# AICPA International Practices Task Force Meeting Highlights

**May 11, 2000**

*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)
Wayne Carnall (PricewaterhouseCoopers)
William Decker (PricewaterhouseCoopers)
Paul Dudek (SEC Observer)
Roger Jahncke (Ernst & Young)
Joseph Kelley (KPMG)
Debbie J. MacLaughlin (BDO Seidman)
Craig Olinger (SEC Observer)
Victor Olivera (Ernst & Young)
Eric Phipps (Arthur Andersen)
Michael Reilly (Deloitte & Touche)
Carol Riehl (Grant Thornton)
Annette Schumacher Barr (AICPA)
John Smith (Deloitte & Touche)
Lisa Vanjoske (SEC Observer)

## II. COMFORT LETTER ISSUES ON CROSS BORDER FINANCINGS

At the November 4, 1999 meeting the Task Force noted that significant progress had been made in developing consensus on best practices in many areas relating to 144A offerings in the United States by non-US issuers where the offering did not have registration rights. Prior to the current meeting, Roger Jahncke had circulated a draft statement of these best practices.

In discussion, it was agreed that the statement of best practices should continue to address the following issues:

1. reporting on independence;
2. forecasts consistent with the language in SAS 72;
3. references to accountants as "experts";
4. references to the GAAS followed in any audit reports referred to in the letter

where the GAAS was other than US GAAS.

The statement of best practices is attached to the minutes of the meeting (and thus publicly available on the AICPA web site) at Appendix A.

## III. METHODS OF RETREIVING INFORMATION ABOUT TOPICS DISCUSSED AT PRIOR TASK FORCE MEETINGS

At the November 4, 1999 meeting, the Task Force discussed ways in which users could retrieve information about topics discussed at previous Task Force meetings. The possibility of creating an index of issues discussed was discussed.

Annette Schumacher Barr stated that all highlights of meetings dating back to 1996 are posted on the AICPA's website and that the website contains a search engine that allows users to search for topics previously discussed. She stated that utilizing this search engine would be more efficient and effective than reviewing a static index. She demonstrated the search engine's capabilities by distributing a number of illustrative searches.

It was agreed that the AICPA staff should investigate:

1. including at the front end of the web site a reference to SEC matters so that the search path was clearer;
2. including a short note describing the search facilities and giving one or two examples including appropriate syntax; and
3. adding the minutes of the Task Force for periods prior to 1996.

Task Force members were asked to bring to the next meeting any item covered in prior minutes that was no longer applicable or where the position had changed. The status of such items should be noted in the minutes on the Website.

## IV. SECPS MEMBERSHIP REQUIREMENT – INTERNATIONAL AFFILIATES

The SECPS has adopted a new membership requirement to enhance the quality of SEC filings by foreign SEC registrants whose financial statements are audited by member firms affiliated with a US member firm. At the November 4, 1999 meeting it was agreed that it would be useful if a comparison of the various firms' policies to implement the new SECPS requirements could be prepared.

Prior to the current meeting, some members of the Task Force had sent a copy of their policies to Eric Phipps who gave a brief summary of some of the main points arising from a review of the policies:

1. Generally, the introduction of the new SECPS rule had led to a refinement rather than a fundamental revision to existing polices;
2. Firms policies differed as to the location of filing reviewers;
3. Firms all emphasized the distinction between the filing reviewer and the engagement partner although firms appeared to have different 'sign-off responsibilities' for the filing reviewer that in some cases appeared to go beyond the limited requirements of the SECPS rules; and
4. Some firms had prepared specific practice tools to assist the engagement

team and filing reviewer in identifying US GAAS, US GAAP and independence differences from local practice.

It was agreed Eric Phipps would prepare a more detailed comparison for the next meeting. This might necessitate a brief questionnaire to members of the Task Force that sought information on matters not dealt with in the written policies so far received.

## V. SECPS CONCEPT RELEASE ON INTERNATIONAL ACCOUNTING STANDARDS

Dick Dieter noted that the AICPA has prepared a comment letter responding to the SEC Concept Release on International Accounting Standards. Annette Schumacher Barr added that the comment letter has been reviewed by the AICPA Board of Directors and is in the process of being finalized.

Dick noted that a number of Task Force members had conference calls on this letter and provided input to the AICPA. The Task Force input was substantially incorporated into the final letter.

