AICPA International Practices Task Force Meeting Highlights

November 24, 1998

Location: AICPA Washington Office

NOTICE: The AICPA SEC Regulations Committee's International Practices Task Force meets periodically with the staff of the SEC to discuss emerging technical accounting and 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, or by the Financial Accounting Standards Board, and do not represent an official position of either organization.

In addition, these highlights are not authoritative positions or interpretations issued by the SEC or its staff. The highlights were not transcribed by the SEC and have not been considered or acted upon by the SEC or its staff. Accordingly, these highlights do not constitute an official statement of the views of the Commission or of the staff of the Commission.

I. ATTENDANCE

Richard Dieter, Chairman (Arthur Andersen)
Eric Phipps (Arthur Andersen)
Steven Derrick (PricewaterhouseCoopers)
Carol Riehl (Grant Thornton)
Lee Graul (BDO Seidman)
Roger Jahncke (Ernst & Young)
Ken Allen (Deloitte & Touche)
Michael Reilly (Deloitte &Touche)
Wayne Carnall (PricewaterhouseCoopers)
Enrique M. Tejerina (KPMG Peat Marwick)
Joseph M. Langmead (KPMG Peat Marwick)
Craig Olinger (SEC Observer)
Lisa Vanjoske (SEC Observer)
D.J. Gannon (SEC Observer)
Herb Finkston (AICPA)
Annette Schumacher Barr (AICPA)

II. COMFORT LETTER ISSUES ON CROSS BORDER FINANCINGS

Roger Jahncke led a discussion regarding the application of SAS 72 in various cross border financings. The task force discussed a variety of scenarios, including:

A. An offering of securities in markets outside the US but with a US tranche of registered securities;
B. An offering of securities in markets outside the US but with a US tranche of unregistered securities
C. An offering of securities in markets outside the US with no US tranche but with US underwriters

Task Force members agreed to exchange and compare information about their firm's SAS 72 policies for situations such as these. The ultimate objective of this exercise is to develop a "best practices" document that will help ensure that all firms are handling requests for comfort letters consistently. As an initial step, Mr. Jahncke agreed to assemble a questionnaire for circulation to Task Force representatives at the next Task Force meeting.

III. CIS ISSUES

The Task Force discussed two issues relating to the Commonwealth of Independent States (CIS):

A. Policies Regarding the Issuance of Audit Opinions

Task Force members agreed that none of their firms had blanket policies regarding or precluding the issuance of audit opinions on the financial statements of CIS entities.

B. Impairment Issues

Task Force members agreed that FASB Statement No. 121 should be considered carefully in assessing the carrying values assets in consolidated CIS entities.

IV. SECPS INTERNATIONAL TASK FORCE

Dick Dieter provided a brief overview of the newly-formed SECPS International Task Force. One of the objectives of this group is to address the issue of quality control in relation to foreign registrants. The task force's next meeting is scheduled for December 10. Lee Graul will represent the International Practices Task Force at this meeting to provide input and to offer our assistance.

V. MEXICO'S HYPERINFLATIONARY STATUS

At its previous meeting on May 28, the Task Force and staff discussed whether it would be appropriate to consider Mexico as non-hyper inflationary and concluded that, based on Mexico's historical chronic inflation patterns, it would NOT be appropriate to cease hyper inflationary accounting before December 31, 1998. Craig Olinger noted that D-55 requires a change in inflationary status to be other than temporary before hyper inflationary accounting can be ceased; the group agreed that there was not sufficient evidence that Mexico's decline in inflation was other than temporary at that time.

The group revisited the issue at the November meeting. The Task Force concluded that Mexico should no longer be considered highly inflationary as of December 31, 1998. Thus, registrants should cease accounting for Mexican operations as highly inflationary for periods beginning after December 31, 1998. The group considered the following factors in arriving at its conclusion:

- The cumulative 36 month inflation rate in Mexico exceeded 100% at October 31, 1996 and continued in excess of 100% through March 31, 1998. During this time, the highest rate was 124.6%, which occurred at December 31, 1997.

- The cumulative rate fell below 100% at April 30, 1998 (92.8%) and has continued its downward trend ever since.
- The rate at September 30, 1998 was 79%.
- The cumulative rate at November 30, 1998 was 76.7%, marking the 8th straight month when cumulative inflation was below 100%.
- Economic forecasts indicate the rate will remain significantly below the 36 month 100% threshold for the foreseeable future.

