AICPA International Practices Task Force Meeting Highlights

November 21, 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)
Ed Cannizzaro (KPMG)
William Decker (PricewaterhouseCoopers)
Paul Dudek (SEC Observer)
D.J. Gannon (Deloitte & Touche)
Roger Jahncke (Ernst & Young)
Joseph Kelley (KPMG)
Susan Koski-Grafer (SEC Observer)
Craig Olinger (SEC Observer)
Joel Osnoss (Deloitte and Touche)
Eric Phipps (Arthur Andersen)
Carol Riehl (Grant Thornton)
Annette Schumacher Barr (AICPA)
Lisa Vanjoske (SEC Observer)
Peter S. Wurczynski (Ernst & Young)

II. PRO FORMA FINANCIAL STATEMENTS BY FOREIGN PRIVATE ISSUERS NOT PREPARED IN ACCORDANCE WITH ARTICLE 11 OF REGULATION S–X

Background

The German Neuer Market will not accept historical financial statements alone from companies seeking to list on that market. The regulator requires pro forma financial statements covering the last three years which reflect all business combinations accounted for as purchases that took place at any time within that three year period as if they had occurred as at the beginning of the three-year period. The pro forma information requirement also includes a requirement for balance sheet information and cash flow statements which are supposed to articulate with the income statement i.e. also be prepared on the basis as if the acquisitions had happened at the beginning of the three year period presented.

There are at present no rules relating to how these pro forma financial statements should be prepared. The more common approach is to compute the goodwill arising on the acquisition by taking the actual consideration paid and comparing it to what the net assets of the entity were at the assumed date of acquisition. If the acquired entity had been in existence as at the beginning of the three-year period presented, then the comparison would be made by reference to its net assets at that point in time.

The German profession has been considering how to report this pro forma information. The German equivalent of the AICPA, the IDW, has now released the form of report that would be used in a German offering document.

Issue

German market practices were not an issue for the Task Force. The issue for the Task Force was how such pro forma information should be regarded if it were to be included in a Rule 144a offering.

Discussion

The Task Force noted that the German pro forma practice was fundamentally different from US practice. Accountants would therefore need to be careful about association with such information. The Task Force agreed that when such pro forma was included in an offering document in the US, it should include:

- a description of the basis of preparation
- an explicit statement that the information did not comply with Article 11
- appropriate cautionary language about the usefulness of the information.

To the extent that the information was included in a filing with the SEC, the Task Force noted the following from recently issued Division of Corporation Finance "Financial Reporting and Disclosure Issues":

"A foreign regulator may require presentation of certain "pro forma" information that may be a mixture of historical and forecasted amounts or otherwise not comply with Article 11 of Regulation S-X. For example, it might eliminate the impact of certain charges such as restructuring or recalculate revenues based on new sales contracts. Since the information is included in the foreign prospectus, the registrant may conclude that the information must also be included in the US prospectus so that the same information is disclosed to all investors. Although the presentation does not comply with Article 11, the staff has not objected to the disclosure in the US registration statement provided the information indicates clearly what the presentation represents, states that this pro forma information does not comply with Article 11 and explains why the information is included."

The Task Force also agreed that the form of report agreed upon by the German profession was also of concern since it implied that the information presented was consistent with US GAAP. The Task Force therefore agreed it would be inappropriate to include that form of report to appear in an offering document in the United States.

III. DIVISION OF CORPORATION FINANCE'S "INTERNATIONAL FINANCIAL

REPORTING AND DISCLOSURE ISSUES"

Background

The Division of Corporation Finance of the SEC has posted to the SEC Website "International Financial Reporting & Disclosure Issues" (the Outline) dated July 21, 2000. Wayne Carnall reviewed the contents of the outline to determine whether the outline contained any changes to previously understood SEC positions. Wayne noted that the outline is a very valuable consolidation of previous SEC guidance as well as topics previously discussed by the Task Force itself. Other members of the Task Force agreed. The SEC staff noted that it was their intent to update the outline approximately every six months.

