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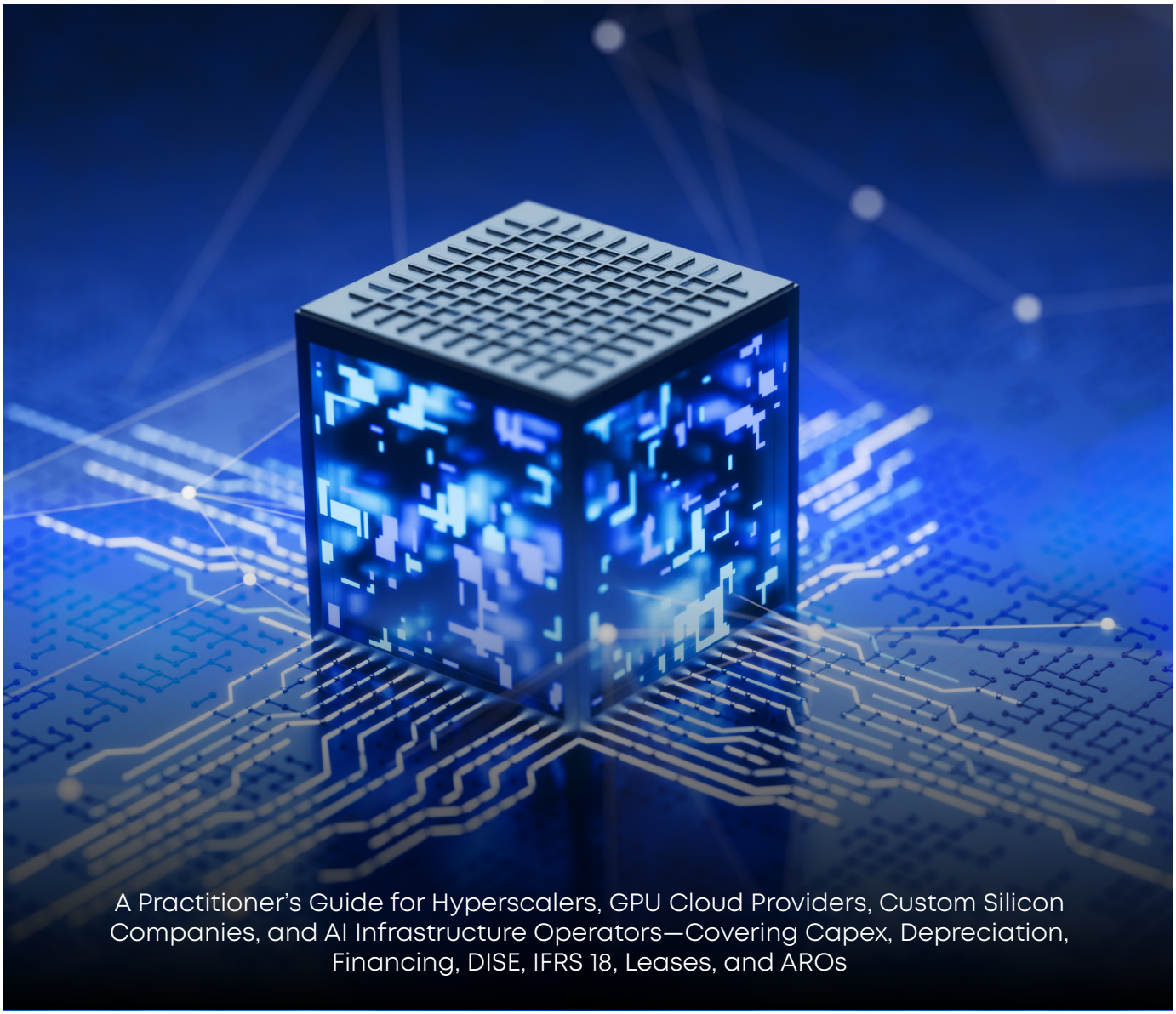
Insights

Building the AI Backbone:
Accounting & Reporting Challenges in Data Center Investments



A Practitioner's Guide for Hyperscalers, GPU Cloud Providers, Custom Silicon Companies, and AI Infrastructure Operators—Covering Capex, Depreciation, Financing, DISE, IFRS 18, Leases, and AROs

Executive Summary

The global race to build data center infrastructure is reshaping capital markets, corporate balance sheets, and financial reporting in ways that few anticipated even three years ago. McKinsey[1] projects that companies worldwide will invest nearly $7 trillion in data center capital expenditures by 2030, with over 40% of that spending concentrated in the United States. In 2025 alone, U.S. data center construction starts exceeded $77 billion—a 190% year-over-year surge [2] —while the four largest hyperscalers (Microsoft, Google, Amazon, and Meta) collectively forecast over $380 billion in capital investment[3].

This unprecedented wave of capital deployment creates a cascade of complex accounting and reporting challenges that CFOs, controllers, and audit committees must navigate with precision. The issues span the entire financial reporting lifecycle: **from initial capitalization decisions and useful life assessments for rapidly evolving hardware, through complex financing structures involving green bonds, convertible instruments, and project finance vehicles, to financial statement presentation questions that will be fundamentally reshaped by ASU 2024-03 (DISE) and IFRS 18.**

Importantly, these challenges do not exist in isolation. Data center accounting sits at the intersection of multiple accounting frameworks—including fixed assets, leases, financial instruments, and environmental liabilities—requiring integrated judgment and consistency in application. While this publication is anchored in U.S. GAAP, it also highlights key considerations under IFRS to support globally operating organizations.

This publication serves as a practitioner's guide for hyperscalers, GPU cloud providers, custom silicon companies, and AI infrastructure operators, offering practical insights into navigating these interconnected issues with clarity and rigor.

We look forward to continuing the dialogue.

Thank you.

Yours faithfully

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[1] Source: McKinsey Article: The data center balance: How US states can navigate the opportunities and challenges August 8, 2025

[2] Source: ConstructConnect — "February 2026 Data Center Report: After Record Growth, the Outlook for the Year Ahead", published **February 4, 2026.**

[3] Source: Late October 2025, CNBC reports

The Data Center Boom: Scale, Scope, and Strategic Context

1.1 The Investment Landscape

The numbers are staggering. S&P Global research indicates that data center and AI-related investments accounted for approximately 80% of U.S. private domestic demand growth in the first half of 2025[4] . Data center construction spending in the U.S. has grown at a CAGR of approximately 98% since 2021[5] —effectively doubling every year. The average cost per data center facility now approaches $600 million, with per-square-foot costs nearing $1,000[6].

This investment wave extends far beyond the United States. Europe, while trailing the U.S. in current spending, is scaling rapidly with a **$500+ billion pipeline,** led by key hubs such as Frankfurt, London, Paris, and Amsterdam under increasingly stringent energy regulations.

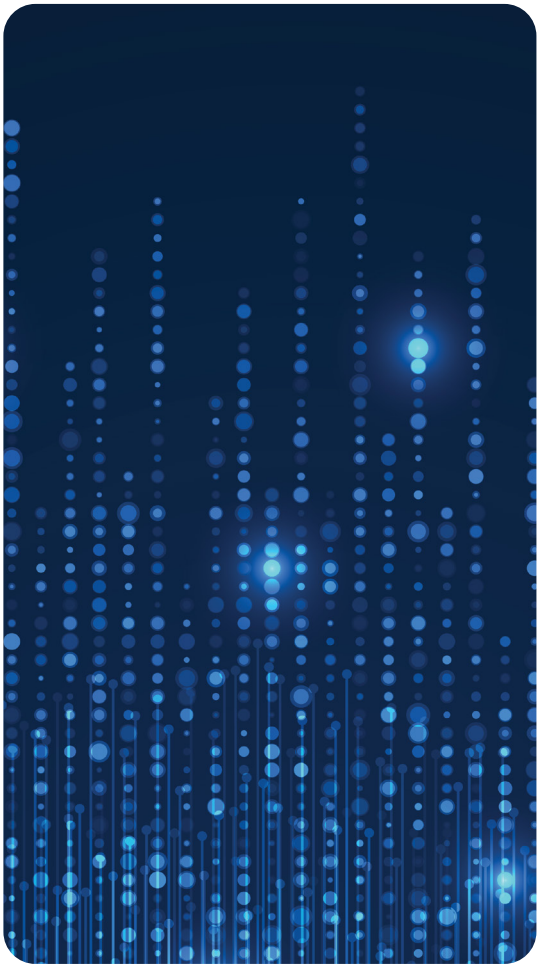
Asia-Pacific is set to **nearly double capacity by 2030,** driven by investments in Japan, Southeast Asia, and India—with government initiatives accelerating growth across Mumbai, Chennai, and Hyderabad. Meanwhile, the Middle East—particularly the Gulf States—is emerging as a strategic AI hub, backed by sovereign capital and strong colocation investment momentum.

North America (primarily U.S.)

Pipeline / Investment Scale	Source
$1.29 trillion pipeline (Q4 2025)	Research and Markets / GlobalData

Western Europe

Pipeline / Investment Scale	Source
$509.4 billion pipeline	Research and Markets / GlobalData



[4] Source: S&P Global — "Data Center Investments Are Increasingly Moving The Macro Needle", published as part of the S&P Global Look Forward research journal.

[5] Source: ConstructConnect — "January 2026 Data Center Report: Spending Surges Fivefold in Two Years", published **January 8, 2026**

Asia-Pacific

Pipeline / Investment Scale

Projected growth from 32 GW to 57 GW by 2030; ~$61B market in 2025

Source

JLL; Fortune Business Insights

Middle East & Africa

Pipeline / Investment Scale

~$33.8B colocation investment 2025–2030

Source

Research and Markets

India (within APAC)

Pipeline / Investment Scale

~$11.5B market by 2026

Source

Fortune Business Insights

Capital Allocation Breakdown for Data Center Investments[6]

Investment Category	% of Total Spend	Key Accounting Considerations
Technology Hardware (Servers, GPUs, Networking)	~60%	ASC 360 capitalization, rapid obsolescence risk, component depreciation
Power Generation & Cooling Infrastructure	~25%	Longer useful lives (15–25 yrs), ARO implications, PPA accounting
Real Estate & Physical Structures	~15%	Ground leases (ASC 842), CIP, building depreciation (25–40 yrs)

[6]Source: McKinsey & Company — "The cost of compute: A $7 trillion race to scale data centers", McKinsey Quarterly, published April 28, 2025.

1.2 The Chip Revolution Fueling the Boom

NVIDIA's GPU evolution illustrates the pace of change: the Ampere architecture (A100, 2020) delivered the first generation of purpose-built AI training GPUs. The Hopper architecture (H100/H200, 2022–2023) introduced the Transformer Engine. The Blackwell architecture (B200/B300, 2024–2025) represents a generational leap with 208 billion transistors and up to 15x the inference performance of the H100. NVIDIA's roadmap extends to the Rubin architecture (2026+).

