

IFRS, US GAAP and RAP

Comparison and basics



EY

Building a better
working world

Table of contents

Introduction	1	Income taxes.....	33
Key updates	2	Provisions and contingencies	35
Financial statements presentation	3	Revenue recognition.....	37
Interim financial reporting.....	7	Share-based payments.....	40
Consolidation, joint venture accounting and equity method investees/associates.....	8	Employee benefits other than share-based payments	42
Business combinations	13	Earnings per share.....	44
Inventory.....	15	Segment reporting	45
Long-lived assets.....	16	Subsequent events	46
Intangible assets.....	19	Related parties.....	48
Impairment of long-lived assets, goodwill and intangible assets.....	21	Appendix A - The evolution of IFRS.....	49
Financial instruments	24	Appendix B - Adoption of IFRS in Russia for consolidated financial statements.....	51
Foreign currency matters	29	IFRS resources.....	53
Leases.....	31		

Introduction

Convergence in several important areas – including revenue, leasing and financial instruments – continued to be a high priority on the agendas of both the US Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) (collectively, the Boards) in 2013. However, even after those projects are complete, differences will continue to exist between US GAAP as promulgated by the FASB and International Financial Reporting Standards (IFRS) as promulgated by the IASB.

In this guide, we provide an overview by accounting area of where the standards are similar and where differences exist. We believe that any discussion of this topic should not lose sight of the fact that the two sets of 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. The general principles and conceptual framework are often the same or similar in both sets of standards, leading to similar accounting results. The existence of any differences – and their materiality to an entity's financial statements – depends on a variety of specific factors, including the nature of the entity, the details of the transactions, interpretation of the more general IFRS principles, industry practices, and accounting policy elections where US GAAP and IFRS offer a choice. This guide focuses on differences most commonly found in present practice and, when applicable, provides an overview of how and when those differences are expected to converge.

This publication also compares Russian Accounting Principles («RAP») with IFRS and US GAAP, as well as discussing the direction and future developments of Russian accounting legislation. On 27 July 2010, with the adoption of the Federal Law *On Consolidated Financial Statements* (Law No. 208-FZ), IFRS were introduced into Russian legislation for the purpose of consolidated financial reporting by public companies. It should also be noted that preparation of RAP financial statements is still obligatory for all Russian legal entities.

This publication will be useful for Russian companies currently reporting under RAP who are contemplating listing themselves on foreign stock exchanges where financial statements are to be prepared under IFRS or US GAAP. It will also be useful for companies that prepare consolidated financial statements in accordance with Law No. 208-FZ. For other Russian entities, certain parts of this publication may provide 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.

Key updates

Our analysis generally reflects guidance in effect in 2013 and finalized by the FASB and the IASB before 31 May 2013, including IFRS 10, *Consolidated Financial Statements* and IFRS 11, *Joint Arrangements*; however, we have not included differences related to IFRS 9, *Financial Instruments* because of the delayed effective date of that standard.

We will continue to update this publication periodically to include new developments.

The EY "US GAAP-IFRS Differences Identifier Tool" provides a more in-depth review of differences between US GAAP and IFRS. The Identifier Tool was developed as a resource for companies that need to analyze the numerous accounting decisions and changes inherent to conversion to IFRS. Conversion is of course more than just an accounting exercise, and identifying accounting differences is only the first step in the process. Successfully converting to IFRS also entails ongoing project management, systems and process change analysis, tax considerations and a review of all company agreements that are based on financial data and measures. EY assurance, tax and advisory professionals

are available to share their experience and to assist companies in analyzing all aspects of the conversion process, from the earliest diagnostic stages through ultimate adoption of international standards.

To learn more about the Identifier Tool, please contact your local EY professionals.

November 2013 (это надо?)



Financial statements presentation

Similarities

There are many similarities in US GAAP and IFRS guidance on financial statements presentation. Under both sets of standards, the components of a complete set of financial statements include: a statement of financial position, a statement of profit and loss (i.e., income statement) together with a statement of comprehensive income (either a single continuous statement or two consecutive statements), a statement of cash flows, and accompanying notes to the financial statements. Both standards also require the changes in shareholders' equity to be presented. However, US GAAP allows the changes in shareholders' equity to be presented in the notes to the financial statements while IFRS requires the changes in shareholders' equity to be presented as a separate statement. Further, both frameworks require that the financial statements be prepared on an accrual basis (with the exception of the cash flow statement) except for rare circumstances. Both sets of standards have similar concepts regarding materiality and consistency that entities have to consider in preparing their financial statements.

RAP:

RAP requires that the following components be included in the complete set of annual financial statements: balance sheet, statement of financial results (i.e., income statement), and explanatory appendices to the balance sheet and statement of financial results. According to RAP, changes in shareholders' equity should be presented as an appendix to the balance sheet. Similar to IFRS and US GAAP, RAP requires that the financial statements be prepared on an accrual basis (with the exception of the cash flow statement) except for rare circumstances. Concepts of materiality and consistency employed in RAP are similar to those in the two other frameworks.

Also similar to the two other frameworks, RAP requires that in the absence of regulations that specifically apply to a particular matter in setting its accounting policies, the organization should design an appropriate method on the basis of RAPs dealing with similar or related issues, as well as on the basis of IFRS.

Differences between the three frameworks tend to arise in the degree of specific guidance provided.

·

Significant differences

	US GAAP	IFRS	RAP
Financial periods required	Generally, comparative financial statements are presented; however, a single year may be presented in certain circumstances. Public companies must follow SEC rules, which typically 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 with respect to the previous period for all amounts reported in the current period's financial statements.	Comparative information must be disclosed in respect of the two previous periods for the balance sheet, one previous period for the statements of financial results, changes in equity, cash flows and appendices to the financial statements.
Layout of balance sheet and income statement	No general requirement within US GAAP to prepare the balance sheet or income statement in accordance with a specific layout; however, public companies must follow the detailed requirements in Regulation S-X.	IFRS does not prescribe a standard layout, but includes a list of minimum line items. These minimum line items are less prescriptive than the requirements in Regulation S-X.	PBU 4/99 <i>The Accounting Reports of an Organization</i> and Order No. 66n <i>Financial Reporting Forms of Organizations</i> prescribe a specific layout for the balance sheet and other statements.
Balance sheet – presentation of debt as current versus non-current	Debt for which there has been a covenant violation may be presented as non-current if the lender agreed, before the financial statements are issued, to waive its right to demand repayment for over one year.	Debt associated with a covenant violation must be presented as current unless an agreement with the lender was reached prior to the balance sheet date.	A long-term loan that is payable on demand following a covenant violation is classified in the balance sheet as current. If, prior to the issue of the financial statements, the credit institution provides a written waiver of its right to claim repayment for at least one year, the loan shall continue to be classified in the balance sheet as non-current. The notes to the financial statements should disclose the terms of the loan agreement that were violated.
Balance sheet – classification of deferred tax assets and liabilities	A distinction is required between current and non-current items, generally based on the nature of the related asset or liability.	All amounts are classified as non-current in the balance sheet.	All amounts are classified as non-current in the balance sheet.
Income statement – classification of expenses	No general requirement within US GAAP to classify income statement items by function or nature. However, SEC registrants are generally required to present expenses based on function (e.g., cost of sales, administrative).	Entities may present expenses based on either function or nature (e.g., salaries, depreciation). However, if function is selected, certain disclosures about the nature of the expenses must be included in the notes.	Expenses should be classified with regard to function (cost of sales or production, commercial expenses, management expenses, other expenses) in the statement of financial results, and should be detailed in the appendices in accordance with their nature.
Income statement – extraordinary items criteria	Restricted to items that are both unusual and infrequent.	Prohibited.	Extraordinary items should be presented as part of other income or other expenses in the statement of financial results and may be disclosed if they are material in the appendices to the financial statements.

	US GAAP	IFRS	RAP
Income statement – discontinued operations criteria	Components held for sale or disposed of may be classified as discontinued operations, provided that there will be no significant continuing cash flows or involvement with the disposed components.	Components held for sale or disposed of may be classified as discontinued operations, provided that they are (were) either a separate major line of business or geographical area, or a subsidiary acquired exclusively with the intention to resell it.	PBU 16/02 <i>Information on Discontinuing Operations</i> does not require separate classification on the balance sheet. It is recommended to disclose discontinued operations separately in the statement of financial results and cash flow statement. Information related to discontinued operations should be at least disclosed in the appendices to the financial statements.
Disclosure of performance measures	There are no general requirements within US GAAP that address the presentation of specific performance measures. SEC regulations define certain key measures and require the presentation of certain headings and subtotals. Additionally, public companies are prohibited from disclosing non-GAAP measures in the financial statements and accompanying notes.	Certain traditional concepts such as “operating profit” are not defined; therefore, diversity in practice exists regarding line items, headings and subtotals presented in the income statement. IFRS permits the presentation of additional line items, headings and subtotals in the statement of comprehensive income when such presentation is relevant to an understanding of the entity’s financial performance.	According to Order No. 66n <i>Financial Reporting Forms of Organizations</i> the following subtotals should be presented in the statement of financial results: gross profit, profit from sales, and net profit before and after tax.
Third balance sheet	Not required.	A third balance sheet is required as of the beginning of the earliest comparative period when there is a retrospective application of a new accounting policy, or a retrospective restatement or reclassifications that have a material effect on the balances of the third balance sheet. Related notes to the third balance sheet are not required.	A third balance sheet is required in all cases. The third balance sheet is viewed as a comparative to the prior year balance sheet.

Convergence

The FASB has proposed amendments to the definition of a discontinued operation that are very similar to the definition of a discontinued operation in IFRS 5. Both definitions would include the separate major line of business or major geographical area of operations criteria. However, the FASB's proposed amendments would require that a major line of business or major geographical area of operations comprise a *component of an entity* or a group of components of an entity, rather than a *cash-generating unit* (as defined in IFRS 5) or a group of cash-generating units. Few differences are expected in practice as a result of the distinction between a component of an entity and a cash generating unit.

No further convergence is planned at this time.

RAP developments

According to PBU 1/2008 *The Accounting Policies of an Organization*, 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 IFRS. Most PBUs are based in large part on IFRS. Some IFRS, however, have no comparable PBU standard, and some PBUs that are based on IFRS have not been updated for recent changes to the comparable IFRS. Therefore, the Russian accounting system continues to differ from IFRS as well as from US GAAP.

New *Federal Law On Accounting* No. 402-FZ defines the composition of annual financial statements as follows:

- ▶ A balance sheet, including three columns: for the current reporting year and the two previous years
- ▶ A statement of financial results
- ▶ Appendices to the balance sheet and statement of financial results

Federal Law On Consolidated Financial Statements No. 208-FZ was adopted on 27 July 2010. Thus, Russia introduced a legislative requirement for the mandatory application of IFRS by all public interest entities for the preparation of consolidated financial statements (see details in Appendix B).



Interim financial reporting

Similarities

ASC 270, *Interim Reporting*, and IAS 34, *Interim Financial Reporting*, are substantially similar except for the treatment of certain costs described below. Both require an entity to apply the accounting policies that were in effect in the prior annual period, subject to the adoption of new policies that are disclosed. Both standards allow for condensed interim financial statements and provide for similar disclosure requirements. Under both US GAAP and

IFRS, income taxes are accounted for based on an estimated average annual effective tax rate. Neither standard requires entities to present interim financial information. That is the purview of securities regulators such as the SEC, which requires US public companies to comply with Regulation S-X.

RAP:

RAP: PBU 4/99 *The Accounting Reports of an Organization* are similar to US GAAP and IFRS except for the treatment of certain costs described below.

Quarterly financial reports are required to be presented under RAP and must include a balance sheet and statement of financial results for the respective interim period.

Significant differences

	US GAAP	IFRS	RAP
Treatment of certain costs in interim periods	Each interim period is viewed as an integral part of an annual period. As a result, certain costs that are incurred over more than one interim period may be allocated among those periods, resulting in deferral or accrual of certain costs.	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.	There is no relevant accounting guidance in RAP.

Convergence

No further convergence is planned at this time.

RAP developments

No significant developments are planned in this area for the near term.

Consolidation, joint venture accounting and equity method investees/associates

Similarities

ASC 810, *Consolidation*, contains the main guidance for the consolidation of financial statements, including variable interest entities (VIEs), under US GAAP. IFRS 10, *Consolidated Financial Statements*, contains the IFRS guidance.

Under both US GAAP and IFRS, control is the basis for determining whether entities are consolidated by the given reporting entity, although there are differences in how control is defined. Generally, all entities subject to control by the reporting entity must be consolidated (although there are limited exceptions for a reporting entity that meets the definition of an investment company).

An equity investment that 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 (ASC 323, *Investments – Equity Method and Joint Ventures*) and IFRS (IAS 28, *Investments in Associates and Joint Ventures*). Further, the equity method of accounting for such investments is generally consistent under US GAAP and IFRS.

The characteristics of a joint venture in US GAAP (ASC 323) and IFRS (IFRS 11, *Joint Arrangements*) are similar but certain differences exist. Both US GAAP and IFRS also generally require investors to apply the equity method when accounting for their interests in joint ventures.

