

# IFRS, US GAAP and RAP

Comparison and basics

# Table of Contents

<b>1</b>	<b>Introduction</b>
<b>2</b>	<b>Financial statements presentation</b>
<b>4</b>	<b>Consolidations, joint venture accounting, and equity method investees</b>
<b>7</b>	<b>Business combinations</b>
<b>9</b>	<b>Intangible assets</b>
<b>11</b>	<b>Inventory</b>
<b>12</b>	<b>Long-lived assets</b>
<b>14</b>	<b>Impairment of long-lived assets and goodwill</b>
<b>16</b>	<b>Leases</b>
<b>18</b>	<b>Financial instruments</b>
<b>21</b>	<b>Foreign currency matters</b>
<b>23</b>	<b>Income taxes</b>
<b>25</b>	<b>Provisions and contingencies</b>
<b>27</b>	<b>Revenue recognition</b>
<b>30</b>	<b>Share-based payments</b>
<b>32</b>	<b>Employee benefits other than share-based payments</b>
<b>34</b>	<b>Segment reporting</b>
<b>35</b>	<b>Earnings per share</b>
<b>36</b>	<b>Interim financial reporting</b>
<b>37</b>	<b>Subsequent events</b>
<b>37</b>	<b>Related parties</b>
<b>38</b>	<b>Appendix 1 – The Evolution of IFRS</b>
<b>40</b>	<b>Appendix 2 - Russian accounting principles</b>

# Introduction

This publication takes a top level look at the differences between International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the Generally Accepted Accounting Principles applicable in the United States of America ("US GAAP") as issued by the US Financial Accounting Standards Board ("FASB"), and the future of the two standards as they try to converge into one globally comprehensible and understandable accounting standard.

This publication also compares Russian Accounting Principles ("RAP") with IFRS and US GAAP, as well as the direction and future developments of RAP as they align themselves with IFRS. The alignment of RAP with IFRS is currently on the agenda of the MFRF. In July 2004, the MFRF issued the "Concept of the Development of Accounting and Financial Reporting for the Mid-term Perspective", which, in substance, is a plan for the alignment of RAP with IFRS during the period 2004-2010. Leonid Shneidman, the Director of the Department for the Regulation of State Financial Control, Auditing Activities, Accounting and Reporting of the MFRF, stated that in order "to promote the development of the financial market and the establishment of a favorable investment climate, the Russian government has determined that IFRS will be the basis of the accounting and reporting reform. The concept for the development of accounting and reporting in the Russian Federation in the middle term calls for a systematic transition to the use of IFRS for both consolidated financial statements - mainly for all socially significant companies - and bring RAP for separate financial statements in conformity with IFRS." The implementation of this programme will require the adoption of new laws and accounting regulations and standards. It is anticipated that they will define the timing for the transition to IFRS for companies in the Russian Federation. However, these documents are currently still at the development stage.

While IFRS and US GAAP contain differences, the general principles, conceptual framework, and accounting results between them are often the same or similar, even though the areas of divergence seem to have disproportionately overshadowed these similarities. We believe that any discussion of this topic should not lose sight of the fact that the two standards are generally more alike than

different for most commonly encountered transactions, with IFRS being largely, but not entirely, grounded in the same basic principles as US GAAP. To a certain extent, under RAP many of the general principles, conceptual frameworks and accounting standards are similar to IFRS, as they are based on many of the early International Accounting Standards. In many instances, however, RAP does not provide guidance, e.g. on consolidations, business combinations, purchase price allocation, impairment of property, plant and equipment, financial instruments, share-based payments, employee benefits and pension plans, to name a few. Nonetheless, where there is no guidance, RAP does allow companies to develop their own accounting policies, which may comply with IFRS.

No publication that compares three broad sets of accounting standards can include all the differences that could arise in accounting for the myriad of possible business transactions. The existence of any differences – and their materiality relating to an entity's financial statements – depends on a variety of specific factors, including the nature of the entity, its interpretation of the principles, its industry practices, and its accounting policy selections where the standards offer a choice. This guide focuses on those differences most commonly found today and, where applicable, provides an overview of how and when the differences are expected to converge.

This publication would be useful for Russian companies, currently reporting under RAP, who might be contemplating on listing themselves on foreign stock exchanges where financial statements are to be prepared under IFRS or US GAAP. For other Russian entities, certain parts of this publication may provide some further insight into the future changes in RAP in the drive toward harmonization with IFRS. This publication may also be useful for foreign financial professionals in managing their investments or looking for opportunities in the Russian Federation.

This publication has been prepared and is intended only as a general overview of the accounting standards and interpretations and does not provide a full set of accounting standards as prescribed by IFRS, US GAAP and RAP. This publication includes a review of the standards issued until 1 January 2009.

*Ernst & Young  
June 2009*

# Financial statements presentation

## Similarities

There are many similarities between IFRS, U.S. GAAP and RAP relating to the presentation of financial statements. Under all three frameworks, for example, the components of a complete set of financial statements include a balance sheet, an income statement, a statement of cash flows, and accompanying notes to the financial statements. IFRS requires the statement of recognized income and expense (SORIE), while US GAAP requires other comprehensive income. Neither SORIE nor other comprehensive income is required

under RAP. Further, all three frameworks require that the financial statements be prepared on an accrual basis for accounting (other than the cash flow statements), except for rare occasions. IFRS, U.S. GAAP and RAP have similar concepts regarding the materiality and consistency of the requirements that entities have to consider in preparing their financial statements. The differences between the three accounting standards tend arise at the level of specific guidance.

## Significant Differences

	IFRS	US GAAP	RAP
<b>Financial periods required</b>	Comparative information must be disclosed in respect of the previous period for all amounts reported in the financial statements.	Generally, comparative financial statements are presented; however, a single year may be presented in certain circumstances. Public companies must follow SEC rules, which require balance sheets for the two most recent years, while all other statements must cover the three-year period ended on the balance sheet date.	Comparative information must be disclosed in respect of the previous period for the balance sheet, the income statement, the statement of changes in equity, the cash flow statement, the appendix to the Balance Sheet and the explanatory notes to financial statements.
<b>Layout of balance sheet and income statement</b>	<i>IAS 1 Presentation of Financial Statements</i> does not prescribe a standard layout, but includes a list of minimum items. These minimum items are less prescriptive than the requirements in Regulation S-X.	No general requirement within U.S. GAAP to prepare the balance sheet and income statement in accordance with a specific layout; however, public companies must follow the detailed requirements in Regulation S-X.	<i>PBU 4/99 Accounting Statute</i> and Order No. 67p <i>Financial Reporting Forms of Organizations</i> recommend a specific layout for the balance sheet and the income statement and includes a list of minimum items.
<b>Presentation of current versus non-current in the balance sheet</b>	Debt associated with a covenant violation must be presented as current unless a lender agreement was reached prior to the balance sheet date.	Debt for which there has been a covenant violation may be presented as non-current if a lender agreement to waive or modify the violated item exists prior to the issuance of the financial statements.	A long-term loan that is payable on demand following a covenant violation continues to be classified as non-current. The explanatory notes to financial statements should contain the disclosure of the terms of the loan agreement that has the covenant violation.
	Deferred taxes are presented as non-current. (Note: In the joint convergence project on income taxes, IFRS is expected to converge with U.S. GAAP.)	Deferred taxes are presented as current or non-current based on the nature of the related asset or liability.	Deferred taxes are presented as non-current.
<b>Income statement–classification of expenses</b>	Entities may present expenses based on either function or nature (for example, salaries, depreciation). However, if function is selected, certain disclosures about the nature of expenses must be included in the notes.	SEC registrants are required to present expenses based on function (for example, cost of sales, administrative).	Expenses should be classified with regard to function (cost of sales or production, commercial expenses, management expenses, other expenses) and in the explanatory notes based on nature.
<b>Income statement–extraordinary items</b>	Prohibited.	Restricted to items that are both unusual and infrequent.	Extraordinary items can be presented as part of other income or other expenses in the income statement and may be disclosed in the explanatory notes to the financial statements.

	IFRS	US GAAP	RAP
<b>Income statement – presentation of discontinued operations</b>	Discontinued operations classification is for components held for sale or to be disposed of that are either a separate major line of business or geographical area or a subsidiary acquired exclusively with the intention to resell.	Discontinued operations classification is for components held for sale or to be disposed of, provided that there will be no significant continuing cash flows or involvement concerning the disposed component.	PBU 16/02 <i>Information on Discontinuing Operations</i> does not have specific disclosure requirements in the balance sheet or the income statement. However, information related to discontinued operations should be disclosed in the explanatory notes to the financial statements.
<b>Changes in equity</b>	At a minimum, present components related to "recognized income and expense" as part of a separate statement (referred to as the SORIE if it contains no other components). Other changes in equity either disclosed in the notes or presented as part of a single, combined statement of all changes in equity (in lieu of the SORIE).	Present all changes in each caption of stockholders' equity in either a footnote or a separate statement.	Present all changes in each caption of stockholders' equity in the statement of changes in equity.
<b>Disclosure of performance measures</b>	Certain traditional concepts, such as "operating profit", are not defined; therefore, diversity exists regarding line items, headings and subtotals presented on the income statement when such presentation is relevant to understanding the entity's financial performance.	SEC regulations define certain key measures and set forth requirements and restrictions concerning the ability of public companies to disclose non-GAAP measures in the financial statements. Any non-GAAP measures presented must be reconciled with the corresponding GAAP measure.	According to Order No. 67p <i>Instructive Regulations on the Composition of Financial Reporting Forms of Organizations</i> , an entity can disclose supplementary information, including the performance results.

## Convergence

In April 2004, the FASB and the IASB (the Boards) agreed to undertake a joint project on the presentation of financial statements. As part of "Phase A" of the project, the IASB issued a revised IAS 1 in September 2007 (with an effective date for annual reporting periods ending after January 1, 2009), modifying the requirements of the SOFIE within IAS 1 and bringing it largely in line with the FASB's statement of other comprehensive income. As part of "Phase B," each Board issued an initial discussion document in October 2008, with comments due by April 2009. This phase of the project addresses the more fundamental issues of the presentation of information on the face of the financial statements and may ultimately result in significant changes in the current presentation format of the financial statements under both GAAPs.

In September 2008, the Boards issued the proposed amendments to FAS 144 and IFRS 5 to converge the definition of discontinued operations. Under the proposals, a discontinued operation would be a component of an entity that is either (a) an operating segment (as defined in FAS 131 and IFRS 8, respectively) held for sale or that has been disposed of, or (b) a business (as defined in FAS 141(R)) that meets the criteria to be classified as held for sale on acquisition. Comments on these proposals are due in January 2009.

## RAP Developments

In July 2004, the MFRF issued Order No. 180 "Concept of the Development of Accounting and Financial Reporting for the Mid-term Perspective" ("Order No. 180"). This order sets out a program for the harmonization of RAP with IFRS during the period of 2004-2010. The program stipulates the adoption of new laws, accounting regulations, and standards.

In October, 2008 MFRF issued new PBU 1/2008 *Accounting Policies of an Organization*. According to this PBU, in cases when there are no established methods of accounting in regulatory acts with regard to a certain issue, an entity should develop the relevant accounting method, taking into consideration not only the requirements of other PBUs, but also the requirements of the International Financial Reporting Standards.

Besides, a new PBU 21/2008 *Changes in Accounting Estimates* was issued in October 2008. It prescribes the accounting of changes in such accounting estimates as the useful lives of fixed and intangible assets, the amount of allowance for doubtful debts and allowance for inventory impairment, and other estimates.

PBU 1/2008 replaced PBU 1/98 as of 1 January 2009.

# Consolidations, joint venture accounting, and equity method investees

## Similarities

The principal guidance for consolidated financial statements under IFRS is IAS 27 *Consolidated and Separate Financial Statements*; while ARB 51 *Consolidated Financial Statements* and FAS 94 *Consolidation of all Majority-Owned Subsidiaries* provides guidance under U.S. GAAP. Special purpose entities are addressed in SIC 12 *Consolidation—Special Purpose Entities* and FIN 46 (Revised) *Consolidation of Variable Interest Entities* in IFRS and U.S. GAAP, respectively. Under both IFRS and U.S. GAAP, the determination of whether or not entities are consolidated by a reporting enterprise is based on control, although differences exist in the consideration/definition of control. Generally, under both GAAPs, all subsidiaries subject to the reporting enterprise's control must be consolidated (note that there are a few exceptions in U.S. GAAP in certain specialized industries). Further, uniform accounting policies are used for all of the entities within a group, with the exception that under U.S. GAAP a subsidiary within a specialized industry may retain specialized accounting policies in consolidation. Under both GAAPs, the consolidated financial statements of the parent and its subsidiaries may be based on different reporting dates as long as the difference is not greater than three months. Under IFRS, however, a subsidiary's financial statements should be of the same date as the parent's financial statements, unless it is impracticable to do so.

An equity investment which gives an investor significant influence over an investee (referred to as "an associate" in IFRS) is considered an equity method investment under both US GAAP (APB 18 *The Equity Method of Accounting for Investments in Common Stock*) and IFRS (IAS 28 *Investments in Associates*) if the investee is not consolidated (generally, a 20% or greater interest engenders the presumption of significant influence). Further, the equity method of accounting for such investments, if applicable, is consistent under both GAAPs.

Presently, there is no such category as "consolidated financial statements" in RAP. However, RAP's Order No. 112 *Aggregated Financial Statements* provides guidance for the preparation of aggregated financial statements. This order requires that the parent company prepares separate and aggregate financial statements if it has subsidiaries. However, the order is not fully complied with and is rarely applied in practice. The Civil Code of the Russian Federation defines a subsidiary as a separate legal entity controlled by the parent company.

