

SUMMARY OF THE FASB'S IASC/ US GAAP
COMPARISON PROJECT

Chapter 2 of The IASC-U.S. Comparison Project: A Report on the Similarities and Differences between IASC Standards and U.S. GAAP, Second Edition, copyright 1999 by the Financial Accounting Standards Board, 401 Merritt 7, Norwalk, Connecticut 06856, USA, is used by permission. Complete copies of the publication are available from the FASB.

CHAPTER 2-SUMMARY OF OBSERVATIONS

Introduction

In keeping with the objectives of the project, the comparative analyses presented in Chapters 3-30 of this report provide an information base to facilitate decision making about IASC standards by investors, analysts, standard setters, regulators, and others. Each comparative analysis was undertaken independently. However, based on the types of differences identified by the individual authors, there are some general observations that can be made about the potential comparability of information reported in financial statements between an enterprise using IASC standards and one using U.S. GAAP. Those observations are the subject of this chapter.

The discussion of observations that follows generally centers on the extent to which the similarities and differences identified by the authors of the comparative analyses could affect the comparability of actual reported financial information. That is, the discussion focuses on those similarities and differences deemed most likely to be significant to financial statement users comparing the financial statements of enterprises following IASC standards and those following U.S. GAAP. There are some limitations to that approach. Primarily, the basis for the project was limited to the comparison of accounting standards; it did not seek to observe the actual application and enforcement of those standards. How standards are interpreted and applied and the extent to which they are enforced can have a significant impact on reported financial information. Evaluating the effects of actual application and enforcement of accounting standards was beyond the scope of the project. It is not yet possible to observe those effects because many of the IASC standards and some U.S. standards that are the subject of the chapters that follow have yet to be used in preparing financial statements.

This chapter is presented in three sections. The first provides some background for understanding how differences in accounting standards can be important for assessing financial statement comparability. The second section provides some general observations about the most significant types of differences observed by the authors of the comparative analysis chapters and provides examples to illustrate those types of differences. The last section summarizes the key points of this chapter.

A Word about Differences

The IASC-U.S. comparison project set out to identify similarities and differences between IASC standards and U.S. GAAP (primarily FASB standards) predisposed to

the view that the shortest route to understanding comparability would be to zero in on differences. Therefore, this report, by its very nature, focuses on differences as a basis for comparison. Similarities tend to be identified and described in a general manner, while differences are discussed in more detail.

IASC standards are different from FASB standards. That conclusion is not new, nor is it unique to this report. It is neither the objective nor the intent of the IASC to develop standards identical to FASB standards. IASC standards and FASB standards seek to serve different environments (international versus national), respond to different mandates, have different technical support levels, and result from different standard-setting structures and processes.¹ Differences between those two sets of standards, therefore, are inevitable and not necessarily inappropriate. However, if financial statements based on IASC standards are to be considered appropriate for cross-border access to the world's capital markets (including those in the United States), it is essential that IASC standards meet the demands of those capital markets for high-quality financial information.

In undertaking the project, the FASB staff sought to obtain greater understanding of the specific nature of IASC standards. At the time that the project began (in 1995), detailed information about the level of comparability of reported financial results between financial statements prepared based on IASC standards and those prepared based on U.S. GAAP was available to relatively few individuals. In large part due to increased awareness resulting from publicity surrounding the IASC's core standards project, research on the issues related to international comparability has increased. However, conclusions about the acceptability of IASC standards for cross-border securities listings and other purposes are mixed and often are supported by fragmentary evidence.

Some studies that compare IASC standards with U.S. GAAP have asserted that the two sets of standards are broadly similar or that use of IASC standards can lead to results similar to those that would have been obtained had U.S. GAAP been used. As some of the comparative analyses in this report show, some of the IASC standards and their U.S. GAAP counterparts do have a similar underlying approach to accounting in certain areas and it may be possible to arrive at similar results under both standards. However, the existence of alternatives, even within standards that are very similar, can create the potential for very different reported results. The comparative analysis of IAS 23, *Borrowing Costs*, provides an example. The allowed alternative treatment in IAS 23 requires capitalization of borrowing costs incurred in the acquisition, construction, or production of certain assets. That is very similar to the U.S. GAAP requirement. However, IAS 23's benchmark treatment requires that borrowing costs be expensed. That is very different from the allowed alternative treatment (and, consequently, from U.S. GAAP). The existence of both a benchmark and allowed alternative treatment has the potential to result in noncomparability both between IASC-based and U.S. GAAP-based financial statements and among financial statements prepared under IASC standards.

¹ As noted in Chapter 1 of this report [*The IASC-U.S. Comparison Project: A Report on the Similarities and Differences between IASC Standards and U.S. GAAP*], the IASC published a discussion paper, *Shaping IASC for the Future*, in December, 1998. That discussion paper proposes changes to the IASC's objectives, standard-setting structure, and due process.

Other studies have concluded that IASC standards are too broad and general to ensure that similar accounting methods are applied in similar circumstances or that similar results are consistently achieved. While the guidance provided by IASC standards often is more general than that found in U.S. GAAP, IASC standards may be more rigorous than the national standards of some countries and, in some circumstances, may be equally or more effective than U.S. GAAP. For example, both IAS 2, *Inventories*, and U.S. GAAP provide broad, general guidance on cost-flow assumptions in estimating inventory cost. However, IAS 2 provides more-extensive guidance than does U.S. GAAP on the topic of accounting for inventories of service providers.

On the other hand, an absence of implementation guidance can lead to differences in applying standards that are broadly similar. For example, IAS 33, *Earnings per Share*, and its U.S. GAAP counterpart, FASB Statement No. 128, *Earnings per Share*, resulted from a cooperative standard-setting effort between the IASC and the FASB. The two standards are very similar. However, Statement 128 provides more-specific implementation guidance for some of the calculations required for determining earnings per share, for example, for determining the impact of different types of contingencies related to contingently issuable shares. There may be differences in earnings-per-share calculations between enterprises following IAS 33 and those following Statement 128 because, in the absence of implementation guidance, enterprises following IAS 33 are not required to determine the impact of contingently issued shares on the same basis as that described in Statement 128 and would not be prohibited from using alternative bases for making that determination.

