

Second Edition

The IASC-U.S. Comparison Project:

**A Report on the Similarities and Differences
between IASC Standards and U.S. GAAP**

*Based on a Study Undertaken by:
the FASB Staff*

*Edited by:
Carrie Bloomer*



Financial Accounting Standards Board
of the Financial Accounting Foundation

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401 MERRITT 7, P.O. BOX 5116, NORWALK, CONNECTICUT 06856-5116

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FOREWORD

The Financial Accounting Standards Board (FASB) strongly and actively supports the development of a single set of high-quality accounting standards for use in both domestic and cross-border financial reporting. As described in the FASB report, *International Accounting Standard Setting: A Vision for the Future*, the demand for those standards is driven by the desire for high-quality, internationally comparable financial information that capital providers find useful for decision making in global public capital markets. The FASB believes that progress toward the development of a single set of high-quality international accounting standards will result from pursuing the overall objective of increasing international comparability while maintaining the highest quality accounting standards in the United States. The IASC-U.S. comparison project (the project) was undertaken in the spirit of that objective and was guided by the belief that an enhanced understanding of the differences between standards issued by the International Accounting Standards Committee (IASC) and U.S. generally accepted accounting principles (GAAP) is necessary to guide future efforts toward greater quality and comparability of accounting standards and financial reporting worldwide.

Over the last few years, the IASC has been working to complete a set of core standards that, if found acceptable by securities regulators around the world, could be used as a basis for *cross-border financial reporting*, that is, financial reporting by enterprises seeking to raise capital in capital markets outside their own country. The FASB has contributed to the IASC's development of the core standards by participating as an observer to IASC Board meetings, providing extensive input through detailed comment letters on IASC proposals, and, in some cases, providing FASB staff consultation on key issues of mutual interest. The IASC-U.S. comparison project began in 1995 with the objective of determining and understanding, as the IASC completed each standard, the differences between the new IASC standard and U.S. GAAP in order to provide a basis for conclusions about the acceptability of IASC standards for cross-border securities listings in U.S. capital markets. In publishing this report, the FASB also seeks to meet the objectives of (1) providing a tool for investors, financial analysts, and other users of financial statements to use in comparing enterprises that use U.S. GAAP with enterprises that use IASC standards and (2) providing a basis for the FASB and the IASC to raise the quality of their standards while narrowing the differences between them.

The first edition of this report was published in 1996 and provided comparative analyses of each of the new core standards that had been completed by the IASC as of December 1995. For this second edition, a number of the original analyses have been revised and new analyses have been added to reflect changes in IASC stand-

Foreword

ards and U.S. GAAP between December 1995 and December 1998. In addition, a summary comparison of IAS 10, *Events after the Balance Sheet Date*, which was approved in March 1999, has been included in this report.

The IASC-U.S. comparison project has been a challenging undertaking not only because of its magnitude but also because of its inherent limitations. Any qualitative comparative analysis is, by its nature, somewhat subjective. The staff of the FASB is better equipped to interpret application of U.S. GAAP than IASC standards. The comparisons of standards contained in this report are based primarily on the information made publicly available by the IASC and the FASB. That information may be interpreted differently by others making similar comparisons. Further, many of the IASC standards that are the subject of this report are new, and observations about their application and enforcement are not currently available. Consistent application and enforcement can have a great deal of impact on the perceived robustness of accounting standards.

More generally, assessing the appropriateness of a particular standard-setting process or standard-setting structure depends on its objectives, its purposes, and its usefulness to the environment in which it exists. The project identified differences between the purposes, mandates, technical support levels, and underlying structures and processes of the IASC and the FASB. All of those differences contribute to the challenge faced by anyone trying to compare the respective standards of those two organizations. Although not always apparent, each of those conditions has impacted the observations and conclusions in the chapters that follow. Some may criticize this report either on the grounds of its subjectivity or because they disagree with the observations made by the FASB staff. However, if it stimulates others to study the standards more closely, the project will have contributed to the internationalization effort.