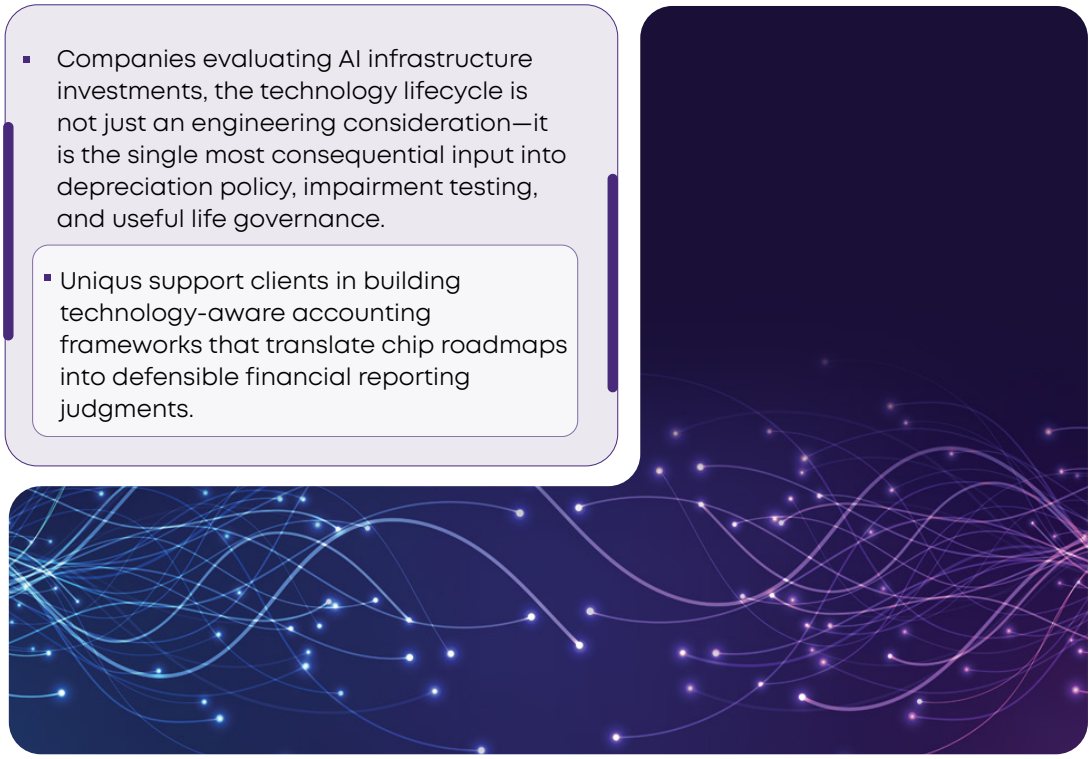
NVIDIA GPU Architecture Evolution: Accounting Implications

This relentless cadence of innovation—roughly 18 to 24 months between generations—has profound implications for useful life assessments and impairment analysis, as summarized below:

Architecture	Year	Key Specs	Accounting Impact
Ampere (A100)	2020	80B transistors, 80GB HBM2e	Baseline useful life benchmarks (5–6 yrs)
Hopper (H100/H200)	2022–2023	Transformer Engine, FP8	Prior-gen impairment triggers; useful life reassessment
Blackwell (B200/B300)	2024–2025	208B transistors, 192GB HBM3e, FP4	15x inference over H100; • Impairment trigger assessment • Useful life reassessment
Rubin	2026+	Next-gen NVLink, perf/watt gains	Forward-looking impairment indicators for Blackwell generation

- Companies evaluating AI infrastructure investments, the technology lifecycle is not just an engineering consideration—it is the single most consequential input into depreciation policy, impairment testing, and useful life governance.

- Uniqus support clients in building technology-aware accounting frameworks that translate chip roadmaps into defensible financial reporting judgments.

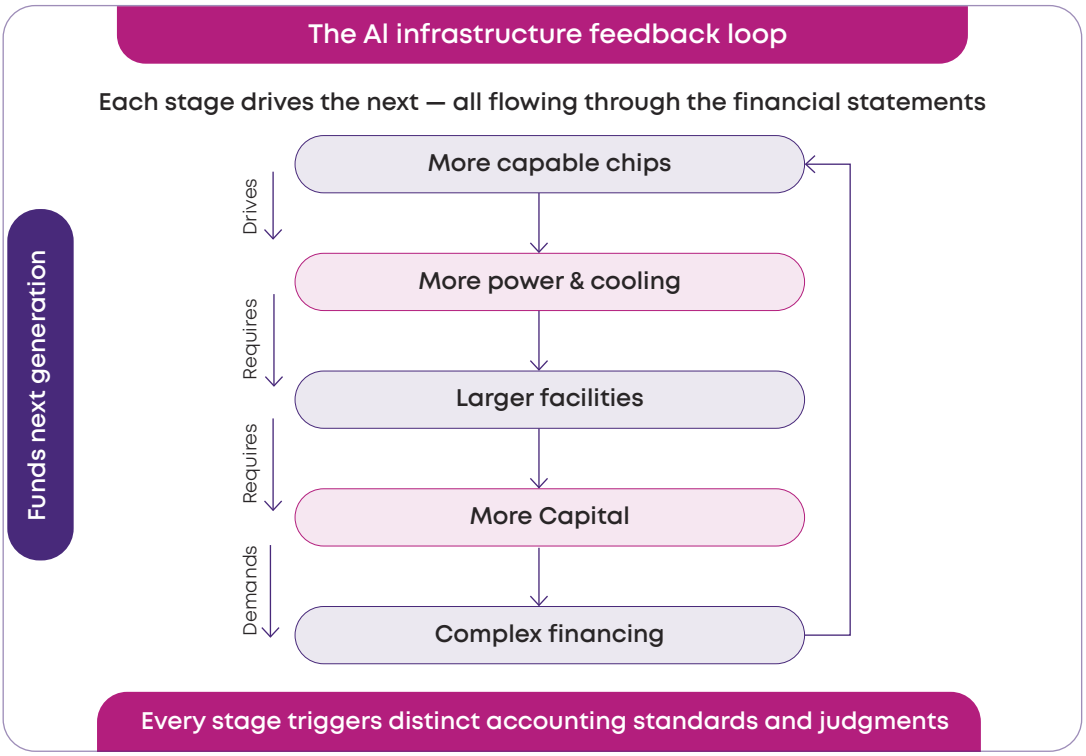


1.3

How Data Centers Power AI and Machine Learning

Modern AI workloads—training large language models (LLMs), running real-time inference, processing multimodal data—require fundamentally different infrastructure than traditional enterprise computing. Training a single frontier AI model now requires thousands of GPUs operating concurrently, consuming 25+ megawatts of power over weeks or months. The shift from inference-light to inference-heavy workloads (driven by AI reasoning models and agentic AI) is further amplifying demand for specialized, high-density computing environments.

This creates a feedback loop



Finance leaders must understand this feedback loop because every stage of it triggers distinct accounting questions—from capitalization and depreciation, lease classification, complex financing and environmental obligations.

AI Workload Types and Their Infrastructure Accounting Implications

Workload Type	Frontier Model Training
Infrastructure Requirement	Thousands of GPUs in synchronized clusters; 25+ MW power; liquid cooling
Scale	Weeks to months per training run

Primary Accounting Implications

- Large CIP balances during build-out;
- Concentrated GPU depreciation;
- Significant energy accruals;
- PPA accounting for dedicated power

Real-Time Inference — Workload Type

Infrastructure Requirement

Latency-optimized GPU/TPU clusters; edge and central deployment

Scale

Continuous, scaling with user demand

Primary Accounting Implications

- Capacity planning drives capex timing;
- Utilization-based impairment triggers;
- Lease vs. service analysis for inference-as-a-service

Fine-Tuning & Transfer Learning — Workload Type

Infrastructure Requirement

Smaller GPU clusters; flexible allocation; shared infrastructure

Scale

Days to weeks per model adaptation

Primary Accounting Implications

- Cost allocation between R&D (ASC 730) and capitalizable development (ASC 350-40 / IAS 38);
- Shared-resource depreciation allocation

Agentic AI & Reasoning — Workload Type

Infrastructure Requirement

High-throughput inference; sustained compute for multi-step reasoning

Scale

Rapidly growing; 3–5x inference demand multiplier

Primary Accounting Implications

- Emerging workload class; drives re-evaluation of inference hardware useful life;
- May trigger capacity expansion capex

Multimodal Processing — Workload Type

Infrastructure Requirement

Specialized hardware for video, audio, and image processing; high storage I/O

Scale

Variable; project-based and continuous

Primary Accounting Implications

- Storage array capitalization;
- Data pipeline software (ASC 350-40);
- Network equipment depreciation

Specific Accounting Considerations

1. Capital Expenditure: Accounting for the Build Context

1.1 Capitalization Framework Under US GAAP

Data center construction involves multiple categories of expenditure, each governed by different capitalization guidance under US GAAP. Understanding these distinct frameworks is critical for accurate financial reporting.

Capitalization Framework: Multi-Standard Mapping

Expenditure Category	US GAAP Guidance	Capitalization Criteria	Note reference	Applicable IFRS
Real Property & Infrastructure	ASC 360 (PP&E)	Future economic benefit, reliably measurable cost	A	IAS 16
Interest During Construction	ASC 835-20	Capitalizable during construction (18–36 months)		IAS 23
Technology Hardware	ASC 360 (PP&E)	Tangible asset; embedded SW capitalized with hardware	B	IAS 16
Internal-Use Software	ASC 350-40 / ASU 2025-06	Project stage analysis; probable-to-complete threshold		IAS 38
Power & Cooling Systems	ASC 360 (PP&E)	Capitalizable; useful lives 15–25 yrs	C	IAS 16
Pre-construction Costs	ASC 360 (General)	Expense until management commits and project is probable	A	IAS 16
Decommissioning (ARO)	ASC 410-20	Capitalize initial estimate as part of asset cost	-	IAS 37

Notes:

A. Real Property and Physical Infrastructure

- Building construction, land improvements, and structural components follow ASC 360 (Property, Plant, and Equipment).
- Costs are capitalized when they meet the asset recognition criteria: the expenditure provides future economic benefit and the cost can be reliably measured.
- Site preparation, architectural and engineering fees, construction labor, and material costs are all capitalizable during the construction period.
- Interest costs incurred during the construction period are capitalizable under ASC 835-20 (Capitalization of Interest). For data center projects that routinely extend 18–36 months, the interest capitalization amount can be substantial—particularly given the scale of debt financing involved.

B. Technology Hardware and IT Equipment

- Servers, GPUs, networking equipment, storage arrays, and related IT infrastructure are capitalized as tangible assets under ASC 360. However, the distinction between hardware and embedded software becomes critical.
- Software integral to the functioning of hardware (e.g., firmware, operating systems) is capitalized with the hardware. Separately identifiable software follows ASC 350-40 (Internal-Use Software) guidance.

C. Power and Cooling Systems

- Generators, uninterruptible power supply (UPS) systems, transformers, cooling towers, liquid cooling infrastructure, and electrical distribution systems represent a significant portion of total data center cost.
- These are capitalized as tangible assets with useful lives that may differ significantly from the IT equipment they support.

- It is recommended for the Companies to adopt component depreciation proactively, even where not strictly mandated by US GAAP. This aligns with IFRS, satisfies auditor expectations, and provides a more economically faithful representation.

  - Uniqus supports clients to develop standardized component identification templates covering the full spectrum of asset classes within data center operations — from physical structures and power/cooling infrastructure to GPU compute hardware, networking equipment, and internal-use software.

Recent development: ASU 2025-06 significantly modernizes internal-use software accounting

The introduction of **ASU 2025-06**[7] significantly modernizes internal-use software accounting by removing rigid stage-based terminology and introducing a principle-based "probable-to-complete" threshold. Key considerations include:

- Clarification of what constitutes internal-use software in cloud environments
- Alignment of capitalization guidance with agile development methodologies
- Greater scrutiny over implementation vs service elements

AI development rarely follows a linear waterfall model. Organizations must carefully document the point at which a project transitions from preliminary stage (expense) to application development stage (capitalizable). This change is particularly consequential for AI initiatives.