The staff believes that registrants with material Mexican operations should provide the following disclosures in the financial statements and MD&A:

- that effective for quarters beginning after December 31, 1998, Mexico will cease being considered a highly inflationary economy,
- the functional currency expected to be used by the Mexican operations after December 31, 1998,
- the expected effects on the financial statements of the change in the functional currency, if practicable, and
- the expected effects of the change on operations, if practicable.

Registrants changing the functional currency from the US dollar to the Mexican peso are also reminded to apply EITF 92-4, Accounting for a *Change in Functional Currency When an Economy Ceases to be Considered Highly Inflationary, and EITF 92-8, Accounting for the Income Tax Effects under FASB Statement No. 109 of a Change in Functional Currency When an Economy Ceases to Be Considered Highly Inflationary*.

The staff will challenge registrants that use the US dollar as the functional currency for their operations in Mexico after December 31, 1998, and would expect them to be able to support the use of the US dollar based on the guidance in Appendix A to SFAS 52.

Foreign registrants that use IAS 21 to account for foreign subsidiaries in highly inflationary economies and rely on the accommodation in Item 17 or 18 of Form 20-F should also no longer consider Mexico to be highly inflationary for periods beginning after December 31, 1998.

VI. CASH FLOW STATEMENTS FOR REGISTRANTS THAT USE PRICE LEVEL ACCOUNTING

At its May 28 meeting the Task Force discussed the preparation of cash flow statements when financial statements are price level adjusted for inflation. Wayne Carnall distributed an example of a cash flow statement that he prepared. This example presents a fourth caption in addition to operating, financing and investing — effect of inflation on cash flow (See Attachment A to these highlights.). This is similar to the concept of the effects of exchange rate changes on cash described in SFAS No. 95, *Statement of Cash Flows*. Mr. Carnall noted that the example appears to be conceptually consistent with Bulletin 50 issued by the Chilean Accounting Principles Commission. It was further noted that the Mexican Accounting Principles Commission is considering adding an item to its agenda to revise Bulletin B-12 that currently requires the presentation of a statement of changes in financial position as opposed to a cash flow statement but were unlikely to reach a decision in the short term.

The staff said it would expect foreign registrants that file price level adjusted financial statements to provide cash flow statements that show separately the effects of inflation on cash flows. The staff will expect registrants to provide this information for periods ending on or after December 1, 1998. The staff will not require retroactive restatements of 1997 or prior financial statements (although this would be encouraged).

VII. STATUS OF PRICE LEVEL ACCOUNTING IN BRAZIL

At the May 28 Task Force Meeting, Wayne Carnall reported that for the purpose of corporate law reporting in Brazil, adjustments for inflation had not been made since 1995, thus creating a difference between Brazilian corporate law and Brazilian GAAP. He noted that the Brazilian Institute of Accountants (IBRACON) has issued a draft accounting standard that proposes to eliminate the requirement to prepare price level adjusted financial statements under Brazilian GAAP. However, until such time as the new standard becomes effective, Brazilian GAAP requires companies to continue to price-level restate their financial statements despite Brazilian Corporation Law no longer permitting the effects of such indexation for taxation or dividend determination purposes. Wayne reported that there have been no further developments since the May meeting.

VIII. RUSSIA'S HYPERINFLATIONARY STATUS

The Task Force and staff discussed whether Russia should continue to be considered hyperinflationary. While acknowledging that Russian inflation had dropped below 100% for a point in 1998, the group concluded that Russia should continue to be considered hyperinflationary due to its current economic turmoil and high inflation.

The Task Force noted that the inflationary status of the other former Soviet states should be individually evaluated, if applicable. The staff has noted instances where registrants from emerging countries have looked to industrial price indexes or changes in currency exchange rates (devaluation) against the dollar rather than the general consumer price index in evaluating inflationary status. The staff has objected because these approaches conflict with FASB Statement No. 52.

