INTERNATIONAL PRACTICES TASK FORCE
Center for Audit Quality Washington Office
November 17, 2015
HIGHLIGHTS

The Center for Audit Quality (CAQ) SEC Regulations Committee and its International Practices Task Force meet periodically with the staff of the SEC to discuss emerging financial reporting issues relating to SEC rules and regulations. The purpose of the following highlights is to summarize the issues discussed at the meetings. These highlights have not been considered and acted on by senior technical committees of the AICPA and do not represent an official position of the AICPA or the CAQ. As with all other documents issued by the CAQ, these highlights are not considered authoritative and users are urged to refer directly to applicable authoritative pronouncements for the text of the technical literature. These highlights do not purport to be applicable or sufficient to the circumstances of any work performed by practitioners. They are not intended to be a substitute for professional judgment applied by practitioners.

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As available on this website, highlights of the Joint Meetings of the SEC Regulations Committee and its International Practices Task Force and the SEC staff are not updated for the subsequent issuance of technical pronouncements or positions taken by the SEC staff nor are they deleted when they are superseded by the issuance of subsequent highlights or authoritative accounting or auditing literature. As a result, the information, commentary or guidance contained herein may not be current or accurate and the CAQ is under no obligation to update such information. Readers are therefore urged to refer to current authoritative or source material.

I. Attendance

Task Force Members
Cathy Samsel, Chair (PwC)
Steven Jacobs, Vice-Chair (Ernst & Young)
Randall Anstine, (Ernst & Young)
Greg Bakeis (PwC)
Jeri Calle (KPMG)
Rich Davisson (RSM-US)
Jonathan Guthart (KPMG)
Kathleen Malone (Deloitte & Touche)
Debra MacLaughlin (BDO USA)
Victor Oliveira (Ernst & Young)
Ignacio Perez Zaldivar (Deloitte & Touche)
Scott Ruggiero (Grant Thornton)

Observers
Jill Davis (SEC Staff)
Paul Dudek (SEC Staff)
Susan Fennedy (SEC Staff)
Ryan Milne (SEC Staff)
Craig Olinger (SEC Staff)
Annette Schumacher Barr (Center for Audit Quality Staff)

Guests

Guilaine Saroul (PwC)

II. Current Practice Issues

A. Monitoring Inflation in Certain Countries

Introduction

Registrants are responsible for monitoring inflation in countries in which they have operations. Application of "highly-inflationary" accounting as defined by ASC 830 is a judgment to be made by the financial statement preparer. The approach and the related assumptions used to monitor country inflation rates are described below. Under ASC paragraph 830-10-45-12, the determination of a highly-inflationary economy begins by calculating the cumulative inflation rate for the three-year period that precedes the beginning of the reporting period, including interim reporting periods. If that calculation results in a cumulative inflation rate in excess of 100%, the economy should be considered highly-inflationary in all instances. However, if that calculation results in the cumulative rate being less than 100%, historical inflation rate trends and other pertinent factors should be considered.

The Task Force discussed three-year cumulative inflation rates for certain countries. Countries were categorized as follows:

1. Countries with three-year cumulative inflation rates exceeding 100%

2. Countries where the three-year cumulative inflation rates had exceeded 100% in recent years

3. Countries (a) with three-year cumulative inflation rates between 70% and 100%; (b) where the last known three-year cumulative inflation rates previously exceeded 100% and current actual inflation data has not been obtained; or (c) with a significant increase in inflation during the current period

Description of how inflation rates are calculated

For all countries, data is extracted from the International Monetary Fund ("IMF") website. IMF data is extracted from www.imf.org as follows:

On the home page, select the "Data and Statistics" tab and then click:

- "World Economic Outlook Databases (WEO)" link
    - Select the most recent database (October, 2015)
    - Select "By Countries (country-level data)"
        - Select "All Countries", then click the "continue" button.

- ◦ Under the "Monetary" subject header, select "Inflation", end of period consumer prices" (both the index and percent change); then click the "continue" button.
    - ▪ Select a date range (e.g., 2011-2015); click "prepare report" and a table is produced with the data; click the "download" link to export to excel. The data table includes the actual and estimated end of period price indices for each country.

