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IFRS vs ASC
Valuation Perspective

This article aims to highlight the key valuation triggers that stem from the application of various International Financial Reporting Standards (IFRS) and outline the valuation-specific differences between IFRS and the Accounting Standards Codification (ASC). The comprehensive analysis presented here would give readers a broad understanding of the valuation practices under IFRS as well as the nuances that differentiate valuations under IFRS from that of ASC.

IFRS – 1 (First-Time Adoption)

This standard sets out the procedures that an entity must follow when it adopts International Financial Reporting Standards (IFRS) for the first time as the basis for preparing its general-purpose financial statements.

Valuation Trigger

A first-time adopter may elect to measure individual items at their fair value as on the date of transition to IFRS.

Measurement at Fair Value

Assets carried at cost may be measured at their fair value as on the date of transition.

Exceptions:

- The entity must revalue **assets under previous GAAP** either to their **fair value** or to a **price-index-adjusted cost**.
- The entity must make a one-time revaluation of **assets or liabilities** to **fair value** due to privatization or an initial public offering.

Differences between IFRS & ASC

ASC does not have a dedicated standard for first-time adoption. Instead, guidance for first time adoption is available within the respective standards.

IFRS – 2 (Share-Based Payments)

Share-based payments is a transaction in which an entity receives goods or services in exchange for consideration in the form of:

- Equity instruments (e.g., Share Options)
- Cash
- Other assets

Amounts decided based on the price (or value) of equity instruments

Valuation Trigger

1. **Transactions with employees and others providing similar services**: Fair value as on grant date.

Transactions with employees and others providing similar services

Fair value of the equity instruments granted (as on grant date)

2. **Receipt of goods or services in exchange for equity instruments**: Fair value as on the date of receipt of goods/services.

Can the fair value of the goods or services be reliably determined?

If YES

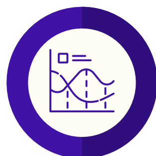
Fair value of the goods or services received

If NO

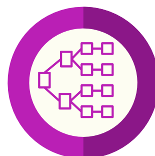
Fair value of the equity instruments granted

Measurement at Fair Value

The fair value of instruments should be determined using an appropriate option-pricing models such as:



Black Scholes Model



Binomial Model (such as the Lattice model)

Monte Carlo Simulations

For complex financial instruments, advanced models such as the Binomial or Monte Carlo models are to be used.

Differences between IFRS & ASC

	IFRS 2	ASC 718
Measurement	The fair value of awards, subject to graded vesting, should be measured separately for each vesting tranche, using separate expected lives.	The fair value of awards, subject to graded vesting, should be measured using either of the treatments below: 1. Separate awards (each vesting tranche has a different expected term) 2. Single award (expected term equals the average expected term of the component vesting tranches)

IFRS – 3 (Business Combinations)

A business combination is a transaction or any other event in which an acquirer obtains control of one or more businesses.

Purchase Price Allocation (PPA) is an exercise conducted after a business combination to recognize the fair value of all identifiable assets (tangible and intangible) and liabilities assumed. The exercise typically results in recognition of goodwill or bargain purchase gain.

Valuation Trigger

For PPA, all identifiable assets acquired, and liabilities assumed are recognized at their fair value on the date of the business combination.

Measurement at Fair Value

Measurement of the fair value of the consideration including valuation of contingent consideration such as earnouts.

Valuation of identifiable tangible and intangible assets and liabilities assumed

Acquired intangible assets if separable or arising from other contractual rights are recognized at their fair value irrespective of whether the acquiree had recognized the asset prior to the business combination or not.

Some common methods of valuing Intangible assets include:

- **Cost Approach**
  - Replacement Cost
  - Reproduction Cost
- **Income Approach**
  - Relief from Royalty Method
  - With- and Without Method
  - Multi-period Excess Earnings Method
- **Market Approach**
  - Guideline Pricing Method
  - Price/Valuation Multiples/Capitalization Rates Method

Differences between IFRS & ASC

	IFRS 3	ASC 805
Contingent Assets	Contingent assets are not recognized.	Pre-acquisition contingent assets are recognized at the acquisition date at fair value (if the acquisition-date fair value of the asset can be determined during the measurement period).
Non-Controlling Interests	Non-controlling interests may be measured at: • Fair value • Proportionate share of net assets of the acquiree.	Non-controlling interests are measured at fair value.

IFRS – 9 (Financial Instruments)

A financial instrument is a contract that gives rise to a financial asset for one entity and a financial liability or equity instrument for another entity.

There are two types of financial instruments - financial assets and financial liabilities.

Valuation Trigger

Initial Measurement: All financial Instruments are recognized at fair value at initial recognition.

Subsequent Measurement: Performed annually at the end of each reporting year.