## Significant Differences

	IFRS	US GAAP	RAP
<b>Consolidation model</b>	Focus is on the concept of the power to control, with control being the parent's ability to govern the financial and operating policies of an entity to obtain benefits. Control is presumed to exist if the parent owns more than 50% of the votes, and the potential voting rights must be considered. The notion of "de facto control" must also be considered.	Focus is on controlling financial interests. All entities are first evaluated as potential variable interest entities (VIE). If an entity is a VIE, FIN 46 (Revised) guidance is followed (below). Entities controlled by voting rights are consolidated as subsidiaries, but the potential voting rights are not included in this consideration. The concept of "effective control" exists, but is rarely employed in practice.	The entity is required to prepare aggregated financial statements if: <ul style="list-style-type: none"> <li>(i) it holds over half of the voting power in a subsidiary or over 50% of the share capital of a limited liability partnership entity;</li> <li>(ii) a parent company has the legal contractual power to control an entity, or</li> <li>(iii) there are other possibilities to make decisions in a subsidiary.</li> </ul> The following exceptions are in RAP for excluding the subsidiaries' financial statements from the aggregated financial statements: <ul style="list-style-type: none"> <li>(i) investments in subsidiaries with over 50% of voting power or over 50% of the share capital of a limited liability partnership entity which are held for sale on a short-term basis,</li> <li>(ii) the parent company does not have control (ability to make decisions) over its subsidiary.</li> </ul>
<b>Special purpose entities (SPE)</b>	Under SIC 12, SPEs (entities created to accomplish a narrow and well-defined objective) are consolidated when the substance of the relationship indicates that an entity controls the SPE.	FIN 46 (Revised) requires the primary beneficiary (determined by considering the economic risks and rewards) to consolidate the VIE.	There is no corresponding accounting guidance in RAP; as a result, special purpose entities are excluded from aggregation, unless they meet the criteria listed above.

	IFRS	US GAAP	RAP
<b>Preparation of consolidated financial statements– general</b>	Generally required, but there is a limited exemption from preparing consolidated financial statements for a parent company that is itself a wholly-owned subsidiary, or is a partially-owned subsidiary if certain conditions are met.	Required.	Companies that have subsidiaries are required to prepare aggregated financial statements. However, this requirement is not applied consistently in practice. Furthermore, a subsidiary which is the parent for its own subsidiaries may refrain from presenting aggregated financial statements (unless the entity is registered and/or conducts business outside the Russian Federation) if: 1) 100% of its voting shares or authorized capital is owned by another parent entity which does not require to present aggregated financial statements; 2) 90% or more of its voting shares or authorized capital are owned by another parent entity, and other shareholders (participants) do not require to present aggregated financial statements. The entity may refrain from presenting the aggregated financial statements if it has only investments in associates. Each of such cases is subject to disclosure in the notes to the financial statements.
<b>Preparation of consolidated financial statements – different reporting dates of the parent and subsidiary/ subsidiaries</b>	The effects of significant events occurring between the reporting dates when different dates are used are adjusted for in the financial statements.	The effects of significant events occurring between the reporting dates when different dates are used are disclosed in the financial statements.	All domestic entities are required to have the reporting date of 31 December of the relevant year. However, if a foreign subsidiary has a reporting date other than 31 December, it should prepare interim financial statements as of 31 December for inclusion in the aggregated financial statements.
<b>Presentation of non-controlling or “minority” interest</b>	Presented as a separate component in equity on the balance sheet.	Presented outside of equity on the balance sheet.	Minority interest is presented as a separate item after the equity section.
<b>Equity method investments</b>	<p>IAS 28 requires investors (other than venture capital organizations, mutual funds, unit trusts, and similar entities) to use the equity method of accounting for such investments in the consolidated financial statements.</p> <p>If separate financial statements are presented (that is, those presented by a parent or investor), subsidiaries and associates can be accounted for at either cost or fair value.</p>	FAS 159 <i>The Fair Value Option for Financial Assets and Financial Liabilities</i> gives entities the option to account for their equity method investments at fair value. For those equity method investments which management does not choose to use the fair value option, the equity method of accounting is required.	<p>Accounting of investments in associates is regulated by Methodological Instructions for the Preparation and Presentation of Aggregated Financial Statements, approved by Decree No. 112 of the Ministry of Finance of the Russian Federation. Associates are accounted for in the aggregated financial statements of the Parent by inclusion of the measure reflecting the value of the Parent’s share in the associate’s equity and in profit or loss of the associate for the reporting period. When determining the interest in the associate to be disclosed in the aggregated financial statements, the actual cost of investment of the parent is adjusted for changes in equity of the associate not reflected in the profit or loss account of the associate. If recognition of the parent’s share in losses of the associate results in a decrease of the parent’s interest in the associate to or below zero, the relevant measures are not included in the aggregated financial statements.</p> <p>Information on interest in the associate for the purpose of preparation of aggregated financial statements is based on the financial statements of the associate, subject to the adjustments required for subsidiaries, i.e. uniform accounting policies and reporting periods for which the financial statements are presented.</p>
<b>Joint ventures</b>	IAS 31 <i>Investments in Joint Ventures</i> permits the use of either the proportionate consolidation method or the equity method of accounting.	Generally accounted for using the equity method of accounting, with the limited exception of unincorporated entities operating in certain industries which may use the proportionate consolidation method.	Jointly controlled entities are accounted for at cost as investments to which the equity method applies in accordance with PBU 19/02 <i>Accounting for Financial Investments</i> . Furthermore, PBU 20/03 <i>Information Concerning Participation in Joint Activities</i> addresses participation in joint activities carried out for the purpose of deriving economic benefits in conjunction with other organizations by means of combining contributions without the formation of a legal entity. Joint activities include jointly conducted operations, jointly used assets (both accounted for using proportionate consolidation) and joint activities under an agreement (accounted for at cost as investments to which the equity method applies).

## **Convergence**

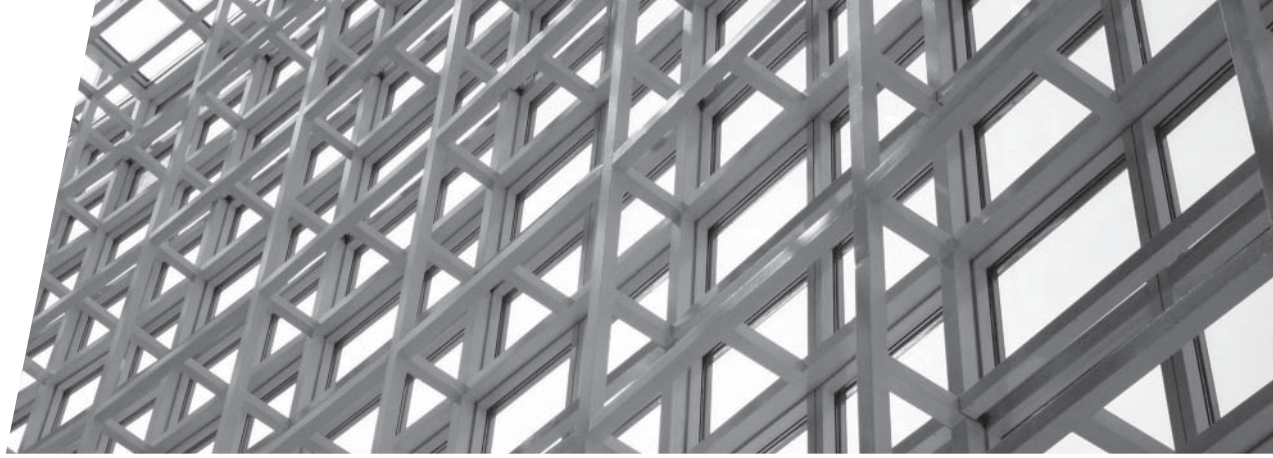
As part of their joint project on business combinations, the FASB issued FAS 160 (*effective for fiscal years beginning on or after 15 December 2008*) and the IASB amended IAS 27 (effective for fiscal years beginning on or after 1 July 2009, with early adoption permitted), thereby eliminating substantially all of the differences between US GAAP and IFRS pertaining to non-controlling interests, outside the scope of initial accounting for non-controlling interest in a business combination (see the Business Combinations section). In addition, the IASB recently issued an exposure draft that proposes the elimination of proportionate consolidation for joint ventures.

At the time of this publication, the FASB is proposing amendments to FIN 46 (Revised). Additionally, the IASB is working on a consolidation project that would replace IAS 27 (amended) and SIC 12 and would provide for a single consolidation model within IFRS. It is currently unclear whether these projects will result in additional convergence, and future developments should be monitored.

## **RAP Developments**

Order No. 180 of the Ministry of Finance of the Russian Federation includes a plan to adopt the Law on Consolidated Financial Statements. It is anticipated that the Law will define the timing for the transition to IFRS for different types of companies in the Russian Federation. The Law on Consolidated Financial Statements is currently being drafted.

The Ministry has drafted the Law on Consolidated Financial Statements. According to the drafted law, a consolidated financial statement will be based on IFRS. The time of issuance of the law has not been determined.



# Business combinations

## Similarities

The issuance of FAS 141(R) and IFRS 3(R) (both entitled *Business Combinations*) represents the culmination of the first major collaborative convergence project between the IASB and the FASB. Pursuant to FAS 141(R) and IFRS 3(R), all business combinations are accounted for by using the acquisition method. Under the acquisition method, when receiving control of another entity, the underlying transaction should be measured at fair value, and this should be the basis on which the assets, liabilities and non-controlling interests of the acquired entity are measured (as described in the table below, IFRS 3(R) provides an alternative to measuring non-controlling interest at fair value), with a few exceptions. Even though the new standards are substantially converged, certain differences will exist once the new standards become effective. The new standards will be effective for annual periods beginning on or after 15 December 2008 and 1 July 2009 for companies following US GAAP and IFRS, respectively.

## Significant Differences and Convergence

Presently, there is no relevant guidance in RAP for a business combination. In practice, however, the assets acquired and the liabilities assumed (the net book value of the acquiree) are initially recognized in the aggregated financial statements of the acquirer at historical book value. The difference between the purchase price and the net book value of the acquiree is recognized as goodwill (RAP employ the term "business reputation") or negative goodwill ("negative business reputation" in RAP). Positive goodwill is defined as the excess of the purchase price over the net book value of the acquiree and should be recorded as an intangible asset. Negative goodwill is defined as the excess of the net book value of the acquiree over the purchase price and should be recognized as income within the income statement immediately.

Goodwill is amortized in accordance with the statutory accounting standard (PBU 14/2007) *Intangible Assets* based on the straight-line method over a maximum period of 20 years, but not longer than the acquiree's economic life.

	IFRS	US GAAP	RAP
<b>Measurement of non-controlling interest</b>	Non-controlling interest is measured either at fair value, including goodwill, or its proportionate share of the fair value of the acquiree's identifiable net assets, exclusive of goodwill.	Non-controlling interest is measured at fair value, including goodwill.	Non-controlling interest is measured as the proportionate share of the net book value of the acquiree's net assets.
<b>Assets and liabilities arising from contingencies</b>	<i>Initial Recognition</i> Contingent liabilities are recognized as of the acquisition date if there is a present obligation that arises from past events and its fair value can be measured reliably. Contingent assets are not recognized.	<i>Initial Recognition</i> Distinguishes between contractual and non-contractual contingencies. Contractual contingencies are measured at fair value at the acquisition date, while non-contractual contingencies are recognized at fair value at the acquisition date only if it is more likely than not that the contingency meets the definition of an asset or liability.	<i>Initial Recognition</i> There is no relevant accounting guidance in RAP.
	<i>Subsequent Measurement</i> Contingent liabilities are subsequently measured at the higher of its acquisition-date fair value less, if appropriate, cumulative amortization recognized in accordance with IAS 18, <i>Revenue</i> , or the amount that would be recognized if applying IAS 37, <i>Provisions, Contingent Liabilities and Contingent Assets</i> .	<i>Subsequent Measurement</i> Contingent liabilities are subsequently measured at the higher of its acquisition-date fair value, or the amount that would be recognized if applying FAS 5, <i>Accounting for Contingencies</i> . (See "Provisions and contingencies" for differences between FAS 5 and IAS 37.)	<i>Subsequent Measurement</i> There is no relevant accounting guidance in RAP.
<b>Acquiree operating leases</b>	Separate recognition of an intangible asset or liability is required only if the acquiree is a lessee. If the acquiree is the lessor, the terms of lease are taken into account in estimating the fair value of the asset subject to lease - separate recognition of an intangible asset or liability is not required.	If the terms of an acquiree operating a lease are favorable or unfavorable relative to market terms, the acquirer recognizes an intangible asset or liability, respectively, regardless of whether the acquiree is the lessor or the lessee.	There is no corresponding accounting guidance in RAP.
<b>Combination of entities under common control</b>	Outside the scope of IFRS 3. In practice, either follow an approach similar to U.S. GAAP or apply the purchase method if there is substance to the transaction.	Accounted for in a manner similar to the pooling of interests (historical cost).	There is no corresponding accounting guidance in RAP, and since RAP makes no distinction for combinations of entities under common control, they are treated in the same way as other business combinations.

Other differences may arise due to different accounting requirements of other US GAAP-IFRS literature (for example, identifying the acquirer, definition of control, definition of fair value, replacement of share-based payment awards, initial classification and subsequent measurement of contingent consideration, initial recognition and measurement of income taxes, and initial recognition and measurement of employee benefits).

### Convergence

No further convergence is planned at this time. Note, however, that as of the date of this publication, the FASB has issued a proposed FSP that would change the accounting for pre-acquisition contingencies under FAS 141(R). The proposed FSP suggests a model that is very similar to the existing requirements of FAS 141.

# Intangible assets

## Similarities

The definition of intangible assets as non-monetary assets without physical substance is the same under the IASB's IFRS 3 *Business Combinations* and IAS 38 *Intangible Assets*, U.S. GAAP's FAS 141 *Business Combinations* and FAS 142 *Goodwill and Other Intangible Assets* and RAP's PBU 14/2007 *Accounting for Intangible Assets*. The recognition criteria for all three accounting models require that there be probable future economic benefits and costs that can be reliably measured. However, some costs are never capitalized as intangible assets under all three models, such as start-up costs.