The IMF World Economic Outlook ("WEO") report estimates inflation when actual inflation data has not been obtained. The text of the report describes the assumptions and conventions used for the projections in the WEO. The data that are estimated are highlighted. While the IMF data has limitations (projected inflation data and varying dates through which actual data is included in the table), the calculated three-year cumulative inflation allows us to determine which country's calculations require further analysis.

Note: From time to time the WEO refines or updates previously reported actual Consumer Price Index (hereafter referred to as "Index" or "CPI") data for certain countries.

Using the downloaded table, the three-year cumulative inflation rate is calculated as follows (assuming the current year is end of year 2015): (2015 End of Year CPI– 2012 End of Year CPI) / 2012 End of Year CPI.

It should be noted that the IMF inflation data used to summarize inflation for these IPTF Highlights could be different from the inflation data reported by the respective countries' central banks or governments. The Task Force has not performed procedures to identify any potential differences. Accordingly, this summarized IMF information should be supplemented, to the extent considered necessary, with other pertinent information that may be available.

For registrants that need additional information to monitor inflation for operations in certain countries, it should be noted that annual or month-end CPI information can be obtained from some countries' central bank or government websites or other publicly available information but that data may differ from the inflation data reported by the IMF and may need to be converted because of differences in presentation or other reasons (for example, some countries have reset their base index back to 100 during recent years). While inflation data published by a central bank or government is often more current than the IMF data, each country releases its inflation data at different times and inflation data for some countries may not be otherwise publicly available.

The following information, based on the WEO Database – October, 2015, is provided to assist registrants in applying the US GAAP guidance in determining which countries are considered highly-inflationary:

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1. Countries with three-year cumulative inflation rates exceeding 100%

- **Malawi** – The three-year cumulative inflation rate for Malawi was 106% for 2014 and is projected to be 82% by the end of 2015.

  As indicated in the May 2015 IPTF Highlights, based on these inflation rates and discussions with the staff, registrants should treat the economy of Malawi as highly-inflationary beginning on or after January 1, 2015. Registrants that have already issued financial statements for interim periods beginning on or after January 1, 2015 which do not reflect the economy of Malawi as highly-inflationary are encouraged to discuss their facts and circumstances with the SEC staff to the extent a change to highly inflationary would be material.

  The staff would expect registrants to monitor Malawi's reported inflation data and consider other pertinent economic indicators to determine when it is appropriate to cease treating the economy as highly-inflationary.

- **Venezuela** - The three-year cumulative inflation rate for Venezuela was estimated to be 216% for 2014 and the three-year cumulative inflation rate at the end of 2015 is projected to be 663%.

  Based on these inflation rates and discussions with the staff, registrants should continue to treat the economy of Venezuela as highly-inflationary.

- **Sudan** – According to the WEO report, Sudan's cumulative three year inflation rate was 158% at the end of 2014 and is projected to be 106% by the end of 2015. Sudan's data excludes South Sudan after July 9, 2011.

  Based on these inflation rates and discussions with the staff, registrants should continue to treat the economy of Sudan as highly-inflationary.

2. Countries where the three-year cumulative inflation rates had exceeded 100% in recent years

- **Belarus –** The three-year cumulative rate as of the end of 2014 was 65% and is projected to be 58% by the end of 2015.

  As indicated in the May 2015 IPTF Highlights, based on these inflation rates and discussions with the staff, registrants should cease treating the economy of Belarus as highly-inflationary no later than the first reporting period beginning on or after July 1, 2015.

- **Islamic Republic of Iran** – The three year cumulative inflation rate, using the data in the WEO Report was 96% as of the end of 2014 and is projected to be 59% by the end of 2015.

  Based on these inflation rates and discussions with the staff, registrants should continue to treat the economy of Islamic Republic of Iran as highly-inflationary.

  The staff would expect registrants to monitor the Islamic Republic of Iran's reported inflation data and consider other pertinent economic indicators to determine when it is appropriate to cease treating the economy as highly-inflationary.

- **South Sudan**

  South Sudan's three-year cumulative inflation rate through the end of 2014 was calculated to be 26%, based on the reported index data in the WEO Report. The three-year cumulative inflation rate is projected to be 25% by the end of 2015.