## VI. BRAZILIAN LAWS AND PROVISIONAL MEASURES

In Brazil, the tax law is sometimes significantly altered by provisional measures ("medidas provisrias") announced by Presidential decree. The provisional measures can affect tax rates as well as other areas that could impact deferred taxes. These measures remain in force for three months and expire automatically if they are not extended for an additional three-month period. On occasion, these provisional measures are in force for many years, such as the Real Plan, which began in 1994 and is still being extended.

When calculating the effect of exchange rate changes or other changes on deferred income taxes in Brazil, the question arises as to whether the provisional measures should be considered as "enacted law" for the purpose of paragraph 8(c) of Statement 109.

In discussion, the Task Force noted that:

1. The provisional measures were not enacted since enactment as that term was used in Statement 109 required all appropriate legislative approvals. In Brazil this would require the approval of the legislature;
2. SFAS 109 does not have a notion of 'substantive' enactment. For that reason, when similar issues had been raised previously such as approval by a legislature subject to the subsequent approval of the Head of State which as a matter of practice was never withheld, the Task Force had concluded that the law had not been enacted until approval by the Head of State; and
3. In Brazil, it is not clear that the provisional measure will be subsequently approved by the legislature.

The Task Force and SEC staff therefore agreed that the provisional measure should not be used as the enacted rate for the purpose of recognizing the tax effect of temporary differences under Statement 109. Task Force members noted that the provisional measure, to the extent it has not lapsed, is used for determining the

amount of current tax payable.

## VII. ISSUES ASSOCIATED WITH THE NEW FORM 20-F

### A. Applying the New Item 8.A.4 of Form 20-F

The new Item 8.A.4 of Form 20-F states:

"The last *year* of audited financial statements may not be older than 15 months at the time of the offering or listing; provided, however, that in the case of the company's initial public offering, the audited financial statements also shall be as of a date not older than 12 months at the time the document is filed. In *such* cases, the audited financial statements may cover a period of less than a full year."

The new Instruction 1 to Item 8.A.4 of Form 20-F states:

"In calculating the *15-month requirement* for the age of financial statements, determine the age based on the period of time that has elapsed between the date of the balance sheet and "the time of the offering or listing," which means the time the registration statement is declared effective. You may satisfy *this requirement* by providing audited financial statements covering a period of less than a full year."

Applying these requirements to the following example:

- Company R is a foreign registrant.
- Company R has a December 31 year-end.
- Company R has audited financial statements available for the years ended December 31, 1997, 1998 and 1999 and for the six months ended June 30, 2000.
- Company R intends to file (or have declared effective) a registration statement for securities to be issued in a primary offering in April 2001.

The question was whether the available audited financial statements listed above were sufficient, or whether the filing needed to include audited financial statements for the year ended December 31, 2000.

The SEC staff confirmed that the new rules require a foreign registrant to update a registration statement for this type of offering with audited *annual* financial statements three months after its fiscal year-end, and this updating is required regardless of whether the registration statement includes audited interim financial statements. The staff also noted that inclusion of the second sentence of the new Instruction 1 to Item 8.A.4 of Form 20-F was unintentional and they would therefore not apply that sentence in interpreting the rule.

### B. Age of Rule 3-05 Financial Statements

The financial statements of an acquired business provided under Rule 3-05 of Regulation S-X generally do not need to cover the entire period up to the

acquisition date. It was understood that the SEC staff's practice under Rule 3-19 is to permit a gap preceding the acquisition date of (1) less than a complete quarter for an acquired business that is not a foreign business and (2) generally, less than six months for an acquired foreign business. In the latter case, the staff might require a shorter gap in reporting if more recent information was already publicly available in respect of the foreign target, e.g. a foreign target that was required by its home jurisdiction to publish quarterly interim results.

For example:

- Company R, a registrant, acquired Company T on May 15, 2000.
- Company T is a foreign business.
- The significance level of Company T is 25%.
- Company R and Company T have December 31 year-ends.
- Company R will file a registration statement on July 15, 2001.

Under Rule 3-19, Company R would be required to file Company T audited financial statements for the year ended December 31,1999. No unaudited interim Company T financial statements would generally be required by the SEC staff because (1) Company T is a foreign business and (2) the period from the date of Company T's most recent financial statements included in the filing to the date Company T is reflected in Company R's financial statements is less than six months.

Under the new Item 8 of Form 20-F, foreign private issuers are required to provide financial statements in registration statements more quickly than under the old Rule 3-19. The issue is whether the new age of financial statement requirements affect the above guidance regarding the pre-acquisition interim period.