Finally, not all questions about comparability relate to the comparability of financial statements prepared using different sets of accounting standards. Few studies have focused on comparability among the financial statements of enterprises following IASC standards. For example, there is little (if any) research that provides evidence of whether the IASC-based financial statements provided by an enterprise from France are comparable to the financial statements provided by a similar enterprise from Japan that also is following IASC standards. That type of comparison was beyond the scope of this report. Notwithstanding similarities with or differences from U.S. GAAP, because IASC standards will be applied in different national environments—each with its own set of national accounting standards or conceptual framework—IASC standards must be capable of being consistently interpreted and applied in order to meet the objective of international comparability among those enterprises that use IASC standards.

Thus, it would be misleading to make sweeping generalizations or blanket assertions about the relative quality of IASC standards based solely on the similarities and differences between two sets of accounting standards. The mere existence of differences between accounting standards is not a sufficient measure of the quality or merit of any particular accounting standard relative to the other. The true test of an accounting standard is whether it satisfies the demand for information in the environment in which it is intended to be used. What is required, therefore, is a fuller understanding of the nature of similarities and differences in the information provided in the financial statements as a result of applying the two sets of accounting principles. The FASB staff believes that the comparative analyses in this report will provide useful information to help interested parties evaluate the current state of IASC-U.S. GAAP comparability and draw their own conclusions.

Types of Differences

The comparative analyses in the following chapters identify a wide range of differences between IASC standards and U.S. GAAP and attempt to assess the impact of those differences on the comparability of the respective financial statements prepared using each set of standards. Not all differences between standards will be meaningful to financial statement users trying to compare investment opportunities. Some believe that differences in methodologies for deriving financial information and where in the financial statements it is presented (which are important considerations for standard setters in developing accounting requirements) are less important than whether the resulting financial information provided is essentially the same. For example, two standard setters may have different underlying conceptual bases for concluding on a particular recognition or measurement requirement, but the financial information that results from applying either standard could be the same. Financial statement users may not find the difference in concepts troublesome in that case.

From the perspective of financial statement users, other types of differences may be seen as more problematic because they are likely to result in differences between the information reported for a given reporting period in financial statements of enterprises following IASC standards and the information reported by those following U.S. GAAP that would be difficult to compensate for in making comparisons. For example, the types of differences of greatest significance in comparing financial statements are likely to fall within the following categories:²

1. Recognition differences. Differences in recognition criteria and guidance for initial or subsequent recognition of the same financial statement item can lead to differences in:

- Whether that particular item is recognized at all.
- How recognition of that item affects the financial statements (for example, capitalization of an item on the balance sheet versus expensing that item as incurred in the income statement).
- When (that is, in what reporting period) the item is initially recognized.

2. Measurement differences. Different approaches to initial or subsequent measurement can lead to differences in the amounts recognized for the same item in financial statements. For example, one standard might require that an item be subsequently measured at amortized cost, while its counterpart might require the same type of item to be revalued to current cost or fair value in each reporting period.

3. Alternatives. Differences can arise when one standard permits a choice between two or more alternative methods of accounting for a similar transaction, but its counterpart requires use of a single method. For example, one standard might permit an item to be either capitalized or expensed as incurred, but its counterpart might require the same item to be expensed as incurred. When alternatives are

² There also are less-significant differences between IASC standards and U.S. GAAP that contribute to noncomparability, for example, differences in definitions of line items and in presentation requirements. While those differences are identified in the chapters that follow, the discussion in this chapter is limited to examples in the categories of differences identified because they are likely to be the most significant from a financial statement user's perspective.

permitted, that can also lead to differences between the financial statements of two enterprises following the same set of standards.

4. Lack of requirements or guidance. Differences also can arise when one standard does not provide requirements or guidance for a particular topic or class of transactions within an accounting area covered by its counterpart. For example, one standard might provide specific guidance for recognition and measurement of government grants, while its counterpart might lack guidance covering that area.

5. Other differences. There are some other specific differences between IASC standards and U.S. GAAP that affect the basis for presentation of information contained in the financial statements. Examples of areas in which those differences occur are the presentation of financial statements, segment reporting, business combinations, consolidation policy, and certain transition provisions.

The significance of the types of differences in the categories described above in any particular case would depend on a number of factors. For example, even if the recognition and measurement requirements of two standards that cover the same item are very different, those differences might not be significant to a financial statement user if the enterprises being compared rarely, if ever, engage in transactions giving rise to that item. To illustrate, for purposes of comparing IASC-based and U.S. GAAP-based financial statements, a financial statement user likely would be more concerned about differences in the recognition and measurement of construction contracts when comparing the financial statements of two shipbuilding enterprises, one based on IASC standards and one based on U.S. GAAP, than when comparing the financial statements of two financial institutions, one based on IASC standards and one based on U.S. GAAP.

On the other hand, differences in recognition and measurement requirements related to transactions or events that are common to most enterprises could create pervasive differences in the line items and amounts reported by enterprises following IASC standards and those following U.S. GAAP for one or more reporting periods. For example, differences in revenue recognition or income tax accounting are likely to impact comparisons of the financial statements of the vast majority of enterprises. Unless additional information is provided elsewhere in the financial statements to enhance comparability, differences generally contribute to increased uncertainty for financial statement users in assessing and making investment decisions.

Comparisons may be affected for a single reporting period or over a number of reporting periods. With the exception of the few instances in which an item may be required to be recognized under one set of standards but never recognized under the other, the effects of many of the differences described above and illustrated in the next section will eventually vanish. That is, if, for example, one standard requires a cost to be expensed whereas the other requires the same cost to be amortized over a specified period, comparability in the reporting periods in which the cost is initially recognized and subsequently amortized will be hindered. However, once the cost is fully amortized, the effect on the financial statements of the difference in accounting for that cost will disappear. As a result, a particular difference in requirements might create more than one type of difference in reported results. For example, different recognition criteria might not only result in differences in how an item is recognized (for example, whether as an expense or an asset), but also might impact the period or periods in which that item is recognized. For that reason, actual differences identified in the comparative analysis may overlap in the five categories of

differences described above. The next section of this chapter highlights some examples of the more significant differences in those five categories from the perspective of assessing comparability of financial information that would be provided under IASC-based and U.S. GAAP-based financial statements that cover the same reporting period.

1. Recognition Differences

As noted above, different recognition requirements between an IASC standard and its U.S. GAAP counterpart can create differences in whether, how, and when an item is reported in financial statements. The following examples illustrate those differences.

