable amount (present value of expected future cash flows discounted at the instrument's original effective interest rate). For financial assets carried at fair value, the recoverable amount is usually based on quoted market prices or, if unavailable, the present value of the expected future cash flows discounted at the current market rate. If a loss has been deferred in equity, it must be recycled to the income statement on impairment.

Under **US GAAP**, market recoveries on available-for-sale debt securities are not recognised as they occur, rather the changes in market value are treated as a basis adjustment and amortised. **US GAAP** prohibits the reversal of an impairment charge on available-for-sale equity securities. **IFRS** requires changes in value of available-for-sale debt securities, identified as reversals of previous impairment, to be recognised in the income statement. Similar to **US GAAP**, **IFRS** prohibits reversals of impairment on available-for-sale equity securities.

Belgian GAAP does not address financial assets by classifying them into different categories, but there are general provisions relating to impairment of assets e.g. amounts receivable should be written down if the amount due is not expected to be fully or partly collectible.

Derecognition

IFRS A financial asset (or part) is derecognised when:

- the rights to the asset's cash flows expire;
- the rights to the asset's cash flows and substantially all risks and rewards of ownership are transferred;
- an obligation to transfer the asset's cash flows is assumed, substantially all risks and rewards are transferred and the following conditions are met:
 - no obligation to pay cash flows unless equivalent cash flows from the transferred asset collected;
 - prohibition from selling or pledging the asset other than as security to the eventual recipients for the obligation to pass through cash flows;
 - obligation to remit any cash flows without material delay; or
- substantially all the risks and rewards are neither transferred nor retained but control of the asset is transferred.

If an entity transfers substantially all the risks and rewards of ownership of the asset (for example, an unconditional sale of a financial asset), the entity derecognises the asset. If an entity retains substantially all the risks and rewards of ownership of the asset, it continues to recognise the asset (the transaction is accounted for as a collateralised borrowing). If an entity neither transfers nor retains substantially all the risks and rewards of ownership of the asset, the entity has to determine whether it has retained control of the asset. Control is based on the transferee's practical ability to sell the asset. The asset is derecognised if the entity has lost control. If the entity has retained control, it continues to recognise the asset to the extent of its continuing involvement.

If the asset is derecognised on sale to a special purpose entity (SPE), there may be a requirement to consolidate that SPE.

On derecognition, the difference between the amount received and the carrying amount of the asset is recognised in the income statement. Any fair value adjustments on the assets formerly reported in equity are recycled to the income statement. Any new assets or liabilities arising from the transaction are recognised at fair value.

US GAAP

Similar to **IFRS**, where an entity surrenders control over all or a portion of a financial asset sold, the asset may be derecognised. Otherwise, the transfer is accounted for as a borrowing secured by the asset 'sold'. Further, in certain circumstances **US GAAP** requires legal isolation of financial assets from the transferor (even in bankruptcy or receivership) as a necessary condition for derecognition.

Belgian GAAP

When an entity sells an asset and, at the same time, enters into a separate agreement to repurchase the asset at a later date, the transaction is considered to be fiduciary in nature. The assets 'sold' should thus be kept on the balance sheet of the 'seller' and amounts received from the 'buyer' recorded as borrowings. Any difference between the 'sale price' and the repurchase price is considered as interest and is expensed in the income statement. Security-lending is also considered as a borrowing, rather than a sales transaction. Accordingly, the accounting treatment required is to transfer the securities to a receivable account included in the same subheading and valued according to accounting policies applicable to them.

REFERENCES:

IFRS: IAS 39, SIC-12.

US GAAP: FAS 115, FAS 133, FAS 140, EITF 03-01.

Provisions

IFRS has a specific standard on accounting for provisions generally, while **US GAAP** has several standards addressing specific provisions - for example, environmental liabilities and restructuring costs. Both frameworks prohibit recognition of provisions for future costs, including costs associated with compliance with proposed but not yet effective legislation. **Belgian GAAP** are noticeably less articulate on the question of provisions, defining generally their required attributes to be prudence, authenticity and made in good faith, although several positions have been taken by the ASC on specific subjects e.g., restructuring and early-retirement provisions.

Recognition

IFRS Requires recognition of a provision only when:

- the entity has a present obligation to transfer economic benefits as a result of past events;
- it is probable that such a transfer will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made.

A present obligation arises from an obligating event and may take the form of either a legal obligation or a constructive obligation. An obligating event leaves the entity no realistic alternative to settle the obligation created by the event. If the entity can avoid the future expenditure by its future actions, it has no present obligation and a provision is not recognised.

US GAAP Similar to **IFRS**. However, the meaning of probable conveys a higher threshold than 'more likely than not'.

Belgian GAAP Provisions must be recorded to cover clearly identified losses or charges which result from past events at the balance sheet date, and which are either likely or certain to occur, but not reliably quantifiable as to their amount. Examples are given of the types of cost for which provision should be made (pensions, major repairs and maintenance, guarantees, litigation, etc). The presence of a legal or constructive obligation is not required to justify the recording of a provision. Consequently, **Belgian GAAP** allow entities much greater latitude in exercising judgement about the need for provisions. In practice, together with a tendency to emphasise the importance of the attribute of prudence, this means that certain provisions recorded in conformity with **Belgian GAAP** would not pass the test to qualify as provisions under either **IFRS** or **US GAAP**.

Measurement

IFRS The amount recognised as a provision must be the best estimate of the minimum expenditure required to settle the present obligation at the balance sheet date. The entity must discount the anticipated cash flows using a pre-tax discount rate (or rates) that reflect(s) current market assessments of the time value of money and those risks specific to the liability if the effect is material. If a range of estimates is predicted and no amount in the range is more likely than any other amount in the range, the 'mid-point' of the range must be used to measure the liability.

US GAAP Similar to **IFRS**. However, if a range of estimates is present and no amount in the range is more likely than any other amount in the range, the 'minimum' (rather than the mid-point) amount must be used to measure the liability. A provision must only be discounted when the timing of the cash flows is fixed. (Differences may arise in the selection of the discount rate, particularly in the area of asset retirement obligations.)

Belgian GAAP Essentially similar to **IFRS**.

Restructuring provisions

- IFRS** In the case of a restructuring, a present obligation exists only when the entity is ‘demonstrably committed’ to the restructuring. An entity is usually demonstrably committed when there is a binding sale agreement (legal obligation), or when the entity has a detailed formal plan for the restructuring and is unable to withdraw because it has started to implement the plan or announced its main features to those affected (constructive obligation). However, a current provision is unlikely to be justified if there will be a delay before the restructuring begins, or the restructuring will take an unreasonably long time to complete.
- US GAAP** Similar to **IFRS**. However, management is not allowed to update or withdraw from the plan. **US GAAP** prohibits the recognition of a liability based solely on an entity’s commitment to a plan. Recognition of a provision for one-time termination benefits requires communication of the details of the plan to the affected employees. Initial liabilities for restructurings that meet the definition of a liability are measured at fair value and must be evaluated each reporting period, with subsequent changes in fair value measured using an interest allocation approach.
- Belgian GAAP** A formal decision by the board of directors is considered sufficient to warrant the recording of a restructuring provision.

Onerous contracts

- IFRS** Prohibits provisions for future operating losses. However, if an entity is party to a contract that is onerous (the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under the contract), the present obligation under the contract must be recognised and measured as a provision. One of the most common examples relates to leasehold property that has been left vacant.
- US GAAP** A liability for costs to terminate a contract before the end of its term should be recognised and measured at fair value when the entity terminates the contract in accordance with the contract terms (for example, when the entity gives written notice to the counterparty within the notification period specified by the contract or has otherwise negotiated a termination with the counterparty). A liability for costs that will continue to be incurred under a contract for its remaining term without economic benefit to the entity should be recognised and measured at its fair value when the entity ceases to use the right conveyed by the contract. A common example relates to leasehold property that is no longer being used. The liability must be reduced by estimated sub-lease rentals that could reasonably be obtained for the property (consistent with **IFRS**).
- Belgian GAAP** In practice, the accounting treatment is similar to **IFRS**.
- REFERENCES:** **IFRS:** IAS 37.
US GAAP: FAS 5, EITF 88-10, FAS 143, FAS 146, SOP 96-1.

Contingencies

Contingent asset

- IFRS** Is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the entity’s control. The item is recognised as an asset when the realisation of the associated benefit, such as an insurance recovery, is virtually certain.
- US GAAP** Similar to **IFRS**, but the threshold for recognising insurance recoveries is lower. The recovery is required to be probable (the future event or events are likely to occur) rather than virtually certain as under **IFRS**.
- Belgian GAAP** Broadly similar to **IFRS**.