The SEC staff noted that the age of financial statement requirements in new Item 8 of Form 20-F should have no impact on the gap in reporting for a foreign target permitted for the purpose of Rule 3-05. The staff would generally continue to apply the '6 month' practice as set out above.

## C. Applying the New Item 3.B of Form 20-F

The new Item 3.B requires:

"A statement of capitalization and indebtedness (distinguishing between guaranteed and unguaranteed, and secured and unsecured, indebtedness) as of a date no earlier than 60 days prior to the date of the document shall be provided showing the company's capitalization on an actual basis and, if applicable, as adjusted to reflect the sale of new securities being issued and the intended application of the net proceeds therefrom. Indebtedness also includes indirect and contingent indebtedness."

The new rule provides little guidance regarding the interpretation of "indebtedness." For example, does "indirect indebtedness" include operating leases? Does "contingent indebtedness" include guarantees for which

performance is deemed remote or reasonably possible?

The SEC staff confirmed that in their view a capitalization table presented in accordance with current practice would meet the new requirement. The staff also noted that the statement is required to be as of a date within 60 days of the date of the document. Current practice is that the capitalization table normally starts with information as of the date of the most recent balance sheet included in the filing. An "as adjusted" column is then added to present the effects of major subsequent events occurring up to the date of the document. The SEC staff would not expect this practice to change and would not require the statement of capitalization and indebtedness to deal with minor events such as normal debt repayments. Instruction 1 to Item 3.B provides guidance on this point.

## D. Cash flow statements

Item 17(c) of Form 20-F requires that the financial statements be prepared under a comprehensive body of accounting standards. Item 8.A.1.(d) requires a cash flow statement without reference to any body of accounting standards. New Item 8 of Form 20-F requires that the financial statements contain a cash flow statement. What if the comprehensive body of GAAP under which the primary financial statements have been prepared does not include a requirement for a cash flow statement?

The SEC staff noted that the requirement could be satisfied by a cash flow statement that complies with FASB Statement 95, a cash flow statement that complies with IAS 7, or a reconciliation of any statement required by domestic standards (e.g. a funds flow statement) to a SFAS 95 cash flow statement.

The position was less clear where domestic standards did not require a statement that could be reconciled to a US cash flow statement. For example, in some jurisdictions such as the UK there was a cash flow standard but an exemption for wholly owned subsidiaries when included in consolidated financial statements. Would the 3-05 financial statements for such an entity need to include a cash flow statement? In discussion, it was noted that there appeared to be some diversity in current practice. Some would include a cash flow statement in this fact pattern because Rule 3-05 required financial statements in accordance with Regulation S-X. Others would not. The SEC staff interprets Rules 3-05 and 3-09 to require cash flow statements for all periods that an income statement is required. This is true even if reconciliation to US GAAP is not required because the acquiree or investee is below the 30% significance level.

## E. Segment Information

New Item 4. B, "Business overview," states:

"The information required by this item may be presented on the same basis as that used to determine the company's business segments under the body of accounting principles used in preparing the financial statements."

Item 5, "Operating and Financial Review and Prospects," states:

"Information provided also shall relate to all separate segments of the company. Provide the information specified below as well as such other information that is necessary for an investor's understanding of the company's financial condition, changes in financial condition and results of operations."

The SEC staff confirmed that the segment information required by Item 5 should also be presented on the same basis as Item 4, i.e., in accordance with the basis of accounting in the primary financial statements.

Where no segment information is presented in the primary financial statements because local GAAP does not require segment disclosures, the SEC staff did not believe a registrant could omit discussions of its business segments in Items 4 and 5.

## F. Application of the new Form 20-F age requirement to Rule 3-05 financial statements of foreign targets

The SEC staff noted that Release No 33-7745 setting out the final rule on International Disclosure Standards and the changes to Form 20-F also conformed the age of financial statement requirements for acquired foreign business and foreign investees under Rules 3-05 and 3-09 to those in Item 8 of New Form 20-F. It had not, however, addressed when those requirements would need to be adopted by domestic issuers.

The staff concluded that the new requirements should apply to all 3-05 and 3-09 financial statements required in registration statements first filed after September 30, 2000, and to all 3-05 financial statements required in Form 8-Ks filed after September 30, 2000. The filing date is based on the Form 8-K initially reporting consummation of the acquisition.

