

**Discussion Document B – April 24, 2007 Joint Meeting of International Practices
Task Force (IPTF) and SEC Staff**

Topic:

Differences in Reporting Periods – A Forward Lag in Consolidated Financial Statements

Background:

Company P's fiscal year ends on December 31. Company S, Company P's subsidiary, has a fiscal year-end of January 31. Under Home Country GAAP, Company P consolidates the results of Company S for the year ending January 31, 2008 into its December 31, 2007 financial statements. Would Company P be required to "reconcile out" the "forward lag" when preparing its reconciliation to US GAAP?

Regulation S-X, Rule 3A-02 (b) states:

"Different fiscal periods: Generally, registrants shall not consolidate any entity whose financial statements are as of a date or for periods substantially different from those of the registrant. Rather, the earnings or losses of such entities should be reflected in the registrant's financial statements on the equity method of accounting. However:

(1) A difference in fiscal periods does not of itself justify the exclusion of an entity from consolidation. It ordinarily is feasible for such entity to prepare, for consolidation purposes, statements for a period which corresponds with or closely approaches the fiscal year of the registrant. Where the difference is not more than 93 days, it is usually acceptable to use, for consolidation purposes, such entity's statements for its fiscal period. Such difference, when it exists, should be disclosed as follows: the closing date of the entity should be expressly indicated, and the necessity for the use of different closing dates should be briefly explained. Furthermore, recognition should be given by disclosure or otherwise to the effect of intervening events which materially affect the financial position or results of operations."

In the context of accounting for investments under the equity method, APB 18, paragraph 19 (g), states:

"If financial statements of an investee are not sufficiently timely for an investor to apply the equity method currently, the investor ordinarily should record its share of the earnings or losses of an investee from the most recent available financial statements. *A lag in reporting* should be consistent from period to period."
(emphasis added)

ARB 51, paragraph 4 states:

"A difference in fiscal periods of a parent and a subsidiary does not of itself justify the exclusion of the subsidiary from consolidation. It ordinarily is feasible for the subsidiary to prepare, for consolidation purposes, statements for a period which corresponds with or closely approaches the fiscal period of the parent. However, where the difference is not more than about three months, it usually is acceptable to use, for consolidation purposes, the subsidiary's statements for its

fiscal period; when this is done, recognition should be given by disclosure or otherwise to the effect of intervening events which materially affect the financial position or results of operations.”

Issue:

Is a “forward lag” in reporting periods under Home Country GAAP permitted without reconciliation to US GAAP?

Task Force Recommendation:

Yes. If the parent and the subsidiary have different fiscal years, the best available data from the subsidiary should be used in preparing consolidated financial statements. Timely, current information is preferred. Therefore, it may be better for consolidation purposes to use the subsidiary's financial information as of a date closer to the reporting date. Further, there is no clear prohibition against using a forward lag. ARB 51 only discusses “*differences*” in fiscal periods. It does not preclude the use of a forward lag.

Lastly, it should be noted that at a recent meeting of the Emerging Issues Task Force, in the context of Issue 06-9, “Reporting a Change in (or the Elimination of) a Previously Existing Difference between the Fiscal Year-End of a Parent Company and That of a Consolidated Entity or between the Reporting Period of an Investor and That of an Equity Method Investee,” the EITF appeared to have acknowledged that a “forward lag” is acceptable:

Prior to the November 16, 2006 meeting of the EITF, the first sentence of paragraph 1 of the working draft of the abstract of Issue 06-9 was as follows:

To allow for more timely preparation of consolidated financial statements, ARB 51 and Opinion 18 allow an entity to consolidate the results of an entity's operations (or recognize changes in the net assets of an equity method investment) as of, and for a period ending not more than three months prior to the parent's or investor's fiscal year-end.

As a result of the November 16, 2006 meeting, paragraph 1 of the abstract of Issue 06-9 was changed to the following:

ARB 51 and Opinion 18 allow a parent to have a difference between the parent's reporting year-end and the reporting year-end of a consolidated entity or an investor to have a difference between the reporting year-end of the investor and the reporting year-end of an equity method investee to consolidate the results of an entity's operations (or recognize changes in the net assets of an equity method investment).

The changes made to the penultimate draft of the abstract of Issue 06-9, and the wording of the final version appear to provide support for the acceptability of a “forward lag”.

SEC Staff Response:

The Staff agrees with the Task Force recommendation.