RAP:

Law 208-FZ introduced the requirement for certain types of entity in the Russian Federation to present and publish their consolidated statements under IFRS in addition to their RAP financial statements starting from 2012 (please refer to Appendix B). Therefore, consolidated financial statements of these entities should be fully IFRS-compliant. According to the law and recommendations of the Interdepartmental Working Group for IFRS Implementation established by the Russian Ministry of Finance, such consolidated financial statements should be:

- ▶ Presented in Russian
- ▶ Use the Russian ruble as the presentation currency
- ▶ Use the calendar year as the reporting period

In contrast, IFRS as issued by the IASB allows reporting entities to select the presentation currency and reporting period at their discretion. In addition, Russian entities reporting under Law 208-FZ may not adopt new and amended IFRS issued by the IASB before their endorsement for application in Russia. Russian credit institutions and insurance companies were not exempted from preparing consolidated financial statements in the circumstances stipulated by paragraph 4 (a) of IFRS 10 *Consolidated Financial Statements*. Accordingly, they should present and publish their IFRS consolidated financial

statements, even if they meet the criteria in IFRS 10.4(a).

RAP's Order No. 112 *Aggregated Financial Statements* provides guidance for the preparation of aggregated financial statements (Order No. 112). This order is not fully complied with by companies in Russia and is rarely applied in practice. The order requires the parent company to prepare both separate and aggregate financial statements if it has subsidiaries and should now be applied by the entities that are within the scope of Law 208-FZ, but the parent company has the right to postpone the adoption of IFRS in their consolidated financial statements until the 2015 reporting year.

Significant differences

	US GAAP	IFRS	RAP
Consolidation model	<p>Provides for primarily two consolidation models (the variable interest model and voting model). The variable interest model evaluates control based on determining which party has power and benefits. The voting model evaluates control based on existing voting rights. All entities are first evaluated as potential variable interest entities (VIEs). If an entity is not a VIE, it is evaluated for control pursuant to the voting model.</p> <p>Potential voting rights are generally not included in either evaluation. The notion of "de facto control" is not considered.</p>	<p>Provides a single control model for all entities, including structured entities (the definition of a structured entity under IFRS 12, Disclosure of Interests in Other Entities, is similar to the definition of a VIE in US GAAP). An investor controls an investee when it is exposed to or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.</p> <p>Potential voting rights are considered. The notion of "de facto control" is also considered.</p>	<p>Currently, only those Russian entities that fall within the scope of Law 208-FZ directly or indirectly are obliged to prepare consolidated financial statements in accordance with IFRS.</p>
Preparation of consolidated financial statements – general	<p>Required, although certain industry-specific exceptions exist (e.g., investment companies).</p>	<p>Required, although certain industry-specific exceptions exist (e.g., investment companies), and there is a limited exemption from preparing consolidated financial statements for a parent company that is itself a wholly-owned or partially-owned subsidiary, if certain conditions are met..</p>	<p>See above.</p>
Preparation of consolidated financial statements – Investment companies	<p>Investment companies do not consolidate entities that might otherwise require consolidation (e.g., majority-owned corporations). Instead, these investments are reflected at fair value as a single line item in the financial statements. A parent of an investment company is required to retain the investment company subsidiary's fair value accounting in the parent's consolidated financial statements.</p>	<p>Investment companies ("investment entities" in IFRS) do not consolidate entities that might otherwise require consolidation (e.g., majority-owned corporations). Instead, these investments are reflected at fair value as a single line item in the financial statements. However, a parent of an investment company consolidates all entities that it controls, including those controlled through an investment company subsidiary, unless the parent itself is an investment company.</p>	<p>See above.</p>

	US GAAP	IFRS	RAP
Preparation of consolidated financial statements – different reporting dates of parent and subsidiaries	<p>The reporting entity and the consolidated entities are permitted to have differences in year-ends of up to three months.</p> <p>The effects of significant events occurring between the reporting dates of the reporting entity and the controlled entities are disclosed in the financial statements.</p>	<p>The financial statements of a parent and its consolidated subsidiaries are prepared as of the same date. When the parent and the subsidiary have different reporting period end dates, the subsidiary prepares (for consolidation purposes) additional financial statements as of the same date as those of the parent unless it is impracticable.</p> <p>However, when the difference in the reporting period end dates of the parent and subsidiary is three months or less, the financial statements of the subsidiary may be adjusted to reflect significant transactions and events, and it is not necessary to prepare additional financial statements as of the parent's reporting date.</p>	See above.
Uniform accounting policies	Uniform accounting policies between the parent and subsidiary are not required.	Uniform accounting policies between the parent and subsidiary are required.	See above.
Changes in ownership interest in a subsidiary without loss of control	Transactions that result in decreases in the ownership interest of a subsidiary without a loss of control are accounted for as equity transactions in the consolidated entity (i.e., no gain or loss is recognized) when: (1) the subsidiary is a business or nonprofit activity (except for the sale of in substance real estate or the conveyance of oil and gas mineral rights), or (2) the subsidiary is not a business or nonprofit activity, but the substance of the transaction is not addressed directly by other ASC Topics.	Consistent with US GAAP, except that this guidance applies to all subsidiaries, including those that are not businesses or nonprofit activities and those that involve sales of in substance real estate or the conveyance of oil and gas mineral rights.	See above.
Loss of control of a subsidiary	<p>For certain transactions that result in a loss of control of a subsidiary, any retained non-controlling investment in the former subsidiary is re-measured to fair value on the date the control is lost, with the gain or loss included in income along with any gain or loss on the ownership interest sold.</p> <p>This accounting guidance is limited to the following transactions: (1) loss of control of a subsidiary that is a business or nonprofit activity (except for the sale of in substance real estate or the conveyance of oil and gas mineral rights); (2) loss of control of a subsidiary that is not a business or nonprofit activity if the substance of the transaction is not addressed directly by other ASC Topics. This guidance does not apply either if a parent ceases to control a subsidiary that is in substance real estate as a result of default on the subsidiary's nonrecourse debt.</p>	Consistent with US GAAP, except that this guidance applies to all subsidiaries, including those that are not businesses or nonprofit activities and those that involve sales of in substance real estate or the conveyance of oil and gas mineral rights.	See above.

	US GAAP	IFRS	RAP
Loss of control of a group of assets that meets the definition of a business	For certain transactions that result in a loss of control of a group of assets that meets the definition of a business or nonprofit activity, any retained non-controlling investment in the former group of assets is remeasured to fair value on the date control is lost, with the gain or loss included in income along with any gain or loss on the ownership interest sold. There are two exceptions: a sale of in substance real estate, or the conveyance of oil and gas mineral rights.	IFRS 10, <i>Consolidated Financial Statements</i> , does not address whether that guidance should be applied to transactions involving non-subsidiaries that are businesses or nonprofit activities.	There is no relevant guidance in RAP.
Equity method investments	<p>An investment of 20% or more of the voting common stock of an investee leads to a presumption that an investor has the ability to exercise significant influence over an investee, unless this presumption can be overcome based on facts and circumstances.</p> <p>When determining significant influence, potential voting rights are generally not considered.</p> <p>When an investor in a limited partnership or an LLC with specific ownership accounts has an interest greater than 3% to 5% in the investee, there is a general presumption that the investor has the ability to exercise significant influence over that investment.</p> <p>ASC 825-10, <i>Financial Instruments</i>, gives entities the option to account for certain equity method investments at fair value. If management does not elect to use the fair value option, the equity method of accounting is required.</p>	<p>An investment of 20% or more of the equity of an investee (including potential rights) leads to a presumption that an investor has the ability to exercise significant influence over an investee, unless this presumption can be overcome based on facts and circumstances.</p> <p>When determining significant influence, potential voting rights are considered if currently exercisable.</p> <p>When an investor has an investment in a limited partnership, LLC, trust or similar entity, the determination of significant influence is made using the same general principle of significant influence that is used for all other investments.</p> <p>Accounting at fair value is not available to investors (other than venture capital organizations, mutual funds, unit trusts, and similar entities) to account for their investments in associates. IAS 28 generally requires investors (other than venture capital organizations, mutual funds, unit trusts, and similar entities) to use the equity method of accounting for their investments in associates in consolidated financial statements. If separate financial statements are presented (i.e., by a parent or investor), subsidiaries and associates can be accounted for at either cost or fair value.</p>	Currently only those Russian entities that fall within the scope of Law 208-FZ directly or indirectly are obliged to prepare consolidated financial statements in accordance with IFRS.
	Uniform accounting policies between investor and investee are not required.	Uniform accounting policies between investor and investee are required.	See above.

	US GAAP	IFRS	RAP
Joint ventures	<p>Joint ventures are generally defined as entities whose operations and activities are jointly controlled by their equity investors.</p> <p>Joint control is not defined, but it is commonly understood to exist when all of the equity investors unanimously consent to each of the significant decisions of the entity.</p> <p>An entity can be a joint venture, regardless of the rights and obligations the parties sharing joint control have with respect to the entity's underlying assets and liabilities.</p> <p>The investors generally account for their interests in joint ventures using the equity method of accounting. They can also elect to account for their interest at fair value.</p> <p>Proportionate consolidation may be permitted to account for interests in unincorporated entities in certain limited industries when it is an established practice (i.e., in the construction and extractive industries).</p>	<p>Joint ventures are generally defined as entities whose operations and activities are jointly controlled by their investors (e.g., equity investors, certain parties with decision-making rights through a contract).</p> <p>Joint control is defined as existing when two or more parties must unanimously consent to each of the significant decisions of the entity.</p> <p>In a joint venture, the parties sharing joint control can only have rights to the net assets of the entity. They cannot have direct rights or obligations with respect to the underlying assets or liabilities of the entity.</p> <p>The investors generally account for their interests in joint ventures using the equity method of accounting. They cannot elect to account for their interests at fair value, unless the investors are venture capital organizations, mutual funds, unit trusts or similar entities.</p> <p>Proportionate consolidation is not permitted, regardless of industry. However, when a jointly controlled entity meets the definition of a joint operation instead of a joint venture under IFRS, an investor would recognize its share of the entity's assets, liabilities, revenues and expenses and not apply the equity method.</p>	<p>Jointly controlled entities are accounted for at cost as investments 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, while the related profit or losses which are receivable by or have been distributed among the partners are included in other income or expenses).</p>

Convergence

The FASB is making targeted revisions to the consolidation models within US GAAP. The FASB's proposed amendments to the consideration of kick-out rights and principal versus agent relationships would more closely align the consolidation guidance under US GAAP with IFRS. However, certain differences between consolidation guidance under IFRS and US GAAP (e.g., effective control, potential voting rights) would continue to exist. The FASB technical plan calls for a final Accounting Standards Update to be issued by the end of 2014.

In December 2012, the IASB issued proposed amendments to IFRS 10 and IAS 28. Among other things, the proposed amendments in Exposure Draft ED/2012/6, *Sale or Contribution of Assets*

between an Investor and its Associate or Joint Venture, would require full gain or loss recognition when an investor contributes assets that constitute a business to an associate or a joint venture, thereby reducing certain differences between US GAAP and IFRS. The IASB may finalize these proposed amendments later in 2013.

The FASB is also addressing the accounting for equity method investments in the redeliberation of its February 2013 Exposure Draft, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which potentially would lead to additional differences with IFRS.

RAP Developments

Following the adoption of Law 208-FZ certain Russian entities are obliged to prepare consolidated financial statements in accordance with IFRS (see Appendix B). Starting from 2013 there is no requirement for other entities in the Russian Federation to prepare consolidated (aggregated) financial (accounting) statements under RAP even if they have subsidiaries.

Business combinations

Similarities

The principal guidance for business combinations in US GAAP (ASC 805, *Business Combinations*) and IFRS (IFRS 3(R), *Business Combinations*) represents the culmination of the first major convergence project between the IASB and the FASB. Pursuant to ASC 805 and IFRS 3(R), all business combinations are accounted for using the acquisition method. Upon obtaining control of another entity, the underlying transaction is measured at fair value, establishing the basis on which the assets, liabilities and non-controlling interests of the acquired entity are measured. As described below, IFRS 3(R) provides an alternative to measuring non-controlling interest at fair value with limited exceptions. Although the new standards are substantially converged, certain differences still exist.

RAP:
Presently, there is no relevant guidance in RAP for a business combination when business is acquired through the acquisition of shares. Acquired controlling interests in the share capital of other legal entities are initially recognized by the acquirer at cost in accordance with PBU 19 *Accounting for financial investments*. In cases when an enterprise comprising a group of assets and liabilities (in whole or in part) is acquired, rather than shares in a legal entity, the assets acquired and the liabilities assumed are recognized at their previous book value. The difference between the purchase price and the book value of the net assets acquired 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 book value of the net assets acquired and should be recorded as an intangible asset. Negative goodwill is defined as the excess of the book value of the net assets acquired over the purchase price and should be recognized as income within the statement of financial results immediately. IFRS 3 *Business Combinations* is applied in accounting for business combinations in consolidated financial statements prepared by Russian companies in accordance with Law No. 208-FZ.

Significant differences

	US GAAP	IFRS	RAP
Measurement of non-controlling interest	Non-controlling interest is measured at fair value, including goodwill.	Non-controlling interest components that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation may be measured at: (1) fair value, including goodwill, or (2) the non-controlling interest's proportionate share of the fair value of the acquiree's identifiable net assets, exclusive of goodwill. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by IFRS. The choice is available on a transaction-by-transaction basis.	Currently only those Russian entities that fall within the scope of Law 208-FZ directly or indirectly are obliged to prepare consolidated financial statements in accordance with IFRS..
Acquiree's operating leases	If the terms of an acquiree operating 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.	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 the lease are taken into account in estimating the fair value of the asset subject to the lease. Separate recognition of an intangible asset or liability is not required.	There is no relevant accounting guidance in RAP.

