



THE POWER OF BEING UNDERSTOOD

U.S. GAAP VS. IFRS: CONSOLIDATIONS AT-A-GLANCE

Increasing globalization coupled with related regulations continues to put pressure on moving towards a common global accounting framework – International Financial Reporting Standards (IFRS). Currently, more than 100 countries use IFRS, so if your business goals include global expansion, it is critical to educate yourself now about the impact of IFRS on your financial reporting processes and business. To gain a better understanding of what IFRS means for your organization, we have prepared a series of comparisons dedicated to highlighting significant differences between IFRS and U.S. generally accepted accounting principles (GAAP). This particular comparison focuses on the significant differences between U.S. GAAP and IFRS related to consolidations. For other comparisons available in this series, refer to our [U.S. GAAP vs. IFRS comparisons at-a-glance series](#).

A discussion about U.S. GAAP and IFRS would not be complete without mentioning the status of the Securities and Exchange Commission's (SEC) activities focused on determining whether the application of IFRS by U.S. registrants should be required or allowed. The tone at the SEC on this matter changed recently when they indicated in their draft [Strategic Plan for Fiscal Years 2014–2018](#) that they will "consider...whether a single set of high-quality global accounting standards is achievable." As a

result, it is not clear what the SEC's next steps and timetable are with respect to making a decision about the application of IFRS by U.S. registrants. For more information, refer to our [IFRS Resource Center](#).

The guidance related to consolidations in U.S. GAAP is included in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 810, *Consolidation*. In IFRS, the guidance related to consolidations is contained in IFRS 10, *Consolidated Financial Statements*, and IFRS 12, *Disclosure of Interests in Other Entities*. IFRS 10 and 12, which were issued in May 2011 and are effective for annual periods beginning on or after January 1, 2013, replace the consolidation guidance in International Accounting Standard 27, *Consolidated and Separate Financial Statements, and Standing Interpretations Committee 12, Consolidation—Special Purpose Entities*.

Some similarities exist between IFRS and U.S. GAAP related to consolidations. For example, both IFRS and U.S. GAAP use the notion of control to determine whether a reporting entity should consolidate another entity. However, there are differences as to the definition of control, which are summarized in the following table, along with other significant differences between U.S. GAAP and IFRS.

	U.S. GAAP	IFRS
Relevant guidance	ASC 810	IFRS 10, 12
Consolidation model(s)	<p>There are two consolidation models. First, entities are subjected to the variable interest entity (VIE) model. If the VIE model is not applicable, then entities are subjected to the voting interest model.</p> <p>Under the VIE model, a reporting entity has a controlling financial interest in a VIE if it has:</p>	<p>The basis for consolidation focuses on control, regardless of the form of the investee.</p> <p>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>

	U.S. GAAP	IFRS
Consolidation model(s) (cont.)	<p>(a) the power to direct the activities of the VIE that most significantly affect the VIE's economic performance and (b) the obligation to absorb losses or the rights to receive benefits that could be significant to the VIE.</p> <p>Under the voting interest model, a controlling financial interest generally exists if a reporting entity has a majority voting interest in another entity. In certain circumstances, the power to control may exist when one entity holds less than a majority voting interest (e.g., because of contractual provisions or agreements with other shareholders).</p>	<p>This notion of control requires that the investor have all three of the following characteristics:</p> <ul style="list-style-type: none"> · Power over the investee · Exposure (or rights) to variable returns from its involvement with the investee · The ability to exercise its power over the investee to affect the amount of the investor's returns.
De facto control	<p>The concept of "de facto control" does not exist. The concept of "effective control" exists in connection with contracts, as indicated in the previous row.</p>	<p>De facto control is acknowledged by the existence of situations in which a parent company may have control over another entity despite: (a) holding less than a 50 percent voting interest and (b) lacking legal and (or) contractual rights that would permit the entity to control the investee's voting power or board.</p> <p>For example, de facto control may exist in a situation in which a major shareholder holds a less than majority stake in an entity, but the other ownership holdings are widely dispersed. To determine if control exists in this situation, all relevant facts and circumstances, including the ability of the other owners to vote in a block, would need to be considered.</p>
Potential voting rights	<p>Under the VIE model, potential voting rights might enter into the determination of: (a) whether the entity is a VIE or (b) which party is the primary beneficiary of a VIE.</p>	<p>Potential voting rights are considered only if substantive; that is, they must give the holder the ability to direct the relevant activities of an investee and the holder must have the ability to exercise those rights. An investor with potential voting rights might have power over an investee, even if the rights are not currently exercisable.</p>

These are the significant differences between U.S. GAAP and IFRS related to consolidations. Refer to ASC 810 and IFRS 10 and 12 for all of the specific requirements related to consolidations. Refer to our [U.S. GAAP vs. IFRS comparisons at-a-glance series](#) for more for more comparisons highlighting other significant differences between U.S. GAAP and IFRS.

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