

Discussion Document A – November 21, 2006 Joint Meeting of International Practices Task Force (IPTF) and SEC Staff

Topic: SAB 108 and FPIs

Background:

On September 13, 2006, the SEC staff published Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. SAB 108 (SAB Topic 1.N) addresses quantifying the financial statement effects of misstatements, specifically, how the effects of prior year uncorrected errors must be considered in quantifying misstatements in the current year financial statements. SAB 108 does not change the SEC staff's previous positions in SAB 99 (SAB Topic 1.M) regarding qualitative considerations in assessing the materiality of misstatements.

A number of implementation questions related to SAB 108 and foreign private issuers have arisen as discussed below.

Issue 1:

Does SAB 108 apply to the US GAAP information prepared by a foreign private issuer?

Staff Response:

SAB 108 applies to the US GAAP information in the same manner as it would to a US domestic entity.

Issue 2:

Does SAB 108 apply to the primary financial statements prepared using IFRS or home-country GAAP? If so, could the application of SAB 108 to the primary financial statements prepared using IFRS or home-country GAAP result in a reconciling item to US GAAP?

Staff Response:

SAB 108 is an interpretation of US GAAP. Accordingly, it does not apply to IFRS or home country GAAP. The Staff understands that presenting a reconciling item between the primary financial statements and US GAAP for uncorrected errors existing in the IFRS or home country financial statements may be an unusual disclosure and viewed skeptically by users of the financial statements. Therefore, the staff encourages foreign private issuers to apply the guidance in SAB 108 to their primary financial statements.

The SEC staff will not object to foreign private issuers presenting the initial application of SAB 108 in a manner similar to a voluntary change in accounting principle and retrospectively applying it to prior periods (provided it is acceptable under the GAAP used in the primary financial statements). If this option is elected, the SEC staff would

still expect foreign private issuers to include disclosure consistent with the disclosure described in SAB 108.

Since SAB 108 is an interpretation of US GAAP, if the SAB 108 approach is not applied in the preparation of the IFRS or home country primary financial statements, it would need to be applied in connection with the US GAAP information provided pursuant to Item 17 or 18 of Form 20-F. If a foreign private issuer is contemplating having a reconciling difference for errors not corrected in the IFRS or home country primary financial statements but corrected in the US GAAP reconciliation, the foreign private issuer should consider discussing their fact pattern with the SEC staff. In any case, if a reconciling difference is presented, the foreign private issuer will need to have explicit and transparent disclosure about the reconciling item, consistent with the disclosures required in SAB 108.

The Task Force understands that the SEC staff believes that a reconciling item may be appropriate if there is a difference in how the “dual approach” is adopted in the primary financial statements. For example, a registrant may adopt SAB 108 in its US GAAP financial information using a cumulative effect adjustment in the year of adoption but adopts the dual approach in its primary GAAP financial statements using retrospective application. The SEC staff agreed that a timing difference reconciling item related solely to transition may be appropriate. Companies also have the option of adopting the impact on US GAAP information retroactively in a manner consistent with the primary financial statements.

Issue 3:

How should the change to the SAB 108 approach in the primary non US GAAP financial statements be characterized (for example, should the change be characterized as a “change in accounting principle” or a restatement for immaterial error)?

Staff Response:

The cumulative effect method of initially applying the guidance in SAB 108 would generally be inconsistent with accounting standards in most countries and IFRS. The Task Force understands that the SEC staff has indicated a willingness to be flexible about how the change is characterized. Accordingly, the SEC staff will not object to foreign private issuers presenting the initial application of SAB 108 in a manner similar to a voluntary change in accounting principle and restating prior periods (assuming it is acceptable under the GAAP used in the primary financial statements). If this option is elected, the SEC staff would still expect foreign private issuers to provide disclosures consistent with those included in SAB 108, such as the nature and amount of each individual error that is being adjusted.