This report has benefited from a combination of viewpoints not available elsewhere. For the most part, the authors and internal reviewers of this report provided a perspective both as former practitioners that have used FASB standards and as present FASB staff members who are involved in the development of those standards. Some also have participated in the development of IASC standards. Our panel of external reviewers included staff members of the IASC, public accounting practitioners, a former Secretary-General of the IASC, and a number of financial analysts and academics, many of whom are authors of various international accounting publications and all of whom provided useful comments and suggestions that were incorporated into the final report. In addition, drafts of the comparative analysis chapters were

provided to staff at the U.S. Securities and Exchange Commission. While the FASB staff remains solely responsible for this final report, our intent was to have it benefit from the insights of various interested parties, not solely from those of the FASB staff.

Notwithstanding its primarily U.S.-based perspective, this report contributes to a growing body of knowledge about international accounting issues and should be useful to preparers and auditors of financial statements, financial analysts, academics, standard setters, securities regulators, and others around the world who have an interest in the internationalization of accounting. In addition, it will provide a basis for the FASB's future participation in developing a single set of high-quality accounting standards suitable for both domestic and cross-border financial reporting.

Norwalk, Connecticut
October 1999

Timothy S. Lucas
Director of Research and
Technical Activities

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Ashwinpaul C. Sondhi—Ph.D.; President, A. C. Sondhi & Associates, LLC. Member, International Accounting Standards Advisory Council of the AIMR. Coauthored *The Analysis and Use of Financial Statements*, 2nd ed., John Wiley & Sons, 1998.

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THE IASC-U.S. COMPARISON PROJECT: A REPORT ON THE SIMILARITIES AND DIFFERENCES BETWEEN IASC STANDARDS AND U.S. GAAP—SECOND EDITION

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PART I
INTRODUCTION

CHAPTER 1—INTRODUCTION

Background and Objectives of the Project

High-quality accounting standards are a necessary and important element of a sound capital market system. In public capital markets such as those in the United States, high-quality accounting standards reduce uncertainty and increase overall efficiency and investor confidence by requiring that financial reports provide decision-useful information that is relevant, reliable, comparable, and transparent. Once confined by national borders, transactions in today's capital markets often are driven by a demand for and supply of capital that transcends national boundaries. With the increase in cross-border capital raising and investment transactions comes an increasing demand for a set of high-quality international accounting standards that could be used as a basis for financial reporting worldwide.

The International Organization of Securities Commissions (IOSCO), created in 1983, is an organization dedicated to ensuring that global capital markets will be able to operate on an efficient and effective basis. IOSCO comprises securities regulators, including the U.S. Securities and Exchange Commission (SEC), from around the world. IOSCO has established a Technical Committee whose responsibilities center on promoting regulation that facilitates efficient capital raising wherever investor demand exists. In October 1993, the Technical Committee agreed to a list of accounting issues that would have to be addressed in any set of international accounting standards that claimed to be appropriate for use in cross-border offerings and multiple listings.¹ In July 1995, the International Accounting Standards Committee (IASC) committed to completing a set of “core” accounting standards.² At the same time, IOSCO agreed that if the IASC successfully completed the core standards, IOSCO would evaluate those standards for potential endorsement as a basis for preparing financial statements to be used for cross-border capital raising in the capital markets of IOSCO members. The IASC's project is substantially complete, and IOSCO's process of evaluating those standards has begun.

¹IOSCO distinguishes between domestic issuers (enterprises that offer and list securities in their home jurisdiction) and foreign issuers (enterprises that offer and list securities outside their home jurisdiction). IOSCO's reference to “cross-border offerings and multiple listings” applies only to foreign issuers. This report distinguishes between a single set of *high-quality international accounting standards* to be used by both domestic and foreign issuers and a set of *core standards* to be used by foreign issuers for cross-border offerings and multiple securities listings.

²The “core” standards address the minimum issues that must be addressed in order to be considered by IOSCO as sufficiently comprehensive for use in cross-border offerings and multiple listings.