Goodwill (RAP employ the term "business reputation") is recognized only in a business combination in accordance with IFRS 3, FAS 141 and PBU 14/2007. In general, intangible assets that are acquired outside of a business combination are recognized at fair value under U.S. GAAP and IFRS, and at cost under RAP. With the exception of development costs (addressed in the following table), internally developed intangibles are not recognized as an asset under either IAS 38 or FAS 142. Moreover, internal costs related to the research phase of research and development are expensed as incurred under U.S. GAAP and IFRS accounting models. RAP allow for internally developed intangibles and research and developments costs to be recognized if they will bring future economic benefit.

Amortization of intangible assets over their estimated useful lives is required under IFRS, U.S. GAAP and RAP with one minor exception in FAS 86 *Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed* related to the amortization of computer software assets. In all three accounting models, if there is no foreseeable limit to the period over which an intangible asset is expected to generate net cash inflows to the entity, the useful life is considered to be indefinite and in this case the asset is not amortized. Goodwill is never amortized in accordance with IFRS and U.S. GAAP, whereas in accordance with RAP, goodwill is amortized over 20 years, but not longer than the economic life of the acquiree.



## Significant Differences

	IFRS	US GAAP	RAP
<b>Development cost</b>	Development costs are capitalized when technical and economic feasibility of a project can be demonstrated in accordance with the specific criteria. Some of the criteria include: demonstrating technical feasibility, intent to complete the asset, and the ability to sell the asset in the future. There is no separate guidance addressing computer software development costs.	Development costs are expensed as incurred unless addressed by a separate standard. Development costs related to computer software developed for external use are capitalized once technological feasibility is established in accordance with the specific criteria (FAS 86). In the case of software developed for internal use, only the costs incurred during the application development stage (as defined in SOP 98-1 <i>Accounting for the Costs of Computer Software Developed or Obtained for Internal Use</i> ) may be capitalized.	Development costs are capitalized when they bring future economic benefit. Development costs related to computer software developed internally can be recognized as an intangible asset.
<b>Advertising costs</b>	Advertising and promotional costs are expensed as incurred. A prepayment may be recognized as an asset only when payment for the goods or services is made in advance of the entity's having access to the goods or receiving the services.	Advertising and promotional costs are either expensed as incurred or expensed when the advertising takes place for the first time (policy choice). Direct response advertising may be capitalized if the specific criteria in SOP 93-07 <i>Reporting on Advertising Costs</i> are met.	Advertising and promotional costs are expensed as incurred. A prepayment may be recognized as an asset only when payment for the goods or services is made in advance of the entity's having access to the goods or receiving the services.
<b>Revaluation</b>	Revaluation to fair value of intangible assets other than goodwill is a permitted accounting policy choice for a class of intangible assets. Since revaluation requires reference to an active market for a specific type of intangible, that is relatively uncommon in practice.	Revaluation is not permitted.	Revaluation to fair value of intangible assets other than goodwill is allowable alternative treatment. However, revaluation needs to be conducted on a regular basis, but no more than once a year. Revaluation requires reference to an active market for a specific type of intangible. Intangible assets may be reviewed for impairment in the manner determined by IFRS.

## Convergence

While the convergence of standards on intangible assets was part of the 2006 MOU between the FASB and the IASB, both boards agreed in 2007 not to add this project to their agenda. In the 2008 MOU, however, the FASB indicated that it will consider whether to undertake a project to eliminate the differences in the accounting for research and development costs by fully adopting IAS 38 at some point in the future.

# Inventory

## Similarities

IAS 2, ARB 43 (both entitled *Inventories*) and PBU 5/01 *Accounting for Inventories* are based on the principle that the primary basis of accounting for inventory is cost. All three standards define inventory as assets held for sale in the ordinary course of business, in the process of production for such sale, or to be consumed in the production of goods or services. The permitted techniques for cost measurement, such as the standard cost method or the retail margin method, are similar under all three standards. Further, under all three standards the cost of inventory includes all direct expenditures to ready

inventory for sale, including allocable overheads, while selling costs are excluded from the cost of inventories, as are most storage costs and general administrative costs.

In October 2008, the Ministry of Finance of the Russian Federation approved PBU 15/2008 *Loan and Credit Expenses*, which replaced the previous PBU 15/01 *Accounting for Loans and Credits and Servicing Expenditures*, which allows interest capitalization for inventory acquisition.

## Significant Differences

	IFRS	US GAAP	RAP
Costing methods	LIFO is prohibited. The same cost formula must be applied to all inventories similar in nature or use to the entity.	LIFO is an acceptable method. The consistent cost formula for all inventories similar in nature is not explicitly required.	LIFO is prohibited. The same cost formula must be applied to all inventories similar in nature or use to the entity. FIFO and the weighted average methods are permitted.
Measurement	Inventory is carried at the lower of cost or net realizable value (best estimate of the amounts inventories are expected to realize, taking into consideration the purpose for which the inventory is held. This amount may or may not equal fair value).	Inventory is carried at the lower of cost or the market. The market is defined as current replacement cost as long as the market is not greater than net realizable value (estimated selling price less reasonable costs of completion and sale) and is not less than the net realizable value reduced by a normal sales margin.	Inventory is carried at the lower of cost or net realizable value.
Reversal of inventory write-downs	Previously recognized impairment losses are reversed up to the amount of the original impairment loss when the reasons for the impairment no longer exist.	Any write-downs of inventory to the lower level of cost or the market create a new cost basis that subsequently cannot be reversed.	Previously recognized write-offs are reversed up to the amount of the original carrying amount when the reasons for the write-offs no longer exist.
Permanent inventory markdowns under the retail inventory method (RIM)	Permanent markdowns affect the average gross margin used in applying RIM. A reduction of the carrying cost of inventory to below the lower of cost or net realizable value is not allowed.	Permanent markdowns do not affect the gross margins used in applying the RIM. Rather, such markdowns reduce the carrying cost of inventory to net realizable value, less an allowance for an approximately normal profit margin, which may be less than both original cost and net realizable value.	Similar to US GAAP.

## Convergence

In November 2004, the FASB issued FAS 151 *Inventory Costs* to address a narrow difference between U.S. GAAP and IFRS related to accounting for inventory costs, in particular, the abnormal amounts of idle facility outlays, freight, handling costs, and spoilage. At present, there are no other ongoing convergence efforts with respect to inventory.

# Long-lived assets



## Similarities

Although U.S. GAAP does not have a comprehensive standard that addresses long-lived assets, its definition of property, plant, and equipment is similar to IAS 16 *Property, Plant and Equipment* and PBU 6/2001 *Accounting for Fixed Assets*, which addresses tangible assets held for use and are expected to be used for more than one reporting period. Other concepts that are similar include the following:

## Cost

All three accounting models have similar recognition criteria, requiring that costs be included in the cost of the asset if future economic benefits are probable and can be reliably measured. The costs to be capitalized under all three models are similar. Neither model allows the capitalization of start-up costs, general administrative and overhead costs, or regular maintenance. However, both IFRS and U.S. GAAP require that the costs of dismantling an asset and restoring its site (that is, the costs of asset retirement under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or FAS 143 *Accounting for Asset Retirement Obligations*) be included in the cost of the asset. Both models require a provision for asset retirement costs to be recorded when there is a legal obligation, although IFRS requires this provision in other circumstances as well. RAP does not provide guidance in respect of asset retirement obligations, but in practice they are recognized when the criteria for liability recognition have been met.

## Capitalized Interest

IAS 23 *Borrowing Costs*, FAS 34 *Capitalization of Interest* and PBU 15/2008 *Loan and Credit Expenses* address the capitalization of borrowing costs (for example, interest costs) directly attributable to the acquisition, construction, or production of a qualifying asset.

Such an asset is called an “investment asset” in PBU 15/2008. Qualifying assets are generally defined similarly under all the accounting models. However, there are significant differences among U.S. GAAP, IFRS and RAP in determining the specific costs and assets that are included within these categories as well as the requirement to capitalize these costs.

## Depreciation

Depreciation of long-lived assets is required on a systematic basis under all three accounting models. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and FAS 154 *Accounting Changes and Error Corrections* treat changes in the depreciation method, residual value, and useful economic life as a change in accounting estimate requiring prospective treatment. Under RAP, residual value is not considered when determining the depreciable amount, and a change in economic useful life is allowed in rare circumstances.

## Assets Held for Sale

Assets held for sale are discussed in IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations* and FAS 144, with both standards having similar held-for-sale criteria. Under both standards, the asset is measured at the lower level of its carrying amount or fair value less costs to sell; the assets are not depreciated and are presented separately on the face of the balance sheet. Exchanges of non-monetary similar productive assets are also treated similarly under APB 29 *Accounting for Nonmonetary Exchanges* as amended by FAS 153 *Accounting for Nonmonetary Transactions* and IAS 16, both of which allow for gain/loss recognition if the exchange has a commercial substance and the fair value of the exchange can be reliably measured. PBU 6/2001 *Accounting for Fixed Assets* requires that assets held for sale be reclassified to inventory.

## Significant Differences

	IFRS	US GAAP	RAP
Revaluation of assets	A revaluation model may be applied to an entire class of assets requiring revaluation to fair value on a regular basis.	Revaluation not permitted.	Revaluation model may be applied to an entire class of assets requiring revaluation to current (replacement) value on a regular basis.
Depreciation of asset components	Component depreciation required if the components of an asset have differing patterns of benefit.	Component depreciation permitted but not common.	Component depreciation required if useful lives of separate components differ significantly.
Capitalization of borrowing costs	Policy choice to capitalize or expense must be applied consistently to all qualifying assets. (Note: this policy choice will be eliminated in 2009 with the adoption of IAS 23 (Revised) and the amounts will have to be capitalized.)	Requires interest costs to be capitalized as part of the cost of a qualifying asset.	Borrowing costs are recognized within other expenses, with the exception for the part thereof which is subject to inclusion in the cost of the investment asset. The cost of the investment asset includes interest payable to the lender (creditor) directly attributable to acquisition, construction and (or) production of the investment asset.
	Qualifying assets do not include equity method investments but include inventories that require a substantial period of time to get ready for sale, including those routinely manufactured in large quantities. (Note: with the adoption of IAS 23 (Revised), such inventories need not be included as qualifying assets.)	Qualifying assets include certain equity method investments but do not include inventories that are routinely manufactured in large quantities.	In accordance with PBU 15/2008 <i>Loan and Credit Expenses</i> , investment assets include assets that require a substantial period of time to get ready for use in the business but do not include assets for resale or equity method investments.
Measurement of borrowing costs	Eligible borrowing costs include exchange rate differences from foreign currency borrowings. Borrowing costs are offset by investment income earned on those borrowings.  For borrowings associated with a specific qualifying asset, actual borrowing costs are capitalized.	Eligible borrowing costs do not include exchange rate differences. Interest earned on borrowings generally cannot offset interest costs incurred during the period.  For borrowings associated with a specific qualifying asset, borrowing costs equal to the weighted average accumulated expenditures times the borrowing rate are capitalized.	Borrowing costs are reduced by the amount of income from the temporary use of loans (credits) as long-term and (or) short-term financial investments.  For borrowings associated with a specific investment asset, the actual borrowing costs incurred in this respect are capitalized.
Costs of a major overhaul	Costs representing the replacement of a previously identified component of an asset are capitalized if future economic benefits are probable and the costs can be reliably measured.	Multiple accounting models have evolved in practice, including expense costs as incurred; capitalize costs and amortize through the date of the next overhaul, or follow the IFRS approach.	Subsequent expenditure on property, plant and equipment can be capitalized only in the case of modernization or reconstruction of fixed assets. The costs of replacement and maintenance should be expensed as incurred.
Investment property	Investment property is separately defined in IAS 40 as an asset held to earn rent or for capital appreciation (or both) and may include property held by lessees under a finance/operating lease. Investment property may be accounted for on a historical cost basis or on a fair value basis (Capitalized operating lease classified as investment property must be accounted for using the fair value model).	Investment property is not separately defined and, therefore, is accounted for as held for use or held for sale.	There is no corresponding accounting guidance in RAP. Investment property is accounted for at cost similar to the accounting method used for property, plant and equipment.

Other differences include: (i) hedge gains/losses related to the purchase of assets, (ii) constructive obligations to retire assets, (iii) the discount rate used to calculate asset retirement costs, and (iv) accounting for changes in the residual value.

### Convergence

No further convergence is planned at this time.

# Impairment of long-lived assets and goodwill

## Similarities and Differences

Both IFRS and U.S. GAAP contain similarly defined impairment indicators for assessing the impairment of long-lived assets. There is no corresponding accounting guidance in RAP. Both IFRS and U.S. GAAP standards require goodwill and intangible assets with indefinite lives to be reviewed at least annually for impairment and more frequently if impairment indicators are present. Long-lived assets are not tested annually, but rather when there are indicators of impairment. The impairment indicators in US GAAP and IFRS are similar. Additionally, all three standards require that an asset found to be impaired be written down and an impairment loss recognized. IAS 36 *Impairment of Assets* and FAS 142 and FAS 144 *Accounting for the Impairment of Disposal of Long-Lived Assets* apply to most long-lived and intangible as-

sets, although some of the scope exceptions listed in the standards differ. PBU 14/2007 *Accounting for Intangible Assets* applies only to intangible assets. Despite the similarity in overall objectives, differences exist in the way in which impairment is reviewed, recognized, and measured.

In RAP, there is no corresponding accounting guidance for the assessment of impairment indicators with regard to long-lived assets. However, accounting for impairment is mentioned in PBU 14/2007 *Accounting for Intangible Assets*, which contains a reference to the possibility of accounting of impairment in respect of intangible assets in accordance with IFRS.