A. The "Probable-to-Complete" Threshold

Under ASU 2025-06, capitalization begins when:

1. Management has authorized and committed funding, and
2. It is probable the project will be completed and used as intended, with no significant development uncertainty remaining.

For AI systems, determining when "significant development uncertainty" is resolved can be complex:

- Are model performance requirements finalized?
- Is the underlying algorithm proven?
- Are material architectural changes expected?
- Is deployment contingent on unresolved regulatory or ethical concerns?

Early-stage AI experimentation typically remains expensed. Capitalization begins only once technological feasibility and significant requirements are sufficiently stable. This demands careful documentation.

B. The Challenge of Continuous Learning Systems

AI systems do not remain static after deployment. They evolve:

- Models are retrained.
- Datasets are updated.
- Performance thresholds are recalibrated.
- Security and bias mitigation tools are layered in.

[7]To learn more about requirements of amendments made by **FASB to Sub-Topic 350-40 through Accounting Standard Update ASU 2025-06,** refer to our recent publication titled, Early Impressions-Intangibles—Goodwill and Other— Internal-Use Software (Subtopic 350-40).

- R&D vs capitalizable development distinctions must be clearly documented.
- Stage gating must align with technological feasibility, not internal milestones alone.
- Agile development environments require control discipline to prevent inconsistent application.
- Clear policy articulation and cross-functional governance are critical.

In our view, given the scale of investment, even modest over-capitalization could materially distort operating metrics.

1.2 Costs Frequently Overlooked or Misjudged

Following are some of the key considerations where capitalization judgments are commonly challenged:

Key considerations	Implementation matters
Pre-construction costs: Feasibility studies, environmental impact assessments, zoning and permitting costs.	Under US GAAP, costs incurred before management commits to a project and determines it is probable may need to be expensed.
Cloud-adjacent software: Hyperscalers often develop proprietary orchestration, workload management, and AI optimization software.	• ASC 350-40 requires careful analysis of the project stage (preliminary, application development, post-implementation) to determine capitalization eligibility. • ASU 2025-06 probable-to-complete test
Redundancy costs: Data centers are typically built with N+1 or 2N redundancy for power and cooling.	The cost of redundant systems is capitalizable as they are integral to the asset's intended function.
Decommissioning and site restoration:	Initial cost estimates for eventual asset retirement should be capitalized as part of the asset cost under ASC 410-20 (Asset Retirement Obligations) with a corresponding liability.

Recommended Actions

- Update capitalization policy to specifically address data center asset categories, thresholds, and cost allocation methods. Include specific guidance for pre-construction costs, redundancy systems, and commissioning.
- Perform a formal component identification and grouping exercise for all existing and planned data center assets. Document significant components with distinct useful lives.
- Design process for tracking qualifying construction projects, weighted-average accumulated expenditures, and capitalizable borrowing costs under ASC 835-20 / IAS 23.
- Evaluate impact of ASU 2025-06 (probable-to-complete threshold) on internal-use software capitalization for proprietary AI orchestration and workload management platforms.

2. Depreciation and Useful Life: The Hardest Judgment Call

Even when capitalization is appropriate, determining useful life is fraught with judgment.

AI technologies face:

- **Rapid generational innovation**
- **Competitive model displacement**
- **Cloud vendor upgrades**
- **Evolving regulatory frameworks**
- **Strategic business pivots**

Determining useful life becomes judgment intensive. Amortization periods that are too long may overstate earnings. Periods that are too short may introduce unnecessary volatility.

Organizations must consider:

- **Expected technological lifecycle**
- **Anticipated model replacement cadence**
- **Dependency on specific data environments**
- **Vendor platform risk**

Periodic reassessment is not optional — it is expected.

Key considerations

- The Technology Obsolescence Challenge
- Useful Life Ranges Observed in Practice
- Residual Value and Secondary Markets
- Distinguishing Changes in Estimates from Impairment

2.1

The Technology Obsolescence Challenge

- One of the most significant accounting judgments in data center reporting is determining the appropriate useful life of technology assets.
- The rapid pace of innovation—particularly with GPU generations evolving on approximately 18–24 month cycles—intensifies this assessment. For example, an H100 GPU acquired in early 2023 may remain fully functional in 2025, yet deliver lower performance-per-watt compared to newer alternatives such as the B200, making it less economically efficient for advanced workloads.
- This dynamic creates a clear distinction between:
  - **Physical useful life** – the period over which the asset remains operational; and
  - **Economic useful life** – the period over which the asset generates acceptable returns relative to newer technologies.
- Under ASC 360-10-35, useful life is an entity-specific judgment — based on how the reporting entity intends to use the asset, not solely its physical durability or its economic life from a market-participant perspective. For GPU and AI accelerator hardware, where technology refresh cycles are significantly shorter than physical life, the entity's planned replacement strategy and workload requirements are the primary determinants.
- In determining economic useful life, entities should consider key factors such as physical wear and tear, technological obsolescence, and any legal or contractual constraints.

2.2 Useful Life Ranges Observed in Practice

- Useful life assumptions for data center assets can vary significantly across categories, reflecting differences in technology cycles and operational use:

Asset Category	Typical Range	Aggressive	Conservative
GPU / AI Accelerators	3–5 years	2–3 years	5–6 years
Servers (CPU-based)	4–6 years	3–4 years	6–7 years
Networking Equipment	5–7 years	3–5 years	7–10 years
Power Infrastructure	15–25 years	10–15 years	25–30 years
Cooling Systems	10–20 years	8–12 years	20–25 years
Building / Structure	25–40 years	20–25 years	40–50 years

The table represents a synthesis of hyperscaler 10-K disclosures, industry lifecycle data, and practitioner experience. It is not drawn from a single source but rather reflects the observable range across the industry[8]

- These ranges are not merely theoretical—they reflect real differences in business models, usage patterns, and technology strategies across industry participants:

  – For instance, a hyperscaler focused on frontier AI training workloads may adopt a shorter depreciation horizon (e.g., ~3 years for GPUs) due to rapid obsolescence, whereas a colocation provider serving enterprise workloads may reasonably apply longer useful lives (e.g., 5–6 years) for similar hardware.

- The variation in useful life assumptions has important accounting implications, particularly for depreciation patterns, earnings profiles, and comparability across entities-
  - Shorter useful lives (e.g., for hyperscalers) accelerate depreciation, increasing near-term expenses and better reflecting rapid technological obsolescence
  - Longer useful lives (e.g., for colocation providers) defer expense recognition and smooth earnings but may increase the risk of future impairments if assets become obsolete sooner than expected.
- In our view determining useful life under ASC 360 is a critical judgment that should align with an entity's business model, asset utilization, and exposure to technology cycles, with clear disclosures to support comparability.
- Uniqus supports clients in establishing robust and consistent useful life frameworks for data center assets, aligned with technology cycles, business models, and accounting requirements.

[8]"Ranges compiled from hyperscaler SEC filings (Amazon, Microsoft, Google, Meta 10-K disclosures 2022–2025), industry infrastructure lifecycle data (CIRKLA, Uptime Institute, Omdia), and Uniqus practitioner experience across data center engagements.

2.3 Residual Value and Secondary Markets

- **Emerging secondary markets:** A growing resale ecosystem for used data center equipment (including servers and GPUs) is developing, with participation from operators and broker-dealers.
- **Impact on depreciation:** The existence of active secondary markets may support the assignment of residual values, thereby reducing annual depreciation expense.
- **Need for reassessment:** Given the high volatility in residual values driven by rapid technology cycles, entities should reassess these estimates periodically in accordance with ASC 360.

2.4 Distinguishing Changes in Estimates from Impairment

- **Technology-driven obsolescence:** The introduction of a new GPU generation may render existing hardware economically suboptimal, requiring management to reassess its accounting treatment.
- **Distinguishing accounting outcomes:** Management must evaluate whether the change reflects a revision in useful life (accounted for prospectively under ASC 250) or indicates a potential impairment trigger under ASC 360-10-35.
- **Recoverability assessment:** The critical consideration is whether the carrying amount of the asset group exceeds its undiscounted future cash flows.
- **Outcome-based treatment:** If the asset continues to generate reasonable—albeit reduced—returns, a revision to useful life may be appropriate. However, if the underlying economics have significantly deteriorated, an impairment test is required.

- **Prospective estimate revision:** Changes in useful life are treated as changes in accounting estimates and applied prospectively, impacting future depreciation expense without restating prior periods.
- **Impairment trigger evaluation:** Indicators such as technological obsolescence or reduced economic viability may trigger a recoverability test under ASC 360.
- **Two-step impairment approach:** If undiscounted cash flows are insufficient to recover the carrying amount, the asset group is written down to its fair value, with the loss recognized in earnings.
- In our view entities should establish processes to continuously monitor technological shifts and market conditions to ensure timely identification of estimate changes versus impairment triggers.

- Uniqus supports clients in identifying changes in accounting estimates and impairment triggers for data center assets by implementing robust assessment frameworks aligned with evolving technology cycles, asset utilization patterns, and applicable accounting standards.

IFRS Perspective:

Under IFRS, the accounting for depreciation and useful life is governed primarily by **IAS 16 and IAS 36**, with a strong emphasis on **principles-based judgment and continuous reassessment.**

- **Useful life determination**

  Similar to U.S. GAAP, assets are depreciated over their **economic useful lives,** considering factors such as **expected usage, technological obsolescence, physical wear and tear, and legal or contractual limits.**

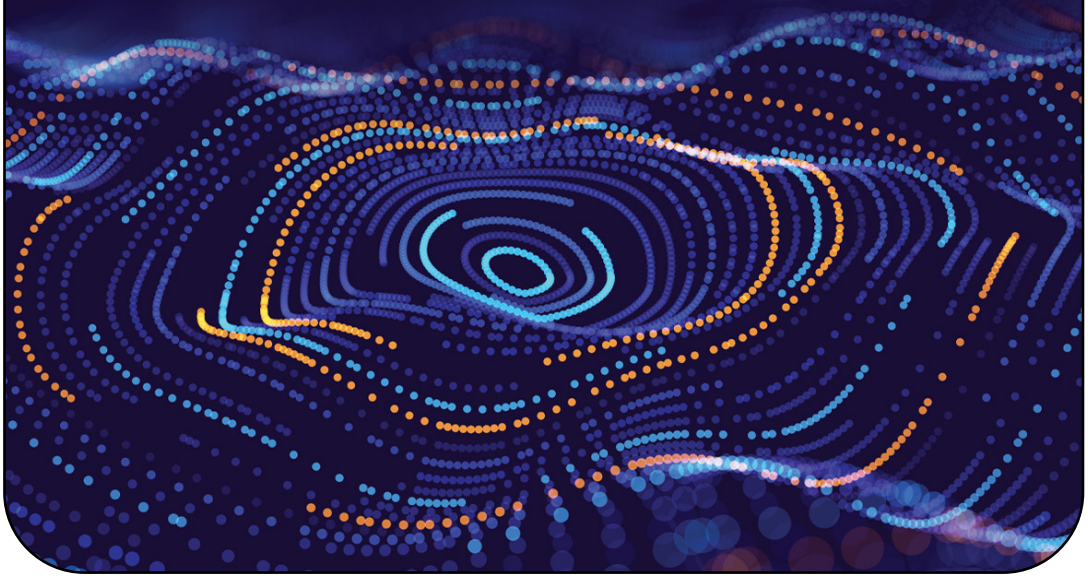
- **Mandatory periodic reassessment**

  IFRS explicitly requires entities to **review useful lives, residual values, and depreciation methods at least annually,** with any changes treated as **changes in accounting estimates** and applied prospectively. This creates a **higher expectation of ongoing reassessment** compared to practice in some U.S. GAAP environments.

