June 2021

Similarities and differences

A comparison of IFRS, US GAAP and Belgian GAAP

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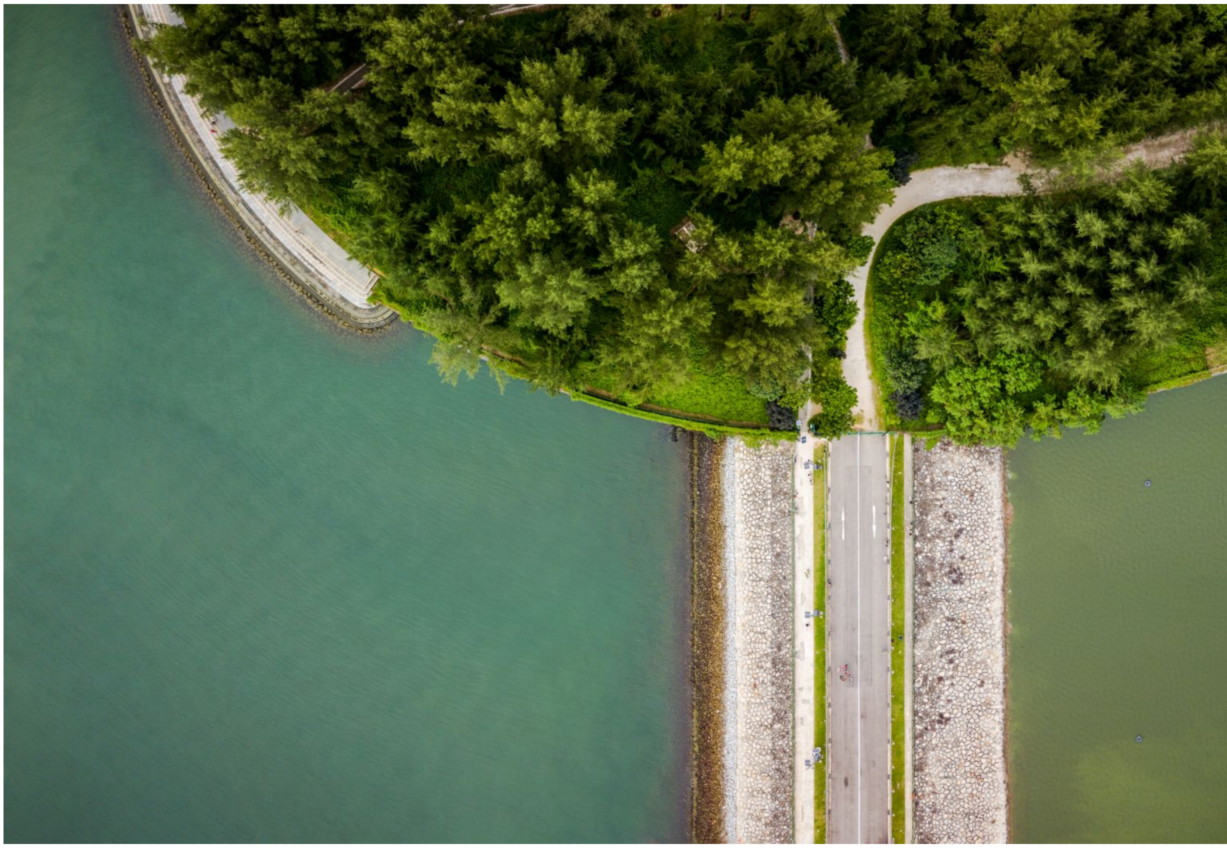

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Chapter 1
Preface

As more companies look outside their borders for potential buyers, targets, and capital, knowledge and understanding of the local accounting principles become increasingly important. Significant differences in both bottom-line impact and disclosure requirements exist between IFRS, US GAAP and Belgian GAAP ("BE GAAP"). Understanding these differences and their impact on key financial metrics, as well as on both short- and long-term financial reporting requirements, will lead to a more informed decision-making process and help minimize late surprises that could significantly impact deal value or timing.

This publication provides an overview of the major differences between IFRS, US GAAP and BE GAAP. To assist investors and preparers, this publication provides a broad understanding of the major differences between IFRS, US GAAP and BE GAAP as they exist today. While this publication does not cover every difference between IFRS, US GAAP and BE GAAP, it focuses on those differences we generally consider the most significant or most common.

In Belgium, despite the possibility of (voluntary) adoption of IFRS for the consolidated financial statements of non-listed companies (irrevocable choice) and the mandatory use of IFRS for the consolidated financial statements of listed companies', banks, insurance companies and certain types of investment companies, Belgian GAAP remains the required accounting framework for the individual financial statements. This publication is therefore useful in helping you identify key differences between the Belgian GAAP and other internationally recognized financial reporting frameworks (IFRS and US GAAP). Embedding internationally recognized standards across a group with extensive global operations that use a variety of local reporting standards will significantly ease the monitoring of financial information, reduce the complexity of statutory reconciliations (thereby reducing the risk of error), make the consolidation process more efficient and streamline reporting procedures across group entities. PricewaterhouseCoopers (PwC) fully supports high-quality, global principles-based financial reporting standards since these promote consistency and transparency and help companies and their advisors to respond appropriately to new developments in business practice. Each topical chapter includes a detailed analysis of the current differences between IFRS, US GAAP and BE GAAP, including an assessment of the impact embodied within the differences.

Guidance date

This publication is a part of PwC's ongoing commitment to help companies navigate the switch from local GAAP to full IFRS or US GAAP. It considers Belgian GAAP rules in force up to June 2021. Future editions will be released to keep pace with significant developments.

Sources

References to Belgian GAAP or Belgian accounting legislation in this publication means the Royal Decree implementing the Belgian Code of Companies and Associations ("CCA") as well as the most important recommendations of the ASC/CBN/CNC (Accounting Standards Commission/ Commissie van Boekhoudkundige Normen/ Commission des Normes Comptables). Specific accounting rules for banks, insurance companies, pension funds, investment funds, etc. are not dealt with in this publication.

Authors

Preparation of this 2021 publication has been led by Alexis Van Bavel, Patrice Schumesch and Elena Shibkova De Dobbeleer (PwC Belgium). This publication is drawn from the breadth and depth of expertise of many individuals within PwC. Our special acknowledgements go to the authors, reviewers and other contributors of the "IFRS and US GAAP: similarities and differences" publication (edition 2020). We would also like to address our special thanks to the reviewers and other PwC Belgium team members who contributed words and ideas to this edition.

Chapter 2
IFRS first-time adoption

Updated June 2021

2.1 IFRS first-time adoption

IFRS 1, *First-Time Adoption of International Financial Reporting Standards*, is the standard that is applied during preparation of a company's first IFRS-based financial statements. IFRS 1 was created to help companies transition to IFRS and provides practical accommodations intended to make first-time adoption cost-effective. It also provides application guidance for addressing difficult conversion topics.

2.1.1 What does IFRS 1 require?

The key principle of IFRS 1 is full retrospective application of all IFRS standards that are effective as of the closing balance sheet or reporting date of the first IFRS financial statements. Full retrospective adoption can be very challenging and burdensome. To ease this burden, IFRS 1 gives certain optional exemptions and certain mandatory exceptions from retrospective application.

IFRS 1 requires companies to:

- Identify the first IFRS financial statements
- Prepare an opening balance sheet at the date of transition to IFRS (see SD 2.1.3)
- Select accounting policies that comply with IFRS effective at the end of the first IFRS reporting period and apply those policies retrospectively to all periods presented in the first IFRS financial statements
- Apply mandatory exceptions to retrospective application
- Consider whether to apply any of the optional exemptions from retrospective application
- Make extensive disclosures to explain the transition to IFRS, including reconciliations from previous GAAP to IFRS for equity and total comprehensive income (see SD 2.1.4)

IFRS 1 identifies certain areas in which retrospective application is prohibited. Examples of these mandatory exceptions to retrospective application include the use of estimates (hindsight is not permitted), the classification and measurement of financial assets, impairments of financial assets, accounting for non-controlling interests (i.e., certain requirements of IFRS 10 are applied prospectively), and accounting for embedded derivatives, among others. When IFRS 17 becomes effective, the accounting for insurance contracts will also be precluded from retrospective application.

In addition to the mandatory exceptions, IFRS 1 includes a variety of optional exemptions that provide limited relief for first-time adopters, mainly in areas where the information needed to apply IFRS retrospectively might be particularly challenging to obtain.

Although the exemptions can ease the burden of accounting for the initial adoption of new standards, the long-term exemptions do not impact the disclosure requirements of IFRS. As a result, companies may experience challenges in collecting new information and data for retrospective footnote disclosures.

IFRS 1 is regularly updated to address first-time adoption issues arising from new standards and amendments as they become effective. Accordingly, consideration should be given to the impact on IFRS 1, if any, when a company adopts new standards or amendments to understand, for example, if that new standard or amendment should be applied on a full retrospective basis or if there is an exception or exemption to allow alternative accounting considerations.

2.1.2 When to apply IFRS 1

Companies are required to apply IFRS 1 when they prepare their first IFRS financial statements, including when they transition from their previous GAAP to IFRS. These are the first financial statements to contain an explicit and unreserved statement of compliance with IFRS.

2.1.3 The opening IFRS balance sheet

The opening IFRS balance sheet is the starting point for all subsequent accounting under IFRS and is prepared at the date of transition, which is the beginning of the earliest period for which full comparative information is presented and disclosed in accordance with IFRS. For example, preparing IFRS financial statements for the two years ending December 31, 20X1 would have a transition date of January 1, 20X0. This would also be the date of the opening IFRS balance sheet. Therefore, as the opening balance sheet is required to be prepared and presented as a primary financial statement in accordance with IFRS 1, the entity would present a balance sheet as of January 1, 20X0, December 31, 20X0, and December 31, 20X1.

IFRS 1 requires that the opening IFRS balance sheet:

- Include all of the assets and liabilities that IFRS requires;
- Exclude any assets and liabilities that IFRS does not permit;
- Classify all assets, liabilities, and equity in accordance with IFRS;
- Measure all items in accordance with IFRS; and
- Be prepared and presented within an entity's first IFRS financial statements.

These general principles are followed unless one of the optional exemptions or mandatory exceptions does not require or permit recognition, classification, and measurement in line with the above.

2.1.4 Reconciliations of equity and total comprehensive income

Under IFRS 1, reconciliations between previous GAAP and IFRS are required for equity and total comprehensive income. The reconciliation of a company's equity is required for both the date of transition to IFRS and the end of the last period presented under previous GAAP. For total comprehensive income/loss (or profit/loss if a company did not report total comprehensive income/loss), the reconciliation is only required for the latest annual period under previous GAAP. The reconciliations should provide sufficient detail to enable users to understand the material adjustments to the balance sheet, statement of comprehensive income/loss, and if presented under previous GAAP, statement of cash flows.

For example, a company that is preparing its first IFRS financial statements for the year ended December 31 20X1, with one year of comparative information as well as presenting its opening balance sheet, would disclose reconciliations for equity at January 1, 20X0 and December 31, 20X0, and comprehensive income/loss for the year ended December 31, 20X0.

2.1.5 IFRS first-time adoption - important takeaways

The transition to IFRS can be a long and complicated process with many technical and accounting challenges to consider. Experience with companies adopting IFRS for the first time indicates there are some challenges that are consistently underestimated, including:

Consideration of data gaps—Preparation of the opening IFRS balance sheet and all of the related footnote disclosures may require the calculation or collection of information that was not previously required under US GAAP. Companies should plan their transition and identify the differences between IFRS and US GAAP early so that all of the information required can be collected and verified in a timely manner.

Consolidation of additional entities—IFRS consolidation principles differ from those of US GAAP in certain respects and those differences might cause some companies either to deconsolidate entities or to consolidate entities that were not consolidated under US GAAP. Subsidiaries that previously were excluded from the consolidated financial statements are to be consolidated as if they were first-time adopters on the same date as the parent. Companies also will have to consider the potential data gaps of investees to comply with IFRS informational and disclosure requirements.

Consideration of accounting policy choices—A number of IFRS standards allow companies to choose between alternative policies. Companies should select carefully the accounting policies to be applied to the opening balance sheet and have a full understanding of the implications to current and future periods. Companies should take this opportunity to evaluate their IFRS accounting policies with a “clean sheet of paper” mind-set. That is, the guidance in IAS 8, *Accounting Policies, Changes in Estimates and Errors,* does not apply to changes in accounting policies until after a company presents its first set of financial statements under IFRS. Although many accounting requirements are similar between US GAAP and IFRS, companies should not overlook the opportunity to explore alternative IFRS accounting policies that might better reflect the economic substance of their transactions and enhance their communications with investors.

Regulatory considerations—In addition to differences that arise between accounting standards, there may also be local regulatory requirements to consider. For example, certain information required by the SEC but not by IFRS (e.g., a summary of historical data) can still be presented, in part under US GAAP; however, such comparative information must be clearly labeled as not being prepared in accordance with IFRS, and the nature of the main adjustments to comply with IFRS must be discussed (although such adjustments do not need to be quantified). Further, other incremental information required by a regulator might need to be presented in accordance with IFRS. For example, the SEC in certain instances requires two years of comparative IFRS financial statements, whereas IFRS would require only one year.

2.2 BE GAAP first-time adoption

2.2.1 BE GAAP first-time adoption - following the cross-border transfer of registered office to Belgium - principle of accounting continuity

Cross-border transfers of registered offices to Belgium fall under the accounting principles of continuity. At the date of transfer, the accounts of the entity should be translated into EUR following one of the two accounting methods: closing rate method or monetary/nonmonetary assets method (preferred approach). In some cases, differences between accounting principles of the country of origin and BE GAAP should be adjusted (retrospectively) in the opening balance sheet. CBN/CNC encourages, as part of the obligation for companies which transfer their registered office to Belgium, to use standard templates made available by the NBB (for companies with capital and for those without capital), complemented by a summary of the relevant accounting policies. *Source: CBN/CNC 2018-03, CBN/CNC 2020-15*

Chapter 3
Revenue recognition

Updated June 2021

3.1 Revenue recognition

In May 2014, the FASB and IASB issued their long-awaited converged standards on revenue recognition, *Revenue from Contracts with Customers*. The revenue standards, as amended, were effective for calendar year-end companies in 2018 (2019 for non-public entities following US GAAP). The new model impacts revenue recognition under both US GAAP and IFRS, and, with the exception of a few discrete areas as summarized below, eliminates many of the existing differences in accounting for revenue between the two frameworks. Nearly all industries having contracts in the scope of the new standards are affected, and some will see pervasive changes. For further details of the new revenue standards, refer to PwC's accounting and financial reporting guide, *Revenue from contracts with customers.*

BE GAAP is broadly comparable to IFRS, however more emphasis is placed on the principle of prudence and on the legal form of the transaction. Belgian legislation includes a number of provisions relating directly or indirectly to income recognition, encompassing both revenue and gains. BE GAAP defines certain headings or subheadings of the income statement (definition of captions).

Based on the prudence principle, revenues can only be recognized if they are realized. Expenses have to be allocated to the same accounting year as the revenues to which they relate based on the matching principle. Revenues resulting from the transfer of goods are recognized in the accounting year in which the principal risks are transferred to the acquirer which usually corresponds to the transfer of ownership or to the transfer of risk of loss or damage to the goods. Revenues resulting from the delivery of services are recognized in the accounting year in which the key performance of the service is carried out. When the delivery of goods is made regularly over a determined period of time for a fixed price, revenue should be recognized over that period, irrespective of the timing of billing.

BE GAAP does not provide specific guidance on separation of transactions into components and allocation of revenue to different components.

If the collection of revenues is uncertain, the company should either (1) not recognize any revenues as long as the collection remains uncertain or (2) recognize revenues and an impairment loss in the income statement.

In the CBN/CNC advices some practical examples are given of revenue and related expense recognition. For example, dividends are recognized by the beneficiary at the moment the general shareholders' meeting decides upon their distribution.

Technical references

US GAAP

ASC 340-40, ASC 606, CON 5

IFRS

IFRS 15

BE GAAP

CBN/CNC 103-2, CBC/CNC 2013-11, CBN/CNC 2013-12, CBN/CNC 2012-17, CBN/CNC 2012-15, CBN/CNC 2018-10, CBN/CNC 2019-15, CBN/CNC 2016-8

Note

The following discussion captures a number of the more significant GAAP differences under the US GAAP and IFRS new revenue standards. It is important to note that the discussion is not inclusive of all GAAP differences in this area.

3.2 Collectibility threshold

One of the criteria that contracts must meet before an entity applies the revenue standards is that collectibility is probable. While US GAAP and IFRS both use the word "probable," there continues to be a difference in its definition between the two frameworks. Despite different thresholds, as noted in the basis for conclusions, in most situations, an entity will not enter into a contract with a customer if there is significant credit risk without also having protection to ensure it can collect the consideration to which it is entitled. Therefore, we believe there will be limited situations in which a contract would pass the "probable" threshold under IFRS but fail under US GAAP.

US GAAP	IFRS	BE GAAP
Probable is defined in US GAAP as "likely to occur," which is generally considered a 75%-80% threshold. ASC 606 contains more guidance on accounting for nonrefundable consideration received if a contract fails the collectibility assessment.	IFRS defines probable as "more likely than not," which is greater than 50%.	If the collection of revenues is uncertain, the company should either (1) not recognize any revenues as long as the collection remains uncertain or (2) recognize revenues and an impairment loss in the income statement.

3.3 Noncash consideration

Any noncash consideration received from a customer needs to be included in the transaction price. Noncash consideration is measured at fair value.

US GAAP	IFRS	BE GAAP
ASC 606 was amended to specify that noncash consideration should be measured at contract inception and addresses how to apply the variable consideration guidance to contracts with noncash consideration. Noncash consideration paid to a customer is recognized as contra-revenue, unless it is payment for a distinct good or service. This is true even if such payments are in the form of share-based payments, which would be valued as noncash consideration following ASC 606.	IFRS 15 has not been amended to address noncash consideration, and as a result, approaches other than that required by ASC 606 may, where appropriate, be applied under IFRS 15. Given the lack of noncash consideration guidance in IFRS 15, these types of share-based payments would be valued following guidance in IFRS 2.	BE GAAP does not make a distinction between exchanges of similar and dissimilar assets. The acquisition value of an asset acquired by exchange equals the fair value of the asset given up or service (to be) delivered. The fair value of the asset received is used where the fair value of the asset given up (or service delivered) cannot be determined. *Source: CBN/CNC 2019-15*

3.4 Licenses of intellectual property

The revenue standards include specific implementation guidance for accounting for the licenses of intellectual property. The overall framework is similar, but there are some differences between US GAAP and IFRS.

US GAAP	IFRS	BE GAAP
ASC 606 specifies that an entity should consider the nature of its promise in granting a license (i.e., whether the license is a right to access or right to use intellectual property) when applying the general revenue recognition model to a combined performance obligation that includes a license and other goods or services.	IFRS 15 does not contain the same specific guidance. However, we expect entities to reach similar conclusions under both standards.	The accounting depends on the legal terms of the contract, existence of future performance obligations and the level of uncertainty. Revenue is recognized only if the amount is determined or determinable. In case if the amount of revenue is not fully determined or determinable, the minimum amount will be recognized.
ASC 606 defines two categories of intellectual property – functional and symbolic – for purposes of assessing whether a license is a right to access or a right to use intellectual property.	Under IFRS 15, the nature of a license is determined based on whether the entity's activities significantly change the intellectual property to which the customer has rights. We expect that the outcome of applying the two standards will be similar; however, there will be fact patterns for which outcomes could differ.	BE GAAP is broadly comparable to IFRS, with more emphasis placed on the principle of prudence. Prudent approach may result in the later recognition of contingent milestones and royalties under BE GAAP compared to IFRS. There is no similar detailed guidance for the licenses of intellectual property, however we expect that the outcome will be similar to IFRS. *Source: CBN/CNC 2012-17*
ASC 606 was amended to use different words to explain that a contract could contain multiple licenses that represent separate performance obligations, and that contractual restrictions of time, geography, or use within a single license are attributes of the license. ASC 606 also includes additional examples to illustrate these concepts.	IFRS 15 was not amended and does not include the same additional examples; however, the IASB included discussion in the basis for conclusions regarding how to account for restrictions within a license.	
ASC 606 specifies that an entity cannot recognize revenue from the renewal of a license of intellectual property until the beginning of the renewal period.	IFRS 15 does not contain this specific guidance; therefore, entities applying IFRS might reach a different conclusion regarding when to recognize license renewals.	

3.5 Practical expedients at transition

ASC 606 and IFRS 15 have some differences in practical expedients available to ease application of and transition to the revenue standards. Additionally, the two standards define a “completed contract” differently.

US GAAP	IFRS	BE GAAP
ASC 606 provides a “use of hindsight” practical expedient intended to simplify the transition for contracts modified multiple times prior to the initial application of the standard. An entity applying the expedient will determine the transaction price of a contract at the date of initial application and perform a single, standalone selling price allocation (with the benefit of hindsight) to all of the satisfied and unsatisfied performance obligations in the contract from inception.	IFRS 15 provides a similar “use of hindsight” practical expedient; however, entities can choose to apply the expedient either at the beginning of the earliest period presented or at the date of initial application.	Not applicable.
ASC 606 permits entities using the modified retrospective transition approach to apply the new standard to either all contracts or only contracts that are not yet complete as of the date of initial application. The US GAAP standard defines a completed contract as a contract for which all (or substantially all) of the revenue was recognized in accordance with legacy revenue guidance before the date of initial application.	IFRS 15 permits entities to apply the new standard either to all contracts or only contracts that are not yet complete as of the date of initial application under the modified retrospective transition approach. The IFRS standard defines a completed contract as a contract for which the entity has transferred all of the goods or services identified in accordance with legacy revenue guidance. IFRS 15 also permits entities using the full retrospective transition approach to not restate contracts that are completed contracts as of the beginning of the earliest period presented.	

3.6 Shipping and handling

Entities that sell products often deliver them via third-party shipping service providers. Management needs to consider whether the entity is the principal for the shipping service or is an agent arranging for the shipping service to be provided to the customer when control of the goods transfers at shipping point.

US GAAP	IFRS	BE GAAP
ASC 606 allows entities to elect to account for shipping and handling activities that occur after the customer has obtained control of a good as a fulfillment cost rather than an additional promised service.	IFRS 15 does not provide this election. IFRS reporters (and US GAAP reporters that do not make this election) are required to consider whether shipping and handling services give rise to a separate performance obligation.	BE GAAP accounting is based on the legal analysis of the contractual relationship between the intermediary and the parties involved in the arrangement to provide shipping and handling services. *Source: CBN/CNC 103-2* BE GAAP distinguishes franchisees from other intermediaries, specifying that franchisees often act on their own behalf, whereas others act on behalf of a third party. As a consequence, franchisees are required to present gross revenue and expenses (similar to a principal under IFRS). Given the lack of a precise definition of ‘franchisee’, each agreement is analyzed on a case by case basis. *Source: CBN/CNC 2016-8*

3.7 Presentation of taxes collected from customers

Entities often collect amounts from customers that must be remitted to a governmental agency. The revenue standards include a general principle that requires management to assess each type of tax, on a jurisdiction-by-jurisdiction basis, to conclude whether to net these amounts against revenue or to recognize them as an operating expense.

US GAAP	IFRS	BE GAAP
ASC 606 allows entities to make an accounting policy election to present all taxes collected from customers on a net basis.	IFRS 15 does not provide this election. IFRS reporters (and US GAAP reporters that do not make this election) must evaluate each type of tax on a jurisdiction-by-jurisdiction basis to determine which amounts to exclude from revenue (as amounts collected on behalf of third parties) and which amounts to include.	Specific revenue-based contributions (e.g. in pharma) are presented in other operating expenses. Other direct taxes (VAT and similar) are presented on a net basis. *Source: CBN/CNC 2018-10*

3.8 Interim disclosure requirements

The general principles in the US GAAP and IFRS interim reporting standards apply to the revenue standard.

US GAAP	IFRS	BE GAAP
The FASB amended its interim disclosure standard to require disaggregated revenue information and added interim disclosure requirements relating to contract balances and remaining performance obligations (for public companies only).	The IASB amended its interim disclosure standard to require interim disaggregated revenue disclosures but did not add additional disclosures.	Not applicable.

3.9 Effective date

There are minor differences in the effective dates between ASC 606 and IFRS 15.

US GAAP	IFRS	BE GAAP
ASC 606 is applicable for public business entities for annual reporting periods (including interim periods therein) beginning after December 15, 2017. ASC 606 is applicable for nonpublic entities for periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. .	IFRS 15 is applicable for all entities (public and private) for annual periods beginning on or after January 1, 2018.	Not applicable.

3.10 Impairment loss reversal

The revenue standards require entities to recognize an impairment loss on contract costs (that is, capitalized costs to acquire or fulfill a contract) when certain conditions are met.

US GAAP	IFRS	BE GAAP
Consistent with other US GAAP impairment guidance, ASC 340-40, *Other Assets and Deferred Costs—Contracts with Customers,* does not permit entities to reverse impairment losses recognized on contract costs.	Consistent with other IFRS impairment guidance, IFRS 15 requires impairment losses to be reversed in certain circumstances similar to the existing standard on impairment of assets.	Not addressed.

3.11 Relief for nonpublic entities

The US GAAP standard gives nonpublic entities relief from certain aspects of applying the revenue standard.

US GAAP	IFRS	BE GAAP
ASC 606 gives nonpublic entities relief relating to certain disclosures, transition, and the effective date.	IFRS 15 applies to all IFRS reporters, public and nonpublic, except entities that apply IFRS for SMEs.	Not applicable.

Chapter 4
Expense recognition - share-based payments

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4.1 Expense recognition - share-based payments

Although the US GAAP and IFRS guidance in this area are similar at a conceptual level, significant differences exist at the detailed application level.

Differences within the two frameworks may result in different classifications of an award as a component of equity or as a liability. This may result in different total compensation cost and it may impact earnings volatility and balance sheet metrics. Classification under IFRS is based solely on whether awards are ultimately settled in equity or cash. However, US GAAP has guidance for certain types of awards that are equity settled but may result in liability classification (e.g., awards with vesting conditions outside of service, performance, or market conditions), as well as guidance for some awards that may be cash settled but result in equity classification (e.g., puttable awards).

In addition, companies that issue awards with graded vesting (e.g., awards that vest ratably over time, such as 25 percent per year over a four-year period) may require faster expense recognition under IFRS than under US GAAP.

The deferred income tax accounting requirements for share-based payments under IFRS vary significantly from US GAAP. Companies can expect to experience greater period-to-period variability in their effective tax rate due to share-based payment awards under IFRS prior to the time of receiving the tax deduction. The extent of variability is linked to the movement of the issuing company’s stock price. However, companies reporting under US GAAP could have greater volatility upon receiving the tax deduction as a result of the treatment of the difference between the estimated deferred taxes recognized and the actual tax benefit received.

BE GAAP is substantially different from IFRS and USGAAP and only provides limited guidance for equity settled share-based payment transactions that result in the delivery of existing shares to the employees.

Technical references

US GAAP

ASC 480, ASC 718, SAB Topic 14

IFRS

IFRS 2

BE GAAP

CBN/CNC 2012-3, CBN/CNC 2018-16

Note

The following discussion captures a number of the more significant GAAP differences. It is important to note that the discussion is not inclusive of all GAAP differences in this area.

4.2 Scope

While both US GAAP and IFRS apply a single standard to all share-based payment arrangements, regardless of whether the counterparty is a nonemployee, each framework has certain guidance specific to the measurement of nonemployee awards.

Some awards categorized as nonemployee instruments under US GAAP will be treated as employee awards under IFRS.

US GAAP	IFRS	BE GAAP
ASC 718, *Compensation—Stock Compensation*, applies to employee and nonemployee share-based transactions, with the exception of specific guidance related to the attribution of compensation cost and certain inputs used in the valuation of nonemployee awards. The guidance focuses on the legal definition of an employee with certain specific exceptions.	IFRS 2, *Share-based payments*, includes accounting for all employee and nonemployee arrangements. Furthermore, under IFRS, the definition of an employee is broader than the US GAAP definition. IFRS focuses on the nature of the services provided and treats awards to employees and others providing employee-type services similarly. Awards for goods from vendors or nonemployee-type services are treated differently.	BE GAAP is substantially different from IFRS and US GAAP. The CBN/CNC advice 2012-3 applies to the equity settled share-based payment transactions resulting in a delivery of existing shares to the employees except in cases where hedging strategies are applied. Other types of share-based payment transactions are not specifically addressed. A cost should be recognized at grant date and subsequently (via the provisions account) based on one of the two accounting methods: Recognition of an expense on a pro-rata basis in order to build up a provision corresponding to the difference between the exercise price and the estimated fair value at the exercise date. Recognition of an expense at each period-end for the difference between the exercise price and the fair value at that period-end. *Source: CBN/CNC 2012-3*

4.3 Measurement of awards granted by non-public companies

IFRS does not permit alternatives in choosing a measurement method.

US GAAP	IFRS	BE GAAP
Equity-classified The guidance allows nonpublic companies to measure stock-based compensation awards by using the fair value method, or the calculated-value method if it is not practicable to estimate expected stock price volatility. Liability-classified The guidance allows nonpublic companies to make an accounting policy decision on how to measure stock-based compensation awards that are classified as liabilities. Such companies may use the fair value method (or calculated-value method, if applicable) or the intrinsic-value method.	IFRS does not include such alternatives for nonpublic companies and requires the use of the fair-value method in all circumstances.	BE GAAP does not make a distinction between quoted and non-quoted shares. For non-quoted shares, the estimated fair value is used. *Source: CBN/CNC 2012-3*

4.4 Measurement of awards granted to nonemployees

Both the measurement date and the measurement methodology may vary for awards granted to nonemployees.

US GAAP	IFRS	BE GAAP
Nonemployee awards are measured in the same manner as employee awards under ASC 718, at the fair value of the equity instrument on the grant date, with the exception of certain inputs used in the calculation of expected term.	Transactions with parties other than employees (or those providing employee-type services) should be measured at the date(s) on which the goods are received or the date(s) on which the services are rendered. Nonemployee transactions are generally measured at the fair value of the goods or services received, since it is presumed that it will be possible to reliably measure the fair value of the consideration received. If an entity is not able to reliably measure the fair value of the goods or services received (i.e., if the presumption is overcome), the fair value of the award should be measured indirectly by reference to the fair value of the equity instrument granted as consideration.	Not addressed.

US GAAP	IFRS	BE GAAP
	When the presumption is not overcome, an entity is also required to account for any unidentifiable goods or services received or to be received. This would be the case if the fair value of the equity instruments granted exceeds the fair value of the identifiable goods or services received and to be received.	

4.5 Classification of instruments as liabilities or equity

Although ASC 718 and IFRS 2 contain a similar principle for classification of stock-based compensation awards, certain awards will be classified differently under the two standards. In some instances, awards will be classified as equity under US GAAP and a liability under IFRS, while in other instances awards will be classified as a liability under US GAAP and equity under IFRS.

US GAAP	IFRS	BE GAAP
ASC 718 contains guidance on determining whether to classify an award as equity or a liability. ASC 718 also references the guidance in ASC 480, *Distinguishing Liabilities from Equity*, when assessing classification of an award. In certain situations, puttable shares may be classified as equity awards, as long as the recipient bears the risks and rewards normally associated with equity share ownership for a reasonable period of time (defined as 6 months). Liability classification is required when an award is based on a fixed monetary amount settled in a variable number of shares.	Under IFRS, equity/liability classification for share-based awards is determined wholly on whether the awards are ultimately settled in equity or cash. Puttable shares are always classified as liabilities, even if the put cannot be exercised for an extended period of time. Share-settled awards are classified as equity awards even if there is variability in the number of shares due to a fixed monetary value to be achieved.	Cash-settled awards are not addressed.

4.6 Awards with other than service performance, or market conditions

Certain awards classified as liabilities under US GAAP may be classified as equity under IFRS.

US GAAP	IFRS	BE GAAP
If an award contains conditions other than service, performance, or market conditions (referred to as "other" conditions), it is classified as a liability award.	If an award of equity instruments contains conditions other than service or performance (which can include market) vesting conditions, it can still be classified as an equity-settled award. Such conditions may be non-vesting conditions. Non-vesting conditions are taken into account when determining the grant date fair value of the award.	BE GAAP does not have the same level of detailed guidance for various types of share-based payment transactions with complex vesting and non-vesting conditions.

4.7 Awards with performance targets met after the service period

Under IFRS, this is a non-vesting condition that is reflected in the measurement of the grant date fair value.

US GAAP	IFRS	BE GAAP
A performance target that may be met after the requisite service period is complete is a performance vesting condition. The fair value of the award should not incorporate the probability of a performance condition vesting, but rather should be recognized only if the performance condition is probable of being achieved.	A performance target that may be met after the requisite service period is a non-vesting condition and is reflected in the measurement of the grant date fair value of an award.	BE GAAP does not have the same level of detailed guidance for various types of share-based payment transactions with complex vesting and non-vesting conditions.

4.8 Service-inception date, grant date, and requisite service

Because of the differences in the definitions, there may be differences in the grant date and the period over which compensation cost is recognized.

US GAAP	IFRS	BE GAAP
The guidance provides specific definitions of service-inception date, grant date, and requisite service, which, when applied, will determine the beginning and end of the period over which compensation cost will be recognized. Additionally, the grant date definition includes a requirement that the employee begins to be affected by the risks and rewards of equity ownership at that date.	IFRS does not include the same detailed definitions. The difference in the grant date definition is that IFRS does not require the employee to begin to be affected by the risks and rewards of equity ownership to have a grant date. Furthermore, the IFRS definition of the start of the service period does not have the same explicit requirements as the US GAAP definition of service inception date, which could result in earlier recognition of compensation cost under IFRS when the grant date is delayed.	

4.9 Attribution—awards with graded-vesting features

The alternatives included under US GAAP provide for differences in both the measurement and attribution of compensation costs when compared with the requirements under IFRS for awards with graded vesting (i.e., tranches).

US GAAP	IFRS	BE GAAP
Companies are permitted to make an accounting policy election regarding the attribution method for awards with service-only conditions and graded-vesting features. The valuation method that the company uses (single award or multiple tranches of individual awards) is not required to align with the choice in attribution method used (straight-line or accelerated tranche by tranche). For awards with graded vesting and performance or market conditions, the accelerated graded-vesting attribution approach is required.	Companies are not permitted to choose how the valuation or attribution method is applied to awards with graded-vesting features. Companies should treat each installment of the award as a separate grant. This means that each installment would be separately measured and attributed to expense over the related vesting period, which would accelerate the expense recognition.	Not addressed.

4.10 Attribution—awards to nonemployees

Compensation cost for nonemployee awards is recognized over the service period for IFRS, whereas for US GAAP it is recognized in the same period and manner as if cash had been paid in exchange for the goods or services, which may or may not be the same pattern.

US GAAP	IFRS	BE GAAP
Under US GAAP, compensation cost for non-employee awards is recognized as if cash had been paid.	Under IFRS, compensation cost is recognized over the service period for all awards.	Not addressed.

4.11 Certain aspects of modification accounting

Differences between the two standards for improbable to probable modifications may result in differences in the compensation costs that are recognized.

US GAAP	IFRS	BE GAAP
An improbable to probable “Type III” modification can result in recognition of compensation cost that is more or less than the fair value of the award on the original grant date. When a modification makes it probable that a vesting condition will be achieved, and the	Under IFRS, if the vesting conditions of an award are modified in a manner that is beneficial to the employee, this would be accounted for as a change in only the number of awards that are expected to vest (from zero to a new amount), and the award’s full original grant-date	Not addressed.

company does not expect the original vesting conditions to be achieved, a new measurement date is established. The grant-date fair value of the award would not be a floor for the amount of compensation cost recognized.	fair value would be recognized for the awards over the remainder of the service period. That result is the same as if the modified vesting condition had been in effect on the grant date.	

4.12 Accounting for forfeitures

Attribution of compensation costs may differ for entities that elect a policy under US GAAP to account for forfeitures when they occur.

US GAAP	IFRS	BE GAAP
Companies make an entity-wide accounting policy election (independent elections for employee and nonemployee awards) to account for award forfeitures as they occur or by estimating expected forfeitures as compensation cost is recognized.	IFRS does not allow a similar policy election; forfeitures must be estimated.	Not addressed.

4.13 Derived service period

For an award containing a market condition that is fully vested and deep out of the money at grant date, expense recognition may occur earlier under IFRS.

US GAAP	IFRS	BE GAAP
US GAAP contains the concept of a derived service period. Where an award is fully vested and deep out of the money at the grant date but allows employees only a limited amount of time to exercise their awards in the event of termination, US GAAP presumes that employees must provide some period of service to earn value from the award. Because there is no explicit service period stated in the award, a derived service period must be determined by reference to a valuation technique. The expense for the award would be recognized over the derived service period and reversed if the employee does not complete the requisite service period.	IFRS does not define a derived service period for fully vested, deep-out-of-the-money awards. Therefore, the related expense for such an award would be recognized in full at the grant date because the award is fully vested at that date.	BE GAAP does not define a derived service period for fully vested, deep-out-of-the-money awards. The accounting treatment of Restricted Stock Units (granted for free) is similar to the equity-settled stock options. There are two alternative accounting methods: Recognition of an expense on a pro-rata basis in order to build up a provision corresponding to the difference between the exercise price and the estimated fair value at the exercise date, or Recognition of an expense at each period-end for the difference between the exercise price and the fair value at that period-end. *Source: CBC/CNC 2018-16*

4.14 Tax withholding arrangements—impact to classification

There could be a difference in award classification if the limit for tax withholding is exceeded.

US GAAP	IFRS	BE GAAP
An award containing a net settled tax withholding clause could be equity-classified as long as the arrangement limits tax withholding to the maximum individual statutory tax rate in a given jurisdiction. If tax withholding is permitted at some higher rate, then the entire award (not solely the excess) would be classified as a liability.	IFRS has an exception similar to US GAAP. However, there will still be a difference if the withholding limit is exceeded, as only the excess number of equity instruments that can be withheld would be separated and accounted for as a cash-settled share-based payment under IFRS.	Not addressed.

4.15 Accounting for income tax effects

Companies reporting under IFRS generally will have greater volatility in their deferred tax accounts over the life of the awards due to the related adjustments for stock price movements in each reporting period.

Companies reporting under US GAAP could have greater volatility upon exercise arising from the variation between the estimated deferred taxes recognized and the actual tax deductions received.

US GAAP	IFRS	BE GAAP
The US GAAP model for accounting for income taxes requires companies to record deferred taxes as compensation cost is recognized, as long as that particular type of instrument ordinarily would result in a future tax deduction. The measurement of the deferred tax asset is based on the amount of compensation cost recognized for book purposes. Changes in the stock price do not impact the deferred tax asset or result in any adjustments prior to settlement or expiration. Upon settlement or expiration, excess tax benefits and tax deficiencies (the difference between the recorded deferred tax asset and the tax benefit of the actual tax deduction) are recognized within income tax expense.	The measurement of the deferred tax asset in each period is based on an estimate of the future tax deduction, if any, for the award measured at the end of each reporting period (based on the current stock price if the tax deduction is based on the future stock price). When the expected tax benefits from equity awards exceed the recorded cumulative recognized expense multiplied by the tax rate, the tax benefit up to the amount of the tax effect of the cumulative book compensation expense is recorded in the income statement; the excess is recorded in equity. When the expected tax benefit is less than the tax effect of the cumulative amount of recognized expense, the entire tax benefit is recorded in the income statement.	Not addressed.

4.16 Recognition of social charges (e.g., payroll taxes)

The timing of recognition of social charges generally will be earlier under IFRS than US GAAP.

US GAAP	IFRS	BE GAAP
A liability for employee payroll taxes on employee stock-based compensation should be recognized on the date of the event triggering the measurement and payment of the tax (generally the exercise date for a nonqualified option or the vesting date for a restricted stock award).	Social charges, such as payroll taxes levied on the employer in connection with stock-based compensation plans, are expensed in the income statement when the related share-based compensation expense is recognized. The guidance in IFRS for cash-settled share-based payments would be followed in recognizing an expense for such charges.	Not addressed.

4.17 Valuation—Guidance on expected volatility and expected term

Companies that report under US GAAP may place greater reliance on implied short-term volatility to estimate volatility. Companies that report under IFRS do not have the option of using the "simplified method" of calculating expected term provided by SAB Topic 14 and ASC 718. As a result, there could be differences in estimated fair values.

US GAAP	IFRS	BE GAAP
SAB Topic 14 includes guidance on expected volatility and expected term, which includes (1) guidelines for reliance on implied volatility and (2) the "simplified method" for calculating the expected term for qualifying awards. Nonpublic entities may use a practical expedient for determining the expected term similar to the simplified method.	IFRS does not include comparable guidance.	Not addressed.

4.18 Employee stock purchase plans (ESPP)

ESPPs generally will be deemed compensatory more often under IFRS than under US GAAP.

US GAAP	IFRS	BE GAAP
ESPPs are compensatory if terms of the plan: ● Either (1) are more favorable than those available to all shareholders, or (2) include a discount from the market price that exceeds the percentage of	ESPPs are always compensatory and treated like any other equity-settled share-based payment arrangement. IFRS does not allow any safe-harbor discount for ESPPs.	

stock issuance costs avoided (discount of 5 percent or less is a safe harbor); ● Do not allow all eligible employees to participate on an equitable basis; or ● Include any option features (e.g., look-backs). In practice, most ESPPs are compensatory; however, plans that do not meet any of the above criteria are non-compensatory.		

4.19 Group share-based payment transactions

Under US GAAP, push-down accounting of the expense recognized at the parent level generally would apply. Under IFRS, the reporting entity's obligation will determine the appropriate accounting.

US GAAP	IFRS	BE GAAP
Generally, push-down accounting of the expense recognized at the parent level in the consolidated financial statements would apply to the separate financial statements of the subsidiary. For liability-classified awards settled by the parent company, the mark to market expense impact of these awards should be pushed down to the subsidiary's books each period, generally as a capital contribution from the parent. However, liability accounting at the subsidiary may be appropriate, depending on the facts and circumstances.	For the separate financial statements of the subsidiary, equity or liability classification is determined based on the nature of the obligation each entity has in settling the awards, even if the award is settled in parent equity. The accounting for a group cash-settled share-based payment transaction in the separate financial statements of the entity receiving the related goods or services when that entity has no obligation to settle the transaction would be as an equity-settled share-based payment. The group entity settling the transaction would account for the share-based payment as cash-settled. The accounting for a group equity-settled share-based payment transaction is dependent on which entity has the obligation to settle the award. For the entity that settles the obligation, a requirement to deliver anything other than its own equity instruments (equity instruments of a subsidiary would be "own equity" but equity instruments of a parent would not) would result in cash-settled (liability) treatment.	Not addressed.

	Therefore, a subsidiary that is obligated to issue its parent's equity would treat the arrangement as a liability, even though in the consolidated financial statements the arrangement would be accounted for as an equity-settled share-based payment. Conversely, if the parent is obligated to issue the shares directly to employees of the subsidiary, then the arrangement should be accounted for as equity-settled in both the consolidated financial statements and the separate standalone financial statements of the subsidiary.	

Chapter 5
Expense recognition - employee benefits

Updated June 2021

5.1. Expense recognition—employee benefits

There are a number of significant differences between US GAAP, IFRS and BE GAAP in the area of accounting for pension and other postretirement and postemployment benefits. Some differences will result in less earnings volatility, while others will result in greater earnings volatility. The net effect depends on the individual facts and circumstances for a given employer. Further, differences could have a significant impact on presentation, operating metrics, and key ratios.

While there are few differences with respect to the measurement of defined benefit plans, there are key differences with regards to cost recognition and presentation. Under IFRS, the effects of remeasurements (which include actuarial gains/losses) are recognized immediately in other comprehensive income (OCI) and are not subsequently recycled through the income statement. Under US GAAP, these gains/losses are recognized in the income statement either immediately or in the future.

Under IFRS, all prior service costs (positive or negative) are recognized in profit or loss when the employee benefit plan is amended and are not allowed to be spread over any future service period, which may create volatility in profit or loss. This is different from US GAAP, under which prior service cost is recognized in OCI at the date the plan amendment is adopted and then amortized into income over the participants' remaining years of service, service to full eligibility date, or life expectancy, depending on the facts and circumstances.

In addition, US GAAP requires an independent calculation of interest cost (based on the application of a discount rate to the projected benefit obligation) and expected return on assets (based on the application of an expected rate of return on assets to the calculated asset value), while IFRS applies the discount rate to the net benefit obligation to calculate a single net interest cost or income.

Under IFRS, companies have flexibility to present components of net benefit cost within different line items on the income statement. Components recognized in determining net income (i.e., service and finance costs, but not actuarial gains and losses) may be presented as (1) a single net amount or (2) separately displayed. US GAAP prescribes presentation of service cost in the same line item or items as other current employee compensation costs and presentation of the remaining components of net benefit cost separately in one or more-line items and outside of income from operations (if that subtotal is presented).

Differences between US GAAP and IFRS also can result in different classifications of a plan as a defined benefit or a defined contribution plan. It is possible that a benefit arrangement that is classified as a defined benefit plan under US GAAP may be classified as a defined contribution plan under IFRS and vice versa. Classification differences would result in changes to the expense recognition model as well as to the balance sheet presentation.

Note that the FASB and the IASB use the term postemployment differently. The IASB uses the term postemployment to include pension, postretirement, and other postemployment benefits, whereas the FASB uses the term postretirement benefits (OPEB) to include postretirement benefits other than pensions (such as retiree medical) and the term postemployment benefits to include benefits before retirement (such as disability or termination benefits).

For simplicity, discussion of benefit cost in the remainder of this chapter refers to recognition in income. However, a portion of the benefit cost may be capitalized into inventory, fixed assets, or other balance sheet accounts when associated with employees whose compensation costs are capitalized.