IX. JAPANESE REGISTRANTS AND EXCEPTIONS FROM US GAAP

The Task Force noted that in 1993 the staff allowed certain reporting exceptions to Japanese registrants filing US GAAP financial statements in accordance with Item 17 of Form 20-F. The most notable of these exceptions related to the application of FAS 115, though as a consequence their auditors qualified their reports. Since that time, however, the number of foreign registrants has increased substantially. Today, the SEC staff does not expect to grant broad exemptions from the requirements of US GAAP to *any country*. As with all foreign registrants, the staff encourages early discussion of the unique problems a specific country may face in meeting the requirements of US GAAP based on its individual circumstances..

The staff noted that the Commission, as part of its rule revisions regarding segment reporting, has extended the current accommodation regarding SFAS 14 for Item 17 filers preparing US GAAP financial statements [Instruction (3) to Item 17] to SFAS 131.

X. EURO REPORTING CURRENCY ISSUES

The SEC staff made an announcement at the July 23, 1998 meeting of the EITF about the Euro and recasting prior period financial statements. In this announcement, the staff stated that it would not object if a registrant presents comparative financial statements for periods prior to January 1, 1999 by recasting previously reported financial statements into Euros using the exchange rate between the Euro and the prior reporting currency as of January 1, 1999. However, in cases where a registrant wishes to adopt the Euro as its reporting currency for financial statement periods ending prior to January 1, 1999, the SEC staff would expect to be consulted.

. Adoption of the Euro for Periods Prior to January 1, 1999

At the November meeting, the staff noted that its views in the July announcement were based on the understanding that most countries participating in the EMU were in the process of enacting laws or regulations to prohibit companies from adopting the Euro as a reporting currency in financial statement periods ending prior to January 1, 1999.

Based on the staff's most recent discussions with securities regulators in EMU countries, the staff believes that a number of countries participating in the EMU will prohibit the adoption of the Euro in financial statement periods ending prior to the introduction of the Euro. The staff has assumed that a foreign issuer with U.S. reporting obligations is unlikely to request that the Commission accept the adoption of the Euro in financial statements filed in the United States if it could not do so in financial statements filed in its home country. In these cases where a registrant wishes to adopt the Euro as its reporting currency for financial statement periods ending prior to January 1, 1999, the staff would expect to be consulted on a pre-filing basis.

The staff also is aware of certain countries participating in the EMU where proposals are pending that would permit, but not require, the use of the Euro in group financial statements for periods ending in 1998 that would be filed in 1999. The staff will not object if a registrant in these countries uses the Euro as its reporting currency for financial statements included in its Form 20-F, assuming the Euro is adopted in its home country financial statements and the disclosures outlined in EITF Topic D-71 are made.

A. Supplemental Financial Information in Euros

The staff understands that some countries participating in the EMU have issued laws or regulations that permit or require the presentation of selected financial information in Euros during the transition period.

Commission rules generally require that any information prepared by a foreign private issuer and disclosed to its home country shareholders or otherwise made public, for example, pursuant to applicable laws or regulations or stock exchange requirements, also be included in its filings with the Commission. Therefore, where a registrant is providing supplemental financial information in Euros pursuant to home country requirements, the staff would not object to such information being provided in its filings with the Commission. However, the staff would question the inclusion of supplemental financial information in Euros only for the purpose of filings in the U.S. and not for distribution to shareholders or publication in the home country.

XI. STAFF OBSERVATIONS

The staff made observations relating to the following issues:

- **Auditor Independence - Fairness Opinions**

If an auditor renders an opinion on the value of a company, the adequacy of consideration, or the fairness of a transaction (fairness opinion) that the auditor will subsequently audit, the staff considers the auditor's independence to be impaired.

Statutes or regulations in various countries (particularly in Europe) require companies to obtain a report from a chartered accountant regarding the consideration to be exchanged in stock-for-stock mergers or other non-monetary exchange transactions. Generally, the accountant is expected to review the Board of Director's explanations and justifications of the exchange ratio. The accountant prepares a report addressed to the shareholders of the combining companies, provides assurance of the objectivity of valuation procedures and results, and indicates agreement or disagreement with the selected exchange ratio. Failure to satisfy all legal obligations assumed as part of the appointment may expose the accountant to liability for damages caused to the companies taking part in the merger, their shareholders and third parties. The staff understands that in most countries, management is permitted to engage any duly licensed accountant to perform this service.

