

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

Topic: Regulation AB and first-time adoption of IFRS

Background:

Item 1115 of Regulation AB requires that entities within its scope provide certain financial information. Item 1115 (b) states, in part:

...(b)*Financial information.*

(1) If the aggregate significance percentage related to any entity or group of affiliated entities providing derivative instruments contemplated by this section is 10% or more, but less than 20%, provide financial data required by Item 301 of Regulation S-K (§ 229.301) for such entity or group of affiliated entities.

(2) If the aggregate significance percentage related to any entity or group of affiliated entities providing derivative instruments contemplated by this section is 20% or more, provide financial statements meeting the requirements of Regulation S-X (§§ 210.1-01 through 210.12-29 of this chapter), except § 210.3-05 of this chapter and Article 11 of Regulation S-X (§§ 210.11-01 through 210.11-03 of this chapter), of such entity or group of affiliated entities. Financial statements of such entity and its subsidiaries consolidated (as required by § 240.14a-3(b) of this chapter) shall be filed under this item.

The instructions to Item 1115 state, in part:

...Instructions 2, 3 and 5 to Item 1114 of this Regulation AB apply to the information contemplated by paragraph (b) of this item...

Instruction 5 of Item 1114 states:

...5. If the enhancement provider is a foreign business (as defined §210.1-02 of this chapter):

a. Paragraph (b)(2)(i) of this section may be complied with by providing the information required by Item 3.A. of Form 20-F (§249.220f of this chapter). If a reconciliation to U.S. generally accepted accounting principles called for by Instruction 2. to Item 3.A. of Form 20-F is unavailable or not obtainable without unreasonable cost or expense, at a minimum provide a narrative description of all material variations in accounting principles, practices and methods used in preparing the non-US GAAP financial statements used as a basis for the selected financial data from those accepted in the U.S.

b. Paragraph (b)(2)(ii) of this section may be complied with by providing financial statements meeting the requirements of Item 17 of Form 20-F for the periods specified by Item 8.A. of Form 20-F.

The SEC's rule *First-time Application of International Financial Reporting Standards* (FTA Rule) amended Form 20-F to allow foreign private issuers adopting IFRS for the first-time certain relief from the Commission's financial statement/information requirements. In particular, relief is provided from the number of periods financial statements/information are required in the first year of reporting under IFRS.

Issue:

Can an entity that is required to provide financial information under Item 1115 of Regulation AB take advantage of the FTA Rule?

Task Force Recommendation:

Yes.

Staff Response:

The Staff agrees with the Task Force recommendation.