## Significant Differences

	IFRS	US GAAP	RAP
<b>Method of determining impairment – long-lived assets</b>	One-step approach requires that impairment loss be calculated if impairment indicators exist.	Two-step approach requires that a recoverability test be performed first (carrying amount of the asset is compared to the sum of future undiscounted cash flows generated through use and eventual disposition). If it is determined that the asset is not recoverable, impairment testing must be performed.	There is no corresponding accounting guidance in RAP.
<b>Impairment loss calculation – long-lived assets</b>	The amount by which the carrying amount of the asset exceeds its recoverable amount; the recoverable amount is the higher of: (i) fair value less costs to sell, and (ii) value in use (the present value of future cash flows in use, including the disposal value). (Note that the definition of fair value in IFRS somewhat differs from the definition in FAS 157.)	The amount by which the carrying amount of an asset exceeds its fair value, as calculated in accordance with FAS 157.	There is no relevant accounting guidance in RAP.
<b>Allocation of goodwill</b>	Goodwill is allocated to a cash-generating unit (CGU) or a group of CGUs which represents the lowest level within the entity at which the goodwill is monitored for internal management purposes and cannot be larger than an operating segment as defined in IFRS 8 Operating Segments.	Goodwill is allocated to a reporting unit, which is an operating segment or one level below an operating segment (component). Under certain conditions, components of a segment may be aggregated as a single reporting unit.	There is no relevant accounting guidance in RAP.
<b>Method of determining impairment – goodwill</b>	The one-step approach requires that an impairment test be done at the cash generating unit (CGU) level by comparing the CGU's carrying amount, including goodwill, with its recoverable amount.	The two-step approach requires that a recoverability test be performed at the reporting unit level (the carrying amount of the reporting unit is compared to the reporting unit's fair value), and then an impairment loss is calculated.	According to RAP, business reputation (goodwill) is amortized over a term of 20 years (but not longer than the term of operations of the entity).



	IFRS	US GAAP	RAP
Impairment loss calculation – goodwill	Impairment loss on the CGU is the amount by which the CGU's carrying amount, including goodwill, exceeds its recoverable amount.	The amount by which the carrying amount of goodwill exceeds the implied fair value of the goodwill within its reporting unit.	There is no relevant accounting guidance in RAP. The model of amortization of goodwill (business reputation) is used.
Impairment loss calculation – indefinite life intangible assets	The amount by which the carrying value of the asset exceeds its recoverable amount.	The amount by which the carrying value of the asset exceeds its fair value.	According to RAP, entities may, but are not obliged to, test intangible assets for impairment in the order prescribed by IFRS.
Reversal of loss	Prohibited for goodwill. Other long-lived assets must be reviewed annually for reversal indicators. If appropriate, loss may be reversed up to the newly estimated recoverable amount, not to exceed the initial carrying amount adjusted for depreciation.	Prohibited for all assets.	There is no clear accounting guidance in RAP for reversal due to decreased impairment loss. In practice, however, IFRS may be applied, as in the case of using IFRS for impairment testing.  There is no accounting guidance in RAP for accounting for reversal of impairment of long-lived assets. In practice, however, impairment loss may be reversed to initial net book value if it is probable that future economic benefits from the asset will flow to the entity.

### Convergence

Impairment is one of the short-term convergence projects agreed to by the FASB and IASB in their 2006 "Memorandum of Understanding." However, as part of their 2008 MOU, the boards agreed to postpone work on this project until their other convergence projects are complete.

# Leases



## Similarities

Overall accounting for leases under U.S. GAAP and that under IFRS (FAS 13 *Accounting for Leases* and IAS 17 *Leases* respectively) are similar, although U.S. GAAP has more specific rules than IFRS. Both focus on classifying leases as either capital (IAS 17 uses the term “finance”) or operating leases, and both separately discuss lessee and lessor accounting. There is no separate standard for lease accounting in RAP. The Federal Law *On Financial Lease* determines the category of financial lease and contains a number of accounting regulations with regard to it. Further guidance on accounting for financial lease can be found in *Guidance on Accounting for Leasing Transactions* approved by an order of the Ministry of Finance of the Russian Federation.

## Lessee accounting (excluding real estate)

U.S. GAAP and IFRS standards require that the party that bears substantially all the risks and rewards of ownership of the leased property recognize a the lease asset and the corresponding obligation, and specify the criteria (FAS 13) or indicators (IAS 17) used to make this recognition (i.e., whether a lease is capital or operating lease). The criteria or indicators of a capital lease in the standards are similar in that both include the transfer of ownership to the lessee at the end of the lease term and a purchase option that, at inception, is reasonably expected to be exercised. Further, FAS 13 requires capital lease treatment if the lease term is equal to or greater than 75% of the asset’s economic life, while IAS 17 requires such treatment when the lease term is a “major part” of the asset’s economic life. FAS 13 specifies capital lease treatment if the present value of the minimum lease payments exceeds 90% of the asset’s fair value, while IAS 17 uses the term “substantially all” of the fair value. In practice, while FAS 13 specifies bright lines in certain instances (for example, 75% of economic life), IAS 17’s general principles are interpreted similarly to the bright line tests. As a result, lease classification is often the same under FAS 13 and IAS 17.

Both IFRS and U.S. GAAP require a lessee to record a capital (finance) lease by recognizing an asset and a liability, measured at the lower level of the present value of the minimum lease payments or fair value of the asset. Accounting for financial lease in RAP differs significantly. In particular, recognition of the object of a financial lease in the balance sheet of a lessee or a lessor is determined by contractual terms and is not subject to economic criteria employed by both IFRS and U.S. GAAP. Valuation based on the present value or the fair value is not used. A lessee would record an operating lease by recognizing the expenses on a straight-line basis during the lease term. Any additional lease-related payments under an operating lease are amortized on a straight-line basis during the term of the lease.

## Lessor accounting (excluding real estate)

Lessor accounting under FAS 13 and IAS 17 is similar and includes the above tests to determine whether a lease is a sales-type/direct financing lease or an operating lease. FAS 13 specifies two additional criteria (i.e., the collection of lease payments is reasonably expected and no important uncertainties relate to the amount of non-reimbursable costs to be incurred by the lessor) for a lessor to qualify for sales-type/direct financing lease accounting that IAS 17 does not have. Although not specified in IAS 17, it is reasonable to expect that if these conditions exist, the same conclusion would be reached under each standard. If a lease is a sales-type/direct financing lease, the leased asset is replaced with a lease receivable. If it is classified as an operating lease, rental income is recognized on a straight-line basis over the lease term, and the leased asset is depreciated by the lessor during its useful life. Under RAP, it is more form-driven, but if determined to be an operating lease, accounting would be similar to that under U.S. GAAP and IFRS.

## Significant Differences

	IFRS	US GAAP	RAP
<b>Lease of land and building</b>	The land and building elements of a lease are considered separately for purposes of evaluation of all indicators, unless the amount that would initially be recognized for the land element is immaterial, in which case they would be treated as a single unit for the purposes of lease classification. There is no 25% test to determine whether the land and a building should be considered separately for purposes of evaluating certain indicators.	A lease for land and buildings that transfers ownership to the lessee or contains a bargain purchase option would be classified as capital lease by the lessee, regardless of the relative value of the land.  If the fair value of the land at inception represents 25% or more of the total fair value of the lease, the lessee must consider the land and building components separately for purposes of evaluating other lease classification criteria. (Note: Only the building is subject to the 75% and 90% tests in this case.)	RAP does not follow the concept of risks and benefits of ownership and the economic useful life of the asset. Accounting for leases is governed by Federal Law <i>On Financial Lease</i> and the corresponding <i>Guidance on Accounting of Leasing Transactions</i> (in case of financial lease), and the type of lease and the lessor are defined in the lease contract.  Under RAP, the treatment of land and a building does not differ from the treatment of other property, plant and equipment and is determined with regard to the contractual arrangement of the parties.
<b>Recognition of a gain or loss on a sale and leaseback when the leaseback is an operating leaseback</b>	Gain or loss is recognized immediately, subject to adjustment if the sale price differs from fair value.	If the seller does not relinquish more than a minor part of the right to use the asset, gain or loss is generally deferred and amortized over the lease term. If the seller relinquishes more than a minor part of the use of the asset, then part or all of a gain may be recognized, depending on the amount relinquished. (Note: Does not apply if real estate is involved, as the special rules are very restrictive in relation to the seller's continuing involvement, and they may not allow for the recognition of a sale.)	There is no corresponding guidance in RAP, but in practice gain or loss is recognized immediately.
<b>Recognition of gain or loss on a sale leaseback when the leaseback is a capital leaseback</b>	Gain or loss deferred and amortized over the lease term.	Generally, same as above for operating leaseback where the seller does not relinquish the right to use the asset.	Gain or loss is deferred and recognized when the payments are made.

Other differences include: (i) the treatment of a leveraged lease by a lessor under FAS 13 (IAS 17 does not have such classification), (ii) real estate sales leasebacks, (iii) real estate sales-type leases, and (iv) the rate used to discount minimum lease payments to the present value for the purposes of determining the lease classification and subsequently recording a capital lease, including in the event of a renewal.

### Convergence

The Boards are jointly working on a long-term convergence project on lease accounting with an overall objective of comprehensively re-considering the existing guidance issued by both standard setters.

The Boards have tentatively decided to defer the development of a new accounting model for lessors and to adopt an approach that would apply the existing capital lease model, adapted as necessary, to all leases. A joint discussion paper is planned to be issued in the first quarter of 2009, with the Boards then moving to the publication of an exposure draft.

### RAP Developments

The preparation of the draft of a new PBU *Accounting for Leases* is on the agenda of the Ministry of Finance. The goal of this new draft will be to bring accounting for leases under RAP closer to IFRS. The issuance of this PBU has not been determined.

# Financial instruments

## Similarities

IFRS guidance for financial instruments is limited to three standards (IAS 32 *Financial Instruments: Presentation*, IAS 39 *Financial Instruments: Recognition and Measurement*, and IFRS 7 *Financial Instruments: Disclosures*). The U.S. GAAP guidance for financial instruments, on the other hand, is contained in several standards. Those standards include, among others, FAS 65 *Accounting for Certain Mortgage Banking Activities*, FAS 107 *Disclosures about Fair Value of Financial Instruments*, FAS 114 *Accounting by Creditors for Impairment of a Loan*, FAS 115 *Accounting for Certain Investments in Debt and Equity Securities*, FAS 133 *Accounting for Derivative Instruments and Hedging Activities*, FAS 140 *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, FAS 150 *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, FAS 155 *Accounting for Certain Hybrid Financial Instruments*, FAS 157 *Fair Value Measurements*, and FAS 159 *The Fair Value Option for Financial Assets and*

*Financial Liabilities*. RAP guidance for financial instruments is included in PBU 15/2008 *Accounting for Loan and Credit Expenses* and PBU 19/02 *Accounting for Financial Investments*. Both IFRS and US GAAP require financial instruments to be classified into specific categories to determine the measurement of those instruments, clarify when financial instruments should be recognized or derecognized in financial statements, and require the recognition of all derivatives on the balance sheet. Hedge accounting is permitted under both IFRS and US GAAP. RAP requires financial instruments to be classified into specific categories to determine the measurement of those instruments and clarify when the financial instruments should be recognized or derecognized in financial statements. Neither recognition of derivatives nor hedge accounting is applied in practice under RAP. Each GAAP also requires detail disclosures in the notes to financial statements with regard to the financial instruments reported in the balance sheet.

## Significant Differences

	IFRS	US GAAP	RAP
<b>Fair value measurement</b>	<p>Various IFRS standards use slightly varying wording to define fair value. Generally fair value is neither an exit nor an entry price, but represents the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction.</p> <p>At inception date, transaction (entry) price generally is considered fair value.</p>	<p>One measurement model whenever fair value is used. Fair value is based on an exit price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.</p> <p>Fair value is an exit price, which may differ from the transaction (entry) price.</p>	<p>There is no definition of fair value in RAP. "Current market value" is used instead of "fair value". However, there is no formal guidance for determining the market price. According to PBU 19/02 <i>Accounting for Financial Investments</i>, the current market value of securities shall be their market value as determined by the securities market.</p> <p>For credit institutions:</p> <p>The definition offered by the Central Bank of Russia (CBR) for fair value is consistent with the definition in IFRS. The methods for determining the fair value of securities are to be described in the bank's accounting policies.</p>
<b>Use of fair value option</b>	<p>Financial instruments can be measured at fair value with changes in fair value reported through net income, provided that certain criteria, which are more restrictive than under U.S. GAAP, are met.</p>	<p>Financial instruments can be measured at fair value with changes in fair value reported through net income, except for specific ineligible financial assets and liabilities.</p>	<p>See above.</p> <p>For credit institutions:</p> <p>In accordance with the regulations of CBR, securities can be measured at fair value with changes in fair value reported through net income, provided fair value can be reliably determined.</p>
<b>Day one profits</b>	<p>Day one gains are recognized only when all inputs to the measurement model are observable.</p>	<p>Entities are not precluded from recognizing day one gains and losses on financial instruments reported at fair value even when all inputs to the measurement model are not observable. For example, a day one gain or loss may arise when the transaction occurs in a market that differs from the reporting entity's exit market.</p>	<p>Not applicable because valuation techniques are not used.</p> <p>For credit institutions:</p> <p>Entities may recognize day one gains on financial instruments reported at fair value even when not all inputs to the measurement model are observable.</p>