In several recent filings, the registrant's **auditor** performed this service and rendered what appeared to be a fairness opinion. In each case the auditor was unable to confirm that the report did not constitute an opinion on the fairness of the transaction or the adequacy of consideration to shareholders. In these circumstances, the staff considers the auditor's independence to be impaired. Depending upon the particular facts and circumstances, the staff may permit registrants to proceed by engaging another auditor to reaudit the historical financial statements or terminating the current auditor relationship.

It is important to note that the SEC does not accept compliance with foreign independence rules in lieu of or as a substitute for the SEC's independence rules and regulations. In a November 1998 letter to the AICPA's SEC Practice Section, Lynn Turner highlighted this and other troubling independence matters recently noted by the staff. The letter recommends that the SEC Practice Section and its respective members reassess whether the quality controls and training programs of firms and their affiliates that practice before the SEC are adequate to ensure compliance with the independence requirements set forth in the Securities Acts and the Commission's rules and regulations.

Also, Form F-4 requires extensive disclosures about the Board of Director's consideration of a proposed merger or exchange. Where the report of an accountant or other expert is considered by the Board in approving the transaction, the report and consent of the expert must be included in the registration statement.

A. Accommodation in Item 17 and 18 for Proportional Consolidation

Issuers that use proportional consolidation under home country GAAP for investments in joint ventures that would be equity method investees under US GAAP may omit reconciling differences related to classification or display, and instead provide summarized footnote disclosure of the amounts proportionately consolidated. The accommodation is only available if the joint venture is an operating entity, the significant financial operating policies of which are, by contractual arrangement, **jointly controlled by all parties having an equity interest in the entity**.

The staff has recently noted situations where the accommodation was used for investees that were characterized as joint ventures but not all parties with an equity interest had the right to share in control. For example, a supermajority voting provision permitted several large equity holders to control the investee without the consent of several small equity holders. The staff has objected to use of the accommodation in these circumstances.

B. Recognition of Contingent Gains

Under GAAP in certain countries, contingent gains are recognized prior to their realization based on a probability concept. Paragraph 17 of SFAS 5 states that "contingencies that might result in gains usually are not reflected in the accounts since to do so might be to recognize revenue prior to its realization." Some registrants have interpreted the word "usually" to mean that US GAAP is permissive in this area. The staff believes that the circumstances where recognition of a contingent gain could be justified under US GAAP prior to realization of cash are extremely rare.

C. Selected Financial Data Waivers

The staff has been receiving more expansive requests for relief from the selected financial data requirements. The staff generally will grant waivers for initial filers where data for the fourth or fifth prior year would not be meaningful or reliable because of a privatization transaction or other fundamental change in the underlying business. However, we believe that selected data for the third year would virtually always be necessary for a meaningful presentation of trends. We have also rejected recent waiver requests where data depicting adverse trends in revenues and operating profits was available but omitted because of concerns over reliability of corporate overhead allocations. Also, registrants that use US GAAP in the primary financial statements should provide 5 years of home country GAAP selected financial data (unless waived) if US GAAP data is unavailable for the earlier years.

D. Pre-filing Requests

It has been the staff's experience that foreign registrants often file their registration statements with requests that should have been raised pre-filing. The staff encourages foreign registrants to resolve issues with the staff in advance of filing so that registration statements reflect the best approach. Pre-filing requests should be submitted sufficiently in advance to permit staff analysis of the matter prior to filing. Filings should be complete and in compliance with Commission rules when first submitted unless otherwise cleared with the staff in advance. The staff will consider suspending the review process on materially deficient filings.

E. Financial Statements Filed under Home Country GAAP and IAS

The staff has become aware of situations where a registrant prepares its financial statements in accordance with home country GAAP and in its footnotes asserts that the financial statements "comply, in all material respects, with" or "are consistent with" IASs. In some of these situations, the registrant may have applied only certain IASs or omitted certain information without giving any explanation of why the information was excluded. The staff has challenged these assertions and will continue to do so.

The staff also noted that in July 1997 the IASC approved IAS 1 (revised 1997), *Presentation of Financial Statements* (IAS 1), which indicates that enterprises who comply with IASs must disclose that fact. IAS 1 also indicates that financial statements should not be described as complying with IASs unless they comply with all the requirements of each applicable standard and each applicable interpretation of the Standing Interpretations Committee.