Recognized or Unrecognized

Some types of recognition differences would require an item to be recognized under one standard, but the same item would be required to go unrecognized under its counterpart standard. One example of that type of difference between IASC standards and U.S. GAAP is the recognition requirements for leases. In the United States, the issue of whether to recognize a leased item as an asset of the lessee or keep it off-balance-sheet with periodic rental charges flowing through the income statement has been fiercely debated and generally centers on different perceptions of the substance of the lease transaction, that is, when to conclude that the lessor transfers the risks and rewards of ownership of the leased asset to the lessee as a result of the lease agreement. Because of the controversy over that issue and partly because there is a propensity in the United States to structure lease transactions so as to avoid capitalization, U.S. GAAP provides a great deal of detailed guidance for accounting for lease transactions.

In comparing IAS 17, *Leases*, and FASB Statement No. 13, *Accounting for Leases*, many similarities can be identified. Both standards define leases similarly, and both require that a leased item be recognized as an asset on the lessee's balance sheet for leases under which substantially all the risks and rewards incident to ownership of the leased asset are transferred to the lessee (that is, for leases classified as capital leases (Statement 13) or finance leases (IAS 17)). No asset is recognized by the lessee if the lease is classified as an operating lease. However, IAS 17's implementation guidance for determining lease classification is less detailed than the corresponding Statement 13 guidance. For example, Statement 13 provides specific quantitative criteria to be met in determining whether a leased item should be capitalized. IAS 17 relies instead on management's assessment of the "substance" of the lease transaction.

It is difficult to predict how often leased items that would be capitalized under Statement 13 would also be capitalized under IAS 17. Statement 13's "bright line" approach removes some of the judgment that otherwise would be necessary to determine the substance of the lease transaction (that is, whether it is a capital lease or an operating lease). However, it also permits lease transactions to be structured to meet (or to avoid meeting) the specified criteria. IAS 17's approach provides more room for judgment in determining the substance of the lease transaction, and it is difficult to know if all enterprises applying IAS 17 would interpret "substance" similarly. However, the IAS 17 approach may result in balance sheet recognition of a lease that is in substance a capital lease but that does not meet the criteria in Statement 13. Whether or not the same item is recognized or unrecognized can create obvious comparability problems for financial statement users, especially when

trying to evaluate an enterprise's capital structure, determine financial ratios, and measure its performance.

In the comparative analyses that follow, there are relatively few areas in which the same item would be required to be recognized under one standard but would be required to be unrecognized under its counterpart. However, the following are some examples.

Income taxes. Differences between IAS 12, *Income Taxes*, and FASB Statement No. 109, *Accounting for Income Taxes*, can lead to an item being recognized under one standard but not the other. For example:

- Statement 109 prohibits and IAS 12 requires recognition of deferred taxes for temporary differences related to (a) foreign currency nonmonetary assets when the reporting currency is the functional currency and (b) intercompany transfers of inventory or other assets remaining within the consolidated group.

Employee benefits. Differences between IAS 19, *Employee Benefits*, and related U.S. GAAP can lead to an item being recognized under one set of standards but not the other. For example:

- Expense for equity compensation benefits (such as employee stock options) is not recognized under IAS 19. U.S. GAAP requires recognition of an expense for certain types of equity compensation benefits.

Same Item, Different Accounting Treatment

A more common type of difference identified in the comparative analyses is that in which the two standards specifically require the same item to be treated differently. The following example illustrates that type of difference.

Under U.S. GAAP, all internally generated research and development costs are required to be expensed as incurred. Under IAS 38, *Intangible Assets*, all costs identified as research costs are to be expensed; however, costs identified as development costs are to be capitalized if they meet specified criteria. Thus, the financial statements of an enterprise with development costs following IASC standards would not be comparable to those of an identical enterprise following U.S. GAAP. Using IASC standards, the enterprise would report higher income in the year that development costs are incurred and lower income in subsequent years than it would if it accounted for the same costs under U.S. GAAP. Comparability of cash flows also would be permanently impacted because cash flows related to development costs under U.S. GAAP generally would be reported as operating cash flows, whereas under IASC standards those cash flows would be reported as cash flows related to investing activities. IASC-based financial statements would be comparable to U.S. GAAP-based financial statements only if all costs for those expenditures are identified as research costs or if no development costs qualify for capitalization.

All other things being equal, capitalizing an item rather than expensing it as incurred can have a long-term impact on financial statement comparison and analysis of both the balance sheet and income statement. Financial results for identical enterprises will differ each year until a capitalized item is completely amortized. Further, the resulting differences in classification of reported cash flows will never reverse. Unless

adequate information is provided to equate two otherwise identical enterprises or to track expensed items over time, it may be difficult to adjust for those differences. Examples of areas in which there is a possibility of encountering different recognition treatments of the same item depending on whether IASC standards or U.S. GAAP is applied include the following areas identified in the comparative analyses.

Depreciation or amortization. IASC standards and U.S. GAAP differ in the treatment of adjustments to depreciation and amortization amounts that result from a change in depreciation or amortization method:

- Under IASC standards, the impact of a change in depreciation or amortization method is recognized as an adjustment to depreciation or amortization expense in current and prospective periods affected by the change. U.S. GAAP generally requires recognition in the current period of the cumulative effect of that type of change.

Construction contracts. Differences between IAS 11, *Construction Contracts*, and U.S. GAAP can result in different financial statement recognition for similar items:

- Differences in requirements to combine or segregate construction contracts can lead to differences in profit recognition for construction contracts depending on whether IAS 11 or U.S. GAAP is followed.
- IAS 11 requires the use of the percentage-of-completion method to recognize contract revenue and expenses if the outcome can be estimated reliably; otherwise, IAS 11 requires the use of the zero-profit method. U.S. GAAP requires, in certain situations, the use of the completed-contract method of accounting for contracts.

Leases. Recognition of profit or loss on certain sale-leaseback transactions can differ depending on whether IASC standards or U.S. GAAP is followed:

- Statement 13 generally requires profit or loss deferral on a sale-leaseback transaction that is classified as an operating lease. IAS 17, on the other hand, requires immediate profit or loss recognition for a sale-leaseback transaction classified as an operating lease if the sale transaction is established at fair value.