- **Impairment framework:**

  Under IAS 36, impairment testing is based on a **single-step recoverable amount approach,** defined as the higher of **value in use (discounted cash flows)** and **fair value less costs of disposal**. This differs from the U.S. GAAP undiscounted cash flow recoverability test and may result in **earlier identification of impairment indicators in rapidly evolving technology environments.**

Overall, while the core principles are broadly aligned with U.S. GAAP, IFRS frameworks tend to be **more dynamic and judgment-driven,** with **greater emphasis on periodic reassessment, residual value estimation, and earlier impairment recognition**—all of which are highly relevant in the context of AI-driven data center investments.



Recommended Actions

- Annual full review of useful lives + quarterly trigger monitoring.
- Build depreciation sensitivity models for each asset cohort (±1-year useful life change). Present to Audit Committee quarterly. Quantify EBIT and margin impacts.
- Establish relationships with equipment resellers (e.g., Iron Mountain, broker-dealers) to obtain secondary market pricing data. Integrate into residual value assessments.
- Design quarterly trigger assessment incorporating: GPU roadmap updates, utilization rates, secondary market prices, peer disclosures, and customer demand signals.
- Compile and maintain database of hyperscaler and DC operator useful life disclosures. Update with each 10-K filing cycle. Use for audit defense and policy calibration.

3. Financing the Data Center Boom: Complex Instruments and Their Accounting

The sheer scale of data center investment has driven innovation in financing structures. S&P Global reports that debt issuance for data center purposes nearly doubled to $182 billion in 2025, while lenders committed $121 billion in credit for U.S. data center properties alone. Understanding these structures and their accounting implications is critical for accurate financial reporting

3.1 Financing Structures: Accounting Treatment Matrix

Structure	Description	US GAAP Treatment	Note Reference	Key Risks
Corporate Debt / Green Bonds	Debt earmarked for green projects	ASC 470; no special treatment for “green” label	A	Use-of-proceeds tracking; disclosure
Convertible Notes	Debt converting to equity at milestones	ASC 470-20 / ASU 2020-06; single liability model, ASC 815-15 for embedded derivative assessment	B	Remeasurement at IPO; embedded features
Project Finance / SPVs	Ring-fenced structures	VIE analysis (ASC 810); consolidation test	C	Off-balance sheet risk; ABS (ASC 860)
Joint Ventures	Partnerships with AI labs, SWFs	VIE analysis (ASC 810); consolidation test /ASC 323 (equity method)	C/D	Revenue allocation; related party issues
Sale-Leaseback	Sell facility, lease back operations	ASC 842 / ASC 606; must qualify as sale	E	Repurchase options may prevent sale

A. Corporate Debt and Green Bonds

- **Increased debt issuance by hyperscalers:** Hyperscalers have emerged as some of the most active corporate bond issuers globally, with significant capital raised to fund data center expansion.
- **Rise of green bonds:** Green bonds—where proceeds are earmarked for environmentally sustainable projects—are increasingly used to finance data centres, particularly those incorporating renewable energy and advanced cooling technologies.
- **Accounting treatment under US GAAP:** Despite their "green" label, such instruments are accounted for as standard debt under ASC 470, with no separate recognition or measurement guidance.
- **Enhanced disclosure requirements:** The designation drives incremental disclosure expectations, including transparency around the allocation and use of proceeds.

B. Convertible Notes and Hybrid Instruments

- **Use of convertible structures:** Data center developers and operators often utilize convertible debt instruments that allow conversion into equity upon achieving specified milestones or valuation thresholds.
- **Accounting treatment under US GAAP:** Following ASU 2020-06, convertible instruments are generally accounted for as a single liability under ASC 470-20, unless the conversion feature requires separate accounting as a derivative under ASC 815.
- **Hybrid instrument complexity:** Instruments combining debt, equity, and embedded derivatives are common, particularly in joint ventures and SPVs.
- **Bifurcation assessment:** Each embedded feature must be evaluated to determine whether bifurcation is required under ASC 815-15.

C. Project Finance and Special Purpose Vehicles

- **Use of SPVs in large-scale projects:** Data center developments are increasingly structured through SPVs or project finance vehicles to ring-fence assets and liabilities.
- **Consolidation considerations:** Entities must assess whether the SPV qualifies as a variable interest entity (VIE) under ASC 810 and identify the primary beneficiary for consolidation purposes.
- **Securitization structures:** Data center revenue streams may be securitized, raising off-balance sheet considerations under ASC 860 (Transfers and Servicing).
- **Complex financing arrangements:** Large syndicated loan structures highlight the scale and complexity of funding arrangements in this sector.

D. Joint Ventures and Co-Investment Models

- **Collaborative investment structures:** Hyperscalers are increasingly partnering with AI labs, infrastructure funds, and sovereign investors to co-develop data centres.
- **Varied structural forms:** These arrangements may take the form of joint ventures, joint operations, or contractual co-investment agreements.
- **Accounting implications:** The structure determines the applicable accounting model (e.g., ASC 323 or other guidance) and impacts balance sheet recognition and profit-sharing arrangements.

E. Sale-Leaseback Structures

- **Asset monetization strategy:** Operators may enter into sale-leaseback transactions to unlock capital while retaining operational control of data center assets.
- **Sale criteria under US GAAP:** For sale-leaseback accounting under ASC 842, the transfer must qualify as a sale under ASC 606.
- **Leaseback evaluation:** The leaseback arrangement must not grant the seller-lessee substantially all of the asset's remaining economic benefits.
- **Failed sale-leasebacks:** If the criteria are not met, the transaction is accounted for as a financing arrangement rather than a sale.

- **Increasing complexity in financing structures:** The financing ecosystem surrounding data centres have evolved significantly, often exceeding the traditional scope and design of internal accounting functions.
- **Risk of late-stage accounting challenges:** Transactions are frequently structured by treasury and FP&A teams without sufficient involvement from technical accounting, resulting in unexpected classification and reporting outcomes at period-end.
- In our view there is a need for early technical accounting involvement. Proactive engagement of accounting advisory during the deal structuring phase is critical and should be viewed as a governance necessity rather than an optional step.

- Uniqus supports clients to integrate technical accounting considerations into transaction structuring by collaborating closely with treasury and FP&A teams, enabling upfront identification of accounting implications, avoiding close-period surprises, and strengthening overall financial governance.

Recommended Actions

- **Pre-deal accounting impact assessment:** Embed technical accounting review as a mandatory gate in the deal structuring process for all financing transactions exceeding a materiality threshold and/or unusual in nature. Assess classification, consolidation, and presentation impacts before signing.
- **VIE/consolidation assessment framework:** Develop a standardized VIE/consolidation assessment template for SPVs, JVs, and project finance vehicles. Ensure primary beneficiary analysis is documented contemporaneously.
- **Embedded derivative screening protocol:** Implement a systematic screening process for embedded derivatives in all new financing instruments. Create decision tree for bifurcation analysis under ASC 815-15 and IFRS 9.
- **Sale-leaseback pre-assessment checklist:** Create a structured checklist for evaluating whether proposed sale-leaseback transactions will achieve sale recognition under ASC 606/842. Flag repurchase options and economic penalties early.

4. Financial Statement Presentation and Disclosure

4.1 Income Statement (P&L) Considerations

Data center costs flow through the P&L in several ways, and the classification choices have significant implications for operating metrics:

Depreciation expense | **Cost elements**

Key accounting considerations

- **Classification:** Classified within cost of revenue (for revenue-generating assets like servers and GPUs) or operating expenses (for general infrastructure).
- **Metric affected:** Classification affects gross margin, a closely watched metric for cloud and infrastructure companies.
- **Key Judgement:** Cost of Revenue vs. R&D vs. G&A

Implementation Matters

- Under US GAAP (ASC 360), depreciation classification is not prescribed and is determined based on the **functional use** of the asset, requiring a consistent and policy-driven approach for data center assets.:
  - **Cost of revenue (primary classification):** Depreciation of servers, GPUs, networking equipment, and related power and cooling infrastructure supporting revenue-generating services is typically recorded here, directly impacting gross margins.
  - **Research & development:** Where assets are deployed for AI research, model training, or product development, depreciation is classified within R&D expenses, reflecting its role in innovation activities rather than core service delivery.
  - **General & administrative / operating expenses:** Depreciation related to corporate offices, administrative facilities, and general-purpose infrastructure is recorded here, typically representing a smaller share for data center operators.

Energy Cost — Cost elements

Key accounting considerations

- **Classification:** Classified as cost of revenue for operators and within operating expenses for enterprise users.
- **Metric affected:** Gross Margin / EBITDA.
- **Key Judgement:** The magnitude is growing—energy cost can represent 30–50% of operating costs.

Implementation Matters

- There is no specific standard governing the classification of energy costs; treatment is based on the functional role of energy in operations:
  - **Data center operators and colocation providers:** Energy is a direct input to service delivery (powering and cooling infrastructure) and is typically classified within cost of revenue, directly impacting gross margins.
  - **Hyperscalers (nuanced allocation):** Energy costs follow the underlying use of assets—allocated across cost of revenue (commercial services), R&D (AI training and research), and G&A (corporate usage), mirroring depreciation allocation principles.
  - **Enterprise users:** Energy costs for internally consumed data center capacity are generally classified within operating expenses (G&A/IT). However, where infrastructure supports revenue-generating activities, a portion may be allocated to cost of revenue.

Interest expense — Cost elements

Key accounting considerations

- **Classification:** Capitalized during construction (ASC 835-20), then recognized in the P&L once assets are placed in service.
- **Metric affected:** Earnings after interest. The transition from capitalized interest to expensed interest can create P&L volatility.
- **Key Judgement:** Transition from capitalized to expensed

Implementation Matters

- **Phased commissioning complexity:** As data centres are often placed in service in phases, interest capitalization must cease for completed portions while continuing for assets still under construction—requiring granular project-level tracking.
- **Transition to expensing ("P&L cliff"):** Once assets (or phases) are placed in service, capitalization stops and full interest expense is recognized in the P&L, potentially creating short-term earnings volatility as revenues ramp up.
- **Ongoing recognition:** Post-commissioning, interest expense is recorded below operating income, with material impact for highly leveraged operators.

Impairment charge — Cost elements

Key accounting considerations

- **Classification:** Typically classified within operating income — either embedded in cost of revenue / operating expenses, or presented as a separate "impairment charges" line item within the operating section. If part of a formal restructuring plan (ASC 420), classified within restructuring charges, which is still generally within operating income. Only discontinued operations impairments are presented below the line.
- **Metric affected:** Operating Income. Given the technology obsolescence risk, impairment becomes a recurring consideration.
- **Key Judgement:** Technology obsolescence triggers. Given the 18–24 month GPU generational cycles, technology obsolescence is a persistent trigger that warrants quarterly monitoring rather than annual assessment.