F. Consolidation of Chinese Joint Ventures and Related Issues

The staff has recently reviewed several registration statements where the registrant's business was conducted primarily through "joint venture" arrangements in the Peoples Republic of China. Generally, the underlying businesses were infrastructure projects such as toll roads or water distribution systems. The joint venture was formed by the contribution of capital by the registrant, and contribution of the underlying project by a PRC municipal government entity (PRC partner). The joint venture acquired a long-term concession to operate the project.

Generally, the registrant owned the majority of the voting shares of the joint venture, and the PRC partner owned the remaining shares. The registrant also selected a majority of the directors of the joint venture. However, unanimous approval by the board of directors was required for numerous operating decisions. Examples include selection and termination of key operating and financial officers, approval of budgets, capital expenditures and borrowings in the ordinary course of business. One agreement required unanimous approval of all matters pertaining to the planning, construction, operation, and maintenance of the toll road.

In these circumstances the staff believed that these rights were substantive and pervasive. They should not be considered "protective" as contemplated in EITF 96-16. Because the PRC partner retained significant rights and authority over operating decisions despite relinquishing majority ownership, the staff believed that the registrant did not have a controlling financial interest in the joint venture. Accordingly, the staff objected to consolidation of the joint venture under US GAAP. The staff may also challenge consolidation in the primary financial statements where control under home-country GAAP is based on the existence of these rights rather than the specific exercise of these rights.

This matter also creates various presentation issues. If consolidation is permitted under home-country GAAP, reconciliation of all financial statement captions will likely be required. In the selected financial data, the staff would expect home-country and US GAAP amounts to be presented with equal detail and prominence.

Separate audited financial statements of each joint venture under Rule 3-09 of Regulation S-X may be necessary. If consolidation is permitted under home-country GAAP, the staff will consider accepting expanded footnote disclosures about the joint ventures, such as separate condensed balance sheet, income statement, and cash flow information for each joint venture, in lieu of Rule 3-09 financial statements. The staff would also expect MD&A to address the significant presentation differences between home-country GAAP, and to include meaningful discussion of the results of operations, liquidity and cash flows of the ventures and their impact on the registrant.

In some of these arrangements, an affiliate of the PRC municipal government provides financial support in certain circumstances. Where significant, financial statements or other financial information about the affiliate may be required.

XII. INTERNATIONAL DISCLOSURE STANDARDS

The staff noted that in September 1998 at its Annual Conference, the International Organization of Securities Commissions (IOSCO) endorsed the document, *Disclosure Standards to Facilitate Cross-Border Offerings and Listings by Multinational Issuers (the Standards)*.

It is expected that the Standards generally will result in disclosures that are comparable to those currently required by the Commission. Examples of some areas that differ from existing U.S. requirements include:

- The threshold for company disclosure of known beneficial owners of securities (10% under current U.S. requirements for foreign private issuers and 5% under the Standards);
- The age of financial statements (18 months under U.S. requirements and 15 months at the time of offering or listing, or 12 months in the case of an initial public offering under the Standards); and

- The requirement to disclose any publicly announced acquisition offers made or received.

The staff has developed a rule proposal to modify the Commission's existing disclosure requirements to conform with the International Disclosure Standards. That proposal was recently issued for comment (Release No. 33-7637).

XIII. IAS 22 ISSUES

. Compliance with IAS 22

The staff noted a recent pre-filing situation involving a business combination consummated a few years ago that was accounted for as a "uniting of interests" under IAS 22. The staff disagreed with the registrant's conclusion, but did not require the registrant to restate its primary financial statements, which had been publicly issued in other jurisdictions. However, the staff also concluded that relief from the reconciliation requirements of Form 20-F for reconciling the method of accounting for the business combination should not be granted. Thus, the staff required the accounting for the transaction to be reconciled to US GAAP. The staff did not believe that reliance on the accommodation in Form 20-F was appropriate because the registrant's interpretation of IAS 22 is not one the staff would have accepted if consulted at the time of the transaction.