	US GAAP	IFRS	RAP
Assets and liabilities arising from contingencies	<p>Initial recognition and measurement</p> <p>Assets and liabilities arising from contingencies are recognized at fair value (in accordance with ASC 820, <i>Fair Value Measurement and Disclosures</i>) if the fair value can be determined during the measurement period. Otherwise, those assets or liabilities are recognized at the acquisition date in accordance with ASC 450, <i>Contingencies</i>, if those criteria for recognition are met.</p> <p>Contingent assets and liabilities that do not meet either of these recognition criteria at the acquisition date are subsequently accounted for in accordance with other applicable literature, including ASC 450, <i>Contingencies</i>. (See "Provisions and Contingencies" for differences between ASC 450 and IAS 37).</p>	<p>Liabilities arising from contingencies are recognized as of the acquisition date if there is a present obligation that arises from past events and the fair value can be measured reliably. Contingent assets are not recognized.</p>	<p>Currently only those Russian entities that fall within the scope of Law 208-FZ directly or indirectly are obliged to prepare consolidated financial statements in accordance with IFRS.</p>
	<p>Subsequent measurement</p> <p>If contingent assets and liabilities are initially recognized at fair value, an acquirer should develop a systematic and rational basis for subsequently measuring and accounting for those assets and liabilities, depending on their nature.</p> <p>If amounts are initially recognized and measured in accordance with ASC 450, <i>Contingencies</i>, the subsequent accounting and measurement should be based on that guidance.</p>	<p>Условные обязательства впоследствии оцениваются по наибольшему из значений: (1) суммы, которая была бы признана в случае применения МСФО (IAS) 37 «Оценочные обязательства, условные обязательства и условные активы», или (2) первоначально признанной суммы за вычетом, если применимо, накопленной амортизации, признанной в соответствии с МСФО (IAS) 18 «Выручка».</p>	<p>See above</p>
Combination of entities under common control	<p>The receiving entity records the net assets at their carrying amounts in the accounts of the transferor (historical cost).</p>	<p>Outside the scope of IFRS 3(R), <i>Business Combinations</i>. In practice, either follow an approach similar to US GAAP (historical cost) or apply the acquisition method (fair value) if there is substance to the transaction (policy election).</p>	<p>See above</p>

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

Convergence

Каких бы то ни было дальнейших шагов в направлении конвергенции не запланировано.

RAP developments

As a result of the adoption of IFRS in Russia in 2011, consolidated financial statements should be prepared by certain Russian entities in accordance with IFRS (see Appendix B). There is no requirement for other entities in the Russian Federation to prepare consolidated financial statements under RAP. Therefore, no relevant guidance under RAP is available.

Inventory

Similarities

ASC 330, *Inventory*, and IAS 2, *Inventories*, are based on the principle that the primary basis of accounting for inventory is cost. Both 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. Permissible techniques for cost

measurement, such as the retail inventory method, are similar under both US GAAP and IFRS. Further, under both sets of standards, the cost of inventory includes all direct expenditures to ready inventory for sale, including allocable overhead, while selling costs are excluded from the cost of inventories, as are most storage costs and general administrative costs.

RAP

According to PBU 5/01 *Accounting for Inventories*, the definitions of inventory, primary basis of accounting, permissible techniques for cost measurement, and composition of cost of inventory are similar to US GAAP and IFRS, except for the differences described below.

Significant differences

	US GAAP	IFRS	RAP
Costing methods	LIFO is an acceptable method. A 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 at the entity.	LIFO is prohibited. The same cost formula must be applied to all inventories similar in nature or use at the entity.
Measurement	Inventory is carried at the lower of cost or market. Market is defined as the current replacement cost, but not greater than net realizable value (the estimated selling price less reasonable costs of completion and sale) and not less than net realizable value reduced by a normal sales margin.	Inventory is carried at the lower of cost or net realizable value. Net realizable value is defined as the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale.	Inventory is carried at the lower of cost or net realizable value.
Reversal of inventory write-downs	Any write-down of inventory to the lower of cost or market creates a new cost basis that subsequently cannot be reversed.	Previously recognized impairment losses are reversed up to the amount of the original impairment loss when the reasons for the impairment no longer exist.	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 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.	Permanent markdowns affect the average gross margin used in applying the RIM. Reduction of the carrying cost of inventory to below the lower of cost or net realizable value is not allowed.	No guidance is available.

Convergence

No further convergence is planned at this time.

RAP developments

The draft of a new FSBU Accounting for Inventory is on the agenda of the Ministry of Finance. The goal of this new draft is to

bring accounting for inventory under RAP closer to IFRS. The timing of issuance of this FSBU has not yet been determined.

Long-lived assets

Similarities

Although US 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*, which addresses tangible assets held for use that are expected to be used for more than one reporting period. Other concepts that are similar include the following:

Cost

Both 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. Neither model allows the capitalization of start-up costs, general administrative and overhead costs or regular maintenance. Both US GAAP and IFRS require that the costs of dismantling an asset and restoring its site (i.e., the costs of asset retirement under ASC 410-20, *Asset Retirement and Environmental Obligations* - *Asset Retirement Obligations* or IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*) be included in the cost of the asset when there is a legal obligation, but IFRS requires a provision in other circumstances as well.

RAP

The definition of fixed assets in PBU 6/01 *Accounting for Fixed Assets* as well as recognition criteria, including those in relation to start-up costs, general administrative and overhead costs or regular maintenance and costs of dismantling an asset and restoring its site, are similar to those in US GAAP and IFRS.

Capitalized interest

ASC 835-20, *Interest - Capitalization of Interest*, and IAS 23, *Borrowing Costs*, require the capitalization of borrowing costs (e.g., interest costs) directly attributable to the acquisition, construction or production of a qualifying asset. Qualifying assets are generally defined similarly under both accounting models. However, there are differences between US GAAP and IFRS in the measurement of eligible borrowing costs for capitalization.

RAP

PBU 15/2008 *Loan and Credit Expenses* requires the capitalization of borrowing costs (e.g., 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 to US GAAP and IFRS. However, the measurement of eligible borrowing costs for capitalization under RAP has particular features.

Depreciation

Depreciation of long-lived assets is required on a systematic basis under both accounting models. ASC 250, *Accounting Changes and Error Corrections*, and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, both treat changes in residual value and useful economic life as a change in accounting estimates requiring prospective treatment.

RAP

Similar to US GAAP and IFRS, depreciation of long-lived assets is required on a consistent basis. However, under RAP, residual value is not considered when determining the depreciable amount, and a change in economic useful life is allowed only in rare circumstances.

Assets held for sale

Assets held for sale criteria are similar in the *Impairment or Disposal of Long-Lived Assets* subsections of ASC 360-10, *Property, Plant and Equipment*, and IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*. Under both standards, the asset is measured at the lower of its carrying amount or fair value less costs to sell, the assets are not depreciated, and they are presented separately on the face of the balance sheet. Exchanges of nonmonetary similar productive assets are also treated similarly under ASC 845, *Nonmonetary Transactions*, and IAS 16, *Property, Plant and Equipment*, both of which allow gain or loss recognition if the exchange has commercial substance and the fair value of the exchange can be reliably measured.

RAP

PBU 6/01 *Accounting for Fixed Assets* requires that assets held for sale be reclassified to inventory.

Significant differences

	US GAAP	IFRS	RAP
Revaluation of assets	Revaluation not permitted.	Revaluation is a permitted accounting policy election for an entire class of assets, requiring revaluation to fair value on a regular basis.	The 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 permitted but not common.	Component depreciation required if components of an asset have differing patterns of benefit.	Component depreciation required if useful lives of separate components differ significantly.
Measurement of borrowing costs	<p>Eligible borrowing costs do not include exchange rate differences. Interest earned on the investment of borrowed funds generally cannot offset interest costs incurred during the period.</p> <p>For borrowings associated with a specific qualifying asset, borrowing costs equal to the weighted-average accumulated expenditures times the borrowing rate are capitalized.</p>	<p>Eligible borrowing costs include exchange rate differences from foreign currency borrowings.</p> <p>For borrowings associated with a specific qualifying asset, actual borrowing costs are capitalized offset by investment income earned on those borrowings.</p>	<p>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.</p> <p>Eligible borrowing costs do not include exchange rate differences.</p> <p>For borrowings associated with a specific investment asset, the actual borrowing costs incurred in this respect are capitalized.</p>

	US GAAP	IFRS	RAP
Costs of a major overhaul	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.	Costs that represent 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.	Subsequent expenditure on property, plant and equipment can be capitalized only in the case of upgrade or rebuilding of fixed assets.
Investment property	Investment property is not separately defined and, therefore, is accounted for as held for use or held for sale.	Investment property is separately defined in IAS 40, <i>Investment Property</i> , as property held to earn rent or for capital appreciation (or both), and may include property held by lessees under a finance or operating lease. Investment property may be accounted for on a historical cost basis or on a fair value basis as an accounting policy election. Capitalized operating leases classified as investment property must be accounted for using the fair value model.	There is no corresponding accounting guidance in RAP. Investment property is accounted for at cost or under the revaluation model similar to the accounting method used for property, plant and equipment.

Other differences include: hedging gains and losses related to the purchase of assets, constructive obligations to retire assets, the discount rate used to calculate asset retirement costs, and accounting for changes in the residual value.

Convergence

No further convergence is planned at this time.

RAP Developments

The draft of a new FSBU Accounting for Fixed Assets is on the agenda of the Ministry of Finance. The goal of this new draft is to bring accounting for fixed assets under RAP closer to IFRS. The timing of issuance of this FSBU has not yet been determined.

Intangible assets

Similarities

Both US GAAP (ASC 805, *Business Combinations*, and ASC 350, *Intangibles – Goodwill and Other*) and IFRS (IFRS 3(R), *Business Combinations*, and IAS 38, *Intangible Assets*) define intangible assets as nonmonetary assets without physical substance. The recognition criteria for both accounting models require that there be probable future economic benefits from costs that can be reliably measured, although some costs are never capitalized as intangible assets (e.g., start-up costs). Goodwill is recognized only in a business combination. With the exception of development costs (addressed below), internally developed intangibles are not recognized as assets under either ASC 350 or IAS 38. Moreover, internal costs related to the research phase of research and development are expensed as incurred under both accounting models.

RAP

PBU 14/2007 *Accounting for Intangible Assets* defines intangible assets as nonmonetary assets without physical substance and contains recognition criteria similar to IFRS and US GAAP. However, in accordance with RAP, intangible assets can be recognized only if the company has exclusive rights to them. Goodwill (RAP employs the term “business reputation”) is recognized only if a group of assets is acquired. According to RAP, internally developed intangibles and research and development costs are recognized as an asset if they are going to bring future economic benefit.

Amortization of intangible assets over their estimated useful lives is required under both US GAAP and IFRS, with one US GAAP minor exception in ASC 985-20, *Software – Costs of Software to be Sold, Leased or Marketed*, related to the amortization of computer software sold to others. In both sets of standards, 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 the asset is not amortized. Goodwill is never amortized under either US GAAP or IFRS.

RAP

Amortization of intangible assets over their estimated useful lives is required under RAP, including goodwill which is amortized over 20 years, but not longer than the economic life of the acquiree. Similar to US GAAP and IFRS, 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 the asset is not amortized.

Significant differences

	US GAAP	IFRS	RAP
Development costs	Development costs are expensed as incurred unless addressed by guidance in another ASC Topic. Development costs related to computer software developed for external use are capitalized once technological feasibility is established in accordance with specific criteria (ASC 985-20). In the case of software developed for internal use, only those costs incurred during the application development stage (as defined in ASC 350-40, <i>Intangibles – Goodwill and Other – Internal-Use Software</i>) may be capitalized.	Development costs are capitalized when the technical and economic feasibility of a project can be demonstrated in accordance with specific criteria, including: demonstrating technical feasibility, intent to complete the asset, and ability to sell the asset in the future. Although application of these principles may be largely consistent with ASC 985-20 and ASC 350-40, there is no separate guidance addressing computer software development costs.	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.
Advertising costs	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 ASC 340-20, <i>Other Assets and Deferred Costs – Capitalized 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 having access to the goods or receiving the services.	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 gaining access to the goods or receiving the services.
Revaluation	Revaluation is not permitted.	Revaluation to fair value of intangible assets other than goodwill is a permitted accounting policy election for a class of intangible assets. Because revaluation requires reference to an active market for the specific type of intangible, this is relatively uncommon in practice.	Revaluation to fair value of intangible assets other than goodwill is an allowable alternative treatment. However, revaluation needs to be conducted on a regular basis, but not 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

No further convergence is planned at this time.

Impairment of long-lived assets, goodwill and intangible assets

Similarities

Under both US GAAP and IFRS, long-lived assets are not tested annually, but rather when there are similarly defined indicators of impairment. Both standards require goodwill and intangible assets with indefinite useful lives to be tested at least annually for impairment and more frequently if impairment indicators are present. In addition, both US GAAP and IFRS require that the impaired asset be written down and an impairment loss recognized. ASC 350, *Intangibles*

– *Goodwill and Other, Impairment or Disposal of Long-Lived Assets* subsections of ASC 360-10, *Property, Plant and Equipment*, and IAS 36, *Impairment of Assets*, apply to most long-lived and intangible assets, although some of the scope exceptions listed in the standards differ. Despite the similarity in overall objectives, differences exist in the way impairment is tested, recognized and measured.

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* and PBU 24/2011 *Accounting for Exploration of Natural Resources*, which refer to the possibility of accounting for impairments of intangible assets in accordance with IFRS.

