

Implications of moving to IFRSs for existing Canadian/US GAAP differences

1. This document has been prepared by the staff of the Accounting Standards Board (AcSB) to provide a high level summary of the extent to which convergence of Canadian standards with International Financial Reporting Standards (IFRSs) could be expected to eliminate existing differences between Canadian and US GAAP, or create new differences. Its purpose is to provide readers of the AcSB's "[Implementation Plan for Incorporating International Financial Reporting Standards into Canadian GAAP](#)" with information about the extent to which the move to IFRSs will reduce or increase conflicts with US GAAP compared with those that exist currently between Canadian standards and US GAAP.
2. Like the "[Comparison of IFRSs and Canadian standards](#)," also available from the AcSB website (www.acsbcanada.org), this summary covers significant conflicts only and does not include all of the differences that might arise in a particular entity's circumstances. It does not provide a complete summary of all differences between Canadian standards, IFRSs and US GAAP and should not be used in preparing financial statements. Differences between standards that would allow, but not require, an entity to adopt incompatible treatments are not included in this summary. This document focuses on the conflicts between standards — i.e., circumstances in which it is likely that some entities would be unable to comply with both IFRSs and US GAAP within a single set of financial statements.
3. There are, of course, numerous differences in detail between IFRSs and US GAAP. While work is proceeding to converge IFRSs and US GAAP, and is likely to be significantly further advanced by the date of the changeover of Canadian standards to IFRSs, there will inevitably continue to be conflicts between IFRSs and US GAAP at a detailed level for some time in the future.
4. Table 1 considers significant Canadian/US GAAP conflicts that exist in standards issued as at March 31, 2007 and assesses the likelihood that these conflicts would be eliminated by the changeover to IFRSs. Table 1 also comments on the prospects for convergence of those IFRSs with US GAAP by the proposed date of the changeover to IFRSs in Canada.

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5. Table 1 uses the results of an AcSB staff analysis of reported Canadian/US GAAP differences in a survey of 150 public Canadian companies for fiscal years ending in 2005 as a starting point for identifying Canadian/US GAAP conflicts. That staff analysis focuses on differences in net income reported in GAAP reconciliations, and does not identify balance sheet or cash flow statement differences that have no effect on reported net income. Accordingly, the differences identified in that analysis have been supplemented by other known conflicts between Canadian and US GAAP.
6. Since the AcSB staff analysis of reported Canadian/US GAAP differences is for 2005 financial statements, some of these differences have already been eliminated and others might since have been created. Differences eliminated since 2005 include those relating to recognition and measurement of financial instruments. These differences are not included in Table 1. Furthermore, some of the differences identified in the AcSB staff analysis were voluntary differences, whereby entities elected to use an accounting policy in accordance with Canadian standards that conflicted with US GAAP, even though an alternative accounting policy could have been selected that would not have resulted in a GAAP difference. For example, one such difference was a choice of an accounting policy for interest capitalization in accordance with Canadian standards that conflicts with US GAAP, when it would have been possible to select a conforming accounting policy. Since such items are not compulsory conflicts with US GAAP, they are excluded from Table 1. Also, Table 1 excludes differences for which transitional effects persist, but for which standards are no longer in conflict.
7. Table 2 identifies existing conflicts between IFRSs and US GAAP that will become new differences from US GAAP for a Canadian entity adopting IFRSs. Like Table 1, Table 2 comments also on the extent of any work in process that seems likely to eliminate IFRS/US GAAP conflicts by the proposed date of the changeover to IFRSs in Canada.

Implications of moving to IFRSs for existing Canadian/US GAAP differences

| Table 1: Canadian/US GAAP conflicts as at March 31, 2007 | | |
|---|--|---|
| Significant Topic | Nature of Canadian/US GAAP conflict(s) | Impact on conflict(s) of adopting IFRSs |
| Conflicts expected to be eliminated before changeover to IFRSs ¹ | | |
| Consolidation/ equity method | How significant influence and control are determined, which results in use of different accounting methods. | Conflict likely to be eliminated in global consolidations project. Canada, US and IFRSs expected to be converged. |
| Government grants | US defers recognition of grants until all conditions are met rather than accruing the grant when there is reasonable assurance the entity has and will comply with all conditions. | IFRSs and Canadian standards are converged. IASB/FASB short-term convergence project expected to eliminate conflicts. |
| Income taxes | Use of “substantially enacted” rates in Canada. | IASB/FASB short-term convergence project expected to eliminate conflicts. Canada, US and IFRSs expected to be converged. |
| Insurance contracts | Significant conflicts in Canadian and US insurance accounting models. | IFRSs contain limited guidance on insurance accounting; therefore, either existing Canadian or US guidance is acceptable. IASB has commenced a project to introduce new requirements for insurance contracts. Project is expected to become a joint IASB/FASB initiative. AcSB intends to issue converged requirements at the same time as IASB. Canada, US and IFRSs expected to be converged. |
| Joint ventures | US requires the equity method rather than proportionate consolidation for incorporated joint ventures. | IFRSs allow use of either equity method or proportionate consolidation. Therefore, there is no IFRSs/US conflict. IASB has commenced a project to remove the proportionate consolidation option. AcSB expects to make similar revisions. Canada, US and IFRSs expected to be converged. |
| Liabilities and equity | Liability and equity distinctions. | FASB has commenced a project on liabilities and equity, with which IASB and AcSB are expected to converge. |
| Research and development | Except for certain types of development costs, US expenses | IASB and FASB are considering this topic in their short-term convergence |

¹ For purposes of this document, changeover to IFRSs is assumed to be in 2011.