Technical references

US GAAP

ASC 420, ASC 710, ASC 712, ASC 715, ASC 820

IFRS

IAS 19, IAS 37, IFRS 13, IFRIC 14

BE GAAP

CBN/CNC 107-3, CBN/CNC 107-3bis, CBN/CNC 2018-13, CBN/CNC 2018-15, CBN/CNC 2018-19, CBN/CNC 2018-25.

Note

The following discussion captures a number of the more significant GAAP differences. It is important to note that the discussion is not inclusive of all GAAP differences in this area.

5.2. Expense recognition — gains/losses

Under IFRS, remeasurement effects are recognized immediately in other comprehensive income and are not subsequently recorded within profit or loss, while US GAAP permits delayed recognition of gains and losses, with ultimate recognition in profit or loss.

Note: Gains and losses as referenced under US GAAP include (1) the differences between actual and expected return on assets and (2) changes in the measurement of the benefit obligation. Remeasurements under IFRS, as referenced, include (1) actuarial gains and losses, (2) the difference between actual return on assets and the amount included in the calculation of net interest cost, and (3) changes in the effect of the asset ceiling.

US GAAP	IFRS	BE GAAP
The guidance permits companies to either (1) record gains/losses in the period incurred within the statement of operations or (2) defer gains/losses through the use of the corridor approach (or any systematic method that results in faster recognition than the corridor approach).	Remeasurements are recognized immediately in OCI. There is no option to recognize gains/losses in profit or loss. In addition, the “corridor and spreading” option—which allows delayed recognition of gains and losses—is prohibited.	Due to the minimum guaranteed return on contributions under Belgian defined contribution pension plan, Belgian defined contribution pension plans are to be treated as defined benefit plans for accounting purposes. Under the CBN/CNC 2018-15, a provision is required if the employer retains the risk of any deficit (subject to materiality). In the absence of clear guidelines, most Belgian companies evaluate whether the premiums paid and the return on plan assets are sufficient to cover their accrued pension commitments, and whether the company is required by law to make additional contributions to cover the deficit of the plan.

US GAAP	IFRS	BE GAAP
		In such a situation, the employer is required to recognize a provision for such additional contributions as soon as the insurer or pension fund has established a deficit and informed the employer about its obligation to provide additional funds. The notes to the financial statements should include, among the off-balance sheet rights and commitments, a brief description of the existing arrangements relating to the post-employment benefit schemes, as well as the measures taken to cover the resulting obligations. Source: CBN/CNC 2018-15 The IFRS accounting treatment can also be applied under Belgian GAAP for the following reasons: the accounting treatment prescribed by IFRS gives a good matching of costs and revenue in respect of services rendered by the employees; the employer is responsible for any underfunding of the plan at the time an employee leaves the company, and retains ultimate responsibility if the insurance company or the pension fund has no sufficient plan assets to satisfy the company's commitments. There is therefore no conflict, but a major difference arises in practice: Belgian companies willing to comply with IFRS have to perform the necessary actuarial valuations in order to assess the possible underfunding or overfunding of the plan and, based on the results of this computation, record a deferral or a provision for pension costs.
Whether gains/losses are recognized immediately or amortized in a systematic fashion, they are ultimately recorded within the statement of operations as components of net periodic benefit cost.	Once recognized in OCI, gains/losses are not subsequently recorded within profit or loss. The standard does not require that the amounts recognized in OCI be immediately taken to retained earnings; they may remain in a specific reserve or 'other' reserves within equity.	Not applicable.

5.3. Expense recognition—prior service costs and credits

IFRS requires immediate recognition in income for the effects of plan amendments that create an increase (or decrease) to the benefit obligation (i.e., prior service cost).

IFRS requirements are significantly different from US GAAP, which requires prior service costs, including costs related to vested benefits, to be initially recognized in OCI and then amortized through net income over future periods.

US GAAP	IFRS	BE GAAP
Prior service cost (whether for vested or unvested benefits) should be recognized in other comprehensive income at the date of the adoption of the plan amendment and then amortized into income over one of the following: • The participants' remaining years of service (for pension plans, except where all or almost all plan participants are inactive) • The participants' remaining years of service to full eligibility date (for other postretirement benefit plans, except where all or almost all plan participants are inactive) • The participants' life expectancy (for plans that have all or almost all inactive participants) Negative prior service cost should be recognized as a prior service credit in other comprehensive income and used first to reduce any remaining positive prior service cost included in accumulated other comprehensive income. Any remaining prior service credits should then be amortized over the same periods as described above.	Recognition of all past service costs is required at the earlier of when a plan amendment occurs or when the entity recognizes related restructuring costs (in the event of a curtailment). Unvested past service cost may not be spread over a future service period. Curtailments that reduce benefits are not disclosed separately but are considered as part of the past service costs.	Expenses are recognized in the period when incurred and when the related revenues are recognized (general matching principle). Accounting for specific features of defined benefit plans (such as amendments) is not addressed specifically in BE GAAP (see above). For the short-term employee benefits such as holiday payments, the expenses for services rendered during the period should be recognised in the same accounting period, with a corresponding provision. *Source: CBN/CNC 2018-13*

5.4. Expense recognition—expected return on plan assets

Under IFRS, companies calculate a net interest cost (income) by applying the discount rate to the net defined benefit liability (asset). US GAAP uses an expected rate of return on plan assets (and a separate calculation of interest cost on the benefit obligation) and permits companies to use a calculated value of plan assets (reflecting changes in fair value over a period of up to five years) in determining the expected return on plan assets and in accounting for gains and losses.

US GAAP	IFRS	BE GAAP
Expected return is based on an expected rate of return on plan assets. Plan assets should be measured at fair value for balance sheet recognition and for disclosure purposes. However, for purposes of determining the expected return on plan assets and the related accounting for gains and losses, plan assets can be measured by using either fair value or a calculated value that recognizes changes in fair value over a period of not more than five years.	Net interest cost or income is calculated by applying the discount rate (as described below) to the defined benefit liability or asset of the plan. The defined benefit asset or liability is the surplus or deficit (i.e., the net amount of the defined benefit obligation less plan assets) which is recognized on the balance sheet after considering the asset ceiling test. Plan assets should always be measured at fair value.	Not addressed.

5.5. Income statement classification

Under IFRS, companies have the option to present different components of net benefit cost within different line items on the income statement.

US GAAP	IFRS	BE GAAP
Service cost is presented in the same line item or items as other current employee compensation costs (and included within income from operations, if that subtotal is presented). The remaining components of net benefit cost must be presented separately in one or more line items and outside of income from operations (if that subtotal is presented).	Employers have flexibility to either (1) present all components recognized in determining net income (i.e., service and net interest cost but not gains and losses) as a single net amount (similar to US GAAP) or (2) present those components separately within the income statement.	Not addressed. Remuneration in the form of profit premium distribution (as defined by the law) is not included in the employee compensation costs. Instead, profit premiums are presented as a profit allocation (together with dividends). *Source: CBN/CNC 2018-19*

5.6. Capitalization of employee benefit costs

IFRS does not specify which components of net benefit costs are eligible for capitalization. US GAAP specifies which components of net benefit cost are eligible to be capitalized (for example, as a cost of inventory or self-constructed assets).

US GAAP	IFRS	BE GAAP
Only service cost is eligible to be capitalized.	IFRS does not specify which components of net benefit costs are eligible for capitalization. Therefore, there could be a difference in the components of costs capitalized.	Not addressed. General capitalization principles apply.

5.7. Measurement date and frequency

IFRS requires interim remeasurements in more circumstances than US GAAP and does not provide for a practical expedient to use a measurement date other than the end of the fiscal year or interim period.

US GAAP	IFRS	BE GAAP
The measurement of plan assets and benefit obligations is required as of the employer's fiscal year-end balance sheet date, unless the plan is sponsored by a consolidated subsidiary or equity method investee with a different fiscal period. Interim remeasurements generally occur only if there is a significant event, such as a plan amendment, curtailment, or settlement. US GAAP permits a company to elect an accounting policy to use the calendar month-end closest to the fiscal year-end for measuring plan assets and obligations. The funded status would be adjusted for contributions and other significant events that occur between the alternative measurement date and the fiscal year-end. A similar practical expedient can also be used for interim remeasurements for significant events that occur on dates other than calendar month-end dates.	Employers typically remeasure the benefit obligation and plan assets at each interim period to determine the balance sheet and OCI component, but that will not lead to a change in service cost or interest cost (unless there was a plan amendment, curtailment, or settlement). IFRS does not provide for a practical expedient to use a measurement date other than the end of the fiscal year or interim period.	Not addressed.

5.8. Substantive commitment to increase retirement benefits

Differences in the manner in which a substantive commitment to increase future pension or other postretirement benefits is determined may result in an increased benefit obligation under IFRS.

US GAAP	IFRS	BE GAAP
The determination of whether a substantive commitment exists to provide pension benefits beyond the written terms of a given plan's formula requires careful consideration. Although actions taken by an employer can demonstrate the existence of a substantive commitment, a history of retroactive plan amendments is not sufficient on its own. However, in postretirement benefit plans other than pensions, the	In certain circumstances, a history of regular increases may indicate a present commitment to make future plan amendments. In such cases, a constructive obligation (to increase benefits) is the basis for determining the obligation.	Not addressed.

US GAAP	IFRS	BE GAAP
substantive plan should be the basis for determining the obligation. This may consider an employer's past practice or communication of intended changes, for example in the area of setting caps on cost-sharing levels.		

5.9. Defined benefit versus defined contribution classification

Certain plans currently accounted for as defined benefit plans under US GAAP may be accounted for as defined contribution plans under IFRS and vice versa. Classification differences would result in differences to expense recognition as well as to balance sheet presentation.

US GAAP	IFRS	BE GAAP
A defined contribution plan is any arrangement that provides benefits in return for services rendered, establishes an individual account for each participant, and is based on contributions by the employer or employee to the individual's account and the related investment experience.	An arrangement qualifies as a defined contribution plan if an employer's legal or constructive obligation is limited to the amount it contributes to a separate entity (generally, a fund or an insurance company). There is no requirement for individual participant accounts.	Belgian GAAP does not have specific standards for the recognition and measurement of the cost of pensions and other post-retirement benefits. Accounting law requires entities to set up provisions for their obligations relating to retirement or survivor's 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.

US GAAP	IFRS	BE GAAP
Multiemployer plans are treated similar to defined contribution plans. A pension plan to which two or more unrelated employers contribute is generally considered to be a multiemployer plan. A common characteristic of a multiemployer plan is that there is commingling of assets contributed by the participating employers.	For multiemployer plans, the accounting treatment used is based on the substance of the terms of the plan. If the plan is a defined benefit plan in substance, it should be accounted for as such, and the participating employer should record its proportionate share of all relevant amounts in the plan. However, defined benefit accounting may not be required if the company cannot obtain sufficient information.	Multiemployer plans are not addressed in the Belgian GAAP.
Subsidiaries whose employees participate in a plan sponsored by a parent company also follow multiemployer plan accounting in their separate stand-alone financial statements.	Subsidiaries that participate in parent-sponsored plans are not multiemployer plans. The accounting by the subsidiary will depend on the specific facts and circumstances.	

5.10. Curtailments

A number of differences exist in relation to how curtailments are defined and how both curtailment gains and losses are calculated (in light of the differences in the underlying accounting for gains/losses and prior service cost).

Additionally, when a curtailment is caused by employee terminations, the timing of recognizing a loss differs.

There are additional differences in the timing of the recognition of gains or losses related to plan amendments, curtailments, and termination benefits that occur in connection with a restructuring.

US GAAP	IFRS	BE GAAP
A curtailment is defined as an event that significantly reduces the expected years of future service of present employees or eliminates for a significant number of employees the accrual of defined benefits for some or all of their future service.	The definition of a curtailment is limited to “a significant reduction by the entity in the number of employees covered by a plan.” Curtailment gains and losses should be recorded when the curtailment occurs.	Not addressed.

US GAAP	IFRS	BE GAAP
Curtailments resulting from employee terminations are recognized when the curtailment is probable and reasonably estimable for losses, but when the termination occurs for gains. Curtailments resulting from plan terminations or amendments are recognized when realized (i.e., once the plan amendment is adopted). The guidance requires certain offsets of unamortized gains/losses in a curtailment but does not permit pro rata recognition of the remaining unamortized gains/losses.	IFRS requires the gain or loss related to plan amendments, curtailments, and termination benefits that occur in connection with a restructuring to be recognized when the related restructuring cost is recognized, if that is earlier than the normal IAS 19 recognition date.	

5.11. Settlements

Because of differences in the definition of a settlement and an accounting policy choice that is available under US GAAP but not IFRS, the frequency of accounting for transactions as a settlement may differ between US GAAP and IFRS.

US GAAP	IFRS	BE GAAP
A settlement gain or loss normally is recognized in earnings when the settlement occurs. Lump sum payments are considered a form of settlement. However, an employer may elect an accounting policy whereby settlement gain or loss recognition is not required if the cost of all settlements within a plan year does not exceed the sum of the service and interest cost components of net benefit cost for that period.	A settlement gain or loss is recognized when the settlement occurs. If the settlements are due to lump sum elections by employees as part of the normal operating procedures of the plan, settlement accounting does not apply.	Not addressed.

Different definitions of partial settlements may lead to more settlements being recognized under IFRS.

US GAAP	IFRS	BE GAAP
A partial settlement of any one participant's obligation is generally not allowed. If a portion of the obligation for vested benefits to plan participants is satisfied and the employer remains liable for the balance of those participants'	A partial settlement occurs if a transaction eliminates all further legal or constructive obligations for part of the benefits provided under a defined benefit plan.	Not addressed.

US GAAP	IFRS	BE GAAP
vested benefits, the amount that is satisfied is not considered settled.		

Dissimilar settlement calculation methodologies can result in differing amounts being recognized in income and other comprehensive income.

US GAAP	IFRS	BE GAAP
Under US GAAP, a settlement gain/loss reflects the pro-rata recognition of previously unamortized gains or losses on the entire plan.	Under IFRS, a settlement gain or loss generally reflects the difference between the settlement price and the actuarial valuation of the obligation that has been settled.	Not addressed.

5.12. Asset ceiling

Under IFRS, there is a limitation on the value of the net pension asset that can be recorded on the balance sheet. Territory-specific regulations may determine limits on refunds or reductions in future contributions that may impact the asset ceiling test.

US GAAP	IFRS	BE GAAP
There is no limitation on the size of the net pension asset that can be recorded on the balance sheet.	An asset ceiling test limits the amount of the net pension asset that can be recognized to the lower of (1) the amount of the net pension asset or (2) the present value of any economic benefits available in the form of refunds or reductions in future contributions to the plan. IFRIC 14 clarifies that prepayments are required to be recognized as assets in certain circumstances. The guidance also governs the treatment and disclosure of amounts, if any, in excess of the asset ceiling. In addition, the limitation on the asset often will create an additional liability because contributions may be required that would lead to or increase an irrecoverable surplus.	Not addressed.

5.13. Obligation measurement when employers and employees contribute

The accounting for plans where an employer's exposure may be limited by employee contributions may differ.

US GAAP	IFRS	BE GAAP
The measurement of plan obligations generally does not reflect a reduction when the employer's exposure is limited or when the employer can increase contributions from employees from current levels to help meet a deficit. Under US GAAP, employee contributions typically reduce service cost in the period of contribution.	The measurement of plan obligations where risks associated with the benefit are shared between employers and employees should reflect the substance of the arrangements where the employer's exposure is limited or where the employer can increase contributions from employees to help meet a deficit. IFRS allows contributions that are linked to service, and do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided rather than spreading them over the employees' working lives. Contributions that are linked to service, and vary according to the length of employee service, must be spread over the service period using the same attribution method that is applied to the benefits; either in accordance with the formula in the pension plan, or, where the plan provides a materially higher level of benefit for service in later years, on a straight-line basis.	Not addressed.

5.14. Plan asset valuation

Although both models are measured at fair value, US GAAP reduces fair value for the cost to sell and IFRS does not.

US GAAP	IFRS	BE GAAP
Plan assets should be measured at fair value less cost to sell.	Plan assets should be measured at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.	Not addressed.

US GAAP	IFRS	BE GAAP
Under US GAAP, contracts with insurance companies (other than purchases of annuity contracts) should be accounted for as investments and measured at fair value. In some cases, the contract value may be the best available evidence of fair value unless the contract has a determinable cash surrender value or conversion value, which would provide better evidence of the fair value.	Under IFRS, the fair value of insurance policies should be estimated using, for example, a discounted cash flow model with a discount rate that reflects the associated risk and the expected maturity date or expected disposal date of the assets. Qualifying insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan are measured at the present value of the related obligations. Under IFRS, the use of the cash surrender value is generally inappropriate.	

5.15. Discount rates

Differences in the selection criteria for discount rates could lead companies to establish different discount rates under IFRS and US GAAP.

US GAAP	IFRS	BE GAAP
The discount rate is based on the rate at which the benefit obligation could be effectively settled. Companies may look to the rate of return on high-quality, fixed-income investments with similar durations to those of the benefit obligation to establish the discount rate. The SEC has stated that the term “high quality” means that a bond has received one of the two highest ratings given by a recognized ratings agency (e.g., Aa or higher by Moody’s).	The discount rate should be determined by reference to market yields on high-quality corporate bonds in the same currency as the benefits to be paid with durations that are similar to those of the benefit obligation.	Not addressed.
The guidance does not specifically address circumstances in which a deep market in high-quality corporate bonds does not exist (such as in certain foreign jurisdictions). However, in practice, a hypothetical high-quality corporate bond yield is determined based on a spread added to representative government bond yields.	Where a deep market of high-quality corporate bonds does not exist, companies are required to look to the yield on government bonds when selecting the discount rate. A synthetically constructed bond yield designed to mimic a high-quality corporate bond may not be used to determine the discount rate.	

5.16. Accounting for termination indemnities

US GAAP allows for more options in accounting for termination indemnity programs.

US GAAP	IFRS	BE GAAP
When accounting for termination indemnities, there are two acceptable alternatives to account for the obligation: (1) full defined benefit plan accounting or (2) if higher, mark-to-market accounting (i.e., basing the liability on the amount that the company would pay out if the employee left the company as of the balance sheet date).	Defined benefit accounting is required for termination indemnities.	Belgian GAAP provides specific guidance regarding the accounting treatment of different types of provisions. The early retirement/termination benefits are offered under collective labour agreements (‘pre-pension regime’). Under Belgian GAAP, provisions for early retirement indemnities should be recognized when the early retirement (termination of the labour agreement) is notified individually to the employees. *Source: CBN/CNC 107–3, CBN/CNC107-3bis, CBN/CNC 2018-25*

5.17. Deferred compensation arrangements—employment benefits

The accounting for these arrangements, which include individual senior executive employment arrangements, varies under the two frameworks. IFRS provides less flexibility than US GAAP with respect to the expense attribution and measurement methodology.

US GAAP	IFRS	BE GAAP
Individual deferred compensation arrangements that are not considered, in the aggregate, to be a “plan” do not follow the pension accounting standard. Deferred compensation liabilities are measured at the present value of the benefits expected to be provided in exchange for an employee’s service to date. If expected benefits are attributed to more than one individual year of service, the costs should be accrued in a systematic and rational manner over the relevant years of service in which the employee earns the right to the benefit (to the full eligibility date). When a deferred compensation award includes a performance condition, it should be recognized when achievement is probable.	IFRS does not distinguish between individual senior executive employment arrangements and a “plan” in the way that US GAAP does. Whether a postemployment benefit is provided for one employee or all employees, the accounting is the same under IFRS. Deferred compensation accounting relates to benefits that are normally paid while in service but more than 12 months after the end of the accounting period in which they are earned. The liability associated with deferred compensation contracts classified as other long-term benefits under IAS 19 is measured by the projected-unit-credit method (equivalent to postemployment-defined benefits).	Not addressed.

US GAAP	IFRS	BE GAAP
A number of acceptable attribution models are used in practice, including the sinking-fund model and the straight-line model. Gains and losses are recognized immediately in the income statement.	All prior service costs and gains and losses are recognized immediately in profit or loss. When a deferred compensation award includes a performance condition, the probability of achieving the condition is incorporated into the measurement of the award.	

5.18. Accounting for taxes

The timing of recognition for taxes related to benefit plans differs.

US GAAP	IFRS	BE GAAP
A contribution tax should be recognized as a component of net benefit cost in the period in which the contribution is made.	Taxes related to benefit plans should be included either in the return on assets or the calculation of the benefit obligation, depending on their nature. For example, taxes payable by the plan on contributions are included in actuarial assumptions for the calculation of the benefit obligation.	Not addressed.

Chapter 6
Assets – nonfinancial assets

Update June 2021

6.1. Assets - nonfinancial assets

The guidance under US GAAP and IFRS as it relates to nonfinancial assets (e.g., intangibles; property, plant, and equipment, including leased assets; inventory; and investment property) contains some significant differences with potentially far-reaching implications. These differences primarily relate to differences in impairment indicators, asset unit of account, impairment measurement and subsequent recoveries of previously impaired assets. Overall, differences for long-lived assets held for use could result in earlier impairment recognition under IFRS as compared to US GAAP.

In the area of inventory, IFRS prohibits the use of the last in, first out (LIFO) costing methodology, which is an allowable option under US GAAP. As a result, a company that adopts IFRS and utilizes the LIFO method under US GAAP would have to move to an allowable costing methodology, such as first in, first out (FIFO) or weighted-average cost. For US-based operations, differences in costing methodologies could have a significant impact on reported operating results as well as on current income taxes payable, given the Internal Revenue Service (IRS) book/tax LIFO conformity rules.

Technical references

US GAAP

ASC 205, ASC 250, ASC 330, ASC 360-10, ASC 360-20, ASC 410-20, ASC 410-20-25, ASC 835-20, ASC 845, ASC 853

IFRS

IAS 2, IAS 16, IAS 17, IAS 23, IAS 36, IAS 37, IAS 40, IAS 41, IFRS 5, IFRS 13

BE GAAP

CBN/CNC 138-5, CBN/CNC 2010-3, CBN/CNC 2010-15, CBN/CNC 2011-14, CBN/CNC 2011-24, CBN/CNC 2012-2, CBN/CNC 2012-13, CBN/CNC 2015-9, CBN/CNC 2016-5, CBN/CNC 2016-6, CBN/CNC 2017-3, CBN/CNC 2017-18, CBN/CNC 2018-25, CBN/CNC 2019-01, CBN/CNC 2021-4.

Note

The following discussion captures a number of the more significant GAAP differences. It is important to note that the discussion is not inclusive of all GAAP differences in this area.

6.2. Impairment of long-lived assets held for use—general

The IFRS-based impairment model might lead to the recognition of impairments of long-lived assets held for use earlier than would be required under US GAAP.

There are also differences related to such matters as what qualifies as an impairment indicator and how recoveries in previously impaired assets get treated.

Differences relating to goodwill impairment are discussed in SD 13, *Business Combinations.*

US GAAP	IFRS	BE GAAP
US GAAP requires a two-step impairment test and measurement model as follows: **Step 1**—The carrying amount is first compared with the undiscounted cash flows. If the carrying amount is lower than the undiscounted cash flows, no impairment loss is recognized, although it might be necessary to review depreciation (or amortization) estimates and methods for the related asset. **Step 2**—If the carrying amount is higher than the undiscounted cash flows, an impairment loss is measured as the difference between the carrying amount and fair value. Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date (an exit price). Fair value should consider the impact of the related current and deferred tax balances and should be based on the assumptions of market participants and not those of the reporting entity.	IFRS uses a one-step impairment test. The carrying amount of an asset is compared with the recoverable amount. The recoverable amount is the higher of (1) the asset's fair value less costs of disposal or (2) the asset's value in use. In practice, individual assets do not usually meet the definition of a CGU. As a result, assets are rarely tested for impairment individually but are tested within a group of assets. Fair value less costs of disposal represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date less costs of disposal. Current and deferred tax balances, with the exception of unused tax losses, and their associated cash flows, are taken into account when calculating fair value less costs of disposal, if a market participant would also include them. Value in use represents entity-specific or CGU-specific future pretax cash flows discounted to present value by using a pretax, market-determined rate that reflects the current assessment of the time value of money and the risks specific to the asset or CGU for which the cash flow estimates have not been adjusted.	An impairment loss /exceptional depreciation is recognized when the carrying value of fixed assets exceeds their value in use or, in the case of idle tangible assets, their estimated realizable value. BE GAAP only indicates in broad terms when exceptional depreciation is recorded or reversed. Some of the concepts addressed in IAS 36 are not dealt with in BE GAAP. They do not conflict with BE GAAP principles, but differences may arise in the application. For example, the concept of cash-generating unit is not used. Reversal of exceptional depreciation is recognized for all intangible and tangible fixed assets (thus including goodwill) when it is no longer economically justified.
Changes in market interest rates are not considered impairment indicators.	Changes in market interest rates can potentially trigger impairment and, hence, are impairment indicators.	
The reversal of impairments is prohibited.	If certain criteria are met, the reversal of impairments, other than those of goodwill, is permitted. For noncurrent, nonfinancial assets (excluding investment properties and biological assets) carried at fair value instead of depreciated cost, losses related to the revaluation are recorded in other comprehensive income to the extent of prior upward revaluations, with any further losses being reflected in the income statement.	

6.2.1 Impairment of long-lived assets—cash flow estimates

As noted above, impairment testing under US GAAP starts with undiscounted cash flows, whereas the starting point under IFRS is discounted cash flows. Aside from that difference, IFRS is more prescriptive with respect to how the cash flows themselves are identified for purposes of calculating value in use.

US GAAP	IFRS	BE GAAP
Future cash flow estimates used in an impairment analysis should include: • All cash inflows expected from the use of the long-lived asset (asset group) over its remaining useful life, based on its existing service potential • Any cash outflows necessary to obtain those cash inflows, including future expenditures to maintain (but not improve) the long-lived asset (asset group) • Cash flows associated with the eventual disposition, including selling costs, of the long-lived asset (asset group) US GAAP specifies that the remaining useful life of a group of assets over which cash flows may be considered should be based on the remaining useful life of the “primary” asset of the group. Cash flows are from the perspective of the entity itself. Expected future cash flows should represent management’s best estimate and should be based on reasonable and supportable assumptions consistent with other assumptions made in the preparation of the financial statements and other information used by the entity for comparable periods.	Cash flow estimates used to calculate value in use under IFRS should include: • Cash inflows from the continuing use of the asset or the activities of the CGU • Cash outflows necessarily incurred to generate the cash inflows from continuing use of the asset or CGU (including cash outflows to prepare the asset for use) and that are directly attributable to the asset or CGU • Cash outflows that are indirectly attributable (such as those relating to central overheads) but that can be allocated on a reasonable and consistent basis to the asset or CGU • Cash flows expected to be received (or paid) for the disposal of assets or CGUs at the end of their useful lives • Cash outflows to maintain the operating capacity of existing assets, including, for example, cash flows for day-to-day servicing Cash flow projections used to measure value in use should be based on reasonable and supportable assumptions of economic conditions that will exist over the asset’s remaining useful life. Cash flows expected to arise from future restructurings or from improving or enhancing the asset’s performance should be excluded. Cash flows are from the perspective of the entity itself. Projections based on management’s budgets/forecasts shall cover a maximum period of five years, unless a longer period can be justified.	Not addressed.

US GAAP	IFRS	BE GAAP
	Estimates of cash flow projections beyond the period covered by the most recent budgets/forecasts should extrapolate the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate shall not exceed the long-term average growth rate for the products, industries, or country in which the entity operates, or for the market in which the asset is used unless a higher rate can be justified.	

6.2.2 Impairment of long-lived assets—asset groupings

Determination of asset groupings is a matter of judgment and could result in differences between IFRS and US GAAP.

US GAAP	IFRS	BE GAAP
For purposes of recognition and measurement of an impairment loss, a long-lived asset or asset group should represent the lowest level for which an entity can separately identify cash flows that are largely independent of the cash flows of other assets and liabilities. In limited circumstances, a long-lived asset (e.g., a corporate asset) might not have identifiable cash flows that are largely independent of the cash flows of other assets and liabilities and of other asset groups. In those circumstances, the asset group for that long-lived asset should include all assets and liabilities of the entity.	A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. It can be a single asset. If an active market (as defined by IFRS 13) exists for the output produced by an asset or group of assets, that asset or group should be identified as a CGU, even if some or all of the output is used internally.	The concept of cash-generating unit is not addressed.
Generally, debt instruments should not be included in an asset group as they do not represent the lowest level of identifiable cash flows (i.e., debt payments are generally funded at the corporate level and are not attributable to an asset group). If debt is tied to specific assets within the asset group, or the asset group is a business or reporting unit, there may be circumstances when it is appropriate to include the cash flows associated with debt.	Liabilities are generally excluded from the carrying amount of the CGU. However, there may be circumstances when it is not possible to determine the recoverable amount without considering a recognized liability. In such cases, the liability should be included in the CGU.	

US GAAP	IFRS	BE GAAP
A lease liability for a finance lease is generally viewed as “debt like” and therefore is excluded from an asset group. For operating lease liabilities, an entity may elect to either (1) include the carrying amount of the operating lease liabilities in the asset group and include the associated operating lease payments in the cash flows or (2) exclude the carrying amount of the operating lease liabilities from the asset group and exclude the associated operating lease payments from the undiscounted cash flows.	While lease right-of-use assets are included in a CGU, when testing value in use, the related lease liabilities should be excluded because they are a form of financing and all financing cash flows are explicitly excluded from value in use (IAS 36 para 50(a)). While this position is clear for value in use, it is less so for fair value less cost of disposal (FVLCD) models, since IAS 36 has little specific guidance on determining FVLCD. Generally, if the buyer of a CGU is required to assume the lease liability, the FVLCD would also include the liability.	

6.3. Impairment of long-lived assets held for sale—general

US GAAP and IFRS criteria are similar in determining when long-lived assets qualify for held-for-sale classification. Under both US GAAP and IFRS, long-lived assets held for sale should be measured at the lower of their carrying amount or fair value less cost to sell. However, differences could exist in what is included in the disposal group between US GAAP and IFRS.

US GAAP	IFRS	BE GAAP
US GAAP requires a disposal group to include items associated with accumulated other comprehensive income. This includes any cumulative translation adjustment, which is considered part of the carrying amount of the disposal group [ASC 830-30-45-13].	Under IFRS 5, a disposal group generally should not include amounts that have been recognized in other comprehensive income and accumulated in equity for the purpose of calculating impairment. Other comprehensive balances that recycle should only be recognized in the income statement when the disposal group is sold.	Not addressed.

6.4. Disposal of non-financial assets

ASC 610-20, *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets*, provides a model for the derecognition of nonfinancial assets that do not meet the definition of a business and is effective at the same time an entity adopts the new revenue guidance in ASC 606. IFRS does not contain similar guidance and often follows the form of the disposal. As such, differences could exist in certain circumstances.

US GAAP	IFRS	BE GAAP
ASC 610-20 applies to transfers of all nonfinancial assets and in substance nonfinancial assets to parties that are not customers. The guidance does not change the derecognition model for financial assets under the scope of ASC 860, *Transfers and Servicing*, or businesses under the scope of ASC 810, *Consolidation*. If a transaction is within the scope of ASC 610-20, in order for an entity to derecognize nonfinancial assets and recognize a gain or loss, the entity must lose control of the assets while also satisfying the criteria for transfer of control to another party under the new revenue recognition guidance. If these criteria are not met, an entity would continue to recognize the asset and record a liability for the consideration received. Situations may arise when a loss of control has occurred, but the transaction does not meet the transfer of control criteria in the revenue standard. For example, if the seller retains a call option to repurchase the assets, the transfer of control test will likely not be satisfied. In these situations, alternate guidance will need to be followed. Under ASC 610-20, when an entity transfers its controlling financial interest in a nonfinancial asset (or in substance nonfinancial asset) but retains a non controlling ownership interest, the entity would measure such interest (including interests in joint ventures) at fair value, similar to the current guidance on the sale of businesses. This would result in full gain or loss recognition upon the sale of the nonfinancial or in substance nonfinancial asset.	IFRS does not include the concept of in substance nonfinancial assets in its guidance. Accounting for a disposal under IFRS will usually depend on the nature of what is disposed. If a subsidiary is disposed of, an entity would generally follow the deconsolidation guidance in IFRS 10, *Consolidated Financial Statements*. If other assets are disposed of and not in the scope of the revenue standard, an entity would follow the related guidance (e.g., IAS 16 for PPE). IAS 28, *Investments in Associates and Joint Ventures,* requires entities to recognize a partial gain or loss on contribution of nonfinancial assets to equity method investees and joint ventures for an interest in that associate unless the transaction lacks commercial substance.	Similar to IFRS.

6.5. Carrying basis

The ability to revalue assets (to fair value) under IFRS might create significant differences in the carrying value of assets as compared with US GAAP.

US GAAP	IFRS	BE GAAP
US GAAP generally utilizes historical cost and prohibits revaluations except for certain categories of financial instruments, which are carried at fair value.	Historical cost is the primary basis of accounting. However, IFRS permits the revaluation to fair value of some intangible assets; property, plant, and equipment; and investment property and inventories in certain industries (e.g., commodity broker/dealer). IFRS also requires that biological assets (except bearer plants) be reported at fair value.	Belgian GAAP generally requires historical cost and permits the revaluation of tangible fixed assets and some financial fixed assets under certain conditions: the value of the assets determined by reference to their usefulness to the entity, should clearly and durably exceed their carrying value. Where such assets are necessary to the entity to carry out its business, revaluation should be justified by the profitability of the enterprise or the line of business concerned. Source: CBN/CNC 2011-14 CBN/CNC 2021-04 deals with acquisition of assets where the payment is due over a period of more than one year, with no contractually stated interest/ abnormally low interest. The asset is booked at the fair value and the financial (interest) component of the transaction is recognised in the profit or loss on an accrual basis, over the payment period. *Source: CBN/CNC 2021-04*

6.6. Internally developed intangibles

US GAAP prohibits, with limited exceptions, the capitalization of development costs. Development costs are capitalized under IFRS if certain criteria are met.

Further differences might exist in such areas as software development costs, where

US GAAP provides specific detailed guidance depending on whether the software is for internal use or for sale. Other industries also have specialized capitalization guidance under US GAAP (e.g., film and television production). The principles surrounding capitalization under IFRS, by comparison, are the same, whether the internally generated intangible is being developed for internal use or for sale.

US GAAP	IFRS	BE GAAP
In general, both research costs and development costs are expensed as incurred, making the recognition of internally generated intangible assets rare. However, separate, specific rules apply in certain areas. For example, there is distinct guidance governing the treatment of costs associated with the development of software for sale to third parties. Separate guidance governs the treatment of costs associated with the development of software for internal use, including fees paid in a cloud computing arrangement. The guidance for the two types of software varies in a number of significant ways. There are, for example, different thresholds for when capitalization commences, and there are also different parameters for what types of costs are permitted to be capitalized. ASU 2018-15 was issued to provide specific US guidance on when implementation costs incurred in a cloud computing service contract should be capitalized under US GAAP. This guidance is effective for calendar year-end public business entities on January 1, 2020. It can be early adopted.	Costs associated with the creation of intangible assets are classified into research phase costs and development phase costs. Costs in the research phase are always expensed. Costs in the development phase are capitalized, if all of the following six criteria are demonstrated: • The technical feasibility of completing the intangible asset • The intention to complete the intangible asset • The ability to use or sell the intangible asset • How the intangible asset will generate probable future economic benefits (the entity should 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 to use or sell it • The ability to measure reliably the expenditure attributable to the intangible asset during its development Expenditures on internally generated brands, mastheads, publishing titles, customer lists, and items similar in substance cannot be distinguished from the cost of developing the business as a whole. Therefore, such items are not recognized as intangible assets. Development costs initially recognized as expenses cannot be capitalized in a subsequent period. IFRS does not contain any specific guidance relating to cloud computing arrangements. Assessing these arrangements will require judgment.	Research and development that meet criteria similar to those in IAS 38 are capitalized. Costs relating to the internal development of software that meet certain criteria are capitalized (to the extent they do not exceed prudent estimate of their value in use or future economic benefits for the entity). Development costs should be amortized over their estimated useful life, which should not exceed five years unless a longer period (maximum 10 years) can be justified and the justification is disclosed in the footnotes. *Source: CBN/CNC 2012-13, CBN/CNC 138-5*

6.7. Acquired research and development assets

Under US GAAP, capitalization depends on both the type of acquisition (asset acquisition or business combination) as well as whether the asset has an alternative future use.

Under IFRS, acquired research and development assets are capitalized if is probable that they will have future economic benefits.

US GAAP	IFRS	BE GAAP
Research and development intangible assets acquired in an asset acquisition are capitalized only if they have an alternative future use. For an asset to have alternative future use, it must be reasonably expected (greater than a 50% chance) that an entity will achieve economic benefit from such alternative use and further development is not needed at the acquisition date to use the asset.	The price paid reflects expectations about the probability that the future economic benefits of the asset will flow to the entity. The probability recognition criterion is always assumed to be met for separately acquired intangible assets.	Similar to IFRS.

6.8. Impairment of indefinite-lived intangible assets

Impairment testing and measurement of indefinite-lived intangible assets are different under US GAAP and IFRS.

6.8.1 Indefinite-lived intangible assets—assessment level

Under US GAAP, the assessment is performed at the asset level. Under IFRS, the assessment may be performed at a higher level (i.e., the CGU level). The varying assessment levels can result in different conclusions as to whether an impairment exists.

US GAAP	IFRS	BE GAAP
Separately recorded indefinite-lived intangible assets, whether acquired or internally developed, shall be combined into a single unit of accounting for purposes of testing impairment if they are operated as a single asset and, as such, are essentially inseparable from one another. Indefinite-lived intangible assets may be combined only with other indefinite-lived intangible assets; they may not be tested in combination with goodwill or with a finite-lived asset.	As most indefinite-lived intangible assets (e.g., brand name) do not generate cash flows independently of other assets, it might not be possible to calculate the value in use for such an asset on a standalone basis. Therefore, it is necessary to determine the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets, (known as a CGU), in order to perform the test.	Under Belgian GAAP, intangible assets may only have an indefinite useful life in exceptional circumstances (e.g. for the acquisition of a worldwide known brand). The concept of cash generating-unit is not used. Therefore, each asset will be subject to impairment testing. *Source: CBN/CNC 2012-13*

US GAAP	IFRS	BE GAAP
US GAAP provides a number of indicators that an entity should consider to determine if indefinite lived intangible assets should be combined for impairment testing purposes.		

6.8.2 Indefinite-lived intangible assets—impairment testing

Under US GAAP, an entity can choose to first assess qualitative factors in determining if further impairment testing is necessary. This option does not exist under IFRS.

US GAAP	IFRS	BE GAAP
ASC 350, *Intangibles-Goodwill and Other*, requires an indefinite-lived intangible asset to be tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. An entity may first assess qualitative factors to determine if a quantitative impairment test is necessary. Further testing is only required if the entity determines, based on the qualitative assessment, that it is more likely than not that an indefinite-lived intangible asset's fair value is less than its carrying amount. Otherwise, no further impairment testing is required. An entity can choose to perform the qualitative assessment on none, some, or all of its indefinite lived intangible assets. An entity can bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to the quantitative impairment test and then choose to perform the qualitative assessment in any subsequent period.	IAS 36, *Impairment of Assets*, requires an entity to test an indefinite-lived intangible asset for impairment annually. It also requires an impairment test in between annual tests whenever there is an indication of impairment. IAS 36 allows an entity to carry forward the most recent detailed calculation of an asset's recoverable amount when performing its current period impairment test, provided the following criteria are met: (i) the asset is assessed for impairment as a single asset (that is it generates cash flows independently of other assets and is not reviewed for impairment as part of a CGU); (ii) the most recent impairment test resulted in an amount that exceeded the asset's carrying amount by a substantial margin; and (iii) an analysis of events that have occurred and changes in circumstances since the last review indicate that the likelihood that the asset's current recoverable amount would be less than its carrying amount is remote.	No specific guidance.

6.8.3 Indefinite-lived intangible assets—impairment measurement

Even when there is an impairment under both frameworks, the amount of the impairment charge may differ.

US GAAP	IFRS	BE GAAP
Impairments of indefinite-lived intangible assets are measured by comparing fair value to carrying amount.	Indefinite-lived intangible asset impairments are calculated by comparing the recoverable amount to the carrying amount (see above for determination of level of assessment). The recoverable amount is the higher of fair value less costs of disposal or value in use. The value in use calculation uses the present value of future cash flows.	Under Belgian GAAP, indefinite-lived intangibles may only be impaired in case of long-term depreciation or loss. *Source: CBN/CNC 2012-13*

6.9. Software costs to be sold, leased, or marketed impairment

Impairment measurement model and timing of recognition of impairment are different under US GAAP and IFRS.

US GAAP	IFRS	BE GAAP
When assessing potential impairment, at least at each balance sheet date, the unamortized capitalized costs for each product must be compared with the net realizable value of the software product. The amount by which the unamortized capitalized costs of a software product exceed the net realizable value of that asset shall be written off. The net realizable value is the estimated future gross revenue from that product reduced by the estimated future costs of completing and disposing of that product. The net realizable value calculation does not utilize discounted cash flows.	Under IFRS, intangible assets not yet available for use are tested annually for impairment because they are not being amortized. Once such assets are brought into use, amortization commences and the assets are tested for impairment when there is an impairment indicator. The impairment is calculated by comparing the recoverable amount (the higher of either (1) fair value less costs of disposal or (2) value in use) to the carrying amount. The value in use calculation uses the present value of future cash flows.	Intangible assets are subject to exceptional amortization when, due to changes in economic or technological circumstances, their carrying value exceeds their recoverable amount.

6.10. Advertising costs

Under IFRS, advertising costs may need to be expensed sooner.

US GAAP	IFRS	BE GAAP
The costs of other than direct response advertising should be either expensed as incurred or deferred and then expensed the first time the advertising takes place. This is an accounting policy decision and should be applied consistently to similar types of advertising activities. Certain direct response advertising costs are eligible for capitalization if, among other requirements, probable future economic benefits exist. Direct response advertising costs that have been capitalized are then amortized over the period of future benefits (subject to impairment considerations).	Costs of advertising are expensed as incurred. The guidance does not provide for deferrals until the first time the advertising takes place, nor is there an exception related to the capitalization of direct response advertising costs or programs. Prepayment for advertising may be recorded as an asset only when payment for the goods or services is made in advance of the entity's having the right to access the goods or receive the services.	Costs of advertising are expensed when incurred. *Source: CBN/CNC 2012-13*
Aside from direct response advertising-related costs, sales materials such as brochures and catalogs may be accounted for as prepaid supplies until they no longer are owned or expected to be used, in which case their cost would be a cost of advertising.	The cost of materials, such as sales brochures and catalogues, is recognized as an expense when the entity has the right to access those goods.	

6.11. Property, plant, and equipment—depreciation

Under IFRS, differences in asset componentization guidance might result in the need to track and account for property, plant, and equipment at a more disaggregated level.

US GAAP	IFRS	BE GAAP
US GAAP generally does not require the component approach for depreciation. While it would generally be expected that the appropriateness of significant assumptions within the financial statements would be reassessed each reporting period, there is no explicit requirement for an annual review of residual values.	IFRS requires that separate significant components of property, plant, and equipment with different economic lives be recorded and depreciated separately. The guidance requires entities to review residual values and useful lives, at a minimum, at each balance sheet date.	Concept of depreciation is similar to IFRS, but the component approach is not addressed. Belgian accounting law allows for accelerated depreciation plans based on existing tax rules. When such depreciations are in excess of depreciations based on economic justifiable measurements, the excess has to be disclosed in the notes.

US GAAP	IFRS	BE GAAP
In accordance with ASC 350-30-35-9, an entity should evaluate the remaining useful life of an intangible asset each reporting period to determine whether events or circumstances may indicate that a revision to the useful life (presumably shorter) is warranted to reflect the remaining expected use of the asset. Unlike the guidance that exists for long-lived intangible assets, there is no explicit requirement to evaluate the useful lives of long-lived tangible assets each reporting period. However, we believe the useful lives of long-lived tangible assets should be reassessed whenever events or circumstances indicate that a revision to the useful life (presumably shorter) is warranted.		BE GAAP allows depreciation of assets under construction. This accounting policy choice should be disclosed in the notes. *Source: CBN/CNC 2017-18*

6.12. Property, plant, and equipment—overhaul costs

US GAAP may result in earlier expense recognition when portions of a larger asset group are replaced.

US GAAP	IFRS	BE GAAP
US GAAP permits alternative accounting methods for recognizing the costs of a major overhaul. Costs representing a replacement of an identified component can be (1) expensed as incurred, (2) accounted for as a separate component asset, or (3) capitalized and amortized over the period benefited by the overhaul.	IFRS requires capitalization of the costs of a major overhaul representing a replacement of an identified component. Consistent with the componentization model, the guidance requires that the carrying amount of parts or components that are replaced be derecognized.	Not addressed. 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 capitalized as an asset cost when relevant recognition criteria are met.

6.13. Property, plant, and equipment - AROs

Initial measurement might vary because US GAAP specifies a fair value measure and IFRS does not. IFRS results in greater variability, as obligations in subsequent periods get adjusted and accreted based on current market-based discount rates.