	IFRS	US GAAP	RAP
<b>Debt vs. equity classification</b>	<p>Classification of certain instruments with characteristics of both debt and equity focuses on the contractual obligation to deliver cash, assets, or an entity's own shares. Economic compulsion does not constitute a contractual obligation.</p> <p>Contracts that are indexed to, and potentially settled in, a company's own stock are classified as equity when settled by delivering a fixed number of shares for a fixed amount of cash.</p>	<p>U.S. GAAP specifically identifies certain instruments with characteristics of both debt and equity that must be classified as liabilities.</p> <p>Some other contracts that are indexed to, and potentially settled in, a company's own stock may be classified as equity if they: (i) require physical settlement or net-share settlement, or (ii) give the issuer a choice of net-cash settlement or settlement in its own shares.</p>	<p>Shareholders' capital, additional paid-in capital, reserve capital, other reserves and retained earnings are classified as equity under RAP. Such financial instruments as loans and accounts payable are classified as liabilities.</p> <p>There is no relevant accounting guidance under RAP for the distinction between debt and equity for convertible instruments. Generally, the classification depends on the legal form of the item.</p>
<b>Compound (hybrid) financial instruments</b>	<p>Compound (hybrid) financial instruments need to be split into debt and equity components and, if applicable, a derivative component. The derivative component may be subjected to fair value accounting.</p>	<p>Compound (hybrid) financial instruments (for example, convertible bonds) are generally not split into debt and equity components, but they may be bifurcated into debt and derivative components, with the derivative component subjected to fair value accounting.</p>	<p>Compound (hybrid) financial instruments are classified in accordance with their legal form.</p>
<b>Impairment recognition – Available-for-Sale (AFS) debt instrument</b>	<p>Generally, only evidence of credit default results in the impairment of an AFS debt instrument.</p> <p>Impairment losses recognized through the income statement for available-for-sale equity securities cannot be reversed through the income statement for future recoveries. However, impairment losses for debt instruments classified as available-for-sale may be reversed through the income statement if the fair value of the asset increases in the subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognized.</p>	<p>Declines in fair value below cost may result in an impairment loss on an AFS debt security due solely to a change in interest rates (risk-free or otherwise) if the entity does not have the ability and intent to hold an asset for a period of time sufficient for any anticipated recovery in fair value.</p> <p>When impairment is recognized through the income statement, a new cost basis is established in relation to investment. Such losses cannot be reversed for any future recoveries.</p>	<p>The impairment is calculated only for the financial investments for which the current market price is available. The impairment is defined as a permanent reduction in the value of a financial asset. PBU 19/02 <i>Accounting for Financial Investments</i> defines a permanent reduction of the financial asset.</p> <p>For credit institutions:</p> <p>In accordance with the CBR regulations, the provision for impairment losses on AFS is created when their fair value cannot be reliably determined and the indicators of impairment exist. CBR does not make a distinction between debt or equity securities in respect of impairment accounting. There are no clear criteria to define an indicator of impairment. However, the CBR defines a counterparty's default as one of them.</p>
<b>Hedge effectiveness – shortcut method for interest rate swaps</b>	<p>Not permitted.</p>	<p>Permitted.</p>	<p>There is no relevant accounting guidance in RAP, and in practice special hedge accounting is not used.</p>
<b>Hedging a component of a risk in a financial instrument</b>	<p>Allows entities to hedge risk components (portions) that give rise to changes in fair value.</p>	<p>The risk components that may be hedged are specifically defined in the literature, with no additional flexibility.</p>	<p>There is no relevant accounting guidance in RAP, and in practice special hedge accounting is not used.</p>
<b>Derecognition of financial assets – evaluation approach</b>	<p>Derecognition is based on a mixed model that considers the transfer of risks and rewards as well as control. If the transferor has neither retained nor transferred substantially all of the risks and rewards, then the transfer of control is evaluated. Control is considered to be surrendered if the transferee has the practical ability to unilaterally sell the transferred asset to a third party without restrictions. There is no legal isolation test.</p> <p>There is no concept of a qualifying special-purpose entity.</p>	<p>Derecognition of financial assets (sales treatment) occurs when effective control over the financial assets has been surrendered. Control is surrendered only when certain specific criteria, including evidence of legal isolation, are met.</p> <p>Special rules apply to transfers involving "qualifying" special-purpose entities.</p>	<p>Derecognition of financial assets occurs at the moment of transfer of the right of ownership. For credit institutions, there is separate guidance on the accounting for REPO transactions, under which the transferred asset is not derecognized.</p>

	IFRS	US GAAP	RAP
<b>Measurement – loans and receivables</b>	Loans and receivables are carried at amortized cost unless classified into the “fair value through profit or loss” category or the “available for sale” category, both of which are carried at fair value on the balance sheet.	Unless the fair value option is chosen, loans and receivables are classified as either (i) held for investment, which are measured at amortized cost, or (ii) held for sale, which are measured at the lower level of cost or fair value.	Loans and receivables are carried at cost less the impairment allowance.
<b>Measurement – effective interest method</b>	Requires the original effective interest rate to be used throughout the life of the instrument for all financial assets and liabilities, except for certain reclassified financial assets, in which case the effect of increases in cash flows are recognized as prospective adjustments to the effective interest rate.	Requires the catch-up approach, the retrospective method or the prospective method for calculating the interest on amortized cost-based assets, depending on the type of instrument.	There is no accounting under the effective interest method in RAP. Interest is accrued on a straight-line basis.

Other differences include: ((i) application of the fair value measurement principles, including the use of prices obtained in the 'principal' versus 'most advantageous' markets, (ii) definitions of a derivative and an embedded derivative, (iii) cash flow hedge – basis adjustment and effectiveness testing, (iv) normal purchase and sale exception, (v) foreign exchange gain and/or losses on AFS investments, (vi) recording of basic adjustments when hedging future transactions, (vii) macro hedging, (viii) hedging net investments, (ix) impairment criteria for equity investments, (x) puttable minority interest and (xi) netting and offsetting arrangements.

### Convergence

The IASB is currently working on a project to establish a single source of guidance for all fair value measurements required or permitted by existing IFRSs to reduce complexity and improve consistency in their application (similar to FAS 157). The IASB intends to issue an exposure draft of its fair value measurement guidance in Q2 of 2009.

In September 2008, FASB issued a proposed amendment to FAS 140. The proposed statement would remove (1) the concept of a qualifying SPE from FAS 140, and (2) the exceptions from applying FASB Interpretation No. 46 (revised December 2003) *Consolidation of Variable Interest Entities* to qualifying SPEs.

The FASB and the IASB have separate, but related, projects on reducing complexity in this area, with both Boards issuing documents in 2008. The FASB issued an exposure draft directed at simplifying hedge accounting, and the IASB, a discussion paper on reducing complexity in reporting financial instruments. Additionally, the FASB and the IASB have a joint project to address accounting for financial instruments with characteristics of equity for the purpose of issuing a converged standard by 2011.

The IASB has a project on its agenda to develop a new standard on derecognition that is more consistent with the IASB conceptual framework of financial reporting. Ultimately, the two Boards will seek to issue a converged derecognition standard.

### RAP Developments

The Ministry of Finance has drafted improvements to PBU 19/02 *Accounting for Financial Investments* that would bring the standard closer to IFRS. The issuance of this PBU has not been determined yet.



# Foreign currency matters

## Similarities

IAS 21 *The Effects of Changes in Foreign Exchange Rates* and FAS 52 *Foreign Currency Translation* are quite similar in their approach to foreign currency translation. While the guidance provided by each for evaluating the functional currency of an entity is different, it generally results in the same determination (that is, the currency of the entity's primary economic environment). IFRS and U.S. GAAP generally consider the same economies to be hyperinflationary, although the accounting for an entity operating in such an environment can be very different. There is no concept of functional or presentation currency or hyperinflationary currency in RAP. In accordance with PBU 3/2006 *Accounting for Assets and Liabilities Whose Value is Expressed in Foreign Currency*, the reporting currency for all entities in the Russian Federation is the Russian ruble.

IFRS and U.S. GAAP require foreign currency transactions of an entity to be re-measured in its functional currency with the amounts resulting from changes in the exchange rates being reported in income. Once a subsidiary's financial statements are re-measured in its functional currency, both standards require translation into its parent's functional currency with assets and liabilities being translated at the period-end rate, and the amounts in income statement, generally at the average rate, with the exchange rate differences reported in equity. Both standards also permit the hedging of the net investment, with the exchange rate differences from the hedging instrument offsetting the translation amounts reported in equity. The cumulative translation amounts reported in equity are reflected in income when there is a sale or the complete liquidation or abandonment of the foreign operation, but there are differences between the two standards when the investment in a foreign operation is reduced through dividends or repayment of long-term advances, as indicated below.

PBU 3/2006 *Accounting for Assets and Liabilities Whose Value is Expressed in Foreign Currency* requires foreign currency transactions of an entity to be re-measured in Russian rubles, with the amounts resulting from changes in the exchange rates being reported in profit or loss. All monetary assets and liabilities denominated in currencies other than the ruble should be translated to rubles using the official exchange rate of the Central Bank of the Russian Federation (CBRF) at the reporting date. Non-monetary assets (fixed assets, intangibles, inventory, prepayments and advances) and liabilities denominated in currencies other than the ruble should be accounted for in rubles, being translated by using the official exchange rate of the CBRF at the date of the transaction. When the law or agreement between the parties envisages another exchange rate for the re-measurement of assets and liabilities denominated in foreign currencies and subject to settlement in rubles, that rate is used for re-measurement.

In accordance with Order No. 112 *Aggregated Financial Statements*, the assets and liabilities of a subsidiary denominated in foreign currency should be retranslated into rubles at the balance sheet date using the official exchange rate of the CBRF. An income statement should be translated into rubles at the date of the transaction or the average exchange rate for the period. The difference which arises as a result of the translation of assets, liabilities and the income statement should be reflected in the additional paid-in capital in the aggregated financial statements and disclosed in the notes to them.

## Significant Differences

	IFRS	US GAAP	RAP
<b>Translation/functional currency of foreign operations in a hyperinflationary economy</b>	Financial statements (current and prior periods) in local functional currency are indexed by using a general price index, and then translated into the reporting currency at the current rate.	Financial statements in local functional currency are re-measured as if the functional currency was the reporting currency (U.S. dollar in the case of a U.S. parent), with the resulting exchange rate differences recognized in income.	There is no relevant accounting guidance for a hyperinflationary economy in RAP.
<b>Treatment of the translation difference in equity when a partial return of a foreign investment is made to the parent</b>	A return of investment (for example, dividend) is treated as a partial disposal of foreign investment, and a proportionate share of the translation difference is recognized in income.	The translation difference in equity is recognized in income upon sale (full or partial) or upon the complete liquidation or abandonment of a foreign subsidiary. No recognition is made when there is a partial return of investment to the parent.	There is no relevant accounting guidance in RAP. Therefore, generally either US GAAP or IFRS methods are applied.
<b>Consolidation of foreign operations</b>	The method of consolidation is not specified and, as a result, either the "direct" or the "step-by-step" method is used. Under the "direct" method, each entity within the consolidated group is directly consolidated into the ultimate parent without regard to any intermediate parent. The choice of a method could affect the cumulative translation adjustments deferred within equity at intermediate levels, and therefore the recycling of such exchange rate differences upon disposal of an intermediate foreign operation.	The "step-by-step" method is used whereby each entity is consolidated into its immediate parent until the ultimate parent has consolidated the financial statements of all the entities below it.	There is no corresponding accounting guidance in RAP. Therefore, generally either US GAAP or IFRS methods are applied.

## Convergence

No convergence activities are underway or are planned for foreign currency matters.

# Income taxes

## Similarities

IAS 12 *Income Taxes* and FAS 109 *Accounting for Income Taxes* provide guidance for income tax accounting under IFRS and U.S. GAAP, respectively. Both pronouncements require entities to account for both current tax effects and expected future tax consequences of events that have been recognized (that is, deferred taxes) using an asset and liability approach. Further, deferred taxes for temporary differences arising from non-deductible goodwill are not recorded under either approach, and the tax effects of items accounted for directly to equity during the current year are also allocated directly to equity. Finally, IFRS and US GAAP do not allow deferred taxes to be discounted. In RAP, accounting for income taxes is governed by PBU 18/02 *Accounting for Profits Tax Settlements of Organizations* that significantly differs from the corresponding IFRS and US GAAP standards.

## Significant Differences and Convergence

The IASB is expected to publish an exposure draft to replace IAS 12 in 2009. This will eliminate some of the differences that currently exist between US GAAP and IFRS. The table below highlights the significant differences in the current literature, as well as expected proposed accounting under the IASB's exposure draft. While initially participating in the deliberations on this proposed standard, the FASB decided to suspend deliberations on this project until the IASB issues their exposure document on the proposed replacement of IAS 12 for public comment. The FASB is expected to solicit input from US constituents regarding the IASB's proposed replacement of IAS 12 and then determine whether to undertake a project to fully eliminate the differences in the accounting for income taxes by adopting the revised IAS 12.

	IFRS	US GAAP	RAP
<b>Tax basis</b>	The tax basis is generally the amount deductible or taxable for tax purposes. The manner in which management intends to settle or recover the carrying amount affects the determination of the tax basis.	The tax basis is a question of fact under the tax law. For most assets and liabilities, there is no dispute on the amount; when there is uncertainty, however, it is determined in accordance with FIN 48 <i>Accounting for Uncertainty in Income Taxes</i> .	The tax basis is generally the amount taxable or deductible for tax purposes according to the tax code.
<b>Uncertain tax positions</b>	Does not include specific guidance; IAS 12 indicates that tax assets/liabilities should be measured in the amount expected to be paid. In practice, the recognition principles in IAS 37 on provisions and contingencies are frequently applied. Practice varies regarding the consideration of a detection risk in the analysis.	FIN 48 requires a two-step process, separating recognition from measurement. A benefit is recognized when it is "more likely than not" to be sustained on the basis of the technical merits of the position. The amount of benefit to be recognized is based on the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement. The detection risk is precluded from being considered in the analysis.	No specific guidance; tax assets/liabilities should be measured in the amount expected to be paid. In practice, the recognition principles in PBU 8/01 <i>Economic Contingencies</i> on provisions and contingencies should be applied.
<b>Initial recognition exemption</b>	Deferred tax effects arising from the initial recognition of an asset or liability are not recognized when the amounts did not arise from a business combination and upon occurrence, the transaction affects neither accounting nor taxable profit (for example, acquisition of non-deductible assets).	Does not include a similar exemption for non-recognition of deferred tax effects for certain assets or liabilities.	There is no relevant accounting guidance in RAP.
<b>Recognition of deferred tax assets</b>	Amounts are recognized only to the extent it is probable (under IFRS, similar to "more likely than not" under U.S. GAAP) that they will be realized.	Recognized in full (except for certain outside basis differences), but the valuation allowance reduces an asset to the amount that is more likely than not to be realized.	Amounts should be recognized if there is a possibility (with no indication of degree of probability) that they will be realized.
<b>Classification of deferred tax assets and liabilities in the balance sheet</b>	All amounts classified as non-current in the balance sheet.	Current or non-current classification, based on the nature of the related asset or liability, is required.	All amounts classified as non-current in the balance sheet.

