

# RESULTS OF CONVERGENCE

## A Look at the Outcome of Key Joint IASB/FASB Projects

Topic	IASB/FASB Action	Convergence Outcome	Was IFRS Improved?
<b>Borrowing Cost</b>	In January 2009 the IASB amended IAS 23 to require capitalization (the U.S. principle).	Converged on the broad principle of capitalization of borrowing costs. Differences in how borrowing costs eligible for capitalization are defined and calculated and on which assets are eligible.	IFRS were improved because a free-choice option was removed. Whether capitalization or expensing is the better principle is debatable.
<b>Business Combinations</b>	New standards issued by both boards.	Partial convergence. Differences remain, including: <ul style="list-style-type: none"> <li>• Measurement of goodwill (the IASB allows either 100% of goodwill or only the parent's share. FASB is 100% only).</li> <li>• The level at which the goodwill impairment test is imposed.</li> </ul>	Yes, particularly in eliminating pooling-of-interests accounting. Some argue that IFRS 3 would have been further improved if the result had been a single measure for goodwill, rather than two. However, there was only limited support among IFRS preparers and users for the 100% goodwill approach.
<b>Combinations of Entities Under Common Control</b>	No action by the IASB. U.S. GAAP already requires "pooling of interests."	Not converged.	There was no standard, hence no improvement.
<b>Conceptual Framework</b>	In September 2010, the IASB and FASB published virtually identical chapters on "Objectives and Qualitative Characteristics" of the new <i>Conceptual Framework</i> . No other sections finished.	Converged on objective and qualitative characteristics. Other parts of the <i>Framework</i> were already broadly converged.	Readability was improved, but many question replacement of prudence with neutrality.
<b>Consolidation (including special-purpose entities)</b>	The IASB completed IFRS 10 in May 2011. FASB did not agree with effective control as the basic principle and did not join the IASB in the project.	Convergence broadly achieved for off-balance-sheet activities and disclosures about unconsolidated structured entities. Not converged with respect to control and de facto control as the basis for consolidation.	There is a more clearly articulated effective control principle, clearer guidance for consolidating special-purpose vehicles, and much-improved disclosures.
<b>Corrections of Errors</b>	The IASB amended IAS 8 to require restatement, but the IASB added an impracticability exception that does not exist in U.S. GAAP.	Broadly converged.	Yes, though some question the need for an impracticability exception.
<b>Derecognition of Financial Assets and Liabilities</b>	Despite a joint exposure draft, in the end, the boards could not agree on derecognition principles for removing financial assets from the balance sheet. The boards agreed on broadly aligned disclosures in October 2010.	No success in convergence of derecognition principles. Substantial success on converged disclosures.	Improved disclosures, but no improvement to the principles for derecognition.
<b>Discontinued Operations</b>	The IASB adopted IFRS 5. FASB adopted Statement No. 144. Converged on timing for classifying an operation as discontinued. Not converged on definition of discontinued operation or on whether to present discontinued operations on the face of the income statement.	Substantial success.	Yes, IFRS were improved. (And many prefer the IASB's answer to FASB's).
<b>Earnings per Share</b>	In August 2008 the IASB issued an ED proposing amendments to IAS 33. This was never finalized. Nor did FASB propose similar amendments to U.S. GAAP.	IAS 33 and U.S. GAAP were broadly converged in the project. Nothing has changed.	Because no action was taken, there was no improvement.