Significant differences

	US GAAP	IFRS	RAP
Method of determining impairment – long-lived assets	A two-step approach which requires that a recoverability test be performed first (the carrying amount of the asset is compared with the sum of future undiscounted cash flows generated through use and eventual disposition). If it is determined that the asset is not recoverable, an impairment loss calculation is required.	A one-step approach which requires that an impairment loss calculation be performed if impairment indicators exist.	PBU 24/2011 <i>Accounting for Exploration of Natural Resources</i> , requires that an impairment loss calculation be performed if impairment indicators exist. There is no corresponding accounting guidance in PBU 14/2007 <i>Accounting for Intangible Assets</i> .
Impairment loss calculation – long-lived assets	The amount by which the carrying amount of the asset exceeds its fair value, as calculated in accordance with ASC 820, <i>Fair Value Measurement</i> .	The amount by which the carrying amount of the asset exceeds its recoverable amount; the recoverable amount is the higher of: (1) fair value less costs to sell, and (2) value in use (the present value of future cash flows in use, including disposal value).	There is no relevant accounting guidance in PBU 14/2007 <i>Accounting for Intangible Assets</i> . Companies are allowed but not obliged to follow IFRS for impairment rules. PBU 24/2011 <i>Accounting for Exploration of Natural Resources</i> refers to the requirement to account for impairments in respect of intangible assets in accordance with IFRS.

	US GAAP	IFRS	RAP
Assignment of goodwill	Goodwill is assigned to a reporting unit, which is defined as an operating segment or one level below an operating segment (component).	Goodwill is allocated to a cash-generating unit (CGU) or group of CGUs that 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 (before aggregation) as defined in IFRS 8, <i>Operating Segments</i> .	There is no relevant accounting guidance in RAP. Companies are allowed to follow IFRS for impairment rules.
Method of determining impairment – goodwill	Companies have the option to qualitatively assess whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If so, a two-step approach requires a recoverability test to be performed first at the reporting unit level (the carrying amount of the reporting unit is compared with the reporting unit's fair value). If the carrying amount of the reporting unit exceeds its fair value, then impairment testing must be performed.	A qualitative assessment is not permitted. A one-step approach requires that an impairment test be carried out at the CGU level by comparing the CGU's carrying amount, including goodwill, with its recoverable amount.	There is no relevant accounting guidance in RAP. Companies are allowed to follow IFRS for impairment rules.
Method of determining impairment – indefinite-lived intangibles	Companies have the option to qualitatively assess whether it is more likely than not that an indefinite-lived intangible asset is impaired. If so, the two-step approach (similar to other long-lived assets) would be required.	A qualitative assessment is not permitted. A one-step approach requires that an impairment test be carried out at the CGU level by comparing the CGU's carrying amount, including goodwill, with its recoverable amount.	There is no relevant accounting guidance in RAP. Companies are allowed to follow IFRS for impairment rules.
Impairment loss calculation – goodwill	The amount by which the carrying amount of goodwill exceeds the implied fair value of the goodwill within its reporting unit.	The impairment loss on the CGU (the amount by which the CGU's carrying amount, including goodwill, exceeds its recoverable amount) is allocated first to reduce goodwill to zero, then, subject to certain limitations, the carrying amounts of other assets in the CGU are reduced pro rata, based on the carrying amount of each asset.	There is no relevant accounting guidance in RAP. Companies are allowed to follow IFRS for impairment rules.
Level of assessment – indefinite-lived intangible assets	Indefinite-lived intangible assets recognized separately should be assessed for impairment individually unless they operate in concert with other indefinite-lived intangible assets as a single asset (i.e., the indefinite-lived intangible assets are essentially inseparable). Indefinite-lived intangible assets may not be combined with other assets (e.g., finite-lived intangible assets or goodwill) for purposes of an impairment test.	If the indefinite-lived intangible asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, then the indefinite-lived intangible asset should be tested for impairment as part of the CGU to which it belongs, unless certain conditions are met.	There is no relevant accounting guidance in PBU 14/2007 <i>Accounting for Intangible Assets</i> . Companies are allowed to follow IFRS for impairment rules.

	US GAAP	IFRS	RAP
Impairment loss calculation – indefinite-lived intangible assets	The amount by which the carrying amount of the asset exceeds its fair value.	The amount by which the carrying amount of the asset exceeds its recoverable amount.	There is no relevant accounting guidance in PBU 14/2007 <i>Accounting for Intangible Assets</i> . Companies are allowed to follow IFRS for impairment rules.
Reversal of loss	Prohibited for all assets to be held and used.	Prohibited for goodwill. Other long-lived assets must be reviewed at the end of each reporting period for reversal indicators. If appropriate, the loss should be reversed up to the newly estimated recoverable amount, not to exceed the initial carrying amount adjusted for depreciation.	There is no relevant accounting guidance in RAP. Companies are allowed to follow IFRS for impairment rules.

Convergence

No further convergence is planned at this time.

RAP Developments

The new FSBU Accounting for Fixed Assets, which is on the agenda of the Ministry of Finance, will introduce the impairment concept for fixed assets. The timing of issuance of this FSBU has not yet been determined.

Financial instruments

Similarities

The US GAAP guidance for financial instruments is located in numerous ASC Topics, including ASC 310, *Receivables*; ASC 320, *Investments – Debt and Equity Securities*; ASC 470, *Debt*; ASC 480, *Distinguishing Liabilities from Equity*; ASC 815, *Derivatives and Hedging*; ASC 820, *Fair Value Measurement*; ASC 825, *Financial Instruments*; ASC 860, *Transfers and Servicing*; and ASC 948, *Financial Services – Mortgage Banking*.

IFRS guidance for financial instruments, on the other hand, is limited to IAS 32, *Financial Instruments: Presentation*; IAS 39, *Financial Instruments: Recognition and Measurement*; IFRS 7, *Financial Instruments: Disclosures*; IFRS 9, *Financial Instruments*, if early adopted; and IFRS 13, *Fair Value Measurement*.

RAP

Guidance for financial instruments is included in PBU 19/02 *Accounting for Financial Investments* and PBU 15/2008 *Loan and Credit Expenses*.

Both US GAAP and IFRS (1) require financial instruments to be classified into specific categories to determine the measurement of those instruments, (2) clarify when financial instruments should be recognized or derecognized in financial statements, (3) require the recognition of all derivatives on the balance sheet, and (4) require detailed disclosures in the notes to the financial statements for the financial instruments reported in the balance sheet. Both sets of standards also allow hedge accounting and the use of a fair value option.

RAP

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. In 2012 MFRF issued a letter prescribing the disclosure of certain risks related to financial instruments in the appendices to financial statements. According to para 7 of PBU 1/2008 *The Accounting Policies of an Organization*, in cases when regulatory acts do not provide for established methods of accounting with regard to a certain issue the entity should develop an appropriate accounting method, taking into consideration the requirements of both this and other PBUs, as well as IFRS. This PBU is applicable to hedge accounting.

Significant differences

	US GAAP	IFRS	RAP
Debt vs. equity			
Classification	US GAAP specifically identifies certain instruments with characteristics of both debt and equity that must be classified as liabilities.	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.	Shareholders' capital, additional paid-in capital, reserve capital, other reserves and retained earnings are classified as equity under RAP. Financial instruments such as loans and accounts payable are classified as liabilities.
	Certain other contracts that are indexed to, and potentially settled in, an entity's own stock may be classified as equity if they either: (1) require physical settlement or net-share settlement, or (2) give the issuer a choice of net-cash settlement or settlement in its own shares.	Contracts that are indexed to, and potentially settled in, an entity's own stock are classified as equity if settled only by delivering a fixed number of shares for a fixed amount of cash.	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.

	US GAAP	IFRS	RAP
Compound (hybrid) financial instruments	Compound (hybrid) financial instruments (e.g., convertible bonds) are not split into debt and equity components unless certain specific conditions are met, but they may be bifurcated into debt and derivative components, with the derivative component subject to fair value accounting.	Compound (hybrid) financial instruments are required to be split into a debt and equity component and, if applicable, a derivative component. The derivative component may be subject to fair value accounting.	Compound (hybrid) financial instruments are classified in accordance with their legal form.

Recognition and measurement

Recognition and measurement	<p>Declines in fair value below cost may result in an impairment loss being recognized in the income statement on an AFS debt instrument due solely to a change in interest rates (risk-free or otherwise) if the entity has the intent to sell the debt instrument or it is more likely than not that it will be required to sell the debt instrument before its anticipated recovery. In this circumstance, the impairment loss is measured as the difference between the debt instrument's amortized cost basis and its fair value.</p> <p>When a credit loss exists, but (1) the entity does not intend to sell the debt instrument, or (2) it is not more likely than not that the entity will be required to sell the debt instrument before the recovery of the remaining cost basis, the impairment is separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total impairment related to the credit loss is recognized in the income statement and the amount related to all other factors is recognized in other comprehensive income, net of applicable taxes.</p>	<p>Generally, only objective evidence of one or more credit loss events results in an impairment being recognized in the statement of comprehensive income for an AFS debt instrument. The impairment loss is measured as the difference between the debt instrument's amortized cost basis and its fair value.</p>	<p>The impairment is calculated only for those financial investments for which the current market price is not 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 what constitutes a permanent reduction of the financial asset.</p>
	<p>When an impairment loss is recognized in the income statement, a new cost basis in the instrument is established equal to the previous cost basis less the impairment recognized in earnings, and, therefore, impairment losses recognized in the income statement cannot be reversed for any future recoveries.</p>	<p>Impairment losses for AFS debt instruments may be reversed through the statement of comprehensive income if the fair value of the instrument increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognized.</p>	<p>Impairment losses for AFS debt instruments may be reversed through the statement of financial results if the value of the instrument increases in a subsequent period.</p>
Impairment recognition – available-for-sale (AFS) equity instruments	<p>Impairment of an AFS equity instrument is recognized in the income statement if the equity instrument's fair value is not expected to recover sufficiently in the near term to allow a full recovery of the entity's cost basis. An entity must have the intent and ability to hold an impaired equity instrument until such near-term recovery; otherwise an impairment loss must be recognized in the income statement.</p>	<p>Impairment of an AFS equity instrument is recognized in the statement of comprehensive income when there is objective evidence that the AFS equity instrument is impaired and the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an equity instrument below its cost is considered objective evidence of an impairment.</p>	<p>The impairment is calculated only for the financial investments for which the current market price is not 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 what constitutes a permanent reduction of the financial asset.</p>

	US GAAP	IFRS	RAP
Impairment recognition – held-to-maturity (HTM) debt instruments	<p>The impairment loss of an HTM instrument is measured as the difference between its fair value and amortized cost basis. The amount of the total impairment related to the credit loss is recognized in the income statement, and the amount related to all other factors is recognized in other comprehensive income.</p> <p>The carrying amount of an HTM investment after recognition of an impairment is the fair value of the debt instrument at the date of the impairment. The new cost basis of the debt instrument is equal to the previous cost basis less the impairment recognized in the income statement.</p> <p>The impairment recognized in other comprehensive income is accreted to the carrying amount of the HTM instrument through other comprehensive income</p>	<p>The impairment loss of an HTM instrument is measured as the difference between the carrying amount of the instrument and the present value of estimated future cash flows discounted at the instrument's original effective interest rate.</p> <p>The carrying amount of the instrument is reduced either directly or through the use of an allowance account.</p> <p>The amount of impairment loss is recognized in the statement of comprehensive income.</p>	<p>The impairment is calculated only for the financial investments for which the current market price is not 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 what constitutes a permanent reduction in the value of a financial asset.</p>

Derivatives and hedging

Definition of a derivative and scope exceptions	To meet the definition of a derivative, an instrument must have one or more underlyings, one or more notional amounts or payment provisions, or both, must require no initial net investment, as defined, and must be able to be settled net, as defined. Certain scope exceptions exist for instruments that would otherwise meet these criteria.	The IFRS definition of a derivative does not include a requirement that a notional amount be indicated, nor is net settlement a requirement. Certain of the scope exceptions under IFRS differ from those under US GAAP.	There is no definition of derivative in RAP.
Hedging a risk component of a financial instrument	The risk components that may be hedged are specifically defined by the literature, with no additional flexibility.	Risks associated with only a portion of the instrument's cash flows or fair value (such as one or more selected contractual cash flows or portions of them or a percentage of the fair value) may be hedged provided that effectiveness of the hedging can be measured: that is, the portion is identifiable and separately measurable.	There is no relevant accounting guidance in RAP.
Hedge effectiveness	<p>The shortcut method for interest rate swaps hedging recognized debt instruments is permitted.</p> <p>The long-haul method of assessing and measuring hedge effectiveness for a fair value hedge of the benchmark interest rate component of a fixed rate debt instrument requires that all contractual cash flows be considered in calculating the change in the hedged item's fair value even though only a component of the contractual coupon payment is the designated hedged item.</p>	<p>The shortcut method for interest rate swaps hedging recognized debt is not permitted.</p> <p>Under IFRS, assessment and measurement of hedge effectiveness considers only the change in fair value of the designated hedged portion of the instrument's cash flows, as long as the portion is separately identifiable and reliably measurable.</p>	There is no relevant accounting guidance in RAP.

	US GAAP	IFRS	RAP
Hedge effectiveness – inclusion of option's time value	Permitted.	Not permitted.	There is no relevant accounting guidance in RAP.