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| Table 1: Canadian/US GAAP conflicts as at March 31, 2007 | | |
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| | these costs, rather than capitalizing those that relate to technically and commercially feasible products and processes. | project. IFRSs are presently similar to existing Canadian standards. Canada, US and IFRS expected to be converged. |
| Conflicts expected to be eliminated as a result of changeover to IFRSs | | |
| Foreign currency translation | Timing of release of gains and losses from cumulative translation adjustment account. | Conflict would be reduced. |
| Related party transactions | No recognition and measurement requirements in US. | Like US, IFRSs do not contain recognition and measurement requirements. |
| Reorganizations | Comprehensive revaluation is used in Canada. | Like US, IFRSs do not contain comprehensive revaluation requirements. ² |
| Stock-based compensation | Treatment of cash settled stock appreciation rights. | IFRSs and US are substantially the same. |
| Conflicts expected to remain at date of changeover to IFRSs | | |
| Costs deducted from sales | US includes shipping and handling fees in revenue rather than excluding such fees when services are provided as an agent. | Conflict would remain. |
| Deferred charges | US prohibits the deferral of certain pre-operating and other costs. | Conflict would be reduced. IFRSs permit less deferral of costs than Canadian standards. AcSB Intangible Assets project will reduce this conflict with US and IFRSs. |
| Differential reporting | US does not have an equivalent to Canada's differential reporting. | IASB developing standards for Non-Publicly Accountable Enterprises. ³ Conflicts likely to remain. |
| Employee benefits | US does not require a pension asset allowance. | IFRSs similar to Canadian standards. IASB and FASB have commenced a longer-term convergence project that might eliminate this conflict. |
| Leases | Accounting for leveraged leases. | IFRSs similar to Canadian standards on accounting for leveraged leases. IASB and FASB have commenced a longer-term convergence project that might |

² The Securities and Exchange Commission has requirements on “push-down” accounting that are comparable to Canadian standards.

³ The AcSB strategic plan proposes that non-publicly accountable (private) enterprises need not adopt IFRSs. However, some may choose to do so.

Implications of moving to IFRSs for existing Canadian/US GAAP differences

| Table 1: Canadian/US GAAP conflicts as at March 31, 2007 | | |
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| | | eliminate this conflict. |
| Property, plant and equipment, and depreciation | How mining reserves are defined and when to start depreciating. | Global convergence project on extractive industries expected to eliminate first conflict in medium term. Conflict regarding timing of depreciation expected to remain. |
| Revenue recognition | Methods used to recognize up-front non-refundable revenue and more industry-specific guidance in the US. | IASB and FASB have commenced a project on revenue recognition. AcSB expects to issue converged standards at the same time. Not expected to be complete until after Canadian changeover. |
| Shareholders' equity | Balance sheet classification differences of certain items, such as share issue costs, reduction of stated capital and deficit, or share purchase loans. | Conflicts would be reduced. |

Implications of moving to IFRSs for existing Canadian/US GAAP differences

| Table 2: IFRSs/US GAAP conflicts that are not presently Canadian/US GAAP conflicts as at March 31, 2007 | | |
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| Significant Topic | Nature of IFRSs/US GAAP conflict(s) | Work in process |
| Conflicts expected to be eliminated before changeover to IFRSs | | |
| Business combinations | Differences of detail, including: (i) IFRSs do not address business combinations involving entities or businesses under common control; (ii) US and Canada measure minority interests at carrying amount of acquired entity rather than fair value; and (iii) US and Canada allocate negative goodwill against carrying amounts, with any excess recognized as a gain, rather than being recognized immediately. | IASB and FASB are undertaking a joint project on business combinations. AcSB expects to issue converged standards effective at the same time. |
| Consolidation | Conflicts arise from consolidation policy, and accounting for variable-interest entities and qualifying special purpose entities, such as how control is defined. | IASB and FASB have commenced a project on consolidations to converge standards. AcSB intends to issue converged standards at the same time. |
| Current assets and current liabilities | IFRSs require current classification in circumstances where long-term classification is permitted in the US and Canada. | IASB and FASB Financial Statement Presentation project might eliminate this conflict. AcSB expects to issue converged standards at the same time. |
| Discontinued operations | Different definitions of discontinued operations. US also permits accrual of some costs associated with ongoing activities and requires cumulative exchange differences to be reclassified from equity to assets held for sale. | Conflicts expected to be eliminated in short-term convergence projects. |
| Extraordinary items | IFRSs preclude extraordinary items, unlike the US and Canada. | IASB and FASB Financial Statement Presentation project might eliminate this conflict. AcSB expects to issue converged standards at the same time. |
| Liabilities and equity | Liability and equity distinctions. | FASB has commenced a project on liabilities and equity, with which IASB and AcSB expect to converge. |
| Conflicts expected to remain at date of changeover to IFRSs | | |
| Agriculture/biological assets | US does not have an equivalent standard. | None. |