Employee benefits. Recognition differences can lead to noncomparability for certain types of employee benefits:

- IAS 19 requires prior service cost related to retirees and active vested employees to be expensed, whereas U.S. GAAP requires that prior service cost be amortized over the expected service life of existing employees.
- Under IAS 19, a liability for a benefit obligation would be recognized for certain multiemployer plans that would not qualify for similar recognition under U.S. GAAP. Rather, the employer's contribution to those multiemployer plans would be recognized under U.S. GAAP as an expense in the period that the related employee services are rendered.

Business combinations. Treatment of certain items acquired in a business combination accounted for as a purchase can have a significant impact on the comparability of IASC-based and U.S. GAAP-based financial statements:

- In-process research and development acquired in a business combination is capitalized under IAS 22, *Business Combinations*, (either separately or as part of goodwill). Under U.S. GAAP, the amount of the purchase price allocated to in-process research and development acquired in a business combination is expensed.

Borrowing costs. Although an alternative similar to U.S. GAAP is available under IAS 23, the effects of applying the benchmark treatment for accounting for borrowing costs would be quite different from the effects of applying U.S. GAAP:

- Enterprises following the benchmark treatment under IAS 23 would expense borrowing costs incurred related to the acquisition, construction, or production of an asset. Under U.S. GAAP, capitalization of those costs is required for qualifying assets.

Financial instruments. Differences between IAS standards and related U.S. GAAP can lead to different accounting treatments for the same financial instruments:

- IAS 32, *Financial Instruments: Disclosure and Presentation*, requires that mandatorily redeemable preferred stock be classified as a liability with its dividends recognized as expenses in the income statement. Under U.S. GAAP, mandatorily redeemable preferred stock is classified as neither a liability nor equity, and dividends are deducted from net income in arriving at income available to common stockholders.
- IAS 32 requires that the issuer of a financial instrument that contains both a liability and an equity element (such as convertible debt) classify the instrument's component parts separately. U.S. GAAP prohibits separate presentation of the liability and equity components of convertible debt unless warrants are detachable.
- The U.S. GAAP distinction between sales and secured borrowings is different from that in IAS 39. As a result, more asset transfers would qualify for sale accounting treatment under IAS 39 than would qualify for sale accounting treatment under U.S. GAAP.

Timing Differences

Even if two standards require the same item to be recognized and the same accounting treatment, different recognition criteria can result in recognition of the same item in a different reporting period. For example, IAS 12 requires recognition of the effects of a change in tax laws or rates when the change is "substantively enacted." Thus, recognition may precede actual enactment by a period of several months. Statement 109 requires recognition upon actual enactment, which, in the United States, is the date that the president signs the tax law.

Timing of recognition may differ between IASC standards and U.S. GAAP for other items as well. Some examples follow.

Business combinations. There are differences between IASC standards and U.S. GAAP for negative goodwill, goodwill, and acquired intangible assets that will affect the timing of recognition:

- The timing of income statement recognition of negative goodwill may differ as a result of different methods for amortizing negative goodwill specified in IAS

22 and APB Opinion No. 16, Business Combinations.

- The periods over which amortization expense related to goodwill and intangible assets is recognized may differ between IAS standards and U.S. GAAP.

Discontinuing operations. Presentation and recognition and measurement requirements differ between IAS 35, Discontinuing Operations, and related U.S. GAAP:

- Timing of segregation of discontinuing operations from continuing operations may differ depending on whether IAS 35 or U.S. GAAP is followed.
- Timing of recognition of gain or loss on discontinuance and income or loss from activities of the discontinuing operation may differ depending on whether IAS 35 or U.S. GAAP is followed.

Provisions and contingencies. Recognition requirements under IAS 37, Provisions, Contingent Liabilities and Contingent Assets, differ from requirements in U.S. GAAP:

- Timing of recognition of provisions under IAS 37 may differ from the timing of recognition of liabilities and contingent losses under FASB Statement No. 5, Accounting for Contingencies.
- The timing of recognition of liabilities associated with a restructuring may differ due to different recognition thresholds.

Impairment. Differences in approach between IAS 36, Impairment of Assets, and FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, can lead to differences in timing of recognition for impairment losses:

- Timing of recognition of impairment losses may differ due to different recognition thresholds.

Interim financial reporting. Because of different approaches to preparing interim financial information, certain items may be recognized in different periods and at different amounts depending on whether IAS 34, Interim Financial Reporting, or U.S. GAAP is followed:

- The U.S. GAAP requirements related to timing of recognition of certain accruals made for interim reporting purposes differ from the requirements of IAS 34, including requirements related to purchase price variances and volume or corporate cost variances expected to be absorbed by year-end and accrual or deferral of costs clearly expected to benefit two or more periods.

2. Measurement Differences

Differences in whether and when an item is recognized in the financial statements are not the only differences that can raise comparability issues. How items are valued, especially subsequent to initial recognition, can impede straightforward comparison.

Subsequent Measurement

One example of a measurement difference relates to the requirements for subsequent measurement of impaired assets. IAS 36 and Statement 121 take significantly different approaches to reversals of impairment losses. IAS 36 requires

impairment losses to be reversed on assets (excluding goodwill) when certain impairment indicators reverse, provided that the estimates used to determine those assets' net selling prices and values in use have changed. IAS 36 requires impairment losses on goodwill to be reversed if certain other conditions are met. In contrast, Statement 121 prohibits reversal of impairment losses in all circumstances for assets held and used. Thus, the carrying amounts of certain assets may differ depending on whether IASC standards or U.S. GAAP is followed.

Other examples of possible differences in measurement between IASC standards and U.S. GAAP are identified below.

Leases. Different measurement guidance in IAS 17 and U.S. GAAP can lead to different amounts reported for lease transactions:

- There are differences between IAS 17 and U.S. GAAP related to the calculation of minimum lease payments and the rate used to discount minimum lease payments.

Employee benefits. Although similar in many ways, some aspects of measurement of employee benefits differ between IAS 19 and U.S. GAAP:

- In measuring the employer's benefit obligation, IAS 19 permits an enterprise to anticipate changes in future postemployment benefits based on its expectations of changes in the law that would impact variables such as state medical or social security benefits. U.S. GAAP expressly prohibits anticipating changes in the law that would affect those variables.
- U.S. GAAP requires recognition of a minimum liability on the balance sheet equal to at least the unfunded accumulated pension benefit obligation. IAS 19 does not.