Contingent liability

IFRS A possible obligation whose outcome will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the entity's control. It can also be a present obligation that is not recognised because it is not probable that there will be an outflow of economic benefits, or the amount of the outflow cannot be reliably measured. Contingent liabilities are disclosed unless the probability of outflows is remote.

US GAAP Similar to **IFRS**, requiring an accrual for a loss contingency if it is probable (defined as likely) that there is a present obligation resulting from a past event and an outflow of economic resources is reasonably estimable.

Belgian GAAP Broadly similar to **IFRS**.

REFERENCES: **IFRS:** IAS 37.
US GAAP: FAS 5, SOP 96-1.

Recent proposals – US GAAP

The FASB issued an exposure draft of an Interpretation of FAS 143 in June 2004. The ED proposes accounting for conditional asset retirement obligations (for example, obligations to remove and dispose of asbestos). In particular, it would clarify that a legal obligation to perform an asset retirement activity that is conditional on a future event is within the scope of FAS 143.

Deferred tax

Although both **IFRS** and **US GAAP** require full provision for deferred tax, there are differences in the methodology as set out in the table below.

Although there is no standard on accounting for deferred income taxes in **Belgian GAAP**, existing rules stipulate that a deferred tax may arise on investment grants obtained from public authorities for investment in fixed assets and on gains on disposals of tangible and intangible fixed assets and securities issued by public authorities. Deferred taxes arising on temporary differences other than those mentioned are not recognised in entity financial statements what so ever. It is, however, possible to record deferred tax liabilities in consolidated financial statements if it is probable that an actual tax charge will arise in the foreseeable future. Furthermore, recognition of deferred tax assets in the consolidated financial statements is permitted if recovery is probable.

ISSUE	IFRS	US GAAP
General considerations		
General approach.	Full provision.	Similar to IFRS .
Basis for deferred tax assets and liabilities.	Temporary differences - i.e., the difference between carrying amount and tax base of assets and liabilities (see exceptions below).	Similar to IFRS .
Exceptions (i.e., deferred tax is not provided on the temporary difference).	Goodwill, which is not deductible for tax purposes, does not give rise to a taxable temporary difference. Similarly, negative goodwill does not give rise to a deductible temporary difference.	Similar to IFRS . Since negative goodwill is not carried on the balance sheet under US GAAP , it does not create a book/tax difference.
	Initial recognition of an asset or liability in a transaction that: (i) is not a business combination, and (ii) affects neither accounting profit nor taxable profit at the time of the transaction.	No initial recognition exemption. Special requirements apply in computing deferred tax on leveraged leases.

ISSUE	IFRS	US GAAP
Specific applications		
Unrealised intra-group profits - for example, on inventory.	Deferred tax recognised at the buyer's tax rate.	The buyer is prohibited from recognising deferred taxes. Any income tax effects of the seller (including taxes paid and tax effects of any reversal of temporary differences) as a result of the inter-company sale are deferred and then recognised upon ultimate sale to a third party.
Revaluation of PPE and intangible assets.	Deferred tax recognised in equity.	Not applicable, as revaluation is prohibited.
Revaluation of financial assets.	Deferred tax is recognised in the income statement unless changes in the carrying amount of available-for-sale assets are taken to equity, in which case deferred tax is taken to equity.	All changes in the carrying amount of available-for-sale assets are taken to equity; therefore, deferred tax is taken to equity. Subsequent statutory rate changes and certain valuation allowance changes are recognised in the income statement.
Foreign non-monetary assets/liabilities when the reporting currency is the functional currency.	Deferred tax is recognised on the difference between the carrying amount determined using the historical rate of exchange and the tax base determined using the balance sheet date exchange rate.	No deferred tax is recognised for differences related to assets and liabilities that are remeasured from local currency into the functional currency resulting from changes in exchange rates or indexing for tax purposes.
Investments in subsidiaries - treatment of undistributed profit.	Deferred tax is recognised except when the parent is able to control the distribution of profit and if it is probable that the temporary difference will not reverse in the foreseeable future.	Deferred tax is required on temporary differences arising after 1992 relating to investments in domestic subsidiaries unless such amounts can be recovered tax-free and the entity expects to use that method. No deferred taxes are recognised on undistributed profits of foreign subsidiaries that meet the indefinite reversal criterion.
Investments in joint ventures - treatment of undistributed profit.	Deferred tax is recognised except when the venturer can control the sharing of profits and if it is probable that the temporary difference will not reverse in the foreseeable future.	Deferred tax is required on temporary differences arising after 1992 relating to investment in domestic corporate joint ventures. No deferred taxes are recognised on undistributed profits of foreign corporate joint ventures that meet the indefinite reversal criterion.
Investments in associates - treatment of undistributed profit.	Deferred tax is recognised except when the investor can control the sharing of profits and it is probable that the temporary difference will not reverse in the foreseeable future.	Deferred tax is always recognised on temporary differences relating to investment in associates (whether domestic or foreign).
Share-based compensation.	If a tax deduction exceeds cumulative share-based compensation expense, deferred tax calculations based on the excess deduction are recorded directly in equity. If the tax deduction is less than or equal to cumulative share-based compensation expense, deferred taxes arising are recorded in income.	If the ultimate actual tax benefit available to the issuer exceeds the deferred tax asset recorded, the excess benefit (known as a 'windfall' tax benefit) is credited directly to shareholders' equity. If the ultimate tax benefit is less than the deferred tax asset, the shortfall is recorded as a direct charge to shareholders equity to the extent of prior windfall tax benefits, and as a charge to the tax expense thereafter.
Measurement of deferred tax		
Tax rates.	Tax rates and tax laws that have been enacted or substantively enacted.	Use of substantive enacted rates not permitted. Tax rate and tax laws must have been enacted.
Recognition of deferred tax asset.	Deferred tax asset must be recognised if it is probable that sufficient taxable profit will be available against which the temporary difference can be utilised.	Deferred tax asset recognised in full but is then reduced by a valuation allowance if it is more likely than not that some or all of the deferred tax asset will not be realised.
Discounting.	Prohibited.	Prohibited.

ISSUE	IFRS	US GAAP
Business combinations – acquisitions		
Step-up of acquired assets/liabilities to fair value.	Deferred tax provided unless tax base of asset is also stepped up.	Similar to IFRS .
Previously unrecognised tax losses of the acquirer.	Deferred tax asset recognised if, as a result of the acquisition, the recognition criteria for the deferred tax asset is met. Offsetting credit is recorded in income.	Similar to IFRS , except the offsetting credit is recorded against goodwill.
Tax losses of the acquiree.	Similar requirements as for the acquirer except the offsetting credit is recorded against goodwill.	Similar to IFRS .
Post-acquisition recognition of acquiree's tax losses that existed at the date of acquisition.	Recognition of deferred tax asset that reduces goodwill and then reduces tax expense. No time limit for recognition of this deferred tax asset.	Recognition of deferred tax asset reduces goodwill, then reduces non-current intangible assets and then reduces tax expense. No time limit for recognition of this deferred tax asset.
Presentation of deferred tax		
Offset of deferred tax assets and liabilities.	Permitted only when the entity has a legally enforceable right to offset and the balance relates to tax levied by the same authority.	Similar to IFRS .
Current/non current.	The deferred tax assets and liabilities must only be classified as non-current.	Deferred tax assets and liabilities must either be classified as current or non-current based on the classification of the related non-tax asset or liability for financial reporting. Tax assets not associated with an underlying asset or liability are classified based on the expected reversal period.
Reconciliation of actual and expected tax expense.	Required. Computed by applying the applicable tax rates to accounting profit, disclosing also the basis on which the applicable tax rates are computed.	Required for public companies only. Computed by applying the domestic federal statutory tax rates to pre-tax income from continuing operations.

REFERENCES: **IFRS:** IAS 12.
US GAAP: FAS 109.

Government grants

IFRS Government grants (or contributions) received as compensation for expenses already incurred are recognised in the income statement once the conditions for their receipt have been met and there is reasonable assurance that the grant will be received. Revenue-based grants are deferred in the balance sheet and released to the income statement to match the related expenditure that they are intended to compensate. Capital-based grants must be deferred and matched with the depreciation on the asset for which the grant arises.

Grants that relate to recognised assets must be presented in the balance sheet either as deferred income or by deducting the grant in arriving at the asset's carrying amount, in which case the grant is recognised as a reduction of depreciation. Specific rules apply for agricultural assets.