	IFRS	US GAAP	RAP
Recognition of deferred tax liabilities arising from investments in subsidiaries or joint ventures (JVs) (often referred to as outside basis differences)	Recognition required unless the reporting entity has control over the timing of the reversal of the temporary difference, and it is probable ("more likely than not") that the difference will not be reversed in the foreseeable future.	Recognition not required for investment in a foreign subsidiary or corporate JV that is essentially permanent in duration, unless it becomes apparent that the difference will be reversed in the foreseeable future.	There is no relevant accounting guidance in RAP. According to practice, no temporary difference of this kind is recognized.
Taxes on intercompany transfers of assets that remain within a consolidated group	Requires taxes paid on intercompany profits to be recognized as incurred and permits the recognition of deferred taxes on differences between the tax bases of assets transferred between entities/tax jurisdictions that remain within the consolidated group.	Requires taxes paid on intercompany profits to be deferred and prohibits the recognition of deferred taxes on differences between the tax bases of assets transferred between entities/tax jurisdictions that remain within the consolidated group.	There is no relevant accounting guidance in RAP.

Other differences include: (i) the allocation of the subsequent changes in deferred taxes to components of profit or loss and equity, (ii) the calculation of deferred taxes on foreign non-monetary assets and liabilities when the local currency of an entity differs from its functional currency, and (iii) the tax rate applicable to distributed or undistributed profits.



# Provisions and contingencies

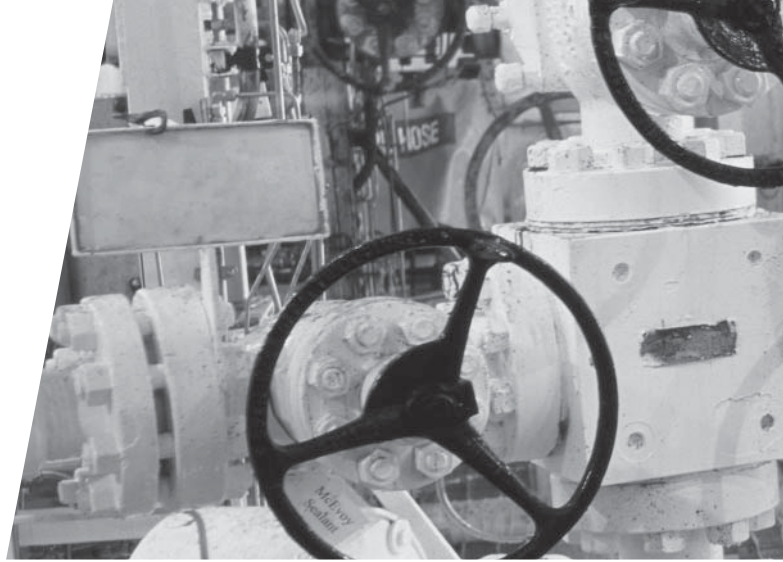
## Similarities

While the sources of guidance under IFRS, U.S. GAAP and RAP differ significantly, the general recognition criteria for provisions are similar. For example, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and PBU 8/01 *Economic Contingencies* provide overall guidance for recognition and measurement criteria of provisions and contingencies. While there is no equivalent single standard under U.S. GAAP, FAS 5 *Accounting for Contingencies* and a number of other statements deal with specific types of provisions and contingencies (for example, FAS 143 for asset retirement obligations and FAS 146 for exit and disposal activities). Further, the guidance provided in two Concept Statements in U.S. GAAP (CON 5 *Recognition and Measurement in Financial Statements of Business*

*Enterprises* and CON 6 *Elements of Financial Statements*) is similar to the specific recognition criteria provided in IAS 37. All three require recognition of a loss based on the probability of occurrence, although the definition of probability is different under IFRS (where probable is interpreted as “more likely than not”), U.S. GAAP (where probable is interpreted as “likely”) and RAP (where probable is interpreted as a “very high or high probability”). All three prohibit the recognition of provisions for costs associated with future operating activities. Further, all three require information on a contingent liability, whose occurrence is more than remote but did not meet the recognition criteria, to be disclosed in the notes to the financial statements.

## Significant Differences

	IFRS	US GAAP	RAP
<b>Discounting provisions</b>	Provisions should be recorded at the estimated amount to settle or transfer the obligation, taking into consideration the time value of money. The discount rate to be used should be “a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.”	Provisions may be discounted only when the amount of the liability and the timing of the payments are fixed or are reliably determinable, or when the obligation is a fair value obligation (for example, an asset retirement obligation under FAS 143). The discount rate to be used is dependent upon the nature of the provision, and may vary from that used under IFRS. However, when a provision is measured at fair value, the time value of money and the risks specific to the liability should be considered.	Provisions should be recorded at the estimated amount required to settle or transfer an obligation, not taking into consideration the time value of money.
<b>Measurement of provisions – range of possible outcomes</b>	The best estimate of an obligation should be accrued. For a large population of items being measured, such as warranty costs, the best estimate is the typically expected value, although the mid-point in the range may also be used when any point in a continuum is as likely as another. The best estimate for a single obligation may be the most likely outcome, although other possible outcomes should still be considered.	The most likely outcome within a range should be accrued. When no one outcome is more likely than the others, the minimum amount in the range of outcomes should be accrued.	The best estimate of an obligation should be accrued. For a large population of items being measured, such as warranty costs, the best estimate is the typically expected value, although the mid-point in the range may also be used when any point in a continuum is as likely as another. The best estimate for a single obligation may be the most likely outcome, although other possible outcomes should still be considered.
<b>Restructuring Costs</b>	Once management has “demonstrably committed itself” (that is a legal or constructive obligation) to a detailed exit plan, the general provisions of IAS 37 apply. The costs are typically recognized earlier than under U.S. GAAP, because IAS 37 focuses on the exit plan as a whole rather than on the individual cost components of the plan.	Per FAS 146, once management has committed itself to a detailed exit plan, each type of cost is examined to determine when it is to be recognized. Involuntary employee termination costs are recognized during a future service period or immediately if there is none. Other exit costs are expensed when incurred.	There is no specific accounting guidance for restructuring costs in RAP, but such costs are within the scope of the general requirements of PBU 8/01 <i>Economic Contingencies</i>



	IFRS	US GAAP	RAP
Disclosure of contingent liability	Reduced disclosure permitted if the disclosure would be severely prejudicial to an entity's position in a dispute with the other party to a contingent liability.	No similar provision to that allowed under IFRS for reduced disclosure requirements.	Reduced disclosure permitted if the disclosure would be severely prejudicial to an entity's position in a dispute with the other party to a contingent liability.

**Convergence**

Both the FASB and the IASB have current agenda items dealing with this topic. An exposure draft proposing amendments to IAS 37 was issued in 2005, with a final standard expected no earlier than 2010. The IASB has indicated its intent to converge with US GAAP in the accounting for restructuring costs as part of this project. In June 2008, the FASB issued the proposed amendments to the disclosure requirements in FAS 5. Many of the proposed changes are consistent with current disclosures under IAS 37. A final standard is expected in the second quarter of 2009.



# Revenue recognition

## Similarities

Revenue recognition under all three standards is linked to the completion of the earnings process and the realization of assets resulting from such completion with more emphasis on form than on substance in the case of RAP. Under IAS 18 Revenue, revenue is defined as “the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity other than increases relating to contributions from equity participants”. Under U.S. GAAP, revenues represent actual or expected cash inflows that have occurred or will result from the entity’s ongoing major operations. Under both GAAPs, revenue is not recognized until it is both realized (or realizable) and earned. Under PBU 9/99 *Income of an Organization*, revenue is not recognized until the title transfers. Ultimately, all three base revenue recognition on the transfer of risks and attempt to determine when the earnings process is complete. All three contain revenue recognition criteria that, while not identical, are similar. For example, under IFRS, one recognition criterion is that the amount of revenue can be measured reliably, while U.S. GAAP requires that the consideration to be received from the buyer is fixed or determinable.

## Significant Differences

Despite the similarities, differences in revenue recognition may exist as a result of differing levels of specificity between the three standards. There is extensive guidance under U.S. GAAP, which can be very prescriptive and often applies only to specific industry transactions. For example, under U.S. GAAP there are specific rules relating to the recognition of software revenue and sales of real estate, while comparable guidance does not exist under IFRS or RAP. In addition, the detailed U.S. rules often contain exceptions for particular types of transactions. Further, public companies in the U.S. must follow additional guidance provided by the SEC. Conversely, a single standard exists under IFRS (IAS 18) and RAP (PBU 9/1999) which contains general principles and illustrative examples of specific transactions. Exclusive of the industry-specific differences between the three standards, the major differences in revenue recognition are given below:

	IFRS	US GAAP	RAP
<b>Sale of goods</b>	Revenue is recognized only when risks and rewards of ownership have been transferred, the buyer has control of the goods, revenues can be measured reliably, and it is probable that the economic benefits will flow to the company.	Public companies must follow SAB 104 <i>Revenue Recognition</i> which requires that delivery has occurred (the risks and rewards of ownership have been transferred), there is persuasive evidence of the sale, the fee is fixed or determinable, and collectibility is reasonably assured.	Revenue is recognized when the following conditions are met: a) The entity has the right to receive revenue that arises from a contractual arrangement or is supported by other means. b) The amount of revenue can be measured reliably. c) It is probable that the economic benefits will flow to the entity as a result of a transaction. An increase in economic benefits is probable when the entity received an asset as settlement or there is no uncertainty regarding the receipt of the asset. d) The legal title (right of ownership, use and disposal) for the products (goods) was transferred from the entity to the buyer or work has been accepted by the buyer (a service has been rendered). e) The costs incurred or to be incurred in respect of the transaction can be measured reliably. If at least one of the above conditions is not met the entity shall recognise payables and not revenue in respect of cash or other assets, received by the entity as settlement.
<b>Rendering of services</b>	Revenue may be recognized in accordance with long-term contract accounting, including the consideration of the stage of completion, whenever revenues and costs can be measured reliably, and it is probable that economic benefits will flow to the company.	Certain types of service revenue, primarily relating to services sold with software, have been addressed separately in U.S. GAAP literature. All other service revenue should follow SAB 104. The application of long-term contract accounting (SOP 81-1 <i>Accounting for Performance of Construction-Type and Certain Production-Type Contracts</i> ) is not permitted for non-construction services.	Similar to the recognition of revenue from the sale of goods, except for the recognition of revenue from transfer to temporary use (temporary ownership and use) of entity's assets and rights resulting from patents for inventions, production prototypes and other kinds of intellectual property or income from equity investments in other entities. In these cases, the conditions set out in (a), (b) and (c) in respect of revenue from the sale of goods and services are to be simultaneously met.
<b>Multiple elements</b>	IAS 18 requires recognition of revenue on an element of a transaction if that element has commercial substance on its own; otherwise, the separate elements must be linked and accounted for as a single transaction. IAS 18 does not provide specific criteria for making that determination.	Specific criteria are required in order for each element to be a separate unit of accounting, including delivered elements that must have standalone value, and undelivered elements that must have reliable and objective evidence of fair value. If those criteria are met, revenue for each element of the transaction can be recognized when the element is complete.	There is no corresponding accounting guidance in RAP, but, in practice, the general principles for revenue recognition criteria are applied to each element of a transaction based on the contractual prices.

	IFRS	US GAAP	RAP
<b>Deferred receipt of receivables</b>	Considered to be a financing agreement. The value of the revenue to be recognized is determined by discounting all future receipts using an imputed rate of interest.	Discounting to present value is required only in certain situations.	Not permitted.
<b>Construction contracts</b>	<p>Construction contracts are accounted for by using the percentage-of-completion method if certain criteria are met. Otherwise, revenue recognition is limited to the recoverable costs incurred. The completed contract method is not permitted.</p> <p>Construction contracts are combined or segmented if certain criteria are met. Criteria under IFRS differ from those in U.S. GAAP.</p>	<p>Construction contracts are accounted for by using the percentage-of-completion method if certain criteria are met. Otherwise, the completed contract method is used.</p> <p>Construction contracts may be, but are not required to be, combined or segmented if certain criteria are met.</p>	PBU 2/2008 <i>Construction Contracts</i> outlines two methods of revenue recognition for construction contracts: percentage-of-completion and completed-contract methods. The percentage-of-completion method may be applied when the amount of expenses and the amount of work completed can be reasonably estimated. Otherwise, an entity should apply the completed-contract method.

### Convergence

The IASB and the FASB are conducting a joint project to develop concepts for revenue recognition and a standard based on those concepts. Currently, the Boards are focusing on an asset and liability model for revenue recognition, with the expectation of issuing a discussion paper in December 2008. The paper will describe a contract-based revenue recognition approach using the customer consideration model. This model focuses on the asset or liability that arises from an enforceable arrangement with a customer. The customer consideration model allocates the customer consideration to the contractual performance obligations on a pro rata basis, and revenue is not recognized until a performance obligation is satisfied.

### RAP Developments

The Ministry of Finance developed amendments and improvements to existing PBU 9/99 *Income of Organization* in respect of revenue recognition for an operating cycle which is longer than one year. The new PBU 9/99 will bring revenue recognition closer to IFRS in accordance with RAP. However, the issuance of new PBU 9/99 has not been determined yet.

