



IFRS compared to US GAAP

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With you today

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Agenda



— Framework of IFRS and US GAAP

— Investor perspective

— Differences we see in practice

— Regulator influences

— Reasons to change and how we can help

— Wrap-up

Framework of IFRS and US GAAP

International Financial Reporting Standards

IFRS is the term used to indicate the whole body of *International Accounting Standards Board's (IASB's)* authoritative literature.



IFRS includes:

- Conceptual Framework for Financial Reporting
- International Financial Reporting Standards (**IFRS**) issued by the IASB
- International Accounting Standards (**IAS**) issued by the IASB's predecessor
- Interpretations of IFRS and IAS issued by the IFRS Interpretations Committee (**IFRIC**)
- Interpretations developed by the Interpretations Committee's predecessor, the Standing Interpretations Committee (**SIC**)

In the European Union, **EU-IFRS** is applied.

[Link to IFRS](#)

US GAAP

US GAAP is the term used to indicate the whole body of Federal Accounting Standards Board's (**FASB's**) authoritative literature.



US GAAP includes:




- Concepts Statements (**CON**)
- Accounting Standards Codification (**ASC**)
- Accounting Standards Updates (**ASU**)
- Private Company Decision-Making Framework

[Link to FASB](#)



Investor Perspective

Rules based vs principles based

	Conceptual framework
	IFRS based on general accounting principles
	US GAAP more rules-based, providing more narrow or specific guidance for application

Developments regarding potential U.S. move to IFRS: 2007-2012



2007

SEC allows Foreign Private Issuers to file IFRS financial statements



2010

SEC issues Work Plan to potentially incorporate IFRS into the U.S. Financial Reporting System



2012

SEC Staff issues Final Report on IFRS Work Plan

SEC concerns and areas of consideration

Global Application and Enforcement

Development of IFRS

U.S. GAAP reference in laws, contracts etc.

Conversion costs

Convergence between IFRS and U.S. GAAP



FASB and IASB have worked between 2002 and 2017 on approximately 35 convergence projects

Era of bilateral convergence over?

IASB

- Move from a period of bilateral convergence with the FASB to a more inclusive, multilateral approach to standard-setting
- Formation of the Accounting Standards Advisory Forum (ASAF) two years ago, which has representation from 12 national and regional accounting standards organizations, including the FASB