US GAAP Similar to **IFRS**, except that government grants should be recognised as revenue when there are conditions attached to the grant. Revenue recognition is delayed until such conditions are actually met under **US GAAP**. Contributions of long-lived assets or for the purchase of long-lived assets are reported in the period received.

Belgian GAAP Similar to **IFRS** for recognition, but **Belgian GAAP** require deferred capital grants to be reported in a separate caption within shareholders' equity, net of the deferred tax impact.

Grants – agricultural assets

IFRS	An unconditional government grant related to a biological asset measured at its fair value must be recognised in income statement, when the grant becomes receivable. If a government grant relating to a biological asset measured at its fair value is conditional, the grant must be recognised when the conditions are met. If a grant relates to a biological asset measured at cost, then the accounting treatment specified for government grants generally is applied.
US GAAP	Not specified.
Belgian GAAP	Not addressed specifically.
REFERENCES:	IFRS: IAS 20, IAS 41. US GAAP: FAS 116.

Leases – lessee accounting

Finance leases

IFRS	Requires recognition of an asset held under a finance lease (see classification criteria on p58) with a corresponding obligation to pay future rentals, at an amount equal to the lower of the fair value of the asset and the present value of the minimum lease payments (MLPs) at the inception of the lease. The asset is depreciated over its useful life or the lease term if shorter. However, the latter is only permitted if there is no reasonable certainty of the lessee obtaining ownership of the asset. The interest rate implicit in the lease must normally be used to calculate the present value of the MLPs. If the implicit rate is unknown, the lessee's borrowing rate may be used.
US GAAP	Similar to IFRS , except that the lessee's incremental borrowing rate must be used to calculate the present value of the MLPs, excluding the portion of payments representing executory costs unless it is practicable to determine the rate implicit in the lease and the implicit rate is lower than the incremental borrowing rate. If the incremental borrowing rate is used, the amount recorded as the asset and obligation is limited to the fair value of the leased asset. Asset amortisation is consistent with IFRS .
Belgian GAAP	Under Belgian GAAP , finance leases are recorded as an asset and an obligation to pay future rentals, at an amount equal to the capital portion of the instalments payable under the contract. The asset is normally depreciated over its useful life or the lease term, if shorter. However, as under IFRS , the latter is only permitted if there is no reasonable certainty of the lessee obtaining ownership of the asset. The same depreciation rules apply as for other similar depreciable assets. Rental payments are apportioned between the outstanding obligation and the finance charge in the income statement, so as to produce a constant rate of charge on the remaining balance of the obligation for each accounting period.

Operating leases

Under **IFRS**, **US GAAP** and **Belgian GAAP**, the rental expense under an operating lease must generally be recognised on a straight-line basis over the lease term.

Incentives

A lessor often provides lease incentives to encourage the lessee to renew a lease arrangement. Under **IFRS** and **US GAAP** the lessee must recognise the aggregate benefit of incentives as a reduction of rental expense over the lease term. The incentive must be amortised on a straight-line basis unless another systematic basis is representative of the pattern of the lessee's benefit from the use of the leased asset. **Belgian GAAP** do not provide specific guidance on this issue but in practice, a similar treatment would apply.

Sale and leaseback transactions

In a sale and leaseback transaction, the seller-lessee sells an asset to the buyer-lessor and leases the asset back. There are certain differences in the rules on dealing with profits and losses arising on sale and leaseback transactions across the three frameworks. These are highlighted in the table below:

ISSUE	IFRS	US GAAP	Belgian GAAP
Finance lease			
Profit or loss on sale.	Deferred and amortised over the lease term.	Timing of profit or loss recognition depends on whether seller relinquishes substantially all or a minor part of the use of the asset. If substantially all, then profit/loss is generally recognised at date of sale. If seller retains more than a minor part, but not substantially all of the use of the asset, any profit in excess of either the present value of MLPs (for operating leases) or the recorded amount of the leased asset (for finance leases) is recognised at date of sale. A loss on a sale-leaseback must be recognised immediately by the seller-lessee to the extent that net book value exceeds fair value. Special rules apply for sale-leasebacks involving property relating to continuing involvement and transfer of risks and rewards of ownership.	Deferred for recognition in the income statement in proportion to the depreciation of the leased assets.
Operating lease			
Sale at fair value.	Immediate recognition.	See above.	Not addressed.
Sale at less than fair value.	Immediate recognition unless the difference is compensated by lower future rentals, then defer the difference over the period over which the asset is expected to be used.	See above.	Not addressed.
Sale at more than fair value.	Defer the difference over the period for which the asset is expected to be used.	See above.	Not addressed.

REFERENCES: **IFRS:** IAS 17, SIC-15.
US GAAP: FAS 13, FAS 28, FAS 66, FAS 98.

Financial liabilities

Definition

IFRS and **US GAAP** define a financial liability in a similar manner to include a contractual obligation to deliver cash or a financial asset to another entity, or to exchange financial instruments with another entity under conditions that are potentially unfavourable. Financial liabilities include derivatives (under **IFRS**, these include many contracts that will or may be settled in the entity's own equity instruments). Derivatives are dealt with on p79.

Classification

IFRS Where there is a contractual obligation (either explicit or indirectly through its terms and conditions) on the issuer of an instrument to deliver either cash or another financial asset to the holder, that instrument meets the definition of a financial liability, regardless of the manner in which the contractual obligation will be settled.

Preferred shares that are not redeemable, or that are redeemable solely at the option of the issuer and where distributions are at the discretion of the issuer, are classified as equity. However, preferred shares requiring the issuer to redeem for a fixed or determinable amount at a fixed or determinable future date, or where the holder has the option of redemption, are classified as liabilities.

Where the settlement of a financial instrument such as a preferred share, is contingent on uncertain future events beyond the control of both the issuer and the holder, the issuer must classify the financial instrument as a liability. However, an instrument that is settled using an entity's own equity shares is classified as a liability if the number of shares varies in such a way that the fair value of the shares issued equals the obligation.

Puttable instruments (financial instruments that give the holder the right to put the instrument back to the issuer for cash or another asset) are liabilities.

Split accounting is applied to convertible debt – see next page.

US GAAP Where an instrument includes a conditional or unconditional obligation to transfer economic benefits (assets or issuance of equity shares), the instrument is generally classified as a liability. Examples include:

- A financial instrument issued in the form of shares that is mandatorily redeemable i.e., that embodies an unconditional obligation requiring the issuer to redeem it by transferring its assets at a specified or determinable date (or dates) or on an event that is certain to occur.
- A financial instrument that, at inception, embodies an obligation to repurchase the issuer's equity shares, or is indexed to such an obligation, and that requires or may require the issuer to settle the obligation by transferring assets (for example, a forward purchase contract or written put option on the issuer's equity shares that is to be physically settled or net cash settled).
- 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.

US GAAP does not make specific reference to classification of instruments where contingent settlement provisions exist.

Belgian GAAP Although Belgian legislation does not cover the whole topic of financial instruments, there are some overlapping areas. Sometimes, the same rationale applies as under **IFRS**, sometimes it does not and the legal form of the instrument determines its classification.

Recent proposals – IFRS

IFRIC issued a draft Interpretation on members' shares in co-operative entities in June 2004. It proposes new guidance for determining whether members' shares in co-operative entities are liabilities or equity.

Convertible debt

- IFRS** 'Split accounting' is used, whereby the proceeds of issuing debt are allocated between the two components: the equity conversion rights (recognised in equity); and the liability, recognised at fair value calculated by discounting at a market rate for a non-convertible debt (recognised in liabilities).
- US GAAP** For conventional convertible debt, the instrument is treated as a unit and recorded as a liability (no recognition is given to the equity component); otherwise an analysis is performed to determine if the equity component should be separated and accounted for as a derivative. Unlike **IFRS**, detachable warrants that are issued with mandatorily redeemable preferred stock are recorded at the residual amount (i.e., the amount left over after the preferred stock has been valued at fair value). However, detachable warrants issued with debt are still recorded using a relative fair value approach.
- Belgian GAAP** Various accounting treatments (split accounting as compound instrument treated as a liability) are possible depending on the particular form of the compound instrument.