Provisions. Comparability of amounts recognized for certain types of liabilities can be impacted by differences between IASC standards and U.S. GAAP:

- IAS 37 provides a variety of recognition criteria for different items that may enter into the measurement of a provision. Consequently, the amounts of provisions may vary among enterprises that apply IAS 37 and between those enterprises and those that apply U.S. GAAP.

Discontinuing operations. A fundamentally different approach to measurement of discontinuing operations can make comparisons of IASC-based and U.S. GAAP-based financial statements difficult:

- Under IAS 35, the *actual* operating results of a discontinuing operation are reported as part of discontinuing operations when incurred. Under APB Opinion No. 30, *Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, the *estimated* operating results of a discontinuing operation are included in the measurement for the expected gain or loss on disposal.

Impairment. Judgment is required in applying both the U.S. standard and IASC standard on impairment. However, specific measurement differences will contribute to the potential for noncomparability:

- IAS 36 requires an impairment loss to be measured as the amount by which an asset's carrying amount exceeds its impairment recognition trigger (the

higher of net selling price or value-in-use), whereas Statement 121 requires an impairment loss to be measured as the amount by which an asset's carrying amount exceeds its fair value.

Borrowing costs. Measurement differences can affect the comparability of items even when similar recognition principles apply:

- Enterprises choosing to capitalize borrowing costs under the allowed alternative in IAS 23 (which is similar to the requirement to capitalize those costs under U.S. GAAP) might measure those costs differently than enterprises following U.S. GAAP if they include foreign currency exchange gains and losses related to those costs.

Interim financial reporting. Different measurement principles for inventories can affect amounts reported in interim periods:

- U.S. GAAP does not require recognition in interim periods of inventory losses from market declines that reasonably can be expected to be restored in the fiscal year. IAS 34 does.

Financial instruments. There are differences in the measurement requirements between IAS 39, *Financial Instruments: Recognition and Measurement*, and related U.S. GAAP for the same financial instruments:

- IASC standards provide for classification as trading, available-for-sale, or held-to-maturity for all types of financial assets. U.S. GAAP applies those classifications only to securities. As a result, measurement of some financial assets would differ depending on whether IASC standards or U.S. GAAP was followed.
- IAS 39 requires that hedging gains and losses from cash flow hedges of firm commitments and of forecasted transactions be included as part of the initial measurement of the cost basis of the related hedged item (basis adjustment). U.S. GAAP does not permit basis adjustment for cash flow hedges. Instead, it requires that hedging gains and losses on cash flow hedges be recorded in other comprehensive income when they occur and reclassified into earnings over the period that the hedged item affects earnings.
- Certain commodity contracts for which an enterprise normally takes delivery would be initially and subsequently measured at historical cost under IAS 39, with any gain or loss recognized as part of the cost of the goods acquired when the contract is settled. Under U.S. GAAP, those contracts would be measured at fair value unless no market mechanism exists to net settle the contract.

3. Alternatives

Comparability between IASC-based and U.S. GAAP-based financial statements may be hindered if one standard explicitly permits a choice among alternative approaches for a particular topic and the other (1) requires a single approach that is somewhat like one of the alternatives or (2) also permits a similar choice of approaches. Such alternatives may relate to recognition, measurement, display, or disclosure requirements. Free choice alternatives not only create problems in comparing financial statements based on different standards, but also in comparing financial

statements based on the same set of standards.

In some cases, the IASC standard permits a choice and U.S. GAAP does not. For example, under IAS 16, *Property, Plant and Equipment*, an enterprise can choose to measure its property, plant, and equipment following either the benchmark treatment, that is, to carry those assets at cost (less accumulated depreciation and accumulated impairment losses), or the allowed alternative treatment, that is, to periodically revalue its property, plant, and equipment to fair value (less subsequent accumulated depreciation and subsequent accumulated impairment losses). Revaluation increases under the allowed alternative treatment are credited directly to equity as revaluation surpluses unless they reverse a revaluation decrease that was previously recognized as an expense, in which case they are credited to income. Revaluation decreases are first charged against any surpluses for the same asset, then they are recognized as expenses. Upon disposal of a revalued asset, the amount recognized in the income statement under IAS 16 as gain or loss on disposal differs from that which would be recognized for a similar asset that was accounted for at historical cost. IAS 16 also permits a choice for presentation of revalued assets: gross assets and accumulated depreciation can be proportionately restated to equal the revalued amount or the gross assets and accumulated depreciation accounts can be eliminated and the net revalued amount presented.

U.S. GAAP requires accounting similar to IAS 16's benchmark treatment and does not permit revaluation accounting for fixed assets. The financial statements of an enterprise choosing to revalue its assets under the IASC standard would not be readily comparable to those of an enterprise following U.S. GAAP, nor would they be comparable to the financial statements of an enterprise following IASC standards that chose not to revalue its assets. The impact of revaluation on the financial statements may not be obvious or easy to trace, depending on how often assets are revalued, how they are grouped for revaluation, and what choices are made for their presentation in the balance sheet. Nor can financial statements prepared under U.S. GAAP be easily adjusted to compare with revalued amounts for property, plant, or equipment in IASC-based financial statements. For financial statement users making comparisons, there may be uncertainty related to the determination of revalued amounts, the validity of certain asset ratios, and the ability to evaluate performance.

In other cases, U.S. GAAP permits a choice of alternative approaches and the IASC standard does not. For example, IAS 11 and AICPA Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*, both address the topic of how a construction contractor calculates the components of income earned. SOP 81-1 explicitly permits a choice between two approaches: a revenue-cost approach and a gross-profit approach. IAS 11 requires the revenue-cost approach.

Sometimes both sets of standards permit a similar range of alternatives on a particular topic. For example, IAS 2 and ARB No. 43, Chapter 4, "Inventory Pricing," permit a similar range of accounting choices in measuring the cost of inventory. Those choices include the use of the retail or standard cost method in estimating the cost of inventory and the use of specific identification; first-in, first-out; average cost; or last-in, first-out in reporting the flow of cost. Identical accounting among enterprises applying the IASC standard or among enterprises applying U.S. GAAP or between those applying the IASC standard and those applying U.S. GAAP will be achieved only by coincidence.

Examples of other areas identified in the comparative analyses that illustrate the provision of alternatives within IASC standards, U.S. GAAP, or both include the examples identified below.