Implementation Matters

- **Cost of revenue (primary consideration):** Impairment of revenue-generating assets such as GPUs, servers, and related infrastructure may be classified within cost of revenue where closely aligned with service delivery, directly impacting gross margins.
- **Operating expenses (common presentation):** In practice, many entities present impairment charges as a separate line item within operating expenses to enhance transparency, particularly where amounts are material or non-recurring.
- **Consistency and comparability:** Given the increasing frequency of technology-driven impairments, entities should adopt a consistent classification policy, as differing approaches can materially affect gross margin and operating income comparability across periods and peers.

- The depreciation expense classification is a three-way judgment — Cost of Revenue vs. R&D vs. G&A — depending on the function the asset serves.
  - For data center companies, the most consequential judgment is the split between cost of revenue (commercial services) and R&D (internal AI research), as this directly affects gross margin and R&D intensity metrics.
  - Companies with dual-purpose GPU fleets (serving both commercial customers and internal research) must develop robust cost allocation methodologies, and the allocation percentages should be documented, consistently applied, and disclosed where material.
- In our view, income statement classification for data center costs — depreciation, energy, interest, and impairment — is not a back-office exercise. It is a strategic reporting decision that directly shapes how investors, analysts, and rating agencies perceive operating performance. The three-way depreciation allocation (cost of revenue vs. R&D vs. G&A), the accounting treatment of long-term energy arrangements, the timing of the capitalized-to-expensed interest transition, and the quarterly cadence of impairment trigger monitoring all require coordinated, cross-functional governance that most accounting teams are not currently structured to deliver.

Uniqus supports clients:

- To establish defensible and consistent allocation frameworks for dual-use GPU fleets across commercial and R&D usage.
- To assess PPA structures upfront to determine appropriate accounting under ASC 815, ASC 842, and ASC 606.
- To build phase-level models to track expenditures and anticipate the P&L impact of the “interest cliff.”
- To implement quarterly trigger frameworks aligned with technology cycles and market indicators.

IFRS Perspective:

a Depreciation expense

- Under IFRS, the same functional classification approach applies — depreciation follows the function of the asset. Under IFRS 18's new structure, all of these classifications (cost of revenue, R&D, G&A) fall within the operating category, so the mandatory operating profit subtotal captures all data center depreciation regardless of functional line. However, the gross margin impact remains a judgment area for companies that present a gross profit subtotal.

b Energy Cost

- Under IFRS 18, energy costs associated with revenue-generating operations fall within the operating category. The classification within functional lines (cost of sales vs. administrative) follows the same functional-use principle as US GAAP.

c Interest expense

- **Capitalization framework:** Under IAS 23, capitalization of borrowing costs is mandatory for qualifying assets once construction activities are in progress and expenditures are incurred. This is broadly aligned with U.S. GAAP (ASC 835-20); however, differences may arise in application, particularly regarding the timing of capitalization (commencement, suspension, and cessation) and the treatment of complex, phased data center projects.
- **Qualifying asset assessment:** IFRS defines qualifying assets as those that require a substantial period of time to be ready for use or sale. While conceptually similar to U.S. GAAP, judgment in interpreting "substantial period" may lead to differences in practice—especially for modular builds, phased commissioning, or rapidly deployable infrastructure common in AI data centers.
- **Presentation in financial statements:** Under IFRS 18, interest expense is presented within the financing category, separate from operating profit. This creates structural differences in performance reporting compared to U.S. GAAP, where operating income is not formally defined, potentially impacting EBIT and margin comparability across jurisdictions.

d Impairment charge

- Under IAS 36, the test uses discounted cash flows or fair value less costs of disposal, whichever is higher — a lower threshold that may identify impairments earlier. Additionally, IFRS permits reversal of prior impairment charges (except for goodwill) when conditions improve, while US GAAP does not. This creates a material difference for dual-framework reporters managing GPU fleet transitions where partially obsolete hardware may regain economic utility for inference workloads after an initial impairment for training purposes.

4.2 Balance Sheet Presentation

Data center investments create significant balance sheet complexity across multiple asset and liability categories. The classification and presentation choices carry direct consequences for leverage ratios, covenant compliance, return-on-asset metrics, and investor perception.

PP&E

Key Considerations	Presentation Implications
• Data center assets often form 40–60% of total assets. • Disaggregation by major components (e.g., land, buildings, servers, power, cooling, CIP) is a best practice.	• Enhancement of transparency on asset mix, age profile, and depreciation trends.

Right-of-Use (ROU) Assets & Lease Liabilities

Key Considerations	Presentation Implications
• Significant balances from ground, building, and equipment leases (10–30% of assets).	• Finance lease ROU assets may be within PP&E; operating leases are typically separate.

Construction in Progress (CIP)

Key Considerations	Presentation Implications
• Material balances due to long construction cycles (18–36 months) and phased commissioning.	• Requires disclosure of project status, capitalized interest, and transfer timing to PP&E. • Impacts depreciation start and interest capitalization cessation.

Asset Retirement Obligations (AROs)

Key Considerations	Presentation Implications
• Arise from decommissioning, site restoration, and disposal obligations.	• Presented as long-term liabilities with corresponding asset capitalization. Requires disclosure of timing, uncertainty, and accretion expense.

Debt & Complex Financing Instruments

Key Considerations	Presentation Implications
• Includes convertible debt, embedded derivatives, SPV financing, and syndicated structures.	• Classification between current/non-current and potential embedded features requiring bifurcation under ASC 815 impacts presentation.. • Consolidation (VIE/control) determines balance sheet inclusion of SPVs.

IFRS Perspective:

Balance sheet presentation under IFRS is governed by a combination of standards, including IAS 1, IAS 16, IFRS 16, and IAS 37, with a strong emphasis on transparency, disaggregation, and principles-based classification.

Greater disaggregation and transparency:

IFRS, generally require more granular disclosure of asset classes and movements, particularly for PP&E. Data center operators are expected to provide detailed breakdowns of major asset components (e.g., land, buildings, servers, power and cooling infrastructure), along with reconciliation of opening and closing balances, enhancing visibility into capital intensity and asset aging.

Lease accounting impact

Under IFRS 16, all leases (with limited exceptions) are recognized on the balance sheet, resulting in higher reported assets and liabilities compared to U.S. GAAP (which retains operating vs finance lease classification for lessees). This can materially impact leverage ratios, return metrics, and covenant calculations for data center operators with significant lease portfolios.

Construction and capitalization nuances

While the concept of construction in progress (CIP) is similar, IFRS places greater emphasis on continuous capitalization assessment, including borrowing costs under IAS 23 and componentization under IAS 16, which may result in earlier or more granular transfer to depreciable asset categories.

Provisions and AROs

Asset retirement obligations are accounted for as provisions under IAS 37, with discounted measurement and periodic remeasurement. IFRS often require more detailed disclosures of assumptions, timing, and uncertainties, particularly for long-dated environmental obligations typical of data center operations.

Financial instruments and capital structure

IFRS frameworks require careful classification of complex financing instruments, including liability vs equity bifurcation for convertible instruments and fair value treatment of embedded derivatives. Compared to U.S. GAAP, this may lead to greater balance sheet volatility and earlier recognition of equity components.

Consolidation and structured entities

Consolidation under IFRS (control model) may differ in application compared to U.S. GAAP VIE guidance, particularly for SPVs and project financing structures, potentially affecting whether assets and liabilities are presented on-balance sheet.

While the overall balance sheet framework is broadly aligned, IFRS place **greater emphasis on disaggregation, full lease recognition, and principles-based classification.** For data center investments, these differences can **materially alter leverage optics, asset intensity metrics, and comparability across jurisdictions,** making **early alignment of accounting policies and disclosures critical for global operators.**

Recommended Actions

- **Policy standardization:** Formalize accounting policies for depreciation classification (CoR vs. OpEx), energy costs, and impairment, ensuring consistency across periods and alignment with peer practices.
- **Governance framework:** Establish a cross-functional Disclosure Committee (Technical Accounting, IR, Legal, Operations) with a defined quarterly cadence to oversee data center–related disclosures.
- **Commitment tracking:** Implement robust processes to capture and periodically update contractual commitments for data center construction, equipment procurement, and long-term energy arrangements.
- **Non-GAAP readiness:** Strengthen reconciliation frameworks for non-GAAP metrics (e.g., Adjusted EBITDA, Modified FFO) to align with DISE disaggregation and IFRS 18 MPM requirements.

5. Contingencies and Other Accounting Matters

As data center investments scale at unprecedented speed, organizations are increasingly exposed to non-core but high-impact accounting areas—**including contingencies, government incentives, and impairment risks.** These elements, while often treated as ancillary, can materially influence financial statements, volatility, and disclosures if not proactively managed.

5.1 Legal and Regulatory Contingencies

The regulatory perimeter around data centres is expanding rapidly—spanning environmental compliance, land-use restrictions, and evolving stakeholder scrutiny. All data center contingencies are assessed under the same accounting framework i.e. ASC 450-

- A loss is accrued when it is probable and the amount is reasonably estimable.
- Where a loss is reasonably possible but does not meet the accrual threshold, disclosure is required.
- What varies across contingency types is not the accounting standard applied, but the practical difficulty of assessing probability and estimation — as outlined below."

Zoning and land use litigation — Contingency Type

Probability Assessment Challenge	Estimation Challenge	Key Accounting Nuance
The outcome is typically binary (either the challenge succeeds or fails), but it involves legal uncertainty due to jurisdiction-specific rules.	Any loss may be indirect, such as project delays, sunk costs, or capitalized interest on construction in progress, rather than a direct payment	It is important to assess whether capitalized construction-in-progress (CIP) costs need to be tested for impairment under ASC 360 if the project is delayed or abandoned.

Regulatory penalties (water, noise, emissions) — Contingency Type

Probability Assessment Challenge	Estimation Challenge	Key Accounting Nuance
The likelihood of penalties can be assessed based on monitoring data and compliance trends, which are usually measurable.	Penalty amounts are often defined by regulations, making them relatively easier to estimate.	These exposures may be recurring rather than one-time and therefore may need to be considered in ongoing contingency provisions.

Contractual disputes (construction, equipment, power)	Contingency Type	
Probability Assessment Challenge	**Estimation Challenge**	**Key Accounting Nuance**
Assessing the likelihood of loss can be complex, as it requires evaluating both the entity's potential liability and any counterclaims.	It is important to determine whether exposure should be considered on a gross basis or net of counterclaims.	• Under ASC 450, potential gains from counterclaims generally cannot be offset against losses unless specific conditions are met. • As a result, losses and gains may need to be recognized differently (i.e., asymmetrical recognition).

Intellectual property claims	Contingency Type	
Probability Assessment Challenge	**Estimation Challenge**	**Key Accounting Nuance**
Requires detailed legal evaluation of patents, including their validity, scope, and comparison with existing technologies	Potential financial impact can vary significantly — from minor settlement amounts to substantial royalty-based damages.	The risk of an injunction (i.e., restriction on using technology) should be assessed separately from monetary damage, as it may lead to impairment of the related technology assets.

5.2 Tax Incentives and Government Assistance

Governments at federal, state, and local levels are aggressively competing for data center investment through tax incentives—sales tax exemptions on equipment purchases, property tax abatements, investment tax credits, and infrastructure subsidies. Ohio's data center tax incentive program, for example, has attracted over $10 billion in AWS investment alone. Tax incentives and government support mechanisms are a critical component of data center investment decisions, but introduce nuanced accounting considerations.