Measurement

- IFRS** Initial measurement is at fair value, which is usually the consideration received, less transaction costs.
- There are only two categories of financial liabilities: those at fair value through profit or loss (includes trading) and other. All derivatives that are liabilities (except qualifying hedging instruments) are trading liabilities. Other trading liabilities may include a short position in securities. Financial liabilities at fair value through profit or loss (including trading) liabilities are measured at fair value (the change is recognised in the income statement for the period). All other (non-trading) liabilities are carried at amortised cost.
- US GAAP** Generally similar to **IFRS**. However, there are certain specific measurement criteria for financial instruments and entities cannot designate at initial recognition any financial liability as at fair value through profit or loss.
- Belgian GAAP** Payables are recorded at nominal amount; provision should be raised for contingent losses and charges resulting from foreign-currency positions or transactions, from commodity positions or forward transactions; premiums received in respect of (written) put and call options should be either recognised in the income statement immediately (and provision made for any contingent losses) or recorded as deferred income until maturity (similarly, a provision for contingent losses should be recorded insofar as it exceeds the deferred income recorded).

Derecognition of financial liabilities

- IFRS** A financial liability must be derecognised when: the obligation specified in the contract is discharged, cancelled or expires; or the primary responsibility for the liability is legally transferred to another party. A liability is also considered extinguished if there is a substantial modification in the terms of the instrument such that the discounted present value of new cash flows is 10% different from the old cash flows.
- The difference between the carrying amount of a liability (or a portion thereof) extinguished or transferred and the amount paid for it must be recognised in the income statement for the period.
- US GAAP** Similar to **IFRS**, a financial liability should be derecognised only if it has been extinguished. Extinguished means paying the creditor and being relieved of the obligation or being legally released of the liability either judicially or by the creditor, or as a result of a substantial modification in terms (10% or greater charge in discounted present value of cash flows).
- Belgian GAAP** Not specifically addressed.

- REFERENCES:** **IFRS:** IAS 32, IAS 39, SIC-16.
US GAAP: CON 6, ASR 268(SEC), APB 6, APB 14, FAS 140, FAS 150.

Equity instruments

Recognition and classification

IFRS	An instrument is classified as equity when it does not contain an obligation to transfer economic resources. Preference shares that are not redeemable, or that are redeemable solely at the option of the issuer, and for which distributions are at the issuer's discretion, are classified as equity. Only derivative contracts that result in the delivery of a fixed amount of cash, or other financial asset for a fixed number of an entity's own equity instruments, are classified as equity instruments. All other derivatives on own equity are treated as derivatives.
US GAAP	Similar to IFRS . Shareholders' equity is analysed between capital stock (showing separate categories for non-redeemable preferred stock and common stock) and other categories of shareholders' equity. Mandatorily redeemable financial instruments, obligations to repurchase own shares by transferring assets, and certain obligations to issue a variable number of shares are not classified as equity, but are considered to be liabilities.
Belgian GAAP	Not addressed.

Purchase of own shares

IFRS	When an entity's own shares are repurchased, the shares are shown as a deduction from shareholders' equity. Any profit or loss on the subsequent sale of the shares is shown as a change in equity.
US GAAP	When treasury stock is acquired with the intention of retiring the stock, an entity has the option to: charge the excess of the cost of treasury stock over its par value entirely to retained earnings; allocate the excess between retained earnings and additional paid-in-capital (APIC); or charge the excess entirely to APIC. When treasury stock is acquired for purposes other than retirement, the cost of the acquired stock may be shown separately as a deduction from equity or may be treated the same as retired stock.
Belgian GAAP	Reported as marketable securities under current assets, with a corresponding reserve for the same amount included separately in equity. Any profit or loss on subsequent disposal of the shares is recorded in the income statement.

Dividends on ordinary equity shares

IFRS	Presented as a deduction in the statement of changes in shareholders' equity.
US GAAP	Similar to IFRS .
Belgian GAAP	Presented as a deduction in the statement of appropriation of results, at the end of the income statement.
REFERENCES:	IFRS: IAS 32, IAS 39, SIC-16. US GAAP: CON 6, APB 6, APB 14, FAS 150.

Derivatives and hedging

Derivatives

IFRS and **US GAAP** both specify rules for the recognition and measurement of derivatives.

Definition

IFRS defines a derivative as a financial instrument: whose value changes in response to a specified variable or underlying rate (for example, interest rate); that requires no or little net investment; and that is settled at a future date. **US GAAP** sets out similar requirements, except that the terms of the derivative contract must require or permit net settlement. Therefore, there are some derivatives, such as option and forward agreements to buy unlisted equity investments, that fall within **IFRS** definition, not the **US GAAP** definition.

Initial measurement

Under **IFRS** and **US GAAP**, all derivatives are recognised on the balance sheet as either financial assets or liabilities. They are initially measured at cost defined as the fair value on the acquisition date.

Subsequent measurement

IFRS and **US GAAP** require subsequent measurement of all derivatives at their fair value, regardless of any hedging relationship that might exist. Changes in a derivative's value are recognised in the income statement as they arise, unless they satisfy the criteria for hedge accounting outlined below. Under **IFRS**, a derivative whose fair value cannot be measured reliably is carried at cost less impairment or amortisation until settlement.

Hedge accounting

Under **IFRS** and **US GAAP**, detailed guidance is set out in the respective standards dealing with hedge accounting.

In general, **Belgian GAAP** emphasise the concept of prudence, implying that companies holding derivative positions for which no hedge accounting is available should apply a lower of cost or market approach, meaning that unrealised gains (with the exception of unrealised exchange gains) are deferred, whilst unrealised losses are recorded in the income statement. Hedge accounting is specifically permitted, subject to certain criteria, for forward contracts hedging currency and commodity risks, and for hedges using equity options. The fair value and cash flow hedge categories foreseen by **IFRS** and **US GAAP** do not have specific equivalents under **Belgian GAAP**.

The concept of embedded derivatives is not articulated in Belgian legislation. However, the ASC has considered this topic in relation to certain specific circumstances (equity warrants linked to equity shares, bonds issued with warrants and 'VPR strips'), and has determined that the derivative should be accounted for separately from the host contract subject to certain conditions.

Criteria for hedge accounting

Under **IFRS** and **US GAAP**, hedge accounting is permitted provided that an entity meets stringent qualifying criteria in relation to documentation and hedge effectiveness. Both frameworks require documentation of the entity's risk management objectives and how the effectiveness of the hedge will be assessed. Under both frameworks, hedge instruments must be highly effective in offsetting the exposure of the hedged item to changes in the fair value or cash flows, and the effectiveness of the hedge must be measured reliably on a continuing basis.

Under **IFRS** and **US GAAP**, a hedge qualifies for hedge accounting if the expectation is that changes in fair values or cash flows of the hedged item are highly effective in offsetting changes in the fair value or cash flows of the hedging instrument ('prospective' test) and 'actual' results are within a range of 80% to 125% ('retrospective' test). Unlike **IFRS**, **US GAAP** also allows, assuming stringent conditions are met, a 'short-cut' method that assumes perfect effectiveness for certain hedging relationships involving interest-rate swaps.

Hedged items

In addition to the general criteria for hedge accounting, **IFRS** and **US GAAP** outline rules for the designation of specific financial assets and liabilities as hedged items. These are outlined in the table below.

IFRS	US GAAP
Held-to-maturity investments cannot be designated as a hedged item with respect to interest-rate risk or prepayment risk, because held-to-maturity investments require an intention to hold to maturity without regard to changes in fair value or cash flows due to changes in interest rates.	Similar to IFRS .
If the hedged item is a financial asset or liability, it may be a hedged item with respect to the risks associated with only a portion of its cash flows or fair value provided that effectiveness can be measured.	The designated risk should be the risk of changes in: the overall fair value or cash flow; market interest rates; foreign currency exchange rates; or the creditworthiness of the 'obligor'.
If the hedged item is a non-financial asset or liability, it may be designated as a hedged item only for foreign currency risk, or in its entirety because of the difficulty of isolating other risks.	Similar to IFRS .
If similar assets or similar liabilities are aggregated and hedged as a group, the change in fair value attributable to the hedged risk for individual items must be proportionate to the change in fair value for the group.	Similar to IFRS .
Not specified.	An asset or liability that is re-measured to fair value with changes recognised in earnings - for example, a debt security classified as trading is not permitted as a hedged item.
Not specified.	The hedged item cannot be related to: a business combination; the acquisition or disposition of subsidiaries; a minority interest in one or more consolidated subsidiaries; or investments accounted for using the equity method.

Hedging instruments

In most cases only a derivative instrument can qualify as a hedging instrument. However, **IFRS** permits a non-derivative (such as a foreign currency borrowing) to be used as a hedging instrument for foreign currency risk. **US GAAP** provides that a non-derivative can hedge currency risk only for a net investment in a foreign entity or a firm commitment.

Under **IFRS** a written option cannot be designated as a hedging instrument unless it is combined with a purchase option and a net premium is paid. **US GAAP** provides a broadly similar restriction, and in most cases written options will not qualify for hedge accounting.