The staff did not find persuasive the registrant's arguments that joint control existed. While the staff therefore disagreed with the registrant's assertion that the transaction should be accounted for as a uniting of interests, the staff recognized that at the time of this particular transaction, there were divergent practices as to the application of IAS 22. This transaction preceded the August 1998 issuance of SIC-9 by the Standing Interpretations Committee. SIC-9 confirmed the need for a rigorous application of IAS 22, including an exhaustive search for an acquirer, that should facilitate a more comparable interpretation of IAS 22.

The staff will continue to challenge presentations in the primary financial statements that are abusive applications of IAS 22 and in such cases will require restatement. The conclusions reached in this particular situation would be available only in similar cases as transition for business combinations that predate SIC-9, where the accounting is determined not to be egregious based on the particular facts and circumstances. The staff would generally expect to be consulted in cases where a registrant asserts that a business combination should be accounted for as a uniting of interests under IAS 22.

A. IAS 22 Exemption from Reconciling Items and UK FRS 10

Items 17 and 18 of Form 20-F currently provide relief from the reconciliation requirements for the amortization period of goodwill and negative goodwill. The accommodation permits U.S. GAAP reconciling disclosures to be omitted with respect to the amortization period of goodwill and negative goodwill if the period of amortization used in the primary financial statements conforms with the requirements of IAS 22, as amended in 1993.

Prior to the adoption of FRS 10, *Goodwill and Intangible Assets*, most U.K. issuers that filed with the Commission charged goodwill against stockholders' equity upon acquisition. For purposes of the U.S. GAAP reconciliation, goodwill was capitalized and amortized over its estimated useful life. Under FRS 10, goodwill is required to be capitalized and amortized over its useful life. However, in certain cases, goodwill may have an indefinite life. Depending on the circumstances, the goodwill amortization period in FRS 10 may or may not be the same as that under IAS 22 or U.S. GAAP. Additionally, FRS 10 generally requires retroactive application of the standard for all financial statement periods presented.

Form 20-F does not address specifically whether a registrant may use the accommodation when it retroactively restates the primary financial statements to adopt a recently issued accounting standard. Use of the accommodation in some of these circumstances could result in the presentation of reconciled U.S. GAAP amounts that differ from those previously reported. However, the instructions to Items 17 and 18 of Form 20-F do contemplate use of this accommodation upon voluntary restatement of primary financial statements to adopt the provisions of IAS 22.

The staff will not object if a registrant that prepares its financial statements in conformity with U.K. GAAP, including FRS 10, omits the U.S. GAAP reconciling disclosures specified by Item 17 or Item 18 with respect to the amortization period of goodwill and negative goodwill, provided that all of the following conditions are met:

- The registrant has adopted FRS 10 by retroactive statement;
- The period of amortization used in the U.K. GAAP financial statements is also in conformity with IAS 22, as amended 1993;
- The applicable provisions of IAS 22 are applied to all business combinations as outlined in the instructions to Form 20-F; and
- The disclosures set forth in paragraph 28 of APB 20, *Accounting Changes*, are provided to highlight the nature and effects of the retroactive change in U.K. GAAP on previously reported reconciled income amounts.

This guidance applies only to the amortization period of goodwill and should not be applied by analogy to other situations.

B. **Revised IAS 22 and Goodwill Lives**

In September 1998, the IASC issued a revised version of IAS 22, which becomes effective for annual periods beginning on or after July 1, 1999. The revisions include changes in the treatment of goodwill and negative goodwill.

IAS 22 (revised 1998) eliminates the 20-year maximum life on goodwill. Goodwill is to be amortized over its estimated useful life, which is presumed to be 20 years or less. However, this presumption may be overcome in certain cases. Where the presumption is overcome, an enterprise is required to test goodwill for impairment at least annually and disclose the reasons why the presumption is overcome. These disclosures would include a discussion of the factors that played a significant role in determining the useful life of the goodwill.

The IASC Board emphasized that only in rare cases will an enterprise be able to support a goodwill life in excess of 20 years. The staff may be expected to challenge a registrant's assertion that the 20 year presumption has been rebutted in the context of conformity of the primary financial statements with IASs. The staff also is likely to challenge situations where a registrant changes its estimate of the useful life of goodwill to a longer period upon adoption of IAS 22 (revised 1998). The staff would strongly encourage registrants to consult the staff on a pre-filing basis in cases where the registrant asserts that the 20-year presumption has been rebutted.