US GAAP	IFRS	BE GAAP
Asset retirement obligations (AROs) are recorded at fair value and are based upon the legal obligation that arises as a result of the acquisition, construction, or development of a long-lived asset. The use of a credit-adjusted, risk-free rate is required for discounting purposes when an expected present-value technique is used for estimating the fair value of the liability. A fair value measurement should include a risk premium reflecting the amount that market participants would demand as compensation for the uncertainty inherent in the cash flows. The guidance also requires an entity to measure changes in the liability for an ARO due to passage of time by applying an interest method of allocation to the amount of the liability at the beginning of the period. The interest rate used for measuring that change would be the credit-adjusted, risk-free rate that existed when the liability, or portion thereof, was initially measured. In addition, changes to the undiscounted cash flows are recognized as an increase or a decrease in both the liability for an ARO and the related asset retirement cost. Upward revisions are discounted by using the current credit-adjusted, risk-free rate. Downward revisions are discounted by using the credit-adjusted, risk-free rate that existed when the original liability was recognized. If an entity cannot identify recognized. If an entity cannot identify the prior period to which the downward revision relates, it may use a weighted-average, credit-adjusted, risk-free rate to discount the downward revision to estimated future cash flows.	IFRS requires that management's best estimate of the costs of dismantling and removing the item or restoring the site on which it is located be recorded when an obligation exists. The estimate is to be based on a present obligation (legal or constructive) that arises as a result of the acquisition, construction, or development of a fixed asset. If it is not clear whether a present obligation exists, the entity may evaluate the evidence under a more-likely-than-not threshold. This threshold is evaluated in relation to the likelihood of settling the obligation. The guidance uses a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. IFRS does not explicitly state whether an entity's own credit risk should be taken into account in determining the amount of the provision. Changes in the measurement of an existing decommissioning, restoration, or similar liability that result from changes in the estimated timing or amount of the cash outflows or other resources, or a change in the discount rate, adjust the carrying value of the related asset under the cost model. Adjustments may result in an increase of the carrying amount of an asset beyond its recoverable amount. An impairment loss would result in such circumstances. Adjustments may not reduce the carrying amount of an asset to a carrying amount of an asset to a negative value. Once the carrying value reaches zero, further reductions are recorded in profit and loss. The periodic unwinding of the discount is recognized in profit or loss as a finance cost as it occurs.	The principle is similar to IFRS: BE GAAP requires that management's best estimate of the costs of dismantling and removing the item or restoring the site on which it is located be recorded when an obligation exists. The provision is, where appropriate, and in accordance with the matching principle, progressively built up over the period of the activities giving rise to the environmental obligation. Any investment made to prevent, reduce or avoid future environmental obligations is eligible for capitalization. However, if such expenditures are made solely to repair damage caused by previously conducted activities, and are not related to current or future activities, they should be expensed. *Source: CBN/CNC 2018-25* Leasehold improvement costs incurred by the lessee are capitalised as other tangible fixed assets and depreciated over the appropriate operating lease term. *Source: CBN/CNC 2016-6*

6.14. Property, plant, and equipment—borrowing costs

Borrowing costs under IFRS are broader and can include more components than interest costs under US GAAP.

US GAAP allows for more judgment in the determination of the capitalization rate, which could lead to differences in the amount of costs capitalized.

IFRS does not permit the capitalization of borrowing costs in relation to equity-method investments, whereas US GAAP may allow capitalization in certain circumstances.

US GAAP	IFRS	BE GAAP
Capitalization of interest costs is required while a qualifying asset is being prepared for its intended use. The guidance does not require that all borrowings be included in the determination of a weighted-average capitalization rate. Instead, the requirement is to capitalize a reasonable measure of cost for financing the asset's acquisition in terms of the interest cost incurred that otherwise could have been avoided. Eligible borrowing costs do not include exchange rate differences from foreign currency borrowings. Also, generally, interest earned on invested borrowed funds cannot offset interest costs incurred during the period. An investment accounted for by using the equity method meets the criteria for a qualifying asset while the investee has activities in progress necessary to commence its planned principal operations, provided that the investee's activities include the use of funds to acquire qualifying assets for its operations.	Borrowing costs directly attributable to the acquisition, construction, or production of a qualifying asset are required to be capitalized as part of the cost of that asset. The guidance acknowledges that determining the amount of borrowing costs directly attributable to an otherwise qualifying asset might require professional judgment. Having said that, the guidance first requires the consideration of any specific borrowings and then requires consideration of all general borrowings outstanding during the period. In broad terms, a qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use or sale. Investments accounted for under the equity method would not meet the criteria for a qualifying asset. Eligible borrowing costs include exchange rate differences from foreign currency borrowings.	Acquisition cost of tangible and intangible assets can include interest on capital borrowed to finance their acquisition up to the period preceding the date on which fixed assets are ready for use. Under BE GAAP, an entity has a choice of whether or not to include borrowing cost in the acquisition value of tangible and intangible fixed assets. *Source: CBN/CNC 2015-9* Eligible borrowing costs exclude consideration paid for the financial guarantee obtained from a third party. *Source: CBN/CNC 2017-13*

6.15. Distributions of nonmonetary assets to owners

Spin-off transactions under IFRS can result in gain recognition as nonmonetary assets are distributed at fair value. Under US GAAP, pro-rata distributions of a business are distributed at their recorded amount, and no gains are recognized.

US GAAP	IFRS	BE GAAP
Accounting for the pro-rata distribution of assets that constitute a business to owners of an enterprise (a spin-off) should be based on the recorded amount (after reduction, if appropriate, for an indicated impairment of value) of the nonmonetary assets distributed. Upon distribution, those amounts are reflected as a reduction of owner's equity.	Unless part of a common control transaction, accounting for the distribution of nonmonetary assets to owners of an entity should be based on the fair value of the nonmonetary assets to be distributed. A dividend payable is measured at the fair value of the nonmonetary assets to be distributed. Upon settlement of a dividend payable, the distributing entity will recognize any differences between the carrying amount of the assets to be distributed and the carrying amount of the dividend payable in profit or loss. The recognition of the distribution at fair value by the entity distributing nonmonetary assets does not affect the accounting by the spinee after the distribution.	A dividend payable is measured at the fair value of the nonmonetary assets to be distributed. The distributing entity will recognize any differences between the carrying amount of the assets to be distributed and the carrying amount of the dividend payable in profit or loss. When a dividend is allocated and it is subsequently agreed with the shareholder to pay that dividend in kind, the capital gain or loss is recognized based on the value of the assets at the time of that (subsequent) agreement. *Source: CBN/CNC 2019-01*

6.16. Inventory costing

Companies that utilize the LIFO costing methodology under US GAAP might experience significantly different operating results as well as cash flows under IFRS.

Furthermore, regardless of the inventory costing model utilized, under IFRS companies might experience greater earnings volatility in relation to recoveries in values previously written down.

US GAAP	IFRS	BE GAAP
A variety of inventory costing methodologies such as LIFO, FIFO, and/or weighted-average cost are permitted.	A number of costing methodologies such as FIFO or weighted-average costing are permitted. The use of LIFO, however, is precluded.	The cost of inventories that are interchangeable is assigned by using either the FIFO, LIFO or weighted average cost formula. The cost of inventories that are not interchangeable is determined on an individual basis. In some cases (for example, in the retail business), the acquisition cost of each item is determined based on the selling price less the appropriate sales margin. *Source: CBN/CNC 2016-5*

US GAAP	IFRS	BE GAAP
For companies using LIFO for US income tax purposes, the book/tax conformity rules also require the use of LIFO for book accounting/reporting purposes. Reversals of write-downs are prohibited.	Reversals of inventory write-downs (limited to the amount of the original write-down) are required for subsequent recoveries.	Similar to IFRS.

6.17. Inventory measurement

In the past there was a difference between US GAAP and IFRS in that US GAAP referred to the lower of cost or market whereas IFRS referred to the lower of cost and net realizable value. Since 2018, all entities under both US GAAP and IFRS measure inventory at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling price less the costs of completion and sale.

6.18. Biological assets—fair value versus historical cost

Companies whose operations include management of the transformation of living animals or plants into items for sale, agricultural produce, or additional biological assets have the potential for fundamental changes to their basis of accounting (because IFRS requires fair value-based measurement).

US GAAP	IFRS	BE GAAP
Biological assets can be measured at historical cost or fair value less costs to sell, as a policy election. If historical cost is elected, these assets are tested for impairment in the same manner as other long-lived assets. If fair value is elected, all changes in fair value in subsequent periods are recognized in the income statement in the period in which they arise.	Under IAS 41, biological assets are measured at fair value less costs to sell for initial recognition and at each subsequent reporting date, except when the measurement of fair value is unreliable. All changes in fair value are recognized in the income statement in the period in which they arise.	Not addressed.
	Bearer plants are accounted for in the same way in IAS 16, *Property, Plant and Equipment*. Whereas, the produce growing on bearer plants is within the scope of IAS 41 and measured at fair value. Once harvested, produce is in the scope of IAS 2, *Inventories*.	

6.19. Investment property

Alternative methods or options of accounting for investment property under IFRS could result in significantly different asset carrying values (fair value) and earnings.

US GAAP	IFRS	BE GAAP
There is no specific definition of investment property. The historical-cost model is used for most real estate companies and operating companies holding investment-type property. Investor entities—such as many investment companies, insurance companies' separate accounts, bank-sponsored real estate trusts, and employee benefit plans that invest in real estate—carry their investments at fair value.	Investment property is separately defined as property (land and/or buildings) held in order to earn rentals and/or for capital appreciation. The definition does not include owner-occupied property, property held for sale in the ordinary course of business, or property being constructed or developed for such sale. Properties under construction or development for future use as investment properties are within the scope of investment properties. Investment property is initially measured at cost (transaction costs are included). Thereafter, it may be accounted for on a historical-cost basis or on a fair value basis as an accounting policy choice.[1] When fair value is applied, the gain or loss arising from a change in the fair value is recognized in the income statement. The carrying amount is not depreciated.	No separate rules for investment property, which is accounted for in the same way as property, plant and equipment. Investment properties are initially and subsequently measured in the same way as property, plant and equipment. They can be revalued following general guidance on revaluations applicable to tangible fixed assets. Any revaluation surplus is recognized in equity.

[1] An entity that chooses the cost model would need to disclose the fair value of its investment property.

Chapter 7
Assets - financial assets

Updated June 2021

7.1 Assets - financial assets

Both the FASB and the IASB have finalized major projects in the area of financial instruments. With the publication of IFRS 9, *Financial Instruments,* in July 2014, the IASB completed its project to replace the classification and measurement, as well as the impairment guidance for financial instruments. In January 2016, the FASB issued its new recognition and measurement guidance – Accounting Standards Update 2016-01, *Financial Instruments–Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*, and in June 2016, the FASB issued its new impairment guidance – Accounting Standards Update 2016-13, *Financial Instruments – Credit Losses (Topic 326).* The new classification and measurement guidance was effective for both US GAAP and IFRS as of January 1, 2018, and the similarities and differences are covered in detail in this section. The new impairment guidance under ASC 326 is not yet effective for US GAAP, while the IFRS 9 impairment guidance was effective as of January 1, 2018. The impairment guidance in this section therefore compares the current US GAAP guidance (pre-ASC 326) with the new impairment guidance under IFRS 9.

Under US GAAP, various specialized pronouncements provide guidance for the classification of financial assets. Unlike US GAAP, IFRS 9 contains all of the classification and measurement guidance for financial assets and does not provide any industry-specific guidance. The specialized US guidance and the singular IFRS guidance in relation to classification can drive differences in measurement (because classification drives measurement under both IFRS and US GAAP).

Under IFRS 9, investments in equity instruments are measured at fair value through profit or loss (FVTPL) (with an irrevocable option to measure those instruments at fair value through other comprehensive income (FVOCI) with no subsequent reclassification to profit or loss). Under US GAAP, investments in equity instruments are generally measured at FVTPL, with an alternative measurement option for equity investments without a readily determinable fair value.

Under IFRS 9, investments in debt instruments are either measured at: (1) amortized cost, (2) FVOCI (with subsequent reclassification to profit or loss) or (3) FVTPL, depending on the entity's business model for managing the assets and the cash flows characteristic of the instrument. Under US GAAP, the legal form of a debt instrument primarily drives classification. For example, available-for-sale debt instruments that are securities in legal form are typically carried at fair value, even if there is no active market to trade the securities. At the same time, a debt instrument that is not in the form of a security (for example, a corporate loan) is accounted for at amortized cost even though both instruments (i.e., the security and the loan) have similar economic characteristics. Under IFRS, the legal form does not drive classification of debt instruments; rather, the nature of the cash flows of the instrument and the entity's business model for managing the debt instruments are the key considerations for classification. In addition to these classification differences, the interest income recognition models also differ between the frameworks.

Additionally, until the new impairment model is effective for US GAAP (beginning in 2020 for public business entities, if not early adopted), there is a fundamental difference in the impairment guidance for debt instruments carried at amortized cost and FVOCI; the current US GAAP guidance is an incurred loss model while the IFRS 9 guidance is an expected loss model.

Under BE GAAP, legal form of the financial assets drives classification; embedded derivatives are not addressed and no bufrication is required.

Finally, this section describes the fundamental differences in the way US GAAP and IFRS assess the derecognition of financial assets. These differences can have a significant impact on a variety of transactions, such as asset securitizations and factoring transactions. IFRS focuses on whether a qualifying transfer has taken place, whether risks and rewards have been transferred, and, in some cases, whether control over the asset in question has been transferred. US GAAP focuses on whether an entity has surrendered effective control over a transferred asset; this assessment also requires the transferor to evaluate whether the financial asset has been "legally isolated," even in the event of the transferor's bankruptcy or receivership.

Derecognition principles under BE GAAP do not conflict with IFRS model based on transfer of risks and rewards; however under BE GAAP two accounting policy choices exist for factoring arrangements where credit risk is not transferred to the factor.

This chapter focuses on financial assets – both debt and equity investments – which do not result in the investor having significant influence or control over the investee. The consolidation and equity method of accounting models are covered in Chapter 12.

Technical references

US GAAP

ASC 310, ASC 310-10-30, ASC 310-10-35, ASC 320, ASC 321, ASC 325, ASC 815, ASC 815-15-25-4 through ASC 815-15-25-5, ASC 820, ASC 825, ASC 860

IFRS

IFRS 9, IFRS 13, IAS 32

BE GAAP

CBN/CNC 169-1, CBN/CNC 169-2, CBN/CNC 2011-15, CBN/CNC 2011-23, CBN/CNC 2012-5

Note

The following discussion captures a number of the more significant GAAP differences. It is important to note that the discussion is not inclusive of all GAAP differences in this area.

7.2 Determining the overall appropriate classification model

Under US GAAP and IFRS, the determination of whether a financial asset is considered debt or equity has implications on its classification and subsequent measurement. However, the criteria for making this determination are different. Therefore, certain investments could be accounted for as a debt investment under one framework and as an equity investment under the other. BE GAAP does not address this classification issue as such, particular measurement rules for certain types of financial instruments.

US GAAP	IFRS	BE GAAP
To determine the appropriate accounting treatment for a financial interest not consolidated or accounted for under the equity method, a reporting entity should first determine whether the interest meets the definition of a security, which, to a large extent, is a legal determination. If the entity determines that an interest meets the definition of a security, it should then determine whether that security meets the definition of an equity or debt security based on the definitions in ASC 321 and ASC 320 and follow the measurement models described	For financial assets that are not consolidated or accounted for using the equity method, an entity first considers whether the financial asset is an investment in an equity instrument by evaluating the classification of the instrument from the perspective of the issuer under IAS 32 (see SD 10 for a discussion of the issuer's classification model). If the financial asset is an investment in an equity instrument, the entity should follow the guidance for equity instruments. If the financial asset is not an investment in an equity instrument,	BE GAAP does not specifically address financial assets by classifying them into different categories, but Belgian legislation includes specific measurement rules for some types of financial assets and liabilities, such as participating interests (equity investment), receivables and some types of derivative contracts.

US GAAP	IFRS	BE GAAP
in those sections unless industry-specific guidance applies. If the entity determines that the interest does not meet the definition of an equity security, it may still have to follow the guidance in ASC 321 if the interest is in the form of an investment in a partnership, unincorporated joint venture, or LLC (See SD 7.3). If the entity determines that the interest is not a security, and does not represent a partnership or similar interest, other guidance would apply. For example, for trade account receivables, loans, and other similar assets, ASC 310 would generally be applicable, unless the entity follows industry-specific guidance (See SD 7.4).	the entity should follow the guidance for debt investments. There is one exception to this rule, which applies to instruments that are classified as equity under the “puttable instruments” provisions of IAS 32, such as investments in mutual funds (see SD 10.8). An entity should follow the guidance for debt investments for these instruments (even when they are presented as equity from the issuer’s perspective).	

7.3 Equity investments—measurement

Under both IFRS and US GAAP, equity investments are generally required to be measured at fair value with changes in fair value recognized in earnings. Unlike US GAAP, IFRS does not include simplifications such as the “NAV exception” or “measurement alternative,” which exist under US GAAP. However, IFRS provides an option to recognize the changes in the fair value of equity investments in other comprehensive income, with no subsequent reclassification to profit or loss. Under BEGAAP, particular requirements for measurement of equity instruments apply.

US GAAP	IFRS	BE GAAP
All equity investments are generally measured at fair value with changes in fair value recognized through earnings. ASC 321 no longer provides an available for-sale classification for equity securities with changes in fair value recognized in other comprehensive income.	Investments in equity instruments (as defined in IAS 32, from the perspective of the issuer) are always measured at fair value. Equity instruments that are held for trading are required to be classified at FVTPL. For all other investment in equity instruments, an entity can irrevocably elect on initial recognition, on an instrument-by-instrument basis, to present changes in fair value in OCI rather than profit or loss.	All long-term financial assets, including investments in listed and unlisted equity instruments are measured at cost, less accumulated impairment losses. Investments in equity instruments classified under long-term financial assets can be revalued provided certain conditions are met.
If certain conditions are met, entities can use net asset value (NAV), without adjustment, as a practical expedient to measure the fair value of investments in certain funds (e.g., hedge funds, private equity funds, real estate funds, venture capital funds, commodity funds, funds of funds) when fair value is not readily determinable.	Under that option, there is no subsequent reclassification of amounts from OCI to profit or loss – for example, on sale of the equity investment – and no requirement to assess the equity investment for impairment. However, an entity may transfer amounts within equity; for example, from OCI to retained earnings.	
Entities are able to elect the “measurement alternative” in ASC 321 for equity interests without readily determinable fair value and for which the NAV practical expedient does not apply. Under that alternative, the equity interest is recorded at cost, less impairment. The carrying amount is subsequently adjusted up or down for observable price changes (i.e., prices in orderly transactions for the identical investment or similar investment of the same issuer); any adjustments to the carrying amount are recorded in net income. The selection of the measurement alternative is optional, but should be applied upon acquisition of an equity instrument on an instrument-by-instrument basis.	Since NAV is not defined or calculated in a consistent manner in different parts of the world, IFRS does not include a similar practical expedient.	

7.4 Loans and receivables - classification

Classification is not driven by legal form under IFRS, whereas legal form drives the classification of debt instruments under US GAAP. The potential classification differences drive subsequent measurement differences under IFRS and US GAAP. Under BE GAAP, particular measurement rules apply for loans and receivables.

US GAAP	IFRS	BE GAAP
The classification and accounting treatment of loans and receivables generally depends on whether the asset in question meets the definition of a debt security under ASC 320. To meet the definition of a security under	Classification under IFRS 9 of all debt investments – including debt securities, loans, and receivables – is based on a single model, which is driven by: • The entity's business model for managing the assets, and • The instrument's characteristics (i.e., the Solely Payment of Principal and Interest (SPPI) test).	BE GAAP does not specifically address financial assets by classifying them into different categories, but Belgian legislation includes specific measurement rules for some types of financial assets and liabilities, such as participating interests (equity investment), receivables and some types of derivative contracts.
ASC 320, the asset is required to be of a type commonly available on securities exchanges or in markets, or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment. Loans and receivables are also evaluated for embedded derivative features, which could require separate fair value accounting. Loans and receivables that are not within the scope of ASC 320 fall within the scope of other guidance, such as ASC 310, *Receivables*. Loans are generally: • Classified as loans held for investment, in which case they are measured at amortized cost, • Classified as loans held for sale, in which case they are measured at the lower of cost or fair value (market), or • Carried at fair value if the fair value option is elected.	The business model determination is not made at the individual asset level; rather, it is performed at a higher level of aggregation. An entity can have different business models for different portfolios. Business practices, such as factoring, might affect the business model (and hence, classification and measurement). Under the SPPI test, an entity needs to determine whether the contractual cash flows of the financial asset represent solely payments of principal and interest. Contractual features that introduce exposure to risks or volatility unrelated to a basic lending arrangement, such as exposure to changes in equity or commodity prices, do not give rise to contractual cash flows that are SPPI. The financial asset should be subsequently measured at amortized cost if both of the following conditions are met: • The financial asset is held within a "hold to collect" business model. Although the objective of an entity's business model might be to hold financial assets in order to collect contractual cash flows, the entity does not necessarily need to hold all of those instruments until maturity;and	In addition, BE GAAP requires long term receivables substantially supporting the financial position of the counterparty to be presented within the fixed assets. Under BEGAAP, receivables are recognized at nominal amount, and under a method similar to the amortized cost in some circumstances. BE GAAP provides guidance on impairment of accounts receivable covered by credit insurance. Compensation of impairment losses incurred and compensation received under the credit insurance polis in the income statement is prohibited. *Source: CBN/CNC 2011-15*

US GAAP	IFRS	BE GAAP
	• The contractual terms of the financial asset give rise, on specified dates, to cash flows that are SPPI. A financial asset should be subsequently measured at FVOCI if both of the following conditions are met: • The financial asset is held within a business model whose objective is achieved by both holding financial assets in order to collect contractual cash flows and selling financial assets; and • The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI. If the financial asset is measured at FVOCI, movements in fair value are recorded through OCI. However, interest income computed using the effective interest method, foreign exchange gains and losses, impairment losses, and gains and losses arising on derecognition of the asset, are recognized in profit or loss. If the financial asset does not pass the business model assessment or SPPI test, it is measured at FVTPL. This is the residual measurement category under IFRS 9.	

7.5 Debt securities—classification

Classification is not driven by legal form under IFRS, whereas legal form drives the classification of debt securities under US GAAP. Under BE GAAP, the rules are similar to those applied for loans and receivables.

US GAAP	IFRS	BE GAAP
If the asset meets the definition of a security under ASC 320, it is generally classified as trading, available for sale, or held-to-maturity. If classified as trading or available for sale, the debt security is carried at fair value. Held-to-maturity securities are carried at amortized cost.	The same general model described in SD 7.4 applies to investments in debt securities.	The same as described in SD 7.4.

US GAAP	IFRS	BE GAAP
Debt securities are also evaluated for embedded derivative features that could require separate fair value accounting.		

7.6 Debt investments at FVOCI—foreign exchange gains/losses

The treatment of foreign exchange gains and losses on debt securities measured at FVOCI (available-for-sale under US GAAP) will create more income statement volatility under IFRS.

US GAAP	IFRS	BE GAAP
The *total* change in fair value of available-for-sale debt securities—net of associated tax effects—is recorded in OCI. Any component of the overall change in fair market value that may be associated with foreign exchange gains and losses on an available-for-sale debt security is treated in a manner consistent with the remaining overall change in the instrument's fair value.	For debt instruments measured at FVOCI, the total change in fair value is bifurcated, with the portion associated with foreign exchange gains/losses on the amortized cost basis separately recognized in the income statement. The remaining portion of the total change in fair value (except for impairment losses) is recognized in OCI, net of tax effect.	Not addressed - no such category exists under the BE GAAP. Provisions shall be made for contingent losses and charges resulting from foreign currency positions or foreign currency transactions, from commodity positions or forward commodity transactions.

7.7 Embedded derivatives in financial assets

Under IFRS 9, an entity does not need to determine whether embedded derivatives need to be bifurcated from financial assets. The contractual features of the financial asset are assessed as part of the SPPI test, which drives the classification of the instrument as a whole. Under US GAAP, bifurcation of embedded derivatives is required. This can create a significant difference between the models, since under US GAAP only a particular feature may require bifurcation and measurement at fair value through profit or loss, whereas under IFRS 9, the entire instrument may require measurement at fair value through profit or loss.

US GAAP	IFRS	BE GAAP
When the terms of a financial asset involve returns that vary in timing or amounts, the asset should be evaluated to determine if there are any embedded derivatives that should be accounted for separately and measured at fair value through profit or loss.	A financial asset that is within the scope of IFRS 9 is not assessed for embedded derivatives because the SPPI test is applied to the entire hybrid contract to determine the appropriate measurement category. If an entity fails the SPPI test, the entire instrument is measured at FVTPL.	Not addressed.

7.8 Effective interest rate—expected vs contractual cash flows

Differences between the expected and contractual lives of financial assets carried at amortized cost have different implications under the two frameworks. The difference in where the two accounting frameworks place their emphasis (contractual term for US GAAP and expected life for IFRS) can affect the asset's carrying values and the timing of income recognition.

US GAAP	IFRS	BE GAAP
Under US GAAP, to determine the appropriate interest income recognition model, an entity must first consider the nature of the financial instrument, any industry-specific guidance, and the accounting model being applied to the instrument. US GAAP can be prescriptive in certain instances, such as interest income recognition for beneficial interests or structured notes. However, generally, for loans, receivables, and debt securities, the interest method is applied over the contractual life of the asset for purposes of recognizing accretion and amortization associated with premiums, discounts, and deferred origination fees and costs.	Under IFRS 9, there is only one effective interest model. The calculation of the effective interest rate is based on the *estimated* cash flows (excluding expected credit losses) over the *expected* life of the asset. Contractual cash flows over the full contractual term of the financial asset are used in the rare case when it is not possible to reliably estimate the cash flows or the expected life of a financial asset.	Not addressed.
However, estimated cash flows can be used when certain criteria are met. For example, when a reporting entity holds a large number of similar loans, investments in debt securities, or other receivables for which prepayments are probable, and the timing and amount of prepayments can be reasonably estimated, an entity may elect to consider estimates of future principal prepayments in the calculation of the effective interest rate.		
Although not specifically prescribed in US GAAP, the accrual of interest income is generally suspended when the collection of interest is less than probable or the collection of any portion of the loan's principal is doubtful (i.e., a non-performing loan). These are referred to as "non-accrual loans."	Under IFRS, the accrual of interest is not suspended.	

7.9 Effective interest rates—changes in expectations

Differences in how changes in expectations (associated with financial assets carried at amortized cost) are treated can affect asset values and the timing of income recognition.

US GAAP	IFRS	BE GAAP
Different models apply to the way revised estimates are treated depending on the nature of the asset. Changes may be reflected prospectively or retrospectively. However, none of the prescribed US GAAP models is the equivalent of the IFRS cumulative-catch-up-based approach.	If an entity revises its estimates of payments or receipts, the entity adjusts the carrying amount of the financial asset (or group of financial assets) to reflect revised estimated cash flows. Revisions of the expected life or the estimated future cash flows may occur, for example, in connection with debt instruments that contain a put or call option that does not cause the asset to fail the SPPI test described in SD 7.4. The carrying amount is recalculated by computing the present value of estimated future cash flows at the financial asset's original effective interest rate. The adjustment is recognized as income or expense in the income statement (i.e., by the cumulative-catch-up approach). Generally, floating rate instruments (e.g., LIBOR plus spread) issued at par are not subject to the cumulative-catch-up approach; rather, the effective interest rate is revised as market rates change.	Not addressed.

7.10 Restructuring of debt investments

The guidance to determine whether a restructuring of a debt investment represents an extinguishment, or a modification varies between the two frameworks. Additionally, under IFRS, there is a requirement to recognize a modification gain or loss when a restructuring of a debt investment is accounted for as a modification. Under US GAAP, a restructuring (that is not a troubled debt restructuring) accounted for as a modification does not have a "day 1" impact to the income statement.

US GAAP	IFRS	BE GAAP
When a creditor and a debtor agree to modify the terms of an existing debt instrument (or to exchange debt instruments) the creditor should first evaluate whether the restructuring constitutes a troubled debt restructuring (i.e., whether the debtor is experiencing financial difficulties and the creditor has granted a concession). For debt restructurings that are not considered troubled debt restructurings, a creditor and debtor each must determine whether the modification or exchange should be accounted for as (a) the creation of a new debt instrument and the extinguishment of the original debt instrument or (b) the modification of the original debt instrument.	When a change in cash flow arises in connection with a renegotiation or other modification, a careful analysis is required. An entity first needs to determine whether the change in cash flows arises under the contractual terms. For example, in a fixed rate loan that is prepayable at par (or with only an insignificant amount of compensation), having the lender reset the interest rate to market may not be considered a change in contractual terms. In this case, the entity would follow the guidance for changes in interest rates applicable to floating rate instruments.	Not addressed.
A new or restructured debt instrument is considered an extinguishment of the existing instrument and origination of a new instrument by the lender/investor when both of the following conditions are met: • The terms of the new or restructured debt instrument are at least as favorable to the lender as the terms for comparable debt instruments to customers with similar creditworthiness. • A modification is more than minor quantitatively or if facts and circumstances (and other relevant considerations) indicate that the modification is more than minor.	Where an entity determines that the change is due to a renegotiation, the entity then needs to determine whether the modification is substantial. If the change in terms is considered substantial, it is accounted for as a derecognition of a financial asset and the recognition of a new financial asset (i.e., an extinguishment). If the renegotiation does not result in a substantial change in terms, it is accounted for as a modification. Judgment is required to assess whether the change in terms is substantial enough to represent an extinguishment (i.e., derecognition of the asset). The assessment is based on all relevant factors, such as deferral of certain payments to cover a shortfall, insertion of substantial new terms, significant extension of the term, change in interest rate,	

US GAAP	IFRS	BE GAAP
	insertion of collateral or other credit enhancement, changes to loan covenants, or change in the currency of the instrument.	
For a refinancing or restructuring that is not a troubled debt restructuring and is considered a modification of the debt instrument, the amortized cost basis of the new loan should comprise the remaining amortized cost basis in the original loan, any additional amounts loaned, any fees received, and direct loan origination costs associated with the refinancing or restructuring. A new effective interest rate is calculated using the new contractual cash flows.	IFRS does not have the concept of a troubled debt restructuring. For a modification or renegotiation that does not result in derecognition, an entity is required to recognize a modification gain or loss immediately in profit or loss. The gain or loss is determined by recalculating the gross carrying amount of the financial asset by discounting the new contractual cash flows using the original effective interest rate.	

7.11 Eligibility for the fair value option

The IFRS eligibility criteria for use of the fair value option are much more restrictive than the US GAAP criteria.

US GAAP	IFRS	BE GAAP
With some limited exceptions for certain financial assets addressed by other applicable guidance (e.g., an investment in a consolidated subsidiary, employer's rights under employee benefit plans), US GAAP permits entities to elect the fair value option for any recognized financial asset. The fair value option may only be elected upon initial recognition of the financial asset or upon some other specified election dates identified in ASC 825-10-25-4.	Under IFRS 9, the only instance when an entity can irrevocably designate financial assets as measured at FVTPL at initial recognition is when doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.	Not applicable.

7.12 Reclassifications

Transfers of financial assets into or out of different categories are only permitted in limited circumstances under US GAAP and IFRS.

US GAAP	IFRS	BE GAAP
Changes in classification between trading, available-for-sale, and held-to-maturity categories can occur only when justified by the facts and	Once the initial classification has been determined, reclassification of investments in debt instruments is only permitted when an entity	Not addressed.

US GAAP	IFRS	BE GAAP
circumstances within the concepts of ASC 320. Given the nature of a trading security, transfers into or from the trading category should be rare. For loans, reclassification between the held for sale and held for investment categories should generally occur at the point the intent changes.	changes its business model for managing the financial assets. Changes to the business model are expected to be infrequent; the change is determined by the entity's senior management as a result of external or internal changes. It must be significant to the entity's operations and should be evident to external parties. Changes in intention related to particular financial assets (even in circumstances of significant changes in market conditions) and transfers of financial assets between parts of the entity with different business models, are examples for circumstances that are not considered changes in business model. For equity investments, the initial election to present fair value changes in OCI is irrevocable.	

7.13 Impairment principles—overall model

The IFRS 9 impairment model is an expected loss model. Current US GAAP (until the effective date of the CECL model – see SD 7.19) is an incurred loss model. The impairment models are therefore currently fundamentally different. The models will be more converged when the US GAAP CECL model is effective; however, many significant differences will still exist.

For a comparison of the impairment models after the CECL model is effective for US GAAP, refer to our In depth US2017-24, *Contrasting the new US GAAP and IFRS credit impairment models* (Please also consider developments since the issue of this publication, such as the issuance of ASU 2019-05 *Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief* and ASU 2019-04 *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*).

US GAAP	IFRS	BE GAAP
Under current US GAAP, a number of impairment models exist for various types of financial instruments not measured at fair value through net income (i.e., assets measured at amortized cost or at fair value through other comprehensive income). These models recognize impairments when losses have been incurred, as opposed to expected in the future. For loans, the overriding concept in US GAAP is that impairment losses should be recognized when, based on all available information, it is probable that a loss has been incurred based on events and	IFRS 9 introduced an expected loss model for financial assets. While certain simplifications exist for trade receivables, contract assets, and lease receivables, the overall model applies to assets at amortized cost and FVOCI. Unlike current US GAAP, the model is forward looking and incorporates historical information, current information, and reasonable and supportable forecasts of future conditions. The model contains three stages for measuring impairment losses based on the changes in credit quality of the instrument since inception.	Amounts receivable, including fixed income securities recorded as long-term financial assets, shall be written down, when receipt on the due date of all or part of the nominal amount is uncertain or doubtful. BE GAAP provides guidance on impairment of accounts receivable covered by credit insurance. Compensation of impairment losses incurred, and compensation received under the credit insurance polis in the income statement is prohibited. *Source: CBN/CNC 2011/15*

US GAAP	IFRS	BE GAAP
conditions existing at the date of the financial statements. Losses are not to be recognized before it is probable that they have been incurred, even though it may be probable or expected based on past experience that losses will be incurred in the future. For trade receivables, most entities use reserving matrices in which historical loss percentages are applied to the respective aging categories. Those historical loss percentages typically are not adjusted for future expectations. Receivables that are either current or not yet due do not generally have a reserve. For available for sale securities, entities generally record an impairment loss when the decline in fair value is "other than temporary."	Stage 1 includes financial instruments that have not had a significant increase in credit risk (SICR) since initial recognition or that have low credit risk at the reporting date. For these assets, an entity will typically record a 12-month Expected Credit Losses (ECL) (i.e., the expected credit loss that result from default events that are possible within 12 months after the reporting date). It is not the expected cash shortfalls over the 12-month period, but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12 months. Stage 2 includes financial instruments that have had a SICR since initial recognition (unless they have low credit risk at the reporting date and elect the practical expedient described in SD 7.14). For these assets, lifetime ECL is recognized, but interest revenue is still recognized on the gross carrying amount of the asset. Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL is recognized and interest revenue is calculated on the net carrying amount (i.e., net of the credit allowance). An entity is required to continually assess whether a SICR has occurred. The ECL measurement must reflect the time value of money. The entity should discount the cash flows that it expects to receive at the effective interest rate determined at initial recognition, or an approximation thereof, in order to calculate ECL.	

7.14 Impairments—AFS debt securities measured at FVOCI

US GAAP has a trigger-based two-step test that considers the intent and ability to hold the debt securities, as well as the expected recovery of the cash flows. Under IFRS, the general "expected loss" model applies. Generally, an allowance for the 12-month expected loss is recorded on initial recognition, and an allowance for lifetime expected losses is recognized upon a significant increase in credit risk.

US GAAP	IFRS	BE GAAP
An investment in certain debt securities classified as available for sale is assessed for impairment if the fair value is less than amortized cost. When fair value is less than amortized cost, an entity needs to determine whether the shortfall in fair value is temporary or other than temporary. In determining whether an impairment is other than temporary, the following factors are assessed for available-for-sale securities: **Step 1**—Can management assert (1) it does not have the intent to sell and (2) it is more likely than not that it will not have to sell before recovery of the amortized cost basis? If no, then impairment is triggered. If yes, then move to Step 2. **Step 2**—Does management expect recovery of the entire cost basis of the security? If yes, then impairment is not triggered. If no, then impairment is triggered. Once it is determined that impairment is other than temporary, the impairment loss recognized in the income statement depends on the impairment trigger: • If impairment is triggered as a result of Step 1, the loss in AOCI due to changes in fair value is released into the income statement. • If impairment is triggered in Step 2, the impairment loss is measured by calculating the present value of cash flows expected to be collected from the impaired security. The determination of such expected credit loss is not explicitly described; one method could be to discount the best estimate of cash flows by the original effective interest rate. The difference between the fair value and the post-impairment amortized cost is recorded within OCI.	As described in SD 7.13, IFRS 9 has a three-stage model for impairment based on the changes in credit quality of the instrument since inception. The same general impairment model applies to debt investments measured at FVOCI. Upon initial recognition of a financial asset, an entity will typically record a 12-months ECL. Subsequently, the entity is required to continually assess whether a SICR has occurred. If such an increase occurs, the allowance is increased to an amount equal to lifetime ECL. Movements in the ECL allowance are recognized in the income statement. However, the allowance itself is credited to a FVOCI reserve. A practical expedient is available for assets with low credit risk. This expedient applies, for example, to investment grade assets. For such assets, an entity can choose to measure the impairment loss at the 12-months ECL and assume that no significant increase in credit risk has occurred, as long as the asset continues to be low credit risk.	BE GAAP does not specifically address financial assets by classifying them into different categories, but there are general provisions relating to impairment of assets. Participating interests and shares classified under longterm financial assets shall be written down in case of a durable impairment or reduction in value justified by the financial position, profitability or future prospects of the company in which the participating interests or shares are held. It can be economically justified not to record any write-down even if the acquisition price substantially exceeds the acquired portion of the net assets of the company in which the investment is made. Amounts receivable, including fixed income securities recorded as longterm financial assets, shall be written down, when receipt on the due date of all or part of the nominal amount is uncertain or doubtful. Short-term investments as well as cash at hand and in bank shall be written down when their realizable value at the balance sheet date is lower than their acquisition cost. Short-term amounts receivable shall be written down when receipt on the due date of all or part of the nominal amount is uncertain or doubtful or when the realizable value of the balance sheet date is lower than the carrying value.

7.15 Impairment principles—HTM instruments (at amortized cost)

US GAAP is an "incurred loss" model whereas IFRS is an "expected loss" model. US GAAP looks to a two-step test based on intent and ability to hold and expected recovery of the cash flows.

US GAAP	IFRS	BE GAAP
The two-step impairment test described in SD 7.14 is also applicable to certain investments classified as held-to-maturity. Held-to-maturity investments would generally not trigger Step 1 (as tainting would result). Rather, evaluation of Step 2 may trigger impairment. Once triggered, impairment is measured with reference to expected credit losses, as described for available-for-sale debt securities.	The same general model (and practical expedient for investment grade assets) described in SD 7.13 applies to investments measured at amortized cost.	Amounts receivable, including fixed income securities recorded as long-term financial assets, shall be written down, when receipt on the due date of all or part of the nominal amount is uncertain or doubtful.

7.16 Impairment principles—Equity investments

Under US GAAP, for equity investments accounted for under the measurement alternative, an impairment assessment is required every reporting period. Under IFRS, there is no impairment requirement for investments in equity instruments (including those classified at FVOCI).

US GAAP	IFRS	BE GAAP
For equity investments without readily determinable fair values, for which the "measurement alternative" was elected, there is a single-step impairment model. An entity is required to perform a qualitative assessment at each reporting period to identify impairment. When a qualitative assessment indicates that an impairment exists, the entity will need to estimate the fair value of the investment and recognize in current earnings an impairment loss equal to the difference between the fair value and the carrying amount of the equity investment. The impairment charge is a basis adjustment, which reduces the carrying amount of the equity investment to its fair value; it is not a valuation allowance. For equity investments with readily determinable fair values measured at FVTPL, all decreases in value are reflected in profit and loss,	There are no impairment requirements for investments in equity investments. For those equity investments measured at FVTPL all decreases in value are reflected in profit and loss, eliminating the need for an impairment assessment. For those equity investments measured at FVOCI, all changes in fair value are recorded through OCI with no subsequent reclassification to profit or loss.	Participating interests and shares classified under long term financial assets shall be written down in case of a durable impairment or reduction in value justified by the financial position, profitability or future prospects of the company in which the participating interests or shares are held. It can be economically justified not to record any write-down even if the acquisition price substantially exceeds the acquired portion of the net assets of the company in which the investment is made.

US GAAP	IFRS	BE GAAP
eliminating the need for an impairment assessment.		

7.17 Impairments—reversal of losses

Under the IFRS "expected loss" model, the allowance is updated every period to reflect the current assessment of expected losses. Under US GAAP, reversals are permitted for debt instruments classified as loans; however, reversal of impairment losses on debt securities is prohibited. Expected recoveries are reflected over time by adjusting the interest rate used to accrue interest income.

US GAAP	IFRS	BE GAAP
Impairments of loans held for investment measured under ASC 310-10-35 and ASC 450 are permitted to be reversed; however, the carrying amount of the loan can at no time exceed the recorded investment in the loan. Reversals of impairment losses for debt securities classified as available-for-sale or held-to-maturity securities are prohibited. Rather, any expected recoveries in future cash flows are reflected as a prospective yield adjustment.	The amount of ECL or reversal that is required to adjust the loss allowance at the reporting date to the amount necessary under IFRS 9 is recognized in the income statement as an impairment loss or gain.	Under BEGAAP, if in a subsequent period the amount of impairment loss decreases and the decrease can be objectively associated with an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed.

7.18 Financial asset derecognition

The determination of whether transferred financial assets should be derecognized (e.g., in connection with securitizations of loans or factorings of trade receivables) is based on different models under US GAAP and IFRS. Under US GAAP, the derecognition framework focuses exclusively on control, unlike IFRS, which requires consideration of risks and rewards.

The IFRS model also includes a continuing involvement accounting model that has no equivalent under US GAAP. Under US GAAP, either the transferred asset is fully derecognized, or the transfer is accounted for as a collateralized borrowing. There is no concept of a "partial sale" under US GAAP.

US GAAP	IFRS	BE GAAP
ASC 860 does not apply to transfers in which the transferee is a consolidated affiliate of the transferor, as defined in the standard. If this is the case, regardless of whether the transfer criteria are met, derecognition is not possible as the assets are, in effect, transferred within the consolidated entity.	The transferor first applies the consolidation guidance and consolidates any and all subsidiaries or special purpose entities it controls. The guidance focuses on evaluation of whether a qualifying transfer has taken place, whether risks and rewards have been transferred,	General rules for derecognition provided for under IFRS do not conflict with BE GAAP. When an enterprise 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 asset sold is

US GAAP	IFRS	BE GAAP
The guidance focuses on an evaluation of the transfer of control. The evaluation is governed by three key considerations: • Legal isolation of the transferred asset from the transferor • The ability of the transferee (or, if the transferee is a securitization vehicle, each third-party beneficial interest holder) to pledge or exchange the asset (or the beneficial interest) • The transferor has no right or obligation to repurchase the transferred assets As such, derecognition can be achieved even if the transferor has significant ongoing involvement with the transferred assets, such as significant exposure to credit risk. If a transfer of an entire financial asset qualifies for sale accounting, the transferred asset must be derecognized from the transferor's balance sheet. All assets received and obligations assumed in exchange are recognized at fair value. If the transferor continues to service the transferred assets, a related servicing asset or servicing liability should be recorded at its fair value. Any gain or loss on the transfer should be recognized, calculated as the difference between the net proceeds received and the carrying value of the assets sold. A transfer may comprise only a portion of an entire financial asset (e.g., a transfer involving a loan participation). To potentially qualify for sale accounting, the transferred portion must first meet the stringent accounting definition of a "participating interest." If the transferred portion does not satisfy this definition, the exchange must be accounted for as a secured borrowing. If the definition is met, the transfer of the participating interest must then satisfy the three derecognition criteria cited above to qualify for sale accounting. If a transfer of a participating interest qualifies for derecognition,	and, in some cases, whether control over the asset in question has been transferred. The model can be applied to part of a financial asset (or part of a group of similar financial assets) or to the financial asset in its entirety (or a group of similar financial assets in their entirety). Under IFRS 9, full derecognition is appropriate once both of the following conditions have been met: • The financial asset has been transferred outside the consolidated group. • The entity has transferred substantially all of the risks and rewards of ownership of the financial asset. The first condition is achieved in one of two ways: • When an entity transfers the contractual rights to receive the cash flows of the financial asset, or • When an entity retains the contractual rights to the cash flows but assumes a contractual obligation to pass the cash flows on to one or more recipients (referred to as a pass-through arrangement) Many securitizations do not meet the strict pass-through criteria to recognize a transfer of the asset outside of the consolidated group and as a result fail the first condition for derecognition. If there is a qualifying transfer, an entity must determine the extent to which it retains the risks and rewards of ownership of the financial asset. IFRS 9 requires the entity to evaluate the extent of the transfer of risks and rewards by comparing its exposure to the variability in the amounts and timing of the transferred financial assets' net cash flows, both before and after the transfer. If the entity's exposure does not change substantially, derecognition would be precluded. Rather, a liability equal to the consideration	kept in the balance sheet of the seller, and the amounts received from the buyer are recorded as a borrowing (as an amount receivable for the purchaser). A guarantee is disclosed in the notes to the financial statements. The difference between the sale price and the repurchase price is considered as interest and recorded as income over the term of the contract. Any revenue generated by the asset is recorded by the seller. 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. In addition, when an enterprise lends securities for a determined period of time, with the borrower having the obligation to provide the lender with similar securities at expiration date, there is a transfer of ownership. However, the lender still bears the price risk on the related securities. These securities are transferred to a receivable account included in the same subheading and valued according to the accounting policies applicable to them. The borrower accounts for a short-term investment and a debt: accounting policies will vary depending on whether the borrower has an exposure or not.

US GAAP	IFRS	BE GAAP
the transferor must allocate the carrying value of the entire financial asset between the participating interest sold and the portion retained on a pro-rata basis. All assets received and obligations assumed in exchange are recognized at fair value, consistent with the measurement principles that govern derecognition of an entire financial asset.	received would be recorded (i.e., a financing transaction). If, however, substantially all risks and rewards are transferred, the entity would derecognize the financial asset transferred and recognize separately any asset or liability created through any rights and obligations retained in the transfer (e.g., servicing assets). Many securitization transactions include some ongoing involvement by the transferor that causes the transferor to retain substantial risks and rewards, thereby failing the second condition for derecognition, even if the pass-through test is met.	