Measurement at Fair Value

Initial Measurement

Initially, financial assets and liabilities should be measured at fair value (including transaction costs, for assets and liabilities not measured at fair value through profit or loss ("FVTPL"))

Subsequent Measurement - Financial Assets

- **Debt instruments**: Measured at amortized cost or fair value through other comprehensive Income (difference in fair value adjusted through OCI. Also known as FVOCI)
- **Equity Instruments**: All equity investments within the scope of IFRS 9 are to be measured at FVTPL, except for those elected to be measure through FVOCI.
- **Derivatives**: Measured at fair value.

Reclassification: Reclassification of financial assets is required if and only if the entity's business model objective for its financial assets change.

Fair Value Option: Additionally, IFRS 9 permits an entity, at initial recognition, to irrevocably designate a financial asset to the FVTPL category if this would eliminate or significantly decrease an inconsistency (accounting mismatch) in measurement or recognition

Subsequent Measurement - Financial Liabilities

Financial Liabilities held for Trading

Accounted as FVTPL

Financial Liabilities (except those held for Trading)

Amortized cost unless the fair value option is applied

Differences between IFRS & ASC

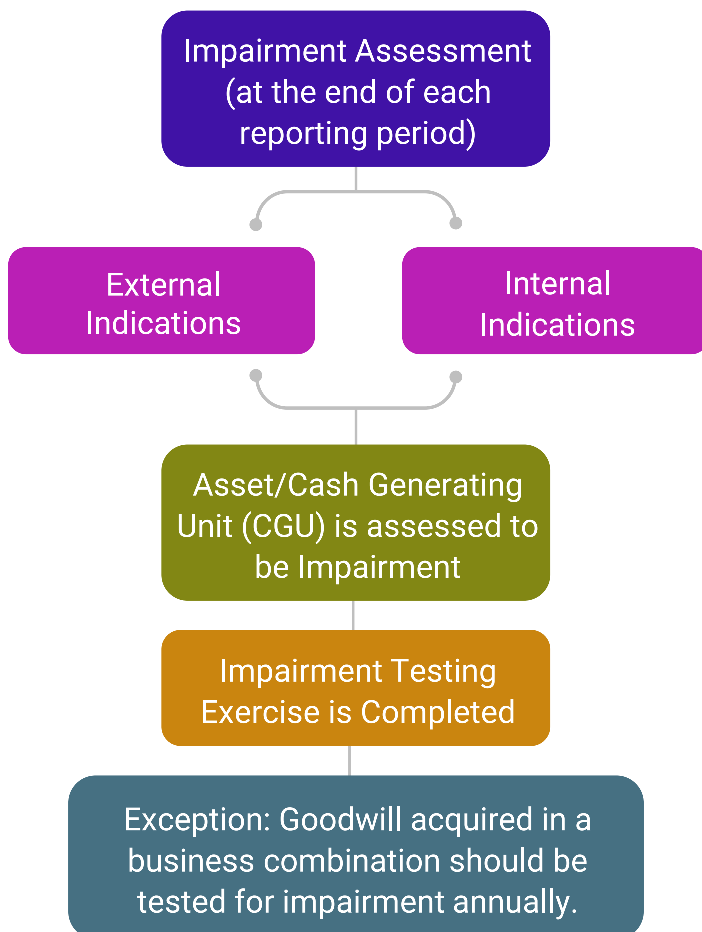
	IFRS 9	ASC
Measurement – debt securities, loans, and receivables	Financial assets that pass the cash flow characteristics test are subsequently measured at either amortized cost, FVOCI, or FVTPL Financial assets that fail the cash flow characteristics test are subsequently measured at FVTPL	Debt Instruments At acquisition, debt instruments that meet the definition of a security are classified and measured as follows: • Held-To-Maturity (HTM) – Amortized cost • Trading – FV through Net Income (FV-NI) • Available-For-Sale (AFS) – FVOCI Loans and Receivables Unless the fair value option is elected, • Held-for-investment: amortized cost • Held-for-sale: Lower of amortized cost and fair value
Measurement – equity investments	Equity investments are generally measured at FVTPL (with an irrevocable election to measure non-derivative equity instruments that are not held for trading at FVOCI)	Equity investments are measured at FV-NI.

Impairment of Assets under IFRS

Impairment refers to a permanent reduction in the value of an asset. The following assets can be impaired - land, buildings, machinery and equipment, investment property (carried at cost), intangible assets, goodwill, investments in subsidiaries, associates, and joint ventures (carried at cost).

The standard also specifies when an entity should reverse an impairment loss.