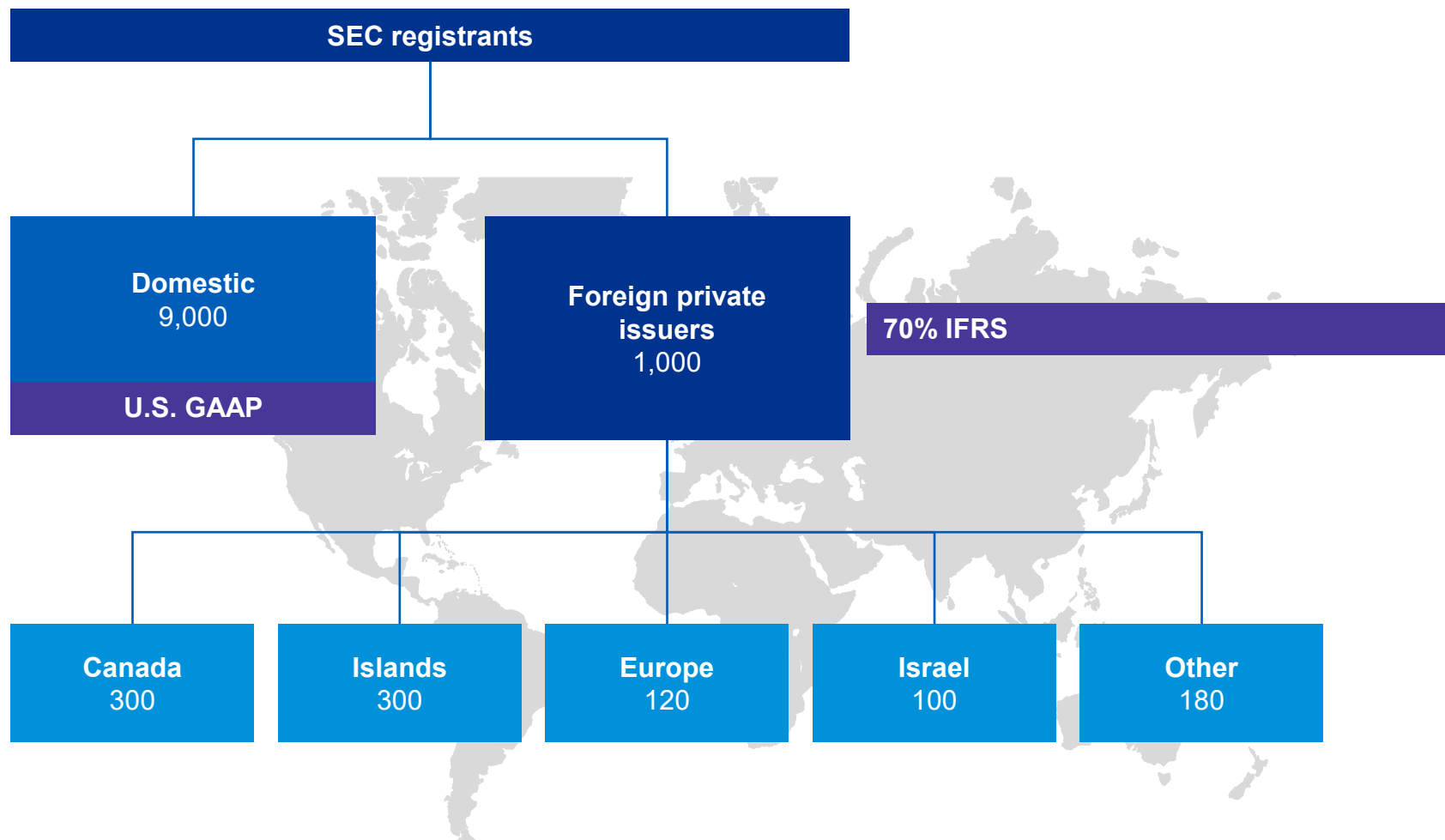
FASB

- “FASB will continue to execute its strategy of improving financial reporting [...] by actively participating in the development of IFRS [...]”
- “In some cases, however, the FASB (or other national standard setters) may conclude that the best interests of its own capital markets outweigh the goal of completely converged accounting standards.”

While much of the FASB and IASB efforts over the past decade have been guided by convergence between U.S. GAAP and IFRS, those efforts have come to an end

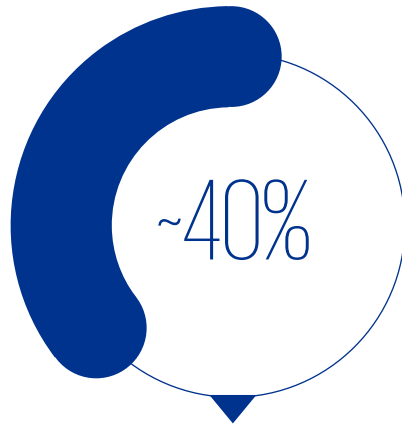
Source: FASB Strategic Plan (April 2015)

SEC registrants overview

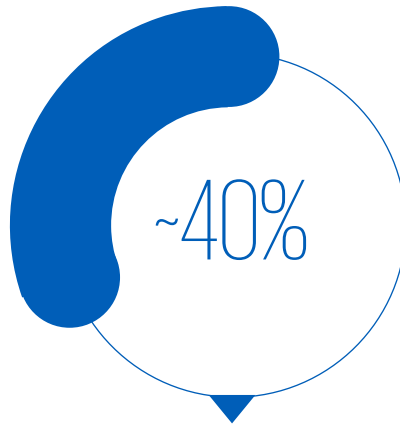


Numbers displayed are estimates and based on publicly available information

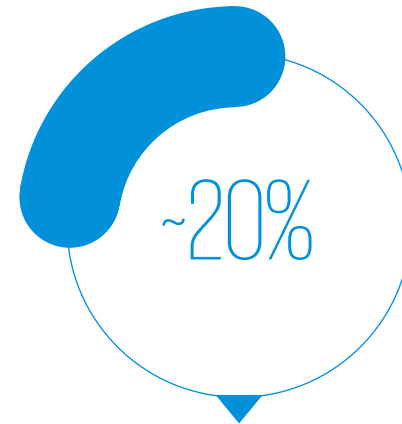
Accounting frameworks from a market cap point of view



U.S. GAAP



IFRS



Other,
incl Chinese GAAP

Data suggest IFRS and U.S. GAAP are relatively equal from a global market cap point of view and perspective

Difference between European regulators and SEC



Difference in mindset US regulator



Response of companies to difference in mindset



Differences we see in practice

General Overview: IFRS versus US GAAP

IFRS	U.S. GAAP
Less implementation guidance available; More authoritative sources to consider (IFRS, IAS, IFRIC, SIC).	More implementation guidance available, industry guidance; Only the ASC to consider (and SEC if public company).
Conceptual Framework is point of reference in absence of literature.	Concept Statements are non-authoritative guidance.
Alternative accounting treatments sometimes available.	Fewer explicit alternative accounting treatments available (as compared to IFRS).
Comparative information required for at least one year.	Comparative information related to comprehensive income, shareholders' equity and cash flows required for two years for SEC registrants only (no comparatives required for non public entities).
Requires statement of compliance with IFRS.	Does not require statement of compliance with U.S. GAAP.
Required disclosures of judgments and estimates within the notes.	Critical accounting policies and estimates within MD&A (for SEC registrants).