Chapter 8
Liabilities – taxes

Updated June 2021

8.1 Liabilities – taxes

Both US GAAP and IFRS base their deferred tax accounting requirements on balance sheet temporary differences, measured at the tax rates expected to apply when the differences reverse. Discounting of deferred taxes is also prohibited under both frameworks. Although the two frameworks share many fundamental principles, they are at times applied in different manners and there are different exceptions to the principles under each framework. This may result in differences in income tax accounting between the two frameworks. Some of the more significant differences relate to the allocation of tax expense/benefit to financial statement components ("intraperiod allocation"), income tax accounting with respect to share-based payment arrangements, and some elements of accounting for uncertain tax positions. Recent developments in US GAAP and IFRS will eliminate or reduce certain of these differences, as discussed below.

The relevant differences are set out below, other than those related to share-based payment arrangements, which are described in the Expense recognition—share-based payments chapter.

Technical references

US GAAP

ASC 740

IFRS

IAS 1, IAS 12, IAS 34, IAS 37, IFRIC 23

BE GAAP

CBN/CNC 2012-6, CBN/CNC 2012-7, CBN/CNC 2013-14, CBN/CNC 2014-8, CBN/CNC 2015-1, CBN/CNC 2018-01, CBN/CNC 2018-02, CBN/CNC 2020-11

Note

The following discussion captures a number of the more significant GAAP differences. It is important to note that the discussion is not inclusive of all GAAP differences in this area.

8.2 Hybrid taxes

Hybrid taxes are based on the higher or lower of a tax applied to (1) a net amount of income less expenses, such as taxable profit or taxable margin, (generally considered an income tax) and (2) a tax applied to a gross amount, such as revenue or capital, (generally not considered income taxes). Hybrid taxes are assessed differently under the two frameworks, which could lead to differences in presentation in the income statement and recognition and measurement of deferred taxes.

US GAAP	IFRS	BE GAAP
Taxes based on a gross amount are not accounted for as income taxes and should be reported as pre-tax items. A hybrid tax is considered an income tax and is presented as income tax expense only to the extent that it *exceeds*	Accounting for hybrid taxes is not specifically addressed within IFRS. Applying the principles in IAS 12 to the accounting for hybrid taxes, entities can adopt either one of the	Not addressed.

US GAAP	IFRS	BE GAAP
the tax based on the amount not considered income in a given year. Deferred taxes should be recognized and measured according to that classification.	following approaches and apply it consistently: • Designate the tax based on the gross amount not considered income as the minimum amount and recognize it as a pre-tax item. Any excess over that minimum amount would then be reported as income tax expense; or • Designate the tax based on the net amount of income less expenses as the minimum amount and recognize it as income tax expense. Any excess over that minimum would then be reported as a pre-tax item. Deferred taxes should be recognized and measured according to the classification chosen.	

8.3 Tax base of an asset or a liability

Under IFRS, a single asset or liability may have more than one tax base, whereas there would generally be only one tax base per asset or liability under US GAAP.

US GAAP	IFRS	BE GAAP
Tax base is based upon the relevant tax law. It is generally determined by the amount that is depreciable for tax purposes or deductible upon sale or liquidation of the asset or settlement of the liability.	Tax base is based on the tax consequences that will occur based upon how an entity is expected to recover or settle the carrying amount of assets and liabilities. The carrying amount of assets or liabilities can be recovered or settled through use or through sale. Assets and liabilities may also be recovered or settled both through use and sale. In that case, the carrying amount of the asset or liability is bifurcated, resulting in more than a single temporary difference related to that item. Exceptions to these requirements include: • A rebuttable presumption exists that investment property	Not addressed.

US GAAP	IFRS	BE GAAP
	measured at fair value will be recovered through sale. • Non-depreciable assets measured using the revaluation model in IAS 16 are presumed to be recovered through sale.	

8.4 Taxes – initial recognition of an asset or a liability

In certain situations, there will be no deferred tax accounting under IFRS that would exist under US GAAP and vice versa.

US GAAP	IFRS	BE GAAP
A temporary difference may arise on initial recognition of an asset or liability. In asset purchases that are not business combinations, a deferred tax asset or liability is recorded with the offset generally recorded against the assigned value of the asset. The amount of the deferred tax asset or liability is determined by using a simultaneous equations method. An exemption exists from the initial recognition of temporary differences in connection with transactions that qualify as leveraged leases under the historical lease-accounting guidance in ASC 840. While the new lease guidance in ASC 842 does not permit any new leases to be classified as leveraged leases, existing leases that met the definition in ASC 840 at inception are grandfathered and, assuming they are not modified, continue to follow the prior accounting.	An exception exists that deferred taxes should not be recognized on the initial recognition of an asset or liability in a transaction which is not a business combination and affects neither accounting profit nor taxable profit/loss at the time of the transaction. No special treatment of leveraged leases exists under IFRS.	Under BE GAAP, the concept of deferred tax is different compared to IFRS and US GAAP accounting frameworks. Under BE GAAP, deferred tax is recognized in specific cases described in CBN/CNC advice 013-14: The advice gives detailed guidance on how to account for deferred tax on capital grants and realized capital gains for which a deferred current taxation is applicable requiring an adjustment to the deferred tax liability initially measured at the enacted tax rate when the entity expects to pay lower taxes in the future due to entitlements to tax credits such as the notional interest deduction. In practice such adjusted deferred tax liability can best be estimated by applying the estimated future effective tax rate to the capital gains and capital grants subject to deferred taxation. Such an approach is not allowed under IFRS and US GAAP. Deferred taxes arising on temporary differences other than those mentioned above are not recognized under BE GAAP. 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

US GAAP	IFRS	BE GAAP
		deferred tax assets in the consolidated financial statements is permitted if recovery is probable. *Source: CBN/CNC 2013-14*

8.5 Recognition of deferred tax assets

The frameworks take differing approaches to the recognition of deferred tax assets. However, it would be expected that net deferred tax assets recorded would be similar under both standards.

US GAAP	IFRS	BE GAAP
Deferred tax assets are recognized in full, but then a valuation allowance is recorded if it is considered more likely than not that some portion of the deferred tax assets will not be realized.	Deferred tax assets are recognized to the extent that it is probable (or "more likely than not") that sufficient taxable profits will be available to utilize the deductible temporary difference or carry forward of unused tax losses or tax credits.	Not addressed. Under BE GAAP, no deferred tax assets are recognized in the statutory accounts as deferred taxation under BE GAAP only deals with specific transactions resulting in a deferred (current) taxation of the underlying taxable profits.

8.6 Deferred taxes for outside basis differences

Differences in the recognition criteria surrounding undistributed profits and other outside basis differences could result in differences in recognized deferred taxes under IFRS.

US GAAP	IFRS	BE GAAP
With respect to undistributed profits and other outside basis differences, different requirements exist depending on whether they involve investments in subsidiaries, joint ventures, or equity investees. As it relates to investments in domestic subsidiaries, deferred tax liabilities are required on undistributed profits arising after 1992 unless the amounts can be recovered on a tax-free basis and the entity anticipates utilizing that method. As it relates to investments in domestic corporate joint ventures, deferred tax liabilities are required	With respect to undistributed profits and other outside basis differences related to investments in foreign and domestic subsidiaries, branches and associates, and interests in joint arrangements, deferred tax liabilities are recognized except when a parent company, investor, joint venturer or joint operator is able to control the timing of reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The general guidance regarding deferred taxes on undistributed profits and other outside basis differences is applied when there	Not applicable.

US GAAP	IFRS	BE GAAP
on undistributed profits that arose after 1992. No deferred tax liabilities are recognized on undistributed profits and other outside basis differences of foreign subsidiaries and corporate joint ventures that meet the indefinite reversal criterion. Deferred taxes are generally recognized on temporary differences related to investments in equity investees. US GAAP contains specific guidance on how to account for deferred taxes when there is a change in the status of an investment. If an investee becomes a subsidiary, the temporary difference for the investor's share of the undistributed earnings of the investee prior to the date it becomes a subsidiary is “frozen” and continues to be recognized as a temporary difference for which a deferred tax liability will be recognized. If a foreign subsidiary becomes an investee, the amount of outside basis difference of the foreign subsidiary for which deferred taxes were not provided on the basis of the indefinite reversal exception is effectively “frozen” until the period in which it becomes apparent that any of those undistributed earnings (prior to the change in status) will be remitted. US GAAP notes that the change in status of an investment would not by itself mean that remittance of those undistributed earnings is considered apparent. Deferred tax assets for investments in subsidiaries and corporate joint ventures may be recorded only to the extent they will reverse in the foreseeable future.	is a change in the status of an investment. Deferred tax assets for investments in foreign and domestic subsidiaries, branches and associates, and interests in joint arrangements are recorded only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.	

8.7 Deferred taxes for exchange rate changes or tax indexing

US GAAP prohibits the recognition of deferred taxes on exchange rate changes and tax indexing related to nonmonetary assets and liabilities in a foreign currency while it may be required under IFRS.

US GAAP	IFRS	BE GAAP
No deferred taxes are recognized for differences related to nonmonetary assets and liabilities that are remeasured from local currency into their functional currency by using historical exchange rates (if those differences result from changes in exchange rates or indexing for tax purposes).	Deferred taxes should be recognized for the difference between the carrying amount determined by using the historical exchange rate and the relevant tax base, which may have been affected by exchange rate changes or tax indexing.	Not applicable.

8.8 Uncertain tax positions

In June 2017, the IFRS Interpretations Committee issued IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments*, which clarifies how the recognition and measurement requirements should be applied when there is uncertainty over income tax treatments. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019 with earlier adoption permitted.

Differences with respect to recognition, unit-of-account, measurement, the treatment of subsequent events, and treatment of interest and penalties may result in different outcomes under the two frameworks.

US GAAP	IFRS	BE GAAP
Uncertain tax positions are recognized and measured using a two-step process: (1) determine whether a benefit may be recognized and (2) measure the amount of the benefit. Tax benefits from uncertain tax positions may be recognized only if it is more likely than not that the tax position is sustainable based on its technical merits.	Tax assets or liabilities arising from uncertain tax treatments should be assessed using a “probable” recognition threshold.	Since there is no specific guidance under BE GAAP, general recognition rules apply. Provisions must be recorded to cover clearly identified losses or charges that 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. Generally, BE GAAP allow entities much greater latitude in exercising judgement about the need for provisions. In practice, together with a tendency to emphasize the importance of the attribute of

US GAAP	IFRS	BE GAAP
		prudence, this means that certain provisions recorded in conformity with BE GAAP would not qualify for recognition under either IFRS or US GAAP.
Uncertain tax positions are evaluated at the individual tax position level.	An entity is required to assess whether to consider individual uncertainties separately or collectively based on which method better predicts the resolution of the uncertainty.	
The tax benefit is measured by using a cumulative probability model: the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement.	For those items that meet the probable recognition threshold, an entity is required to measure the impact of the uncertainty using the method that better predicts the resolution of the uncertainty: either the most likely amount method or the expected value method.	
Relevant developments affecting uncertain tax positions after the balance sheet date but before issuance of the financial statements (including the discovery of information that was not available as of the balance sheet date) would be considered a non-adjusting subsequent event for which no effect would be recorded in the current-period financial statements.	Relevant developments affecting uncertain tax positions occurring after the balance sheet date but before issuance of the financial statements (including the discovery of information that was not available as of the balance sheet date) would be considered either an adjusting or non-adjusting event depending on whether the new information provides evidence of conditions that existed at the end of the reporting period.	
Interest and penalties The income statement classification of interest and penalties related to uncertain tax positions (either in income tax expense or as a pretax item) represents an accounting policy decision that is to be consistently applied.	**Interest and penalties** An entity needs to consider the specific nature of interest and penalties to determine whether they are income taxes or not. If a particular amount is an income tax, the entity should apply IAS 12 to that amount. Otherwise, the entity should apply the contingency guidance under IAS 37. This determination is not an accounting policy choice.	

8.9 Special deductions, investment tax credits, and tax holidays

US GAAP has specific guidance related to special deductions and investment tax credits, generally grounded in US tax law. US GAAP also addresses tax holidays. IFRS does not specify accounting treatments for any specific national tax laws and entities instead are required to apply the principles of IAS 12 to local legislation.

US GAAP	IFRS	BE GAAP
Special deductions Several specific deductions under US tax law have been identified under US GAAP as special deductions. Special deductions are recognized in the period in which they are claimed on the tax return. Entities subject to graduated tax rates should evaluate whether the ongoing availability of special deductions is likely to move the entity into a lower tax band which might cause deferred taxes to be recorded at a lower rate.	**Special deductions** Special deductions are not defined under IFRS but are treated in the same way as tax credits. Tax credits are recognized in the period in which they are claimed on the tax return, however certain credits may have the substantive effect of reducing the entity's effective tax rate for a period of time. The impact on the tax rate can affect how entities should record their deferred taxes. In other cases the availability of credits might reduce an entity's profits in a way that moves it into a lower tax band, and again this may impact the rate at which deferred taxes are recorded.	**Special deductions** Not specifically defined. BE GAAP provides guidance on tax deductions for innovation income. In case of insufficient taxable profits, deductions on innovation income can be carried forward. *Source: CBC/CNC 2018-01* **Investment tax credits** In respect of investment deductions related to R&D projects, the Belgian tax administration issued specific accounting guidance dealing with the accounting treatment of these tax credits in the statutory accounts. For practical reasons, this guidance is used when preparing the statutory accounts notwithstanding the fact that this tax guidance has neither been introduced into the Belgian accounting law itself nor been confirmed by the Belgian Accounting Commission. *Source: Ci.RH.421/579.072 (AFER/AOIF N°60/2010), CBN/CNC 2018/02*

US GAAP	IFRS	BE GAAP
Investment tax credits It is preferable to account for investment tax credits using the "deferral method" in which the entity spreads the benefit of the credit over the life of the asset. However, entities might alternatively elect to recognize the benefit in full in the year in which it is claimed (the "flow-through method"). **Tax holidays** Deferred taxes are not recorded for any tax holiday but rather the benefit is recognized in the periods over which the applicable tax rate is reduced or that the entity is exempted from taxes. Entities should, however, consider the rate at which deferred taxes are recorded on temporary differences. Temporary differences expected to reverse during the period of the holiday should be recorded at the rate applicable during the holiday rather than the normal statutory income tax rate.	**Investment tax credits** IAS 12 states that investment tax credits are outside the scope of the income taxes guidance. IFRS does not define investment tax credits, but we believe that it is typically a credit received for investment in a recognized asset. Depending on the nature of the credit it might be accounted for in one of three ways: • In the same way as other tax credits; • As a government grant under IAS 20; or • As an adjustment to the tax base of the asset to which the initial recognition exception is likely to apply. **Tax holidays** While IFRS does not define a tax holiday, the treatment is in line with US GAAP in that the holiday itself does not create deferred taxes, but it might impact the rate at which deferred tax balances are measured.	**Tax holidays** Not specifically defined. BE GAAP provides certain tax measures in the context of the COVID pandemic allowing companies to carry back the tax losses arising from the COVID-19 pandemic to a previous tax year through a temporary tax exemption. The carry back of the tax loss in the tax return can only be recognised as tax gain in the income statement of the financial year in which the loss is actually realised and does not create deferred taxes. *Source: CBN/CNC 2020-11*

8.10 Taxes – intercompany transfers of inventory

In October 2016, the FASB issued Accounting Standards Update No. 2016-16, *Income Taxes (Topic 740) – Intra-Entity Transfers of Assets Other Than Inventory*, which eliminates the exception for the recognition of taxes on intercompany transfers of assets in the prior US GAAP guidance. The new guidance does not apply to transfers of inventory, and thus a difference remains between US GAAP and IFRS with regard to intra-entity inventory transactions. The guidance was effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those years. For entities other than public business entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, but only in the first interim period of a fiscal year.

The frameworks require different approaches when current and deferred taxes on intercompany transfers of inventory are considered.

US GAAP	IFRS	BE GAAP
For purposes of the consolidated financial statements, any tax impacts to the seller as a result of an intercompany sale or transfer of inventory are deferred until the asset is sold to a third-party or otherwise recovered (e.g., written down). In addition, the buyer is prohibited from recognizing a deferred tax asset resulting from the difference between the tax basis and consolidated carrying amount of the inventory.	There is no exception to the model for the income tax effects of transferring assets between the entities in the consolidated groups. Any tax impacts to the consolidated financial statements as a result of the intercompany transaction are recognized as incurred. If the transfer results in a change in the tax base of the asset transferred, deferred taxes resulting from the intragroup sale are recognized at the buyer's tax rate.	Not applicable.

8.11 Change in tax laws and rates

The impact on deferred and current taxes as a result of changes in tax laws and tax rates may be recognized earlier under IFRS.

US GAAP	IFRS	BE GAAP
US GAAP requires the use of enacted tax laws and tax rates when calculating current and deferred taxes.	Current and deferred tax are calculated using enacted or substantively enacted tax laws and tax rates.	BE GAAP requires the use of enacted tax rates, except the Belgian deferred tax on capital grants and unrealized capital gains.

8.12 Tax rate on undistributed earnings of a subsidiary

In the case of a dual rate tax jurisdiction, the tax rate to be applied on inside basis difference and outside basis difference in respect of undistributed earnings may differ between US GAAP and IFRS.

US GAAP	IFRS	BE GAAP
For jurisdictions that have a tax system under which undistributed profits are subject to a corporate tax rate higher than distributed profits, effects of temporary differences should be measured using the undistributed tax rate. Tax benefits of future tax credits that will be realized when the income is distributed cannot be recognized before the period in	Where income taxes are payable at a higher or lower rate if part or all of the net profit or retained earnings are distributed as dividends, deferred taxes are measured at the tax rate applicable to undistributed profits. In consolidated financial statements, when a parent has a subsidiary in a dual-rate tax jurisdiction and expects to distribute profits of the subsidiary	Due to the application of the Belgian "fairness tax" legislation, a higher tax rate may apply if dividends are paid out to the shareholders. See next section.

US GAAP	IFRS	BE GAAP
which those credits are included in the entity's tax return. A parent company with a subsidiary entitled to a tax credit for dividends paid should use the distributed rate when measuring the deferred tax effects related to the operations of the foreign subsidiary. However, the undistributed rate should be used in the consolidated financial statements if the parent, as a result of applying the indefinite reversal criteria, has not provided for deferred taxes on the unremitted earnings of the foreign subsidiary. For jurisdictions where the undistributed rate is lower than the distributed rate, the use of the distributed rate is preferable but the use of the undistributed rate is acceptable provided appropriate disclosures are added.	in the foreseeable future, it should measure the temporary differences relating to the investment in the subsidiary at the rate that would apply to distributed profits. This is on the basis that the undistributed earnings are expected to be recovered through distribution and the deferred tax should be measured according to the expected manner of recovery.	

8.13 Taxes – presentation

Presentation differences related to uncertain tax positions could affect the calculation of certain ratios from the face of the balance sheet (including an entity's current ratio).

US GAAP	IFRS	BE GAAP
A liability for uncertain tax positions is classified as a current liability only to the extent that cash payments are anticipated within 12 months of the reporting date. Otherwise, such amounts are reflected as noncurrent liabilities. A liability for an unrecognized tax benefit should be presented as a reduction to a deferred tax asset for a net operating loss or tax credit carry forward if the carry forward is available at the reporting date to settle any additional income taxes that would result from the disallowance of the uncertain tax position.	A liability for uncertain tax positions relating to current or prior year returns is generally classified as a current liability on the balance sheet because entities typically do not have the unconditional right to defer settlement of uncertain tax positions for at least 12 months after the end of the reporting period. There is no specific guidance under IFRS on the presentation of liabilities for uncertain tax positions when a net operating loss carry forward or a tax credit carry forward exists. The general guidance in IAS 12 on the presentation of income taxes applies.	Not addressed but similar to IFRS in practice.

US GAAP	IFRS	BE GAAP
Netting would not apply, however, if the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the carry forward for such purpose.		

8.14 Taxes – intraperiod allocation

Differences can arise in accounting for the tax effect of a loss from continuing operations. Subsequent changes to deferred taxes could result in less volatility in the statement of operations under IFRS.

US GAAP	IFRS	BE GAAP
The tax expense or benefit is allocated between the financial statement components (such as continuing operations, discontinued operations, other comprehensive income, and equity) following a "with and without" approach: • First, the total tax expense or benefit for the period is computed, • Then the tax expense or benefit attributable to continuing operations is computed separately without considering the other components, and • The difference between the total tax expense or benefit for the period and the amount attributable to continuing operations is allocated amongst the other components. An exception to that model requires that all components be considered to determine the amount of tax benefit that is allocated to a loss from continuing operations.	Tax follows the pre-tax item. Current and deferred tax on items recognized in other comprehensive income or directly in equity should be similarly recognized in other comprehensive income or directly in equity. When an entity pays tax on all of its profits, including elements recognized outside of profit or loss, it can be difficult to determine the share attributable to individual components. Under such circumstances, tax should be allocated on a pro rata basis or other basis that is more appropriate in the circumstances. Subsequent changes in deferred tax are recognized in profit or loss, OCI, or equity depending on where the transaction(s) giving rise to the deferred tax were recorded. Entities must "backwards trace" based upon how the deferred tax balance arose to determine where the change in deferred tax is recorded.	Not addressed.

US GAAP	IFRS	BE GAAP
Subsequent changes in deferred tax balances due to enacted tax rate and tax law changes are taken through profit or loss regardless of whether the deferred tax was initially created through profit or loss or other comprehensive income, through equity, or in acquisition accounting. The same principle applies to changes in assertion with respect to unremitted earnings of foreign subsidiaries; deferred taxes are recognized in continuing operations even if some of the temporary difference arose as a result of foreign exchange recognized in OCI (with the exception of current-year foreign exchange that is recognized in CTA). Changes in the amount of valuation allowance due to changes in assessment about realization in future periods are generally taken through the income statement, with limited exceptions for certain equity-related items.		

8.15 Taxes – disclosures

The disclosures required by the frameworks differ in a number of respects, but perhaps the two most significant differences relate to uncertain tax positions and the rate used in the effective tax rate reconciliation. Other disclosure differences are largely a consequence of differences in the underlying accounting models.

US GAAP	IFRS	BE GAAP
Public entities are required to present a tabular reconciliation of unrecognized tax benefits relating to uncertain tax positions from one year to the next. The effective tax rate reconciliation is presented using the statutory tax rate of the parent company.	Entities with contingent tax assets and liabilities are required to provide IAS 37 disclosures in respect of these contingencies, but there is no requirement for a tabular reconciliation. The effective tax rate reconciliation can be presented using either the applicable tax rates or the weighted average tax rate applicable to profits of the consolidated entities.	Not addressed.

8.16 Taxes – interim reporting

A worldwide effective tax rate is used to record interim tax provisions under US GAAP. Under IFRS, a separate estimated average annual effective tax rate is used for each jurisdiction.

US GAAP	IFRS	BE GAAP
In general, the interim tax provision is determined by applying the estimated annual worldwide effective tax rate for the consolidated entity to the worldwide consolidated year-to-date pretax income.	The interim tax provision is determined by applying an estimated average annual effective tax rate to interim period pretax income. To the extent practicable, a separate estimated average annual effective tax rate is determined for each material tax jurisdiction and applied individually to the interim period pretax income of each jurisdiction.	Not addressed.

8.17 Taxes – separate financial statements

US GAAP provides guidance on the accounting for income taxes in the separate financial statements of an entity that is part of a consolidated tax group.

US GAAP	IFRS	BE GAAP
The consolidated current and deferred tax amounts of a group that files a consolidated tax return should be allocated among the group members when they issue separate financial statements using a method that is systematic, rational and consistent with the broad principles of ASC 740. An acceptable method is the “separate return” method. It is also acceptable to modify this method to allocate current and deferred income taxes using the “benefits-for-loss” approach.	There is no specific guidance under IFRS on the methods that can be used to allocate current and deferred tax amounts of a group that files a consolidated tax return among the group members when they issue separate financial statements.	Not addressed.

8.18 Taxes – share-based payment arrangements

Significant differences in current and deferred taxes exist between US GAAP and IFRS with respect to share-based payment arrangements. The relevant differences are described in the Expense recognition—share-based payments chapter.

8.19 Accounting considerations of US tax reform

The Tax Cuts and Jobs Act of 2017 (the 2017 Act) significantly changed many provisions of US tax law, and those tax law changes could have a significant impact on the current and deferred taxes of entities with US operations. In response, the FASB staff issued several FASB Staff Q&As that address accounting for the 2017 Act under US GAAP. The FASB also issued new guidance related to the reclassification of certain tax effects from accumulated other comprehensive income.

Since the FASB guidance is applied only to entities under US GAAP, the accounting impact of the 2017 Act could be different between IFRS and US GAAP in certain areas, as summarized below. Additionally, an entity would need to consider other differences discussed in this publication when considering the accounting impact of the 2017 Act.

8.19.1 Deemed mandatory repatriation ("toll tax")

The 2017 Act required a deemed mandatory repatriation of previously undistributed earnings and profits (E&P) of foreign corporations owned by US parents.

US GAAP	IFRS	BE GAAP
The FASB staff concluded that the toll tax liability should not be discounted under US GAAP.	IAS 12 is silent on discounting current tax balances. There is an accounting policy choice of whether to discount the toll tax liability.	Not addressed.

8.19.2 Alternative minimum tax (AMT) credit carryforwards

The 2017 Act repealed the AMT. AMT credit carryforwards at January 1, 2018 can now be offset against regular tax, and any remaining balances will be refundable over the next four years. An entity should decide whether to reclassify the AMT credit carryforwards as a receivable. An entity might classify them as a deferred tax asset if they will be recovered against future tax liabilities, or as a receivable if they will be refunded in cash.

US GAAP	IFRS	BE GAAP
The FASB staff concluded that the AMT credit carryforwards should not be discounted under US GAAP, regardless of the expected manner of recovery.	IAS 12 is silent on discounting current tax balances. There is an accounting policy choice of whether to discount the receivable for AMT credit carryforwards.	Not addressed.

8.19.3 Base erosion anti-abuse tax (BEAT)

The 2017 Act introduced a new minimum tax on certain international intercompany payments as a means to reduce the ability of multi-national companies to erode the US tax base through deductible related-party payments. The minimum tax, known as BEAT, is imposed when the tax calculated under BEAT exceeds an entity's regular tax liability determined after the application of certain credits allowed against the regular tax.

US GAAP	IFRS	BE GAAP
The FASB staff concluded that temporary differences should be measured at regular statutory tax rates versus considering the impact of BEAT in determining the rate expected to apply. Therefore, the effects of BEAT should be recognized as a period cost when incurred versus being considered in the measurement of deferred taxes.	No specific guidance related to BEAT exists under IFRS. It would be acceptable for an entity to measure deferred taxes at the regular statutory tax rate and account for the effects of BEAT in the year in which they are incurred.	Not addressed.
The FASB staff also concluded that an entity does not need to evaluate the effect of potentially paying the BEAT tax in future years on the realization of deferred tax assets. While not required, we believe that companies may elect to do so.	There is no similar guidance under IFRS on the potential impact of BEAT on the realizability of deferred tax assets.	

8.19.4 Global intangible low-taxed income (GILTI)

The 2017 Act introduced a new tax on certain global intangible low-taxed income (GILTI) of a US shareholder's controlled foreign corporations. The GILTI inclusion will be part of the entity's taxable income for US tax purposes each year.

US GAAP	IFRS	BE GAAP
The FASB staff concluded that an entity that is subject to GILTI must make an accounting policy election to either treat GILTI as a period cost, or to record deferred taxes for basis differences that are expected to reverse as GILTI in future years.	It would be acceptable to recognize any taxes for GILTI as a period cost when GILTI is included on the tax return. It would also be acceptable to reflect the impact of the GILTI inclusion in the tax rate used to measure deferred taxes for temporary differences expected to reverse as GILTI. Judgment will be required to determine which approach is more appropriate.	Not addressed.

8.19.5 Foreign derived intangible income (FDII)

The 2017 Act introduced an additional deduction for US companies that produce goods and services domestically and sell them abroad, known as foreign derived intangible income (FDII).

US GAAP	IFRS	BE GAAP
We believe that FDII should be accounted for as a special deduction. Under US GAAP, special deductions are recognized in the period in which they are included in the tax return, instead of being reflected in the measurement of deferred taxes (refer to SD 8.9).	IFRS does not address special deductions. It would be acceptable to recognize FDII in the period in which the deduction is included in the tax return. It might also be acceptable to reflect the impact in the measurement of deferred taxes on temporary differences that will be subject to FDII upon reversal.	Not addressed.

Chapter 9
Liabilities - other

Updated June 2021

9.1 Liabilities — other

The guidance in relation to nonfinancial liabilities (e.g., provisions, contingencies, and government grants) includes some fundamental differences with potentially significant implications.

For instance, a difference exists in the interpretation of the term “probable.” IFRS defines probable as “more likely than not,” but US GAAP defines probable as “likely to occur.” Because both frameworks reference probable within the liability recognition criteria, this difference could lead companies to record provisions earlier under IFRS than they otherwise would have under US GAAP. The use of the midpoint of a range when several outcomes are equally likely (rather than the low-point estimate, as used in US GAAP) might also lead to higher expense recognition under IFRS.

IFRS does not have the concept of an ongoing termination plan, whereas severance is recognized under US GAAP once probable and reasonably estimable. This could lead companies to record restructuring provisions in periods later than they would under US GAAP.

As it relates to reimbursement rights, IFRS has a higher threshold for the recognition of reimbursements of recognized losses by requiring that they be virtually certain of realization, whereas the threshold is lower under US GAAP. BEGAAP does not provide such detailed guidance on recognition and measurement of reimbursement rights, however in practice it is similar to IFRS. Netting of expenses and amounts recognized for a reimbursement is not allowed under BE GAAP.

Technical references

US GAAP

ASC 410-30, ASC 420, ASC 450, ASC 460-10, ASC 958-605

IFRS

IAS 19, IAS 20, IAS 37, IFRIC 21

BE GAAP

CBN/CNC 107-9, CBN/CNC 107-3bis, CBN 2011-13, CBN/CNC 2014-2, CBN/CNC 2017-07, CBN/CNC 2018-25

Note

The following discussion captures a number of the more significant GAAP differences. It is important to note that the discussion is not inclusive of all GAAP differences in this area.

9.2 Recognition of provisions

Differences in the definition of “probable” may result in earlier recognition of liabilities under IFRS. The IFRS “present obligation” criteria might result in delayed recognition of liabilities when compared with US GAAP.

US GAAP	IFRS	BE GAAP
A loss contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible loss to an entity that will ultimately be resolved when one or more future events occur or fail to occur. An accrual for a loss contingency is required if two criteria are met: (1) if it is probable that a liability has been incurred and (2) the amount of loss can be reasonably estimated.	A contingent liability is defined as a possible obligation from a past event whose outcome will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the entity’s control. A contingent liability is not recognized. A contingent liability becomes a provision and is recorded when three criteria are met: (1) a present obligation from a past event exists, (2) it is probable that an outflow of resources will be required to settle the obligation, and (3) a reliable estimate can be made.	A provision is a liability of uncertain timing or amount. Provisions must be recorded to cover clearly identified losses or charges that result from past events at the balance sheet date, and which are either probable 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, BE GAAP allow entities much greater latitude in exercising judgement about the need for provisions. In practice, together with a tendency to emphasize the importance of the attribute of prudence, this means that certain provisions recorded in conformity with BE GAAP would not pass the test to qualify as provisions under IFRS.
Implicit in the first condition above is that it is probable that one or more future events will occur confirming the fact of the loss. The guidance uses the term “probable” to describe a situation in which the outcome is likely to occur. While a numeric standard for probable does not exist, practice generally considers an event that has a 75% or greater likelihood of occurrence to be probable.	The term “probable” is used for describing a situation in which the outcome is more likely than not to occur. Generally, the phrase “more likely than not” denotes any chance greater than 50%.	Similar to IFRS. *Source: CBN/CNC 2018-25*

9.3 Measurement of provisions

In certain circumstances, the measurement objective of provisions varies under the two frameworks. IFRS results in a higher liability being recorded when there is a range of possible outcomes with equal probability.

US GAAP	IFRS	BE GAAP
A single standard does not exist to determine the measurement of obligations. Instead, entities must refer to guidance established for specific obligations (e.g., environmental or restructuring) to determine the appropriate measurement methodology. Pronouncements related to provisions do not necessarily have settlement price or even fair value as an objective in the measurement of liabilities, and the guidance often describes an accumulation of the entity's cost estimates. When no amount within a range is a better estimate than any other amount, the low end of the range is accrued.	The amount recognized should be the best estimate of the expenditure required (the amount an entity would rationally pay to settle or transfer to a third party the obligation at the balance sheet date). Where there is a continuous range of possible outcomes and each point in that range is as likely as any other, the midpoint of the range is used.	Similar to IFRS.

9.4 Discounting of provisions

Provisions will be discounted more frequently under IFRS. At the same time, greater charges will be reflected as operating (versus financing) under US GAAP.

US GAAP	IFRS	BE GAAP
For losses that meet the accrual criteria of ASC 450, an entity will generally record them at the amount that will be paid to settle the contingency, without considering the time that may pass before the liability is paid. Discounting these liabilities is acceptable when the aggregate amount of the liability and the timing of cash payments for the liability are fixed or determinable. The discount rate used should produce an amount at which the liability could be settled in an arm's length transaction with a third party. Practice has gravitated toward using the risk-free rate of monetary assets that have comparable maturities.	IFRS requires that the amount of a provision be the present value of the expenditure expected to be required to settle the obligation. The anticipated cash flows are discounted using a pre-tax discount rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability (for which the cash flow estimates have not been adjusted) if the effect is material. Provisions shall be reviewed at the end of each reporting period and adjusted to reflect the current best estimate.	Broadly similar to IFRS. CBN/CNC advice 107-9 requires discount factor to be applied to calculate provision for early retirement, if the timing of expenditure exceeds one year.

US GAAP	IFRS	BE GAAP
Entities with these liabilities that are eligible for discounting are not, however, required to discount those liabilities; the decision to discount is an accounting policy choice. The classification in the statement of operations of the accretion of the liability to its settlement amount is an accounting policy decision that should be consistently applied and disclosed. When discounting is applied, the discount rate applied to a liability should not change from period to period if the liability is not recorded at fair value. There are certain instances outside of ASC 450 (e.g., in the accounting for asset retirement obligations) where discounting is required.	The carrying amount of a provision increases in each period to reflect the passage of time with said increase recognized as a borrowing cost.	

9.5 Restructuring provisions (excluding business combinations)

IFRS does not have the concept of an ongoing termination plan, whereas a severance liability is recognized under US GAAP once it is probable and reasonably estimable. This could lead companies to record restructuring provisions in periods later than they would under US GAAP.

US GAAP	IFRS	BE GAAP
Guidance exists for different types of termination benefits (e.g., special termination benefits, contractual termination benefits, severance benefits, and one-time benefit arrangements). If there is a pre-existing arrangement such that the employer and employees have a mutual understanding of the benefits the employee will receive if involuntarily terminated, the cost of the benefits are accrued when payment is probable and reasonably estimable. In this instance, no announcement to the workforce (nor initiation of the plan) is required prior to expense recognition.	IFRS requires that a single approach be used to account for all types of termination benefits. Termination benefits are recognized at the earlier of (1) when an entity can no longer withdraw an offer of termination benefits, or (2) when it would recognize restructuring costs in accordance with IAS 37 (i.e., upon communication to those affected employees laid out in a detailed formal restructuring plan).	Restructuring provisions can only be set up if there is a firm decision of the board of directors to that effect. BE GAAP provides that early retirement obligations should only be recognized when the early retirement is notified individually to the employees. *Source: CBN/CNC 107- 3bis*

9.6 Onerous contracts

Onerous contract provisions may be recognized earlier and in different amounts under IFRS.

US GAAP	IFRS	BE GAAP
Provisions are not recognized for unfavorable contracts unless the entity has ceased using the rights under the contract (i.e., the cease-use date). One of the most common examples of an unfavorable contract has to do with leased property that is no longer in use. With respect to such leased property, estimated sublease rentals are to be considered in a measurement of the provision to the extent such rentals could reasonably be obtained for the property, even if it is not management's intent to sublease or if the lease terms prohibit subleasing. Incremental expense in either instance is recognized as incurred. Recording a liability is appropriate only when a lessee permanently ceases use of functionally independent assets (i.e., assets that could be fully utilized by another party). US GAAP generally does not allow the recognition of losses on executory contracts prior to such costs being incurred.	Provisions are recognized when a contract becomes onerous regardless of whether the entity has ceased using the rights under the contract. When an entity commits to a plan to exit a lease property, sublease rentals are considered in the measurement of an onerous lease provision only if management has the right to sublease and such sublease income is probable. IFRS requires recognition of an onerous loss for executory contracts if the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.	In practice, the accounting treatment is similar to IFRS.

9.7 Accounting for government grants

IFRS permits the recognition of government grants once there is reasonable assurance that requisite conditions will be met, rather than waiting for the conditions to be fulfilled, as is usually the case under US GAAP. As a result, government grants may be recognized earlier under IFRS.

US GAAP	IFRS	BE GAAP
Government grants to business entities are scoped out of the US GAAP contribution accounting model. However, business entities may analogize to the US GAAP contribution accounting model or other appropriate US GAAP based on the facts and circumstances of the grant.	Government grants are recognized once there is reasonable assurance that both (1) the conditions for their receipt will be met and (2) the grant will be received.	BE GAAP, the grant from public authorities should be accounted for when the right to receive the grant exists and the amount can be measured reliably.

US GAAP	IFRS	BE GAAP
Otherwise, business entities may use other accounting literature, such as IAS 20. If a business entity elects to use the US GAAP contribution accounting model for a grant that contains conditions, recognition of the grant is delayed until such conditions have been fulfilled.	Income-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. Asset-based grants are deferred and matched with the depreciation on the asset for which the grant arises. Grants that involve recognized assets are 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 recognized as a reduction of depreciation.	Specific guidance exists for grants in the form of in-kind contribution of assets, investment related grants (capital and interest related grants) and expenditure related grants. Recognition of government grants in profit or loss is the same as under IFRS (matching to the depreciation of the related assets). BE GAAP requires deferred capital grants to be reported in a separate caption within shareholders' equity, net of any deferred tax impact. *Source: CBN/CNC advice 2011-13* Accounting treatment of a government grant received in form of a recoverable advance The CBN/CNC advice 2014-2 provides further guidance to CBN/CNC advice 2011-13 and deals with government grants from the Walloon region for research and development expenses. If the company decides to exploit the results of the research, it will have to reimburse the grant completely, partially or even more than the amount of the grant depending on the results of the research. If the company decides not the exploit the results of the research, it has to transfer all rights relating to the research project to the Walloon region and it is not required to reimburse the grant. The accounting treatment of the grant before, during and after the research phase is explained for the two cases: A. In case the company does not exploit the results of the research (no reimbursement of the government grant) and B. In case the company decides to exploit the results of the research (reimbursement of the government grant). *Source: CBN/CNC 2014/2*

9.8 Reimbursement and contingent assets

Guidance varies with respect to when these amounts should be recognized. As such, recognition timing differences could rise.

US GAAP	IFRS	BE GAAP
Recovery of recognized losses—An asset relating to the recovery of a recognized loss shall be recognized when realization of the claim for recovery is deemed probable. Recoveries representing gain contingencies—Gain contingencies should not be recognized prior to their realization. In certain situations a gain contingency may be considered realized or realizable prior to the receipt of cash.	Reimbursements—Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The amount recognized for the reimbursement shall be treated as a separate asset and shall not exceed the amount of the provision. The virtually certain threshold may, in certain situations, be achieved in advance of the receipt of cash.	Reimbursements: broadly similar to IFRS.
	Contingent assets—Contingent assets are not recognized in financial statements because this may result in the recognition of income that may never be realized. If the inflow of economic benefits is probable, the entity should disclose a description of the contingent asset. However, when the realization of income is virtually certain, then the related asset is not a contingent asset, and its recognition is appropriate.	Contingent assets: broadly similar to IFRS. Contingent assets and liabilities (off-balance sheet rights and obligations) that are likely to have a significant impact on the entity's financial position and performance are mentioned by category in the notes. *Source: CBN/CNC 2017-07*

9.9 Levies

IFRS includes specific guidance related to the treatment of levies. US GAAP does not include specific guidance. This could result in differences between the timing and measurement of contingencies related to levies.

US GAAP	IFRS	BE GAAP
Specific guidance does not exist within US GAAP. Levies and their related fines and penalties follow the guidance in ASC 450 (see SD 9.2) unless other guidance established for the specific obligation exists (e.g., environmental).	Levies are defined as a transfer of resources imposed by a government on entities in accordance with laws and/or regulations, other than those within the scope of other standards (such as IAS 12); and fines or other	Not addressed.

US GAAP	IFRS	BE GAAP
	penalties imposed for breaches of laws and/or regulations. The obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern principle, does not create an obligation to pay a levy that will arise from operating in the future. A liability to pay a levy is recognized when the obligating event occurs, at a point in time or progressively over time, and an obligation to pay a levy triggered by a minimum threshold is recognized when the threshold is reached.	

9.10 Expenses or liabilities paid by a principal stockholder

US GAAP may result in more expenses or liabilities being recorded than IFRS when another party pays it on the entity's behalf.

US GAAP	IFRS	BE GAAP
If a principal stockholder settles an obligation on behalf of the entity, it should be reflected as an expense in the company's financial statements with a corresponding credit to contributed (paid-in) capital, unless the stockholder's action is caused by a relationship or obligation completely unrelated to their position as a stockholder or such action clearly does not benefit the company.	IFRS does not include the concept that the expense should be reflected on the company's financial statements if it was not paid by the company, except if it is within the scope of IFRS 2.	Not addressed.

Chapter 10
Financial liabilities and equity

Updated June 2021

10.1 Financial liabilities and equity

Under current standards, both US GAAP and IFRS require the issuer of financial instruments to determine whether either equity or financial liability classification (or both) is required. Although the IFRS and US GAAP definitions of a financial liability bear some similarities, differences exist that could result in varying classification of identical instruments.

As an overriding principle, IFRS requires a financial instrument to be classified as a financial liability if the issuer can be required to settle the obligation in cash or another financial asset. US GAAP, on the other hand, defines a financial liability in a more specific manner. Unlike IFRS, financial instruments may potentially be equity-classified under US GAAP if the issuer's obligation to deliver cash or another financial asset at settlement is conditional. As such, US GAAP will permit more financial instruments to be equity-classified as compared to IFRS.

Many financial instruments contain provisions that require settlement in cash or another financial asset if certain contingent events occur. Under IFRS, contingently redeemable (settleable) instruments are more likely to result in financial liability classification, and financial instruments that are puttable are generally financial liabilities with very limited exceptions. This is because the issuer cannot unconditionally avoid delivering cash or another financial asset at settlement. Identical contingently redeemable (settleable) and/or puttable instruments may be equity-classified under US GAAP due to the conditional nature of the issuer's obligation to deliver cash (or another financial asset) at settlement.

Oftentimes, reporting entities issue financial instruments that have both a liability and an equity component (e.g., convertible debt and redeemable preferred stock that is convertible into the issuer's common equity). Such instruments are referred to as compound financial instruments under IFRS and hybrid financial instruments under US GAAP. IFRS requires a compound financial instrument to be separated into a liability and an equity component (or a derivative component, if applicable). Notwithstanding convertible debt with a cash conversion feature, which is accounted for like a compound financial instrument, hybrid financial instruments are evaluated differently under US GAAP. Unless certain conditions requiring bifurcation of the embedded feature(s) are met, hybrid financial instruments are generally accounted for as a financial liability or equity instrument in their entirety. The accounting for compound/hybrid financial instruments can result in significant balance sheet presentation differences while also impacting earnings.

Settlement of a financial instrument (freestanding or embedded) that results in delivery or receipt of an issuer's own shares may also be a source of significant differences between IFRS and US GAAP. For example, net share settlement would cause a warrant or an embedded conversion feature to require financial liability classification under IFRS. A similar feature would not automatically taint equity classification under US GAAP, and further analysis would be required to determine whether equity classification is appropriate. Likewise, a derivative contract providing for a choice between gross settlement and net cash settlement would fail equity classification under IFRS even if the settlement choice resides with the issuer. If net cash settlement is within the issuer's control, the same derivative contract may be equity-classified under US GAAP.

Written options are another area where US GAAP and IFRS produce different accounting results. Freestanding written put options on an entity's own shares are classified as financial liabilities and recorded at fair value through earnings under US GAAP. Under IFRS, such instruments are recognized and measured as a gross financial liability at the discounted value of the settlement amount and accreted to their settlement amount.

In addition to the subsequent remeasurement differences described above, the application of the effective interest method when accreting a financial liability to its settlement amount differs under IFRS and US GAAP. The effective interest rate is calculated based on the estimated future cash flows of the instrument under IFRS, whereas the calculation is performed using contractual cash flows under US GAAP (with two limited exceptions, puttable and callable debt).

Technical references

US GAAP

ASC 470, ASC 480, ASC 815, ASC 820, ASC 825, ASC 850, ASC 860, ASR 268, CON 6

IFRS

IAS 32, IFRS 9, IFRS 13, IFRIC 2

BE GAAP

CBN/CNC 2012-20, CBN/CNC 2019-07

Note

The following discussion captures a number of the more significant GAAP differences. It is important to note that the discussion is not inclusive of all GAAP differences in this area.

10.2 Contingent settlement provisions

Contingent settlement provisions, such as provisions requiring redemption upon a change in control, result in financial liability classification under IFRS unless the contingency arises only upon liquidation or is not genuine.

Items classified as mezzanine equity under US GAAP are generally classified as financial liabilities under IFRS.