Derecognition

Derecognition of financial assets	<p>Derecognition of financial assets (i.e., sales treatment) occurs when effective control over the financial asset has been surrendered:</p> <ul style="list-style-type: none"> ▶ The transferred financial assets are legally isolated from the transferor ▶ Each transferee (or, if the transferee is a securitization entity or an entity whose sole purpose is to facilitate asset-backed financing, each holder of its beneficial interests), has the right to pledge or exchange the transferred financial assets (or beneficial interests) ▶ The transferor does not maintain effective control over the transferred financial assets or beneficial interests (e.g., through a call option or repurchase agreement) <p>The derecognition criteria may be applied to a portion of a financial asset only if it mirrors the characteristics of the original entire financial asset.</p>	<p>Derecognition of financial assets is based on a mixed model that considers the transfer of risks, rewards and control. Transfer of control is considered only when the assessment of the transfer of risks and rewards is not conclusive. If the transferor has neither retained nor transferred substantially all of the risks and rewards, 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>The derecognition criteria may be applied to a portion of a financial asset if the cash flows are specifically identified or represent a pro rata share of the financial asset or a pro rata share of specifically identified cash flows.</p>	<p>Derecognition of financial assets occurs at the moment of transfer of the right of ownership.</p>
--	--	--	--

Loans and receivables

Measurement – effective interest method	<p>Requires the catch-up approach, retrospective method or prospective method for calculating the interest on amortized cost-based assets, depending on the type of instrument.</p>	<p>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.</p>	<p>There is no accounting under the effective interest method in RAP. Interest is accrued on a straight-line basis.</p>
Measurement – loans and receivables	<p>Unless the fair value option is elected, loans and receivables are classified as either: (1) held for investment, which are measured at amortized cost, or (2) held for sale, which are measured at the lower of cost or fair value.</p>	<p>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.</p>	<p>Loans and receivables are carried at cost less the allowance.</p>

	US GAAP	IFRS	RAP
Fair value measurement			
Day one gains and losses	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. Unlike IFRS, US GAAP contains no specific requirements regarding the observability of inputs, thereby potentially allowing for the recognition of gains or losses at initial recognition of an asset or liability even when the fair value measurement is based on a valuation model with significant unobservable inputs (i.e., level 3 measurements).	Day one gains and losses on financial instruments are recognized only when their fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a level 1 or level 2 input) or based on a valuation technique that uses only data from observable markets.	Not applicable because valuation techniques are not used.
Practical expedient for alternative investments	Entities are provided a practical expedient to estimate the fair value of certain alternative investments (e.g., a limited partner interest in a Private Equity fund) using net asset value per share (NAV) or its equivalent.	No practical expedient to assume that NAV represents the fair value of certain alternative investments.	There is no relevant accounting guidance in RAP.

Other differences include: (1) definitions of a derivative and embedded derivative, (2) cash flow hedging – basis adjustments and effectiveness testing, (3) normal purchase and sale exceptions, (4) foreign exchange gains and/or losses on AFS investments, (5) recognition of basis adjustments when hedging future transactions, (6) macro hedging, (7) hedging net investments, (8) cash flow hedge of intercompany transactions, (9) hedging with internal derivatives, (10) impairment criteria for equity investments, (11) puttable minority interest, (12) netting and offsetting arrangements, (13) units of account eligible for derecognition, and (14) accounting for servicing assets and liabilities.

Convergence

The FASB and the IASB are engaged in projects to simplify and improve accounting for financial instruments.

Classification and measurement

The FASB fully re-exposed its classification and measurement model in February 2013 with a comment period that ended May 2013. To promote convergence, the IASB also proposed limited amendments to its classification and measurement guidance in IFRS 9 in November 2012 with a comment period ended in March 2013. The latest FASB proposal on classification and measurement is generally more aligned with IFRS 9 than both the previous proposal and current US GAAP. The Boards have considered feedback received on their respective

drafts and are jointly redeliberating certain issues.

Impairment

The FASB exposed for comment in December 2012 a single measurement model (referred to as the “Current Expected Credit Loss” model), which differs from the three-bucket model that was jointly deliberated with the IASB. The comment period ended in May 2013. The IASB issued its proposal, based on a variation of the three-bucket model in March 2013 with a comment period ended in July 2013. The Boards are jointly considering feedback received on their respective drafts to determine if there is common ground in developing a converged standard.

Hedge accounting

The IASB finished redeliberating its hedge accounting proposals (other than macro hedging). The IASB posted a review draft of the hedge accounting portion of IFRS 9 to its website in September 2012 and intends to finalize the draft document during the second half of 2013. When the FASB begins its redeliberations, it will consider whether and how to incorporate some of the IASB's concepts into the FASB hedging model. The FASB will re-expose any changes to the Codification before issuing final guidance.

Foreign currency matters

Similarities

ASC 830, *Foreign Currency Matters*, and IAS 21, *The Effects of Changes in Foreign Exchange Rates*, are similar in their approach to foreign currency translation. Although the criteria to determine an entity's functional currency are different under US GAAP and IFRS, both ASC 830 and IAS 21 generally result in the same determination (i.e., the currency of the entity's primary economic environment). In addition, although there are differences in accounting for foreign currency translation in hyperinflationary economies under ASC 830 and IAS 29, *Financial Reporting in Hyperinflationary Economies*, both sets of standards require the identification of hyperinflationary economies and generally consider the same economies to be hyperinflationary.

RAP

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.

Both US GAAP and IFRS require foreign currency transactions to be remeasured into an entity's functional currency with amounts resulting from changes in exchange rates reported in income. Except for the translation of financial statements in hyperinflationary economies, the method used to translate financial statements from the functional currency to the reporting currency is the same. In addition, both US GAAP and IFRS require remeasurement into the functional currency before translation into the reporting currency. Assets and liabilities are translated at the period-end rate and income statement amounts are generally translated at the average rate, with the exchange differences reported in equity. Both sets of standards also require certain foreign exchange effects related to net investments in foreign operations to be accumulated in shareholders' equity (i.e., the cumulative translation adjustment portion of other comprehensive income). In general, these amounts are reflected in income when there is a sale, complete liquidation or abandonment of the foreign operation.

RAP

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, except for certain cases. 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, as well as share capital, 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.

Consolidated financial statements prepared in accordance with the Federal Law *On Consolidated Financial Statements* No. 208-FZ should be presented in Russian rubles.

Significant differences

	US GAAP	IFRS	RAP
Translation/functional currency of foreign operations in a hyperinflationary economy	Local functional currency financial statements are remeasured as if the functional currency was the reporting currency (US dollar in the case of a US parent) with resulting exchange differences recognized in income.	The functional currency must be maintained. However, local functional currency financial statement amounts not already measured at the current rate at the end of the reporting period (current and prior period) are indexed using a general price index (i.e., restated in terms of the measuring unit current at the balance sheet date with the resultant effects recognized in income), and are then translated to the reporting currency at the current rate.	There is no relevant accounting guidance for a hyperinflationary economy in RAP.
Consolidation of foreign operations	A "bottom-up" approach is required in order to reflect the appropriate foreign currency effects and hedges in place. As such, an entity should be consolidated by the enterprise that controls that entity. Therefore, the "step-by-step" method of consolidation 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.	The method of consolidation is not specified and, as a result, either the "direct" or the "step-by-step" method of consolidation is used. Under the "direct" method, each entity within the consolidated group is directly translated into the functional currency of the ultimate parent and then consolidated into the ultimate parent (i.e., the reporting entity) without regard to any intermediate parent. The choice of consolidation method used could affect the cumulative translation adjustments deferred within equity at intermediate levels, and therefore the recycling of the exchange rate differences upon disposal of an intermediate foreign operation.	There is no corresponding accounting guidance in RAP. However, as a result of IFRS adoption in Russia for consolidated financial statements, no such guidance under RAP is needed.

Convergence

No further convergence is planned at this time.

Leases

Similarities

The overall accounting for leases under US GAAP and IFRS (ASC 840, *Leases* and IAS 17, *Leases*, respectively) is similar, although US GAAP has more specific application guidance than IFRS. Both focus on classifying leases as either capital (IAS 17 uses the term “finance”) or operating, and both separately discuss lessee and lessor accounting.

RAP

There is no separate standard for lease accounting in RAP. Federal Law *On Financial Lease* No. 164 defines the category of financial lease and contains a number of accounting regulations with regard to it. Further guidance on accounting for financial leases can be found in *Guidance on Accounting for Leasing Transactions* approved by order of the Ministry of Finance of the Russian Federation No. 15.

Lessee accounting (excluding real estate)

Both US GAAP and IFRS require the party that bears substantially all the risks and rewards of ownership of the leased property to recognize a lease asset and corresponding obligation, and provide criteria (ASC 840) or indicators (IAS 17) to determine whether a lease is capital or operating. The criteria or indicators of a capital lease are similar in that both standards 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. ASC 840 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. ASC 840 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 ASC 840 specifies bright lines in certain instances, IAS 17's general principles are interpreted similarly to the bright-line tests. As a result, lease classification is often the same under ASC 840 and IAS 17.

Under both US GAAP and IFRS, a lessee would record a capital (finance) lease by recognizing an asset and a liability, measured at the lower of the present value of the minimum lease payments or fair value of the asset. A lessee would record an operating lease by recognizing expense on a straight-line basis over the lease term. Any incentives under an operating lease are amortized on a straight-line basis over the term of the lease.

RAP

Accounting for financial lease in RAP differs significantly. In particular, recognition of the financial lease asset in the balance sheet of a lessee or a lessor is determined by contractual terms and is not subject to economic criteria employed by IFRS or US GAAP. Valuation based on the present value or the fair value is not used. A lessee would record an operating lease by recognizing expense on a straight-line basis over the lease term. Any incentives under an operating lease are amortized on a straight-line basis over the term of the lease.

So, under RAP classification of the lease is more form-driven, but if the lease is determined to be an operating lease, accounting would be similar to that under US GAAP and IFRS, but significantly different if determined to be a finance lease.

Lessor accounting (excluding real estate)

Lessor accounting under ASC 840 and IAS 17 is similar and uses the above tests to determine whether a lease is a sales-type/direct financing lease (referred to as a finance lease under IAS 17) or an operating lease. ASC 840 specifies two additional criteria (i.e., the collection of lease payments is reasonably predictable and no important uncertainties surround the amount of unreimbursable costs to be incurred by the lessor) for a lessor to qualify for sales-type/direct financing lease accounting that IAS 17 does not. Although not specified in IAS 17, it is reasonable to expect that if these conditions exist, the same conclusion may be reached under both standards. If a lease is a sales-type/direct financing (finance) lease, the leased asset is replaced with a lease receivable. If a lease is classified as operating, rental income is recognized on a straight-line basis over the lease term, and the leased asset is depreciated by the lessor over its useful life.

RAP

Under RAP, classification of the lease is more form-driven, but if a lease is determined to be an operating lease, accounting would be similar to that under US GAAP and IFRS, but significantly different if determined to be a finance lease.

Significant differences

	US GAAP	IFRS	RAP
Lease of real estate	<p>A lease of land and buildings that transfers ownership to the lessee or contains a bargain purchase option would be classified as a capital lease by the lessee, regardless of the relative value of the land.</p> <p>If the fair value of the land at inception represents less than 25% of the total fair value of the lease, the lessee accounts for the land and building components as a single unit for the purpose of evaluating the 75% and 90% tests noted above.</p> <p>Otherwise, the lessee must consider the land and building components separately for the purpose of evaluating other lease classification criteria. (Note: only the building is subject to the 75% and 90% tests in this case).</p>	<p>The land and building elements of the lease are considered separately when evaluating 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 purpose of lease classification.</p> <p>There is no 25% test to determine whether to consider the land and building separately when evaluating certain indicators</p>	<p>Accounting for leases is governed by Federal Law <i>On Financial Lease</i> No. 164 and the corresponding <i>Guidance on Accounting for Leasing Transactions</i> order No. 15 (in the case of financial leases), and the type of lease and the lessor are defined in the lease contract.</p> <p>Under RAP, the treatment of land and buildings does not differ from the treatment of other property, plant and equipment, and is determined with regard to the contractual arrangement of the parties.</p>
Recognition of a gain or loss on a sale and leaseback when the leaseback is an operating leaseback	<p>If the seller does not relinquish more than a minor part of the use of the asset, the 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: this does not apply if real estate is involved, as the specialized rules are very restrictive with respect to the seller's continuing involvement, and they may not allow for recognition of the sale).</p>	<p>A gain or loss is recognized immediately, subject to adjustment if the sales price differs from fair value.</p>	<p>There is no corresponding guidance in RAP, but in practice a gain or loss is recognized immediately.</p>
Recognition of a gain or loss on a sale-leaseback when the leaseback is a capital leaseback	<p>Generally, the same as above for operating leasebacks in which the seller does not relinquish more than a minor part of the use of the asset.</p>	<p>A gain or loss deferred and amortized over the lease term.</p>	<p>There is no corresponding guidance in RAP, but in practice a gain or loss is deferred and recognized when the payments are made.</p>

Other differences include: (1) the treatment of a leveraged lease by a lessor under ASC 840 (IAS 17 does not have such a classification), (2) real estate sale-leasebacks, (3) real estate sales-type leases, (4) leases of land, and (5) the rate used to discount minimum lease payments to the present value for purposes of determining lease classification and subsequent recognition of a capital lease, including in the event of a renewal.

Convergence

As part of their convergence efforts, the Boards have issued an exposure draft on lease accounting that would create a common standard for lease accounting and require lessees to recognize the assets and liabilities arising under most lease contracts on their balance sheets.