Area	Key considerations	Accounting implications
Income tax credits	• Investment tax credits, • R&D incentives	Accounted under ASC 740
Non-income tax incentives	• Sales tax exemptions, • Property tax abatements	Lack explicit US GAAP guidance and are typically accounted for by analogy to IAS 20 (Government Grants) or through reduction of the related asset cost.
Government grants / subsidies[9]	• Infrastructure support, • Cash incentives	Disclosure required under ASU 2021-10
Conditional incentives	• Clawback clauses, • Employment thresholds	Assess contingencies and ongoing compliance obligations

IFRS Perspective:

The accounting for contingencies, government incentives, and impairment under IFRS reflects a more principles-based and, in certain areas, **more sensitive recognition model.**

Contingencies

Under IAS 37, provisions are recognized when an obligation is **more likely than not** and can be reliably estimated. Compared to U.S. GAAP, this **lower recognition threshold** and the use of **expected value measurement** can result in **earlier and potentially higher provisioning.**

Government Grants

IAS 20 provides a **well-defined framework** for recognition and presentation based on **reasonable assurance** of compliance with conditions. Entities have clear policy choices between **gross (income recognition)** and **net (asset reduction)** presentation, resulting in **greater consistency relative to historical U.S. GAAP practice.**

Overall, IFRS frameworks tend to drive earlier recognition and greater balance sheet sensitivity, particularly in fast-evolving sectors such as AI infrastructure. For globally operating data center companies, aligning assumptions and ensuring consistency across reporting frameworks is critical to maintaining comparability and transparency.

[9]Historically, U.S. GAAP lacked authoritative guidance on accounting for government grants for business entities, leading companies to apply analogies to models such as **IAS 20, ASC 958-605,** or **ASC 450.** This resulted in significant diversity in recognition, measurement, and presentation. To address this, the FASB issued **ASU 2025-10,** establishing a comprehensive U.S. GAAP framework for government grants. The new guidance draws from IAS 20 while enhancing consistency and aligning disclosure requirements. ASU 2025-10 is effective for all entities for fiscal years beginning after December 15, 2028 (including interim periods), with early adoption permitted.To learn more about requirements of amendments made by **FASB to ASC 832 through Accounting Standard Update ASU 2024-03,** refer to our recent publication titled, **Early Impressions FASBs' Accounting Standard Update (ASU-2025-10) Government Assistance (ASC 832) Accounting for Government Grants Received by Business Entities**

- **Contingencies are becoming strategic, not incidental:** In a rapidly evolving regulatory and legal landscape, contingency assessments are no longer periodic compliance exercises but require continuous monitoring and integrated judgment frameworks.
- **Government incentives drive economics—but complicate accounting:** Tax credits, grants, and subsidies are central to data center investment decisions, yet the absence (historically) of consistent guidance has led to policy fragmentation and disclosure gaps.
- **In our view** in the AI infrastructure ecosystem, contingencies, incentives, are not peripheral accounting topics—they are strategic levers of financial reporting outcomes. Organizations that embed these areas into core financial governance and decision-making frameworks will be better positioned to manage volatility, enhance transparency, and sustain investor confidence in a capital-intensive, rapidly evolving landscape.

- Uniqus supports clients to:
  - Build integrated, audit-ready models linking legal, operational, and financial inputs.
  - Design standardized policies, tracking mechanisms, and disclosure frameworks related to government incentives.
  - Implement proactive impairment frameworks and valuation models.
  - Deliver holistic, multi-standard solutions for consistent and decision-useful reporting.

Recommended Actions

- **Government incentive tracking system:** Build a centralized register of all government incentives, tax credits, abatements, and subsidies. Track compliance with conditions (e.g., green credentials for Virginia). Monitor clawback triggers.
- **Incentive accounting policy harmonization:** Establish consistent accounting treatment for non-income tax incentives (sales tax exemptions, property tax abatements). Document the analogy to IAS 20 where applied under US GAAP.
- **Legal and regulatory contingency assessment process:** Establish a quarterly process for assessing legal and regulatory contingencies. Include zoning litigation, environmental penalties, contractual disputes, and IP claims. Document probability and estimation under ASC 450 / IAS 37.

6. DISE (ASU 2024-03) and IFRS 18: Reshaping Presentation

6.1 DISE: Disaggregation of Income Statement Expenses[10]

ASU 2024-03 (codified as ASC 220-40), effective for annual periods beginning after December 15, 2027, for large accelerated filers (December 15, 2028, for all others), requires public companies to disaggregate certain expense line items in the income statement or notes. For data center-intensive companies, the implications are substantial:

What Must Be Disaggregated?

Entities must disaggregate expenses into their natural components—specifically: purchases of inventory, employee compensation, depreciation and amortization, and a residual "other" category. This applies to any line item that contains relevant expense types.

For a data center operator, this means that "cost of revenue"—historically presented as a single large number—will need to be broken out to show the depreciation component (primarily GPU and server depreciation), employee compensation (data center operations staff), energy costs, and other items. Similarly, research and development expense will need to disaggregate depreciation from labor and other costs.

The Data Center Challenge

The practical challenge is significant. Data center costs are typically accumulated in cost centers that blend multiple natural expense categories. Extracting the depreciation component embedded within cost of revenue from the labor and energy components requires system and process changes—new cost allocation routines, subledger configurations, and potentially ERP modifications.

Companies should begin their DISE readiness assessment now, particularly given the system implementation timelines involved. Key steps include mapping current expense flows, identifying data gaps, designing the target-state disaggregation model, and building the internal controls necessary to ensure disaggregated data is complete and accurate.

[10] To learn more about requirements of amendments made by **FASB to Sub-Topic 220-40 through Accounting Standard Update ASU 2024-03,** refer to our recent publication titled, **ASC insights FASB's Accounting Standard Update (ASU 2024-03)- Disaggregation of Income Statement Expenses (Subtopic 220-40) .**

6.2

IFRS 18: Presentation and Disclosure in Financial Statements[11]

IFRS 18 (effective January 1, 2027) replaces IAS 1 and fundamentally restructures the income statement into five categories: operating, investing, financing, income taxes, and discontinued operations. It also introduces requirements for management-defined performance measures (MPMs).

Impact on Data Center Reporting Under IFRS

For IFRS reporters with significant data center operations, the key changes include:

- Mandatory operating profit subtotal: IFRS 18 defines operating profit as a required subtotal, forcing consistency across reporters. Data center depreciation, energy costs, and operating labor will fall within this subtotal.
- Classification of financing costs: Interest on debt used to finance data center construction, once the asset is placed in service, must be classified within the financing category—not operating. This will reduce the operating profit of heavily leveraged data center operators relative to current practice.
- Management-defined performance measures: Companies that use non-GAAP metrics like "adjusted EBITDA" or "Modified Funds from Operations" (common among data center REITs) will need to provide reconciliations to the nearest IFRS subtotal and maintain consistent definitions year over year.

6.3

Dual-Framework Challenges

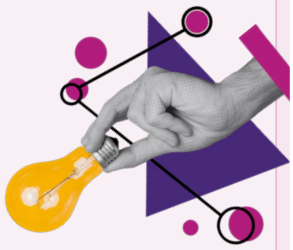
Companies reporting under both US GAAP and IFRS face a dual implementation burden. The expense disaggregation requirements of DISE and the income statement restructuring of IFRS 18 are complementary but not identical. Systems and processes must be designed to serve both frameworks simultaneously, particularly for multinational data center operators with entities reporting under different standards.

- Organizations should not defer preparation until the effective date. Given the comparative period requirement, large accelerated filers will need disaggregated data for fiscal year 2027, necessitating that data capture processes are fully operational by January 2027 at the latest. For companies with complex data center operations, the 2026–2027 implementation window is already constrained, making early action critical.

- Uniqus supports clients to navigate these evolving reporting requirements through an integrated approach that combines technical accounting expertise with implementation support.
- We assist in performing DISE impact assessments, designing chart-of-accounts enhancements, and building scalable data architectures that align with both US GAAP and IFRS requirements.

[11] To learn more about requirements of amendments made by FASB to Sub-Topic 220-40 through Accounting Standard Update ASU 2024-03, refer to our recent publication titled, **Uniqus Insights Navigating IFRS 18: An Overview and Practical Considerations**

Recommended Actions



- **DISE readiness:** Conduct a comprehensive impact assessment by mapping expense line items to required natural categories and quantifying embedded components such as depreciation, compensation, and inventory.
- **Systems and data architecture:** Evaluate ERP capabilities to capture natural expense data; implement necessary chart-of-accounts enhancements, cost center redesign, and automated allocation mechanisms (typically requiring a 6–12 month roadmap).
- **IFRS alignment:** Assess classification of income and expenses within the IFRS 18 operating category and model the impact of mandatory financing classification of interest on operating profit.
- **MPM governance (IFRS):** Define Management Performance Measures (MPMs), design reconciliations to IFRS subtotals, and ensure consistency in presentation across reporting periods.
- **Dual-reporting strategy:** For companies reporting under both US GAAP and IFRS, develop a unified data architecture to support DISE and IFRS 18 requirements, minimizing duplication and enhancing efficiency.

7. Asset Retirement Obligations (AROs)

Data center operations give rise to **long-term environmental and decommissioning obligations,** including removal of hazardous materials (e.g., batteries, diesel systems, and coolants), site restoration, and disposal of electronic waste. These obligations introduce **significant estimation complexity and long-term financial reporting implications.** Following summarizes key accounting considerations-

Area	Key considerations	Accounting implications
Identification of ARO	Legal obligation tied to asset retirement	Recognize liability under ASC 410-20 when obligation is incurred
Initial measurement	Estimation of future decommissioning costs	Measure at fair value using discounted cash flows
Long-term estimation	20–40 year asset lives; uncertain cost environment	Incorporate assumptions on inflation, technology, and regulatory changes
Subsequent measurement	Changes in estimates and timing	Re-measure liability; adjust related asset carrying value
Accretion and depreciation	Time value of money and asset consumption	Recognize accretion expense and depreciate capitalized ARO asset

The estimation of ARO amounts for data centers is complex, involving assumptions about decommissioning costs 20–40 years in the future, discount rates, inflation, and the regulatory environment at the time of retirement. These estimates must be revisited periodically and adjusted for changes in expected cash flows or timing.

IFRS Perspective:

Under **IAS 37** and **IAS 16:**

- Decommissioning obligations are recognized as **provisions** when a present obligation exists.
- The initial estimate is **capitalized as part of the asset cost.**
- Measurement is based on **best estimate,** often using discounted cash flows.
- **Re-measurements** are generally adjusted against the asset (for assets measured under cost model).

- In data center environments, AROs are often **long-dated but financially significant obligations.** The challenge lies not just in estimation, but in **maintaining consistency and credibility of assumptions over decades.**
- In our view Organizations that embed **discipline in modeling, governance, and reassessment** can better manage both financial statement impact and stakeholder expectations.

- Uniqus supports clients in managing ARO complexities through:
  - ARO identification and scoping diagnostics across global operations.
  - Policy design and documentation frameworks for consistent application.
  - Integration with fixed asset and impairment frameworks.

Recommended Actions

- Perform comprehensive ARO scoping assessments across all facilities and jurisdictions
- Develop standardized estimation models for decommissioning costs
- Establish governance over key assumptions (discount rates, inflation, cost inputs)
- Implement periodic reassessment processes aligned with operational and regulatory changes

8. Lease Accounting Challenges (ASC 842 / IFRS 16)

Data center business models are inherently lease-intensive, requiring careful evaluation of lease term, classification, and embedded lease considerations across diverse arrangements. The complexity is amplified by long-term contracts, infrastructure dependencies, and evolving commercial structures.