Principle-based versus Rule-based

Selection of Differences We See in Practice

1

Share-Based Compensation

3

Income Taxes

2

Intangible Assets

4

Latest accounting standards

This does not represent a complete listing of all differences in the accounting between U.S. GAAP and IFRS. See KPMG's IFRS compared to U.S. GAAP accounting book for more information.

Share-Based Compensation

IFRS 2, *Share-based Payment*

IFRS requires awards with a graded vesting schedule to treat each installment as a separate share option grant (e.g. graded vesting).

An estimate is made for the number of instruments expected to vest at the time of recognition of compensation cost. Subsequently, these estimates are trued up for differences between the number of instruments expected to vest and the actual number of instruments vested.

Deferred tax based on tax deduction if awards were exercised currently (i.e. intrinsic value on reporting date/no time value).

ASC Topic 718, *Stock Compensation*

Awards with a graded vesting schedule that vest only on service are accounted for either (policy election):

- Straight-line for each portion (e.g. Graded vesting), or
- Straight-line for entire award.

When determining compensation cost, entities elect an accounting policy to either estimate forfeitures (i.e., final amount of compensation cost is estimate of actual number of awards that vest) or elect to reverse the compensation cost of forfeited awards when they occur.

Set up deferred taxes on all temporary differences between the tax and book basis (based on grant date FV). Excess tax benefits and deficiencies are recognized subsequently in the period they are deducted for tax purposes (i.e. exercise date).

Intangible Assets

IFRS

Direct overhead should be included as part of all development costs that are capitalized if they can be directly attributed to preparing the asset for use.

Revaluation of intangibles is acceptable alternative, but only if specific conditions are met.

Impairment test for intangible assets with useful lives:

- Look for triggers.
- Compare book value with recoverable amount (higher of value in use or fair value less costs to sell).

No qualitative assessment before measuring for impairment of indefinite-lived intangible asset.

U.S. GAAP

Direct overhead is not included as part of the development costs capitalized for internal-use software and websites.

Intangible assets measured at cost only.

Impairment test for intangible assets with useful lives:

- Look for triggers
- Step 1: Compare book value with undiscounted cash flows.
- Step 2: Compare book value with fair value.

An entity is permitted to make a qualitative assessment of whether it is more likely than not that its indefinite-lived intangible asset's fair value is less than its carrying amount before applying the one-step impairment test.

Income Taxes

IFRS

There is (currently) no specific guidance on the accounting for uncertainty in income taxes.**

Deferred tax assets recognized only when probable that it will be realized.

Use enacted or substantially enacted tax rates.

Changes in tax rates recorded in P&L, unless originally recorded in equity.

U.S. GAAP

ASC Topic 740 provides specific guidance on the accounting for uncertainty in income taxes.

Deferred tax assets recognized, but establish valuation allowance if more likely than not they will not be realized

Use enacted tax rates.

Changes in tax rates generally recorded in P&L.

**** IFRIC 23 provides guidance on uncertainty in income taxes. While its “spirit” is similar, it does not contain the same details as U.S. GAAP.**

Latest Accounting Standards

IFRS 16, *Leases*

ASC 842, *Leases*

IFRS 9, *Financial Instruments*

ASC 326, *Financial Instruments – Credit Losses*

IFRS 15, *Revenue from contracts with customers*

ASC 606, *Revenue from contracts with customers*



Regulator Influences

U.S. Regulators and U.S. GAAP



Mission:

To protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation

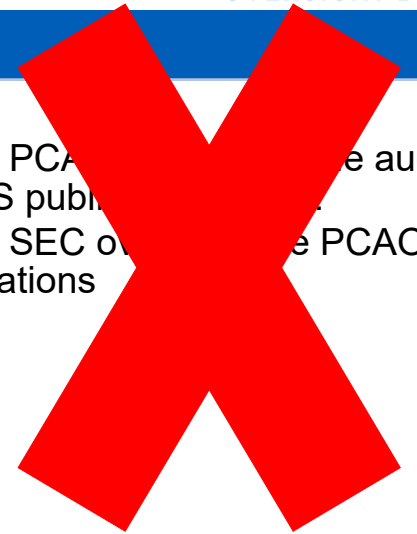
Authority The SEC has authority to set accounting standards to be followed by public companies but also the power to enforce those standards.

The logo for the Financial Accounting Standards Board (FASB) is displayed in blue text on a light gray background. The letters "FASB" are stylized, with the "F" and "A" connected.

