

AICPA International Practices Task Force Meeting Highlights

December 12, 1996

Location: AICPA Washington Office

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I. ATTENDANCE

Richard Dieter, Chairman (Arthur Andersen)
Taiwo Danmola (Arthur Andersen)
Bill Decker (Coopers & Lybrand)
Steven J. Derrick (Coopers & Lybrand)
Lee Graul (BDO Seidman)
Richard Jacobson (Grant Thornton)
Roger Jahncke (Ernst & Young)
Larry Leva (KPMG Peat Marwick)
Lewis M. Gill Jr. (Price Waterhouse)
Cathy S. Leonhardt (Price Waterhouse)
A. Conrad Johnson (Price Waterhouse)
Ken Allen (Deloitte & Touche)
Wayne Carnall (SEC Observer)
Lisa Vanjoske (SEC Observer)
Annette Schumacher Barr (AICPA)

II. APPLICATION OF FASB STATEMENT NO. 52 IN A HYPERINFLATIONARY ECONOMY

The Task Force discussed the application of FASB Statement No. 52, Foreign Currency Translation, in hyperinflationary economies, and in particular, the determination that Mexico is deemed hyperinflationary as of January 1, 1997. Wayne Carnall stated that the SEC staff will expect registrants to adhere to the following position taken by the FASB Staff at the November 14, 1996, EITF meeting:

The FASB staff believes the determination of a highly inflationary economy must begin by calculating the cumulative inflation rate for the three years that precede the beginning of the reporting period, including interim reporting periods. If the calculation results in a cumulative inflation rate in excess of 100 percent, the economy should be considered highly inflationary in all instances. However, if that calculation results in the cumulative rate being less than 100 percent, the staff

believes that historical inflation rate trends (increasing or decreasing) and other pertinent economic factors should be considered to determine whether such information suggests that classification of the economy as highly inflationary is appropriate. The staff believes that projections of future inflation rates were not contemplated by the language in paragraph 109 and thus projections cannot be used to overcome the presumption that an economy is highly inflationary if the 3-year cumulative rate exceeds 100 percent.

III. **DEFERRED EMPLOYEE PROFIT SHARING — ANALOGY TO SFAS 109**

Currently, there is diverse practice among Mexican companies in accounting for employee profit sharing plans for purposes of reconciling to US GAAP. Some issuers use an accrual methodology and others use a balance sheet methodology. Under the *accrual methodology*, a liability is recognized for deferred employee profit sharing purposes on timing differences between income for financial reporting purposes and income for purposes of computing the current amount of the employee profit sharing payment. The *balance sheet methodology* determines the liability based on the difference between assets and liabilities in the financial statements and assets and liabilities determined in accordance with the law relating to the employees profit sharing. This methodology is conceptually consistent with SFAS No. 109, *Accounting for Income Taxes*.

The majority of Task Force members concluded that, beginning January 1, 1997, all companies should calculate deferred employee profit sharing plan obligations using the balance sheet methodology. The Task Force also agreed that it would be inappropriate for a registrant to change from the balance sheet methodology to the accrual methodology. In addition, those companies that elect to use the accrual methodology for financial statements ending December 31, 1996, should disclose the following information regarding the balance sheet methodology to allow comparability:

- A discussion of the differences in methodology;
- The amounts, including the income statement effects, under the balance sheet methodology;
- The disclosures that would be provided if the balance sheet methodology were used; and

Wayne Carnall indicated that the SEC staff would expect all registrants to follow this consensus, unless the issue is taken up by the EITF.

Note: Larry Leva will pursue the option of whether this issue should be taken to the EITF.