Hedge relationships

Exposure to risk can arise from: changes in the fair value of an existing asset or liability; changes in the future cash flows arising from an existing asset or liability; or changes in future cash flows from a transaction that is not yet recognised.

IFRS Recognises several types of hedge relationships: a fair value hedge where the risk being hedged is a change in the fair value of a recognised asset or liability; a cash flow hedge where the risk being hedged is the potential volatility in future cash flows; and a hedge of a net investment in a foreign entity, where a hedge instrument is used to hedge the currency risk of a net investment in a foreign entity. A forecasted transaction must be highly probable to qualify as a hedged item.

US GAAP Similar to **IFRS**, excepted forecasted transactions only need to be probable.

Fair value hedges

IFRS Hedging instruments are measured at fair value. The hedged item is adjusted for changes in its fair value, but only due to the risks being hedged. Gains and losses on fair value hedges, for both the hedging instrument and the item being hedged, are recognised in the income statement.

US GAAP Similar to **IFRS**.

Cash flow hedges

IFRS Hedging instruments are measured at fair value, with gains and losses on the hedging instrument, where they are effective, initially deferred in equity and subsequently released to the income statement concurrent with the earnings recognition pattern of the hedged item. Gains and losses on financial instruments used to hedge forecasted asset and liability acquisitions may be included in the cost of the non-financial asset or liability – a ‘basis adjustment’ – but this is not permitted for financial assets or liabilities.

US GAAP The basis adjustment approach is not permitted. All gains and losses are subsequently released to the income statement concurrent with the deferred recognition of the hedged item.

Hedges of net investments in foreign operations

IFRS Similar treatment to cash flow hedges; the hedging instrument is measured at fair value with gains/losses deferred in equity, to the extent that the hedge is effective, together with exchange differences arising on the entity’s investment in the foreign operation. These gains/losses are transferred to the income statement on disposal of the foreign operation.

US GAAP Similar to **IFRS**. However, hedge ineffectiveness is recognised in the income statement in all cases.

Fair value hedge accounting for a portfolio hedge of interest rate risk

IFRS Permits an entity to designate an amount of assets or liabilities in a given ‘time bucket’, scheduled based on expected repricing dates of a portfolio. The changes in the fair value of this hedged item are reflected in a single separate line item within assets or liabilities. The carrying amounts of the individual assets or liabilities in the portfolio are not adjusted.

US GAAP Prohibited.

Disclosure

The extensive disclosure requirements in **IFRS** and **US GAAP** apply to all entities except that under **US GAAP**, fair value disclosures are not required for certain small non-public entities. The disclosures under both frameworks are similar and include general information about the entity's use of financial instruments, fair value information, details of hedging activities and liquidity information. However, there are numerous differences in the detailed requirements (such as those for disclosures of interest-rate risk, credit risk and market risk), as well as industry-specific disclosures, which are outside the scope of this publication. Additionally, disclosures in **IFRS** are required to be presented in the notes to the financial statements, while many similar disclosures in **US GAAP** are presented in the MD&A for SEC registrants.

Recent proposals – IFRS

The IASB has issued an exposure draft of proposed amendments to IAS 39, Financial Instruments: Recognition and Measurement, on cash flow hedge accounting of forecast intra-group transactions. The exposure draft proposes that, in the consolidated financial statements, a group can designate as the hedged item a highly probable forecast external transaction denominated in the functional currency of the entity (for example, a subsidiary) provided that the transaction gives rise to an exposure that will have an effect on consolidated profit or loss. There is currently a difference on hedges of foreign currency risk of forecast intra-group transactions, which are permitted under **US GAAP** but prohibited under **IFRS**.

REFERENCES: **IFRS:** IAS 39.
 US GAAP: FAS 133, FAS 137, FAS 138, FAS 149, EITF D-102.

Other accounting and reporting issues

Foreign currency translation

Functional currency – definition and determination

IFRS The currency of the primary economic environment in which an entity operates. If the indicators are mixed and the functional currency is not obvious, management should use its judgement to determine the functional currency that most faithfully represents the economic results of the entity's operations by focusing on the currency of the economy that determines the pricing of transactions (not the currency in which transactions are denominated).

Additional evidence (secondary in priority) may be provided from the currency in which funds from financing activities are generated or receipts from operating activities are usually retained.

In determining the functional currency of a foreign operation (i.e., whether its functional currency is the same as that of the reporting entity), the degree of autonomy and the foreign operation's ability to operate as a separate unit should be established.

US GAAP Similar to **IFRS**; however, there is less guidance in determining the functional currency of an entity and more guidance as to whether an entity should have the same functional currency as its parent. The functional currency is generally the currency in which the majority of the revenues and expenses are settled.

Belgian GAAP EUR is the default reporting currency, although other currencies are allowed in certain rare circumstances.

Translations – the individual entity

IFRS and **US GAAP** have similar requirements regarding the translation of transactions by an individual entity.

- Translation of transactions denominated in foreign currency is at the exchange rate in operation on the date of the transaction.
- Monetary assets and liabilities denominated in a foreign currency are translated at the closing (year-end) rate.
- Non-monetary foreign currency assets and liabilities are translated at the appropriate historical rate.
- Income statement amounts are translated using historical rates of exchange at the date of transaction or a weighted average rate as a practical alternative, provided the exchange rate does not fluctuate significantly.
- Non-monetary items denominated in a foreign currency and carried at fair value are reported using the exchange rate that existed when the fair value was determined (**IFRS** only).
- Exchange gains and losses arising on an entity's own foreign currency transactions are reported as part of the profit or loss for the year from ordinary activities. This includes long-term loans, which in substance form part of an entity's net investment in a foreign operation. Refer to the section 'Derivatives and hedging' (p64) for the hedge of a net investment.

Under **Belgian GAAP**, exchange gains resulting from the translation of monetary items may be deferred until realisation.

Translation – consolidated financial statements

IFRS, **US GAAP** and **Belgian GAAP** require that where the operations of a foreign operation are largely independent of the investing entity's reporting currency, amounts in the foreign operation's balance sheet are translated using the closing (year-end) rate, with the exception of equity balances, for which the historical rate is used. Amounts in the income statement are usually translated using the average rate for the accounting period. The translation differences arising are reported in equity (other comprehensive income).

Where a foreign operation is integral to the reporting entity, its accounts are translated as if all the transactions had been carried out by the reporting entity itself.

Tracking of translation differences in equity

IFRS These must be separately tracked and the cumulative amounts disclosed. On disposal of a foreign operation, the appropriate amount of cumulative translation difference relating to the entity is transferred to the income statement and included in the gain or loss on sale. The cumulative translation difference relating to a foreign operation and deferred in equity may be released through the income statement in its entirety upon a complete disposal of that foreign operation or for a partial disposal on a pro rata basis relative to the portion disposed. The proportionate share of the related cumulative translation difference is included in the gain or loss. The payment of a dividend out of pre-acquisition profits constitutes a return on the investment and is regarded as a partial disposal.

US GAAP Similar to **IFRS**.

Belgian GAAP Similar to **IFRS**.

Translation of goodwill and fair value adjustments on acquisition of foreign entity

IFRS Translate at closing rates.

US GAAP Similar to **IFRS**.

Belgian GAAP Not addressed.

Presentation currency

IFRS When financial statements are presented in a currency other than the functional currency, assets and liabilities are translated at the exchange rate at the balance sheet date. Income statement items are translated at the exchange rate at the date of the transaction or are permitted to use average rates if the exchange rates do not fluctuate significantly.

US GAAP Similar to **IFRS**.

Belgian GAAP Not addressed, but similar to **IFRS** in practice.

Foreign currency translation – hyperinflationary economy

Definition

IFRS Hyperinflation is indicated by characteristics of the economic environment of a country. These characteristics include: the general population's attitude towards the local currency: prices linked to a price index; and the cumulative inflation rate over three years is approaching or exceeds 100%.

US GAAP Similar to **IFRS**, except the only indicator is whether the cumulative three-year inflation rate is approximately 100% or more.

Belgian GAAP There is no equivalent requirement but a similar procedure to **IFRS** would be followed in practice.

Functional currency

IFRS Entities that have the currency of a hyperinflationary economy as the functional currency should use that currency for measuring their transaction. The financial statements for current and prior periods should then be remeasured at the measurement unit current at the balance sheet date in order to present current purchasing power.