US GAAP	IFRS	BE GAAP
A contingently redeemable financial instrument (e.g., one redeemable only if there is a change in control) is outside the scope of ASC 480 because its redemption is not unconditional. Any conditional provisions must be assessed to ensure that the contingency is substantive.	IAS 32 notes that a financial instrument may require an entity to deliver cash or another financial asset in the event of the occurrence or nonoccurrence of uncertain future events beyond the control of both the issuer and the holder of the instrument. Contingencies may include linkages to such events as a change in control or to other matters such as a change in a stock market index, consumer price index, interest rates, or net income.	Not specifically addressed.
For SEC-listed companies applying US GAAP, certain types of securities require classification as mezzanine equity on the balance sheet. Examples of items requiring mezzanine classification are instruments with contingent settlement provisions or puttable shares as discussed in the Puttable shares section.	If the contingency is outside of the issuer's and holder's control, the issuer of such an instrument does not have the unconditional right to avoid delivering cash or another financial asset.	

US GAAP	IFRS	BE GAAP
Mezzanine classification is a US public company concept that is also encouraged (but not required) for private companies.	Therefore, except in limited circumstances (such as if the contingency is not genuine or if it is triggered only in the event of a liquidation of the issuer), instruments with contingent settlement provisions represent financial liabilities. The guidance focuses on the issuer's unconditional right to avoid settlement no matter whether the contingencies may or may not be triggered. There is no concept of mezzanine classification under IFRS.	

10.3 Derivatives—fixed-for-fixed vs indexed to issuer's own shares

When determining the issuer's classification of a derivative on its own shares, IFRS looks at whether the equity derivative meets a fixed-for-fixed requirement, while US GAAP uses a two-step model. Although Step 2 of the US GAAP model uses a similar fixed-for-fixed concept, the application of the concept differs significantly between US GAAP and IFRS.

These differences can impact classification as equity or a derivative asset or liability (with derivative classification more common under IFRS).

US GAAP	IFRS	BE GAAP
Equity derivatives need to be indexed to the issuer's own shares to be classified as equity. The assessment follows a two-step approach under ASC 815-40-15. **Step 1**—Considers whether there are any contingent exercise provisions, and if so, they cannot be based on an observable market or index other than those referenced to the issuer's own shares or operations. **Step 2**—Considers the settlement amount. Only settlement amounts equal to the difference between the fair value of a fixed number of the entity's equity shares and a fixed monetary amount, or a fixed amount of a debt instrument issued by the entity, will qualify for equity classification.	For derivatives, only contracts that provide for gross physical settlement and meet the fixed-for-fixed criteria (i.e., a fixed number of shares for a fixed amount of cash) are classified as equity. Variability in the amount of cash or the number of shares to be delivered results in financial liability classification. For example, a warrant issued by Company X has a strike price adjustment based on the movements in Company X's stock price. This feature would fail the fixed-for-fixed criterion under IFRS, but the same adjustment would meet the criteria under US GAAP.	Not addressed.

US GAAP	IFRS	BE GAAP
	IFRS does not provide an exception related to down round features. Freestanding warrants and embedded conversion options in debt instruments containing down round features require liability classification.	
If the instrument's strike price (or the number of shares used to calculate the settlement amount) is not fixed as outlined above, the instrument may still meet the equity classification criteria; this could occur where the variables that might affect settlement include inputs to the fair value of a fixed-for-fixed forward or option on equity shares and the instrument does not contain a leverage factor. Down round features (as defined) do not cause a freestanding equity-linked financial instrument (or an embedded conversion option) to fail equity accounting when assessing whether the instrument is indexed to an entity's own stock. Once the down round is triggered, the change in the fair value of the instrument as a result of the change in strike price is recognized as a reduction of income available to common shareholders in basic EPS.		
In case of rights issues, if the strike price is denominated in a currency other than the issuer's functional currency, it should not be considered as indexed to the entity's own stock as the issuer is exposed to changes in foreign currency exchange rates. Therefore, rights issues of this nature would be classified as liabilities at fair value through profit or loss.	There is a narrow exception to the fixed-for-fixed criterion in IAS 32 for rights issues. Under this exception, rights issues are classified as equity if they are issued for a fixed amount of cash regardless of the currency in which the exercise price is denominated, provided they are offered on a pro rata basis to all owners of the same class of equity.	

10.4 Derivatives on own shares — settlement models

Entities will need to consider how derivative contracts on an entity's own shares will be settled. Many of these contracts that are classified as equity under US GAAP (e.g., warrants that will be net share settled or those where the issuer has settlement options) will be classified as derivatives under IFRS. Derivative classification will create additional volatility in the income statement.

US GAAP	IFRS	BE GAAP
Derivative contracts that are in the scope of ASC 815-40 and either (1) require physical settlement or net share settlement, or (2) give the issuer a choice of net cash settlement or settlement in its own shares are considered equity instruments, provided they meet the criteria set forth within the literature. Analysis of a contract's terms is necessary to determine whether the contract meets the qualifying criteria, some of which can be difficult to meet in practice. Similar to IFRS, derivative contracts that require net cash settlement are assets or liabilities.	Contracts that are net settled (net cash or net shares) are classified as liabilities or assets. This is also the case even if the settlement method is at the issuer's discretion. Gross physical settlement is required to achieve equity classification.	Not addressed.
Contracts that give the counterparty a choice of net cash settlement or settlement in shares (physical or net settlement) result in derivative classification. However, if the issuer has a choice of net cash settlement or share settlement, the contract can still be considered an equity instrument.	Unlike US GAAP, under IFRS, a derivative contract that gives one party (either the holder or the issuer) a choice over how it is settled (net in cash, net in shares, or by gross delivery) is a derivative asset/liability unless all of the settlement alternatives would result in the contract being an equity instrument.	

10.5 Written put option on the issuer's own shares

Written puts that are to be settled by gross receipt of the entity's own shares are treated as derivatives under US GAAP, while IFRS requires the entity to set up a financial liability for the discounted value of the amount of cash the entity may be required to pay.

US GAAP	IFRS	BE GAAP
A financial instrument—other than an outstanding share—that at inception (1) embodies an obligation to repurchase the issuer's equity shares or is indexed to such an obligation, and (2) requires or may require the issuer to settle the obligation by transferring assets shall be classified as a financial liability (or an asset, in some circumstances). Examples include written put options on the issuer's equity shares that are to be physically settled or net cash settled.	If the contract meets the definition of an equity instrument (because it requires the entity to purchase a fixed amount of its own shares for a fixed amount of cash), any premium received must be recorded in equity. Therefore, the premium received on such a written put is classified as equity (whereas under US GAAP, the fair value of the written put is recorded as a financial liability). In addition, the issuer records a financial liability for the discounted value of the amount of cash that the entity may be required to pay.	Not addressed.

US GAAP	IFRS	BE GAAP
ASC 480 requires written put options to be measured at fair value, with changes in fair value recognized in current earnings.	The financial liability is recorded against equity.	

10.6 Compound instruments with no equity conversion features

Bifurcation and split accounting under IFRS may result in significantly different treatment, including increased interest expense, as compared to US GAAP.

US GAAP	IFRS	BE GAAP
There is no concept of compound financial instruments outside of instruments with certain equity conversion features. As such, under US GAAP the instrument would be classified wholly within liabilities or equity.	If an instrument has both a liability component and an equity component—known as a compound instrument (e.g., redeemable preferred stock with dividends paid solely at the discretion of the issuer)—IFRS requires separate accounting for each component of the compound instrument. The liability component is recognized at fair value calculated by discounting the cash flows associated with the liability component at a market rate for a similar debt host instrument excluding the equity feature, and the equity component is measured as the residual amount. The accretion calculated in the application of the effective interest rate method on the liability component is classified as interest expense.	Various accounting treatments (split accounting as well as compound instrument treated as a liability) are possible depending on the particular form of the compound instrument.

10.7 Compound instruments with equity conversion features

Differences in how and when convertible instruments get bifurcated and/or how the bifurcated portions get measured can drive substantially different results.

US GAAP	IFRS	BE GAAP
Equity conversion features should be separated from the liability host and recorded separately as embedded derivatives only if they meet certain criteria (e.g., fail to meet the scope exception of ASC 815).	For convertible instruments with a liability component and a conversion feature that exchanges a fixed amount of cash for a fixed number of shares, IFRS requires split accounting between the liability	Various accounting treatments (split accounting as well as compound instrument treated as a liability) are possible depending on the particular form of the compound instrument.

US GAAP	IFRS	BE GAAP
If the conversion feature is not recorded separately, then the entire convertible instrument may be considered one unit of account—interest expense would reflect cash interest if issued at par. However, there are a few exceptions:	and equity components of the instrument.	
• For certain convertible debt instruments with a cash conversion feature, the liability and equity components of the instrument should be separately accounted for by allocating the proceeds from the issuance of the instrument between the liability component and the embedded conversion option (i.e., the equity component). This allocation is done by first determining the carrying amount of the liability component based on the fair value of a similar liability excluding the embedded conversion option, and then allocating to the embedded conversion option the excess of the initial proceeds ascribed to the convertible debt instrument over the amount allocated to the liability component. • A convertible debt instrument may contain a beneficial conversion feature (BCF) when the strike price on the conversion option is "in the money." The BCF is generally recognized and measured by allocating a portion of the proceeds received, equal to the intrinsic value of the conversion feature, to equity.	Equity conversion features within liability host instruments that fail the fixed-for-fixed requirement are considered to be embedded derivatives. Such embedded derivatives are bifurcated from the host debt contract and measured at fair value, with changes in fair value recognized in the income statement. When split accounting applies, the liability component is recognized at fair value calculated by discounting the cash flows associated with the liability component at a market rate for nonconvertible debt. The equity conversion feature is measured as the residual amount and recognized in equity with no subsequent remeasurement. IFRS does not have the concept of a BCF.	

10.8 Puttable shares/redeemable upon liquidation

10.8.1 Puttable shares

Puttable shares are more likely to be classified as financial liabilities under IFRS.

The potential need to classify certain interests in open-ended mutual funds, unit trusts, partnerships, and the like as liabilities under IFRS could lead to situations where some entities have no equity capital in their financial statements.

US GAAP	IFRS	BE GAAP
Puttable shares The redemption of puttable shares is conditional upon the holder exercising the put option. This contingency removes puttable shares from the scope of instruments that ASC 480 requires to be classified as a financial liability. As discussed for contingently redeemable instruments, SEC registrants would classify these instruments as "mezzanine." Such classification is encouraged, but not required, for private companies.	**Puttable shares** Puttable instruments generally are classified as financial liabilities because the issuer does not have the unconditional right to avoid delivering cash or other financial assets. Under IFRS, the legal form of an instrument (i.e., debt or equity) does not necessarily influence the classification of a particular instrument. Under this principle, IFRS may require certain interests in open-ended mutual funds, unit trusts, partnerships, and the like to be classified as liabilities (because holders can require cash settlement). This could lead to situations where some entities have no equity capital in their financial statements. However, an entity is required to classify puttable instruments as equity when they have particular features and meet certain specific conditions in IAS 32. This exemption does not apply to puttable instruments issued by a subsidiary. Even if the puttable instruments are classified as equity in the financial statements of the issuing subsidiary, they are always shown as financial liabilities in the consolidated financial statements of the parent.	Not addressed.

10.8.2 Redeemable upon liquidation

Differences with respect to the presentation of these financial instruments issued by a subsidiary in the parent's consolidated financial statements can drive substantially different results.

US GAAP	IFRS	BE GAAP
Redeemable upon liquidation ASC 480 scopes out instruments that are redeemable only upon liquidation. Therefore, such instruments may achieve equity classification for finite-lived entities. In classifying these financial instruments issued by a subsidiary in a parent's consolidated financial statements, US GAAP scopes out	**Redeemable upon liquidation** For instruments issued out of finite-lived entities that are redeemable upon liquidation, equity classification is appropriate only if certain conditions are met. However, when classifying redeemable financial instruments issued by a subsidiary (either puttable or redeemable upon	Not addressed.

US GAAP	IFRS	BE GAAP
mandatorily redeemable noncontrolling interests from ASC 480; the result is that the redeemable noncontrolling interests issued by a subsidiary are not financial liabilities in the parent's consolidated financial statements.	liquidation) in the parent's consolidated accounts, equity classification at the subsidiary level is not extended to the parent's classification of the redeemable noncontrolling interests in the consolidated financial statements, as the same instrument would not meet the specific IAS 32 criteria from the parent's perspective.	

10.9 Receivables from shareholders

Receivables from shareholders are generally required to be presented as contra-equity under US GAAP, whereas under IFRS they might qualify for presentation as an asset.

US GAAP	IFRS	BE GAAP
Public companies are required to record notes or other receivables from a parent or another affiliate as contra-equity. For private companies, there is no authoritative guidance that deals directly with advances to and receivables from shareholders. Generally, advances to or receivables from shareholders should be recognized as a reduction of equity. However, there may be some circumstances in which it is acceptable to classify the advance or receivable as an asset.	A company should recognize a receivable from a shareholder if it has a contractual right to receive cash or another financial asset.	Not specifically addressed.

10.10 Initial measurement of a liability with a related party

Fundamental differences in the approach to related-party liabilities under the two accounting models may impact the values at which these liabilities initially are recorded. The IFRS model may, in practice, be more challenging to implement.

US GAAP	IFRS	BE GAAP
When an instrument is issued to a related party at off-market terms, one should consider which model the instrument falls within the scope of as well as the facts and circumstances of the transaction (i.e., the existence of unstated rights and privileges) in determining how the transaction should be	When an instrument is issued to a related party, the financial liability initially should be recorded at fair value, which may not be the value of the consideration received. The difference between fair value and the consideration received (i.e., any additional amount lent or borrowed) is accounted for as a	Not addressed.

US GAAP	IFRS	BE GAAP
recorded. There is, however, no requirement to initially record the transaction at fair value. The presumption in ASC 850 that related party transactions are not at arm's length and the associated disclosure requirements also should be considered.	current-period expense, income, or as a capital transaction based on its substance. IAS 24 sets out the disclosure requirements associated with related party transactions.	

10.11 Effective-interest-rate calculation

Differences between the expected lives and the contractual lives of financial liabilities have different implications under the two frameworks unless the instruments in question are carried at fair value. The difference in where the two accounting frameworks place their emphasis (contractual term for US GAAP and expected life for IFRS) can impact carrying values and the timing of expense recognition.

Similarly, differences in how revisions to estimates get treated also impact carrying values and expense recognition timing, with the potential for greater volatility under IFRS.

US GAAP	IFRS	BE GAAP
The effective interest rate used for calculating amortization under the effective interest method generally discounts contractual cash flows through the contractual life of the instrument. However, a shorter life may be used in some circumstances. For example, puttable debt is generally amortized over the period from the date of issuance to the first put date and callable debt can be amortized either over the contractual life or the estimated life as a policy decision.	The effective interest rate used for calculating amortization under the effective interest method discounts estimated cash flows through the expected—not the contractual—life of the instrument. Generally, if the entity revises its estimate after initial recognition (for reasons unrelated to a modification), the carrying amount of the financial liability should be revised to reflect actual and revised estimated cash flows at the original effective interest rate, with a cumulative-catch-up adjustment being recorded in profit and loss. Revisions of the estimated life or of the estimated future cash flows may exist, for example, in connection with debt instruments that contain a put or call option that does not need to be bifurcated or whose coupon payments vary. Payments may vary because of an embedded feature that does not meet the definition of a derivative because its underlying is a nonfinancial variable specific to a party to the contract (e.g., cash flows that are linked to earnings	Similar to IFRS.

US GAAP	IFRS	BE GAAP
	before interest, taxes, depreciation, and amortization; sales volume; or the earnings of one party to the contract). Generally, floating rate instruments (e.g., LIBOR plus spread) issued at par are not subject to the cumulative-catch-up approach; rather, the effective interest rate is revised as market rates change.	

10.12 Modification/exchange of debt and convertible debt

Differences in when a modification or exchange of a debt instrument would be accounted for as a debt extinguishment can drive different conclusions as to whether extinguishment accounting is appropriate.

US GAAP	IFRS	BE GAAP
When a debt modification or exchange of debt instruments occurs, the first step is to consider whether the modification or exchange qualifies for troubled debt restructuring. If this is the case, the restructuring follows the specific troubled debt restructuring guidance. If the modification or exchange of debt instruments does not qualify for troubled debt restructuring, one has to consider whether the modification or exchange of debt instruments has to be accounted for as a debt extinguishment. An exchange or modification of debt instruments with substantially different terms is accounted for as a debt extinguishment. In order to determine whether the debt is substantively different, a quantitative assessment must be performed.	Under IFRS, there is no concept of troubled debt restructuring. A substantial modification of the terms of an existing financial liability or part of the financial liability should be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. In this regard, the terms are substantially different if the present value of the cash flows discounted using the original effective interest rate under the new terms is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. Unlike US GAAP, there is no specific guidance for callable/puttable debt. However, in applying the 10% test under IFRS, entities generally use the expected cash flows of the borrowing rather than assume immediate prepayment.	The advice CBN/CNC 2012-20 explains how the payment of a debt of a company by a third party who has acted as a guarantor towards the creditor, needs to be accounted for. In case the debt of the company is paid by a third party who has acted as a guarantor towards the creditor, the debt to the original creditor has to be debited. At the same time, a new debt needs to be accounted for towards to the guarantor as the guarantor received all rights of the original creditor towards the debtor as a result of the payment of the debt. In case the guarantor waives his claim against the debtor, the debtor has to recognize an exceptional profit and the debt towards the guarantor has to be debited.
If the present value of the cash flows under the new terms of the new debt instrument differs by at least 10% from the present value of the remaining cash flows under the original debt, the exchange is considered an extinguishment. The discount rate for determining the	If this test is met, the exchange is considered an extinguishment. It is clear that if the discounted cash flows change by at least 10%, the original debt should be extinguished. It is not clear, however, in IFRS 9 whether the quantitative analysis is an example	

US GAAP	IFRS	BE GAAP
present value is the effective rate on the old debt. If either the new or the original debt instrument is callable/puttable, separate cash flow analyses are performed assuming exercise and non-exercise of the call or put. If the debt modifications involve changes in noncash embedded conversion features, the following two-step test is required: **Step 1**—If the change in cash flows as described above is greater than 10% of the carrying value of the original debt instrument, the exchange or modification should be accounted for as an extinguishment. This test would not include any changes in fair value of the embedded conversion option. **Step 2**—If the test in Step 1 is not met, the following should be assessed: • If the modification or exchange affects the terms of an embedded conversion option, whether the difference between the fair value of the option before and after the modification or exchange is at least 10% of the carrying value of the original debt instrument prior to the modification or exchange. • Whether a substantive conversion option is added or a conversion option that was substantive at the date of modification is eliminated. If either of these criteria is met, the exchange or modification would be accounted for as an extinguishment. Generally, when a term loan or debt security are modified and the modification is accounted for as an extinguishment, new fees paid to, or received from, the existing lender are expensed. New fees paid to third parties are capitalized and amortized as a debt issuance cost.	or is the definition of substantially different. Accordingly, there is an accounting policy choice where entities can perform either (1) an additional qualitative analysis of any modification of terms when the change in discounted cash flows is less than 10% or (2) only the 10% test (quantitative test) as discussed above. For debt instruments with embedded derivatives that are bifurcated and measured at FVTPL, the modification of the host contract and the embedded derivative should be assessed together when applying the 10% test as the host debt and the embedded derivative are interdependent. However, a conversion option that is accounted for as an equity component would not be considered in the 10% test. IFRS 9 does not distinguish between costs and fees payable to third parties, such as lawyers and accountants, and those payable directly to the lender. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment.	

10.13 Accounting for debt modifications

Under US GAAP, when debt is modified, no gain or loss is recognized due to changes in cash flows, whereas under IFRS, a modification gain or loss is recognized. However, under IFRS, certain changes in cash flows may not meet the definition of a modification and therefore not trigger a gain or loss. In addition, differences exist in the treatment of related fees and costs.

US GAAP	IFRS	BE GAAP
Under US GAAP, when debt is modified, generally no gain or loss is recorded. A new effective interest rate is established based on the carrying value of the debt and the revised cash flows.	Under IFRS, when renegotiation or modification of terms do not result in derecognition, the carrying amount of the liability is recalculated using the modified cash flows discounted at the original effective interest rate. A modification gain or loss is recognized in profit or loss. However, in some cases when the changes in cash flows represent movements in market rates of interest, a treatment similar to US GAAP (where the interest rate is reset) could be applied. This would be the case, for example, for instruments prepayable by the borrower at par or with only an insignificant penalty, which effectively enables the borrower to have the lender agree to reset the cash flows to the then market rate. Costs and fees that are incremental and directly attributable to the modification are spread over the expected life by adjusting the effective interest rate. Conversely, payments that represent compensation for the change in the cash flows of the liability should be expensed as part of the gain or loss on modification.	Not addressed.
New fees paid to, or received from, existing lenders are capitalized and amortized as part of the effective yield, whereas new fees paid to third parties are expensed.	Incremental and directly attributable costs or fees might include amounts paid to third parties. Some amounts paid directly to the lender might also qualify – for example, if they compensate the lender for similar costs that it pays to third parties.	

10.14 Transaction costs (also known as debt issue costs)

The balance sheet presentation of transaction costs for US GAAP is generally aligned to IFRS. However, there may still be differences in the accounting and presentation of commitment fees incurred to obtain lines of credit.

US GAAP	IFRS	BE GAAP
When the financial liability is not carried at fair value through income, transaction costs, including third party costs and creditor fees, are deducted from the carrying value of the financial liability and are not recorded as separate assets. Rather, they are accounted for as a debt discount and amortized using the effective interest method. Transaction costs are expensed immediately when the financial liability is carried at fair value, with changes recognized in profit and loss. The commitment fee incurred to obtain a line of credit represents the benefit of being able to access capital over the contractual term, and therefore, meets the definition of an asset. Reporting entities should subsequently amortize the asset ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line of credit. Only in the limited circumstances when a reporting entity draws down on a line of credit and does not intend to repay the borrowing until the contractual maturity of the arrangement (i.e., the borrowing is treated like a term loan) do we believe the portion of the costs related to each respective draw down could be presented as a direct deduction from the carrying value of the debt when drawn.	When the financial liability is not carried at fair value through income, transaction costs including third party costs and creditor fees are deducted from the carrying value of the financial liability and are not recorded as separate assets. Rather, they are accounted for as a debt discount and amortized using the effective interest method. Transaction costs are expensed immediately when the financial liability is carried at fair value, with changes recognized in profit and loss. The accounting for commitment fees incurred to obtain a line of credit under IFRS requires allocation between amounts that are expected to be drawn down and those that are not. To the extent there is evidence that it is probable that some or all of the facility will be drawn down, the commitment fee is allocated between the amounts that are expected to be drawn down and the amounts that are not expected to be drawn down. The fee related to the portion expected to be drawn down is accounted for as a transaction cost under IFRS 9 (i.e., the fee is deferred and deducted from the carrying value of the financial liabilities when the draw down occurs). The fee related to the portion not expected to be drawn down is capitalized as a prepayment for liquidity services and amortized over the period of the facility.	Issuance costs represent the expenses incurred in connection with the issuance of a bond. These include the costs of banks, rating and advertising. If not taken directly to the income statement, they are included in the establishment costs (asset) on the balance sheet and amortised. Establishment costs include costs which, if not taken over for another reason during the financial year during which they were incurred, relate to the constitution, development or restructuring of the company, such as incorporation or capital increase costs, loan issue costs, and restructuring costs. Establishment costs are subject to appropriate amortization in annual installments of at least twenty percent of the sums actually spent. However, the amortization of loan issuance costs can be spread over the entire term of the loan. The entity may equally decide not to capitalise these costs. *Source: CBN/CNC 2019-07*

10.15 Eligibility for fair value option

The IFRS eligibility criteria for use of the fair value option are more restrictive than under US GAAP.

US GAAP	IFRS	BE GAAP
With some limited exceptions for certain financial liabilities addressed by other applicable guidance (e.g., financial instruments that are in whole or in part classified by the issuer as a component of shareholder's equity, such as a convertible debt security with a non-contingent BCF), US GAAP permits entities to elect the fair value option for any recognized financial liability.	IFRS permits entities to elect the fair value option for financial liabilities when: • a contract contains one or more embedded derivatives and the entire contract is not measured at fair value through profit or loss (unless the embedded derivative does not significantly modify the cash flows or it is clear with little or no analysis that separation of the embedded derivative(s) is prohibited), or • it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch"), or • a group of financial instruments is managed and its performance is evaluated on a fair value basis in accordance with a risk management strategy.	Not applicable.
The fair value option may only be elected upon initial recognition of the financial liability or upon some other specified events identified in ASC 825-10-25-4 and ASC 825-10-25-5. See SD 11.3 for information on the normal purchase normal sale exception.	The fair value option may only be elected upon initial recognition of the financial liability. See SD 11.3 for information on the use of the fair value options for contracts that meet the "own use" scope except.	

10.16 Own credit risk—financial liabilities under fair value option

For both US GAAP and IFRS, the impact of changes in instrument-specific credit risk on financial liabilities for which the fair value option has been elected is reported in other comprehensive income.

US GAAP	IFRS	BE GAAP
When the fair value option is elected for financial liabilities, changes in fair value due to changes in instrument-specific credit risk will be recognized separately in OCI. An accommodation is available in certain cases when this creates accounting mismatch (see FV 5.6.3).	For liabilities designated at FVTPL (except for loan commitments and financial guarantees), changes in fair value related to changes in own credit risk are presented separately in OCI. However, this does not apply if the recognition of fair value changes due to own credit risk in OCI would create an accounting mismatch.	Not addressed.
The accumulated gains and losses due to changes in instrument-specific credit risk are recycled from accumulated other comprehensive income and recognized in earnings over the life of the liability, or upon settlement if it is settled before maturity.	Unlike under US GAAP, amounts in OCI relating to changes in own credit risk are not recycled to the income statement under IFRS, even when the liability is derecognized and the amounts are realized. However, transfers within equity are allowed.	

10.17 Nonrecourse liabilities

US GAAP provides narrowly-focused guidance on nonrecourse liabilities for consolidated collateralized financing entities (CFE) that measure financial assets and financial liabilities at fair value to eliminate the earnings volatility from the measurement difference. IFRS does not provide such guidance.

US GAAP	IFRS	BE GAAP
US GAAP provides an alternative measurement for CFEs that allows the use of the more observable of the fair value of the financial assets or the fair value of the financial liabilities of the CFE to measure both the financial assets and the financial liabilities.	IFRS does not provide a separate measurement approach for nonrecourse liabilities. Financial assets and liabilities follow their respective classification and measurement models.	Not addressed.
This eliminates the measurement difference that may exist when financial assets and financial liabilities of the CFE are measured at fair value independently.		

Chapter 11
Derivatives and hedging

Updated June 2021

11.1 Derivatives and hedging

Derivatives and hedging represent some of the more complex and nuanced topical areas within both US GAAP and IFRS. While IFRS generally is viewed as less rules-laden than US GAAP, the difference is less dramatic in relation to derivatives and hedging, wherein both frameworks embody a significant volume of detailed and complex guidance.

11.1.1 Derivatives and embedded derivatives

The definition of derivatives is broader under IFRS than under US GAAP; therefore, more instruments may be required to be accounted for as derivatives at fair value through the income statement under IFRS. There are also differences in the identification of embedded derivatives within both financial and nonfinancial host contracts that should be carefully considered. In terms of measurement of derivatives, day one gains or losses cannot be recognized under IFRS unless the fair value (1) is evidenced by comparison to other observable current market transactions of the same instrument or (2) is based on a valuation technique whose variables include only data from observable markets. Under US GAAP, day one gains or losses are recognized, even if the fair value is based on unobservable inputs.

Hedge accounting models

Both the IASB and the FASB have issued recent hedge accounting guidance.

The FASB updated its hedge accounting guidance when it issued ASU 2017-12 in August 2017. The IASB's hedge accounting guidance, IFRS 9, *Financial Instruments,* was effective for annual periods beginning on or after January 1, 2018. Under IFRS, entities have an accounting policy choice to apply the IFRS 9 hedge accounting guidance or to continue applying the IAS 39 hedge accounting guidance. This policy choice is applied to all of the entity's hedges. The IASB is planning to propose a macro hedge accounting model in a separate project, which is still ongoing. In the meantime, if an entity adopts IFRS 9 for hedge accounting, it may apply the "macro hedging" provisions of IAS 39 for a fair value hedge of the interest rate exposure of a portfolio of financial assets and/or financial liabilities (and only for such hedges) rather than the new IFRS 9 requirements. If an entity chooses not to adopt IFRS 9 for hedge accounting when it adopts the other parts of IFRS 9, it continues to apply the IAS 39 hedging guidance, and it can still choose to adopt IFRS 9's hedging provisions at a later date. However, once an entity has adopted IFRS 9 for hedge accounting, it cannot revert back to IAS 39.

Although both IFRS 9 and the amended ASC 815 guidance permit more hedging strategies to qualify for hedge accounting, the frameworks retain complex (though different) requirements for hedge accounting. Both the criteria to qualify for hedge accounting and the accounting for qualifying hedges are different. IFRS 9 has made it easier to qualify for hedge accounting than under IAS 39 by permitting hedging of more components of items, and eliminating the 80-125% effectiveness requirement. US GAAP maintained more stringent qualifying criteria as compared to IFRS 9, including a requirement to perform rigorous assessments of effectiveness in many cases. But the amendments to US GAAP simplified subsequent reporting as compared to the previous ASC 815 guidance by eliminating the requirement to separately measure ineffectiveness for cash flow and net investment hedging relationships in earnings in each reporting period.

This chapter compares the IFRS 9 hedge accounting model and the ASC 815 hedge accounting model (after adoption of ASU 2017-12, but prior to the adoption of ASU 2019-04).

For more detailed guidance on ASC 815, see PwC's derivatives and hedging guide. For more detailed guidance on IFRS 9's hedging provisions, see PwC's *In depth: Achieving hedge accounting in practice under IFRS 9*.

Technical references

US GAAP

ASC 815, ASC 830

IFRS

IFRS 9, IFRS 7, IFRIC 16

BE GAAP

CBN/CNC 132-4, CBN/CNC 152 -1, CBN/CNC 167-2, CBN/CNC 2010-12, CBN/CNC 2011-18, CBN/CNC 2012-18, CBN/CNC 2013-16, CBN/CNC 2016-11

Note

The following discussion captures a number of the more significant GAAP differences (notably, ASC 815 (after adoption of ASU 2017-12) and IFRS 9). It is important to note that the discussion is not inclusive of all GAAP differences in this area

11.2 Derivative definition—net settlement provisions

More instruments will qualify as derivatives under IFRS.

Some instruments, such as option and forward agreements to buy unlisted equity investments, are accounted for as derivatives under IFRS but not under US GAAP.

US GAAP	IFRS	BE GAAP
To meet the definition of a derivative, a financial instrument or other contract must require or permit net settlement. The scope of ASC 815 excludes instruments linked to unlisted equity securities when such instruments fail the net settlement requirement and are, therefore, not accounted for as derivatives. An option contract between an acquirer and a seller to buy or sell stock of an acquiree at a future date that results in a business combination may not meet the definition of a derivative as it may fail the net settlement requirement (e.g., the acquiree's shares are not listed so the shares may not be readily convertible to cash).	IFRS does not include a requirement for net settlement within the definition of a derivative. It only requires settlement at a future date. Under IFRS, instruments linked to unlisted equity securities are required to be recorded at fair value. An option contract between an acquirer and a seller to buy or sell stock of an acquiree at a future date that results in a business combination would be considered a derivative under IFRS 9 for the acquirer (a similar forward contract is scoped out of IFRS 9); however, the option may be classified as equity from the seller's perspective.	BE GAAP has no conceptual definition of derivatives. CBN/CNC advice 2010-12 contains an exhaustive list of financial instruments divided into three groups: non-option-based instruments, option-based instruments, commodity derivatives. The advice provides a hierarchy of principles relating to the accounting for derivative financial instruments: the matching principle is subordinated to the prudence principle (recognize costs when they are probable, recognize income only when certain). Specific examples of derivatives accounting are provided for: CBN/CNC 152-1: Foreign exchange transactions (including foreign exchange forward contracts); CBN/CNC 167- 2: Equity options

US GAAP	IFRS	BE GAAP
		CBN/CNC 132-4: Forward transactions on commodities CBN/CNC 2011-18: Interest rate swaps CBN/CNC 2012-18: Accounting treatment of share options – guidance on the accounting of options by the option holder and issuer (writer). The premium paid by the option holder / received by option issuer has to be accounted for as an asset / deferred income up till the maturity date of the option and is subject to impairment testing at the option holder. If fair value of the option exceeds the amount of the premium received, the option issuer (writer) needs to recognize a provision for this risk. CBN/CNC 2016-11: Cross currency swaps: Various accounting treatments are prescribed for cross currency swaps depending on the purpose of the transaction (hedging of specified monetary items, hedging of non-specified monetary items, hedging of future operations, speculative purposes). Belgian companies have to disclose the fair value for each category of derivative financial instruments, in case financial instruments are not measured at their fair value, if the fair value can be determined in accordance with one of the methods as prescribed by article 3:91 of the Royal Decree of 29 April 2019 implementing the Companies and Associations' Code. In addition to the specific disclosures for each type of derivative, a comparative overview is prepared for all derivative financial instruments irrespective of the fact whether or it concerns an (effective) hedging transaction. In this overview the value (fair value and carrying value), extent and nature of the derivative needs to be disclosed.

US GAAP	IFRS	BE GAAP
		Source: CBN/CNC 2013-16

11.3 Own use versus normal purchase normal sale

Under IFRS, contracts that meet the "own use" criteria are scoped out of derivative accounting. However, a fair value option is available if it eliminates or significantly reduces an accounting mismatch. Under US GAAP, these contracts are accounted for as derivatives unless an entity elects the "normal purchase normal sale" (NPNS) exception.

US GAAP	IFRS	BE GAAP
There are many factors to consider in determining whether a contract related to nonfinancial items can qualify for the NPNS exception. If a contract meets the requirements of the NPNS exception, the reporting entity must document that it qualifies in order to apply the exception—otherwise, it will be considered a derivative.	Similar to US GAAP, there are many factors to consider in determining whether a contract related to nonfinancial items qualifies for the "own use" exception. While US GAAP requires documentation to apply the NPNS exception, IFRS requires a contract to be accounted for as own use (i.e., not accounted for as a derivative) if the own use criteria are satisfied. However, IFRS 9 provides a fair value option for own use contracts in situations in which the use of the option would eliminate or significantly reduce an accounting mismatch. For example, an entity in the utility industry that hedges its physically settled contracts with energy derivatives could use the option for the physically settled contracts to reduce the measurement inconsistency between these contracts and the energy derivatives, and thus achieve offsetting effects without the need to apply hedge accounting. This fair value option is irrevocable and only available at inception.	The CBN/CNC advice 132-4 provides guidance on accounting treatment of commodity derivatives. No "own use" exemption option is possible. In case the market value of inventory decreases a provision should be set for the difference between the purchase price stipulated by the contract and the market price. At the purchase date the provision is set off against inventory purchase price. *Source: CBN/CNC 132-4*

11.3.1 Embedded derivatives: hosts and reassessment

Under IFRS, embedded derivatives are not bifurcated from hybrid financial assets, and instead are part of the classification assessment of the entire financial asset (see SD 7.7 for further information on financial assets).

In addition, differences with respect to the reassessment of embedded derivatives may result in significantly different outcomes under the two frameworks. Generally, reassessment is more frequent under US GAAP.

US GAAP	IFRS	BE GAAP
If a hybrid instrument (such as financial asset or liability, insurance or lease) contains an embedded derivative that is not clearly and closely related at inception, and it is not bifurcated (because it does not meet the definition of a derivative), it must be continually reassessed to determine whether bifurcation is required at a later date. Once it meets the definition of a derivative, the embedded derivative is bifurcated and measured at fair value with changes in fair value recognized in earnings. Similarly, the embedded derivative in a hybrid instrument that is not clearly and closely related at inception and is bifurcated must also be continually reassessed to determine whether it subsequently fails to meet the definition of a derivative. Such an embedded derivative should cease to be bifurcated at the point at which it fails to meet the requirements for bifurcation. An embedded derivative that is clearly and closely related is not reassessed subsequent to inception for the "clearly and closely related" criterion. For nonfinancial host contracts, the assessment of whether an embedded foreign currency derivative is clearly and closely related to the host contract should be performed only at inception of the contract.	A financial asset that is within the scope of IFRS 9 is not assessed for embedded derivatives because the solely payment of principal and interest (SPPI) test is applied to the entire hybrid contract to determine the appropriate measurement category. See SD 7.4. IFRS precludes reassessment of embedded derivatives after inception of the contract unless there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.	Embedded derivatives are not addressed in Belgian GAAP. The legal form of financial instruments prevails for the determination of their accounting treatment. *Source: CBN/CNC 2010-12*

11.3.2 Calls and puts in debt instruments

IFRS and US GAAP have fundamentally different approaches to assessing whether calls and puts embedded in debt host instruments require bifurcation. Additionally, under IFRS, the embedded derivative analysis is only performed for the issuer of the debt instrument and not the holder, since there is no assessment of embedded derivatives for financial assets (see SD 7.7).

US GAAP	IFRS	BE GAAP
Multiple tests are required to evaluate whether an embedded call or put (i.e., a feature that can accelerate repayment of principal of a debt instrument) is clearly and closely related to the debt host. If any of the conditions outlined in the following tests occurs, the call or put is not clearly and closely related to the debt host and bifurcation is generally required. **Test 1**—Upon exercise of the call or put, a debt instrument's settlement amount changes based on anything other than interest rates or credit risk. **Test 2**—A debt instrument involves a substantial premium or discount and the call or put that can accelerate repayment of principal is contingently exercisable. **Test 3**—If the only underlying is an interest rate or interest rate index and either (a) there is a substantial premium or discount (but the put or call is not contingently exercisable), or (b) there is no substantial premium or discount, an additional test is required. If the debt instrument can either (a) be settled in such a way that the holder would not recover substantially all of its recorded investment or (b) the embedded derivative would both (1) at least double the holder's initial rate of return and (2) the resulting rate of return would be double the then current market rate of return, then the call or put is not clearly and closely related. However, certain exceptions are provided for this test.	Calls, puts, or prepayment options embedded in a hybrid debt instrument are closely related to the debt host instrument if either (1) the exercise price approximates the amortized cost on each exercise date or (2) the exercise price of a prepayment option reimburses the lender for an amount up to the approximate present value of the lost interest for the remaining term of the host contract. Once determined to be closely related as outlined above, these features do not require bifurcation.	Embedded derivatives are not addressed in Belgian GAAP. The legal form of financial instruments prevails for the determination of their accounting treatment. *Source: CBN/CNC 2010-12*

11.3.3 Nonfinancial host contracts—currencies commonly used

Although IFRS and US GAAP have similar guidance in determining when to separate foreign currency embedded derivatives in a nonfinancial host, there is more flexibility under IFRS in determining that the currency is closely related.

US GAAP	IFRS	BE GAAP
US GAAP requires bifurcation of a foreign currency embedded derivative from a nonfinancial host unless the payment is denominated in (1) the functional currency of a substantial party to the contract, (2) the currency in which the price of the good or service is routinely denominated in international commerce (e.g., US dollar for crude oil transactions), (3) the local currency of a substantial party to the contract, or (4) a foreign currency used because a substantial party to the contract uses the currency as if it were the functional currency because it operates in a highly inflationary environment.	Criteria (1) and (2) cited for US GAAP also apply under IFRS. However, bifurcation of a foreign currency embedded derivative from a nonfinancial host is not required under IFRS if payments are denominated in a currency that is commonly used in contracts to purchase or sell such nonfinancial items in the economic environment in which the transaction takes place, provided the host contract is not leveraged and does not contain an option feature. For example, Company X, in Russia (functional currency and local currency is Russian ruble), sells timber to another Russian company (with a ruble functional currency) in euros. If the company determines that the euro is a currency commonly used in Russia, bifurcation of a foreign currency embedded derivative from the nonfinancial host contract would not be required under IFRS.	Not addressed. A transaction in a foreign currency is recorded in the functional currency using the exchange rate at the date of transaction (average rates may be used if they do not fluctuate significantly). At the end of each reporting period, foreign currency monetary balances are translated using the exchange rate at the closing rate. The CBN/CNC advice 152-1 rules specific accounting treatments dealing with different aspects of unrealised/realised foreign currency fluctuations and related hedges. Differences with IFRS exist as Belgian GAAP allows for the usage of the hedged rate when conditions related to specific hedges are met and for unhedged positions unrealised gains determined per currency are deferred to the balance sheet whereas unrealized losses determined per currency are taken into the income statement. *Source: CBN/CNC 152-1* EUR is used as the functional currency, unless the exemption to use another functional currency was obtained.

11.3.4 Measurement—Day one gains and losses

Day one gains and losses occur when the entity uses a model to measure the fair value of the instrument and the model price at initial recognition is different from the transaction price.

The ability to recognize day one gains and losses is different under both frameworks, with gain/loss recognition more common under US GAAP.

US GAAP	IFRS	BE GAAP
In some circumstances, the transaction price is not equal to fair value, usually when the market in which the transaction occurs differs from the market in which the reporting entity could transact. For example, banks can access wholesale and retail markets; the wholesale price may result in a day one gain compared to the transaction price in the retail market. In these cases, entities must recognize day one gains and losses even if some inputs to the measurement model are not observable.	Day one gains and losses are recognized only when the fair value is evidenced by a quoted price in an active market for the same instrument or is based on a valuation technique that only uses data from observable markets.	Not addressed.

11.3.5 Hedge effectiveness criterion

Both US GAAP and IFRS permit application of hedge accounting to only certain eligible hedging instruments and hedged items and require formal designation and documentation of a hedging relationship at the beginning of the relationship and an assessment of effectiveness. However, the detailed requirements for hedge effectiveness vary between the two frameworks. Unlike US GAAP, there is no high effectiveness criterion to qualify for hedge accounting under IFRS. Instead, IFRS 9 requires an economic relationship between the hedged item and the hedging instrument, which is a less restrictive test.

US GAAP	IFRS	BE GAAP
Hedging relationships are required to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk. The term “highly effective” has been interpreted in practice to mean that the change in fair value/cash flows of the designated component of the hedging instrument is within 80 to 125% of the change in fair value/cash flows of the designated proportion of the hedged item attributable to the risk being hedged.	A hedging relationship needs to meet the following effectiveness requirements: 1. There is an economic relationship between the hedged item and the hedging instrument that gives rise to offset. 2. The effect of credit risk does not dominate the value changes that result from that economic relationship. 3. The hedge ratio is the one the entity actually uses under its risk management strategy unless it would create ineffectiveness inconsistent with the purpose of hedge accounting.	Criteria for qualifying for hedge accounting are as follows: existence of a risk, a high degree of correlation between the market value of the hedging transaction and that of the underlying asset during the whole period of the hedging, identification of the hedging transaction as from the beginning. In order to apply hedge accounting on foreign currency transactions, the following conditions should be met: The hedging is specific to the foreign currency transaction.

US GAAP	IFRS	BE GAAP
		companies, the matching does not need to be exact provided the differences are not significant). The hedging transaction is effective if the fluctuations of fair value or cash flows attributable to hedged risk are mitigated. Hedge effectiveness should be measured by comparison of changes in fair value of hedged item and hedging instrument or by proof of a strong correlation between fair value or cash flows of the hedged item and hedging instrument. Hedging results should be within the range 80 to 125%, tested at the inception and in subsequent periods. *Source: CBN/CNC 2010-12*

11.3.6 Nature and timing of effectiveness assessments

Both US GAAP and IFRS require initial and ongoing assessments of effectiveness. However, the nature and timing of these effectiveness assessments vary between the two frameworks.

US GAAP	IFRS	BE GAAP
In certain cases, an initial quantitative assessment is required. In addition, periodic effectiveness assessments need to be performed on both a prospective basis (to reconfirm forward-looking expectations) and a retrospective basis (to determine whether the hedge was highly effective). Effectiveness assessments are required at hedge inception and periodically thereafter, with an assessment required whenever financial statements or earnings are reported, and at least every three months. The initial assessment may be completed by the end of the quarter. Additionally, simplified approaches exist for nonpublic nonfinancial institutions. When assessing effectiveness of hedges of forecasted transactions, entities can ignore timing differences between the hedged transactions	A retrospective effectiveness assessment is not required. However, an entity must make an ongoing assessment of whether the hedge continues to meet the three hedge effectiveness criteria described in SD 11.8. There is no requirement to perform effectiveness assessments every three months. The ongoing effectiveness assessment needs to be performed at each reporting date (which may only be semi-annually or annually) or upon a significant change in circumstances. It is only a forward-looking test. The requirement to maintain the hedge ratio (#3 in SD 11.8) ensures alignment with the economic hedging strategy. The hedge ratio must be rebalanced to maintain the hedge ratio that the entity actually uses to achieve its economic hedging strategy. Entities should not	The assessment of hedge effectiveness is required both at hedge inception and in subsequent periods. *Source: CBN/CNC 2010-12*

US GAAP	IFRS	BE GAAP
and the maturity date of the hedging instrument within 31 days or a fiscal month (when that is the only difference between the derivative and the hedged forecasted transactions).	need to rebalance very often if they have a good risk management strategy in place and the economic relationship is stable.	

11.3.7 Recognition of ineffectiveness

IFRS requires measurement and recognition of ineffectiveness in a hedging relationship even though the hedge meets the effectiveness criteria. US GAAP no longer has a concept of ineffectiveness that is separately measured and disclosed, although there may still be an income statement impact for certain hedges. Both IFRS and US GAAP permit an entity to exclude certain components from the assessment of effectiveness and separately account for them, which may improve hedge effectiveness, as discussed in SD 11.8.3.