Ground Leases Area

Key Accounting Considerations

- Long-term land leases (20–99 years) require significant judgment in determining lease term, particularly around "reasonably certain" renewal options.
- Classification (operating vs. finance) and alignment with building useful life are critical.

Implementation Matters

- Establish clear frameworks for assessing renewal options based on economic compulsion.
- Ensure alignment between lease term assumptions and depreciation policies.

Colocation / Wholesale Arrangements Area

Key Accounting Considerations

- Determining whether an arrangement contains a lease depends on control over an identified asset.
- Dedicated spaces (e.g., cages, suites) typically qualify, while shared environments generally do not.

Implementation Matters

- Implement standardized contract review protocols to identify embedded leases.
- Engage legal and commercial teams to interpret substitution rights and control provisions.
- Enable scalable processes for high-volume contract assessments.

Equipment Leases Area

Key Accounting Considerations

- Leasing of IT, power, and cooling infrastructure requires classification as operating or finance leases, impacting expense recognition and balance sheet presentation.
- Separation of lease and non-lease components may be required.

Implementation Matters

- Define policy elections for lease classification and component allocation.
- Integrate lease identification into procurement workflows.
- Deploy systems to track large volumes of shorter-term, technology-driven leases.

Sale-Leaseback Transactions Area

Key Accounting Considerations

- Sale-leaseback structures require assessment of whether a "sale" has occurred under revenue recognition guidance.
- Repurchase rights or economic constraints may result in financing treatment instead of sale accounting.

Implementation Matters

- Perform detailed contract analysis involving accounting, legal, and treasury.
- Assess transfer of control rigorously.
- Ensure systems can appropriately account for failed sale-leaseback arrangements as financing transactions.

IFRS Perspective:

- IFRS 16 require nearly all leases to be recognized on the balance sheet, eliminating off-balance sheet treatment for operating leases.
- For organizations navigating between US GAAP and IFRS, lease accounting can become a key pressure point—particularly in areas such as embedded lease identification, discount rate determination, and lease term reassessment. A structured, data-driven approach is critical to avoid operational bottlenecks and reporting inconsistencies.

- Lease accounting is no longer a compliance exercise—it is a strategic lever in capital-intensive, AI-driven data center business models.
  - As data center investments scale rapidly, lease arrangements are becoming longer-term and more complex. Judgments around lease term, embedded leases, and sale-leaseback structures can significantly influence reported leverage, return metrics, and transaction outcomes.
- In our view organizations that embed discipline in lease accounting early are better positioned to manage investor expectations, optimize deal structuring, and avoid late-stage accounting surprises.

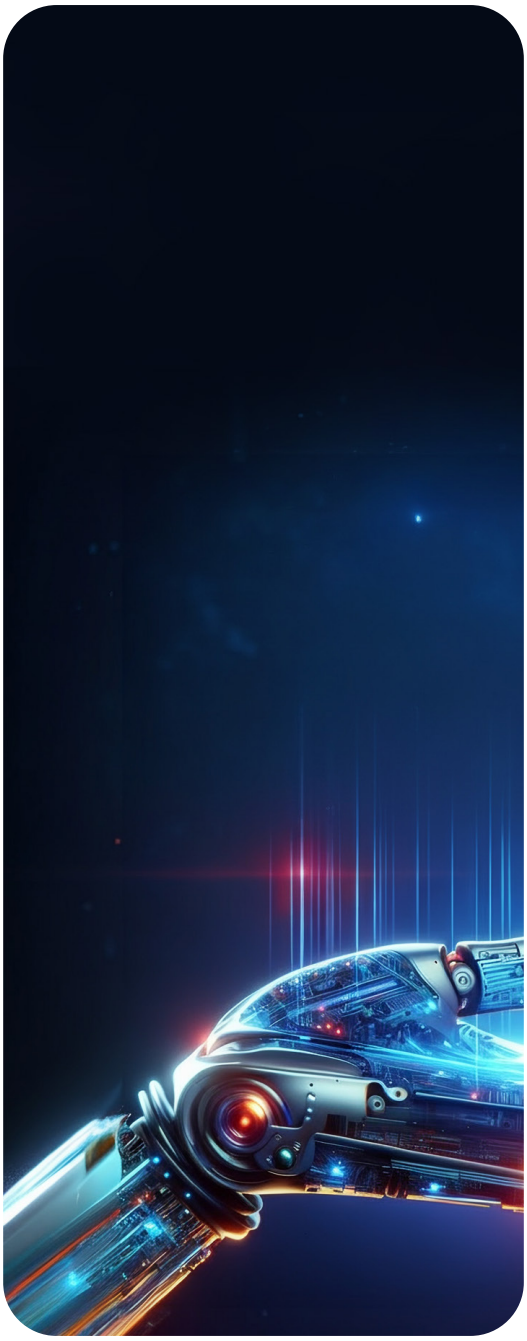
Uniqus supports clients in navigating lease accounting complexities in data center environments through a combination of technical expertise and scalable solutions:

- **End-to-end lease diagnostics:** Develop comprehensive lease inventories and standardized frameworks for identified asset and lease classification assessments across complex contract portfolios.
- **Financial impact modeling:** Build dynamic models to quantify the impact of lease accounting on financial statements, KPIs, and debt covenants, including sensitivity analyses.

Recommended Actions

- **Comprehensive lease portfolio inventory:** Conduct a complete inventory of all data center leases: ground, colocation, equipment, and sale-leaseback. Classify each and document identified-asset, substitution rights, and renewal option assessments.
- **Renewal option probability assessment:** For ground leases with long renewal options (20–99 years): perform and document reasonably-certain assessment. Align with building depreciation periods and strategic facility plans.
- **For planned or contemplated sale-leasebacks:** develop a structured checklist covering ASC 606 sale criteria, repurchase options, economic penalties, and leaseback terms. Assess pre-transaction.

Specific Accounting Considerations



Beyond the Hyperscalers: Accounting Challenges for Specialized AI Infrastructure Companies

While much attention is on hyperscalers, a rapidly growing segment of AI infrastructure players operates under **fundamentally different financial and accounting dynamics.** This includes GPU cloud providers, custom silicon companies, and specialized colocation platforms—building the "middle layer" of AI infrastructure for enterprises and AI labs.

Often venture-backed and capital-constrained, these companies operate in **high-growth, high-burn environments** where accounting judgments significantly influence **financial reporting, investor perception, and access to capital.** Their challenges are not simply scaled-down versions of hyperscalers—they are **structurally distinct and often more complex.**

The accounting challenges these entities face are not merely scaled-down versions of hyperscaler issues. They are structurally distinct—and in several respects, considerably more complex.

1.1 Asset-Heavy Business Models Financed with Limited Operating History

The defining characteristic of GPU cloud providers is extreme capital intensity paired with limited operating history. A company might deploy a fleet of tens of thousands of GPUs costing hundreds of millions of dollars—financed substantially through debt—while generating revenue from contracts that may be concentrated among a small number of AI laboratory customers.

The entities operate under **highly capital-intensive, debt-funded models with evolving revenue streams and limited operating history.** This combination introduces **heightened financial reporting complexity,** requiring careful judgment across going concern, revenue recognition, and lease accounting.

Going Concern Assessment

- Unlike established hyperscalers, many AI infrastructure companies are scaling rapidly with significant upfront capital deployment (GPUs, data center capacity) supported by leveraged financing structures, while revenue streams remain **concentrated and relatively unseasoned.**
- For pre-profit or recently profitable companies with significant debt service obligations and capital commitments, the going concern assessment under ASC 205-40 requires management to evaluate whether conditions raise substantial doubt about the entity's ability to continue as a going concern within one year.
- Management's plans to mitigate going concern risk through additional equity raises, debt refinancing, cost reduction, or contract diversification must be evaluated for probability under the ASC 205-40 framework. Plans that are not within management's control (e.g., dependent on future investor appetite) receive limited credit in the assessment.

Revenue Recognition for Compute-as-a-Service

Key aspects of applying ASC 606 for GPU cloud providers include:

- Determining performance obligations and SSPs in hybrid contracts
- Applicability of variable consideration allocation exceptions
- Estimation of variable consideration
- Assessing whether discounts create material rights
- Managing contract modifications and renewals in long-term arrangements
- Ensuring consistent revenue recognition patterns aligned with service delivery

Below are examples of contract structures typically offered with how they fit within the above framework:

- **On-demand (pay-per-use):** Revenue recognized as services are consumed, by the customer, generally straightforward under ASC 606.
- **Reserved capacity (take-or-pay):** Customers commit to a fixed amount of compute capacity over a contract term (often 1–3 years), regardless of actual utilization. The accounting question is whether this represents a lease (ASC 842), a service contract (ASC 606), or contains elements of both. If the customer controls the use of specific, identified GPU hardware, the arrangement may contain a lease.
- **Pre-paid commitments with volume discounts:** Large AI labs may pre-pay for significant compute blocks at discounted rates. Under ASC 606, the entity must evaluate whether the discount constitutes a material right (a separate performance obligation) and whether the pre-payment creates a contract liability.
- **Capacity-reservation fees with usage-based billing:** Hybrid structures where the customer pays a reservation fee for priority access and then pays variable usage fees. The allocation of the transaction price between the reservation and usage components requires careful analysis of standalone selling prices.

Lease vs. Service Determination

- The distinction between leases and services is a **critical accounting judgment** with significant implications for both providers and customers.
- If reserved-capacity contracts are determined to contain leases, the provider recognizes lease income (often front-loaded under finance lease treatment) rather than service revenue, and the underlying assets are classified differently on the balance sheet. For the customer, lease classification creates right-of-use assets and lease liabilities that affect leverage ratios and covenant compliance.

Following summarize key consideration:

Area	Key considerations	Accounting implications
Identified assets	Specific GPU racks vs pooled capacity	Determine whether assets are explicitly or implicitly specified
Control over use	Customer's ability to direct usage	Evaluate decision-making rights over compute workloads

Area	Key considerations	Accounting implications
Substitution rights	Provider's ability to swap hardware	Assess whether substitution rights are substantive
Financial statement impact	Lease vs service classification	Impacts revenue profile, asset classification, and key metrics

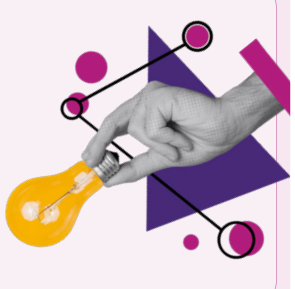
IFRS Perspective:

- Under IAS 1 and IAS 36, going concern and impairment assessments may be more sensitive due to principles-based frameworks and discounted cash flow models.
- Revenue recognition under IFRS 15 is largely converged with ASC 606; however, judgment in identifying performance obligations and variable consideration remains critical.
- Lease assessments under IFRS 16 follow a similar control-based model, though lessor accounting differences may impact revenue profiles in certain arrangements.