- The SEC looks to the FASB, to establish and improve the accounting standards
- As a result, the FASB has the power to set, but not enforce, accounting standards



- The PCAOB oversees the audits of US public companies
- The SEC oversees the PCAOB's operations



US GAAP is the rulebook and the SEC plays the role of the referee!

SEC influence on U.S. GAAP



**Staff Accounting
Bulletin (SAB)**



**Accounting and
Auditing Enforcement
Release (AAER)**



**Compliance and
Disclosure
Interpretations**



Comment letter

SEC Financial Reporting Manual
SEC website: www.SEC.gov

SEC guidance and the ASC codification



Topic	Share-Based Payment
SEC guidance	SAB Topic 14 (formerly SAB 107 and 110)
Accounting Standards Codification (ASC) reference	718-10-S99 (primarily)



Topic	Business combinations
SEC guidance	SAB Topic 2 (formerly SAB 112 and 103)
ASC reference	805-10-S50, 805-10-S55, 805-10-S99

Frequent areas of SEC staff comment

Comment letter topic	Ranking	
	2020	2019
Management's discussion & analysis	1	3
Non-GAAP financial measures	2	1
Revenue recognition	3	2
Segment reporting	4	6
Form 8-K disclosures	5	4
Internal controls	6	13
Fair value measurements	7	5
Signatures and exhibits	8	8
Goodwill and intangibles	9	11
Disclosure controls	10	10

Source: Audit Analytics – Comment letter taxonomy for SEC staff comment letters issued to registrants related to Forms 10-K, 10-Q and 8-K for the twelve months ended September 30, 2020 and 2019

Conferences and speeches

2020 AICPA Conference on current SEC and PCAOB developments

Overarching theme



Financial reporting effects of COVID-19

- ICFR
- COVID-19 disclosures
- Non-GAAP measures

Other key themes



- Major accounting standards
- Auditing developments
- SEC developments and outlook

[Click here for KPMG's SEC Issues and Trends on the 2020 AICPA Conference on Current SEC & PCAOB Developments](#)

Current hot topic: Special Purpose Acquisition Corporations (SPACs)

What are SPACs?

- Acquisition vehicle whereby a sponsor team raises cash for the sole purpose of acquiring one or more operating companies

What is the benefit for the target OpCo?

- Being acquired by a SPAC offers an alternative to an IPO for privately owned operating companies that intend to enter the public capital markets

Are SPAC transactions subject to regulatory oversight?

- Yes. SPAC transactions are subject to regulatory oversight by the U.S. Securities and Exchange Commission (SEC)
- There are comprehensive SEC filing, reporting, and disclosure requirements in conjunction with executing transactions involving SPACs

What are the concerns by the SEC on accounting for warrants by a SPAC?

- The Staff recently reported on the accounting implications for common warrant structures (under US GAAP) issued in connection with a SPAC's formation and IPO.
- A number of common warrant structures would not qualify as equity, but would be accounted for as liability, under US GAAP



How can KPMG help?

Publications and resources



[Here is a link to our publication](#)

Accounting Advisory
Services



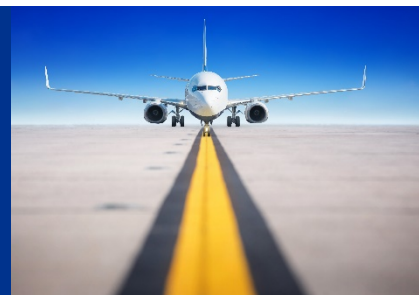
[Link to our website](#)



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KPMG Financial
Reporting View

KPMG Global IFRS
Institute



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SEC public statements on SPACs & SPAC Intel Hub

- SPACs, IPOs and Liability Risk under the Securities Laws

<https://www.sec.gov/news/public-statement/spacs-ipos-liability-risk-under-securities-laws>

- Staff Statement on Select Issues Pertaining to SPACs

<https://www.sec.gov/news/public-statement/division-cf-spac-2021-03-31>

- Financial Reporting and Auditing Considerations of Companies Merging with SPACs

<https://www.sec.gov/news/public-statement/munter-spac-20200331>

- Staff Statement on Accounting and Reporting Considerations for Warrants Issued by Special Purpose Acquisition Companies (“SPACs”)

<https://www.sec.gov/news/public-statement/accounting-reporting-warrants-issued-spacs>

- Special Purpose Acquisition Companies – Division of Corporation Finance SEC CF Disclosure Guidance: Topic No. 11

<https://www.sec.gov/corpfin/disclosure-special-purpose-acquisition-companies>

Please visit KPMG’s SPAC Intel Hub [here!](#)

How can KPMG help?





Thank you

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