  As indicated in the May 2014 IPTF Highlights based on these inflation rates and discussions with the staff, registrants should cease treating the economy of South Sudan as highly-inflationary as soon as practicable, but no later than the first reporting period beginning on or after April 1, 2014.

3. Countries (a) with projected three-year cumulative inflation rates between 70% and 100%; (b) where the last known three-year cumulative inflation rates previously exceeded 100% and current actual inflation data has not been obtained; or (c) with a significant increase in inflation during the current period

(a) Countries with projected three-year cumulative inflation rates between 70% and 100%

Ukraine - The three-year cumulative inflation rate for Ukraine was 25% for 2014 and is projected to be 83% by the end of 2015.

The staff would expect registrants to monitor Ukraine's reported inflation data and consider other pertinent economic indicators to determine if Ukraine should be considered a highly-inflationary economy.

(b) Countries where the last known three-year cumulative inflation rates previously exceeded 100% and current actual inflation data has not been obtained

None.

(c) Countries with a significant increase in estimated inflation during 2015

- None, other than countries already discussed above.

Notes:

- **Argentina**

According to the WEO report, Argentina's estimated cumulative three year inflation rate was 52% in 2014 and is projected to be 64% by the end of 2015. WEO provides the following warning with respect to the comparability of the data:

"Notes: Consumer price data from December 2013 onwards reflect the new national CPI (IPCNu), which differs substantively from the preceding CPI (the CPI for the Greater Buenos Aires Area, CPI-GBA). Because of the differences in geographical coverage, weights, sampling, and methodology, the IPCNu data cannot be directly compared to the earlier CPI-GBA data. Because of this structural break in the data, the average CPI inflation for 2014 is not reported in the October 2015 World Economic Outlook. Following a declaration of censure by the IMF on February 1, 2013, the public release of a new national CPI by end-March 2014 was one of the specified actions in the IMF Executive Board's December 2013 decision calling on Argentina to address the quality of its official CPI data. On June 3, 2015, the Executive Board recognized the ongoing discussions with the Argentine authorities and their material progress in remedying the inaccurate provision of data since 2013, but found that some specified actions called for by end-February 2015 had not yet been completely implemented. The Executive Board will review this issue again by July 15, 2016, and in line with the procedures set forth in the IMF legal framework."

The IPCNU is only available for January 2014 and subsequent periods, and not considered to be determined on the same basis as CPI-GBA data. Argentina's estimated cumulative three year inflation rate of 52% at December 31, 2014 as reported in the October 2015 WEO is based on the 2014 inflation as determined under the IPCNU of 24% and the CPI-GBA of 11% for 2013 and 11% for 2012.

The SEC staff noted the IMF's concerns on the accuracy of CPI-GBA data for 2013 and prior periods. However, the SEC staff noted that they have not observed objectively verifiable data that would indicate the economy of Argentina is highly-inflationary at December 31, 2014.

The staff would expect registrants to monitor the IPCNU inflation data and consider the level of inflation, in combination with other pertinent factors and data points, in determining whether Argentina should be considered a highly-inflationary economy.

- **Countries not analyzed in the IMF WEO report**

  There may be additional countries with three-year cumulative inflation rates exceeding 100% or that should be monitored which are not included in the above analysis because the sources used to compile this list do not include inflation data for all countries or current inflation data. One such country, for example, is Syria. Numerous other countries that are not members of the IMF are not included in the WEO reports.

B. Regulation S-K 512(a)(4) "keeping current" requirements in an F-4 exchange offer

Section 6230.1 of the Division of Corporation Finance Financial Reporting Manual (FRM 6230.1) addresses situations where registration statements on Form F-3 or F-4 need to include updated financial statements after the registration statement has gone effective and specifically notes:

> "Takedowns from existing shelf registration statements may not be commenced, and continuous offerings must be suspended, during periods when the financial statements are not current. This means, for example, that the financial statements must remain current throughout the entire time that an exchange offer is outstanding. It also means that the financial statements must remain current in a merger or acquisition transaction until shareholder approval has occurred."