US GAAP	IFRS	BE GAAP
For cash flow and net investment hedges, hedge ineffectiveness is not separately measured and recognized in income each reporting period. If the hedge is highly effective, all changes in the fair value of the derivative hedging instrument will be recorded in other comprehensive income (OCI) (in cumulative translation adjustment (CTA) for net investment hedges), unless different recognition is prescribed/elected for any excluded components. Any difference between the gain or loss on the hedged item and the derivative (except for the excluded component) is recognized when the hedged item affects earnings, at which time the amount deferred in AOCI from the hedging instrument is released to earnings. On the other hand, for fair value hedges, because the change in fair value of the hedged item attributable to the hedged risk and the derivative hedging instrument are both recorded in current earnings, if the hedge is not perfectly effective, there will be an income statement impact. While not identified as ineffectiveness, a reporting entity is required to disclose the change in fair value of the hedged item attributable to the hedged risk and	For cash flow hedges, the effective portion of the change in the fair value of the hedging instrument is recognized in OCI. The amount recognized in OCI should be the lower of (1) the cumulative gain or loss on the hedging instrument from the inception of the hedge, and (2) the cumulative change in the fair value (present value) of the expected cash flows on the hedged item from the inception of the hedge. The remaining ineffective portion of the change in the fair value of the hedging instrument (if any) is recognized in profit or loss. For hedges of a net investment in a foreign operation, the effective portion of the change in the fair value of the hedging instrument is recognized in OCI and the ineffective portion of the hedging relationship is recognized in profit or loss. For fair value hedges, both the effective and ineffective portions of the hedge relationship are recorded in profit or loss. IFRS 7 requires disclosure of ineffectiveness.	Not addressed.

US GAAP	IFRS	BE GAAP
the change in fair value of the derivative.		

11.3.8 Amounts excluded from effectiveness assessment

Both US GAAP and IFRS permit an entity to exclude certain components of the change in the fair value of a hedging instrument from the assessment of effectiveness. However, the standards diverge in certain respects on what is permitted to be excluded.

US GAAP	IFRS	BE GAAP
An entity may elect to exclude certain components of the change in value of the derivative from the assessment of effectiveness for fair value and cash flow hedges: ☐ For forwards and future contracts when the spot method is used, an entity can exclude forward points (the difference between the spot price and the forward price). ☐ For currency swaps, an entity may exclude the portion of the change in fair value attributable to a cross-currency basis spread. ☐ For options (including eligible collars), the assessment can be based on changes in the intrinsic value of the option or the minimum value (intrinsic value plus the impact of discounting). An entity can also exclude the following portions of the change in time value from the assessment of effectiveness: ○ the portion attributable to the passage of time, ○ the portion attributable to changes in volatility, or ○ the portion attributable to changes in interest rates. For derivatives designated as net investment hedges, an entity is only permitted to use either (1) the spot method in which the entire difference between the spot price and the forward or futures price is excluded or (2) the full fair value method. Further, an entity is not permitted to exclude only part of the spot-forward difference when using the spot method.	IFRS 9 only permits three components to be excluded from the effectiveness assessment: ☐ the forward element of a forward contract, ☐ the foreign currency basis spread, and ☐ the time value of an option. IFRS 9 does not prescribe a specific methodology for calculating the value of the excluded components. However, a discounted calculation (such as discounted spot or discounted intrinsic value) is generally required since IFRS requires an entity to consider the time value of money when measuring hedge effectiveness. Additionally, entities can elect to exclude only the foreign currency basis spread component of the spot-forward difference for forward contracts, which is not permitted under US GAAP.	Not addressed.

US GAAP	IFRS	BE GAAP
US GAAP prohibits the exclusion of any other components of the hedging instrument.		

11.3.9 Accounting for amounts excluded from effectiveness assessment

US GAAP and IFRS diverge regarding how to account for a component excluded from the assessment of effectiveness.

US GAAP	IFRS	BE GAAP
For cash flow, fair value, and net investment hedges, an entity may choose between two methods to account for an excluded component: *Amortization approach* The initial value of the excluded component is recognized in earnings using a systematic and rational method over the life of the hedging instrument, with any difference between the change in fair value of the excluded component and the amount in earnings recognized in OCI (CTA for net investment hedges). *Mark-to-market approach* The changes in fair value of the excluded component are recognized in current earnings. Unlike IFRS, US GAAP does not have a specific concept of aligned time value (i.e., time value that only relates to the hedged item) or aligned forward element. When using the spot method, discounting of the spot rate is not required (and in the case of a net investment hedge, discounting is not permitted).	IFRS 9 has specific guidance by type of derivative. *Options* For cash flow, fair value, and net investment hedges, if an entity elects to designate only the intrinsic value of the option as the hedging instrument, it must account for the changes in the “aligned time value” (i.e., when the critical terms of the option and hedged item are aligned) in OCI and hold those changes in a hedging reserve in equity. Recognition of the aligned time value in profit or loss will depend on whether the hedge is transaction-related (and recorded in profit or loss at the same time as the hedged item) or time period-related (and recorded in profit or loss using a systematic and rational basis over the period of the hedge). *Forwards points and currency basis spread* An entity may recognize changes in value due to changes in forward points or foreign currency basis spread in profit or loss immediately or defer them using the recognition guidance for options. *Aligned portion* Recognition of the excluded component applies to the aligned portion, i.e., the portion for which the critical terms such as notional, price, term and underlying of the derivative and the hedged item are aligned. This is called the “aligned time value” or “aligned forward element.”	Not addressed.

US GAAP	IFRS	BE GAAP
	IFRS 9 specifies a particular calculation methodology that can be complex to apply when the actual time value or forward element is lower than the aligned time value or forward element at inception of the hedge. When the change in spot rate is the designated hedged risk, entities still need to consider the time value of money and, when appropriate, measure the hedged item using the discounted spot rate. However, for a net investment hedge, we believe that an entity can choose not to impute a time period into the hedging relationship and designate the hedged risk without discounting.	

11.3.10 Eligible hedged items

Several differences exist between US GAAP and IFRS as it relates to the eligibility of the hedged item.

11.3.11 Hedging components of nonfinancial items

Under both US GAAP and IFRS, an entity is permitted to hedge a component of a nonfinancial item. However, IFRS 9 permits more nonfinancial components to qualify as hedged items.

US GAAP	IFRS	BE GAAP
US GAAP permits cash flow hedges of the variability in cash flows attributable to changes in contractually specified components of forecasted purchases or sales of nonfinancial items, subject to specific criteria. A contractually specified component is an index or price explicitly stated in the contract or governing agreements to purchase or sell the nonfinancial item that is not solely linked to the entity's own operations.	IFRS 9 permits entities to hedge risk components for nonfinancial items, provided such components are separately identifiable and reliably measurable. They do not have to be contractually specified, as under US GAAP. In assessing whether a risk component of a nonfinancial item is eligible for designation as a hedged risk, an entity should take into consideration factors such as: ☐ Whether the risk component is contractually specified (the contract entails a formula-based pricing structure such as "commodity X plus a margin") ☐ If not, the particular market structure to which the risk relates and in which the hedging activity takes place	Hedge accounting is specifically permitted, subject to certain criteria, for forward contracts hedging currency and commodity risks, and for hedges using equity options. There is however, no restriction on risks for which hedge accounting is permitted under Belgian GAAP, and the categories provided for in IFRS do not have specific equivalents under Belgian GAAP.

11.3.12 Hedging groups of items

Both US GAAP and IFRS permit an entity to hedge groups of items, but IFRS permits more groups of items to qualify as the hedged item. In particular, IFRS 9 permits hedging groups of offsetting exposures, while US GAAP specifically prohibits it.

US GAAP	IFRS	BE GAAP
If an entity wishes to designate a group of individual items as the hedged item in a hedging relationship, the individual items or transactions must share the same risk exposure for which they are designated as being hedged. A quantitative evaluation, known as the "similar assets/liabilities test," of whether a portfolio of assets or liabilities share the same risk exposure is generally required.	IFRS 9 allows hedges of: □ groups of similar items without a requirement that the fair value change of each individual item be proportional to the overall group (e.g., hedging a portfolio of S&P 500 shares with a S&P 500 futures contract), and □ groups of offsetting exposures (e.g., exposures resulting from forecasted sale and purchase transactions). IFRS 9 stipulates additional qualifying criteria. These include: □ The group consists of items that are eligible as hedged items on an individual basis □ The hedged items are managed together on a group basis for risk management purposes □ A cash flow hedge in which the variability in cash flows is not expected to be approximately proportional to the overall group is a hedge of foreign currency risk, and the hedge designation specifies the reporting period when the forecasted transactions are expected to affect profit or loss and their nature and volume. See SD 11.12 on presentation of gains and losses on hedging instruments for a discussion of grouping items with offsetting disclosures.	Not addressed.

11.3.13 Hedging prepayable financial assets

Both US GAAP and IFRS permit an entity to hedge layers of items, provided that certain criteria are met. However, US GAAP and IFRS differ in the application of the guidance to interest rate fair value hedges of layers of prepayable financial assets not expected to be prepaid during the hedge period.

US GAAP	IFRS	BE GAAP
A "last-of-layer approach" permits the designation of a portion of a closed pool of prepayable assets, beneficial interests secured by prepayable assets, or a combination that is not expected to be prepaid during the hedge period as the hedged item in a fair value hedge of the benchmark interest rate. When an entity executes a partial-term hedge of the benchmark interest rate, the entity is able to ignore the impact of prepayment and credit risk by assuming that prepayments and defaults relate to the portion of the portfolio that is not part of the designated hedged item (the "last of layer"). For this strategy, a similar assets test may be performed qualitatively and only at inception.	IFRS 9 allows a layer of a group to be designated as the hedged item. A layer component can be specified from a defined, but open, population or from a defined nominal amount. If a layer component is designated in a fair value hedge, an entity must specify it from a defined nominal amount. A layer of a contract that includes a prepayment option that is affected by changes in the hedged risk is only eligible as a hedged item in a fair value hedge if the layer includes the effect of the prepayment option when determining the change in fair value of the hedged item. In other words, the prepayment option cannot be ignored. In this situation, if an entity hedges with a hedging instrument that does not have option features that mirror the layer's prepayment option, hedge ineffectiveness would arise. For macro hedges of interest rate risk, IFRS 9 permits an entity to elect to apply the requirements in IAS 39 for fair value portfolio hedges instead of applying IFRS 9 in full. Under IAS 39's portfolio hedge model, it may apply fair value hedge accounting in a portfolio of dissimilar items (i.e., macro hedging) whereby the hedged portion may be designated as an amount of currency of a prepayable item, rather than individual assets or liabilities. Further, under this approach in IAS 39, an entity is able to incorporate changes in prepayment risk by using a simplified method set out in the guidance, rather than specifically calculating the fair value of the prepayment option on a prepayable item by item basis.	Not addressed.

US GAAP	IFRS	BE GAAP
	Expected rather than contractual repricing dates may be used. In such a strategy, the change in fair value of the hedged item is presented as a separate line item in the balance sheet and is not allocated to individual assets or liabilities.	

11.3.14 Hedging aggregated exposures

IFRS permits an entity to combine a derivative and nonderivative exposure together and to designate them together as the hedged item in a hedging relationship. This is not permitted under US GAAP.

US GAAP	IFRS	BE GAAP
US GAAP does not permit hedge accounting for hedged items that are remeasured for changes in fair value through earnings (or a forecasted acquisition of an asset or incurrence of a liability that subsequently will be similarly remeasured at fair value). Therefore, items meeting the definition of a derivative are not permitted to be the hedged item in a hedging relationship either by themselves or when combined with other nonderivatives.	Aggregated exposures can be designated as hedged items. An aggregated exposure is a combination of (1) an exposure that qualifies as a hedged item and (2) a derivative. This includes a forecasted transaction of an aggregated exposure (i.e., uncommitted but anticipated future transactions that would give rise to an exposure and a derivative) as long as the aggregated exposure is highly probable and, once it has occurred, would be eligible as a hedged item. For example, an entity could hedge the forecasted issuance of variable-rate debt even if the currency of issuance is not yet known. If the debt is not issued in the entity's functional currency, but the entity plans to enter into a cross-currency swap to convert the exposure back into its functional currency, it can designate as the hedged item highly probable variable interest payments arising from either (1) debt denominated in the functional currency or (2) a combination of foreign currency debt and a cross-currency swap that will swap the foreign currency debt to functional currency debt.	Not addressed.

11.3.15 Partial term hedging

Both US GAAP and IFRS permit partial-term hedging of a financial instrument. However, US GAAP is more prescriptive about the timing of the assumed beginning and maturity of the hedged item.

US GAAP	IFRS	BE GAAP
US GAAP allows a partial-term fair value hedge of interest rate risk in which the hedged item is designated as selected consecutive contractual interest payments. For example, entities can hedge the interest rate payments in the first two years, the last two years, or in years two through four in debt with a five-year term. Or, for hedges of a single financial instrument, an entity could simultaneously enter into a hedge of year 1 with a swap in one hedging relationship and years 3 and 4 with another swap in a different hedging relationship. Partial-term hedging is achieved by assuming that (1) the term begins when the first hedged cash flow begins to accrue, and (2) the maturity of the hedged item is the same date as the last hedged cash flow. To achieve #2, the payments made at the contractual maturity of the hedged item are assumed to be made at the conclusion of the hedged term. In a cash flow hedge of interest rate risk, the hedged forecasted transactions are future interest payments. An entity may choose to hedge only certain selected interest payments to be paid under the terms of a debt agreement.	IFRS similarly permits designation of a derivative as hedging a financial instrument (the hedged item) for only a portion of its cash flows or fair value, if effectiveness can be measured and the other hedge accounting criteria are met. Under IFRS 9, partial-term hedging of forecasted transactions of nonfinancial items, such as purchases and sales, is not permitted. However, the terms of the hedged item and hedging instrument do not need to match exactly to achieve hedge accounting. If the mismatch is not so long as to invalidate the economic relationship, an entity can designate the hedge for the full period. However, the difference in terms will result in ineffectiveness. Ineffectiveness arises regardless of whether the designated hedged risk is the forward or the spot foreign currency rate because the requirement in IFRS 9 to consider the time value of money is applicable in both circumstances.	Not addressed.

11.3.16 Hedging variable-rate financial assets and liabilities

Both US GAAP and IFRS permit designation of the contractually specified interest rate as the hedged risk in a cash flow hedge of interest rate risk of a variable-rate financial instrument. Under IFRS 9, the interest rate does not need to be contractually specified; it only needs to be separately identifiable and reliably measurable. However, IFRS 9 does not permit the designated interest rate component to exceed the contractual cash flows.

US GAAP	IFRS	BE GAAP
US GAAP allows hedging the interest rate risk associated with the contractually specified index rate of an existing or forecasted issuance/purchase of a variable rate financial instrument. The rate does not need to be a benchmark interest rate. If an entity desires to hedge interest payments from a forecasted issuance/purchase and does not know whether it will be variable rate or fixed rate, the entity must designate a rate that would qualify both as a contractually specified rate and a benchmark interest rate.	IFRS similarly allows a portion of specific interest payments to qualify as a hedged risk, provided it is separately identifiable and reliably measurable. It does not have to be contractually specified. However, under IFRS 9, a designated portion of the cash flows cannot be greater than the cash flows of the whole financial asset or financial liability. Consequently, an entity that issues a debt instrument whose effective interest rate at designation is below the designated interest rate component cannot designate a component of the liability equal to the benchmark interest rate. For example, if an entity issues debt that pays a rate of LIBOR minus 1%, it cannot designate the hedged item as only the LIBOR component of the cash flows. However, IFRS permits the entity to designate as a hedged item the change in cash flows of the entire liability (LIBOR minus 1%) that is attributable to changes in LIBOR. In practice, this may have a similar result, unless the debt contains a floor or contractually permits other variability besides the referenced interest rate.	Not addressed.

11.3.17 Hedging fixed-rate financial assets and liabilities

Both US GAAP and IFRS permit the designation of the entire contractual cash flows or a component of the contractual cash flows in a fair value hedge of interest rate risk of a fixed-rate financial instrument. US GAAP also permits a hedge of the benchmark component for fair value hedges of other risks, regardless of whether the coupon or yield is more or less than the benchmark rate.

US GAAP	IFRS	BE GAAP
The interest rate risk that can be hedged in a fixed-rate financial asset or liability is explicitly limited to	Similar to US GAAP, IFRS 9 permits an entity to hedge the full contractual coupon or just the	Not addressed.

US GAAP	IFRS	BE GAAP
benchmark interest rates. In each financial market, generally only the most widely used and quoted rates are considered benchmark interest rates. In the United States, the benchmark rates currently allowed to be hedged under US GAAP are: □ the interest rates on direct Treasury obligations of the US government, □ the London Interbank Offered Rate (LIBOR) swap rate, □ the Fed Funds Effective Swap Rate (also referred to as the Overnight Index Swap Rate or OIS), and □ the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Rate. □ OIS rate based on the Secured Overnight Financing Rate (SOFR) In calculating the change in value of the hedged item for interest rate changes, an entity can use either the full contractual coupon cash flows or the benchmark rate component as determined at hedge inception. A hedge of the benchmark component of coupons is permitted for all fair value hedges, regardless of whether the coupon or yield is more or less than the benchmark rate. In other words, sub-benchmark hedging is allowed.	interest rate component of the contractual coupon. IFRS allows a portion of a specific risk in a fixed-rate financial asset or liability to be designated as a hedged item, provided it is separately identifiable and reliably measurable. In certain circumstances, an inflation risk component could be considered separately identifiable and reliably measurable even if not contractually specified. Unlike US GAAP, IFRS 9 does not contain a list of acceptable benchmark rates. Additionally, IFRS 9 does not permit use of a designated component of the cash flows that exceeds the total fair value or cash flows of a hedged item. For a fixed rate sub-LIBOR debt, an entity would designate changes in fair value of all the cash flows attributable to changes in LIBOR. If a fixed-rate financial instrument is hedged after its origination/issuance and interest rates have risen, the entity can designate a risk component equal to a benchmark rate that is higher than the contractual rate paid on the item as long as LIBOR is less than the effective interest rate based on the hedged item's fair value at designation. In that case, the cash flows used for the hedged item would consist of the contractual interest and the difference between the hedged item's fair value at designation and the amount repayable at maturity (discount).	
Under US GAAP, an entity should consider the effect of a prepayment option that is exercisable during the hedged term when hedging interest rate risk of a prepayable item. In evaluating the impact to the prepayment option, an entity is explicitly permitted to consider either (1) all factors that would cause a borrower to prepay, or (2) only how changes in the benchmark interest rate affect prepayments.	While IFRS 9 allows an entity to designate the interest rate component as the hedged risk, it does not specifically provide the approach laid out under US GAAP when considering the impact of a prepayment option. However, in practice, changes in fair value attributable to the referenced interest rate may be designated as the hedged risk, which has the same effect.	

11.3.18 Hedging more than one risk

IFRS provides greater flexibility than US GAAP with respect to utilizing a single hedging instrument to hedge more than one risk in two or more hedged items. This allows entities to adopt new and sometimes more complex strategies to achieve hedge accounting while managing certain risks under IFRS.

US GAAP	IFRS	BE GAAP
US GAAP does not allow a single hedging instrument to hedge more than one risk in two or more hedged items and does not permit creation of a hypothetical component in a hedging relationship of more than one risk with a single hedging instrument. An exception is a basis swap designated as a cash flow hedge of both a floating rate asset and a floating rate liability.	IFRS 9 permits designation of a single hedging instrument to hedge more than one risk in two or more hedged items. A single hedging instrument may be designated as a hedge of more than one type of risk, provided that there is a specific designation of the hedging instrument and of the different risk positions as hedged items. Those hedged items can be in different hedging relationships. In the application of this guidance, a single derivative may be separated by inserting an additional (hypothetical) leg if each portion of the contract is designated as a hedging instrument in a qualifying and effective hedge relationship. For example, an entity whose functional currency is the Japanese yen (JPY) that has a fixed-rate loan receivable denominated in British pounds (GBP) and a variable-rate liability denominated in US dollars (USD) with the same principal amount can enter into a single foreign currency forward contract to hedge the FX exposure on the principal payments of the liability and the note receivable. This would be achieved by splitting a GBP / USD forward into two forwards by imputing two JPY legs into the contract.	Not addressed.

11.3.19 Hedging business combinations

IFRS permits hedging foreign currency risk in a business combination, but US GAAP does not.

US GAAP	IFRS	BE GAAP
US GAAP specifically prohibits a firm commitment to enter into a business combination, or acquire or dispose of a subsidiary, minority interest, or equity method investee from qualifying as a hedged item	An entity is permitted to hedge foreign exchange risk in a firm commitment to acquire a business or a forecasted business	Not addressed.

for hedge accounting purposes (even if it is with respect to foreign currency risk). Additionally, US GAAP does not permit cash flow hedges of forecasted transactions involving business combinations.	combination if the transaction is highly probable.	

11.3.20 Eligible hedging instruments

Several differences exist between US GAAP and IFRS as it relates to the eligibility of the hedging instruments.

11.3.21 Eligible hedging instruments - nonderivatives

Both US GAAP and IFRS permit nonderivatives to be designated as hedging instruments in certain cases. IFRS generally permits nonderivatives to be designated as hedging instruments in more instances than US GAAP. Nonderivative financial instruments are most commonly used as hedges in hedge relationships involving foreign currency risk, which is permitted under both frameworks. In this way, US GAAP and IFRS are similar. As a result, there is not a substantive difference in practice in most cases.

US GAAP	IFRS	BE GAAP
Generally, a nonderivative may not be used as a hedging instrument. However, certain nonderivative financial instruments that may give rise to a foreign currency transaction gain or loss may be designated in a hedge of foreign currency risk in fair value hedges of firm commitments and net investment hedges.	Nonderivative financial instruments classified at fair value through profit or loss are permitted to be used as hedging instruments for all types of risks (except for financial liabilities when changes in fair value as a result of credit risk are presented in OCI). The foreign currency component of nonderivative financial instruments can be designated as a hedge of FX risk (except for equity instruments for which changes in fair value are recorded in OCI).	Not addressed.

11.3.22 Foreign currency risk - location of hedging instrument

IFRS permits a parent company to hedge exposures of an indirect subsidiary regardless of the functional currency of intervening entities within the organizational structure. The rules under US GAAP for hedges of foreign exchange risk for forecasted transactions (cash flow hedges) or net investments in foreign operations are prescriptive regarding the functional currency and structure of the entities involved.

US GAAP	IFRS	BE GAAP
Either the operating unit that has the foreign currency exposure or another member of the consolidated group that has the same functional currency as that operating unit must be a party to the hedging instrument. However, for another	IFRS does not require the entity with the hedging instrument to have the same functional currency as the entity with the hedged item or the operating unit exposed to the risk being hedged within the consolidated group to be a party to	Foreign currency transactions which are hedged and meet hedge accounting criteria should be translated at the rate of the hedging transaction. Unrealized exchange differences on borrowings made to finance

US GAAP	IFRS	BE GAAP
member of the consolidated group to enter into the hedging instrument, there cannot be an intervening entity with a different functional currency. Instead, entities may designate intercompany derivatives between the subsidiary with the exposure and the entity that is a party to an offsetting external derivative if certain criteria are met.	the hedging instrument. For example, IFRS allows a parent company with a functional currency different from that of a subsidiary to achieve cash flow hedge accounting for the subsidiary's transactional foreign currency exposure (i.e., an exposure in a currency other than the subsidiary's functional currency). The same flexibility regarding location of the hedging instrument applies to net investment hedges.	specific non-monetary assets whose value is largely dependent on the fluctuation of the currency in which they are denominated can be deferred and recognized in the income statement when income is generated by the assets financed. Forward positions on commodities may be treated as specific hedges of underlying commodity positions, meaning that no revaluation gain or loss will be recorded at the balance sheet date, assuming that there is a one-to-one link between the forward contract and the underlying exposure item. In situations where forward contracts on commodities are entered into to hedge a total position in the same commodity, the individual components of the position and the hedging contracts should be revalued at the balance sheet date based upon appropriate market rates. A resulting net loss should be recorded in the income statement, whilst a net gain should be deferred. Any gain or loss that is definitive as a result of entering into hedging transactions should be recognized immediately. Transactions having opposite effects should be treated as one single transaction in order to determine the potential provisions to be recorded. Prudence is required, particularly if the market is not liquid, in which case transactions should be treated separately.

11.3.23 Cash flow hedging and basis adjustments

For hedges of a forecasted purchase of a nonfinancial item, US GAAP and IFRS differ with regards to the accounting (at the time of acquisition of the nonfinancial item) for the fair value changes of the hedging instrument that were deferred in AOCI. This results in different amounts in AOCI and different carrying amounts of the nonfinancial items between US GAAP and IFRS. However, the ultimate effect on earnings is the same.

US GAAP	IFRS	BE GAAP
US GAAP prohibits adjusting the basis of the hedged item in a cash flow hedge and requires the fair value changes deferred in AOCI to be released out of AOCI into earnings when the hedged forecasted transaction impacts earnings.	IFRS 9 requires mandatory basis adjustment of the nonfinancial hedged item once it is recognized. Accordingly, fair value changes in the hedging instrument that are deferred in AOCI (referred to as the "cash flow hedge reserve") are included in the value of the hedged item on its initial recognition. The basis adjustment does not flow back through OCI. It is a direct transfer from equity to the hedged item. Similar accounting is required if a hedged forecasted transaction for a nonfinancial asset or a nonfinancial liability becomes a firm commitment for which fair value hedge accounting is applied.	Hedge accounting is specifically permitted, subject to certain criteria, for forward contracts hedging currency and commodity risks, and for hedges using equity options. There is however, no restriction on risks for which hedge accounting is permitted under BE GAAP, and the categories provided for in IFRS do not have specific equivalents under BE GAAP.

11.3.24 Presentation of hedging instrument gains or losses

US GAAP is more prescriptive regarding the presentation of gains and losses from hedges than IFRS.

US GAAP	IFRS	BE GAAP
For fair value hedges, the entire change in the fair value of the hedging instrument is presented in the same income statement line item as the earnings effect of the hedged item. For cash flow hedges, the entire change in fair value of the hedging instrument (except for excluded components) should be recorded in other comprehensive income (OCI) and reclassified to earnings in the same income statement line item used to present the earnings effect of the hedged item when the hedged item impacts earnings. Splitting gains and losses into more than one income statement line item is generally not appropriate. However, if the hedging instrument offsets changes in fair value or cash flows that are reported in more than one income statement line item, the changes in fair value of the hedging instrument is split among the line items that include the earnings effect of the hedged item.	IFRS 9 generally has no requirements regarding the income statement presentation of gains and losses from a hedging instrument. However, in practice, we believe most entities present gains and losses from a hedging instrument in the same income statement line item as the hedged transaction. We believe ineffectiveness should be presented in a manner consistent with the entity's policy for trading derivatives. This might mean that the results of hedge ineffectiveness are included in the same line item as the impact of the related hedged item or in "other operating income and expense" or a separate line item if the amount is significant. For cash flow hedges of a group of items with no offsetting risk position, the presentation of gains and losses should be apportioned to the line items affected by the hedged items on a systematic and rational basis.	According to the BE GAAP guidance, accounting for a hedging transaction must result in neutralizing, and not necessarily compensating, within the income statement, variations in value and/or the financial flows of the hedged and hedging financial instruments. *Source: CBN/CNC 2010-12*

US GAAP	IFRS	BE GAAP
For cash flow and fair value hedges, amounts excluded from the assessment of effectiveness are presented in the same income statement line item that is used for the hedged item. For net investment hedges, the entire change in fair value of the hedging instrument included in the hedge effectiveness assessment is recorded in CTA and reclassified to earnings in the same income statement line item used to present the earnings effect of the hedged item (when the subsidiary is sold or substantially liquidated). US GAAP is silent on the income statement geography for excluded components for net investment hedges.	The net gains or losses arising from a single hedging instrument should not be presented as gross amounts in different line items. For a hedge of a group of items with offsetting risk positions whose hedged risk affects different line items in the statement of profit or loss and OCI, any hedging gains or losses in that statement must be presented in a separate line from those affected by the hedged items. Consequently, the amount in the line item that relates to the hedged item itself (e.g., revenue or cost of sales) remains unaffected. In practice, this makes hedges of a group of items less attractive, and we expect many entities to designate just a part of one of the gross positions (rather than the net position).	

11.3.25 Voluntary dedesignation of a hedging relationship

Under both US GAAP and IFRS, an entity is required to discontinue a hedging relationship if the respective qualifying criteria are no longer met. However, voluntary dedesignation is not allowed under IFRS 9. In practice, this may have a limited impact because IFRS requires discontinuance of the hedging relationship when the risk management objective is no longer met. Hence, when an entity no longer pursues a specific risk management objective, the hedging relationship should be discontinued prospectively. This likely includes most instances when an entity would have chosen to dedesignate a hedging relationship.

US GAAP	IFRS	BE GAAP
An entity is permitted to dedesignate a hedging relationship voluntarily at any time.	Under IFRS 9, an entity cannot voluntarily dedesignate a hedging relationship that: □ still meets the risk management objective on the basis of which it qualified for hedge accounting (i.e., the entity still pursues that risk management objective), and □ continues to meet all other qualifying criteria (after taking into account any rebalancing of the hedging relationship, if applicable).	Not addressed.

11.3.26 Novations, rollovers, and replacements

Both US GAAP and IFRS permit continuance of a designated hedging relationship when a contract is modified in certain circumstances. However, the circumstances under which the hedge relationship can continue after a modification differ under the two frameworks.

US GAAP	IFRS	BE GAAP
A change in the counterparty to a derivative that has been designated as the hedging instrument does not, in and of itself, require dedesignation of that hedging relationship, provided that all other hedge accounting criteria continue to be met. However, US GAAP requires an entity to dedesignate a hedging relationship upon expiration of the derivative or a change to the critical terms of the derivative or hedging relationship.	IFRS explicitly permits the continuation of hedge accounting when the counterparty to a derivative change through novation to a clearing counterparty (such as a central clearing party) as a consequence of laws or regulations. However, in practice, there may be other scenarios when a novation, in and of itself, would not require a dedesignation of the hedging relationship. IFRS permits the continuation of hedge accounting upon the replacement or rollover of a hedging instrument into another hedging instrument if it is part of the entity's documented hedging strategy.	Not addressed.

Chapter 12
Consolidation

Updated June 2021

12.1 Consolidation

IFRS provides indicators of control, some of which individually determine the need to consolidate. However, where control is not apparent, consolidation is based on an overall assessment of all of the relevant facts, including the allocation of risks and benefits between the parties. The indicators provided under IFRS help the reporting entity in making that assessment. Consolidation in financial statements is required under IFRS when an entity is exposed to variable returns from another entity and has the ability to affect those returns through its power over the other entity.

US GAAP has a two-tier consolidation model: one focused on voting rights (the voting interest model) and the second focused on a qualitative analysis of power over significant activities and exposure to potentially significant losses or benefits (the variable interest model). Under US GAAP, all entities are first evaluated to determine whether they are variable interest entities (VIEs). If an entity is determined not to be a VIE, it is assessed on the basis of voting and other decision-making rights under the voting interest model.

Even in cases for which both US GAAP and IFRS look to voting rights to drive consolidation, differences can arise. Examples include cases in which de facto control exists (when a minority shareholder has the practical ability to exercise power unilaterally) and how the two frameworks address potential voting rights. As a result, careful analysis is required to identify any differences.

Differences in consolidation under US GAAP and IFRS may also arise when a subsidiary’s set of accounting policies differs from that of the parent. While under US GAAP it is acceptable to apply different accounting policies within a consolidation group to address issues relevant to certain specialized industries, exceptions to the requirement to consistently apply standards in a consolidated group do not exist under IFRS. In addition, potential adjustments may occur in situations where a parent company has a fiscal year-end different from that of a consolidated subsidiary (and the subsidiary is consolidated on a lag). Under US GAAP, significant transactions in the gap period may require disclosure only, whereas IFRS may require recognition of transactions in the gap period in the consolidated financial statements.

BE GAAP is broadly comparable to IFRS. Belgian GAAP also uses the control principle as basis to determine the consolidation requirements. In principle control is defined as control de jure or de facto. BE GAAP also considers the consolidation requirements of entities under common control (groups structured in a horizontal way – consortia). Some concepts however are not addressed in BE GAAP.

Technical references

US GAAP

ASC 205, ASC 323, ASC 323-10-15-8 to ASC 323-10-15-11, ASC 325-20, ASC 810, ASC 810-10-25-1 to ASC 810-10-25-14, ASC 810-10-60-4, SAB Topic 5H, SAB Topic 5H

IFRS

IAS 1, IAS 27, IAS 28, IAS 36, IAS 39, IFRS 9, IFRS 5, IFRS 10, IFRS 11, IFRS 12

BE GAAP

CBN/CNC 2011-5, CBN/CNC 2012-10, CBN/CNC 2012-12, CBN/CNC 2013-3, CBN/CNC 2014-3, CBN/CNC 2016-19, CBN/CNC 2017-06.

Note

The following discussion captures a number of the more significant GAAP differences. It is important to note that the discussion is not inclusive of all GAAP differences in this area.

12.2 Requirements to prepare consolidated financial statements

IFRS does not provide industry-specific exceptions to the requirement for consolidation of controlled entities, with the exception of specific guidance for investment entities. IFRS, in limited circumstances, may be more flexible with respect to the ability to issue non consolidated financial statements (i.e., parent-only, separate financial statements).

US GAAP	IFRS	BE GAAP
The guidance applies to legal structures. There is a scope exception for registered money market funds and similar unregistered money market funds. Industry-specific guidance precludes consolidation of controlled entities by certain types of organizations, such as investment companies and broker/dealers. While the FASB and the IASB definitions of an investment company/entity are converged in most areas, there are several key differences (see SD 12.3). In addition, unlike the IASB standard, US GAAP retains the specialized investment company accounting in consolidation by a non-investment company parent.	Parent entities prepare consolidated financial statements that include all subsidiaries. An exemption applies when all of the following conditions apply: ● Parent is a wholly- or partially owned subsidiary and the owners of the non-controlling interests have been informed about and do not object to the parent not presenting consolidated financial statements ● The parent's debt or equity securities are not publicly traded and the parent is not in the process of issuing any class of instruments in public securities markets ● The ultimate or any intermediate parent of the parent publishes consolidated financial statements available for public use that comply with IFRS	Consolidated financial statements must generally be produced if a parent has one or more subsidiaries, although some exemptions from the requirement to prepare consolidated financial statements are available for intermediate holding companies and for small groups. Another exemption is foreseen for subsidiaries held for disposal. *Source: CBN/CNC 2011/5* Subject to conditions, an entity may be exempted from preparing consolidated accounts. Namely if the parent entity already prepares and issues consolidated financial statements that are audited. This exemption is not applicable though if shares or parts of one of the consolidated entities are wholly or partially quoted. In addition, parent and subsidiaries that individually or together present negligible interest regarding their consolidated assets, consolidated financial position or consolidated income, are exempted to prepare consolidated accounts. Entities under common control (known as consortium under Belgian law) are generally required to prepare consolidated financial statements using the full consolidation method. Exemptions exist for small consortiums and non-for-profit organisations. Each individual entity that is part of a consortium is exempted from (further) sub-consolidation. *Source: CBN/CNC 2012-10 and CBN/CNC 2012-12, CBN/CBC 2016-19, CBN/CBC 2017-06*
Consolidated financial statements are presumed to be more	A subsidiary is not excluded from consolidation simply because the investor is a venture capital organization, mutual fund, unit trust,	

US GAAP	IFRS	BE GAAP
meaningful and are required for SEC registrants. With the exception of the items noted above, there are no exemptions for consolidating subsidiaries in general-purpose financial statements.	or similar entity. However, an exception is provided for an investment entity (as defined in SD 12.3) from consolidating its subsidiaries unless those subsidiaries are providing investment-related services. Instead, the investment entity measures those investments at fair value through profit or loss. The exception from consolidation only applies to the financial reporting of an investment entity. This exception does not apply to the financial reporting by a non-investment entity, even if it is the parent of an investment entity. When separate financial statements are prepared, investments in subsidiaries, joint ventures, and associates can be accounted for at either: ● Cost ● Under the equity method, or ● Fair value The same accounting is required for each category of investments. However, investments in associates or joint ventures held by venture capital organizations, mutual funds, unit trusts or similar entities or investments entities accounted for at fair value in the consolidated financial statements should be measured at fair value in the separate financial statements.	

12.3 Investment company/entity definition

The US GAAP and IFRS definitions of an investment entity are substantially converged; however, differences do exist. Investment companies measure their investments at fair value, including any investments in which they have a controlling financial interest.

US GAAP	IFRS	BE GAAP
An investment company is an entity with the following fundamental characteristics: ● It is an entity that does both of the following: ● Obtains funds from one or more investors and provides the investor(s) with investment management services ● Commits to its investor(s) that's it business purpose and only substantive activities are investing the funds solely for returns from capital appreciation, investment income, or both ● The entity or its affiliates do not obtain or have the objective of obtaining returns or benefits from an investee or its affiliates that are not normally attributable to ownership interests or that are other than capital appreciation or investment income An investment company would also be expected to have all of the following typical characteristics: ● It has more than one investment ● It has more than one investor ● It has investors that are not related parties of the parent and the investment manager ● It has ownership interests in the form of equity or partnership interests ● It manages substantially all of its investments on a fair value basis An entity may still be considered an investment company if it does not exhibit one or more of the typical characteristics, depending on facts and circumstances. ● All entities subject to the Investment Company Act of 1940 are investment companies.	The IFRS definition of an investment entity is substantially converged with the US GAAP definition with the following exceptions: ● The IFRS definition requires an entity to measure and evaluate the performance of substantially all of its investments on a fair value basis ● The IFRS definition does not provide for entities that are subject to certain regulatory requirements (such as the Investment Company Act of 1940) to qualify as investment entities without meeting the stated criteria	No similar requirements for investment companies exist.

12.4 Consolidation model

Differences in consolidation under current US GAAP and IFRS can arise as a result of:

- Differences in how economic benefits are evaluated when the consolidation assessment considers more than just voting rights (i.e., differences in methodology)
- Specific differences or exceptions, such as:
- The consideration of variable interests
- De facto control
- How potential voting rights are evaluated
- Guidance related to de facto agents and related parties
- Reconsideration events

US GAAP	IFRS	BEGAAP
All consolidation decisions are evaluated first under the VIE model. US GAAP requires an entity with a variable interest in a VIE to qualitatively assess the determination of the primary beneficiary of the VIE. In applying the qualitative model, an entity is deemed to have a controlling financial interest if it meets both of the following criteria: ● Power to direct activities of the VIE that most significantly impact the VIE's economic performance (power criterion) ● Obligation to absorb losses from or right to receive benefits of the VIE that could potentially be significant to the VIE (losses/benefits criterion) In assessing whether an enterprise has a controlling financial interest in an entity, it should consider the entity's purpose and design, including the risks that the entity was designed to create and pass through to its variable interest holders. Only one enterprise, if any, is expected to be identified as the primary beneficiary of a VIE. Although more than one enterprise could meet the losses/benefits criterion, only one enterprise, if any, will have the power to direct the activities of a VIE that most significantly impact the entity's economic performance. Increased skepticism should be given to situations in which an	IFRS focuses on the concept of control in determining whether a parent-subsidiary relationship exists. An investor controls an investee when it has all of the following: ● Power, through rights that give it the current ability, to direct the activities that significantly affect (the relevant activities that affect) the investee's returns ● Exposure, or rights, to variable returns from its involvement with the investee (returns must vary and can be positive, negative, or both) ● The ability to use its power over the investee to affect the amount of the investor's returns In assessing control of an entity, an investor should consider the entity's purpose and design to identify the relevant activities, how decisions about the relevant activities are made, who has the current ability to direct those activities, and who is exposed or has rights to the returns from those activities. Only substantive rights can provide power. The greater an investor's exposure to variability of returns, the greater its incentive to obtain rights to give it power (i.e., it is an indicator of power and is not by itself determinative of having power). When an entity is controlled by voting rights, control is presumed to exist when a parent owns, directly or indirectly, more than 50 percent	Broadly comparable to IFRS. The consolidation principles are ruled by the Royal Decree of 29 April 2019 implementing the Companies and Associations' Code. BE GAAP uses the control principle as the basis to determine the consolidation requirements. Control is defined as the power de jure or de facto to exercise a decisive influence on the appointment of the majority of the board of directors or general management or on the orientation of the policy of an entity. BE GAAP considers the consolidation requirements of a parent with its affiliates (vertically structured groups) but also entities under common control (groups structured in a horizontal way - consortia). In addition, BE GAAP requires the presentation of an excess of the cost of an investment over its accounting value of the underlying net assets to be presented as 'positive consolidation difference'. Such positive consolidation difference should be amortized. If the period of amortization is longer than 5 years, this should be properly disclosed. Negative consolidation differences are not accounted for in the income statements but in the consolidated equity. A recycling of such a negative consolidation difference is only allowed when the underlying reason of the negative consolidation

US GAAP	IFRS	BEGAAP
enterprise's economic interest in a VIE is disproportionately greater than its stated power to direct the activities of the VIE that most significantly impact the entity's economic performance. As the level of disparity increases, the level of skepticism about an enterprise's lack of power is expected to increase. All other entities are evaluated under the voting interest model. Unlike IFRS, only actual voting rights are considered. Under the voting interest model, control can be direct or indirect. In certain unusual circumstances, control may exist with less than 50 percent ownership, when contractually supported. The concept is referred to as effective control.	of an entity's voting power. Control also exists when a parent owns half or less of the voting power but has legal or contractual rights to control either the majority of the entity's voting power or the board of directors. Control may exist even in cases where an entity owns little or none of a structured equity. The application of the control concept requires, in each case, judgment in the context of all relevant factors.	difference is related to expected future losses which require a recycling at the time of the accounting of these losses. Non-controlling interests are separately presented adjacent to the equity. The translation of the financial statements of foreign entities for consolidation purposes is done on the basis of two acceptable methods: the monetary/non-monetary method or the closing rate method. The consolidation law prescribes when each method has to be applied.

12.5 Accounting policies and reporting periods

In relation to certain specialized industries, US GAAP allows more flexibility for use of different accounting policies within a single set of consolidated financial statements.

In the event of nonuniform reporting periods, the treatment of significant transactions in any gap period varies under the two frameworks, with the potential for earlier recognition under IFRS.

US GAAP	IFRS	BE GAAP
Consolidated financial statements are prepared by using uniform accounting policies for all of the entities in a group. Limited exceptions exist when a subsidiary has specialized industry accounting principles. Retention of the specialized accounting policy in consolidation is permitted in such cases. The consolidated financial statements of the parent and the subsidiary are usually drawn up at the same reporting date. However, the consolidation of subsidiary accounts can be drawn up at a different reporting date, provided the difference between the reporting dates is no more than three months. Recognition is given, by disclosure or adjustment, to the effects of	Consolidated financial statements are prepared by using uniform accounting policies for like transactions and events in similar circumstances for all of the entities in a group. The consolidated financial statements of the parent and the subsidiary are usually drawn up at the same reporting date. However, the subsidiary accounts as of a different reporting date can be consolidated, provided the difference between the reporting dates is no more than three months. Adjustments are made to the financial statements for significant transactions that occur in the gap period.	Uniform accounting policies- 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 date - similar to IFRS, except that appropriate disclosure of significant transactions between the two dates is sufficient.

US GAAP	IFRS	BE GAAP
intervening events that would materially affect consolidated financial statements.		

12.6 Equity method — Potential voting rights

The consideration of potential voting rights might lead to differences in whether an investor has significant influence.

US GAAP	IFRS	BE GAAP
Potential voting rights are generally not considered in the assessment of whether an investor has significant influence.	Potential voting rights are considered in determining whether the investor exerts significant influence over the investee. Potential voting rights are important in establishing whether the entity is an associate. Potential voting rights are generally not, however, considered in the measurement of the equity earnings recorded by the investor.	Broadly comparable to IFRS, but the concept of presently exercisable potential voting rights is not addressed. Control also exists de facto (rebuttable presumption) when voting rights representing the majority of the votes attached to the shares represented at the last two annual shareholders meetings have been exercised.

12.7 Definition and types of joint ventures

Differences in the definition or types of joint arrangements may result in different arrangements being considered joint ventures, which could affect reported figures, earnings, ratios, and covenants.

US GAAP	IFRS	BE GAAP
The term *joint venture* refers only to jointly controlled entities, where the arrangement is carried on through a separate entity. A *corporate joint venture* is defined 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. Most joint venture arrangements give each venturer (investor) participating rights over the joint venture (with no single venturer having unilateral control), and each party sharing control must consent to the venture's operating, investing, and financing decisions.	A *joint arrangement* is 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. Unanimous consent is required for the relevant activities (as discussed in SD 12.4) of the parties sharing control, but not necessarily of all parties in the arrangement. IFRS classifies joint arrangements into two types: ● Joint operations, which give parties to the arrangement direct rights to the assets and obligations for the liabilities	A joint subsidiary is an entity that 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. Assets, liabilities, income and expenses of joint subsidiaries are consolidated proportionally, after elimination of intragroup balances and transactions. The equity method is allowed for joint subsidiaries whose activities are not closely integrated with those of the parent.

US GAAP	IFRS	BE GAAP
	• Joint ventures, which give the parties rights to the net assets of the arrangement	
		The investor's share of the equity movements of an associate or a joint subsidiary accounted for using the equity method is recognized directly in the investor's equity. *Source: CBN/CNC 2014/3*

12.8 Accounting for joint arrangements

Under IFRS, classification of joint arrangement as a joint venture or a joint operation determines the accounting by the investor. Under US GAAP, the proportional consolidation method is allowed for entities in certain industries.