## G. Selected Financial Data

With respect to selected financial data, the staff noted that new Item 3.A. of the new Form 20-F provides that selected financial data for the earliest two years of the five year period may be omitted if the company represents to the host country regulator that such information could not be provided without unreasonable effort or expense. The Instruction to Item 3.A requires that the document disclose the omission as well as the reasons supporting omission. The SEC staff noted that pre-clearance is not required if a registrant meets the criteria. As with any disclosure, the explanation of the reasons for omission is subject to staff review. The SEC staff will ordinarily review the justification when reviewing the filing itself. The staff also noted that certain of the required data, such as revenues, may be available for the two earliest years. If available, that data should be provided.

The staff noted that the accommodation in footnote 37 to SEC Release 33-7053 will continue to apply under Item 8 of new Form 20-F. That is, a foreign private issuer that presents US GAAP financial statements in its initial

registration statement may include audited income statements and cash flow statements for two years rather than three. The requirement to provide 5 years home-country selected financial data in lieu of 5 years US GAAP selected financial data will also continue to apply, unless the conditions in Item 3.A for omission of the earliest years are met.

## VIII. CLASSIFICATION OF MEXICAN STATUTORY EMPLOYEE PROFIT SHARING EXPENSE

Mexican law requires enterprises to pay employees a specified percentage (10%) of an amount that is based on taxable income, as adjusted to eliminate most of the effects of inflation. In effect, this is a mandated employee profit-sharing plan (PTU) with annual contributions based on a computation that begins with taxable income.

The Task Force has previously addressed this issue in terms of the method of calculating the deferred provision. In summary, the Task Force concluded that since the required profit-sharing arrangement has the same economic impact on an enterprise as an income tax, including deferred consequences from existing basis differences, Statement 109 is generally the appropriate model for the recognition of the deferred PTU consequences caused by existing basis differences.

However, the issue of the proper classification for US GAAP of the related PTU expenses, both current and deferred, in the statement of income had not previously been considered by the Task Force. There is renewed focus on this classification item in Mexico since, effective January 1, 2000, a new Mexican accounting standard (revised Bulletin D-4) went into effect, which requires the recognition of deferred income taxes in a manner substantially consistent with SFAS No. 109, *Accounting for Income Taxes*. However, the revised standard continues to effectively exclude PTU from the interperiod allocation requirement. As a result, while the new standard eliminates the U.S. GAAP reconciling item for Mexican deferred income taxes, it does not eliminate the U.S. GAAP reconciling item for deferred PTU.

In discussion, the Task Force noted that:

0. It was not relevant in classifying the expense whether the profit sharing improves productivity and motivates personnel to improve operating profits. It was accepted that in Mexico, PTU is not based on a profit that is directly related to the efforts of employees, nor is it directly related to operating results.
1. This is not a tax on income as that term is used in Statement 109 because the amount is paid to employees rather than the Government.
2. Absent this payment the employees would presumably be paid a higher salary, i.e. profit sharing is taken into account by employees and employers in setting and negotiating wage levels.

The Task Force and SEC staff therefore agreed that this expense should, for US GAAP purposes, be shown as an operating expense along with other wage elements.

## IX. ASPECTS OF RULE 3-20 AND FOREIGN REGISTRANTS

. Consistent use of reporting currency where Euro adopted as reporting currency

The SEC allows foreign registrants to file financial statements prepared in any

currency that management believes is appropriate, as indicated in Rule 3-20 of Regulation S-X. The same reporting currency should be used for all periods presented, including the periods presented in selected financial data. If the reporting currency is changed, financial information for earlier periods should be recast using rates applicable to the period.

At the July 23, 1998 EITF meeting, the SEC staff made an announcement regarding the use of the Euro as a reporting currency (EITF Topic D-71, *Accounting Issues Relating to the Introduction of the European Economic and Monetary Union*). Topic D-71 states that the staff will 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.

The Task Force and SEC staff discussed whether a registrant that adopted the Euro as of January 1, 1999 could present financial statements for periods commencing on or after January 1, 1999 in Euros and the financial statements for earlier periods in a legacy currency (e.g., German Deutschmarks). The SEC staff confirmed that this would *not* be an acceptable application of Rule 3-20. Either the legacy currency or the Euro (translating comparatives in the manner required by EITD Topic D-71) should be used throughout the filing (including selected financial data).