Cash flow statements. Although the two standards are mostly similar, there are some areas in which the requirements of IAS 7, Cash Flow Statements, and those of FASB Statement No. 95, Statement of Cash Flows, differ:

- IAS 7 permits a choice of classifying (1) dividends and interest paid or received as operating cash flows or (2) interest or dividends paid as financing cash flows and interest or dividends received as investing cash flows. Statement 95 requires that the interest paid and dividends received be classified as operating cash flows and that dividends paid be classified as financing cash flows.

Correction of an error and accounting changes. Differences in the permitted alternatives to accounting for error corrections and accounting changes can impact the comparability of IASC-based and U.S. GAAP-based financial statements:

- In accounting for a fundamental error, an enterprise following the benchmark treatment in IAS 8, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies, would correct the error by an adjustment to the opening balance of retained earnings for the earliest period presented. However, under IAS 8's allowed alternative, fundamental errors are corrected by inclusion in net income and by supplemental disclosure. U.S. GAAP requirements for correction of an error are identical to IAS 8's benchmark treatment.
- The IAS 8 benchmark treatment for accounting changes requires restatement of prior periods. However, IAS 8 also permits the application of either the cumulative-effect method or the prospective method if the amounts needed to restate prior periods are not "reasonably determinable."³ Under U.S. GAAP, the general rule is to use the cumulative-effect method for changes in accounting principle, although restatement of prior periods is required for certain changes. In specific circumstances, U.S. GAAP allows changes in accounting principle to be handled prospectively. Given those differences, comparability of net income and retained earnings amounts could differ significantly between financial statements prepared under IAS 8 and those prepared under U.S. GAAP.

Foreign currency translation. Alternatives provided under IAS 21, The Effects of Changes in Foreign Exchange Rates, differ from the requirements in FASB Statement No. 52, Foreign Currency Translation:

- IAS 21 permits two methods of accounting for exchange losses on a liability for the recent acquisition of an asset invoiced in a foreign currency: (1) charge those exchange losses to expense or (2) add the exchange losses to the cost of the asset when the related liability cannot be settled and there is no practical means of hedging. Statement 52 requires that those exchange

³ In the absence of specified transition provisions, an enterprise following IASC standards must follow the guidance in IAS 8. For first-time application of IASC standards, an enterprise would also look to the guidance provided in SIC Interpretation 8, First-Time Application of IASs as the Primary Basis of Accounting.

losses be expensed in all cases.

- IAS 21 also permits alternatives in translating goodwill and fair value adjustments to assets and liabilities that arise from purchase accounting for the acquisition of a foreign entity for which the foreign currency is the functional currency. Under IAS 21, use of either the current exchange rate or the historical exchange rate is permitted. When the foreign currency is the functional currency, Statement 52 requires use of the current exchange rate to translate all balance sheet items, including goodwill and fair value adjustments.

Borrowing costs. Depending on the alternative accounting treatment chosen under IAS 23, the accounting for those costs under IASC standards can differ significantly from their accounting under U.S. GAAP:

- IAS 23 allows enterprises to choose between two methods of accounting for borrowing costs. The benchmark treatment requires that enterprises expense all borrowing costs in the period in which they are incurred. The allowed alternative treatment requires capitalization of borrowing costs as part of the cost of an asset to the extent the borrowing costs are attributable to the acquisition, construction, or production of a qualifying asset. FASB Statement No. 34, *Capitalization of Interest Cost*, requires an approach similar to IAS 23's allowed alternative.

Investments in associates. In the financial statements of an enterprise without subsidiaries, accounting for an investment that gives the investor significant influence can differ between IASC-based financial statements and U.S. GAAP-based financial statements:

- IAS 28, *Accounting for Investments in Associates*, permits investments in associates to be measured using the equity method, cost, or fair value in the financial statements of entities without subsidiaries and requires disclosure of what would have been the effect had the equity method been applied. APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, requires the use of the equity method regardless of whether an entity has subsidiaries.

Joint ventures. An enterprise following IASC standards has a choice in accounting for investments in joint ventures, whereas U.S. GAAP specifies a single method:

- IAS 31, *Financial Reporting of Interests in Joint Ventures*, permits use of either the equity method or proportionate consolidation method of accounting for interests in corporate joint ventures. Opinion 18 generally requires the use of the equity method.

Intangible assets. Like the choice for subsequent measurement for property, plant, and equipment under IAS 16, enterprises following IAS 38 can choose to revalue certain intangible assets:

- IAS 38 provides two methods for subsequent measurement of an intangible asset. The first requires that an acquired or internally generated intangible asset be carried at amortized cost less any accumulated impairment loss. That method is similar to accounting required by U.S. GAAP. The second method allows an intangible asset that has an active market to be revalued at regular intervals. U.S. GAAP does not permit revaluation accounting for intangible assets.

4. Lack of Requirements or Guidance

Comparability also is impacted when either the IASC standard or the closely related U.S. GAAP addresses an accounting area or class of transactions not explicitly addressed by the other. For example, U.S. GAAP provides guidance for a number of specialized industries and specialized transactions that are not specifically addressed in IASC standards. IASC standards currently lack guidance for the unique aspects of insurance and rate-regulated enterprises; not-for-profit entities; the extractive (for example, oil and gas), health care, and entertainment industries; agricultural and forest products; and employee stock-compensation plans.⁴

Although U.S. GAAP in total addresses more topics than IASC standards do, several IASC standards address topics that are not covered by U.S. GAAP. Many of those are topics in which IASC standards provide definitions of terms that are not explicitly defined in U.S. GAAP or that relate to display or disclosure requirements not specified in U.S. GAAP.⁵ There are some topics identified in IASC standards that provide recognition or measurement guidance not found in U.S. GAAP. For example, IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, provides accounting standards for government grants and other forms of government assistance to business enterprises in a single standard. No U.S. standard comprehensively addresses that topic.

Other examples of areas in which one standard provides guidance but the other does not follow.

Inventories. IASC standards provide guidance in the areas of disclosure and accounting for the inventories of service providers. U.S. GAAP does not. U.S. GAAP provides specialized guidance on inventories related to the motion picture, software, and agricultural industries. IASC standards do not.

Accounting changes. IASC standards do not provide recognition guidance for changes in reporting entities. U.S. GAAP does.

Income taxes. U.S. GAAP provides guidance for aspects of income tax accounting related to (1) measurement of income taxes when there are different tax rates for distributed and undistributed income, (2) measurement of deferred income taxes in tax jurisdictions that have alternative minimum tax systems, and (3) accounting and disclosure of income taxes in the separately issued financial statements of an entity that is a member of a group that files a consolidated tax return. Those areas are not specifically addressed in IASC standards.