RAP Developments

The draft of a new FSBU *Accounting for Leases* is on the agenda of the Ministry of Finance. The goal of this new FSBU is to bring accounting for leases under RAP closer to proposed changes in IFRS. The timing of issuance of this FSBU has not yet been determined.

Income taxes

Similarities

ASC 740, *Income Taxes*, and IAS 12, *Income Taxes*, require entities to account for both current tax effects and expected future tax consequences of events that have been recognized (i.e., deferred taxes) using an asset and liability approach. Deferred taxes for temporary differences

arising from non-deductible goodwill are not recorded under either US GAAP or IFRS, and tax effects of items accounted for directly in equity during the current year are allocated directly to equity. Neither US GAAP nor IFRS permit the discounting of deferred taxes.

RAP

In RAP, accounting for income taxes is governed by PBU 18/02 *Accounting for Profits Tax Settlements of Organizations*, which differs from the corresponding IFRS and US GAAP standards.

Significant differences

	US GAAP	IFRS	RAP
Tax basis	The tax basis is a question of fact under the tax law. For most assets and liabilities, there is no dispute on this amount; however, when uncertainty exists, it is determined in accordance with ASC 740-10-25.	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 generally the amount taxable or deductible for tax purposes according to the Tax Code.
Taxes on intercompany transfers of assets that remain within a consolidated group	Requires taxes paid on intercompany profits to be deferred and prohibits the recognition of deferred taxes on temporary 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 recognized as incurred and requires the recognition of deferred taxes on temporary differences between the tax bases of assets transferred between entities/tax jurisdictions that remain within the consolidated group.	For tax purposes, transactions between members of a consolidated taxpayer group (the "CTG") are accounted for in accordance with tax legislation, which does not provide for any exemptions for asset transfer transactions between members of the CTG. Each party to the transaction recognizes it in its own tax records in accordance with applicable legislation and provides this information to the responsible member of the CTG. Transactions between members of the CTG are taxable in accordance with the standard procedure (except as otherwise expressly provided in tax legislation). This does not apply to the transfer of cash for the purpose of paying taxes. If a company has deferred tax assets available prior to joining a CTG, then it shall retain these assets until it leaves the CTG or is liquidated. As income tax liabilities are accounted for by the responsible member of the CTG based on the financial data received from each of the CTG's members, the loss incurred by the CTG as a whole can be offset only against income received by the CTG as a whole.

	US GAAP	IFRS	RAP
Uncertain tax positions	ASC 740-10-25 requires a two-step process, separating recognition from measurement. A benefit is recognized when it is "more likely than not" to be sustained based on the technical merits of the position. Detection risk is precluded from being considered in the analysis. 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.	IFRS does not include specific guidance. IAS 12, <i>Income Taxes</i> indicates that tax assets and liabilities should be measured at the amount expected to be paid based on enacted or substantively enacted tax legislation. Some adopt a "one-step" approach that recognizes all uncertain tax positions at an expected value. Others adopt a "two-step" approach that recognizes only those uncertain tax positions that are considered more likely than not to result in a cash outflow. Practice varies regarding the consideration of detection risk in the analysis.	No specific guidance; tax assets/liabilities should be measured in the amount expected to be paid.
Initial recognition exemption	Does not include an exemption like that under IFRS for non-recognition of deferred tax effects for certain assets or liabilities.	Deferred tax effects arising from the initial recognition of an asset or liability are not recognized when: (1) the amounts did not arise from a business combination, and (2) upon occurrence, the transaction affects neither accounting nor taxable profit (e.g., an acquisition of non-deductible assets).	There is no relevant accounting guidance in RAP.
Recognition of deferred tax assets	Recognized in full (except for certain outside basis differences), but the valuation allowance reduces the asset to an amount that is more likely than not to be realized.	Amounts are recognized only to the extent it is probable (similar to "more likely than not" under US GAAP) that they will be realized.	Amounts should be recognized if there is a possibility (with no indication of degree of probability) that they will be realized.
Calculation of deferred tax asset or liability	Enacted tax rates must be used.	Enacted or "substantively enacted" tax rates as of the balance sheet date must be used.	Enacted and effective as at the reporting date tax rates must be used.
Classification of deferred tax assets and liabilities on the balance sheet	Current or non-current classification is required, based on the nature of the related asset or liability.	All amounts are classified as non-current on the balance sheet.	All amounts are classified as non-current on the balance sheet.
Recognition of deferred tax liabilities from investments in subsidiaries or joint ventures (JVs) (often referred to as outside basis differences)	Recognition is not required for investments in a foreign subsidiary or corporate JV that are essentially permanent in duration, unless it becomes apparent that the differences will reverse in the foreseeable future.	Recognition is 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 reverse in the foreseeable future.	There is no relevant accounting guidance in RAP.

Other differences include: (1) the allocation of subsequent changes to deferred taxes to components of income or equity, (2) the calculation of deferred taxes on foreign nonmonetary assets and liabilities when the local currency of an entity is different than its functional currency, (3) the measurement of deferred taxes when different tax rates apply to distributed or undistributed profits, and (4) the recognition of deferred tax assets on basis differences in domestic subsidiaries and domestic joint ventures that are permanent in duration.

Convergence

The Boards have abandoned plans for a joint convergence project. However, the IASB and FASB have separately agreed

to consider undertaking a fundamental review of accounting for income taxes as a potential longer term project.

Provisions and contingencies

Similarities

While the sources of guidance under US GAAP and IFRS differ significantly, the general recognition criteria for provisions are similar. IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, provides the overall guidance for recognition and measurement criteria of provisions and contingencies. While there is no equivalent single standard under US GAAP, ASC 450, *Contingencies*, and a number of other standards deal with specific types of provisions and contingencies (e.g., ASC 410, *Asset Retirement and Environmental Obligations*; ASC 420, *Exit or Disposal Cost Obligations*). In addition, although nonauthoritative, the guidance in two Concept Statements in US 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. Both US GAAP and IFRS require recognition of a loss based on the probability of occurrence, although the definition of probability is different under US GAAP and IFRS. Both US GAAP and IFRS prohibit the recognition of provisions for costs associated with future operating activities. Further, both US GAAP and IFRS require disclosures about a contingent liability whose probability of occurrence is more than remote but does not meet the recognition criteria.

RAP

PBU 8/2010 *Provisions, Contingent Liabilities and Contingent Assets* provide the overall guidance for recognition and measurement criteria of provisions and contingencies that are similar to those in

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

The definition of probability in PBU 8/2010 *Provisions, Contingent Liabilities and Contingent Assets* as well as the requirement of recognition of a loss based on the probability of occurrence are similar to those in IFRS.

PBU 8/2010 prohibits the recognition of provisions for costs associated with future operating activities and requires disclosures about contingent liabilities whose probability of occurrence is more than remote but does not meet the recognition criteria that are similar to those in US GAAP and IFRS.

Significant differences

	US GAAP	IFRS	RAP
Recognition threshold	A loss must be "probable" (in which probable is interpreted as likely) to be recognized. While ASC 450 does not ascribe a percentage to probable, it is intended to denote a high likelihood (e.g., 70% or more).	A loss must be "probable" (in which probable is interpreted as "more likely than not") to be recognized. More likely than not refers to a probability of greater than 50%.	Similar to IFRS.
Discounting provisions	Provisions may be discounted only when the amount of the liability and the timing of the payments are fixed or reliably determinable, or when the obligation is a fair value obligation (e.g., an asset retirement obligation under ASC 410-20). The discount rate to be used depends on 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 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 (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability."	In general, similar to IFRS.

	US GAAP	IFRS	RAP
Measurement of provisions – range of possible outcomes	The most likely outcome within the 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 the obligation should be accrued. For a large population of items being measured, such as warranty costs, the best estimate is typically the expected value, although the midpoint in the range may also be used when any point in a continuous range 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 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.
Restructuring costs	Under ASC 420, <i>Exit or Disposal Cost Obligations</i> , once management has committed to a detailed exit plan each type of cost is examined to determine when it should be recognized. Involuntary employee termination costs under a one-time benefit arrangement are recognized over the future service period, or immediately if there is no future service required. Other exit costs are expensed when incurred.	Once management has "demonstrably committed" (i.e., a legal or constructive obligation has been incurred) to a detailed exit plan, the general provisions of IAS 37, <i>Provisions, Contingent Liabilities and Contingent Assets</i> apply. Costs are typically recognized earlier than under US GAAP because IAS 37 focuses on the exit plan as a whole, rather than individual cost components of the plan.	Restructuring costs in RAP are within the scope of the requirements of PBU 8/2010 <i>Provisions, Contingent Liabilities and Contingent Assets</i> , which prescribes the conditions when provisions for restructuring should be booked. These conditions are generally in line with IFRS requirements.

Convergence

No further convergence is planned at this time.

Revenue recognition

Similarities

Revenue recognition under both US GAAP and IFRS is tied to the completion of the earnings process and the realization of assets from such completion. 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 US GAAP (which is primarily set out in ASC 605, *Revenue Recognition*),

revenues represent actual or expected cash inflows that have occurred or will result from the entity's ongoing major operations. Under both US GAAP and IFRS, revenue is not recognized until it is both realized (or realizable) and earned. Ultimately, both US GAAP and IFRS base revenue recognition on the transfer of risks, and both attempt to determine when the earnings process is complete. Both sets of standards 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 US GAAP requires that the consideration to be received from the buyer be fixed or determinable.

RAP

Under PBU 9/99 *Income of an Organization*, revenue is not recognized until the title transfers, while other recognition criteria are similar to those in IFRS.

Significant differences

Despite the similarities, differences in revenue recognition may exist as a result of differing levels of specificity between the two GAAPs. There is extensive guidance under US GAAP, which can be very prescriptive and often applies only to specific industries. For example, under US GAAP there are specific rules for the recognition of software revenue and sales of real estate, while comparable guidance

does not exist under IFRS. In addition, the detailed US rules often contain exceptions for particular types of transaction. Further, public companies in the US must follow additional guidance provided by the SEC staff. Conversely, a primary standard (IAS 18) exists under IFRS, which contains general principles and illustrative examples of specific transactions.

RAP

Similar to IFRS, a primary standard under RAP (PBU 9/99) contains general principles and illustrative examples of specific transactions.

Apart from industry-specific differences between the three GAAPs, the following are major differences in revenue recognition.



	US GAAP	IFRS	RAP
Sale of goods	Public companies must follow SAB Topic 13, <i>Revenue Recognition</i> , which requires that delivery has occurred (the risks and rewards of ownership have been transferred), there is persuasive evidence of an arrangement, the fee is fixed or determinable, and collectability is reasonably assured.	Revenue is recognized only when the 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.	<p>Revenue is recognized when the following conditions are met:</p> <ul style="list-style-type: none"> 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 <p>If at least one of the above conditions is not met, the entity should recognize payables and not revenue in respect of cash or other assets received by the entity as settlement.</p>
Rendering of services	Certain types of service revenue, primarily relating to services sold with software, have been addressed separately in US GAAP literature. All other service revenue should follow SAB Topic 13. Application of long-term contract accounting (ASC 605-35, <i>Revenue Recognition - Construction-Type and Production-Type Contracts</i>) is generally not permitted for non-construction services.	Revenue may be recognized in accordance with long-term contract accounting whenever revenues, costs and the stage of completion can be measured reliably and it is probable that economic benefits will flow to the company.	Similar to the recognition of revenue from the sale of goods, except for the recognition of revenue from the transfer to temporary use (temporary ownership and use) of its 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.

	US GAAP	IFRS	RAP
Multiple elements	Specific criteria are required in order for each element to be a separate unit of accounting, including that delivered elements must have standalone value. If those criteria are met, revenue for each element of the transaction may be recognized when the element is delivered.	IAS 18, <i>Revenue</i> requires recognition of revenue related to 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.	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.
Deferred receipt of receivables	Discounting to present value is required only in limited situations.	Considered to be a financing agreement. The value of revenue to be recognized is determined by discounting all future receipts using an imputed rate of interest.	Discounting is not permitted.
Construction contracts	Construction contracts are accounted for using the percentage-of-completion method if certain criteria are met. Otherwise, the completed contract method is used. Construction contracts may be, but are not required to be, combined or segmented if certain criteria are met.	Construction contracts are accounted for using the percentage-of-completion method if certain criteria are met. Otherwise, revenue recognition is limited to recoverable costs incurred. The completed contract method is not permitted. Construction contracts are combined or segmented if certain criteria are met. Criteria under IFRS differ from those in US GAAP.	PBU 2/2008 <i>Construction Contracts</i> outlines the method of revenue recognition for construction contracts: percentage-of-completion. The percentage-of-completion method may be applied when the amount of expenses and the amount of work completed can be reasonably estimated. Otherwise, revenue recognition is limited to recoverable costs incurred.

Convergence

The FASB and the IASB are expected to issue a joint revenue recognition standard for all contracts with customers in 2014. The joint standard will substantially align the revenue recognition guidance under US GAAP and IFRS. The core principle is that an entity would recognize revenue to depict the transfer of goods or services to customers at an amount that reflects the consideration the entity expects to receive in exchange for those goods or services.

RAP Developments

The Ministry of Finance has developed amendments and improvements to existing PBU 9/99 *Income of Organizations*. The new PBU Income of Organizations will bring revenue recognition closer to IFRS. The timing of issuance of the new PBU has not been determined yet.