The SEC staff confirmed that, for a merger transaction, they consider the shareholder approval date to be the end of the period that the offer is outstanding, as the investing decision is made at such date, whereby the acquiree shareholder will be entitled to receive shares of the acquirer when the transaction closes. Accordingly, the requirement to keep current the financial statements in an F-4 business combination effected through a merger applies only through the shareholder approval date, and does not extend through the consummation date of the merger or termination date for the mechanical process of exchanging share certificates after the closing.

C. Pro forma financial information in cross-border mergers accounted for as reverse acquisitions

The Task Force has observed a recent increase in cross-border mergers in which U.S. domestic companies are merging with foreign companies resulting in a 1933 Act registration and/or 1934 Act reporting obligations. In many of these transactions, the foreign entity (whether it is a foreign private issuer or a foreign business) presents financial statements in accordance with IFRS as issued by the IASB while the U.S. domestic company reports using US GAAP.

The guidance in Section 6360.1 of the Division of Corporation Finance Financial Reporting Manual states that the "…S-X Article 11 pro formas are based on the accounting used by the issuer." While this position is easily understood in forward acquisitions, its application can become more challenging to understand in reverse acquisitions when the legal acquirer and target each use a different basis of accounting (GAAP).

The SEC staff and Task Force discussed whether it would be appropriate or required for pro forma financial information to be prepared based upon the GAAP of the accounting acquirer (i.e. non-issuer) rather than the issuer in a reverse acquisition.

The SEC staff acknowledged that FRM 6360.1 was not written in contemplation of reverse acquisitions; therefore it may be appropriate to consider other factors in determining the basis of accounting (i.e., whether to use the legal acquiror's GAAP, or that of the accounting acquiror, if different) for the pro forma financial information in a reverse acquisition transaction. For example, it may be appropriate to consider the basis of accounting to be used by the combined entity subsequent to the merger and on an ongoing basis. This could be impacted by whether the issuer would qualify as a foreign private issuer after the transaction and for the foreseeable future. If the business combination requires shareholder voting, companies should also consider the needs of the respective shareholder groups so they may sufficiently understand the impact of the transaction. In addition, home country regulatory requirements may also present perspectives that may need to be considered. The SEC staff indicated that there are no single set of considerations to make the determination; individual facts and circumstances should drive the conclusion. In some situations, multiple pro forma presentations on both bases of accounting may be appropriate. Companies are invited to consult with the SEC staff if there are complexities in evaluating the appropriate basis of accounting to use for the pro forma financial information in a reverse acquisition.

D. More current interim financial information and the need to update MD&A (Operating and Financial Review "OFR") and any pro forma information in a registration statement

Item 8.A.5 of Form 20-F provides the requirements for the timeliness of financial statements of foreign private issuers when filing a registration statement. If a registration statement is dated more than nine months after the end of the last audited financial year, it should contain consolidated interim financial statements covering at least the first six months of the financial year, on a comparative basis (subsequently referred to as "interim financial statements provided to meet timeliness requirements"). Item 8.A.5 also requires that when a foreign private issuer (FPI) publishes interim financial information that covers a more current period than otherwise required to meet the timeliness of financial statement requirement, the company must include the more current interim financial information in the registration statement (subsequently referred to as "more current interim financial information").

As discussed at the November 2009 IPTF meeting, when "more current interim financial information" is provided on the basis of IFRS as issued by the IASB (IFRS-IASB), including when it indicates compliance with IAS 34, it is not considered "interim financial statements provided to meet timeliness requirements" that would trigger the updating requirements of MD&A (OFR), or any pro forma information in the registration statement.

The Task Force noted that this issue, as it relates to "more current interim financial information" provided on the basis of U.S. GAAP, has not been recently discussed with the SEC staff. The following was noted:

The April 2007 IPTF Highlights include a discussion of the SEC staff's views that when an FPI provides more recent interim information that is reconciled to U.S. GAAP, absent a waiver in circumstances involving hardship, it is necessary to provide the comparative period, reconciled to U.S. GAAP, and that the current and comparative interim period would need to be accompanied by MD&A (OFR) and any pro forma information would need to be updated to that date. An excerpt of the SEC staff's rationale for this view is:

> "A foreign private issuer is not ordinarily required to provide US GAAP information in its home jurisdiction. Accordingly, when a foreign private issuer presents more current US GAAP information, it effectively has decided to present interim financial statements, and is also required to present comparatives as required by Item 8.A.5.of new Form 20-F."