US GAAP	IFRS	BE GAAP
Prior to determining the accounting model, an entity first assesses whether the joint venture is a VIE. If the joint venture is a VIE, the accounting model discussed earlier is applied. Joint ventures often have a variety of service, purchase, and/or sales agreements, as well as funding and other arrangements that may affect the entity's status as a VIE. Equity interests are often split 50-50 or near 50-50, making nonequity interests (i.e., any variable interests) highly relevant in consolidation decisions. Careful consideration of all relevant contracts and governing documents is critical in the determination of whether a joint venture is within the scope of the variable interest model and, if so, whether consolidation is required. If the joint venture is not a VIE, venturers apply the equity method to recognize the investment in a jointly controlled entity. Proportionate consolidation is generally not permitted except for unincorporated entities operating in certain industries. A full understanding of the rights and responsibilities conveyed in management, shareholder, and	The classification of a joint arrangement as a joint venture or a joint operation determines the investor's accounting. An investor in a joint venture must account for its interest using the equity method in accordance with IAS 28. An investor in a joint operation accounts for its share of assets, liabilities, income and expenses based on its direct rights and obligations. If the joint operation constitutes a business, the investor must apply the relevant principles on business combination accounting contained in IFRS 3, *Business Combinations*, and other standards, and disclose the related information required under those standards. A joint operator that increases its interest in a joint operation that constitutes a business should not remeasure previously held interests in the joint operation when joint control is retained. Similarly, when an entity that has an interest (but not joint control) obtains joint control, previously held interests are not remeasured.	For the accounting of joint ventures in consolidated financial statements, see previous topic "Definition and types of joint ventures". For other joint arrangements, limited rules exist in BE GAAP. The CBN/CNC issued a detailed study (CBN/CNC advice 3- 3) on the different methods applicable to 'Temporary associations'. Generally speaking, the proportional method is considered to be the Preferred method best representing the economic reality of the cooperation between the partners. Other methods (including full consolidation) are also allowed when specific circumstances justify another method.

US GAAP	IFRS	BE GAAP
other governing documents is necessary.		

12.9 Accounting for contributions to a jointly controlled entity

Differences exist in the accounting for contributions to a jointly controlled entity under IFRS and US GAAP.

US GAAP	IFRS	BE GAAP
If a joint venture gains control of the contributed assets, contributions to joint ventures will be measured at fair value at the venturer level in accordance with ASC 610-20, *Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets*. When an investor contributes a subsidiary or group of assets that constitute a business to a joint venture, the investor should apply the deconsolidation and derecognition guidance in ASC 810-10-40 and record any consideration received for its contribution at fair value (including its interest in the joint venture). This generally results in a gain or loss on the contribution.	A venturer that contributes nonmonetary assets—such as shares; property, plant, and equipment; or intangible assets—to a jointly controlled entity in exchange for an equity interest in the jointly controlled entity generally recognizes in its consolidated 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 ownership of the contributed assets have not been transferred to the jointly controlled entity, ● The gain or loss on the assets contributed cannot be measured reliably, or ● The contribution transaction lacks commercial substance. When the nonmonetary asset is a business, a policy choice is currently available for full or partial gain or loss recognition. IAS 28 provides an exception to the recognition of gains or losses only when the transaction lacks commercial substance.	Not specifically addressed.

12.10 Exemption from applying the equity method

An exemption from applying the equity method of accounting (i.e., use of the fair value through profit or loss option) is available to a broader group of entities under US GAAP.

US GAAP	IFRS	BE GAAP
Equity method investments are considered financial assets and therefore are eligible for the fair value accounting option. An entity can measure an investment in associates or joint ventures at fair value through profit or loss, regardless of whether it is a venture capital or similar organization.	An entity can only elect fair value through profit or loss accounting for equity method investments held by venture capital organizations, mutual funds, unit trusts, and similar entities, including investment-linked insurance funds. If an associate or joint venture is an investment entity, the equity method of accounting is applied by either (1) recording the results of the investment entity that are at fair value or (2) undoing the fair value measurements of the investment entity. In other instances, an entity must apply the equity method to its investments in associates and joint ventures unless it is exempt from preparing consolidated financial statements.	No such exemption (the use of fair value through profit or loss) is available. The equity method has to be used to account for associates in consolidated financial statements, and the cost model (cost less any accumulated impairment losses) in separate financial statements. For joint-ventures, 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. The cost model is to be used in separate financial statements.

12.11 Equity method—classification as held for sale

Application of the equity method of accounting may cease before significant influence is lost under IFRS (but not under US GAAP).

US GAAP	IFRS	BE GAAP
Under US GAAP, if an equity method investments is classified as held for sale, an investor applies equity method accounting until significant influence is lost. An equity method investment can be classified as held for sale in accordance with ASC 205-20-45-1E only if it meets the definition of a discontinued operation.	If an equity method investment meets the held for sale criteria in accordance with IFRS 5, an investor records the investment at the lower of its (1) fair value less costs to sell or (2) carrying amount as of the date the investment is classified as held for sale. Equity method investments are included in the scope of IFRS 5, which includes criteria for held for sale classification and discontinued operations. Under IFRS 5, it is possible for an equity method investment to be classified as held for sale even if the discontinued operations criteria are not met.	Not addressed. Proportionate consolidation or equity accounting method is applied until the investment is derecognized, subject to the impairment test.

12.12 Equity method—acquisition date excess of investor's share of fair value over cost

IFRS may allow for day one gain recognition (whereas US GAAP would not).

US GAAP	IFRS	BE GAAP
Any acquisition date excess of the investor's share of the net fair value of the associate's identifiable assets and liabilities over the cost of the investment is included in the basis differences and is amortized—if appropriate—over the underlying asset's useful life. If amortization is not appropriate, the difference is included in the gain/loss upon ultimate disposition of the investment.	Any acquisition date excess of the investor's share of net fair value of the associates' identifiable assets and liabilities over the cost of the investment is recognized as income in the period in which the investment is acquired.	Any acquisition date excess of the investor's share of net fair value of the associates' identifiable assets and liabilities over the cost of the investment is recognized directly in equity under the heading "consolidation differences".

12.13 Equity method—conforming accounting policies

A greater degree of conformity is required under IFRS.

US GAAP	IFRS	BE GAAP
The equity investee's accounting policies do not have to conform to the investor's accounting policies if the investee follows an acceptable alternative US GAAP treatment.	An investor's financial statements are prepared using uniform accounting policies for similar transactions and events. This also applies to equity method investees.	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.

12.14 Equity method—impairment

Impairment losses may be recognized earlier, and potentially may be reversed, under IFRS.

US GAAP	IFRS	BE GAAP
An investor should determine whether a loss in the fair value of an investment below its carrying value is a temporary decline. If it is other than temporary, the investor calculates an impairment as the excess of the investment's carrying amount over the fair value.	An investor should assess whether objective indicators of impairment exist based on the "loss event" criteria in IAS 28. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is considered objective evidence of impairment. If there are objective indicators that the investment may be impaired, the investment is	Participating interests and shares classified under long-term financial assets shall be written down in case of a durable impairment or reduction in value justified by the financial position, profitability or future prospects of the company in which the participating interests or shares are held.

US GAAP	IFRS	BE GAAP
Reversals of impairments on equity method investments are prohibited.	tested for impairment in accordance with IAS 36. Impairments of equity method investments can be reversed in accordance with IAS 36.	It can be economically justified not to record any write-down even if the acquisition price substantially exceeds the acquired portion of the net assets of the company in which the investment is made.

12.15 Equity method—losses in excess of an investor's interest

Losses may be recognized earlier under US GAAP.

US GAAP	IFRS	BE GAAP
Even without a legal or constructive obligation to fund losses, a loss in excess of the investment amount (i.e., a negative or liability investment balance) should be recognized when the imminent return to profitable operations by an investee appears to be assured. US GAAP does not contain detailed guidance on how to record profits or losses under the equity method when an investor also has other investments in the investee that are not subject to the equity method of accounting.	Unless an entity has incurred a legal or constructive obligation, losses in excess of the investment are not recognized. The concept of an imminent return to profitable operations does not exist under IFRS. IFRS contains detailed guidance on how to record profits or losses under the equity method when an investor also has other investments in the investee that are not subject to the equity method of accounting (e.g., debt or preferred shares). Therefore, differences could arise.	Not addressed.

12.16 Equity method—loss of significant influence or joint control

The potential for greater earnings volatility exists under IFRS.

US GAAP	IFRS	BE GAAP
If an investment no longer qualifies for equity method accounting (for example, due to a decrease in the level of ownership), the investment's initial basis is the previous carrying amount of the investment. Under ASC 321, the cost method is not permitted. An initial gain or loss is generally recorded to recognize the investment at fair value and the investment is subsequently measured at fair value with gains or losses recorded to earnings.	If an entity loses significant influence or joint control over an equity method investment and the retained interest is a financial asset, the entity should measure the retained interest at fair value. The resultant gain or loss is recognized in the income statement. In contrast, if an investment in an associate becomes an investment in a joint venture, or vice versa, such that the equity method of accounting continues to apply, no gain or loss is recognized in the income statement.	Not addressed.

US GAAP	IFRS	BE GAAP
If the investment does not have a readily determinable fair value, a practical expedient can be elected to measure it at cost minus impairment, adjusted for changes for observable transactions. It is currently unclear whether the transaction resulting in loss of significant influence should be considered an observable transaction under this expedient. This is currently an active issue with the FASB Emerging Issues Task Force.		

12.17 Investments in qualified affordable housing projects

US GAAP permits reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met.

US GAAP	IFRS	BE GAAP
An investor that owns a passive investment in limited liability entities that manage or invest in qualified affordable housing projects can use the proportional amortization method if certain conditions are met. Under the proportional amortization method, the initial cost of the investment is amortized in proportion to the tax benefits received over the period that the investor expects to receive the tax credits and other benefits. Both the amortization expense determined under the proportional amortization method and the tax benefits received will be recognized as a component of income taxes. Use of the proportional amortization method for investments that meet the requisite conditions is an accounting policy election. Once elected, the proportional amortization method should be applied to all qualifying investments.	IFRS does not contain any guidance specific to accounting for investments in qualified affordable housing projects.	Not addressed.

12.18 Disclosures

US GAAP and IFRS both require extensive disclosure about an entity's involvement in VIEs/structured entities, including those that are not consolidated.

<table>
<tr><th>US GAAP</th><th>IFRS</th><th>BE GAAP</th></tr>
<tr>
<td>Guidance applies to both nonpublic and public enterprises.

The principal objectives of VIE disclosures are to provide financial statement users with an understanding of the following:

● Significant judgments and assumptions made by an enterprise in determining whether it must consolidate a VIE and/or disclose information about its involvement in a VIE

● The nature of restrictions on a consolidated VIE's assets and on the settlement of its liabilities reported by an enterprise in its statement of financial position, including the carrying amounts of such assets and liabilities

● The nature of, and changes in, the risks associated with an enterprise's involvement with the VIE

● How an enterprise's involvement with the VIE affects the enterprise's financial position, financial performance, and cash flows

The level of disclosure to achieve these objectives may depend on the facts and circumstances surrounding the VIE and the enterprise's interest in that entity.

Additional detailed disclosure guidance is provided for meeting the objectives described above.

Specific disclosures are required for (1) a primary beneficiary of a VIE and (2) an entity that holds a variable interest in a VIE (but is not the primary beneficiary).</td>
<td>IFRS has disclosure requirements for interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities which include the following:

● Significant judgments and assumptions in determining if an investor has control or joint control over another entity, and the type of joint arrangement

● The composition of the group and interests that non-controlling interests have in the group's activities and cash flows

● The nature and extent of any significant restrictions on the ability of the investor to access or use assets, and settle liabilities

● The nature and extent of an investor's interest in unconsolidated structured entities

● The nature of, and changes in, the risks associated with an investor's interest in consolidated and unconsolidated structured entities

● The nature, extent and financial effects of an investors' interests in joint arrangements and associates, and the nature of the risks associated with those interests

● The consequences of changes in ownership interest of a subsidiary that do not result in loss of control

● The consequences of a loss of control of a subsidiary during the period

An entity is required to consider the level of detail necessary to satisfy the disclosure objectives of enabling users to evaluate the nature and associated risks of its interests, and the effects of those interests on its financial statements.</td>
<td>Under BE GAAP no such extensive disclosures for interests in subsidiaries, joint ventures and associates are required.</td>
</tr>
</table>

US GAAP	IFRS	BE GAAP
	Additional detailed disclosure guidance is provided for meeting the objectives described above. If control of a subsidiary is lost, the parent shall disclose the gain or loss, if any, and: ● Portion of that gain or loss attributable to recognizing any investment retained in former subsidiary at its fair value at date when control is lost ● Line item(s) in the statement of comprehensive income in which the gain or loss is recognized (if not presented separately in the statement of comprehensive income) Additional disclosures are required in instances when separate financial statements are prepared for a parent that elects not to prepare consolidated financial statements, or when a parent, venturer with an interest in a jointly controlled entity, or investor in an associate prepares separate financial statements.	

Chapter 13
Business combinations

Updated June 2021

13.1 Business combinations

IFRS and US GAAP are largely converged in this area. The business combinations standards under US GAAP and IFRS are close in principles and language. However, some differences remain between US GAAP and IFRS pertaining to (1) the definition of control, (2) recognition of certain assets and liabilities based on the reliably measurable criterion, (3) accounting for contingencies, and (4) accounting for noncontrolling interests. Significant differences also continue to exist in subsequent accounting. Different requirements for impairment testing and accounting for deferred taxes (e.g., the recognition of a valuation allowance) are among the most significant.

New definitions of a business were also issued under both US GAAP and IFRS. While the new definitions are similar, differences exist. Additionally, the US GAAP definition is mandatorily effective before the IFRS definition.

Under BE GAAP, the term 'business combinations' is not used but BE GAAP distinguishes taxable and tax-free reorganizations. For taxable reorganizations, assets and liabilities contributed (and shares issued) are recorded at the higher of their agreed value or fair value. For tax-free reorganizations, assets and liabilities contributed (and shares issued) are recorded at their book value. BE GAAP also provides guidance on conmmon control transactions.

Technical references

US GAAP

ASC 205-20, ASC 350-10, ASC 350-20, ASC 350-30, ASC 360-10, ASC 805,
ASC 810

IFRS

IAS 12, IAS 38, IAS 39, IFRS 2, IFRS 3, IFRS 10, IFRS 13

BE GAAP

CBN/CNC 2009-6, CBN/CNC 2009-8, CBN/CNC 2009-11, CBN/CNC 2009-15, CBN/CNC 2012-9, CBN/CNC 2012-11, CBN/CNC 2012-13, CBN/CNC 2013-3, CBN/CNC 2017-15

13.2 Definition of a business

Determining whether the acquisition method applies to a transaction begins with understanding whether the transaction involves the acquisition of one or more businesses and whether it is a business combination within the scope of the business combinations guidance.

New definitions of a business were issued under US GAAP and IFRS in 2017 and 2018, respectively. The definition of a business affects whether an acquisition is within the scope of the business combination standards.

The new definitions are expected to result in fewer acquisitions being considered business combinations across most industries, particularly real estate and pharmaceuticals. Under existing guidance, the definitions of a business were largely aligned; however, some believe more acquisitions were considered business combinations under US GAAP, in practice.

The new definitions are similar and expected to reduce differences; however, there are some notable differences.

Additionally, the new US GAAP definition was effective for calendar year-end public companies in 2018 and for all other calendar year-end companies in 2019. The new IFRS definition is not effective for acquisitions occurring prior to January 1, 2020, but can be early adopted.

US GAAP	IFRS	BE GAAP
Under the new definition, if substantially all of the fair value of gross assets acquired is concentrated in a single identifiable asset (or a group of similar identifiable assets), the assets acquired would not represent a business. This provision introduces gating criteria that, if met, would eliminate the need for further assessment (the screen test). Under the new definition, a business includes, at a minimum, an input and a substantive process that together contribute to the ability to create outputs. The revised definition provides a framework to evaluate when an input and substantive process is present (including for early stage companies that have not generated outputs), and removes the current requirement to assess if a market participant could replace any missing elements. The amendment narrows the definition of outputs to be consistent with ASC 606, *Revenue from Contracts with Customers*. Under the revised definition, an output is the result of inputs and processes that provide goods or services to customers, other revenue, or investment income, such as dividends and interest. Under US GAAP, the presence of more than an insignificant amount of goodwill is an indicator that a substantive process has been acquired. However, the presence of economic goodwill is not determinative as to whether the acquired activities constitute a business.	With the exception of the difference in effective dates, the new IFRS definition of a business is largely converged with the revised definition under US GAAP. The most significant difference is that the IFRS equivalent to the mandatory US GAAP screen test (i.e., the concentration test) is optional under IFRS. An entity can chose to apply or bypass the concentration test on an acquisition by acquisition basis under IFRS. This can be significant as there are many differences between recording an asset acquisition and a business combination. See BCG 7.2 and PwC Manual of Accounting FAQ 29.5.3. Additionally, under the new IFRS definition: • An organized workforce can be comprised of an acquired outsourcing contract while US GAAP only considers an organized workforce that is comprised of employees. • Difficulty replacing an organized workforce is an indicator that the workforce performed a substantive process. This clarification is not made under US GAAP. • The presence of more than an insignificant amount of goodwill is not considered an indicator of a substantive process under IFRS.	Not addressed.

13.3 Definition of control

The business combinations guidance states that for a business combination to occur, an acquirer must obtain control over a business. US GAAP and IFRS define control differently. Consequently, the same transaction may be accounted for as a business combination under US GAAP, but not under IFRS, or vice versa. The table below highlights various considerations in determining control under US GAAP and IFRS.

<table>
<tr><th>US GAAP</th><th>IFRS</th><th>BE GAAP</th></tr>
<tr>
<td>Consolidation decisions are evaluated first under the variable interest entity model.
• Qualitatively assess if the variable interest meets both criteria:
• Power to direct activities that most significantly impact economic performance
• Potential to receive significant benefits or absorb significant losses
All other entities are evaluated under the voting interest model.
See SD 12 for further information on the concept of control and the consolidation model under US GAAP.</td>
<td>An investor has control over an investee when all of the following elements are present:
• Power over the investee
• Exposure, or rights, to variable returns from its involvement with the investee
• Ability to use power to affect the returns
See SD 12 for further information on the concept of control and the consolidation model under IFRS.</td>
<td>Control (de facto and de jure) is derived from:
• Voting rights.
• Right to appoint the members of the boards.
• Possibility to influence management decisions.
• Agreements with the other shareholders.</td>
</tr>
</table>

13.4 Acquired contingencies

There are significant differences related to the recognition of contingent liabilities and contingent assets.

<table>
<tr><th>US GAAP</th><th>IFRS</th><th>BE GAAP</th></tr>
<tr>
<td>Acquired assets and liabilities subject to contingencies are recognized at fair value if fair value can be determined during the measurement period. If fair value cannot be determined, companies should typically account for the acquired contingencies using existing guidance. If recognized at fair value on acquisition, an acquirer should develop a systematic and rational basis for subsequently measuring and accounting for assets and liabilities arising from contingencies depending on their nature.</td>
<td>The acquiree’s contingent liabilities are recognized at the acquisition date provided their fair values can be measured reliably. The contingent liability is measured subsequently at the higher of the amount initially recognized less, if appropriate, cumulative amortization recognized under the revenue guidance (IFRS 15) or the best estimate of the amount required to settle the present obligation at the end of the reporting period (under the provisions guidance—IAS 37).
Contingent assets are not recognized.</td>
<td>Contingent liabilities are not recognized on acquisition.</td>
</tr>
</table>

13.5 Assignment/allocation and impairment of goodwill

The definition of the levels at which goodwill is assigned/allocated and tested for impairment varies between the two frameworks. Specifically, in determining the unit of account for goodwill impairment testing, US GAAP uses a segment reporting framework while IFRS focuses on the lowest level of identifiable cash inflows (cash generating unit) or groups of cash generating units at which goodwill is monitored.

Additional differences in the impairment testing methodologies could create further variability in the timing and extent of recognized impairment losses.

In January 2017, the FASB issued ASU 2017-04 to simplify the accounting for goodwill impairment. The guidance removes Step 2 of the goodwill impairment test. The change makes US GAAP more similar to IFRS because IFRS also has a single step for goodwill impairment. However, other differences remain. ASU 2017-04 is effective in 2020 for calendar year-end public companies.

US GAAP	IFRS	BE GAAP
Goodwill is assigned to an entity's reporting units, defined as the same as, or one level below, an operating segment. The determination of reporting units is based on a segment reporting structure. Goodwill is tested for impairment at least on an annual basis and between annual tests if an event occurs or circumstances change that may indicate an impairment. When performing the goodwill impairment test, an entity may first assess qualitative factors to determine whether the quantitative goodwill impairment test is necessary. If the entity determines, based on the qualitative assessment, that it is more likely than not that the fair value of a reporting unit is below its carrying amount, the impairment test is performed. An entity can bypass the qualitative assessment for any reporting unit in any period and proceed directly to the quantitative assessment.	Goodwill is allocated to a cash-generating unit (CGU) or group of CGUs (not larger than an operating segment) based on how goodwill is monitored for internal management purposes. A CGU is the smallest identifiable group of assets that generates cash inflows largely independently of other assets or groups of assets. Goodwill is tested for impairment at least on an annual basis and between annual tests if an event occurs or circumstances change that may indicate an impairment. Goodwill impairment testing is performed using a one-step approach: The recoverable amount of the CGU or group of CGUs (i.e., the higher of its fair value less costs of disposal and its value in use) is compared with its carrying amount. Any impairment loss is recognized as the excess of the carrying amount over the recoverable amount.	Goodwill is recognized separately as an intangible asset for the difference between the acquisition cost and the acquirer's share of the corresponding book value of the net assets acquired (after having allocated up to a maximum this difference to the fair values of acquired assets and liabilities). Goodwill should be subject to extraordinary amortization where, as a result of changes in 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. Goodwill is tested for impairment at least on an annual basis and between annual tests if an event occurs or circumstances change that may indicate an impairment. **The accounting treatment of "step acquisitions"** Two types of "step acquisitions" are discussed in the CBN/CNC advice 2013/3: 1) Increase in interest in an associated company that still remains an associate after the transaction; 2) Increase in interest in an associated company that becomes a fully consolidated subsidiary after the transaction.

US GAAP	IFRS	BE GAAP
		In the first case, the step acquisitions are accounted for as consecutive separate transactions. Eventual goodwill or badwill is determined transaction by transaction. In the second case, the transition from an associate to a fully consolidated subsidiary results in the transition from the equity accounting method to the full consolidation method. In this case the allocation of the consolidation difference to the underlying assets and liabilities that resulted from the first acquisition needs to be reassessed. *Source: CBN/CNC 2013/3*
Prior to adoption of ASU 2017-04, goodwill is tested for impairment using a two-step test: • In Step 1, the fair value and the carrying amount of the reporting unit, including goodwill, are compared. If the fair value of the reporting unit is less than the carrying amount, Step 2 is completed to determine the amount of the goodwill impairment loss, if any. • Goodwill impairment is measured as the excess of the carrying amount of goodwill over its implied fair value. The implied fair value of goodwill—calculated in the same manner that goodwill is determined in a business combination—is the difference between the fair value of the reporting unit and the fair value of the various assets and liabilities included in the reporting unit. Any loss recognized is not permitted to exceed the carrying amount of goodwill. The impairment charge is included in operating income. For reporting units with zero or negative carrying amounts, an entity must first perform a qualitative assessment to determine whether it is more likely than not that a goodwill impairment exists. An entity is required to perform Step 2 of the goodwill impairment test if it is more	The impairment loss is allocated first to goodwill and then on a pro rata basis to the other assets of the CGU or group of CGUs to the extent that the impairment loss exceeds the carrying value of goodwill.	

US GAAP	IFRS	BE GAAP
likely than not that goodwill impairment exists. Upon adoption of ASU 2017-04, Step 2 of the goodwill impairment test, which requires a calculation of the implied fair value of goodwill by determining the fair value of identifiable assets and liabilities in the reporting unit, will be removed. As a result, goodwill impairment will be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The same one-step impairment test will be applied to goodwill at all reporting units, even those with zero or negative carrying amounts. Entities will be required to disclose the amount of goodwill at reporting units with zero or negative carrying amounts. Private companies have the option to amortize goodwill on a straight-line basis over a period of up to ten years, and apply a trigger-based, single-step impairment test at either the entity level or the reporting unit level at the company's election.		

13.6 Indefinite lived intangible asset impairment

The levels at which impairment testing is performed for indefinite lived intangible assets is different under US GAAP and IFRS, which may lead to different impairment conclusions.

US GAAP	IFRS	BE GAAP
An indefinite lived asset is considered impaired when the asset's carrying amount exceeds its fair value. The test is performed at the individual asset level.	Impairment should be identified at the individual asset level, when possible. When the recoverable amount of the individual asset cannot be identified, the recoverable amount should be calculated for the CGU to which the asset belongs.	Under Belgian GAAP, intangible assets may only have an indefinite useful life in exceptional circumstances (e.g. for the acquisition of a worldwideknown brand). The concept of cashgenerating-unit is not used. Therefore, each asset will be subject to impairment testing. *Source: CBN/CNC 2012/13*

13.7 Contingent consideration—seller accounting

Entities that sell a business that includes contingent consideration might encounter significant differences in the manner in which such contingent considerations are recorded.

US GAAP	IFRS	BE GAAP
Under US GAAP, the seller should determine whether the arrangement meets the definition of a derivative. If the arrangement meets the definition of a derivative, the arrangement should be recorded at fair value. If the arrangement does not meet the definition of a derivative, the seller should make an accounting policy election to record the arrangement at either fair value at inception or at the settlement amount when the consideration is realized or is realizable, whichever is earlier.	Under IFRS, a contract to receive contingent consideration that gives the seller the right to receive cash or other financial assets when the contingency is resolved meets the definition of a financial asset. When a contract for contingent consideration meets the definition of a financial asset, it is measured in accordance with IFRS 9, typically at fair value through profit or loss.	Not addressed. However, advice CBN/CNC 2012/9 provides guidance on contingent consideration accounting by the buyer. The CBN/CNC has concluded that a conditional obligation does require the accounting of the liability. The liability is only recognized when the condition is met in the future. Accounting for the contingent part of the price of an asset (participation) will depend on the assessment of the character of the payment. Expenses may only be capitalized when they have an investment character (generate future economic benefits). *Source: CBN/CNC 2012/9*

13.8 Noncontrolling interests

Noncontrolling interests are measured at fair value under US GAAP whereas IFRS provides two valuation options, which could result in differences in the carrying values of noncontrolling interests.

US GAAP	IFRS	BE GAAP
Noncontrolling interests are measured at fair value.	Entities have an option, on a transaction-by-transaction basis, to measure noncontrolling interests at fair value or the noncontrolling interests' proportion of the fair value of the identifiable net assets (i.e., excluding goodwill.)This option applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of the net assets in the event of liquidation. All other components of noncontrolling interest are measured at fair value unless another measurement basis is required by IFRS.	The minority interest (which is the portion of equity and results attributable to shares held by parties other than entities included in the consolidation) includes its share of any fair-value adjustment made to the net assets acquired.

US GAAP	IFRS	BE GAAP
	The use of the fair value option results in full goodwill being recorded on both the controlling and noncontrolling interest, consistent with US GAAP.	

13.9 Combinations involving entities under common control

Under US GAAP, there are specific rules for common-control transactions.

US GAAP	IFRS	BE GAAP
Combinations of entities under common control are generally recorded at predecessor cost, reflecting the ultimate parent's carrying amount of the assets and liabilities transferred. When an entity receives a business from an entity under common control, the transaction is reflected retrospectively.	IFRS does not specifically address the accounting for a business combination under common control. In practice, entities develop and consistently apply an accounting policy. Entities generally apply the predecessor value method; however, entities can make an accounting policy election to apply acquisition accounting in certain circumstances. The accounting policy can be changed only when criteria for a change in an accounting policy are met in the applicable guidance in IAS 8 (i.e., it provides more reliable and more relevant information). Entities will also need to elect an accounting policy to record businesses obtained through common control transactions on either a retrospective or prospective basis.	BE GAAP provides limited guidance on common control transactions. Predecessor accounting method is generally used for common control transactions. Predecessor accounting ("principle of continuity") is required in the following cases: for mergers, (partial) demergers and contributions in kind of a branch of activity (as defined in Belgian Company law). Any goodwill arising from the common control transaction (difference between consideration paid by the acquirer and the net assets of the acquiree) must be fully amortized at the date of transaction and recognized as a non-recurrent operating expense in profit or loss account. *Sources: CBN/CNC 2009-6, CBN/CNC 2009-15, CBN/CNC 2017-15* Belgian GAAP provides, specific accounting guidance for some types of merger and demerger transactions without fair value step-up. *Sources:* *CBN/CNC 2009-8* *CBN/CNC 2009-11* *CBN/CNC 2012-11*

13.10 Identifying the acquirer

Different entities might be determined to be the acquirer when applying acquisition method accounting.

Impacted entities should refer to SD 12 for a more detailed discussion of differences related to the consolidation models between the frameworks that might create significant differences in this area.

US GAAP	IFRS	BE GAAP
The acquirer is determined by reference to ASC 810-10, under which generally the party that holds greater than 50% of the voting shares has control. In addition, control might exist when less than 50% of voting shares are held if the acquirer is the primary beneficiary of a variable interest entity in accordance with ASC 810.	The acquirer is determined by reference to the consolidation guidance, under which generally the party that holds greater than 50% of the voting rights has control. In addition, control might exist when less than 50% of the voting rights are held, if the acquirer has the power to most significantly affect the variable returns of the entity in accordance with IFRS 10.	The acquirer must always be the legal parent company.

13.11 Push-down accounting

The lack of push-down accounting under IFRS can lead to significant differences in instances where push down accounting was utilized under US GAAP.

US GAAP	IFRS	BE GAAP
Companies have the option to apply pushdown accounting in their separate financial statements upon a change-in-control event. The election is available to the acquired company, as well as to any direct or indirect subsidiaries of the acquired company. If an acquired company elects to apply pushdown accounting, the acquired company should reflect the new basis of accounting established by the parent for the individual assets and liabilities of the acquired company arising from the acquisition in its standalone financial statements. Goodwill should be calculated and recognized consistent with business combination accounting. Bargain purchase gains, however, should not be recognized in the income statement of the acquired company that applies pushdown accounting. Instead, they should be recognized	There is no discussion of pushdown accounting under IFRS. There may be situations in which transactions, such as capital reorganizations, common control transactions, etc., may result in an accounting outcome that is similar to pushdown accounting where the new basis of accounting established by the parent, including goodwill and fair value differences on acquisition is reflected in the company's standalone financial statements.	Not addressed.

US GAAP	IFRS	BE GAAP
in additional paid-in capital within equity. Debt (including acquisition related debt) and any other liabilities of the acquirer should be recognized by the acquired company only if they represent an obligation of the acquired company pursuant to other applicable guidance in US GAAP.		

13.12 Measurement period adjustment

Differences exist related to how measurement period adjustments are recorded in US GAAP and IFRS. Measurement period adjustments are recorded in the period of the adjustment under US GAAP but retrospectively under IFRS.

US GAAP	IFRS	BE GAAP
An acquirer has up to one year from the acquisition date (referred to as the measurement period) to finalize the accounting for a business combination. If during the measurement period, the measurements are not finalized as of the end of a reporting period, the acquirer should record the cumulative impact of measurement period adjustments made to provisional amounts in the period that the adjustment is determined. However, the acquirer should present separately on the face of the income statement or disclose in the notes the portion of the adjustment to each income statement line items that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date.	An acquirer has up to one year from the acquisition date (referred to as the measurement period) to finalize the accounting for a business combination. An acquirer should retrospectively record measurement period adjustments made to provisional amounts as if the accounting was completed at the acquisition date. The acquirer should revise comparative information for prior periods presented in the financial statements as needed, including making any change in depreciation, amortization, or other income effects recognized in completing the initial accounting.	Not addressed.

13.13 Employee benefit arrangements and income tax

Accounting for share-based payments and income taxes in accordance with separate standards not at fair value might result in different results being recorded as part of acquisition accounting based on underlying differences between US GAAP and IFRS in these areas.

Chapter 14
Leases

Updated June 2021

14.1. Leases (ASC 842 and IFRS 16)

The FASB and IASB issued their respective standards in the first quarter of 2016. The issuance of the standards are the culmination of multiple years of deliberating a leasing model with the primary objective of bringing almost all leases onto the balance sheet for lessees. The leases standard was initially intended to be a converged standard; however, the Boards ultimately diverged and as a result there are some differences between the two new standards.

The FASB discussed numerous lease-related questions since issuing ASC 842, and issued five Accounting Standards Updates during 2018 and 2019 relating to: the accounting for easements, certain technical corrections, targeted improvements to the transition provisions, a lessor's separation of lease and non-lease components, and practical expedients related to the lessor's accounting for certain taxes and lessor costs paid directly by the lessee.

Summarized below is an overview of the respective leases models highlighting the key differences between the standards.

Technical references

US GAAP

ASC 842

IFRS

IFRS 16

BE GAAP

CBN/CNC 2012-2, CBN/CNC 2015-4, CBN/CNC 2015-5, CBN/CNC 2021-5.

14.1.1 Embedded leases and scope of the leasing guidance (ASC 842/IFRS 16)

Under both ASC 842 and IFRS 16, even if not a lease in its entirety, an arrangement includes an embedded lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A customer has the right to control the use of an identified asset if it has both (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset. This analysis is performed at the inception of the arrangement and is only reassessed if there is a contract modification.
The IFRS 16 and ASC 842 guidance on identifying whether arrangements are or contain leases is nearly identical. Notwithstanding this, application of the guidance may require significant judgment, and, as a result, the practical application of the principles to similar transactions may differ.

The lease standards provide for certain scope exceptions from the entirety of the guidance. The exceptions to the scope of the lease standards that apply to both US GAAP and IFRS include:

- Leases to explore for or use minerals, oil, natural gas, and similar non-regenerative resources
- Leases of biological assets
- Service concession arrangements
- Certain types of intangible assets

However, there are additional differences in scope between ASC 842 and IFRS 16.

US GAAP	IFRS	BE GAAP
ASC 842 has a scope exception that excludes all types of intangible assets, leases of inventory, and leases of assets under construction from its scope.	Under IFRS 16, a lessee may, but is not required to, apply lease accounting to leases of intangible assets other than rights held under licensing agreements within the scope of IAS 38, *Intangible Assets*. Under IFRS 16, a lessor is required to apply lease accounting to leases of intangible assets other than licenses of intellectual property within the scope of IFRS 15.	BE GAAP does not include intangibles in the caption "Finance lease and similar rights".
A lessee can make a policy election by class of underlying asset for leases that are short term in nature (i.e., a lease without a purchase option, and with a lease term of 12 months or less). A "short-term" lease that includes extension options may still qualify as a short-term lease, provided the lease term, as defined, is no longer than 12 months. Upon exercise of an extension that was not included in the determination of the original lease term, a lease may still qualify for the short-term lease exemption if the lease term is no longer than 12 months from the expiration of the original lease term.	Similar to US GAAP, however, upon exercise of an extension not included in the determination of the original lease term, a lease would qualify for the short-term lease exemption only if the remaining lease term is no longer than 12 months at the date of the extension of the lease (i.e., when the lessee notifies the lessor of its decision to extend).	General classification criteria are applied to the short-term leases to determine classification as either operating or finance lease.
Entities may be able to establish reasonable capitalization thresholds below which assets and liabilities related to a lease are not recognized, similar to accounting policies in other areas of US GAAP.	IFRS 16 provides an additional policy election for lessees, on a lease-by-lease basis, to exclude leases of low-value assets from the initial recognition requirements. IFRS 16 does not define the term "low value," but the Basis for Conclusions explains that the Board had in mind assets of a value of USD 5,000 or less when new.	No policy election to exclude leases of law-value assets exists under BE GAAP.

Unless otherwise noted, the guidance in this chapter assumes that a lessee is not applying either the short-term or low-value exemptions.

14.1.2 Separating components and combining contracts (ASC 842/IFRS 16)

Contracts often contain multiple obligations of the supplier, which might include a combination of lease and nonlease components. For example, the lease of an industrial space might contain provisions related to the lease of land as well as the existing buildings and equipment, or a contract for a car lease may include maintenance. When such multi-element arrangements exist, the standards require each separate lease and nonlease component to be accounted for separately unless an entity elects to not separate components (see below). A separate nonlease component exists if a separate good or service (e.g., maintenance) is transferred to the lessee. A separate lease component exists if (a) the lessee can benefit from the underlying asset separate from other lease components and (b) the component is neither highly dependent nor highly interrelated with other lease components in the arrangement.

Once the separate lease and nonlease components have been identified, the consideration in the contract should be allocated to the separate components. The contract consideration is allocated based on relative standalone prices for lessees. Lessors base the allocation on the ASC 606 and IFRS 15 allocation methodologies.

Both ASC 842 and IFRS 16 provide an accounting policy election under which a lessee is not required to separate nonlease components from the lease components and can account for each lease component and any associated nonlease components as a single lease component. This policy election is made by class of underlying asset.

US GAAP	IFRS	BE GAAP
Under ASC 842, a lessee or lessor accounts for the right to use land as a separate lease component from the right to use a building unless the accounting effect of doing so would be insignificant.	For a lease of land and building under IFRS, a lessor is required to assess the land separate from the building unless the land element is immaterial to the lease. If lease payments cannot be allocated reliably between land and building, the lease is classified as a finance lease unless it is clear that both elements are operating leases. (Note that this would not apply to lessees as lessees do not classify leases.)	Similar to IFRS. In order to determine whether the lease of a building has to be considered as a finance lease under BE GAAP, the sum of the minimum lease payments excluding the part that relates to the compensation for the use of the land, needs to cover the investment in the building including interests and other costs incurred by the lessor.
Lessors can elect, by class of asset, to not separate nonlease components from associated lease components under qualifying circumstances. If elected, the lessor would account for the combined component as either an operating lease under ASC 842, or under the guidance for the nonlease component (e.g., as revenue under ASC 606) depending on which is the predominant component.	Under IFRS 16, lessors are required to separate lease and nonlease components. Unlike US GAAP, there is no election available.	Similar to IFRS.
Under ASC 842, both lessors and lessees have explicit guidance on allocating consideration between lease and nonlease components. Specifically, both fixed and variable lease payments are allocated between all components based on their relative standalone values (absent appropriately applying applicable practical expedients to combine lease and nonlease components). Lessees and lessors would also allocate consideration that arise from optional subsequent purchases of nonlease components under an arrangement or combined contracts.	IFRS 16 also requires lessors and lessees to allocate consideration based on relative standalone prices. However, IFRS is not as prescriptive as US GAAP as it relates to whether both fixed and variable payments are each allocated to all components within the arrangements. For example, if an arrangement contains fixed payments that are equal to the standalone rents for the lease component, and variable payments that are equal the standalone price of a nonlease service component (e.g., maintenance of the leased asset), a lessee could elect to assign all the fixed payments to the lease,	

US GAAP	IFRS	BE GAAP
	and all the variable payments to the nonlease maintenance service.	

14.1.3 Lessee accounting – Classification (ASC 842 and IFRS 16)

US GAAP	IFRS	BE GAAP
Under ASC 842, a lessee can have either a finance or operating lease. If any of the following classification criteria are met, the lease is a finance lease. • The lease transfers ownership of the underlying asset to the lessee by the end of the lease term. • The lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise. • The lease term is for the major part of the remaining economic life of the underlying asset. However, if the commencement date falls at or near the end of the economic life of the underlying asset, this criterion will not be used for lease classification purposes. • The present value of the sum of lease payments and any residual value guaranteed by the lessee that is not already reflected in lease payments equals or exceeds substantially all of the fair value of the underlying asset. • The underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term.	In contrast, under IFRS 16, lessees have only one lease classification, which is similar to the finance lease classification under US GAAP.	Under BE GAAP, a lessess can have either finance or operating lease. The basic principle for qualifying as a finance lease: substantially all the risks and rewards are transferred to the lessee based on the substance of the transaction rather than on its legal form. BE GAAP has only one criterion to assess whether the risks and rewards are transferred to the lessee. 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 real estate assets and that represent no more than 15% of the lessor's investment are included in the minimum lease payments. Option to sell the underlying asset granted to the lessor is included in the minimum lease payments for lease classification purposes.

14.1.4 Lessee accounting – Balance sheet (ASC 842 and IFRS 16)

Under both standards, lessees record, regardless of the lease classification, a right-of-use asset and lease liability at the lease commencement date. The initial right-of-use asset and lease liability is measured based on the present value of the lease payments (as defined in the standards) using the interest rate implicit in the lease (unless the rate cannot be readily determined, in which case the incremental borrowing rate of the lessee will be used).

However, differences in application exist, as described below.

US GAAP	IFRS	BE GAAP
To determine the incremental borrowing rate, US GAAP requires the use of a collateralized rate for an amount equal to the lease payments.	IFRS requires use of a borrowing rate with a similar security to borrow a similar value to the right-of-use asset. The rate should reflect the amount that the entity could borrow to acquire an asset of similar value to the right-of-use asset, rather than to acquire the entire underlying asset. Thus, the incremental borrowing rate under IFRS 16 would be more considerate of a company's typical borrowing practices (e.g., loan to value considerations). Under IFRS, if an entity has elected to apply the fair value model under IAS 40, the lessee would also apply that model to subsequently measure the right-of-use assets that meet the definition of investment property. Additionally, if the right-of-use assets relate to a class of property, plant, and equipment measured using the revaluation model under IAS 16, that class of right-of-use asset may also be measured using the revaluation model, if elected.	Not addressed. In practice, IFRS principles are not in conflict with BE GAAP.

14.1.5 Lessee accounting – Income statement (ASC 842 and IFRS 16)

Under both US GAAP and IFRS, the income statement recognition for finance leases of lessees consists of the amortization of the right-of-use asset and interest expense related to the lease liability. However, there are differences between IFRS and US GAAP for operating leases.

US GAAP	IFRS	BE GAAP
Under ASC 842, for operating leases, the amortization of the right-of-use asset and interest expense related to the lease liability are recorded together as lease expense to produce a straight-line recognition effect in the income statement.	Under IFRS 16, lessees account for all leases like finance leases in ASC 842. Under IFRS, if an entity has elected to apply the fair value model under IAS 40, the lessee would also apply that model to subsequently measure the right-of-use assets that meet the definition of investment property. The change in fair value will be recognized in the income statement.	Lease classification as an operating lease or a finance lease depends on whether the lease transfers substantially all of the risks and rewards of ownership to the lessee. For finance leases, the accounting for leases is similar to IFRS. For operating leases, no right-of-use asset or lease liability is recognised. Instead, lease payments are recognised in the operating expenses in the income statement.

14.1.6 Lessor accounting – Classification (ASC 842 and IFRS 16)

The criteria used for lessor classification of leases are substantially the same between IFRS and US GAAP. However, detailed differences in application exist.

US GAAP	IFRS	BE GAAP
Under ASC 842, a lease is classified as a finance lease if it meets any one of the lease classification criteria.	IFRS 16 refers to the criteria used for lessor classification as “examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease.”	Similar to IFRS however only one classification criterion is defined under BE GAAP. Accordingly, lease classification by the lessor and the lessee typically should be symmetrical.
Under ASC 842, a lessor cannot recognize a sales-type lease when collectibility of the lease payments is not probable.	IFRS 16 does not require the collection of the lease payments to be probable for a lease to be classified as a finance lease.	Similar to IFRS.
The classification of a lease is performed at lease commencement under ASC 842.	The classification of a lease is performed at the lease inception date under IFRS 16.	Similar to IFRS.
Lessors should apply the sales-type lease classification guidance, even for transactions that contain relatively little fixed consideration. Because a lessor cannot include many variable payments in the measurement of its net investment in a lease, such sales-type leases may result in a lessor recognizing a “Day 1” loss (because lessors would derecognize the entire “sold” asset, but would not recognize a receivable for most variable payments).	Under IFRS 16, variable lease payments could mean that the lessor does not transfer the risks and rewards of ownership. As a result, such leases may be classified as operating leases, and the asset would not be derecognized, unlike US GAAP.	Similar to IFRS.
Under US GAAP, the specialized accounting for leveraged leases in ASC 840 was not carried forward to ASC 842. There is, however, transition relief in ASC 842 to continue to account for leveraged leases entered into before adoption of ASC 842.	There are no leveraged leases under IFRS 16. The leveraged lease concept did not exist under IAS 17, so there is no transition relief.	Similar to IFRS.

14.1.7 Lessor accounting – Balance sheet (ASC 842 and IFRS 16)

There are no significant differences between IFRS, US GAAP and BE GAAP from a balance sheet perspective. A leased asset is removed from the balance sheet if the lease is classified as a finance lease. It is replaced with a net investment in the lease (comprised of the lease payments and any guaranteed residual value) and the unguaranteed residual value of the asset. If the lease is an operating lease, the lessor leaves the asset on the balance sheet.

14.1.8 Lessor accounting – Income statement (ASC 842 and IFRS 16)

Income from operating leases is typically recognized on a straight-line basis under both standards. For finance leases, interest income is recognized on the net investment in the lease. The most significant difference between the standards relates to profit recognition for a finance lease, and impairment models for the net investment in a lease.
BE GAAP provides examples of the accounting treatment of incentives included in the operating lease agreements. These incentives have to be taken in profit or loss on a linear basis during the period of the lease agreement as a reduction of lease income or expense. *Source: CBN/CNC 2012/2.*

However, in the event of a temporary payment suspension (combined with an extension of the lease term for the same period) as a consequence of COVID-19 pandemic, the lessor and the lessee will not recognise, respectively, operating lease income or expenses during the rent suspension period. In the balance sheet of the lessee, the classification between short term and long term finance lease liabilities shall be revised to reflect the revised timing of the payments. The lessor applies the same approach for its finance lease receivables. *Source: CBN/CNC 2021-5*

US GAAP	IFRS	BE GAAP
To recognize profit at the commencement date of a finance lease, ASC 842 requires the lessor to transfer control of the asset to the lessee (a third-party provided residual value guarantee is not a factor in this determination).	Transfer of control is not a requirement under IFRS 16 to recognize profit under a finance lease for manufacturer and dealer lessors.	Not addressed.
ASC 842 contains explicit guidance regarding the collectibility of lease payments. If collectibility is not deemed probable at lease commencement, a lessor would not recognize a sales-type lease, and would not recognize lease income in excess of its cash receipts.	IFRS 16 does not contain guidance around the collectibility of lease payments.	Similar to IFRS.
Impairment of a net investment in a lease, including any unguaranteed residual value, is governed by the applicable credit loss standards (ASC 310 or ASC 326).	Impairment of a net investment in a lease, excluding any unguaranteed residual value, is governed by the credit loss guidance in IFRS 9. Lessors review unguaranteed residual values under the explicit guidance in IFRS 16. In case of a reduction in the value, the income allocation over the lease term is revised and any reduction with respect to amounts already accrued would be recognized immediately.	Not addressed.