However, the SEC staff would not object if the registrant presented its financial statements in the legacy currency throughout, but also for the last period presented:

1. a translation into Euros; and
2. a convenience translation in US dollars.

A. Scope of Topic D-71

EITF Topic D-71 deals with the preparation of comparative financial statements when a registrant changes its reporting currency to the Euro. However, it is not clear whether Topic D-71 covers the reporting by any SEC registrant or only those registrants domiciled in a country that joined the EMU on January 1, 1999.

For example, a Norwegian company is a SEC registrant. It has previously prepared its financial statements in Norwegian Kroner. Norway is not a member of the EU. This registrant would now like to adopt the Euro as the reporting currency in its filings in the US. Can it restate the financial statements for 1998 and prior using the exchange rate between the Norwegian Kroner and the Euro as at January 1, 1999 and translate financial statements for periods thereafter using current Norwegian Kroner exchange rates (which fluctuate and thereby will give rise to exchange differences)?

There were two possible views:

*View A:* Topic D-71 only applies to companies that have joined the EU. Since the Euro did not exist prior to January 1, 1999 those companies in countries

outside the EU cannot use the reporting approach described in Topic D-71.

*View B:* Rule 3-20 allows a free choice of reporting currency. Any company can select the Euro. The fact that the Euro did not exist prior to January 1, 1999 was addressed in Topic D-71. Any company that chooses to can use the Euro as its reporting currency using the approach in Topic D-71.

The SEC staff said they supported View B. However, they noted that a registrant adopting this approach would need to give the full disclosures required by EITF Topic D-71.

A registrant reporting in Euros that has operations with functional currencies other than the Euro or EMU legacy currencies will experience foreign currency translation effects for periods after January 1, 1999. These effects should be disclosed in the financial statements and highlighted in MD&A.

## X. SEC STAFF CURRENT TOPICS

The SEC staff discussed the following issues:

. Audit Reports in Confidential Draft Registration Statements

The SEC staff inquired about the reasons for the practice of including unsigned or undated draft auditor's reports in confidential draft registration statements. If the audit work and filing reviewer procedures have been completed before submission of the draft registration statement to the SEC, it appears to the staff that there would be no impediment to signing and dating the auditor's report. Task Force members noted that there may occasionally be circumstances where a difficult accounting matter is being discussed with the staff on a pre-filing basis, but the draft registration statement is otherwise complete and suitable for review. The staff indicated that it will expect the auditor's report to be signed and dated at the time the confidential draft registration statement is first submitted, unless special arrangements have been agreed in advance with the Office of International Corporation Finance.

A. Implications of Audit Committee Requirements for Foreign Registrants

The SEC staff clarified the applicability of the requirements contained in the Audit Committee Disclosure Release - Exchange Act Release No. 42266 (the "Adopting Release") to foreign private issuers that elect to file on domestic forms.

In the Adopting Release, the Commission stated the following regarding foreign private issuers:

"We proposed to exclude from the new requirements foreign private issuers with a class of securities registered under Section 12 of the Exchange Act or that file reports under Section 15(d) of the Exchange Act. Foreign private issuers currently are exempt from the proxy rules, are not required to file Quarterly Reports on Form 10-Q or 10-QSB, and are subject to different corporate governance regimes in their home countries. Accordingly, we do not

believe it is appropriate to extend the new requirements to foreign private issuers at this time. The Commission, however, is continuing to consider how the periodic reporting requirements for domestic companies should apply to foreign private issuers."

The intention of the Commission was that none of the rules and amendments included in the Adopting Release be applicable to *any* foreign private issuer. Accordingly, the rules and amendments contained in the Adopting Release are not applicable to foreign private issuers, including those that elect to file on domestic forms.

B. Issues Encountered in Changing to US GAAP

There are instances where registrants voluntarily decide to change from using home-country GAAP in their primary financial statements to using US GAAP. In other instances, foreign private issuers may cease to meet the definition of foreign private issuer and need to change.

The staff made the following observations regarding such changes:

0. In the first quarter (assuming the registrant also commenced, or was already using, quarterly reporting) the comparatives should be stated on the basis of US GAAP and the quarterly report should set out in full the accounting policies under US GAAP that the registrant had adopted.
1. In annual reports and registration statements all prior year amounts should be restated into US GAAP. This includes selected financial data.