- In our view for specialized AI infrastructure companies, accounting is not just a reporting function—it is integral to business model viability. Decisions around contract structuring, financing, and capacity deployment have direct accounting consequences, making early alignment between finance, legal, and commercial teams essential.
- Uniqus supports specialized AI infrastructure companies in navigating these complexities through:
  - Going concern and liquidity frameworks aligned with investor and auditor expectations
  - Revenue recognition model design, including contract structuring and SSP methodologies
  - Lease vs service diagnostics with contract-level analysis and policy standardization
  - Integrated accounting advisory, ensuring consistency across CapEx, financing, revenue, and reporting

Recommended Actions

- Establish robust forecasting and liquidity monitoring frameworks to support going concern assessments
- Standardize revenue recognition policies across contract types, including SSP methodologies
- Implement clear lease vs service evaluation frameworks with legal and commercial alignment



1.2 GPU Fleet Financing: Securitization and Structured Debt

To fund large-scale GPU deployments, specialized AI infrastructure companies are increasingly adopting innovative and complex financing structures—including asset-backed lending, securitizations, and equity-linked instruments. While these structures unlock capital efficiency, they introduce significant accounting complexity across financial instruments, transfers, and disclosure frameworks. Following summarizes key accounting considerations:

Area	Key Considerations	Note Reference	Accounting Implications
GPU-backed asset-based lending	• GPUs pledged as collateral; • Borrowing base linked to asset values	A	• Disclosure of pledged assets under ASC 860; • Ongoing monitoring of borrowing base and covenant compliance
Valuation sensitivity	• Rapid technological obsolescence impacting GPU fair values		• Align valuation assumptions with depreciation policies; • Assess impact on liquidity and covenants
Securitization of contracts	• Monetization of long-term compute receivables	B	• Evaluate sale vs secured borrowing under ASC 860 based on control, isolation, and continuing involvement
Convertible debt and warrants	• Equity-linked features embedded in financing	C	• Assess bifurcation under ASC 815 and classification under ASC 470-20
Private company Complexities	• Illiquid equity impacting fair value measurement		• Increased judgment in valuing embedded features; reassessment required upon IPO or liquidity events

A. GPU-Backed Asset-Based Lending

Some companies pledge their GPU fleet as collateral for credit facilities, treating GPUs as financeable assets, much like aircraft, shipping containers, or vehicle fleets. The accounting considerations include:

- **Collateral pledging disclosures:** Under ASC 860 and related guidance, the carrying amounts of pledged assets must be disclosed.
- **Covenant compliance:** GPU fleet valuations are a key input to borrowing base calculations. Rapid depreciation of GPU values (driven by new chip generations) can erode the borrowing base, triggering covenant violations or margin calls.
- **Impairment interconnection:** If the borrowing base calculation uses market-based GPU valuations that decline faster than book depreciation, this may also serve as an impairment indicator under ASC 360.

B. Securitization of Revenue Contracts

- Some operators securitize the revenue streams from long-term compute contracts—packaging contracted future cash flows into asset-backed securities (ABS) sold to investors.
- Under ASC 860 (Transfers and Servicing), the key question is whether the transfer qualifies as a sale (with derecognition of the receivables) or a secured borrowing.
- The analysis turns on isolation of transferred assets, the transferor's continuing involvement, and the transferee's ability to pledge or exchange the assets.

C. Convertible Debt and Warrant Structures

- Venture-backed AI infrastructure companies frequently raise debt with equity-linked features—convertible notes, warrants, or equity kickers issued to lenders. Under ASC 470-20 and ASC 815, each embedded feature must be evaluated for bifurcation.
- For private companies, the complexity intensifies because the underlying equity is not publicly traded, making fair value measurement of conversion features more judgmental. Companies approaching an IPO must carefully reassess these instruments under public-company GAAP, which can trigger significant remeasurement adjustments in the IPO-period financial statements.

IFRS Perspective:

Under IFRS 9, financial instruments are assessed based on business model and cash flow characteristics, with a strong emphasis on fair value measurement and expected credit loss models.

Securitization

Derecognition depends on transfer of risks and rewards and control, which may result in earlier or different outcomes compared to U.S. GAAP

Embedded derivatives

More principles-based bifurcation guidance, often leading to greater use of fair value through profit or loss (FVTPL)

Disclosures

Enhanced transparency required around risk exposures, liquidity, and financing structures

- A new class of AI infrastructure companies is emerging—capital-intensive, leverage-driven, and structurally complex, with balance sheets resembling specialty finance platforms rather than traditional technology firms. However, accounting capabilities often lag this complexity. The resulting gap between financial sophistication and reporting readiness is where the highest risk—and opportunity for value creation—resides.

- Uniqus supports AI infrastructure companies in navigating structured financing complexity through:
  - End-to-end accounting assessments for securitizations, asset-based lending, and structured debt
  - Valuation and modeling support for GPU-backed financing and embedded derivatives
  - Covenant monitoring frameworks and stress-testing tools
  - IPO readiness advisory, including GAAP conversion and financial instrument re-evaluation
  - Integrated advisory across accounting, treasury, and deal structuring, ensuring alignment between financing strategy and financial reporting outcomes

Recommended Actions

- Establish robust valuation frameworks for GPU assets aligned with financing and accounting assumptions
- Implement integrated covenant monitoring tools linking finance, treasury, and accounting
- Perform early-stage accounting analysis for securitization structures to avoid unintended outcomes
- Standardize assessment of embedded features in complex debt instruments
- Prepare for IPO transition impacts, including fair value remeasurements and classification changes

1.3 Related Party Transactions and Investor-Customer Overlap

- A distinctive feature of the AI infrastructure ecosystem is the frequent overlap between investors and customers. A venture capital firm or strategic investor may simultaneously hold equity, provide debt financing, and contract for compute capacity. A cloud hyperscaler may be both an investor and the primary customer for a custom chip company's output.
- These relationships create related party transaction considerations under ASC 850 that require careful disclosure. The concern is whether transactions are conducted on arm's-length terms.
- Revenue recognized from related parties must be separately disclosed, and the terms of any preferential pricing, guaranteed minimums, or exclusivity arrangements must be transparent.
- For companies preparing for IPO, the SEC staff pays close attention to the substance of related party revenue—particularly where a significant investor is also the dominant customer.

IFRS Perspective:

Under **IAS 24,** entities are required to disclose:

- The **nature of related party relationships,**
- **Transaction amounts and outstanding balances,** and
- Key terms and conditions, including whether transactions are conducted on **arm's-length basis** (if asserted).

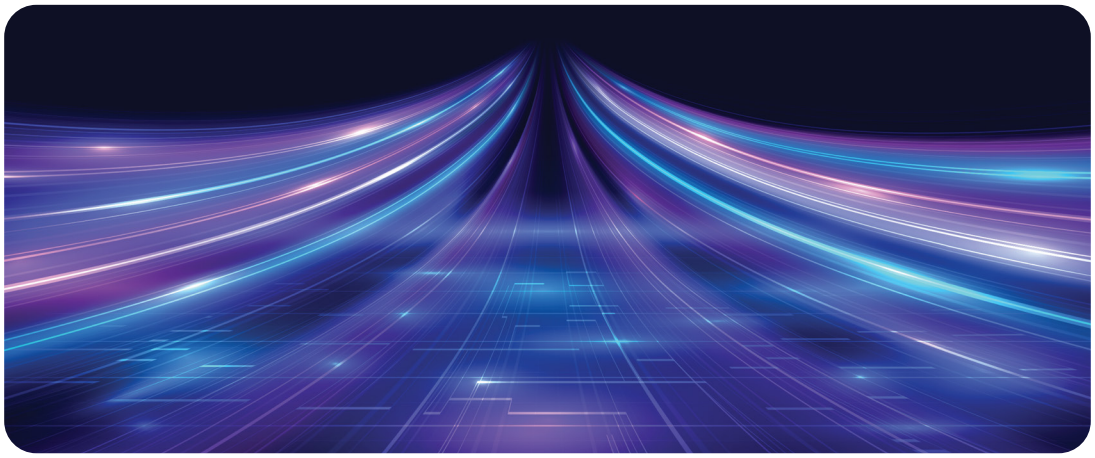
IFRS frameworks place strong emphasis on **transparency and completeness of disclosures**, with similar expectations around identifying and presenting related party transactions.

- In the AI infrastructure ecosystem, **capital and commerce are increasingly intertwined.** While such relationships can accelerate growth, they also introduce **heightened scrutiny around revenue quality and transparency.**
- In our view, Organizations that proactively address related party considerations through **robust governance, clear documentation, and transparent disclosures** will be better positioned to withstand regulatory and investor scrutiny.

- Uniqus supports clients in managing related party complexities through:
  - Related party identification and governance frameworks.
  - Arm's-length benchmarking and documentation support.
  - Revenue quality and disclosure diagnostics, particularly for investor-customer overlaps.

Recommended Actions

- Develop centralized related party registers integrated with legal and finance systems.
- Establish policies for evaluating and documenting arm's-length pricing.
- Enhance disclosure frameworks, particularly for material investor-customer arrangements.
- Conduct periodic reviews of related party transactions to ensure consistency and completeness.



How Uniqus Can Help

Uniqus Consultech brings a differentiated approach to the complex, multi-standard accounting challenges presented by data center investments:

Technical Accounting Advisory

- Capitalization policy design and implementation
- Useful life assessment frameworks
- Complex instrument accounting (convertibles, SPVs, ABS)
- ARO estimation and periodic reassessment
- Lease analysis across ASC 842 / IFRS 16
- Component depreciation model design

DISE & IFRS 18 Readiness

- Gap analysis and impact assessment
- Expense mapping and disaggregation design
- System configuration and ERP advisory
- Internal control design for new data flows
- Dual-framework (US GAAP + IFRS) implementation
- MPM reconciliation design (IFRS 18)

SOX & Internal Controls

- Controls design for capitalization decisions
- Depreciation estimate governance frameworks
- Complex instrument classification controls
- Lease accounting internal controls
- Environmental accrual controls
- DISE data capture and reconciliation controls

Multi-Jurisdictional Reporting

- Tri-framework expertise (US GAAP, IFRS)
- Cross-border DC accounting harmonization

About Uniqus Consultech:

Uniqus Consultech is a global tech-enabled consulting company that specializes in Accounting & Reporting, Governance, Risk & Compliance, Sustainability & Climate, Tech Consulting, and Valuations. The Company is co-founded by consulting veterans Jamil Khatri and Sandip Khetan and backed by marquee investors such as Nexus Venture Partners, Sorin Investments, and UST.

Uniqus has a global team of 700+ professionals led by 85+ Partners & Directors across eleven offices in the USA, the Middle East, and India. The company serves more than 300 clients, including marquee names in each of the markets it operates in.

Uniqus is committed to leveraging technology and an integrated global delivery model to provide best-in-class consulting services to its clients.

About Our Accounting & Reporting Consulting Services:

In today's dynamic business environment, organizations are continuously required to adapt to the dynamic shifts in accounting & reporting standards and regulations. Enhanced management reporting requirements and accelerated reporting timelines necessitate increased automation within the finance function. Special events, such as preparing for an IPO/capital market transaction or fulfilling the reporting requirements arising from an M&A transaction, introduce additional complexities and challenges for the finance function.

As a result, organizations need to transform their finance functions from time to time with a focus on people, processes, and technology. Our Accounting & Reporting Consulting (ARC) practice is designed to partner with the finance function through these challenges. Our teams function as an extension of your finance teams to execute your plans seamlessly.

We bring the necessary technical expertise, skills, technology, and bandwidth, enabling you to navigate your plans in real time without adding additional manpower costs within the organization.

A Team That You Can Trust To Deliver

Sandip Khetan
Co-Founder, Global Head of Accounting & Reporting Consulting

Arda Kaya
Partner, Accounting & Reporting Consulting

Avinash Ramkumar
Partner, Accounting & Reporting Consulting

Sharad Chaudhry
Partner, Accounting & Reporting Consulting

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