US GAAP Does not generally permit inflation-adjusted financial statements; instead it requires the use of a more stable currency as the functional currency (usually the presentation currency). However, SEC rules provide an accommodation allowing foreign issuers that use **IFRS** to omit quantification of any differences that would have resulted from the application of FAS 52.

Belgian GAAP Not addressed but **IFRS** would apply in practice.

Presentation currency

IFRS The results and financial position of an entity whose functional currency is the currency of a hyperinflationary economy should be translated into a different presentation currency using the following procedures:

- all items, including comparatives are translated at the closing rate at the date of the most recent balance sheet; except,
- when amounts are translated into the currency of a non-hyperinflationary economy, comparative amounts are those that were presented as current year amounts in the relevant prior-year financial statements.

US GAAP Not applicable, because the currency of a hyperinflationary economy is not used for measuring its transactions in the currency of the hyperinflationary economy.

Belgian GAAP Not addressed but **IFRS** would apply in practice.

Recent proposals – IFRS

IFRIC issued draft interpretation D5, Applying IAS 29 in Hyperinflationary Economies for the First Time, in March 2004. It contains proposed guidance on how to apply the requirements of IAS 29, Financial Reporting in Hyperinflationary Economies, in the first year in which an entity identifies the existence of hyperinflation in the economy of its functional currency and restates its financial statements in accordance with IAS 29.

REFERENCES: **IFRS:** Framework, IAS 21, IAS 29.
US GAAP: FAS 52, FIN 37.

Earnings per share

Earnings per share (EPS) must be disclosed for entities whose ordinary shares are publicly traded, and entities in the process of issuing such shares under both frameworks. **IFRS** and **US GAAP** are substantially the same in their methods of calculating EPS amounts. **Belgian GAAP** do not address the issue.

Basic EPS

IFRS Basic EPS is calculated as profit available to common shareholders, divided by the weighted average number of shares in issue during the period. Shares issued as a result of a bonus issue are treated as if in issue for the whole year. Bonus issues occurring after the year-end must be incorporated into the calculations. For rights issues, a theoretical ex-rights formula is used to calculate the bonus element. Comparative EPS is adjusted for bonus issues and rights issues.

US GAAP Similar to **IFRS**.

Diluted EPS – basis

IFRS There is no ‘de minimis’ dilution threshold below which diluted EPS need not be disclosed. For diluted EPS, earnings are adjusted for the after-tax amount of dividends and interest is recognised in the period in respect of the dilutive potential ordinary shares and for any other changes in the income statement or expense that would result from the conversion of the dilutive potential ordinary shares. The conversion is deemed to have occurred at the beginning of the period or, if later, the date of the issue of potential dilutive ordinary shares.

US GAAP Similar to **IFRS**.

Diluted EPS – share option

IFRS The ‘treasury share’ method is used to determine the effect of share options and warrants. The assumed proceeds from the issue of the dilutive potential ordinary shares are considered to have been used to repurchase shares at fair value. The difference between the number of shares issued and the number of shares that would have been issued at fair value is treated as an issue of ordinary shares for no consideration (i.e., a bonus issue) and is factored into the denominator used to calculate the diluted EPS. The earnings figure is not adjusted for the effect of share options/warrants.

US GAAP Similar to **IFRS**. However, **US GAAP** guidance for applying the treasury stock (share) method in year to date computations states that the number of incremental shares to be included in the denominator is determined by computing a year-to-date weighted average of the number of incremental shares included in each quarterly diluted EPS computation. A component of the IASB/FASB Convergence project includes proposals that would require the dilutive effect of potential ordinary shares be reflected by applying the treasury stock method for the year-to-date period independently from any interim computation.

REFERENCES: **IFRS:** IAS 33.
US GAAP: FAS 128.

Related-party transactions

The objective of the disclosures required by all three frameworks in respect of related-party relationships and transactions is to ensure that users of financial statements are made aware of the extent to which those statements might be influenced by the existence of related parties.

Related-party relationships are generally determined by reference to the control or indirect control of one party by another or by the existence of joint control or significant influence by one party over another. All three accounting frameworks are broadly similar as to which parties would be included within the definition of related parties, including subsidiaries, joint ventures, associates, directors and shareholders.

If the relationship is one based on control, certain disclosures are always required (regardless of whether transactions between the parties have taken place). These include the existence of the related-party relationship, the name of the related-party and the name of the ultimate controlling party.

There are some exemptions from disclosure available for certain subsidiaries and transactions.

Disclosures and exemptions

IFRS There is no specific requirement to disclose the name of the related party (other than the ultimate parent entity). There is a requirement to disclose the amounts involved in a transaction, as well as the balances for each major category of related parties. However, these disclosures would appear to be needed in order to present meaningfully the 'elements' of the transaction, which is a disclosure requirement.

IFRS also requires disclosure of the compensation of key management personnel in total and by category of compensation.

Exemptions from disclosures about related-party transactions in the financial statements of subsidiaries are limited. The subsidiary must be wholly owned and the parent must be incorporated in the same country and provide consolidated financial statements.

State-controlled entities are required to disclose related-party transactions under **IFRS**.

US GAAP The nature and extent of any transactions with all related parties and the nature of the relationship must be disclosed, together with the amounts involved. Unlike **IFRS**, all material related-party transactions (other than compensation arrangements, expense allowances and similar items) must be disclosed in the separate financial statements of wholly-owned subsidiaries, unless these are presented in the same financial report that includes the parent's consolidated financial statements (including those subsidiaries).

Belgian GAAP Standard-form disclosures relating to specific relationships with affiliated companies should be provided. This does not include transactions such as purchases or sales.

Whereas the scope of **IFRS** disclosure requirements is limited to associates, based on ownership of 20% or more of voting rights, Belgian requirements extend to companies in which the reporting entity holds 10% or more of the voting rights.

Under **IFRS**, key management personnel and individuals owning significant voting rights are considered as related parties and, consequently, full disclosure requirements apply. In Belgium, disclosure requirements are restricted to remuneration, loans and guarantees granted to directors or individuals controlling the reporting entity, and to commitments made by the entity in their favour (e.g. guarantees).

REFERENCES: **IFRS:** IAS 24.
US GAAP: FAS 57.

Segment reporting

Both **IFRS** and **US GAAP** have specific requirements about the identification, measurement and disclosure of segment information. The similarities and differences are reflected in the table below. The topic is not specifically addressed by **Belgian GAAP**. The only requirement is for disclosure of sales analysed by significantly different types of activity and geographical markets. However, in practice, this disclosure is seldom made in individual entity financial statements, on the grounds of confidentiality.

ISSUE	IFRS	US GAAP
General requirements		
Scope.	Listed entities and entities in the process of listing. Non-listed entities may choose full compliance.	Listed entities. Non-listed entities are encouraged but not required to comply.
Format.	Business and geographical reporting, one as primary format other as secondary. Choice will depend on the impact on business risks and returns. The secondary format requires less disclosure.	Based on operating segments and the way the chief operating decision-maker evaluates financial information for purposes of allocating resources and assessing performance.
Identification of segment		
General approach.	Based on profile of risks and returns and internal reporting structure.	Based on the internally reported operating segments.
Aggregation of similar business/operating segments.	Five factors given to determine whether products and services are similar.	The same criteria apply for aggregation of similar operating segments.
Aggregation of similar geographical segments.	As for business/operating segments: six factors given, focusing on economic and political conditions, special risks, exchange control regulations and currency risks.	Not specified. Certain disclosures (revenues and assets) required on consolidated GAAP basis, of domestic operations, foreign countries in total and each material country.
Threshold for reportable segments.	Revenue, result or assets are 10% or more of all segments. If revenue of reported segments are below 75% of the total, report additional segments until 75% threshold is reached.	Similar to IFRS .
Segments not reported.	Segments not identified as above included as unallocated items.	Included in 'all other' category with sources of revenue disclosed.
Maximum number of reported segments.	No limits.	Practical limit suggested at no greater than ten segments.
Measurement		
Accounting policies for segments.	Those adopted for consolidated financial statements. Entities may disclose additional segment data based on internal accounting policies.	Those adopted for internal reporting to the chief operating decision-maker for purposes of allocating resources and assessing performance.
Symmetry of allocation of assets/liabilities, revenues/ expenses.	Symmetry required.	Not required but asymmetrical allocations must be disclosed.
Main disclosures		
Factors used to identify reportable segments.	No specific disclosure required.	Required, including basis of organisation (for example, based on products and services, geographic areas, regulatory environments) and types of products and services from which each segment derives its revenues.