Consensus of IOSCO members has traditionally been necessary for IOSCO endorsement. As an IOSCO member, the SEC represents the world's largest capital market, and whether the SEC supports IASC standards is a critical factor to IOSCO endorsement. Concurrent with IOSCO's evaluation of the IASC's core standards, the SEC is undertaking its own evaluation of those standards, focusing on their acceptability without reconciliation to U.S. generally accepted accounting principles (GAAP)³ for foreign issuers listing securities in U.S. capital markets.⁴ As part of its evaluation of the IASC's core standards, the SEC will seek input from those that have an interest in the content and quality of the financial reports of foreign issuers that list securities in the United States. The outcome of that evaluation process could result in changes to the present financial information requirements for foreign issuers of securities in U.S. capital markets. Those changes could have far-reaching implications for domestic capital market participants, including financial statement users, preparers, and auditors, as well as for domestic accounting standard setters and regulators.

The present efficiency, rigor, and integrity of U.S. capital markets depend on (among other things) the quality of the financial information required of the enterprises that list securities on those markets. From the U.S. perspective, the prospect of accepting IASC standards⁵ for cross-border financial reports in U.S. capital markets introduces a number of uncertainties for domestic capital market participants, standard setters, and regulators. IASC standards have not been subjected to the same due process as standards issued by the Financial Accounting Standards Board (FASB). Many IASC standards are relatively new and have yet to be applied on a widespread basis. (Some have not yet been applied at all.) Further, IASC standards and U.S. GAAP differ in some important aspects. Consequently, the potential use of IASC standards in U.S. markets is a critical issue that raises some immediate questions, such as:

³"U.S. GAAP" in the project and this report refers primarily to the documents issued by the Financial Accounting Standards Board (FASB) or its predecessors. The methodology section at the beginning of Part II of this report provides a list of the types of sources of U.S. GAAP included in the project. Outside the project, the term U.S. GAAP may be used to refer to a broader range of sources of accounting guidance.

⁴Presently, foreign issuers listing securities on a U.S. stock exchange must either prepare U.S. GAAP financial statements or reconcile their non-U.S. GAAP financial statements to U.S. GAAP.

⁵"IASC standards" in the project and this report includes the IASC's core standards and relevant Standing Interpretations Committee (SIC) Interpretations unless otherwise noted.

- If IASC standards were used by foreign issuers without reconciliation to U.S. GAAP, how different would financial reporting in the United States be from that presently required in U.S. capital markets? Would the information provided by IASC standards be higher or lower in quality, more or less extensive, or substantially similar to what investors currently receive and understand?
- If IASC standards were accepted without reconciliation to U.S. GAAP for foreign registrants, how would financial reporting by U.S. companies be impacted? Permitting foreign issuers to use IASC standards without reconciliation to U.S. GAAP would increase noncomparability in U.S. capital markets. Is it acceptable for the accounting requirements for foreign registrants and domestic registrants to differ? Would there be pressure on the SEC to accept IASC standards for domestic registrants?⁶
- To improve comparability, to what extent should the FASB consider conforming a standard to that of the corresponding IASC standard if they differ?

Evaluation of the IASC's core standards facilitates an intelligent debate over the relative merits of using IASC standards rather than U.S. GAAP in the United States. In 1995, the staff of the FASB began a project to undertake a comparative study of IASC standards and U.S. GAAP to assist investors, analysts, standard setters, regulators, and others in assessing and formulating their own conclusions about the prospects for international comparability that might arise from the acceptance of IASC standards for cross-border listings of foreign enterprises in the U.S. capital markets. The project was undertaken to meet the following specific objectives:

- To provide an information base that can be used in assessing the acceptability of IASC standards for securities listings in the United States
- To provide a tool for investors, financial analysts, and other users of financial statements to use in comparing U.S. firms with firms that use IASC standards

⁶The consideration of the IASC's core standards by IOSCO and by the SEC relates only to cross-border offerings and multiple securities listings of foreign issuers. It is not contemplated (at present) that IASC standards should be considered to replace national standards required to be used by domestic enterprises offering and listing in their home jurisdiction. In some countries, such as some European countries, use of IASC standards by foreign issuers has been accepted without a corresponding demand to permit use of IASC standards by domestic issuers.