In discussion, some members of the Task Force noted that increasingly registrants were adopting US GAAP or IAS and were no longer preparing consolidated financial statements in accordance with home-country GAAP although they might be preparing unconsolidated financial information for local regulatory and tax purposes. This scenario was not contemplated when the rules were adopted. It seemed inappropriate to require such registrants to present home-country GAAP information for all five years when that was no longer the GAAP that the registrant considered relevant to shareholders. It was agreed that Wayne Carnall and Joe Kelly would consider this issue further and prepare a paper for the next meeting of the Task Force that might set out other approaches that the staff may wish to consider.

The SEC staff was not aware that any registrants had yet started to switch from US GAAP to other GAAP and would be interested in discussing such issues as they arose. Some members of the Task Force noted that legal advice might be needed in such circumstances where the registrant at the time of the IPO had given an undertaking as to the basis of accounting to be used in future SEC filings.

C. Pooling criteria

Financial institution registrants may have subsidiaries or divisions that trade, make markets in, write derivative contracts on, or otherwise transact in the registrant's own common shares. Under US GAAP, these transactions are

considered to be treasury share transactions. A registrant contemplating a business combination to be accounted for as a pooling of interests under US GAAP must evaluate whether these transactions violate paragraphs 47d of APB Opinion 16. Tainted shares related to these activities must be aggregated with all other tainted shares in applying the 10% limitation. The staff believes that it would be extremely difficult to demonstrate that these activities represent a systematic pattern of purchases for re-issuance for purposes unrelated to the business combination. Similarly, the staff believes it would be extremely difficult to demonstrate that the purchases are required to fulfill contractual obligations pre-dating the two year period before initiation of the business combination.

These transactions must also be evaluated under the requirements of paragraph 48a of APB 16 and Staff Accounting Bulletin 96. That guidance prohibits agreements or plans to directly or indirectly reacquire shares issued in the business combination. The staff believes that it would be extremely difficult to demonstrate that transactional activity occurring between the dates of initiation and consummation, or after consummation, do not constitute evidence of agreements or plans to reacquire shares issued in the business combination. Planned reacquisitions of shares related to these activities for a period of two years from the date of consummation would be aggregated with all other tainted shares in applying the 10% limitation. Measurement of the number of shares <u>intended</u> to be reacquired in these instances is problematic, and the staff would find it difficult to accept an assertion that the number of shares to be reacquired will be limited to an amount that results in an aggregate tainted share amount less than 10%

D. Revaluations of Property Plant and Equipment by PRC Registrants under IAS 16

PRC government-owned enterprises contemplating a public offering of securities undergo a process of "corporatization". As part of that process, property, plant and equipment are adjusted to fair value shortly before the filing of the registration statement. Unlike government owned enterprises in certain countries, PRC government-owned enterprises generally maintain historical cost records for property, plant and equipment, although government policy rather than market forces may have determined those costs. Property, plant and equipment typically have not been revalued prior to the time of corporatization.

IAS 16 allows property, plant and equipment to be measured subsequent to initial recognition at either historical cost (benchmark) or at revalued amounts (allowed alternative). When the revaluation method is used, paragraph 29 of IAS 16 requires revaluations to be made "with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date." Paragraph 32 provides further guidance:

"The frequency of revaluations depends upon the movements in the fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some items of property, plant and equipment may experience significant and volatile movements in fair value

thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant movements in fair value. Instead, revaluation every three or five years may be sufficient."

Where property, plant and equipment are measured at revalued amounts, IAS 16 requires that all the assets in that asset class also be revalued. IAS 8 does not apply to the initial adoption of a policy to carry property, plant and equipment at revalued amounts. Accordingly, the initial adoption of a policy to revalue property, plant and equipment at the time of corporatization should be accounted for under paragraphs 37 or 38 of IAS 16. Comparative periods need not be restated.

The SEC staff has distinguished between this fact pattern and the establishment of cost by appraisal at the beginning of the earliest period presented in the context of a privatization when historical costs might not be possible to ascertain. The staff has taken the following position where historical cost can be ascertained:

- Revaluation is an IAS/US GAAP difference that must be reconciled.
- The accommodation for a one-time appraisal to establish initial carrying amounts for US GAAP does not apply unless historical cost records have never been maintained.
- The periodic revaluation guidance in paragraphs 29 and 32 of IAS 16 must be applied subsequent to the time of corporatization.

## XI. NEXT MEETING

The date of the next meeting is Tuesday, November 21, 2000

Attachment A.