ISSUE	IFRS	US GAAP
Main disclosures - continued		
Composition of segments.	Disclose types of products and services included in each reported business segment and composition of each geographical segment.	Same as IFRS .
Profit.	Required.	Required.
Assets and liabilities.	Assets required. Liabilities for primary segment format only.	Assets required. Liabilities not required.
External and inter-segment revenue.	External revenue required. Inter-segment revenue primary segment format only.	Required on a consolidated GAAP basis, and on a segment GAAP basis but only if included in the measurement of segment profit/loss for internal reporting.
Depreciation and amortisation expense and other significant non-cash expense.	Required only for primary segment format.	Required for reportable segments on segment GAAP basis, but only if included in the measurement of segment profit/loss in internal reporting or otherwise regularly reported to chief operating decision-maker.
Exceptional item.	Encouraged but not required for primary segment format only.	
Interest revenue and interest expense.	Not required.	
Income tax.	Not required.	
Capital expenditure on an accrual basis.	Required.	
Profit/loss from investments in equity method investees, and amount of investment in equity method investees.	Required if operations of associate are substantially all within a single segment.	
Major customers.	Not required.	Disclose total revenue and the relevant segment that reported the revenues for each external customer greater than or equal to 10% of consolidated revenue.
Reconciliation of total segment revenue, total segment measures of profit or loss, total segment assets, total segment liabilities and any other significant segment totals to the corresponding totals of the entity.	Required.	Required, except for segment liabilities.

REFERENCES: **IFRS:** IAS 14.
 US GAAP: FAS 131.

Discontinuing/discontinued operations

IFRS and **US GAAP** contain requirements for the measurement and disclosures of 'discontinued' operations.

Belgian GAAP does not provide any definition of discontinuing operations. However, specific accounting principles apply to entities, subdivisions and business segments that can no longer be considered as going concerns.

ISSUE	IFRS	US GAAP
Definition.	Operations and cash flows that can be clearly distinguished operationally and for financial reporting and represent a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.	A component that can be clearly distinguished operationally and for financial reporting. May be a reportable segment, operating segment, reporting unit, subsidiary or an asset grouping.
How discontinued.	Operations and cash flows that have been disposed of or classified as held for sale.	Similar to IFRS . Operations and cash flows have been or will be eliminated, and entity will not have significant continuing involvement.
Envisaged timescale.	Completed within a year, with limited exceptions.	Similar to IFRS .
Starting date for disclosure.	From the date on which a component has been disposed of or, if earlier, is classified as held for sale.	Similar to IFRS .
Measurement.	Lower of carrying value or fair value less costs to sell.	Similar to IFRS .
Presentation.	Present a single amount on the face of the income statement comprising the post-tax profit or loss of discontinued operations and an analysis of this amount either on the face of the income statement or in the notes for both current and prior periods. Separate classification on the balance sheet for assets and liabilities for the current period only.	Similar to IFRS . From measurement date, present result from operations of discontinued component (and gain or loss on disposal) as separate lines in the income statement, net of tax, after income from continuing operations. Balance sheet consolidation as normal, if discontinuance not completed by period end, with segregation of assets and liabilities (current and non-current) related to the disposal groups classified as held for sale.
Ending date of disclosure.	Until completion of the discontinuance.	Similar to IFRS .
Disclosures – where.	Face of the income statement or in notes. Assets and liabilities of related disposal groups classified as held for sale are disclosed separately on the balance sheet.	Similar to IFRS . From date on which component is disposed of or classified as held for sale, results of operations are reported as discontinued operations in a separate component of income before extraordinary items and cumulative effect of accounting changes. Assets and liabilities of related disposal groups classified as held for sale are segregated on the balance sheet.
Disclosures – what.	<ul style="list-style-type: none"> • Description of disposal group. • Expected manner and timing of disposal. • Facts and circumstances leading to sale or disposal. • Gain or loss recognised on classification as held for sale. • Revenue, expenses, pre-tax result, tax and cash flows for current and prior periods. • Segment of disposal group. 	Similar to IFRS .
Comparatives.	Represent income statement for effects of discontinued operations.	Similar to IFRS .

REFERENCES: **IFRS:** IFRS 5.
US GAAP: FAS 144.

Post balance sheet events

The three frameworks have similar standards on post-balance-sheet events.

Adjusting events after the balance sheet date

IFRS	Adjusting events that occur after the balance sheet date are defined as events that provide additional evidence of conditions that existed at the balance sheet date and that materially affect the amounts included. The amounts recognised in the financial statements must be adjusted to reflect adjusting events after the balance sheet date.
US GAAP	Similar to IFRS .
Belgian GAAP	Similar to IFRS . However, recording of an additional write-down is required if net realisable value of inventories, contracts in progress and short-term investments decreases after the balance sheet date.

Non-adjusting events after the balance sheet date

IFRS	Non-adjusting events that occurred after the balance sheet date are defined as events that are indicative of conditions that arose after the balance sheet date. The nature and estimated financial effects of such events are disclosed to prevent the financial statements being misleading.
US GAAP	Similar to IFRS .
Belgian GAAP	Similar to IFRS .

The announcement of a dividend relating to the financial year just ended

IFRS	This event is a non-adjusting event.
US GAAP	The declaration of a cash dividend is a non-adjusting event but a stock dividend is an adjusting event.
Belgian GAAP	Financial statements submitted to the approval of the shareholders must include proposed profit appropriations, including dividends. Dividends proposed in respect of one financial year are presented as a liability in the year-end financial statements relating to that year, even though they may only be declared and paid in the following year.
REFERENCES:	IFRS: IAS 10. US GAAP: AU Section 560.

Interim financial reporting

Stock exchange requirements

- IFRS** The IASB does not mandate that public entities produce interim statements but does encourage interim reporting – see additional guidance below.
- US GAAP** Similar to **IFRS**, the FASB does not mandate interim statements. However, if required by the SEC, domestic US SEC registrants must follow APB 28 and comply with the specific financial reporting requirements in Regulation S-X applicable to quarterly reporting, including publication within 40 days (phasing to 35) of the quarter-end. SEC registrants must also include an abbreviated management discussion and analysis of financial condition and results of operations.
- Belgian GAAP** Company law stipulates that directors should provide statutory auditors with interim financial statements, at least every six months, comprising a balance sheet and income statement. In addition, companies listed on the Belgian Stock Exchange must publish a half-yearly report relating to their activities during the first six months of the year including:
- key financial data (at least the amount of net sales, as well as pre- or after-tax results and the amount of any interim dividend distribution);
 - a commentary on their activities and results for the period concerned.

Additional guidance

Additional guidance under all three frameworks is similar and includes the following:

- consistent and similar basis of preparation of interim statements, with previously reported annual data and from one period to the next;
- use of accounting policies consistent with the previous annual financial statements, together with adoption of any changes to accounting policies that it is known will be made in the year-end financial statements (for example, application of a new standard);
- preparation of the interim statements using a 'discrete approach' to revenue and expenditure recognition; that is, viewing the interim period as a distinct accounting period, rather than part of the annual cycle. Incomplete transactions must therefore be treated in the same way as at the year-end. However, **US GAAP** allows allocation between interim periods of certain costs benefiting more than one of those periods, and deferral of certain cost variances expected to be absorbed by year-end. The tax charge under **IFRS** and **US GAAP** is based on an estimate of the annual effective tax rate applied to the interim results;
- summarised income statement (including segment revenue/profit), balance sheet, cash flow statement, selected notes and statement of recognised gains and losses; and
- a narrative commentary.

Under all three frameworks, comparatives for the balance sheet are taken from the last annual financial statements. Under **IFRS** and **US GAAP**, quarterly interim reports must contain comparatives (other than for the balance sheet) for the cumulative period to date and the corresponding period of the preceding year.

REFERENCES: **IFRS:** IAS 34.
US GAAP: APB 28, FAS 130, FAS 131.

Insurance

Insurance and reinsurance contracts – definition

IFRS introduces a definition of an insurance contract based on the concept of insured event and significant insurance risk transfer. This definition applies to both insurance contracts issued and reinsurance contracts held.

US GAAP does not provide a single definition of insurance contract. The classification of contracts is performed by reference to the combined requirements of FAS 60, FAS 97 and FAS 120. Reinsurance contracts are subject to the definition contained in FAS 113. FAS 97 also covers investment contracts that would be accounted for under IAS 39 in **IFRS** financial statements.

The resulting population of insurance contracts under **US GAAP** is a subset of the **IFRS** classification. In addition, ‘universal life-type contracts’ within FAS 97 contain significant insurance risk under **IFRS** but are required to be accounted for under **US GAAP** using the deposit method of accounting rather than the deferral and matching accounting model used for all other insurance contracts (see below).