Goodwill lives of 20 years or less would continue to be eligible for the accommodation under Form 20-F. When this accommodation was originally adopted, the staff did not contemplate situations where the goodwill amortization periods under IASs could be significantly longer than those under US GAAP. In the rare case where a registrant concludes under IAS 22 (revised 1998) that goodwill lives exceed 20 years, the need to reconcile to U.S. GAAP lives will depend on the specific facts and circumstances.

IAS 22 (revised 1998) also eliminates the benchmark treatment in the existing standard for accounting for negative goodwill and requires that negative goodwill be measured as the difference between the acquirer's cost and its interest in the fair value of the identifiable assets acquired and liabilities assumed. It also requires that negative goodwill be recognized in the income statement as follows:

- To the extent that the negative goodwill relates to expected future losses and expenses that are identified in the acquirer's acquisition plan, negative goodwill should be recognized when those losses and expense occur;
- To the extent the negative goodwill does not relate to expected future losses and expenses, the negative goodwill not exceeding the fair value of the non-monetary assets acquired, should be recognized on systematic basis over its estimated useful life, which is presumed to be 20-years or less; and
- All other amounts are recognized immediately.

An entity recognizing negative goodwill in the income statement on a method other than straight-line amortization, under either version of IAS 22, generally would be required to reconcile these differences to a straight-line methodology under U.S. GAAP.

The revisions to IAS 22 also include a new requirement to reverse impairment losses on goodwill if certain conditions exist. Entities adopting IAS 22 (revised 1998) that reverse any prior goodwill impairments also would be required to reconcile these reversals to U.S. GAAP.

XIV. FAS 131 IMPLEMENTATION ISSUES

Task Force members indicated that some foreign registrants are concerned that they may be required to provide two sets of segment disclosures, because the identification and measurement of segment results may differ under SFAS 131 and IAS 14. Discussion was deferred until the next Task Force Meeting on April 28, 1999. Task Force members were asked to come to the meeting prepared with live examples to illustrate what the practice problems are. Wayne Carnall will lead the discussion.

XV. APPLICATION OF FAS 130 TO ITEM 17 AND 18 FILERS

At the May 1998 meeting, the Task Force discussed the application of SFAS 130 to registrants using Item 17 of Form 20-F. The Task Force noted that SFAS 130 defines the required presentation as a new basic financial statement, rather than a disclosure. Thus, a statement of comprehensive income or its equivalent would be required for both Item 17 and Item 18 filers. The staff noted that foreign filers may present the statement of comprehensive income in any format permitted by SFAS 130. It may be prepared using either US GAAP or home-country GAAP amounts. Reconciliation to US GAAP is encouraged but not required.

Paragraph 26 of SFAS 130 requires presentation of the components of the accumulated balance of other comprehensive income items on the face of the financial statements or in footnotes. At the November 1998 meeting, the Task Force concluded that this requirement does not apply to Item 17 filers.

The Task Force also discussed how Item 18 filers should apply paragraph 26. In certain countries, the equity components under home-country GAAP are included in retained earnings and are not separately tracked. Reconstruction of these amounts may be impracticable. Some believe that the equity components may not be relevant or meaningful for those registrants that elect to present SFAS 130 information on a US GAAP basis, because components of legal capital are determined by reference to home-country laws. Further, the reconciliation requirement in Form 20-F has generally been interpreted to require stockholders' equity to be reconciled to US GAAP in total, not by caption.

The staff will not object if an Item 18 filer concludes (and discloses in its filings) that it is impracticable to present the components of the accumulated balance of other comprehensive income items specified by paragraph 26 of FAS 130.

XVI. CANADIAN MINING COMPANIES

At the December 1997 and May 1998, various matters related to the accounting by mining companies for exploration costs were discussed.

Mr. Olinger stated that the staff has considered various issues related to exploration activities by both foreign and US mining companies including capitalization and impairment policies. The Task Force noted that there is diversity in practice among U.S. mining companies relating to these issues. The Task Force and staff agreed that these are not predominantly foreign reporting issues. The Task Force and staff agreed that it would be beneficial to refer the matter to AcSEC. Wayne Carnall will investigate further the feasibility of obtaining assistance from AcSEC.

XVII. NEXT MEETING

The Task Force scheduled its next meeting for April 28, 1999.