14.1.8 Lease re-assessments and modifications (ASC 842 and IFRS 16)

The guidance for lease re-assessments and modifications is similar under both standards, except for changes in an index or rate.

US GAAP	IFRS	BE GAAP
Under ASC 842, a change in the lease payments that occurs as a result of a change in an index or rate is not a reassessment and remeasurement event.	Under IFRS, a change in the lease payments that occurs as a result of a change in an index or rate triggers a reassessment and remeasurement of the lease.	Not addressed.
When a modification decreases the scope of a lease other than to shorten the lease (e.g., reduces the amount of space leased), both standards require the lessee to remeasure the lease liability, adjust the right-of-use asset, and recognize a gain or loss. When calculating the gain or loss under ASC 842, the lessee may adjust the right-of-use asset by either the reduction in the right of use, or by the percentage change in the premodification lease liability.	Under IFRS, when a modification decreases the scope of a lease, the lessee adjusts the right-of-use asset by the reduction in the right of use to calculate the gain or loss.	
A lessee recognizes the change in lease liability resulting from a modification that shortens the lease term (other than through the exercise of a pre-existing contractual option) as a corresponding change in the right-of-use asset, and records a gain or loss when the right-of-use asset is reduced to zero.	A lessee accounts for a modification that shortens the lease term in the same manner as any other modification that decreases the scope of a lease, i.e., it calculates and recognizes a gain or loss.	Not addressed.

14.1.10 Sublease transactions (ASC 842 and IFRS 16)

US GAAP	IFRS	BE GAAP
When classifying a sublease, the asset analyzed under ASC 842 is the underlying asset.	Under IFRS 16, when classifying a sublease, the asset analyzed is the right-of-use asset from the head lease.	Not addressed.
For example, if an entity is the lessee in a five-year lease of an office building and then enters into a sublease for the entire five-year lease term, under US GAAP, the entity compares the sublease to the underlying building.	For example, if an entity is the lessee in a five-year lease of an office building and then enters into a sublease for the entire five-year lease term, under IFRS, the entity compares the sublease to the five-year right-of-use asset.	

14.1.11 Sale and leaseback transactions (ASC 842 and IFRS 16)

The accounting for sale-lease back transactions is symmetrical between a buyer-lessor and a seller-lessee under the standards.
In a sale-lease back transaction, the seller-lessee follows sale-lease back accounting when the sale criteria in ASC 606 (for US GAAP) or IFRS 15 (for IFRS) are met.

If a sale is recognized, the transaction is measured based on the fair value of the asset transferred. Any proceeds from the sale that are either above or below the fair value of the asset will be treated as a financing or prepaid rent. The asset is removed from the balance sheet and replaced with a right-of-use asset and lease liability. If a sale is not recognized, the arrangement is treated as a financing. However, certain detailed differences in application exist.

US GAAP	IFRS	BE GAAP
Under ASC 842, the seller-lessee's gain recognized at the sale date will be measured as the difference between the adjusted sale proceeds (total proceeds less any financing component) and the book value of the asset transferred. The right of use asset arising from the leaseback is measured under the normal ASC 842 principles.	Under IFRS 16, the gain (or loss) is limited to the proportion of the total gain (or loss) that relates to the rights transferred to the buyer-lessor. The right-of-use asset arising from the leaseback is measured as the proportion of the previous carrying amount of the asset that relates to the right of use retained.	For sale-and-lease-back transactions resulting in a finance lease, any gain or loss realized by the seller-lessee on the transaction is deferred for recognition in the income statement at the same pace as the depreciation of the leased assets. The result arising from a sale and leaseback transaction resulting in an operating lease is not explicitly addressed under BE GAAP. When a sale-leaseback transaction results in a lease classified as an operating lease, the full gain on the sale normally would be recognized immediately if the sale was executed at the fair value of the asset, following the application of the true and fair view principle.
ASC 842 contains guidance for build-to-suit accounting for the lessee. The criteria focus on control during the construction period.	IFRS 16 does not contain guidance for build-to-suit accounting for lessees during construction period.	Similar to IFRS.

14.1.12 Presentation and disclosure (ASC 842 and IFRS 16)

For lessees, the presentation of the right-of-use assets and lease liabilities are similar under the standards. Amounts relating to leases are presented separate from other assets and liabilities on the balance sheet or in the notes to the financial statements. However, some detailed differences in application exist.

US GAAP	IFRS	BE GAAP
ASC 842 prohibits right-of-use assets and lease liabilities related to operating leases from being presented in the same balance sheet line item as those arising from finance leases.	This requirement does not exist under IFRS, since there is no lease classification for lessees.	Presentation of finance lease assets and liabilities follows the BE GAAP chart of accounts: sub-section "Leasing and similar rights" in non-current assets and specific accounts for short and long-term portions of lease liability.
ASC 842 requires presentation of operating lease expense within income from continuing operations.	Under IFRS, amortization and interest expense are required to be presented in separate line items by the lessee.	
Under ASC 842, lessees will typically present payments under operating leases within operating activities in the cash flow statement, since interest and depreciation are not presented in the income statement for operating leases.	Under IFRS, amortization and interest are presented separately in the cash flow statement and follow their respective classification guidance.	
ASC 842 contains incremental guidance and accounting elections related to how lessors should account for lessor costs (such as property taxes and insurance of the leased asset) that are paid for directly by a lessee. There are practical expedients that allow lessors to report certain of these costs on a net basis.	There is no specific guidance under IFRS for these items.	Similar to IFRS.

14.1.13 Transition (ASC 842 and IFRS 16)

US GAAP	IFRS	BE GAAP
ASC 842 is effective for public business entities ("PBEs") for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and for fiscal years beginning after December 15, 2019 for non PBEs In August 2019, the FASB exposed a proposal to allow non-PBEs an additional year to adopt ASC 842.	IFRS 16 is effective for periods beginning on or after January 1, 2019.	Not applicable.
ASC 842 does not permit a full retrospective adoption. It provides for a single transition approach: a modified retrospective application with the option to elect hindsight and/or a package of practical expedients. Entities may elect not to restate the comparative prior periods (similar to the IFRS 16 "simplified approach").	IFRS 16 allows full retrospective application (with certain exceptions), as well as a "simplified approach" in which the comparative periods are not restated and the cumulative effect of applying the new standard is recorded as an adjustment to the opening balance of retained earnings.	
Under both ASC 842 and IFRS 16, a lessee or lessor may elect, as a practical expedient in transition, to not reassess whether an arrangement is or contains a lease. However, under ASC 842, entities may only elect to use this expedient as part of a "package" of expedients to also not reassess lease classification, or existing initial direct costs.	A similar election exists under IFRS 16, but it is not part a package of expedients (as required under US GAAP).	Not applicable.
A lessee or lessor may apply hindsight when determining lease term, or impairment of right-of-use assets. If elected, it must do so for all of its leases, whether as a lessee or lessor.	Under IFRS 16, when using the "simplified approach," a lessee (but not a lessor) may apply hindsight to lease term, impairment, and other areas involving judgment or estimation, e.g., dismantling costs. A lessee may apply these practical expedients on a lease by lease basis.	
Under ASC 842, an entity electing to use the "package" of practical expedients would generally not alter its allocations of consideration in the arrangement.	Under IFRS 16, an entity can elect to allocate consideration in an arrangement containing a lease using stand-alone selling prices at either the commencement date of the lease or the transition date.	

US GAAP	IFRS	BE GAAP
Entities that previously reported “good” sale and leaseback transactions do not reassess those transactions upon adopting ASC 842. Lessees that “failed” sale and leaseback transactions (this does not apply to lessors, as the previous leases guidance was not symmetrical) reassess whether those transactions meet the sale and leaseback guidance in ASC 842 before its effective date. If so, lessees retroactively account for the sale and leaseback as of the later of the beginning of the earliest period presented, or the date the transaction qualified as a sale under ASC 842 (or the date they apply ASC 842, if they elect not to restate prior periods).	Entities that elected to use a full retrospective approach nevertheless do not retrospectively apply IFRS 16 guidance to pre-adoption sale-leaseback transactions, or to pre-adoption business combinations, but, instead, apply the specific transition guidance in IFRS 16.	
Entities only reassess initial direct costs if they do not elect to use the “package” of practical expedients.	Under IFRS 16, lessees do not classify leases; and, if using the “simplified approach,” they can separately elect to exclude initial direct costs from the measurement of the right-of-use asset.	
Under US GAAP, entities are allowed to not revisit the accounting for easement arrangements that existed at the transition date that were not previously accounted for as leases. However, easement arrangements entered into or modified after the effective date of ASC 842 would have to be evaluated under the new lease identification guidance.	The IASB has not provided equivalent relief for easement arrangements.	Not applicable.

Chapter 15
Other accounting and reporting topics

Updated June 2021

15.1 Other accounting and reporting topics

In addition to areas previously discussed, differences exist in a multitude of other standards, including translation of foreign currency transactions, calculation of earnings per share, disclosures regarding operating segments, and discontinued operations treatment. Differences also exist in the presentation and disclosure of annual and interim financial statements; however, each of the boards has several projects in progress which may impact some of these differences.

Technical references

US GAAP

ASC 205, ASC 205-20, ASC 230, ASC 260, ASC 280, ASC 360-10, ASC 830, ASC 830-30-40-2 through 40-4, ASC 850, ASC 853

IFRS

IAS 1, IAS 7, IAS 8, IAS 21, IAS 23, IAS 24, IAS 29, IAS 32, IAS 33, IFRS 1, IFRS 5, IFRS 7, IFRS 8, IFRIC 12

BE GAAP

CBN/CNC 117-3, CBN/CNC 2009-10, CBN/CNC 2010-1, CBN/CNC 2012-16, CBN/CNC 2013-4, CBN/CNC 2013-5, CBN/CNC 2013-12, CBN/CNC 2014-5, CBN/CNC 2016-14, CBN/CNC 2016-24, CBN/CNC 2018-08, CBN/CNC 2018-17, CBN/CNC 2018-18, CBN/CNC 2018-20, CBN/CNC 2019-02, CBN/CNC 2020-12

Note

The following discussion captures a number of the more significant GAAP differences. It is important to note that the discussion is not inclusive of all GAAP differences in this area.

15.2 Balance sheet—offsetting assets and liabilities

Differences in the guidance covering the offsetting of assets and liabilities under master netting arrangements, repurchase and reverse-repurchase arrangements, and the number of parties involved in the offset arrangement could change the balance sheet presentation of items currently shown net (or gross) under US GAAP. Consequently, more items are likely to appear gross under IFRS.

US GAAP	IFRS	BE GAAP
The guidance states that "it is a general principle of accounting that the offsetting of assets and liabilities in the balance sheet is improper except where a right of setoff exists." A right of setoff is a debtor's legal right, by contract or otherwise, to discharge all or a portion of the debt owed to another party by applying against the debt an amount that the other party owes to the debtor.	Under the guidance, a right of setoff is a debtor's legal right, by contract or otherwise, to settle or otherwise eliminate all or a portion of an amount due to a creditor by applying against that amount an amount due from the creditor. Two conditions must exist for an entity to offset a financial asset and a financial liability (and thus present	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 counterparty exist and both are due). *Source: CBN/CNC 2018-20*

US GAAP	IFRS	BE GAAP
A debtor having a valid right of setoff may offset the related asset and liability and report the net amount. A right of setoff exists when all of the following conditions are met: • Each of two parties owes the other determinable amounts • The reporting party has the right to set off the amount owed with the amount owed by the other party • The reporting party intends to set off • The right of setoff is enforceable by law. The guidance provides an exception to the previously described intent condition for derivative instruments executed with the same counterparty under a master netting arrangement. An entity may offset (1) fair value amounts recognized for derivative instruments and (2) fair value amounts (or amounts that approximate fair value) recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) arising from derivative instruments recognized at fair value. Entities must adopt an accounting policy to offset fair value amounts under this guidance and apply that policy consistently. Repurchase agreements and reverse-repurchase agreements that meet certain conditions are permitted, but not required, to be offset in the balance sheet.The guidance provides an exception to the previously described intent condition for derivative instruments executed with the same counterparty under a master netting arrangement. An entity may offset (1) fair value amounts recognized for derivative instruments and (2) fair value amounts (or amounts that approximate fair value) recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) arising from derivative instruments recognized at fair value.	the net amount on the balance sheet). The entity must both: • Currently have a legally enforceable right to set off, and • Intend either to settle on a net basis or to realize the asset and settle the liability simultaneously. If both criteria are met, offsetting is required. In unusual circumstances, a debtor may have a legal right to apply an amount due from a third party against the amount due to a creditor, provided that there is an agreement among the three parties that clearly establishes the debtor's right of setoff. Master netting arrangements do not provide a basis for offsetting unless both of the criteria described earlier have been satisfied.	Under certain conditions, work in progress balances may be presented net of advance payments received from the customer, whereby either the debit balance is presented as work in progress (net) or the credit balance is presented as advance payment received (net). *Source: CBN/CNC 2016-14*

US GAAP	IFRS	BE GAAP
Entities must adopt an accounting policy to offset fair value amounts under this guidance and apply that policy consistently. Repurchase agreements and reverse-repurchase agreements that meet certain conditions are permitted, but not required, to be offset in the balance sheet.The guidance provides an exception to the previously described intent condition for derivative instruments executed with the same counterparty under a master netting arrangement. An entity may offset (1) fair value amounts recognized for derivative instruments and (2) fair value amounts (or amounts that approximate fair value) recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) arising from derivative instruments recognized at fair value. Entities must adopt an accounting policy to offset fair value amounts under this guidance and apply that policy consistently. Repurchase agreements and reverse-repurchase agreements that meet certain conditions are permitted, but not required, to be offset in the balance sheet.		

15.3 Balance sheet: offsetting asset and liability disclosures

While differences exist between IFRS and US GAAP in the offsetting requirements, the boards were able to reach a converged solution on the nature of the disclosure requirements.

US GAAP	IFRS	BE GAAP
The balance sheet offsetting disclosures are limited to derivatives, repurchase agreements, and securities lending transactions to the extent that they are (1) offset in the financial statements or (2) subject to an enforceable master netting arrangement or similar agreement.	The disclosure requirements are applicable for (1) all recognized financial instruments that are set off in the financial statements and (2) all recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in the financial statements.	The application of compensation method for work in progress and advance payments should be explicitly mentioned in the notes, together with disclosure of the gross amounts subject to offsetting. *Source: CBN/CNC 2016-14*

15.4 Balance sheet classification—post-balance sheet refinancing

Under IFRS, the classification of debt does not consider post-balance sheet refinancing agreements. As such, more debt is classified as current under IFRS.

US GAAP	IFRS	BE GAAP
Entities may classify debt instruments due within the next 12 months as noncurrent at the balance sheet date, provided that agreements to refinance or to reschedule payments on a long-term basis (including waivers for certain debt covenants) get completed before the financial statements are issued. SEC registrants subject to S-X Article 5 for commercial and industrial companies are required to present a classified balance sheet, but no other Articles within S-X contain this requirement. ASC 210-10-05-4 notes that most reporting entities present a classified balance sheet.	If completed after the balance sheet date, neither an agreement to refinance or reschedule payments on a long-term basis nor the negotiation of a debt covenant waiver would result in noncurrent classification of debt, even if executed before the financial statements are issued. The presentation of a classified balance sheet is required, except when a liquidity presentation is reliable and more relevant.	Similar to IFRS. The accounting treatment of adjusting and non-adjusting post-balance sheet events is similar to IFRS. Material events after the balance sheet date should be disclosed in the notes. *Source: CBN/CNC 2018-08*

15.5 Balance sheet: classification—refinancing counterparty

Differences in the guidance for accounting for certain refinancing arrangements may result in more debt classified as current under IFRS.

US GAAP	IFRS	BE GAAP
A short-term obligation may be excluded from current liabilities if the entity intends to refinance the obligation on a long-term basis and the intent to refinance on a long-term basis is supported by an ability to consummate the refinancing as demonstrated by meeting certain requirements. The refinancing does not necessarily need to be with the same counterparty.	If an entity expects and has the discretion to refinance or roll over an obligation for at least 12 months after the reporting period under an existing loan financing, it classifies the obligation as noncurrent, even if it would otherwise be due within a shorter period. In order for refinancing arrangements to be classified as noncurrent, the arrangement should be with the same counterparty.	Similar to IFRS. Roll-over credit lines can be classified as noncurrent liabilities if the following conditions are satisfied: • the company intends to refinance or to extend the obligation under the existing credit facility for a period of at least 12 months; • the company itself can decide upon refinancing or extending the existing obligation and no additional approval from the lender is required; and • the terms and conditions of the facility do not change. *Source: CBN/CNC 2012/16*

15.6 Income statement and statement of comprehensive income

The most significant difference between the frameworks is that under IFRS an entity can present expenses based on their nature or their function.

US GAAP	IFRS	BE GAAP
The income statement may be presented in either (1) a single-step format, whereby all expenses are classified by function and then deducted from total income to arrive at income before tax, or (2) a multiple-step format separating operating and nonoperating activities before presenting income before tax. SEC regulations require all registrants to categorize expenses in the income statement by their function. However, depreciation expense may be presented as a separate income statement line item. In such instances, the caption "cost of sales" should be accompanied by the phrase "exclusive of depreciation" shown below and presentation of a gross margin subtotal is precluded. All items included in other comprehensive income are subject to recycling.	While certain minimum line items are required, no prescribed statement of comprehensive income format exists. Entities that disclose an operating result should include all items of an operating nature, including those that occur irregularly or infrequently or are unusual in amount, within that caption. Expenses may be presented either by function or by nature, whichever provides information that is reliable and more relevant depending on historical and industry factors and the nature of the entity. Additional disclosure of expenses by nature, including depreciation and amortization expense and employee benefit expense, is required in the notes to the financial statements if functional presentation is used on the face of the income statement. Entities should not mix functional and nature classifications of expenses by excluding certain expenses from the functional classifications to which they relate. Entities are required to present items included in other comprehensive income that may be reclassified into profit or loss in future periods separately from those that will not be reclassified.	The presentation format for financial statements, including the income statement, is strictly prescribed by the Belgian accounting legislation. A standard format of income statement is prescribed by BE GAAP. It requires separate presentation of operating results; financial results; results from ordinary activities before taxes; non-recurring income and expenses; 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 the group's share in the result of associates should be separately presented. Non-recurring items under BE GAAP are 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 non-recurring that would be included in ordinary operations under IFRS. *Source: CBN/CNC 2016-24*
	The share of other comprehensive income of associates and joint ventures accounted for using the equity method must be grouped into those that will and will not be reclassified to profit or loss.	Not applicable.

15.7 Statements of equity

IFRS requires a statement of changes in equity to be presented as a primary statement for all entities.

US GAAP	IFRS	BE GAAP
Permits the statement of changes in shareholders' equity to be presented either as a primary statement or within the notes to the financial statements.	A statement of changes in equity is presented as a primary statement for all entities.	A statement (in the notes) 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. The company that distributes a dividend or profit share prepares its financial statements after result appropriation i.e. by debiting the account 694 Remuneration of capital or 695 Directors or Managers and crediting the account 47 Debts out of profit appropriation for the amount of the dividend or profit share to be approved by the general shareholders' meeting. *Source: CBN/CNC 2013/12*

15.8 Statement of cash flows

Differences exist between the two frameworks for the presentation of the statement of cash flows that could result in differences in the actual amount shown as cash and cash equivalents in the statement of cash flows (including the presentation of restricted cash) as well as changes to each of the operating, investing, and financing activity sections.

US GAAP	IFRS	BE GAAP
Under US GAAP, restricted cash is presented together with cash and cash equivalents on the statement of cash flows. The statement of cash flows shows the change during the period in total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, transfers between restricted cash and unrestricted cash are not presented in the statement of cash flows and direct changes in restricted cash are not disclosed as noncash transactions.	Entities need to consider whether restricted funds meet the definition of cash and cash equivalents. This is to ensure that only those items that are available to meet short-term cash commitments are classified as cash or cash equivalents. Funds that do not meet the criteria should not be presented as part of cash and cash equivalents.	Not required.

US GAAP	IFRS	BE GAAP
Entities are, however, required to reconcile the total amount of cash, cash equivalent, and restricted cash presented on the statement of cash flows to the balance sheet, as well as disclose the nature and extent of the restrictions.		
Bank overdrafts are not included in cash and cash equivalents; changes in the balances of bank overdrafts are classified as financing cash flows.	Cash and cash equivalents may also include bank overdrafts repayable on demand that form an integral part of an entity's cash management. Short-term bank borrowings are not included in cash or cash equivalents and are considered to be financing cash flows.	
There is no requirement for expenditures to be recognized as an asset in order to be classified as investing activities.	Only expenditures that result in a recognized asset are eligible for classification as investing activities.	
US GAAP is prescriptive on the cash flow classification of certain items. For example, specific guidance exists in areas such as distributions received from equity method investees, debt prepayments and extinguishments costs and sales of trade receivables.	IFRS is generally less prescriptive in the classification of certain items in the statement of cash flows. The general principle is that cash flows are classified in the manner most appropriate to the business.	
Dividends paid are required to be classified in the financing section of the cash flow statement and interest paid (and expensed), interest received, and dividends received from investments are required to be classified as cash flows from operations. If the indirect method is used, amounts of interest paid (net of amounts capitalized) during the period must be disclosed.	Interest and dividends received should be classified in either operating or investing activities. Interest and dividends paid should be classified in either operating or financing cash flows. The total amount of interest paid during a period, whether expensed or capitalized, is disclosed in the statement of cash flows.	
Dividends paid are required to be classified in the financing section of the cash flow statement and interest paid (and expensed), interest received, and dividends received from investments are required to be classified as cash flows from operations. If the indirect method is used, amounts of interest paid (net of amounts capitalized) during the period must be disclosed.	Taxes paid should be classified within operating cash flows unless specific identification with a financing or investing activity exists.	

US GAAP	IFRS	BE GAAP
If the indirect method is used, amounts of taxes paid during the period must be disclosed.	When taxation cash flows are disclosed under different activities, disclosure of the total amount of tax paid in relation to income is required.	

15.9 Disclosure of critical judgments and significant estimates

An increased prominence exists in the disclosure of an entity's critical judgments and disclosures of significant accounting estimates under IFRS in comparison to the requirements of US GAAP.

US GAAP	IFRS	BE GAAP
For SEC registrants, disclosure of the application of critical accounting policies and significant estimates is normally made in the *Management's Discussion and Analysis* section of SEC filings such as Forms 10-K or 20-F.	Within the notes to the financial statements, entities are required to disclose both: • The judgments that management has made in the process of applying its accounting policies that have the most significant effect on the amounts recognized in those financial statements • Information about the key assumptions concerning the future—and other key sources of estimation uncertainty at the balance sheet date—that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year	The notes are an integral part of the financial statements. Notes provide additional information to the amounts disclosed in the primary statements. Under BE GAAP, a standard format is prescribed. Additional disclosures are permitted.

15.10 Capital management disclosures

Entities applying IFRS are required to disclose information that will enable users of its financial statements to evaluate the entity's objectives, policies, and processes for managing capital.

US GAAP	IFRS	BE GAAP
There are no specific requirements of capital management disclosures under US GAAP.	Entities are required to disclose the following:	Not addressed.

US GAAP	IFRS	BE GAAP
For SEC registrants, disclosure of capital resources is normally made in the *Management's Discussion and Analysis* section of SEC filings such as Forms 10-K or 20-F.	• Qualitative information about their objectives, policies, and processes for managing capital • Summary quantitative data about what they manage as capital • Changes in the above from the previous period • Whether during the period they complied with any externally imposed capital requirements to which they are subject and, if not, the consequences of such non-compliance The above disclosure should be based on information provided internally to key management personnel.	

15.11 Comparative financial information

IFRS specifies the periods for which comparative financial information is required, which differs from both US GAAP and SEC requirements.

US GAAP	IFRS	BE GAAP
Comparative financial statements are not required; however, SEC requirements specify that most registrants provide two years of comparatives for all statements except for the balance sheet, which requires only one comparative year.	One year of comparatives is required for all numerical information in the financial statements, with limited exceptions in disclosures. A third statement of financial position at the beginning of preceding period is required for first-time adopters of IFRS and in situations where a retrospective application of an accounting policy, retrospective restatement or reclassification having a material effect on the information in the statement of financial position at the beginning of the preceding period have occurred. Restatements or reclassifications in this context are in relation to correction of errors, or changes in presentation of previously issued financial statements.	Requires one year of comparatives for all numerical information in the financial statements. A variable closing date (a day in the specified week) may be acceptable if certain conditions described in the advice CBN/CNC 2014-5 are met. The use of a variable closing date may result in Some technical/administrative issues (e.g. a company can only use a fixed date to register with the Central Enterprise Databank). *Source: CBN/CNC 2014-5* Since the implementation of the Companies' and Associations' Code, the restatement of annual accounts previously approved by shareholders is required in case of errors impacting the true and fair view, or is allowed in some other circumstances. (a) Adjustment ("aanpassing / redressement") of prior year figures in current year annual accounts to allow the comparability. When the figures relating to the current financial year are not comparable to

US GAAP	IFRS	BE GAAP
		those of the previous financial year, there are two options (the first one is the CBN/CNC preferred approach): • the corresponding figures (previous year) are adjusted, with appropriate disclosure when material, or • there is no adjustment of corresponding figures but the disclosures must include the information necessary to allow the comparability. However, such a (retrospective) adjustment is not sufficient in case of material prior year error impacting the true and fair view. (b) Restatement ("correctie" / "rectification") of prior year annual accounts (retrospectively) The Companies' and Associations' Code introduces two forms of restatements of annual accounts previously approved by shareholders: • the "optional" restatements are made in case of clerical errors that do not affect the true and fair view of the financial statements; and • the "required" restatements are made in case of breaches of accounting law of a nature such that the annual accounts do not provide anymore a true and fair view of the entity's financial situation. The CBN/CNC clarifies that management decisions related to accounting policy choices made in prior year annual accounts cannot be restated due to the irrevocability of such decisions, unless those choices were made in breach of accounting law. In accordance with the Companies' and Associations' Code, in case of prior year distribution (eg. dividend) and restatement of prior year annual accounts, the company can ask the reimbursement from shareholders in limited liability companies (BV/SRL) and cooperatives (CV/SC). However, this is not possible in SA/NV when such distributions were acquired in good faith ("te goeder trouw/de bonne foi") by shareholders. Finally, when a restatement is made in the prior year accounts of a company that is part of a group, the consolidated annual accounts shall also be corrected

US GAAP	IFRS	BE GAAP
		if they no longer give a true and fair view. The procedures to be followed in order to make the restatements are detailed by the CBN/CNC (impacting also the directors report and auditors report). The required restatements relate only to the prior year (n-1) annual accounts already filed at the National Bank of Belgium, but the restatement of multiple previous accounting year-ends is also allowed. *Source: CBN/CNC 2020-12*

15.12 Basic EPS calculation—mandatorily convertible instruments

Differences in the treatment of shares issuable on conversion of a mandatorily convertible instrument could result in a different denominator for basic EPS.

US GAAP	IFRS	BE GAAP
Current practice is not to include shares issuable pursuant to conversion of a mandatorily convertible instrument in the computation of basic EPS, unless the instrument is determined to be a participating security (in which case it would be included in the calculation of the basic EPS numerator). Such shares should be included in the computation of diluted EPS using the if-converted method.	Ordinary shares that are issuable on the conversion of a mandatorily convertible instrument should be included in basic EPS from the date the contract is entered into, since the issuance of ordinary shares for such instrument is solely dependent on the passage of time.	Not addressed.

15.13 Diluted EPS —year-to-date period calculation

Differences in the calculation methodology could result in different denominators being utilized in the diluted earnings-per-share (EPS) year-to-date period calculation.

US GAAP	IFRS	BE GAAP
In computing diluted EPS, the treasury stock method is applied each interim period to instruments such as options and warrants. US GAAP requires that the number of incremental shares included in the year-to-date EPS denominator be computed by using the average	The guidance states that dilutive potential common shares shall be determined independently for each period presented, not a weighted average of the dilutive potential common shares included in each interim computation.	Not addressed.

US GAAP	IFRS	BE GAAP
number of incremental shares from each interim diluted EPS computation. Specific rules apply when there are mixtures of net profit and net loss in different interim periods.		

15.14 Diluted EPS —settlement in stock or cash at issuer’s choice

Differences in the treatment of convertible debt securities may result in lower diluted EPS under IFRS.

US GAAP	IFRS	BE GAAP
Certain securities give the issuer a choice of either cash or share settlement. These contracts would typically follow the if-converted or treasury stock method, as applicable. US GAAP contains the presumption that contracts that may be settled in common shares or in cash at the election of the entity will be settled in common shares. However, that presumption may be overcome if past experience or a stated policy provides a reasonable basis to believe it is probable that the contract will be settled in cash.	Contracts that can be settled in either common shares or cash at the election of the issuer are always presumed to be settled in common shares and are included in diluted EPS if the effect is dilutive; that presumption may not be rebutted.	Not addressed.

15.15 Diluted EPS—contingently convertible instruments

The treatment of contingency features in the dilutive EPS calculation may result in higher diluted EPS under IFRS.

US GAAP	IFRS	BE GAAP
Contingently convertible debt securities with a market price trigger (e.g., debt instruments that contain a conversion feature that is triggered upon an entity’s stock price reaching a predetermined price) should always be included in diluted EPS computations if dilutive—regardless of whether the market price trigger has been met. That is, this type of contingency feature should be ignored.	The potential common shares arising from contingently convertible debt securities would be included in the dilutive EPS computation only if the contingency condition was met as of the reporting date.	Not addressed.

15.16 Participating securities and the two-class method

The scope of instruments to which the two-class method applies is wider under US GAAP. In addition, under US GAAP, losses are allocated to participating instruments only if certain conditions are met.

US GAAP	IFRS	BE GAAP
The two-class method is applied to all instruments that participate in dividends with common stock according to a predetermined formula. It applies regardless of whether the instrument is convertible or non-convertible. It also applies to both instruments classified as liabilities and those classified as equity.	The two-class method applies to equity instruments that participate in dividends with ordinary shares according to a predetermined formula; it does not apply to participating instruments classified as liabilities. Also, the two-class method is only explicitly required to be applied to participating equity instruments that are not convertible to ordinary shares.	Not addressed.
A reporting entity should only allocate losses to participating securities if, based on the contractual terms of the participating securities, the securities have a contractual obligation to share in the losses of the reporting entity on a basis that is objectively determinable.	No explicit guidance limits allocation of losses to participating securities.	

15.17 Releasing amounts from the currency translation account

Different recognition triggers for amounts captured in the currency translation account (CTA) could result in more instances where amounts included in CTA are released through the income statement under IFRS compared with US GAAP.

US GAAP	IFRS	BE GAAP
CTA is released through the income statement in the following situations: • When control of a foreign entity, as defined, is lost, the entire CTA balance is released. • Complete or substantially complete liquidation of a foreign entity, as defined, results in full release of CTA. • When a portion of an equity method investment that is itself a foreign entity, as defined, is sold but significant influence or joint control is retained, a portion of CTA is released, on a proportionate basis.	The triggers for CTA release noted in the US GAAP column apply for IFRS, except with regard to the loss of significant influence or joint control, when IFRS requires that the entire balance of CTA be released into the income statement. However, due to the remeasurement of the retained interest to fair value under ASC 321, the net profit or loss impact might be the same. In addition, when a partial liquidation occurs, an entity has an accounting policy choice whether to (1) treat such an event as a partial disposal and release a portion of the CTA on a proportionate basis or (2) not recognize any disposal as the	Not addressed.

US GAAP	IFRS	BE GAAP
• When a reporting entity has an investment in a foreign entity accounted for by the equity method, and the reporting entity increases its stake in the subject foreign entity such that control is acquired. It is treated as if the equity method investment were sold, and used to purchase a controlling interest in the foreign entity. • When significant influence or joint control over an equity method investee is lost, a proportionate amount of CTA is released into the income statement (through the level at which significant influence or joint control is lost). The remaining CTA balance becomes part of the carrying value of the investment retained. Provided the equity security does not qualify for the measurement alternative in ASC 321, the retained equity interests should be carried at fair value with changes in value recorded in net income. Any initial difference between the investment's carrying value and fair value should be recognized in net income.	parent continues to own the same percentage share of the subsidiary. Under US GAAP, release of CTA is only appropriate on complete or substantially complete liquidation.	
If a company settles or partially settles an intercompany transaction for which settlement was not previously planned (and therefore had been considered of a long-term-investment nature), the related foreign currency exchanges gains and losses previously included in CTA are not released to the income statement, unless the repayment transaction effectively constitutes a substantial liquidation of the foreign entity.	Where a subsidiary that is a foreign operation repays a quasi-equity loan, but there is no change in the parent’s proportionate percentage shareholding, there is an accounting policy choice regarding whether the CTA should be released.	

15.18 Translation in consolidated financial statements

IFRS does not require equity accounts to be translated at historical rates.

US GAAP	IFRS	BE GAAP
Equity is required to be translated at historical rates.	IFRS does not specify how to translate equity items. Entities have a policy choice to use either the historical rate or the closing rate. The chosen policy should be applied consistently. If the closing rate is used, the resulting exchange differences are recognized in equity and thus the policy choice has no impact on the amount of total equity	The translation of the financial statements of foreign entities for consolidation purposes is done on the basis of two acceptable methods: the monetary/non-monetary method or the closing rate method. The consolidation law prescribes when each method has to be applied.

15.19 Determination of functional currency

Under US GAAP, there is no hierarchy of indicators to determine the functional currency of an entity, whereas a hierarchy exists under IFRS.

US GAAP	IFRS	BE GAAP
There is no hierarchy of indicators to determine the functional currency of an entity. In those instances in which the indicators are mixed and the functional currency is not obvious, management's judgment is required to determine the currency that most faithfully portrays the primary economic environment of the entity's operations.	Primary and secondary indicators should be considered in the determination of the functional currency of an entity. If indicators are mixed and the functional currency is not obvious, management should use its judgment 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).	EUR is the default reporting currency, although other currencies are allowed in certain rare circumstances and if an exemption is given by the Minister of Economic Affairs. In those cases, the functional and presentation currencies should be the same. Belgian companies but also Belgian branches of foreign companies are obliged to prepare financial statements in euro. An exception to the rule as mentioned above may be granted if the management of the branch can motivate that the functional currency of the branch is not the euro. For more information about determining the functional currency we refer to CBN/CNC advice 117-3. Such an exception can only be requested before the closing date of the accounting year for which the exception is requested, and an exception can only be granted for 3 consecutive years. Financial entities of foreign groups registered in Belgium can use foreign currency as their functional currency if they exercise their economic activities predominantly outside the Eurozone. *Sources:* *CBN/CNC 117-3* *CBN/CNC 2019-02* *CBN/CNC 2009-10*

15.20 Hyperinflation

Basis of accounting in the case of hyperinflationary economies are different under US GAAP and IFRS.

US GAAP	IFRS	BE GAAP
Under US GAAP inflation-adjusted financial statements are not permitted. Instead, the financial statements of a foreign entity in a highly inflationary economy shall be remeasured as if the functional currency were the reporting currency. Once a reporting entity determines that it has a foreign entity operating in a highly inflationary economy, the reporting currency should be considered the foreign entity's functional currency on a prospective basis. The new accounting basis of monetary and nonmonetary assets and liabilities should be the last translated balances prior to the designation as highly inflationary.	IFRS require financial statements prepared in the currency of a hyper-inflationary economy to be stated in terms of the measuring unit current at the end of the reporting period. Prior year comparatives must be restated in terms of the measuring unit current at the end of the latest reporting period.	Not addressed.

15.21 Interim financial reporting—allocation of costs

IFRS requires entities to account for interim financial statements via the discrete-period method. The spreading of costs that affect the full year is not appropriate. This could result in increased volatility in interim financial statements.

The tax charge in both frameworks is based on an estimate of the annual effective tax rate applied to the interim results plus the inclusion of discrete income tax-related events during the quarter in which they occur. See SD 8.16 for related discussion.

US GAAP	IFRS	BE GAAP
US GAAP views interim periods primarily as integral parts of an annual cycle. As such, it allows entities to allocate among the interim periods certain costs that benefit more than one of those periods.	Interim financial statements are prepared via the discrete-period approach, wherein the interim period is viewed as a separate and distinct accounting period, rather than as part of an annual cycle.	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 at least condensed financial statements, a half- yearly directors' report, a responsibility statement and an indication of whether this information has been independently

US GAAP	IFRS	BE GAAP
		audited or reviewed. If the company prepares consolidated financial statements, the half-yearly report is published based on consolidated figures.

15.22 Definition of discontinued operations

The definitions of discontinued operations under IFRS and US GAAP focus on similar principles and apply to a component of an entity that has either been disposed of or is classified as held for sale. Under US GAAP, to qualify as a discontinued operation, a disposal must result in a strategic shift that has a major effect on an entity's operations and financial results. While this concept may be implicit in the IFRS definition, the significance of the line of business or geographical area of operations will determine whether the disposal qualifies for discontinued operations presentation under US GAAP. US GAAP also includes several examples that provide guidance on how to interpret the definition of discontinued operations. IFRS does not contain similar examples. The definitions under IFRS and US GAAP are summarized in the table below.

US GAAP	IFRS	BE GAAP
A disposal of a component of an entity or a group of components of an entity shall be reported in discontinued operations if the disposal represents (a) a strategic shift that has (or will have) a major effect on an entity's operations and financial results or (b) a business that on acquisition meets the criteria to be classified as held for sale.	A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale and (a) represents a separate major line of business or geographic area of operations, (b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or (c) is a subsidiary acquired exclusively with a view to resale.	BE GAAP does not provide any definition of discontinued operations. However, specific accounting principles apply to entities, subdivisions and business segments that can no longer be considered as a "going concern". If the management of an entity decides to (fully or partially) discontinue its operations, or if the "going concern" assumption cannot be maintained, the accounting policies of an entity are adapted as follows: (a) formation expenses are fully depreciated; (b) carrying amounts of current and noncurrent assets are reduced to the probable realisable values; (c) provisions are set up for the incremental costs of liquidation. *Source: CBN/CNC 2018-18* Furthermore there is specific guidance relating to the accounting treatment of "step disposals": Two types of "step disposals" are discussed in the advice CBN/CNC 2013-4: 1) Reduction of an interest in a fully consolidated subsidiary that still remains a fully consolidated subsidiary after the reduction.

US GAAP	IFRS	BE GAAP
		2) Reduction of an interest in a fully consolidated subsidiary that becomes an associate after the reduction. In the first case, the subsidiary is still consolidated applying the full consolidation method but some technical consolidation adjustments will need to be applied. The initial goodwill needs to be recalculated taking into account the change in interest and the depreciation since acquisition date. In the second case, the subsidiary becomes an associate, and needs to be accounted for using the equity method instead of the full consolidation method. Minority interests need to be eliminated and the goodwill also needs to be recalculated taking into account the depreciation since acquisition date. *Source: CBN/CNC 2013-4*

15.23 Discontinued operations assessment—unit of account

IFRS and US GAAP both refer to a component of an entity when describing those operations that may qualify for discontinued operations reporting; however, the definition of “component of an entity” for purposes of applying the discontinued operations guidance differs under IFRS and US GAAP. In practice, this difference generally does not result in different conclusions regarding whether or not a component of an entity that either has been disposed of, or is classified as held for sale, qualifies for discontinued operations reporting.

US GAAP	IFRS	BE GAAP
A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component of an entity may be a reportable segment or an operating segment, a reporting unit, a subsidiary, or an asset group.	A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. In other words, a component of an entity will have been a cash-generating unit or a group of cash-generating units while being held for use.	Not specifically addressed.

15.24 Related party disclosures—commitments

Disclosures of related party transactions under IFRS should include commitments to related parties.

US GAAP	IFRS	BE GAAP
There is no specific requirement to disclose commitments to related parties under US GAAP.	Disclosure of related party transactions includes commitments if a particular event occurs or does not occur in the future, including recognized and unrecognized executory contracts. Commitments to members of key management personnel would also need to be disclosed.	The CBN/CNC defined in its advice 2010-1 the disclosure requirements applicable to related party non-market based transactions. CBN/CNC 2018-17 analyses reporting requirements for guarantees of an entity's financial liabilities provided by third parties (and other similar off-balance sheet rights and obligations).

15.25 Related party disclosures—management compensation

Under IFRS, a financial statement requirement exists to disclose the compensation of key management personnel.

US GAAP	IFRS	BE GAAP
Disclosure of the compensation of key management personnel is not required within the financial statements. SEC regulations require key management compensation to be disclosed outside the financial statements.	The compensation of key management personnel is disclosed within the financial statements in total and by category of compensation. Other transactions with key management personnel also must be disclosed.	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).

15.26 Related party disclosures—government-related entities

There are exemptions from certain related party disclosure requirements under IFRS that do not exist under US GAAP.

US GAAP	IFRS	BE GAAP
There are no exemptions available to reporting entities from the disclosure requirements for related party transactions with governments and/or government-related entities.	A partial exemption is available to reporting entities from the disclosure requirements for related party transactions and outstanding balances with both: • A government that has control, joint control, or significant influence over the reporting entity • Another entity that is a related party because the same government has control, joint control, or significant influence over both the reporting entity and the other entity	The advice CBN/CNC 2013-5 summarizes the notification obligations to Belgian Companies relating to significant shareholdings and cross participations and the publication of this information in the notes to the financial statements. *Source: CBN/CNC 2013-5*

15.27 Operating segments—segment reporting

A principles-based approach to the determination of operating segments in a matrix-style organizational structure could result in entities disclosing different operating segments.

US GAAP	IFRS	BE GAAP
Entities that utilize a matrix form of organizational structure are required to determine their operating segments on the basis of products or services offered, rather than geography or other metrics.	Entities that utilize a matrix form of organizational structure are required to determine their operating segments by reference to the core principle (i.e., an entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates).	Not specifically addressed in BE GAAP. The only requirement is for disclosure of sales analysed by significantly different types of activity and geographical markets.

15.28 Service concession arrangements

Service concession arrangements may be in the scope of ASC 853, *Service Concession Arrangements*, for US GAAP or IFRIC 12, *Service Concession Arrangements*, for IFRS if they meet certain criteria. The above authoritative literature provides guidance on the accounting by private entity operators for public-to-private service concession arrangements (for example, airports, roads, and bridges) that are controlled by the public sector entity grantor. The operator also may provide construction, upgrading, or maintenance services in addition to operations. Under both US GAAP and IFRS, the infrastructure used in these arrangements should not be recognized as property, plant, and equipment by the operator. ASC 853 does not specify how an operator should account for the various aspects of a service concession arrangement other than to refer the operator to follow other applicable US GAAP. IFRIC 12 requires the operator to follow specific existing IFRS for various aspects of a service concession arrangement and provides additional guidance for other aspects.

US GAAP	IFRS	BE GAAP
The operator should not account for these arrangements as leases. For the operator's revenue and costs relating to the construction, upgrade, or operation services, the standard refers the operator to the revenue recognition and other applicable guidance. In the absence of specific guidance, the operator needs to determine if it is able to recognize an asset for the consideration to be received by the operator in exchange for construction and upgrade services, and/or defer the costs associated with such services. An intangible asset would not be recognized as the consideration received for construction services.	Generally, the operator would not account for these arrangements as leases, unless the operator has a right to use some physically separable, independent, and cash generating portion of the infrastructure, or if the facilities are used to provide purely ancillary unregulated services. In these cases, there may in substance be a lease from the grantor to the operator, which should be accounted for in accordance with IFRS 16. The operator will account for construction or upgrade services and operation services in accordance with IFRS 15. The consideration to be received by the operator in exchange for construction or upgrade services may result in the recognition of a financial asset, an intangible asset or a combination of both. It is necessary to account for each component separately. The operator recognizes a financial asset to the extent that it has an unconditional right to receive a specified or determinable amount of cash or other financial assets for the construction services. The operator recognizes an intangible asset to the extent that it has a right to charge fees to users of the public services. Accordingly, determining who is the customer in a service concession arrangement depends on the nature of the consideration received by the operating entity and the facts and circumstances of the arrangement.	Not addressed. Accounting for long-term leases is covered in CBN/CNC 2015-5.

US GAAP	IFRS	BE GAAP
Additionally, in some of these arrangements, the operator will pay the grantor to enter into an operating agreement. This would be considered consideration payable to a customer under US GAAP because the grantor is determined to be the customer of the operating services in all service concession arrangements. This may result in an asset that will be amortized against revenue over the term of the operating agreement.	Additionally, in some of these service concession arrangements, the operator will make payments to the grantor. If payments are for a right to a separate good or service, the operator applies the applicable IFRS guidance for that good or service. If payments are for the right to use a separate asset, the operator assesses whether the arrangement contains a lease. If the service concession arrangement results in the operator having only a contractual right to receive cash from the grantor, the operator accounts for those payments as a reduction of the transaction price under IFRS 15. If the service concession arrangement results in the operator having only a right to charge users of the public service, the operator has received an intangible asset in exchange for the payments to be made to the grantor. The operator may have a contractual obligation to maintain or restore the infrastructure to a specified condition before it is returned to the grantor at the end of the arrangement, which should be recognized and measured in accordance with IAS 37.	

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