Share-based payments

Similarities

The US GAAP guidance for share-based payments, ASC 718, *Compensation - Stock Compensation*, and ASC 505-50, *Equity - Equity-based Payments to Non-Employees*, is largely converged with the guidance in IFRS 2, *Share-Based Payment*. Both require a fair value-based approach in accounting for share-based payment arrangements whereby an entity (1) acquires goods or services in exchange for issuing share options or other equity instruments (collectively referred to as "shares" in this guide), or (2) 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 US GAAP and IFRS, this guidance applies to transactions with both employees and non-employees and is applicable to all companies. Both ASC

718 and IFRS 2 define the fair value of the transaction to be the amount at which the asset or liability could be bought or sold in a current transaction between willing parties. Further, they require the fair value of the shares to be measured based on a market price (if available) or estimated using an option-pricing model. In the rare cases in which fair value cannot be determined, both sets of standards allow the use of intrinsic value, which is remeasured until settlement of the shares. In addition, the treatment of modifications and settlements of share-based payments is similar in many respects. Finally, both standards require similar disclosures in the financial statements to provide investors with sufficient information to understand the entity's types and extent of share-based payments.

RAP

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

Significant differences

	US GAAP	IFRS	RAP
Transactions with non-employees	The US GAAP definition of an employee focuses primarily on the common law definition of an employee.	IFRS has a more general definition of an employee that includes individuals who provide services similar to those rendered by employees.	There is no corresponding accounting guidance in RAP.
	Either the fair value of: (1) the goods or services received, or (2) the equity instruments granted is used to value the transaction, whichever is more reliably measurable.	The fair value of the transaction should be based on the fair value of the goods or services received, and only on the fair value of the equity instruments granted in the rare circumstance that the fair value of the goods and services cannot be reliably estimated.	
	The measurement date is 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.	The measurement date is the date the entity obtains the goods or the counterparty renders the services. No performance commitment concept exists.	The measurement date is the date when the obligation arises and the criteria for its recognition have been met.

	US GAAP	IFRS	RAP
Measurement and recognition of expense – awards with graded vesting features	Entities make an accounting policy election to recognize the 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 based on the award as a whole or for each individual tranche.	Entities must recognize the compensation cost on an accelerated basis and each individual tranche must be separately measured.	There is no corresponding accounting guidance in RAP, but in practice an expense is measured and recognized when a share-based payment is exercised.
Equity repurchase features at employee's election	Liability classification is not required if the employee bears the risks and rewards of equity ownership for at least six months from the date the shares are issued or vest.	Liability classification is required (no six-month consideration exists).	There is no relevant accounting guidance in RAP, but in practice it is measured and recognized when exercised.
Deferred taxes	<p>Calculated based on 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 shareholders equity. Any shortfall of the tax benefit below the deferred tax asset is charged to shareholders equity to the extent of prior windfall benefits, and to tax expense thereafter.</p>	<p>Calculated based on the estimated tax deduction determined at each reporting date (e.g., intrinsic value).</p> <p>If the tax deduction exceeds the cumulative compensation cost, deferred tax based on the excess is credited to shareholders equity. If the tax deduction is less than or equal to the cumulative compensation cost, deferred taxes are recorded in income.</p>	There is no relevant accounting guidance in RAP.
Modification of vesting terms that are improbable of achievement	If an award is modified such 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.	The probability of achieving the 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.	There is no relevant accounting guidance in RAP.

Convergence

No further convergence is planned at this time. However, there are certain items on the agenda of the IFRS Interpretations Committee and the FASB Emerging Issues Task Force (EITF) that could affect convergence. The items being discussed by the IFRS Interpretations Committee include the definition of a vesting condition, share-based payment awards

settled net of tax withholdings, and share-based payment transactions where the manner of settlement is contingent on future events. The EITF has an agenda item related to performance targets that are allowed to be met after the requisite service has been provided by the employee.

Employee benefits other than share-based payments

Similarities

ASC 715, Compensation – Retirement Benefits, ASC 712, *Compensation – Nonretirement Post-Employment Benefits*, and IAS 19, Employee Benefits, as amended, are the principal sources of guidance for employee benefits other than share-based payments under US GAAP and IFRS, respectively. Under both US GAAP and IFRS, the net periodic benefit cost recognized for 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 up to that date, based on actuarial methods of calculation.

Both US GAAP and IFRS require the funded status of the defined benefit plan to be recognized on the balance sheet as the difference between the present value of the benefit obligation and the fair value of plan assets, although IAS 19 limits the net plan asset recognized for overfunded plans.

RAP

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 defined benefit and defined contribution plans under RAP. Generally, all pension schemes are considered as defined contribution plans (in terms of IFRS).

Significant differences

	US GAAP	IFRS	RAP
Actuarial method used for defined benefit plans	Different methods are required depending on the characteristics of the plan's benefit formula.	The projected unit credit method is required in all cases.	The amount is expensed as incurred.
Calculation of the expected return on plan assets	Based on either the fair value of plan assets or a "calculated value" that smooths the effect of short-term market fluctuations over five years.	Limited to the "net interest" on the net defined benefit liability (asset) calculated using the benefit obligation's discount rate.	Not applicable
Treatment of actuarial gains and losses in net income	May be recognized in net income as they occur or deferred through a corridor approach.	Must be recognized immediately in other comprehensive income. Gains and losses are not subsequently recognized in net income.	Not applicable
Recognition of prior service costs from plan amendments	Initially deferred in other comprehensive income and subsequently recognized in net income over the average remaining service period of active employees or, when all or almost all participants are inactive, over the average remaining life expectancy of those participants.	Immediate recognition in net income.	Not applicable
Settlements and curtailments	A settlement gain or loss is recognized when the obligation is settled. Curtailment losses are recognized when the curtailment is probable of occurring, while curtailment gains are recognized when the curtailment occurs.	A settlement gain or loss is recognized when it occurs. A change in the defined benefit obligation from a curtailment is recognized at the earlier of when it occurs or when related restructuring costs or termination benefits are recognized.	Not applicable
Multi-employer pension plans	Accounted for similar to a defined contribution plan.	The plan is accounted for as either a defined contribution or defined benefit plan based on the terms (contractual and constructive) of the plan. If a defined benefit plan, it must account for a proportionate share of the plan similar to any other defined benefit plan unless sufficient information is not available.	Not applicable

Convergence

No further convergence is planned at this time.

RAP Developments

The draft of a new PBU Employee Benefits is on the agenda of the Ministry of Finance. The goal of this new PBU is to

bring accounting for employee benefits under RAP closer to IFRS. However, the current draft has certain deviations from IAS 19 Employee Benefits. The timing of issuance of this PBU has not yet been determined.

Earnings per share

Similarities

Entities whose common shares are publicly traded, or that are in the process of issuing such shares in the public markets, must disclose substantially the same earnings per share (EPS) information under ASC 260 and IAS 33 (both titled *Earnings Per Share*). Both 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 in the diluted EPS calculation. Although both US GAAP and IFRS use

similar methods of calculating EPS, there are a few detailed application differences.

RAP

PBU 4/99 *The Accounting Reports of an Organization*, similarly to US GAAP and IFRS, requires disclosure of earnings per share, the presentation of basic and diluted EPS on the face of the statement of financial results, and using the treasury stock method.

Under PBU 4/99 *The Accounting Reports of an Organization*, all entities preparing

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 order No. 29n of the Ministry of Finance.

Although RAP uses methods of calculating EPS similar to those under IFRS and US GAAP, there are a few application differences under RAP in comparison with the two other frameworks.

Significant differences

	US GAAP	IFRS	RAP
Contracts that may be settled in shares or cash at the issuer's option	Such contracts are presumed to be settled in shares unless evidence is provided to the contrary (i.e., the issuer's past practice or stated policy is to settle in cash).	Such contracts are <i>always</i> assumed to be settled in shares.	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.
Computation of year-to-date and annual diluted EPS for options and warrants (using the treasury stock method) and for contingently issuable shares	For year-to-date and annual computations when each period is profitable, the number of incremental shares added to the denominator is the weighted average of the incremental shares that were added to the denominator in each of the quarterly computations.	Regardless of whether the period is profitable, the number of incremental shares is computed as if the entire year-to-date period were "the period" (that is, do not average the current quarter with each of the prior quarters).	There is no specific accounting guidance in RAP.
Treatment of contingently convertible debt	Potentially issuable shares are included in diluted EPS using the "if-converted" method if one or more contingencies relate to a market price trigger (e.g., the entity's share price), even if the market price trigger criteria are not satisfied at the end of the reporting period.	Potentially issuable shares are considered "contingently issuable" and are included in diluted EPS using the if-converted method only if the contingencies are satisfied at the end of the reporting period.	Potentially issuable shares are included in the diluted EPS.

Convergence

The Boards earlier began a short-term convergence project on earnings per share, but now consider the project a

lower priority and do not expect further action in the near term.

Segment reporting

Similarities

The requirements for segment reporting under both ASC 280, *Segment Reporting*, and IFRS 8, *Operating Segments*, apply to entities with public reporting requirements and are based on a "management approach" in identifying the reportable segments. The two standards are largely

converged, and only limited differences exist.

RAP

The requirements for segment reporting under PBU 12/2010 *Segment Information* apply to entities with public reporting

requirements and are based on a "management approach" in identifying the reportable segments. These requirements are similar to IFRS and US GAAP. Under RAP, the segments determination, measurement and disclosure are similar to IFRS 8.

Significant differences

	US GAAP	IFRS	RAP
Determination of segments	Entities with a "matrix" form of organization (i.e., in some public entities the chief operating decision maker (CODM) is responsible for different product and service lines worldwide, while other CODMs are responsible for specific geographic areas) must determine segments based on products and services	All entities determine segments based on the management approach, regardless of the organizational form.	Only companies with publicly traded securities are obliged to disclose segments. The reportable segments would be determined based on the management approach.
Disclosure requirements	Entities are not required to disclose segment liabilities even if reported to the CODM.	If regularly reported to the CODM, segment liabilities are a required disclosure.	If regularly reported to the authorized persons (a term similar to CODM), segment liabilities are a required disclosure.

Convergence

No further convergence is planned at this time.

Subsequent events

Similarities

Despite differences in terminology, the accounting for subsequent events under ASC 855, *Subsequent Events*, and IAS 10, *Events after the Reporting Period*, is largely similar. An event that occurs during the subsequent events period that provides additional evidence about conditions existing at the balance sheet date usually results in an adjustment to

the financial statements. If the event occurring after the balance sheet date but before the financial statements are issued relates to conditions that arose after the balance sheet date, the financial statements are not adjusted, but disclosure may be necessary to keep the financial statements from being misleading.

RAP

Despite differences in terminology, the accounting for subsequent events under PBU 7/98 *Events Occurring after the Reporting Date* is largely similar to IFRS and US GAAP.

Significant differences

	US GAAP	IFRS	RAP
Date through which subsequent events must be evaluated	Subsequent events are evaluated through the date the financial statements are issued (SEC registrants and conduit bond obligors) or available to be issued (all entities other than SEC registrants and conduit bond obligors). Financial statements are considered issued when they are widely distributed to shareholders or other users in a form that complies with US GAAP. Financial statements are considered available to be issued when they are in a form that complies with US GAAP and all necessary approvals have been obtained.	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 the board of directors.	PBU 7/98 <i>Events Occurring after the Reporting Date</i> provides guidance similar to IFRS.

	US GAAP	IFRS	RAP
Reissuance of financial statements	If the financial statements are reissued, events or transactions may have occurred that require disclosure in the reissued financial statements to keep them from being misleading. However, an entity should not recognize events occurring between the time the financial statements were issued or available to be issued and the time the financial statements were reissued unless the adjustment is required by US GAAP or regulatory requirements (e.g., stock splits, discontinued operations, or the effect of adopting a new accounting standard retrospectively would give rise to an adjustment).	IAS 10, <i>i</i> does not specifically address the reissuance of financial statements and recognizes only one date through which subsequent events are evaluated, that is, the date that the financial statements are authorized for issuance, even if they are being reissued. As a result, only one date will be disclosed with respect to evaluating subsequent events, and an entity could include adjusting subsequent events in the reissued financial statements.	PBU 7/98 <i>Events Occurring after the Reporting Date</i> provides guidance similar to IFRS.
	Entities must disclose both the date that the financial statements were originally issued and the date that they were reissued if the financial statements were revised due to an error correction or retrospective application of US GAAP.	If financial statements are reissued as a result of adjusting subsequent events or an error correction, the date the reissued statements are authorized for reissuance is disclosed. IAS 10 does not address the presentation of re-issued financial statements in an offering document when the originally issued financial statements have not been withdrawn, but the re-issued financial statements are provided either as supplementary information or as a re-presentation of the originally issued financial statements in an offering document in accordance with regulatory requirements.	
Short-term loans refinanced with long-term loans after the balance sheet date	Short-term loans are classified as long-term if the entity intends to refinance the loan on a long-term basis and, prior to issuing the financial statements, the entity can demonstrate an ability to refinance the loan by meeting specific criteria.	Short-term loans refinanced after the balance sheet date may not be reclassified to long-term liabilities unless the entity expected and had the discretion to refinance the obligation for at least 12 months at the balance sheet date.	There is no specific accounting guidance in RAP.

Convergence

No further convergence is planned at this time.

Related parties

Similarities

The reporting objective of both ASC 850 and IAS 24 (both titled *Related Party Disclosures*) is to make financial statements users aware of the effect of related-party transactions on the financial statements. The definitions of a related party are broadly similar, and both 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. Neither standard contains any

measurement or recognition requirements for related-party transactions. ASC 850 does not require 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.