# Share-based payments

## Similarities

The guidance for share-based payments, IFRS 2 and FAS 123 (Revised) (both entitled *Share-Based Payment*), is largely convergent. Both GAAPs require a fair value-based approach in accounting for share-based payment arrangements whereby an entity (a) acquires goods or services in exchange for issuing share options or other equity instruments (collectively referred to as “shares” in this guide) or (b) incurs liabilities that are based, at least in part, on the price of its shares or that may require settlement in its shares. Under both GAAPs, this guidance applies to transactions with both employees and non-employees, and is applicable to all companies. Both IFRS 2 and FAS 123 (Revised) define the fair value of the transaction to be the amount at which an asset or liability could be bought or sold in a current transaction between willing parties. Further, both GAAPs require, if applicable, the fair value of the shares to be measured on the basis of the market price (if available) or estimated by using an

option-pricing model. In rare cases when fair value cannot be determined, both standards allow the use of intrinsic value. Additionally, the treatment of modifications and settlement of share-based payments is generally similar under both GAAPs. Finally, both GAAPs require similar disclosures in the financial statements to provide investors sufficient information to understand the types and extent to which the entity is entering into share-based payment transactions.

RAP does not provide accounting guidance for share-based payments, and there are different accounting approaches used in practice. Share-based payments are recognized when exercised or when the criteria for liability recognition have been met, and when they could be measured at market value for listed companies, book value for non-listed companies or contract prices.

## Significant Differences

	IFRS	US GAAP	RAP
<b>Transactions with non-employees</b>	<p>The fair value of a transaction should be based on the value of the goods or services received, and only on the fair value of the equity instruments if the fair value of the goods and services cannot be reliably determined.</p> <p>The measurement date is the date on which the entity obtains the goods or the counterparty renders the services. No performance commitment concept.</p>	<p>Either the fair value of (1) the goods or services received, or (2) the equity instruments are used to value the transaction, whichever is more reliable.</p> <p>If using the fair value of the equity instruments, EITF 96-18 <i>Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services</i> requires measurement at the earlier of (1) the date at which a “commitment for performance” by the counterparty is reached, or (2) the date at which the counterparty’s performance is complete.</p>	<p>There is no corresponding accounting guidance in RAP, but in practice a transaction could be measured at market value for listed companies, book value for non-listed companies, or at contractual prices.</p> <p>The measurement date is the date when the obligation arises and the criteria for its recognition have been met.</p>
<b>Measurement and recognition of expense – awards with graded vesting features</b>	<p>Must recognize compensation cost on an accelerated basis – each individual tranche must be separately measured.</p>	<p>Entities make an accounting policy choice to recognize compensation cost for awards containing only service conditions either on a straight-line basis or on an accelerated basis, regardless of whether the fair value of the award is measured on the basis of the award as a whole or for each individual tranche.</p>	<p>There is no corresponding accounting guidance in RAP, but in practice an expense is measured and recognized when share-based payment is exercised.</p>
<b>Equity repurchase features at an employee’s choice</b>	<p>Liability classification is required (no six-month consideration exists).</p>	<p>Does not require liability classification if an employee bears risks and rewards of equity ownership for at least six months from the date on which equity is issued or vested.</p>	<p>There is no relevant accounting guidance in RAP, but in practice it is measured and recognized when exercised.</p>



	IFRS	US GAAP	RAP
<b>Deferred taxes</b>	<p>Calculated on the basis of the estimated tax deduction determined at each reporting date (for example, intrinsic value).</p> <p>If the tax benefit exceeds the cumulative compensation expense, deferred tax based on the excess is credited to shareholder equity. If the tax benefit is less than or equal to cumulative compensation expense, deferred taxes are recorded in income.</p>	<p>Calculated on the basis of the cumulative GAAP expense recognized and trued up or down upon realization of the tax benefit.</p> <p>If the tax benefit exceeds the deferred tax asset, the excess ("windfall benefit") is credited directly to shareholder equity. The shortfall of the tax benefit below the deferred tax asset is charged to shareholder equity to the extent of prior windfall benefits, and to tax expense thereafter.</p>	<p>There is no relevant accounting guidance in RAP, but in practice it is rarely recognized.</p>
<b>Modification of vesting terms that are improbable to achieve</b>	<p>The probability of achieving vesting terms before and after modification is not considered. The compensation cost is the grant-date fair value of the award, together with any incremental fair value at the modification date.</p>	<p>If an award is so modified that the service or performance condition, which was previously improbable of achievement, is probable of achievement as a result of the modification, the compensation cost is based on the fair value of the modified award at the modification date. The grant-date fair value of the original award is not recognized.</p>	<p>There is no relevant accounting guidance in RAP.</p>

### Convergence

No significant convergence activities are underway or are planned for share-based payments.

# Employee benefits other than share-based payments

## Similarities

Multiple standards apply under U.S. GAAP, including FAS 87 *Employers' Accounting for Pensions*, FAS 88 *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, FAS 106 *Employers' Accounting for Postretirement Benefits Other than Pensions*, FAS 112 *Employers' Accounting for Postemployment Benefits*, FAS 132 (Revised) *Employers' Disclosures about Pensions and Other Postretirement Benefits*, and FAS 158 *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. Under IFRS, IAS 19 *Employee Benefits* is the principal source of guidance for employee benefits other than share-based payments. Under both GAAPs, the periodic pension cost under defined contribution plans is based on the contribution due from the employer in each period. The accounting for defined benefit plans has many similarities as well. The defined benefit obligation is the present value of benefits that have accrued to employees through services rendered to that date, based on the actuarial methods of calculation. Additionally, both U.S. GAAP and IFRS envisage certain smoothing mechanisms in calculating the period pension cost.

RAP does not provide accounting guidance for employee benefits other than share-based payments, but in practice the pension obligations arise when the entity assumes legal duties to settle them. Consequently, expense is recognized when the obligation arises and the criteria for liability recognition have been met. There is no guidance prescribing the differences between the defined benefit and defined contribution plans under RAP. Generally, all pension schemes are considered as defined contribution plans (in terms of IFRS).

## Significant Differences

	IFRS	US GAAP	RAP
<b>Actuarial method used for defined benefit plans</b>	The projected unit credit method is required in all cases.	Different methods are required, depending on the characteristics of the benefit calculation of the plan.	The amount is expensed as incurred. Consequently, actuarial methods are not applicable.
<b>Valuation of defined benefit plan assets</b>	Valued at fair value as of the balance sheet date.	Valued at the "market-related" value (which is either fair value or a calculated value that smoothes the effect of short-term market fluctuations over five years) within three months of the balance sheet date. (Note: for fiscal years ending after December 15, 2008, the valuation must be done as of the balance sheet date.)	Not applicable.
<b>Treatment of actuarial gains and losses for the annual pension cost</b>	May be recognized in the income statement as they occur or deferred through a corridor approach. If recognized immediately, can be chosen to be presented in either the income statement or other comprehensive income).	May be recognized in the income statement as they occur or deferred through either a corridor approach or other rational approach applied consistently from one period to another.	Not applicable.
<b>Amortization of deferred actuarial gains and losses</b>	Over the average remaining service period (that is immediately for inactive employees).	Over the average remaining service period of active employees or over the remaining life expectancy of inactive employees.	Not applicable.
<b>Amortization of prior service costs</b>	Over the average remaining service period; immediate recognition if already vested.	Over the future service lives of employees or, for inactive employees, over the remaining life expectancy of those participants.	Not applicable.

	IFRS	US GAAP	RAP
<b>Recognition of plan asset or liability in the balance sheet</b>	<p>Must recognize a liability in the balance sheet equal to the present value of the defined benefit obligation plus or minus any actuarial gains and losses not yet recognized, minus unrecognized prior service costs, minus the fair value of any plan assets. (Note: If this amount is negative, the resulting asset is subject to a "ceiling test.")</p> <p>Balance sheet classification not addressed in IAS 19.</p>	<p>Must recognize in the balance sheet the over/under funded status as the difference between the fair value of plan assets and the benefit obligation. The benefit obligation is the PBO for pension plans, and APBO for any other postretirement plans.</p> <p>No portion of a plan asset can be classified as current; the current portion of net postretirement liability is the amount expected to be paid in the next 12 months.</p>	Not applicable.
<b>Settlements and curtailments</b>	Gain or loss from settlement or curtailment recognized when it occurs.	Settlement gain or loss recognized when an obligation is settled. The curtailment losses are recognized when curtailment is probable to occur, while curtailment gains are recognized when the curtailment occurs.	Not applicable.
<b>Multi-employer pension plans</b>	A plan is accounted for as either a defined contribution plan or a defined benefit plan based on the terms (contractual and constructive) of the plan. A defined benefit plan must account for the proportionate share of the plan similar to any other defined benefit plan unless there is a lack of information.	Accounted for similarly to a defined contribution plan.	Not applicable.

### Convergence

The FASB and the IASB have agreed to a long-term convergence project that will comprehensively challenge the accounting for postretirement benefits. This project is expected to address many of the common concerns with the current accounting model, such as the smoothing and deferral mechanisms in the current model. The IASB issued a discussion paper in March 2008 as the first step of the IASB project, and is expecting to issue an exposure draft in 2009.

# Segment reporting

## Similarities

The requirements for segment reporting under FAS 131 *Disclosures about Segments of an Enterprise and Related Information* and IFRS 8 *Operating Segments* and PBU 12/2000 *Segment Information* are applicable to entities with public reporting requirements and are based on a "management approach" in identifying the reportable segments. Further, the three standards have similar quantitative thresholds in

determining the reportable segments (i.e., revenues, profit or loss, and assets). IFRS and US GAAP are largely converged, and only a few differences exist between the two GAAPs. Under RAP, the segments determination, measurement and disclosure are similar to the currently replaced IAS 14.

## Significant Differences

	IFRS	US GAAP	RAP
Definition of a segment	All entities determine segments based on the management approach, regardless of the form of organization.	Entities with a "matrix" form of organization (that is, business components are managed in more than one way and the CODM reviews all of the information provided) must determine segments based on products and services).	The management is to determine both operating and geographical segments. An operating segment represents a component of the entity's activities relating to the production of a certain good, performance of certain work or the rendering of a certain service (or groups of similar goods, works or services) that is subject to risks and returns different from those relating to other goods, works and services or groups of similar goods, works or services. A geographical segment is defined as a component of the entity's activities relating to the production of goods, performance of work or the rendering of services within a particular geographic area that is subject to risks and returns that are different from those of the components operating in other geographic areas.
Disclosure requirements	If regularly reported to the CODM, segment liabilities are a required disclosure.	Entities are not required to disclose segment liabilities even if reported to the CODM.	For the purpose of the financial statements, information on the reporting segments is disclosed by providing a certain list of measures with the determination of the primary and secondary segment information which complies with the replaced IAS 14.

## Convergence

No further convergence is planned at this time.

# Earnings per share

## Similarities

Entities whose ordinary shares are publicly traded or that are in the process of issuing such shares in the public markets must disclose earnings per share (EPS) information pursuant to IAS 33 (both entitled Earnings Per Share and which are substantially the same), FAS 128 and PBU 4/99 *Accounting Reports of an Organization*. All three standards require the presentation of basic and diluted EPS on the face of the income statement, and both use the treasury stock method for determining the effects of stock options and warrants on the diluted EPS calculation. All three standards use similar

methods of calculating EPS, although there are a few detailed application differences. Under PBU 4/99 *Accounting Reports of an Organization*, all entities preparing their financial statements are to disclose earnings per share. Detailed requirements regarding the calculation of this measure, including the calculation of basic and diluted earnings per share, are outlined in *Methodological Instructions on Disclosing Earnings per Share*, approved by the order of the Ministry of Finance.

## Significant Differences

	IFRS	US GAAP	RAP
Contracts that may be settled in shares or cash	Such contracts are <i>always</i> assumed to be settled in shares.	Presumption that such contracts will be settled in shares unless evidence is provided to the contrary.	When diluted earnings (loss) per share are determined, the basic earnings and the weighted average number of outstanding ordinary shares used in the reporting period to calculate basic EPS are adjusted for the corresponding amounts of a possible increase due to the conversion of all convertible securities of the entity into ordinary shares and the execution of agreements to purchase the issuer's ordinary shares below their market value.
Calculation of year-to-date diluted EPS for options and warrants using the treasury stock method and for contingently issuable shares	The number of incremental shares is computed as if the entire year-to-date period were "the period" (that is, does not average the current period with each of the prior periods).	The number of incremental shares is computed by using a year-to-date weighted average of the number of incremental shares included in each quarterly calculation.	There is no specific accounting guidance in RAP.
Treatment of the contingently convertible debt	Potentially issuable shares are considered "contingently issuable" and are included in the diluted EPS only if the contingencies are satisfied at the end of the reporting period.	Potentially issuable shares are included in the diluted EPS by using the "if-converted" method if one or more contingencies relate to the entity's share price.	Potentially issuable shares are included in the diluted EPS.

## Convergence

Both Boards are jointly working on a short-term convergence project to resolve the differences in the standards with the plan to issue an exposure draft in August 2008 and plans for a final standard in the second half of 2009. The Boards have tentatively decided to adopt the approaches used by IFRS to eliminate the significant differences noted above. Additionally, the instruments that may be settled in cash or shares are classified as an asset or liability, and are measured at fair value, with the changes in fair value recognized in earnings would no longer be included in the diluted EPS. Other issues to be

converged include the effect of options and warrants with a nominal exercise price of basic EPS (including the two-class method), and modifications of the treasury stock method (a) to require the use of the end-of-period share price in calculating the shares hypothetically repurchased rather than the average share price for the period, and (b) for liabilities that are not re-measured at fair value, including the carrying amount of the liability within the assumed proceeds used to hypothetically repurchase shares.

# Interim financial reporting

## Similarities

IAS 34 (both entitled *Interim Financial Reporting*), APB 28 and PBU 4/99 *Accounting Reports of an Organization* are substantially similar with the exception of the treatment of certain costs as described below. All three standards require an entity to use the same accounting policies that were in effect in the prior year, subject to adoption of new policies that are disclosed. All three standards allow for condensed interim financial statements (which are similar

but not identical) and provide for comparable disclosure requirements. Neither standard says which entities are required to present interim financial information, that being the purview of local securities regulators. For example, U.S. public companies must follow the SEC's Regulation S-X for the purposes of preparing interim financial information.