Valuation Trigger



In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

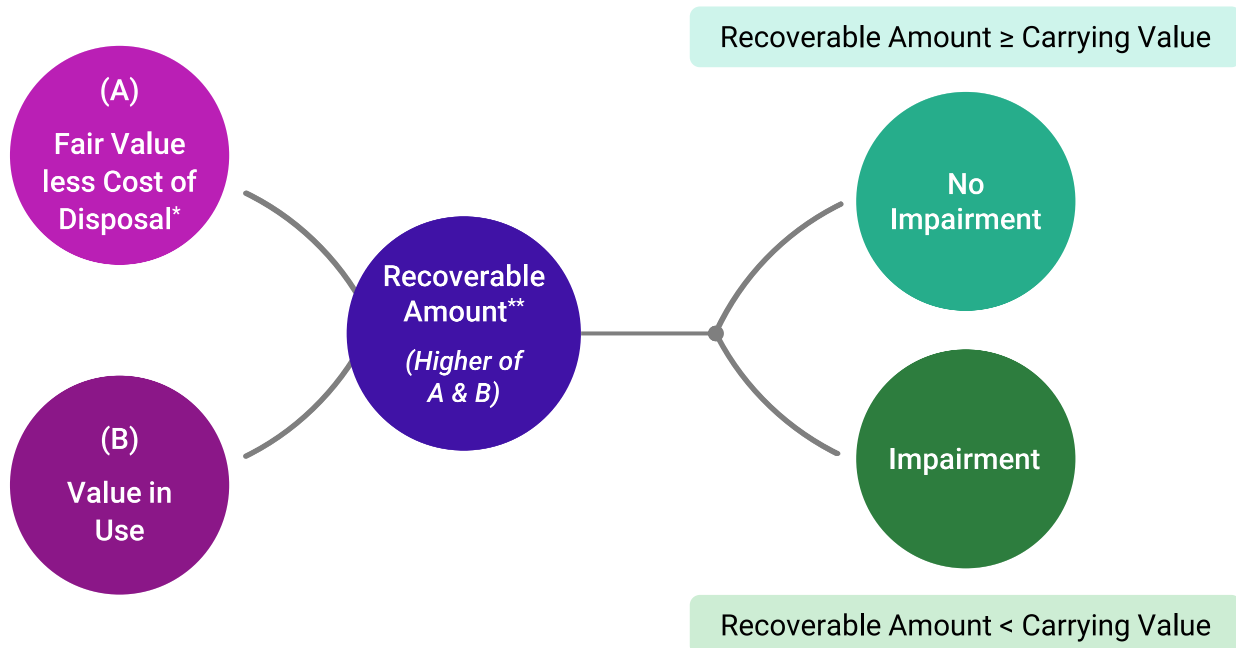
External Indications

- Decline in value significantly more than due to the passage of time or normal use.
- Adverse changes in the technological, market, economic, or legal environment in which the entity/asset operates.
- Changes in market rates used to calculate discount rate used.
- Carrying amount of the net assets of the entity is more than its market capitalization.

Internal Indications

- Obsolescence or physical damage of an asset.
- Economic performance of an asset is, or will be, worse than expected.

Measurement of Fair Value



- **Fair value less costs to sell** is the arm's length sale price between knowledgeable willing parties less costs of disposal.
- The **value in use** of an asset is the expected future cash flows that the asset in its current condition will produce, discounted to present value using an appropriate discount rate.

**If fair value less costs of disposal cannot be determined, then recoverable amount is equal to value in use.*
***For assets to be disposed off, recoverable amount is the fair value less costs of disposal.*

Differences between IAS & ASC

	IAS 36	ASC 350
Impairment Loss Calculation — Long-lived Assets	An impairment loss is the amount by which the carrying amount of the asset or CGU exceeds its recoverable amount	An impairment loss is the amount by which the carrying amount of the asset (asset group) exceeds its fair value using market participant assumptions
Impairment Loss Calculation — Indefinite-lived Intangible Assets	The amount by which the carrying amount of the asset exceeds its recoverable amount	The amount by which the carrying amount of the asset exceeds its fair value

Note: This text does not cover all the differences between IAS 36 and ASC 350.

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Our multidisciplinary teams serve a wide range of industries, with a specific focus on healthcare, food processing, and banking and financial services. Over the last decade, we have built and leveraged capabilities across key global markets to provide transnational support to numerous clients.

From inception, our founders have propagated a culture that values professional standards and personalized service. An emphasis on collaboration and ethical conduct drives us to serve our clients with integrity while delivering high quality, innovative results. We act as partners to our clients, and take a proactive stance in understanding their needs and constraints, to provide integrated solutions. Quality at Nexdigm is of utmost importance, and we are ISO/IEC 27001 certified for information security and ISO 9001 certified for quality management.

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Nexdigm resonates with our plunge into a new paradigm of business; it is our commitment to ***Think Next***.

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