The Task Force observed that the SEC staff has previously considered "more current interim financial information" that consists of a full set of interim financial statements that complies with U.S. GAAP and S-X Article 10 to be "interim financial statements provided to meet timeliness requirements" that would trigger the updating requirements of MD&A (OFR), and any pro forma information in a registration statement, on the basis that providing such information is "targeting" US investors. For FPIs reporting under IFRS-IASB, when "more current interim financial information" constitutes a full set of interim financial statements that complies with IAS 34, such information would not be considered "interim financial statements provided to meet timeliness requirements" for purposes of updating MD&A (OFR) and any pro forma information, on the basis that it is not "targeting" US investors.

The concept of "targeting US investors" appears to be less relevant now than it was in the past, when FPIs often provided financial information under home country GAAP reconciled to U.S. GAAP. Accordingly, the SEC staff indicated an FPI that provides "more current interim financial information" that constitutes a full set of interim financial statements under either U.S. GAAP or IFRS-IASB would not need to consider such information "interim financial statements provided to meet timeliness requirements" for purposes of updating the MD&A (OFR) and any pro forma information in a registration statement.

E. Presentation of Selected Financial Data of a foreign private issuer upon adoption of the new revenue standard (i.e., IFRS 15 for IFRS or ASU 2014-09 for U.S. GAAP) when the standard is adopted retrospectively

On May 28, 2014, the FASB and the IASB each issued a new accounting standard, *Revenue from Contracts with Customers* (Accounting Standards Update (ASU) 2014- 09 and IFRS 15, respectively), intended to improve and converge the financial reporting requirements for revenue from contracts with customers. For public business enterprises that follow U.S. GAAP, the new standard is effective for annual periods beginning after December 15, 2017 and interim periods within annual periods beginning after December 15, 2017. Early application is permitted, but no earlier than for annual periods beginning after December 15, 2016. For entities applying IFRS as issued by the IASB (IFRS-IASB), the new standard is required for annual periods beginning on or after January 1, 2018 and early adoption is permitted. Under both the FASB and IASB standards, an entity may choose to adopt the new standard either retrospectively or through a cumulative effect adjustment as of the start of the first period for which it applies the new standard.

As outlined in the CAQ's SEC Regulations Committee September 23, 2014 highlights, at a recent meeting of the Financial Accounting Standards Advisory Council (FASAC), the SEC staff stated that they will not object if registrants that apply the new revenue recognition standard retrospectively only apply it in their selected financial data tables to the periods covered by the financial statements. Further, the SEC staff indicated that if the earlier years in the selected financial data table are not retrospectively adjusted, registrants must clearly disclose that fact.

The SEC staff confirmed that they will not object if foreign private issuers that apply the new revenue recognition standard retrospectively (under either U.S. GAAP or IFRS-IASB) only apply it in their selected financial data tables to the periods covered by the financial statements. The SEC staff reiterated that if the earlier years in the selected financial data table are not retrospectively adjusted, registrants must clearly disclose that fact. Further, FPIs who desire to follow this approach will not need to demonstrate "unreasonable cost or expense" under Item 3 of Form 20-F in order to avail themselves of the accommodation.

Finally, similar to the position outlined at the CAQ's SEC Regulations Committee meeting on October 21, 2015, the SEC staff will not object if FPIs that apply the new revenue standard retrospectively only apply it in the preparation of the ratio of earnings to fixed charges to the periods covered by the financial statements.

F. Staff Observations Regarding the Use of IFRS XBRL Taxonomy by FPIs

The staff noted that the SEC has not yet approved XBRL Taxonomy for IFRS as issued by the IASB and the staff does not plan on approving such a taxonomy for this calendar year. IFRS filers cannot comply with XBRL until the SEC approves the XBRL Taxonomy.

III. Next Meeting

The next meeting of the Task Force has been set for May 17, 2016.