5. Other Differences

Some other specific differences between IASC standards and U.S. GAAP affect the basis for presentation of information contained in the financial statements. Those differences occur in the areas of business combinations, consolidation policy, presentation of financial statements, segment reporting, and certain transition provisions. Each of those is an area in which a different approach to preparing

⁴ The IASC currently has projects on its agenda to address accounting issues related to insurance enterprises and agriculture.

⁵ While those items may not be addressed explicitly in U.S. GAAP, in some cases the IASC guidance is similar to established practice in the United States.

financial information is possible, and that has implications for the recognition, measurement, display, or disclosure of an entire class of transactions or events, rather than a single line item. The differences between IASC and U.S. accounting standards in those areas can result in pervasive differences in the information contained in the financial statements that generally are difficult, sometimes impossible, to compensate for with other information. Those examples are discussed below.

Business combinations. A business combination that is accounted for as a pooling of interests is reflected in subsequent financial statements by combining the financial statement items (including asset, liability, and equity items) of each enterprise, for the most part, at their existing carrying amounts. Under both IAS 22 and Opinion 16, if a business combination does not qualify as a pooling of interests, it must be accounted for under the purchase method. Under the purchase method, the subsequent financial statements of the acquirer will reflect the allocation of the purchase price (cost of acquisition) to the identifiable assets and liabilities acquired and any resulting goodwill (or negative goodwill) that arises from an excess of the cost of acquisition over the acquirer's interest in the fair value of the identifiable assets and liabilities acquired (or any excess of the acquirer's interest in the fair value of the identifiable assets and liabilities acquired over the cost of acquisition).

Under IAS 22, inability to identify the acquirer in a business combination is the overriding condition that must be met to use the pooling-of-interests method. In contrast, U.S. GAAP requirements specify 12 conditions that must be met in order for an enterprise to use the pooling-of-interests method to account for a business combination. If the 12 conditions are met, the pooling-of-interests method is required. It is likely that fewer business combinations would qualify to use the pooling-of-interests method under IAS 22 because an acquirer can be identified in most combinations. As a result, most business combinations would be accounted for by the purchase method under IAS 22.

The effects of using the purchase method under IAS 22 for a business combination that would qualify for the pooling-of-interests method under Opinion 16 would prove extremely difficult, if not impossible, to identify from financial statements. Further, many of the differences in application of the two standards would have lasting effects, that is, comparability (of what are otherwise similar transactions) could be impaired for long periods of time as a result of the long-term or even permanent nature of many of the differences. (The same can be said for any comparison of financial statements in which one enterprise uses the purchase method of accounting and the other uses the pooling-of-interests method, whether IASC standards or U.S. GAAP is used.) The issue is compounded by the fact that much of the information that might be useful for assessing similarities and differences (for example, footnote disclosures containing purchase price information) would no longer be presented after a limited number of years.⁶

⁶ The FASB has a project on its agenda to reconsider the existing standards on accounting for business combinations. Changes to the existing requirements that will reduce differences between IASC standards and U.S. GAAP in the accounting for business combinations are likely to result from that project. For example, the FASB has reached a tentative conclusion to require use of the purchase method for all business combinations.

Consolidation policy. In general, consolidated financial statements combine, line item by line item, the assets, liabilities, equity, income, and expenses of a parent company and its subsidiaries with adjustments for certain items that relate to transactions and balances between component companies of the consolidated group. Under both IASC standards and U.S. GAAP, the basis for determining whether to include an entity as a subsidiary in the consolidated financial statements is control. However, whereas IAS 27, *Consolidated Financial Statements and Accounting for Investments in Subsidiaries*, defines control, U.S. pronouncements have focused on ownership of a majority voting interest. Thus, in the United States, preparation of consolidated financial statements primarily has been based on an ownership criterion-majority of the voting interest-rather than on some other criterion to assess the presence of control. It is likely that more entities would qualify for consolidation under IAS 27 because of the IASC's emphasis on control rather than on ownership of a majority voting interest.⁷ The presentation and content of information provided in the consolidated financial statements related to entities in which the parent company has an interest will differ significantly from that which would have been presented if the entities had not been consolidated.

Presentation of financial statements. IAS 1, *Presentation of Financial Statements*, provides guidance for determining whether it is necessary for an enterprise to depart from applying IASC standards in order to achieve fair presentation. If an enterprise determines that compliance with one or more IASC standards would result in the selection and application of an accounting policy that would result in misleading financial statements, it must depart from the IASC standard (or standards) and select an alternative accounting policy. Similar guidance is found in U.S. auditing standards. However, while the requirements for departure from standards may appear similar between the IASC approach and U.S. approach to achieving fair presentation, the application may differ due to conceptual differences between the two approaches.

Under the IASC approach, fair presentation may be interpreted as a concept that overrides IASC standards because, in some circumstances, fair presentation can only be achieved by departure from IASC standards. The concept of fair presentation, therefore, is not confined by reference to a particular accounting standards framework. Those enterprises following IASC standards that determine that a departure from IASC standards is necessary may instead use a different standard, for example, a standard that is part of the set of national standards of its own country, if it is consistent with the IASC Framework for the Preparation and Presentation of Financial Statements. Under the U.S. approach, the notion of fair presentation exists only by reference to U.S. GAAP and is achieved by adhering to U.S. accounting standards and practices. As a result, in the United States, the departure itself is presumed misleading and inaccurate. That presumption must be overcome by demonstrating and disclosing the need for a departure. In practice, departures from U.S. GAAP are almost nonexistent. In other countries, departures from domestic GAAP requirements have been much more common. Thus, there is the possibility that the interpretation of fair presentation in the context of IASC standards versus fair presentation in the context of U.S. auditing standards would differ. The impact of that difference likely would vary on a case-by-case basis.

⁷ The FASB has a project on its agenda to reconsider the existing standards on accounting for consolidations. The February 1999 FASB Exposure Draft, *Consolidated Financial Statements: Purpose and Policy*, proposes a definition of control similar to that in IAS 27 as the basis for consolidation.