RAP

PBU 11/2008 *Related Party Disclosures* contains the definition of a related party, as well as requirements for disclosure

of the nature of the relationship and a description of the transaction and the amounts involved (including outstanding balances) that are similar to those prescribed by IFRS and US GAAP. Further, PBU 11/2008 does not contain any measurement or recognition requirements for related-party transactions, similar to IFRS and US GAAP.

Significant differences

	ОПБУ США	МСФО	RAP
Scope	ASC 850, <i>Related Party Disclosures</i> requires disclosure of all material related party transactions, other than compensation arrangements, expense allowances and other similar items in the ordinary course of business.	IAS 24, <i>Related Party Disclosures</i> provides a partial exemption from the disclosure requirements for transactions between government-related entities as well as with the government itself.	PBU 11/2008 <i>Related Party Disclosures</i> provides guidance similar to IFRS, but does not specify exemptions related to government-related entities.

Convergence

No further convergence is planned at this time.

RAP Developments

No significant development activities are planned in this area for the near term.

Appendix A – The evolution of IFRS

This appendix summarizes key events in the evolution of international accounting standards.

Phase I – The early years

► **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 IASC standards and communicated its findings to the IASC.**

The review identified areas that required improvement before IOSCO would consider recommending IAS for use in cross-border listings and offerings.

► **1994: IASC Advisory Council formed to oversee 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 toward international harmonization of accounting standards.

► **1997: Standing Interpretations Committee (SIC) established to interpret IAS.**

► **1999: IASC Board approved a restructuring that resulted in the current International Accounting Standards Board (IASB).**

The constituted IASB structure comprises: (1) the IFRS Foundation, an independent organization with 22 trustees who appoint the IASB members, exercise oversight and raise the funds needed, (2) a Monitoring Board that provides a formal link between the trustees and public authorities, (3) the IASB (Board), which has 16 independent Board members, up to three of whom may be part-time members with sole responsibility for

setting accounting standards, (4) the IFRS Advisory Council, and (5) the IFRS Interpretations Committee, which is mandated with interpreting IFRS 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.** The IASB met with representatives from eight national standard-setting bodies to coordinate agendas and discuss convergence, and adopted existing IAS standards and SIC Interpretations.

► **February 2002: IFRIC assumed responsibility for 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 critical milestone that drove the expanded use of IFRS.

- ▶ **September 2002: FASB and IASB execute the Norwalk Agreement and document a Memorandum of Understanding.** The Boards agreed to

use best efforts to make their existing standards fully compatible as soon as practicable and to coordinate future work programs.

- ▶ **December 2004: EC issued its Transparency Directive.** This directive required non-EU companies with listings on an EU exchange to use IFRS unless the Committee of European Securities Regulators (CESR) determined that national GAAP was “equivalent” to

IFRS. CESR said in 2005 that US GAAP was “equivalent,” subject to certain additional disclosure requirements.

- ▶ **April 2005: SEC published the “Roadmap”.** An article published by the SEC Chief Accountant discussed the possible elimination of the US GAAP reconciliation for foreign private issuers that use IFRS 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, and further elaborated on the Norwalk Agreement. The Boards agreed to proceed along two tracks: (1) a series of short-term projects designed to eliminate major differences in focused areas, and (2) the development of new common standards for accounting practices regarded as candidates for improvement.

- ▶ **August 2006: CESR/SEC published a joint work plan.** The regulators agreed that they could share issuer-specific matters, following set protocols, and that their regular reviews of issuer filings would be used to identify IFRS and US GAAP areas that raise questions about quality and consistent application.

- ▶ **November 2007: SEC eliminated the US GAAP reconciliation for foreign private issuers.**

- ▶ **Mid-2007, through 2008: SEC explored the use of IFRS by US companies.** The SEC issued a Concept Release seeking comment on the possible use of IFRS by US domestic registrants. In November 2008 the SEC issued for comment an updated proposed Roadmap.

- ▶ **February 2010: SEC reaffirmed its commitment to IFRS.** In February 2010, the SEC voted unanimously to

publish a statement reaffirming its commitment to the goal of a single set of high-quality global accounting standards and expressing support for the continued convergence of US GAAP and IFRS. The SEC said that after executing a Work Plan to address certain questions, it would be able to make an informed decision about whether and, if so, how and when to further incorporate IFRS into the US financial reporting system.

- ▶ **October 2010: SEC issued a Progress Report on its Work Plan.**

- ▶ **May 2011: SEC staff published a paper detailing a possible approach for incorporating IFRS into the US financial reporting system.** The SEC staff said the approach could achieve the goal of a single set of high-quality accounting standards and could minimize the cost and effort needed to incorporate IFRS into the US financial reporting system

- ▶ **Spring through fall 2011: Convergence schedule delayed.** The FASB and the IASB extend their timetables for completing their priority convergence projects beyond their target of June 2011. The Boards decided to re-expose proposals on revenue recognition and leases.

- ▶ **July 2011: SEC staff sponsored a roundtable to discuss benefits or challenges in potentially incorporating IFRS into the financial**

reporting system for US issuers.

The participants discussed investors’ understanding of IFRS, the impact on smaller public companies, and the benefits and challenges in potentially incorporating IFRS into the financial reporting system for US issuers.

- ▶ **November 2011: SEC staff issued two papers as part of its Work Plan: An Analysis of IFRS in Practice and A Comparison of US GAAP and IFRS.** The SEC staff papers provided additional information for the SEC to review before it made its decision.

- ▶ **July 2012: SEC staff issued its final progress report on its Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers (The Final Report).** The report summarized what the staff learned in carrying out the work plan.

The report does not include a recommendation to the Commission about whether or how to incorporate IFRS into the US financial reporting system.

The report notes that the Commission still needs to analyze and consider the threshold question – whether and, if so, how and when IFRS should be incorporated into the US financial reporting system.

As a result, we do not expect a decision from the Commission in the near term.

Appendix B – Adoption of IFRS in Russia for consolidated financial statements in 2015

Federal Law No. 208-FZ *On Consolidated Financial Statements* (Law No. 208-FZ) was adopted on 27 July 2010.

Thus, Russia introduced a legislative requirement for the mandatory application of IFRS by all public interest entities for the preparation of consolidated financial statements.

The scope of Federal Law No. 208-FZ pertaining to the preparation, presentation and publication of financial statements includes companies that do not form a group. The word 'consolidated' is not used in the title of their financial statements.

In March 2012, Order No. 148 of the Ministry of Finance established an Interdepartmental Working Group for IFRS Implementation. Among other matters, the group reviews the application in practice of Law No. 208-FZ and prepares recommendations on issues arising during the implementation of IFRS in Russia.

Organizations for which publication of IFRS consolidated financial statements is mandatory

According to Law No. 208-FZ, the following entities must publish consolidated financial statements prepared in accordance with IFRS:

- ▶ Credit institutions
- ▶ Insurance companies (except for medical insurance companies engaged only in mandatory medical insurance activities)
- ▶ Non-state pension funds

- ▶ Management companies of investment funds, mutual investment funds and non-state pension funds
- ▶ Clearing institutions
- ▶ Federal state unitary companies (as determined by the Russian Government)
- ▶ Public joint-stock companies whose shares are in federal ownership (as determined by the Russian Government)
- ▶ Other listed companies

Companies must also prepare IFRS consolidated financial statements in accordance with Law No. 208-FZ

- ▶ where other federal laws require the preparation, presentation and/or the publication of consolidated financial statements; or
- ▶ where the constitutive documents of a company require the preparation and/or publication of consolidated financial statements.

Status of endorsement of IFRS in the Russian Federation

Law No. 208-FZ states that IFRSs and Interpretations of IFRSs issued by the IFRS Foundation and endorsed by the Government of the Russian Federation in consultation with the Central Bank of the Russian Federation should be applied in Russia. A decision to endorse an individual IFRS or Interpretation of an IFRS in the Russian Federation is made with regard to such a standard or interpretation as a whole. If certain provisions of a standard

or interpretation are recognized to be inapplicable in the Russian Federation, such standard or interpretation will be adopted in the Russian Federation with such provisions 'carved out'.

As of November 2015 all standards and interpretations issued by IASB and effective from 1 January 2016 were endorsed for application in Russia. IFRS 9 and IFRS 15 were also endorsed and hence may be early adopted by Russian companies.

Timeframe for the requirement to prepare consolidated financial statements under IFRS

According to Law No. 208-FZ, those entities subject to the requirements of this law should prepare, file and publish IFRS consolidated financial statements beginning from the 2012 financial year. This requirement does not apply to entities for which a special timeframe has been set, including those included within the scope of Law No. 208-FZ by amendments made in 2014.

Such companies must present and publish IFRS consolidated financial statements as follows:

- ▶ Companies with listed bonds – no later than the calendar year 2014

- ▶ Companies with listed securities which prepare their consolidated financial statements under internationally recognized standards other than IFRS¹; non-state pension funds, management companies of investment funds, mutual funds and non-state pension funds, and clearing institutions – no later than the calendar year 2015
- ▶ Federal state unitary companies and public joint-stock companies whose shares are in federal ownership – from the year following the year in which they were included in special lists approved by the Russian Government. On 27 October 2015, the Russian Government issued Order No. 2176-r to approve such lists, which currently include seven federal state unitary companies and 19 public joint-stock companies whose shares are in federal ownership. Thus, these 26 companies must present and publish their consolidated financial statements, starting with financial statements for 2016.

Presenting annual IFRS consolidated financial statements: deadlines and addressees

Annual consolidated financial statements in Russian should be presented to the entity's participants (including shareholders) prior to a general meeting, but no later than 120 days from the end of the year for which these financial statements have been prepared.

Annual consolidated financial statements should also be filed with the Central Bank of the Russian Federation.

Audit of IFRS consolidated financial statements

Annual IFRS consolidated financial statements are subject to mandatory audit. The audit opinion should be presented and published together with the consolidated financial statements.

Publication of IFRS consolidated financial statements

Companies must publish their annual consolidated financial statements within 30 days of the date when they were presented.

Consolidated financial statements are considered published if:

- ▶ They have been placed in information networks available to the general public (e.g., the internet), and/or
- ▶ They have been published in the mass media available to those interested in such financial statements, and/or
- ▶ Other actions have been performed with regard to such financial statements which make them available to any interested party.

Presentation of RAP consolidated financial statements

Until the adoption of Law 208-FZ, Russian companies with subsidiaries were required to prepare both stand-alone and consolidated financial statements. Recommendations for the preparation of consolidated financial statements were set forth in Order No. 112 *Consolidated Financial Statements* that is a part of RAP. Starting 2013, only Russian companies that directly or indirectly fall within the scope of Law No. 208-FZ are required to prepare consolidated financial statements under IFRS. Other Russian companies are not required to prepare consolidated financial statements under RAP, even if they have subsidiaries. However, some companies included in the scope of Law No. 208-FZ were entitled to postpone the application of IFRS until 2015. In such a case, they were required to present and publish their consolidated financial statements prepared under RAP. Starting 2015, such companies must present and publish financial statements prepared in accordance with IFRS.

¹ There is no official list of such standards; however, the Interdepartmental Working Group for IFRS Implementation, established by the Russian Ministry of Finance for the purposes of the Federal Law *On Consolidated Financial Statements*, has explained that internationally recognized standards other than IFRS in this context mean US GAAP.

IFRS resources

EY offers a variety of online resources that provide more detail about IFRS, as well as issues to consider as you research the potential impact of IFRS on your company.

www.ey.com/IFRS and www.ey.com/ru/ifrs

EY's global website contains a variety of free resources, including:

- ▶ *IFRS Developments* – announces significant decisions on technical topics that have a broad audience, application or appeal.
- ▶ Other technical publications – including a variety of publications focused on specific standards and industries.
- ▶ International GAAP® Illustrative Financial Statements – a set of illustrative interim and annual financial statements that incorporates applicable presentation and disclosure requirements. Also provided is a range of industry-specific illustrative financial statements.

From here you can also link to several country-specific IFRS pages, including Canada and the United States, and locate information about free web-based IFRS training and our Thought center webcast series.

AccountingLink

AccountingLink, at ey.com/us/accountinglink, is a virtual newsstand of US technical accounting guidance and financial reporting thought leadership. It is a fast and easy way to gain access to the publications produced by EY's US Professional Practice Group, as well as the latest guidance proposed by the standard setters. AccountingLink is available free of charge.

Global Accounting & Auditing Information Tool (GAAIT)

GAAIT-Client Edition contains EY's comprehensive proprietary technical guidance, as well as all standard setter content. GAAIT-Client Edition is available through a paid subscription.

International GAAP®

Written by EY and updated annually, this is a comprehensive guide to interpreting and implementing IFRS and provides insights into how complex practical issues should be resolved in the real world of global financial reporting.

Please contact your local EY representative for information about any of these resources.

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY works together with companies across the CIS and assists them in realizing their business goals. 4,500 professionals work at 20 CIS offices (in Moscow, St. Petersburg, Novosibirsk, Ekaterinburg, Kazan, Krasnodar, Rostov-on-Don, Togliatti, Vladivostok, Yuzhno-Sakhalinsk, Almaty, Astana, Atyrau, Bishkek, Baku, Kyiv, Tashkent, Tbilisi, Yerevan and Minsk).

EY refers to the global organization, and may refer to one or more, of the 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. For more information about our organization, please visit ey.com.

© 2016 Ernst & Young LLC.
All Rights Reserved.

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither EYGM Limited nor any other member of the global EY organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.