Reinsurance contracts that compensate the ceding party for losses but contain a timing delay in reimbursement (i.e., the loss will certainly occur but its timing is uncertain) are subject to deposit accounting under FAS 113 but are classified as insurance contracts under **IFRS**.

One of the results of applying the **IFRS** insurance contract definition is that companies can no longer analogise to FAS 97 measurement principles with respect to their accounting for deferred acquisition costs (DAC). **IFRS** preparers with investment contracts under IAS 39 must look to IAS 18 for accounting guidance related to the recognition and measurement of DAC. **IFRS** also recognises that the fair value of an investment contract cannot be less than the amount payable on demand (the ‘deposit floor’); under **US GAAP**, the account value may fall below this level.

Belgian GAAP: insurance and reinsurance contracts are not specifically defined in Belgian accounting law. The significance of insurance-risk transfer is not considered.

Discretionary participation feature (DPF)

This is a new term under **IFRS** relating to the right of holders of certain insurance contracts and/or financial instruments to receive a supplemental return (in addition to guaranteed benefits) arising from certain components of the residual interest of the entity that has issued contracts with DPF as compound instruments. **IFRS** defines insurance contracts and financial instruments with DPF as compound instruments. **IFRS** does not require but permits the separation of the DPF equity component. The use of hybrid categories classified between equity and liabilities is prohibited

IFRS requires entities to perform an adequacy test for those financial instruments with DPF. This liability adequacy test is different for those financial instruments with DPF that have an equity component. In this case, the liability adequacy test is based on IAS 39. In all other cases, IFRS 4 applies.

This type of participation is described under **US GAAP** as policyholder dividends, and guidance is provided on accounting for dividends paid out of insurance contracts.

Entities must recognise a liability for the expected dividend payout based on an estimate of the amount to be paid. There are no requirements to disclose the portion of equity that arises from contracts that pay dividends. However, any dividend payments or declarations in excess of the liability are charged to profit or loss when paid or declared.

The possibility of such dividends being paid on financial instruments is not contemplated in **US GAAP**. Current **US GAAP** reporters have adopted the insurance accounting guidelines for measuring the obligations under such contracts.

Belgian accounting law does not provide a definition of discretionary participation features, which are recorded as a liability as soon as the company decides on the level of the profit-sharing allocation.

There is no separate component in equity for DPF.

Insurance and reinsurance contracts – measurement

The existing accounting policies for insurance contracts issued and reinsurance contracts held (including related intangible assets like deferred acquisition costs) are exempt from **IFRS** hierarchy and need not be changed on adoption of IFRS 4, except for the following five requirements:

1. provisions for possible claims under contracts that are not in existence at the reporting date (such as catastrophe and equalisation provisions) are prohibited;
2. insurance liabilities must be tested for adequacy;
3. reinsurance assets must be tested for impairment;
4. insurance liabilities can be de-recognised only when they are discharged or cancelled or expire;
5. insurance liabilities and income should not be offset against related reinsurance assets and expenses.

US GAAP has specific measurement guidance for insurance contracts and reinsurance contracts. As explained above, **IFRS** allows entities to continue with their accounting policies developed under another GAAP. There are several differences between **US GAAP** and **IFRS** and the entity's insurance and reinsurance accounting policies that have been developed from another GAAP basis. These are not covered by this publication.

Under **IFRS** the asset liability adequacy test requirement is met by the FAS 60 premium deficiency test. However, any deficiency resulting from the assumed realisation of unrealised gains or losses is reflected through the income statement under **IFRS** because **IFRS** does not have the option to reflect this type of liability adequacy loss through equity. This type of loss is known in **US GAAP** as a 'shadow' premium deficiency adjustment. In addition, **IFRS** requires guaranteed options to be considered in the liability adequacy test. In **US GAAP**, these are provided for under SOP 03-01 and are not explicitly considered in the premium deficiency test.

Belgian GAAP: detailed measurement bases exist for all types of insurance and reinsurance contracts:

- all insurance companies should perform a liability adequacy test at each reporting date;
- equalization reserves should be booked for specific non-life insurance risks (e.g.: fire);
- non-life claims reserves (outstanding loss reserves, IBNR reserves, etc.) are generally not discounted;
- for life business, the guidance (RD on life insurance) refers to the calculation methodology as well as to the assumptions that are used;
- in addition, a general provision is calculated to reflect the low interest-rate risk, using assumptions determined by law;
- for both life and non-life businesses, Belgian legislation requires the calculation of outstanding loss reserves, IBNR reserves and provisions for unallocated expenses;
- insurance liabilities are presented gross of related reinsurance assets.

Insurance liabilities should not be offset against related reinsurance assets.

Insurance and reinsurance contracts – deposit accounting and unbundling of deposit components

IFRS requires the unbundling and separate measurement of the deposit component bundled in an insurance contract if and only if the deposit can be reliably measured and the entity's accounting policies do not recognise all rights and obligations arising from it. This requirement is limited in practice to situations in which the insurer or reinsurer has established experience accounts that refund the policyholder or cedant but has not appropriately reflected this obligation in its balance sheet.

IFRS also allows the unbundling of deposit components on a voluntary basis if the deposit component can be reliably measured. This right would allow preparers to use the FAS 97 deposit accounting approach for universal life-type contracts (these contracts most likely qualify as insurance contracts under **IFRS** because they usually transfer significant insurance risk). For these contracts, **US GAAP** requires the recognition of the liability representing the policyholder's account balance with the insurer. The account balance concept is equivalent to the deposit component concept in **IFRS**.

Under **Belgian GAAP**, premiums are recorded in income with a related charge being recorded to reflect the increase in liability. Technical reserves are presented gross of the reinsurer's share, which is presented separately as an asset.

The unbundling concept does not exist under **Belgian GAAP**.

Insurance contracts sold by an insurer to its own defined benefit plan

Insurance contracts sold by an insurer to its own defined benefit plan will generally be eliminated on consolidation, as outlined in **IFRS 4** implementation guidance. The financial statements will then include:

- the full amount of the pension obligation under IAS 19, Employee Benefits, with no deduction for the plan's rights under the contract;
- no liability to policyholders under the contract; and
- the assets backing the contract.

Under **US GAAP**, these contracts are recorded by including the value of the insurance contract as plan assets in the calculation of the company's net defined benefit liability, and reflecting the insurance contract liability in accordance with the applicable insurance accounting guidance.

There is no specific guidance under **Belgian GAAP**. Insurance contracts relating to such plans follow the same accounting rules as for other insurance contracts.

Insurance and reinsurance contracts – embedded derivatives

Under **IFRS**, embedded derivatives that also meet the definition of insurance contracts are not required to be separated and fair valued. Options to surrender the insurance contract are exempted from separation and fair value measurement if the option price is a fixed amount or a fixed amount plus interest. This exemption also applies to derivatives embedded in financial instruments with DPF. Under **US GAAP**, these embedded derivatives are not subject to exemptions from the general principle of separation and fair value measurement when they are not closely related to the host contract.

IFRS classifies persistency bonuses as embedded derivatives; **US GAAP** treats them as an effective yield adjustment and does not require them to be separated and fair valued.

Disclosures

IFRS	Requires extensive disclosures to allow the users of financial statements to understand the measurement bases adopted, the materiality of the reported amounts arising from insurance contracts and the factors that affect the uncertainty of amount and timing of the cash flows arising from insurance and reinsurance contracts.
US GAAP	Disclosures are less demanding than IFRS . However, similar disclosures are included in other sections of the annual report (for example in the MD&A section). An example of such disclosure is the claims development table.
Belgian GAAP	No separation required. Any option or guarantee should be reflected in the liability adequacy test (New RD on life insurance). Disclosure requirements are much less demanding. However, detailed statistical information on life and non-life business should be provided annually to the Belgian Insurance Control Authorities (CBFA). Such statistical information is not available to the public.

Separate accounts

IFRS	Does not permit a single line presentation.
US GAAP	FAS 60 and SOP 03-01 allow single line presentation in the balance sheet and offsetting of investment results, with changes in policyholder liabilities in the income statement.
Belgian GAAP	Technical reserves and related investments are shown separately in the balance sheet, as are investment results and changes in technical reserves in the income statement.
REFERENCES:	IFRS: IFRS 4. US GAAP: FAS 60, 97, 120 and 113, SOP 03-1, SOP 95-1 for insurance contracts, and FAS 91 for financial instruments, FAS 133.

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For many companies the change to **IFRS** will mean fundamental changes – changes that can ripple right across the business operations.

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