IV. **ALLOCATING A PORTION OF DEFERRED TAX PROVISIONS TO RETANM**

Currently, there is diversity in practice among Mexican companies in the reconciliation to US GAAP with respect to the application of FASB Statement No. 109. Some companies allocate a portion of the change in the deferred tax balance attributable to the use of replacement cost directly to retanm (equity) while others record the entire change in the deferred tax balance as part of the income statement. The Task Force discussed the issue and arrived at the following

consensus: Assuming that effective January 1, 1997 replacement cost will no longer be allowed in Mexico under the proposed change to Bulletin B-10, companies may use their existing methodology to determine whether and how much of the deferred tax provision is allocated to retained earnings. The amount of the change allocated to equity, if any, should be disclosed.

V. SENIORITY PREMIUMS AND SEVERANCE INDEMNITIES IN MEXICO

Dick Dieter and Conrad Johnson agreed to develop a white paper to summarize this issue and clarify the facts that should be considered by the Task Force in future deliberations. In addition, Task Force members agreed to contact their Mexican counterparts with respect to this year's 20-F regarding the clarification of accounting policies for severance indemnities. The SEC staff indicated that the financial statements should clearly describe the accounting policies for these costs.

VI. PRICE LEVEL ADJUSTED CASH FLOW STATEMENTS

The Task Force did not come to a conclusion regarding the use of price level adjusted cash flow statements but agreed to study the issue further and discuss it at its next meeting. The following Task Force members agreed to specifically study and report on the practices currently followed by other countries in preparing the cash flow statements in a price level adjusted environment:

Lewis Gill	Brazil
Bill Decker	Argentina
Dick Dieter	Israel

Wayne Carnall added that the staff will expect Mexican registrants to separately disclose the change in debt that is attributable to payments and additional borrowings in constant pesos from the amount that is attributable to restating prior year balances into pesos of constant purchasing power - i.e., the monetary gain. It is the staff's understanding that paragraph 23 of Bulletin B-12 would require such segregation, if material.

VII. ISRAELI PENSION PLANS

The Task Force tabled discussion of this issue until its next meeting; in the interim, Wayne Carnall agreed to discuss the issue with various accountants in Israel.

VIII. COLUMBIAN ACCOUNTING ISSUES

The Task Force made the following observations relating to Colombian accounting:

0. As of January 1, 1992, Columbia began using price level accounting on a prospective basis. The effects of inflation not recognized in periods prior to 1992 when Columbia was hyperinflationary would result in a US GAAP difference; and
1. When presenting comparative financial statements in the US, Rule 3-20 of Regulation S-X requires all financial statements be retroactively restated to reflect constant currency as of the balance sheet date. Under Colombian

GAAP, prior year financial statements are not restated. The requirement regarding the use of a constant currency of equivalent purchasing power must be applied in the primary financial statements. That is, it cannot be "corrected" in the reconciliation to US GAAP.

IX. ACCOUNTING ISSUES RELATING TO MINING COMPANIES

Wayne Carnall noted that, in disclosing the policy on depletion of capitalized mining expenditures, many companies simply state that it is on a units of production method over the expected economic life of the mine with some reference to some form of mineral reserves. He added that the staff expects mining companies to provide explicit disclosure of the types of reserves that are included in the base -- that is proven and probable reserves. The Commission has indicated in Industry Guide 7 that disclosure of reserve information is limited to proven and probable reserves. As disclosure of possible reserves is prohibited by Commission rule, the staff does not believe that the base of depletion should include such amounts. Including possible reserves in the base could require the company to disclose an amount that Commission rules prohibit from disclosure. Applying this policy may result in an item that needs to be addressed in the reconciliation to US GAAP for Canadian and Australian companies as well as other companies.

X. SAB 74 DISCLOSURES RELATING TO THE POSSIBLE ELIMINATION OF REPLACEMENT COST ACCOUNTING

A Task Force member asked whether the possible elimination of replacement cost accounting in Mexico would trigger any additional disclosures under SAB 74. Wayne Carnall replied that disclosure would be limited to a statement about the elimination of the use of replacement cost - i.e., no quantified disclosure.

XI. WAYNE CARNALL

The Task Force acknowledged the contributions made by Wayne Carnall to its deliberations and wished Wayne well in his new endeavors at Price Waterhouse.