## Significant Difference

	IFRS	US GAAP	RAP
Treatment of certain costs in interim periods	Each interim period is viewed as a discrete reporting period. A cost that does not meet the definition of an asset at the end of an interim period is not deferred and a liability recognized at an interim reporting date must represent an existing obligation. For example, inventory cost variances that do not meet the definition of an asset cannot be deferred. However, income taxes are accounted for on the basis of an annual effective tax rate (similar to U.S. GAAP).	Each interim period is viewed as an integral part of an annual period. As a result, certain costs that benefit more than one interim period may be allocated among those periods, resulting in the deferral or accrual of certain costs. For example, certain inventory cost variances may be deferred on the basis that the interim statements are an integral part of an annual period.	There is no relevant accounting guidance in RAP.

## Convergence

As part of their joint Financial Statement Presentation project, the FASB will address the presentation and display of interim financial information in U.S. GAAP, and the IASB may reconsider the requirements of IAS 34. This phase of the Financial Statement Presentation project has not commenced.

# Subsequent events

## Similarities

Despite the differences in terminology, the accounting for subsequent events under IAS 10 *Events after the Balance Sheet Date*, AU Section 560 *Subsequent Events* of the AICPA Codification of Statements on Auditing Standards and PBU 7/98 *Events Occurring after the Reporting Date* is largely similar. An event that occurs after the balance sheet date but before the financial statements have been issued and that provides additional evidence about conditions

existing at the balance sheet date usually results in an adjustment of the financial statements. If the event occurring after the balance sheet date but before the financial statements are issued relates to conditions that arose subsequent to the balance sheet date, the financial statements are not adjusted, but disclosure may be necessary in order to keep the financial statements from being misleading.

## Significant Differences

	IFRS	US GAAP	RAP
<b>Date through which subsequent events must be evaluated</b>	Subsequent events are evaluated through the date that the financial statements are "authorized for issue." Depending on an entity's corporate governance structure and statutory requirements, authorization may come from management or a board of directors. Most US entities do not have such a requirement.	Subsequent events are evaluated through the date that the financial statements are issued. For public entities, this is the date that the financial statements are filed with the SEC.	Similar to IFRS but not later than March 31 of the year subsequent to the reporting period.
<b>Stock dividends declared after the balance sheet date</b>	Financial statements are not adjusted for a stock dividend declared after the balance sheet date.	SEC staff pronouncements require financial statements to be adjusted for a stock dividend declared after the balance sheet date.	Financial statements are not adjusted for a stock dividend declared after the balance sheet date.
<b>Short-term loans refinanced with long-term loans after the balance sheet date</b>	Short-term loans refinanced after the balance sheet date may qualify for disclosure, but would not result in reclassification of the loan to long-term liabilities.	Short-term loans are classified as long-term if the entity intends to refinance a loan on a long-term basis and, prior to issuing the financial statements, the entity can demonstrate the ability to refinance the loan.	Short-term loans refinanced after the balance sheet date may qualify for disclosure, but would not result in the reclassification of a loan to long-term liabilities.

## Convergence

No convergence achievements are planned at this time, although the FASB recently issued an exposure draft with the objective of incorporating into the FASB literature the current guidance included in AU 560.

# Related parties

## Similarities

IAS 24, FAS 57 and PBU 11/2008 (all entitled *Related Party Disclosures*) have a similar reporting objective: to make financial statement users aware of the effect of related party transactions on the financial statements. The related party definitions are broadly similar, and all three standards require that the nature of the relationship, a description of the transaction, and the amounts involved (including outstanding balances) be disclosed for related party transactions. FAS 57 does not require the disclosure of compensation of key management personnel as IAS 24 does, but the financial statement disclosure requirements of IAS 24 are similar to those required by the SEC outside the financial statements.

## Significant Differences and Convergence

There are no significant differences between the three standards, nor are there any convergence initiatives.

# Appendix 1 – The Evolution of IFRS

This appendix provides a high level overview of the key milestones in the evolution of international accounting standards.

## Phase I–2001 and Prior

- ▶ **1973: International Accounting Standards Committee (IASC) formed.** The IASC was founded to formulate and publish International Accounting Standards (IAS) that would improve financial reporting and that could be accepted worldwide. In keeping with the original view that the IASC's function was to prohibit undesirable accounting practices, the original IAS permitted several alternative accounting treatments.
- ▶ **1994: IOSCO (International Organization of Securities Commissions) completed its review of the then current IASC standards and communicated its findings to the IASC.** The review identified areas that required improvement before IOSCO could consider recommending IAS for use in cross-border listings and offerings.
- ▶ **1994: Formation of the IASC Advisory Council was approved to provide oversight to the IASC and manage its finances.**
- ▶ **1995: IASC developed its Core Standards Work Program.** IOSCO's Technical Committee agreed that the Work Program would result, upon successful completion, in IAS comprising a comprehensive core set of standards. The European Commission (EC) supported this agreement between IASC and IOSCO and "associated itself" with the work of the IASC in broader international harmonization of accounting standards.
- ▶ **1997: Standing Interpretations Committee (SIC) established to provide an interpretation of IAS.**
- ▶ **1999: The IASC Board approved a restructuring that resulted in the current International Accounting Standards Board (IASB).** The newly constituted IASB structure comprises: (1) the IASC Foundation, an independent organization with 22 trustees who appoint the IASB members, exercise oversight, and raise the funds needed, (2) the IASB (Board) which has 12 full-time, independent board members and two part-time board members with the sole responsibility for setting accounting standards, (3) the Standards Advisory Council, and (4) the International Financial Reporting Interpretations Committee (IFRIC) (replacing the SIC), mandated with interpreting the existing IAS and IFRS standards and providing timely guidance on matters not addressed by current standards.
- ▶ **2000: IOSCO recommended that multinational issuers be allowed to use IAS in cross-border offerings and listings.**
- ▶ **April 2001: IASB assumed standard-setting responsibility from the IASC.** The IASB met with representatives from eight national standard-setting bodies to begin coordinating agendas and discussing convergence, and adopted the existing IAS standards and SIC Interpretations.
- ▶ **February 2002: IFRIC assumed responsibility for the interpretation of IFRS.**

## Phase II–2002 to 2005

- ▶ **July 2002: EC required EU-listed companies to prepare their consolidated financial statements in accordance with IFRS as endorsed by the EC, generally from 2005 onward.** This was a critically important milestone that acted as a primary driver behind the expanded use of IFRS.
- ▶ **September 2002: Norwalk Agreement executed between the FASB and the IASB.** A "best efforts" convergence approach was documented in a Memorandum of Understanding in which the Boards agreed to use the best efforts to make their existing financial reporting standards fully compatible as soon as practicable and to coordinate future work programs.
- ▶ **December 2004: EC issued its Transparency Directive.** This directive would require non-EU companies with listings on an EU exchange to use IFRS unless the Committee of European Securities Regulators (CESR) determined that the national GAAP was "equivalent" to IFRS. Although CESR advised in 2005 that U.S. GAAP was "equivalent", subject to certain additional disclosure requirements, the final decision as to U.S. GAAP equivalency, and what additional disclosures, if any, will be required, has not been reached.
- ▶ **April 2005: SEC published the "Roadmap."** An article published by then SEC Chief Accountant discussed the possible elimination of the U.S. GAAP reconciliation for foreign private issuers that use IFRS. The Roadmap laid out a series of milestones which, if achieved, would result in the elimination of the U.S. GAAP reconciliation by 2009, if not sooner.

## Phase III–2006 to Present

- ▶ **February 2006: FASB and IASB published a Memorandum of Understanding (MOU).** The MOU reaffirmed the Boards' shared objective to develop high quality, common accounting standards for use in the world's capital markets, and further elaborated on the Norwalk Agreement. The Boards would proceed along two tracks for convergence: (1) a series of short-term standard setting projects designed to eliminate major differences in focused areas, and (2) the development of new common standards when accounting practices under both GAAPs are regarded as areas for improvement.
- ▶ **August 2006: CESR/SEC published a joint work plan.** The regulators agreed that issuer-specific matters could be shared between the regulators, following set protocols, and that their regular reviews of issuer filings would be used to identify the IFRS and U.S. GAAP areas that cast doubt on high-quality and consistent application. The plan also provides for the exchange of technological information to promote the modernization of financial reporting and disclosure. Finally, the staff of both regulators agreed to exchange opinions on risk management practices.
- ▶ **November 2007: the SEC eliminates the US GAAP reconciliation for foreign private issuers.** After hosting a roundtable discussion in March 2007 to discuss the effects that the acceptance

of IFRS would have on investors, issuers, and capital raising in the US capital markets, and issuing a summary of its observations regarding foreign private issuers that adopted IFRS for the first time in 2005, the SEC determined that the milestones on its 2005 Roadmap had been sufficiently met to eliminate the reconciliation requirement.

- ▶ **Mid-2007, continuing into 2008: SEC explores the future use of IFRS by US companies.** In August 2007, the SEC issued the Concept Release asking the public to comment on the possible use of IFRS by US domestic registrants. In December 2007 and August 2008, the SEC held three additional roundtables on the topic of IFRS, with the roundtables focusing on the potential use of IFRS for US issuers. Further, in August 2008, the SEC approved for public issuance an updated Roadmap which anticipates mandatory reporting under IFRS beginning in 2014, 2015 or 2016, depending on the size of the company.
- ▶ **Looking ahead: the future remains uncertain, but momentum continues to build for a single set of high quality global standards.** The possible use of IFRS by US domestic registrants is a topic that remains active on the SEC's agenda. The updated proposed Roadmap identifies certain milestones to be considered when determining whether reporting under IFRS should be mandated for US companies, and calls for future SEC action in 2011 to make that assessment.

# Appendix 2 – Russian accounting principles

RAP comprise of laws passed by the Russian Federation and rules and regulations issued by the Ministry of Finance of the Russian Federation (MFRF). Specifically, RAP encompasses the Federal Law Concerning Accounting (Accounting Law), Russian Accounting Standards (PBU) and orders issued by MFRF, which provide additional interpretation and guidance. The Accounting Law, PBUs and key orders on management, maintenance and reporting of accounting records are listed below.

It is worthwhile mentioning that banks operating only in the Russian Federation maintain their accounting and report their financial statements in accordance with the rules and regulations set by the Central Bank of Russia. New Regulation No. 302-P was developed as part of the harmonization in relation to IFRS and became effective at 1 January 2008.

1) Federal Law No. 129-FZ of the Russian Federation of 21 November 1996 Concerning Accounting.

2) Russian Accounting Standards (PBU):

- ▶ PBU 1/2008 *Accounting Policies of an Organization*
- ▶ PBU 2/2008 *Construction Contracts*
- ▶ PBU 3/2006 *Accounting for Assets and Liabilities Whose Value is Expressed in Foreign Currency*
- ▶ PBU 4/99 *Accounting Reports of an Organization*
- ▶ PBU 5/01 *Accounting for Inventories*
- ▶ PBU 6/01 *Accounting for Fixed Assets*
- ▶ PBU 7/98 *Events Occurring After the Reporting Date*
- ▶ PBU 8/01 *Economic Contingencies*
- ▶ PBU 9/99 *Income of an Organization*
- ▶ PBU 10/99 *Expenses of an Organization*
- ▶ PBU 11/2008 *Related Party Disclosures*
- ▶ PBU 12/2000 *Segment Information*
- ▶ PBU 13/2000 *Recording of State Assistance*

- ▶ PBU 14/2007 *Accounting for Intangible Assets*
  - ▶ PBU 15/2008 *Loan and Credit Expenses*
  - ▶ PBU 16/02 *Information on Discontinuing Operations*
  - ▶ PBU 17/02 *Accounting for Research, Development and Technological Work*
  - ▶ PBU 18/02 *Accounting for Profits Tax Settlements of Organizations*
  - ▶ PBU 19/02 *Accounting for Financial Investments*
  - ▶ PBU 20/03 *Information Concerning Participation in Joint Activities*
  - ▶ PBU 21/2008 *Changes in Accounting Estimates*
- 3) Key Orders of the Ministry of Finance of the Russian Federation governing the management, maintenance and reporting of accounting records:
- ▶ Order No. 94n *Chart of Accounts and the Instruction on the Application Thereof*
  - ▶ Order No. 34n *Maintenance of Accounting Records and Accounting Reports in the Russian Federation*
  - ▶ Order No. 44n *Methodological Instructions on the Preparation of Accounting Reports During Re-Organization*
  - ▶ Order No. 67n *Instructive Regulations on the Composition of Financial Reporting Forms of Organizations*
  - ▶ Order No. 112 *Methodological Instructions on the Preparation and Presentation of Aggregated Financial Statements*
  - ▶ Order No. 180 *Concept of the Development of Accounting and Financial Reporting in the Russian Federation for the Mid-term Perspective*
  - ▶ Order No. 29n *Methodological Instructions on Disclosing Earnings per Share*
  - ▶ Order No. 15 *Guidance on Accounting for Leasing Transactions*



Ernst & Young

Assurance | Tax | Transactions | Advisory

**About Ernst & Young**

Ernst & Young is a global leader in assurance, tax and legal, transaction and advisory services. Worldwide, our 144,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve potential.

For more information, please visit [www.ey.com](http://www.ey.com).

Ernst & Young expands its services and resources in accordance with clients' needs throughout the CIS. 3,400 professionals work at 16 offices in Moscow, St. Petersburg, Novosibirsk, Ekaterinburg, Togliatti, Yuzhno-Sakhalinsk, Almaty, Astana, Atyrau, Baku, Kyiv, Donetsk, Tashkent, Tbilisi, Yerevan, and Minsk.

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients.

© 2009 Ernst & Young LLC  
All Rights Reserved.