Segment reporting. A significant difference between IAS 14, *Segment Reporting*, and FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*, relates to the process the standards prescribe for identifying reportable segments. Under IAS 14, specific requirements governing the format and content of a reportable segment provide the basis upon which all reportable segments are identified. An enterprise must comply with those requirements regardless of the form and content of information provided by an enterprise's internal financial reporting system (although IAS 14 presumes that the enterprise's internal reporting system "normally" would provide the information necessary to comply with IAS 14's requirements). In contrast, Statement 131 adopts a management approach that relies on the form and content of information provided by an enterprise's internal reporting system for identifying reportable segments. The management approach requires an enterprise to report those segments whose operating results are regularly reviewed by the enterprise's chief operating decision maker. Segments reported under IAS 14 and Statement 131 would be comparable if an enterprise chose to construct its internal information systems so as to comply with both standards. Otherwise, significant noncomparability can result between the primary segments identified under IAS 14 and the operating segments identified under Statement 131.

Beyond identification of reportable segments, fundamental differences between the IAS 14 approach and the Statement 131 approach have implications for the measurement of reported segment information, even if the segments identified under IAS 14 and Statement 131 are comparable. For example, IAS 14 requires that an enterprise report "a measure of segment result" for each segment using the same basis of measurement (that is, accounting policies) used in the consolidated financial statements. Statement 131 requires disclosure of "a measure of profit or loss." The measure of segment profit or loss disclosed in the financial statements is the measure reported to the chief operating decision maker, even if that measure is on a basis that differs from the basis used in the consolidated statements. As a result, it is unlikely that the measure of profit or loss disclosed for a particular segment by an enterprise following Statement 131 would be the same as the measure of segment result that would have been disclosed had the same enterprise followed IAS 14. As with identification of reportable segments, unless internal information systems are designed to comply with both standards, segment disclosures of enterprises following U.S. GAAP would differ significantly from those of enterprises following IASC standards. Further, more diversity also is likely among enterprises following Statement 131 than among those following IAS 14 because of the differences in approach.

Transition provisions. Although not always likely to create permanent differences, transition provisions are one area that may cause some comparability difficulties when comparing financial statements both among enterprises following IASC standards and between those following IASC standards and those following U.S. GAAP. That is particularly true for the transition provisions that relate to the IASC standards that were revised as part of the core standards project because a number of them are not yet effective and the effects of transition have not yet been reported in financial statements. The effects of transition are to be expected for those enterprises applying an IASC standard for the first time; however, transition issues can also arise for those enterprises that followed IASC standards issued prior to the core standards project when they adopt the revised standards that cover the same area.

For example, the transition provisions in IAS 22 (1998) require that IAS 22's new requirements be applied retrospectively. However, that requirement is more limited than it appears. That is because when IAS 22 was first revised in 1993, its transition provisions encouraged, but did not require, retrospective application (restatement). If not applied retrospectively, the balance of any preexisting goodwill was required to be accounted for in accordance with the revised standard from the date it was first effective. As a result of the transition provisions in the 1993 version of IAS 22, goodwill that arose on a business combination consummated prior to January 1, 1995, and that was written off against equity (as permitted by the original IAS 22 (1983)) would never be reinstated.

There are other areas, such as leases and employee retirement benefits, in which transition provisions can have various effects on comparability. The problem is compounded by certain U.S. standards that also provide for long periods of transition accounting (for example, FASB Statement No. 87, *Employers' Accounting for Pensions*). The effect of different transition requirements can vary from one standard to another and may relate to timing, recognition, measurement, and disclosure. Thus, financial statement users should be aware of the potential for comparability issues related to transition and should refer to individual standards to gain a better understanding of specific differences.

Summary

There are differences between the accounting requirements of IASC standards and those of U.S. GAAP. The examples provided above illustrate several differences in five broad categories: recognition, measurement, alternatives, lack of requirements or guidance, and other differences. The resulting differences in reported financial information can be very significant from both a conceptual standpoint and a practical standpoint. Issues related to whether to recognize and how to measure items in the financial statements are among the most fiercely debated by standard setters. For financial statement users, compensating for the types of differences illustrated above is likely to be difficult because the information necessary to reconcile them may not be available. Some of those differences may be temporary—for example, differences in the timing of recognition may be short-term—while others may be permanent—for example, differences in accounting for a business combination can have indefinite effects on financial statement comparability.

There are less-significant types of differences between IASC standards and U.S. GAAP that are not discussed above that can make financial statement analysis and comparison complicated. For example, differences in presentation and display of similar items may require additional effort by financial statement users in making comparisons, and differences in definitions can lead to reported items that appear to be similar but may, in fact, be different. Those types of differences also are identified in the comparative analyses that follow.

Identifying all of the reasons why IASC standards and U.S. GAAP differ would be impossible. However, some of the reasons for the differences can be traced to the characteristics of the standard setters themselves. Although both the IASC and the FASB are concerned with improving the quality of financial reporting and increasing international comparability, they focus on different financial reporting environments. With FASB's primarily domestic focus, FASB standards overall tend to be fairly detailed, responding to the complexities of the U.S. economic environment and a

demand from sophisticated financial-statement users for reliable, high-quality financial information. IASC standards, on the other hand, respond to a variety of national perspectives about what financial information is the most relevant and reliable for a particular topic.⁸ Consequently, the IASC develops standards without focusing on any particular economic environment, which may contribute to the tendency of IASC standards to be more general. That generality may be an inevitable characteristic of international standards, and additional guidance at the national level may continue to be necessary even in those nations that use IASC standards as national standards.

The existence of differences between accounting standards and resulting reported financial information is less important than the extent to which the reported financial information meets the demands of its consumers, that is, the financial statement users, in the market in which the information is provided. That should be the basis for assessing the acceptability of IASC standards for use in cross-border securities listings in the United States. Nonetheless, the observations about differences between IASC standards and U.S. GAAP in this and the chapters that follow provide a starting point for making that assessment by comparing IASC standards to those that have been developed with the objective of meeting U.S. capital market needs.

After a discussion of the methodology and significant considerations used in undertaking the project, the remaining chapters in this report provide comparative analyses of specific IASC standards and their related U.S. GAAP counterparts.

⁸ Because the development of IASC standards and U.S. GAAP results from different objectives and processes, a qualitative assessment of the positive or negative impact of differences depends on the context in which the standards are intended to be applied. For purposes of the project, the U.S. capital market was chosen as the appropriate context for assessing the differences between IASC standards and U.S. GAAP. A similar project undertaken in a different country likely would make its comparison in the context of that country's capital market.