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| Significant Topic | Nature of IFRSs/US GAAP conflict(s) | Work in process |
| Construction contracts | Timing of revenue recognition, the extent to which contracts may be combined or segmented and balance sheet presentation, in some circumstances. | IASB and FASB Revenue Recognition project might eliminate this conflict. AcSB expects to issue converged standards at the same time. Not expected to be complete until after Canadian changeover. |
| Contingencies | IFRSs recognize the best estimate of the amount needed to settle the obligation using the expected value method, whereas the US recognizes the low end of the range of possible amounts. Canada recognizes the best estimate, or low end of the range if a better estimate is not identifiable. IFRSs also require recognition of an asset when realization of income is virtually certain. | IASB is undertaking work to amend IAS 37. However, conclusions likely to continue to differ from those of FASB. |
| Equity method (Also see Consolidation/ equity method in Table 1) | IFRSs require significantly influenced investees held for sale to be accounted for at the lower of: carrying amount or fair value less costs to sell; whereas the US and Canada require the equity method. | None. |
| Employee benefits | US does not limit recognition of pension assets; and requires immediate recognition of vested benefit costs related to past service. Other conflicts relate to recognition and measurement of termination benefits, and gains and losses on curtailment of benefit plans. | IFRSs similar to Canadian standards. IASB and FASB have commenced a longer-term convergence project that might eliminate these conflicts. |
| Financial assets – derecognition | IAS 39 does not focus on legal isolation, unlike US and Canada. | None – although IASB and FASB have commenced a staff research project. Not expected to be complete until after Canadian changeover. |

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| Significant Topic | Nature of IFRSs/US GAAP conflict(s) | Work in process |
| Financial instruments — recognition and measurement | Differences of detail, including: (i) measurement of quoted loans at fair value through net income; (ii) measurement of available-for-sale financial assets at fair value, unless fair value not “reliably determinable”; (iii) immediate recognition of foreign exchange gains and losses on available-for-sale financial assets in net income; (iv) a single treatment of transaction costs; and (v) requirements for reversal of impairment losses. | Financial instruments identified by IASB and FASB as a longer-term project to replace existing standards with new converged standards. Not expected to be complete until after Canadian changeover. |
| First-time adoption of IFRSs | Special transitional provisions for first-time adoption of IFRSs not present in US or Canadian GAAP. | None. |
| Impairment | Different model in IFRSs than in US as: (i) impairment is measured on different bases (for goodwill, for example, IFRSs make the impairment assessment at a different level within the entity and use a “one-step” measurement, unlike the US); (ii) US and Canada use undiscounted cash flow recognition, whereas IFRSs require recognition whenever the carrying amount exceeds the recoverable amount; and (iii) US and Canada prohibit reversals of impairment losses, whereas IFRSs require them when the recoverable amount exceeds the carrying amount. | Convergence of impairment requirements identified as longer-term IASB and FASB convergence project. Not expected to be complete until after Canadian changeover. |
| Interim financial reporting | Different approach to revenue and expense recognition. US and Canada treat each interim period as an integral part of the full year, permitting deferral of certain costs that will be absorbed by year end, whereas IFRSs treat each period as a discrete operating period. | None. |
| Inventories | IFRSs prohibit “last-in, first-out” method of cost determination, unlike the US, and requires reversal of write-downs if certain criteria are met. | AcSB will issue standard on Inventories converged with IFRSs. Conflicts with US GAAP expected to remain. |

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| Significant Topic | Nature of IFRSs/US GAAP conflict(s) | Work in process |
| Leases | US and Canadian standards: (i) consider third party guarantees; (ii) amortize gain on sale and leaseback transactions over the lease term, whereas IFRSs recognize them immediately; and (iii) apply to executory contracts. Also, the US uses the implicit borrowing rate, whereas IFRSs use the incremental rate to discount lease payments (Canada uses the lesser of either rate). | IASB and FASB have commenced a longer-term convergence project that might eliminate these conflicts. Not expected to be complete until after Canadian changeover. |
| Provisions | Measurement requirements differ as IFRSs use expected values and revise interest rates in subsequent measurements. | IASB is undertaking work to amend IAS 37. However, conclusions are likely to continue to differ from those of FASB. |