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<b>Emissions Trading</b>	In November 2010 the IASB and FASB decided to defer work on this project.	Not converged. Neither the IASB nor FASB has standards directly on point.	There was no standard, hence no improvement.
<b>Extractive Industries</b>	In April 2010 the IASB published a Discussion Paper. No action since. FASB already has an oil and gas standard.	Not converged.	There was no standard, hence no improvement.
<b>Fair Value Measurement</b>	IASB issued IFRS 13 as a virtually word-for-word equivalent to FASB Statement No. 157.	Substantial success.	Yes, the guidance on fair value in IFRS is much improved and made consistent across standards, plus disclosures were enhanced significantly.
<b>Fair Value Option for Financial Assets</b>	FASB has added a fair value option to its financial instruments standards similar to what the IASB had.	Converged regarding fair value option. But the issue is under reconsideration in the broader joint project on classification and measurement of financial instruments.	There was no change to IFRS, which already had a fair value option.
<b>Financial Instruments—Hedge Accounting</b>	Currently, IAS 39 and U.S. GAAP are substantially converged on hedge accounting (other than macro hedging). The IASB will soon issue a new general hedge accounting standard that will result in significant divergence from U.S. GAAP.	Not converged.	Despite lack of convergence, the IASB's new general hedge accounting standard is a significant improvement to IFRS.
<b>Financial Instruments—Impairment of Assets Carried at Amortized Cost</b>	Still in process.	Both boards have agreed to adopt an expected loss approach rather than today's incurred loss approach. However, the two boards are currently heading toward different ways of implementing that approach.	Moving to an expected loss approach is an improvement in principle. The specifics have not yet been decided.
<b>Financial Instruments—Classification and Measurement</b>	The two boards went different ways: The IASB issued IFRS 9 in November 2009 (for assets) and October 2010 (for liabilities). Some financial assets amortized cost and some fair value through profit or loss (FVTPL), (and some equity instruments at fair value through other comprehensive income, or FVOCI). Most liabilities at amortized cost, but with fair value option (FVO) and other comprehensive income (OCI) option for own credit. FASB proposed a full fair value model, but is now moving to a mixed measurement model different from the IASB's.	Limited success in convergence.	Many thought IFRS 9 was an improvement over IAS 39. But those improvements are being eroded in the interest of convergence because of additional categories of financial assets, greater use of OCI, recycling, and inconsistent treatment of "available for sale" debt and equity instruments.
<b>Government Grants</b>	No action.	Not converged.	There was no change in IFRS.
<b>Impairment of Nonfinancial Assets</b>	In 2008 the boards decided to defer pending completion of "other work."	Not converged.	There was no change in IFRS.
<b>Income Tax</b>	In March 2009 the IASB issued an ED (not with FASB) proposing amendments to IAS 12 basically to eliminate exemptions from recognizing deferred taxes. Responses were generally not supportive. The IASB did not finalize the ED. Small amendments to IAS 12 were made later.	Even before convergence work began, IFRS and U.S. GAAP were converged on the principle of the temporary difference method, although not converged on how that method is implemented. There has been no success in eliminating the differences.	Even though there was no convergence, the process did result in a few amendments to IFRS 12 that are considered improvements.



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<b>Insurance</b>	Still in process.	Joint project offers a prospect for partial success in convergence.	This will be a significant improvement to IFRS when the project is finished (even if not converged with U.S. GAAP) because currently there is no IFRS and a wide range of practices are acceptable.
<b>Investment Entities</b>	In this joint project, the IASB has adopted a new definition of investment entity and requires such entities to account for subsidiaries at FVTPL. FASB has not finished its revised definition but already requires FVTPL.	Prospect for partial success.	Most people would regard replacing consolidation with FVTPL for an investment entity as an improvement.
<b>Investment Property</b>	The IASB has a standard, IAS 40. FASB has been working on one, but work is deferred.	Not converged, and prospects are not good in the near term.	This project would have involved FASB adopting IAS 40 in some way rather than the IASB changing IAS 40. No improvement to IFRS.
<b>Joint Ventures</b>	The IASB completed IFRS 11 in May 2011. Proportionate consolidation is used in the United States in the real estate and extractive industries. U.S. GAAP on joint ventures differs from IFRS 11.	Not converged.	Yes, distinguishing between different types of joint ventures was an improvement. However, many analysts will miss the information provided by proportionate consolidation, which remains available in the United States for real estate and extractive industries.
<b>Leasing</b>	Still in process.	Both boards expect to ballot a revised ED in the first half of 2013. Whether their final standards will be converged is hard to predict at this point. Note that IAS 17 and FASB Statement No. 13 were broadly converged before the joint project started.	This project is not yet complete. Putting right-of-use assets and lease obligations on the balance sheet would be an improvement of IFRS. However, the goal of a single accounting model for all leases does not seem to be achievable.
<b>Liabilities and Equity (distinction between) Also called Financial Instruments With Characteristics of Equity (FICE)</b>	In November 2010 the IASB and FASB decided to defer work on this project.	Not converged. The United States has not adopted the IAS 32 principle that an instrument is a liability if the issuer does not have the unilateral right to avoid paying cash. Also the United States has not adopted the "split accounting" for the equity component of convertible debt issued. The United States did not finalize its narrow view of equity proposed in November 2007.	There were no changes to IFRS, hence no improvement.
<b>Liabilities—Measurement of</b>	In November 2010 the IASB and FASB decided to defer work on this project.	Not converged.	The IASB's proposed measurement of all liabilities on an expected value basis would have been an improvement.
<b>Nonmandated Change in Accounting Policy</b>	In its 2003 improvements project that was not part of convergence, the IASB amended IAS 8 to require restatement. Subsequently, as part of convergence, FASB amended U.S. GAAP to require restatement.	Converged.	Yes, this was a significant improvement.

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<b>Offsetting of Financial Assets and Financial Liabilities</b>	The two boards issued a joint ED along the lines of the gross presentation in IAS 32. But after reviewing comments, FASB decided not to pursue requiring a gross presentation. Joint disclosure standards were issued, though FASB now plans to defer part of it.	Not converged on offsetting, but converged on disclosure.	Significant improvement in disclosure. Some improvements. Also the IASB improved the gross presentation approach in IAS 32.
<b>Post-Retirement Benefits</b>	Both boards made some changes, but not a converged standard: <ol style="list-style-type: none"> <li>1. Past service cost treatment unchanged by either board.</li> <li>2. FASB has eliminated the corridor for balance sheet purposes, but has retained it for income statement purposes. The IASB has eliminated the corridor for both income statement and balance sheet purposes. However, when eliminating the corridor, the IASB changed the rate that is used to calculate the return on plan assets whereas FASB continues to use an expected return (previously converged).</li> <li>3. Termination benefits are broadly converged.</li> <li>4. Neither board has fixed cash balance plans.</li> </ol>	Not converged. The resulting differences in the rates used to calculate return on plan assets are significant.	Yes, there were significant improvements to IFRS.
<b>Reclassification of Financial Assets</b>	The IASB amended IAS 39 to permit reclassification, which U.S. GAAP had allowed.	Substantially converged.	Most would say this was not an improvement to IFRS, but they acknowledge that this was a necessary move during the financial crisis.
<b>Reporting Financial Performance (morphed into Financial Statement Presentation)</b>	In November 2010 the IASB and FASB decided to defer work on this project.	Not converged.	There were no changes to IFRS, hence no improvement.
<b>Research and Development</b>	The IASB added intangible assets to its research agenda, but it has not become an active project.	Not converged. All R&D expensed under U.S. GAAP. Some development costs capitalized under IAS 38.	There was no change to IFRS, hence no improvement.
<b>Revenue Recognition</b>	Joint ED June 2010 proposing joint standard including nearly identical wording. Revised joint ED November 2011 with some wording differences, but substantively same accounting.	Both boards expect to ballot converged standards in the first half of 2013.	Yes, this project will lead to a significant improvement in revenue recognition and measurement when completed.
<b>Segment Reporting</b>	The IASB adopted FASB Statement No. 131 as IFRS 8 with some minor changes.	Converged.	Some would say yes, but others (including many research analysts) would say no. A post-implementation review is under way.
<b>Share-Based Payment (SBP)</b>	Both the IASB and FASB issued standards requiring accrual of SBP expense. Similar but not identical measurement.	Converged.	Yes, IFRS 2 was a major improvement to IFRS.

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<b>Single Performance Statement</b>	In May 2010 the two boards jointly proposed to require a single performance statement (a single statement of comprehensive income (SOCI)). Both boards received mixed views but more negative in the United States. The IASB was willing to finalize the ED, but FASB was not. In June 2011 FASB amended its standards to require a SOCI and to allow an option of a single performance statement or two (income statement and SOCI). These were already IFRS requirements. The IASB made some changes to converge its SOCI format with FASB's.	Converged, but the outcome was different from the joint EDs.	From an IFRS perspective, the only change was to require segregation and disclosures relating to recyclable items. This was a modest improvement. The proposed significant improvement of a single performance statement was not achieved.
<b>Subsequent Events</b>  <b>Also called Events After Balance Sheet Date</b>	FASB adopted U.S. guidance on subsequent events that had been in the U.S. auditing standards. Some of that guidance was consistent with IFRS. But FASB did not amend the U.S. guidance to conform to IFRS on (a) classification of liabilities refinanced after balance sheet date or (b) date through which subsequent events must be evaluated.	Not converged, but closer.	No change to IFRS, which most believe has the better answer.

Source: Former IASB member Paul Pacter.