Wayne noted the following points:

1. Section IV.B of the outline notes that if the primary financial statements are prepared in accordance with Home country GAAP and reconciled to US GAAP, the auditors' report does not need to refer to a change in US accounting principles. The outline, however, specifies the disclosures that the staff would expect in those circumstances. Wayne asked the staff whether that same reasoning applied to an error in the previous US GAAP reconciliation (i.e. would it be necessary in those circumstances for the auditors' report to refer to the correction of error)?

> The staff noted that a material departure from US GAAP (including a material omission) in the US GAAP reconciliation is required to be referenced in the auditor's report. Accordingly, the staff believes that a correction of an error in the US GAAP reconciliation should be referenced in the audit report.

2. In Section VI.G, the outline states that IAS 1 allows an enterprise to present an analysis of expenses using the classification based on either the nature of expenses or their function. The outline points out that the staff does not believe there is a difference in the application of the functional method under IAS and US GAAP and would therefore expect the same expense classification. The outline also notes that in cases where expenses are classified based on their nature, sufficient disclosure about functional expense classifications should be presented as part of the US GAAP reconciliation to provide an information content substantially similar to an income statement presentation under US GAAP and Regulation S-X. The issue is whether there was any distinction to be drawn here between an Item 17 and an Item 18 filer.

> The SEC staff stated that a functional expense classification as part of the US GAAP reconciliation applied regardless of whether the filer was an Item 17 filer or an Item 18 filer.

3. Section VIII. A addresses Rule 3-19 and deals with the fact pattern where interim information is publicly distributed in the issuer's home country prepared using accounting standards different from those in the US registration statement. Therefore Rule 3-19 (f) required that the information disclosed pursuant to 3-19 (f) would have to be supplemented with the description and quantification of differences in accounting principles. (Rule 3-19 (f) has now been replaced by Item 8.A5 of Form 20-F and Instruction 3 thereto, without substantive change.) For example, a foreign issuer using US GAAP in its primary financial statements and filings with the Commission might report in foreign GAAP in its home

country. More recent earnings information might be released in its home country using foreign GAAP. Rule 3-19 (f) would require that information to be included in the prospectus. However, since the issuer has never filed reconciliations from foreign GAAP to US GAAP, a US investor could not interpret the foreign GAAP information. Accordingly, the issuer could either (a) reconcile the 3-19 (f) information to US GAAP or (b) provide a reconciliation from US GAAP to foreign GAAP (reverse reconciliation). In this last respect the outline notes that that reverse reconciliation should be for all periods for which financial statements are required in the registration statement. Wayne thought this was a strengthening of the staff position and had previously thought that the reverse reconciliation would be adequate if it was presented for the last year for which an income statement was presented.

After considering the Task Force's views, the staff will not object if a reverse reconciliation is provided for at least the most recent fiscal year required in the registration statement.

4. Section X.C discusses fixed asset valuations in the circumstance where a Government-owned enterprise used expenditure–based accounting systems in which perpetual fixed asset records were not maintained. The outline notes that the staff has not objected to the establishment of fixed assets amounts in this fact pattern based on fair values at the opening balance sheet date. The outline notes that ordinarily, the auditor's report would include a reference to this matter. The issue was whether that form of reference should be an emphasis of matter or an "except for" qualification, regarding conformity with U.S. GAAP.

The SEC staff said that in their view it would be an except for qualification, which, in these limited circumstances, would be acceptable to the staff.

5. Section IXA.2 referred to the fact that foreign private issuers operating in a highly inflationary environment that would like to prepare their financial statements in accordance with US GAAP can apply APB Statement 3. The effects of the application of price level accounting did not have to be quantified in the reconciliation to US GAAP, as APB 3 is US GAAP. Wayne Carnall sought the staff's concurrence that "highly inflationary" for this purpose uses the same definition as Statement 52. The staff concurred.

IV. METHODS OF RETREIVING INFORMATION ABOUT TOPICS DISCUSSED AT PRIOR MEETINGS

Currently, all highlights of Task Force meetings from 1996 and later are posted on the AICPA website (www.aicpa.org). Annette Schumacher explained that recent modifications to the website have made the highlights easier to find. The Task Force discussed whether it would be helpful to post highlights of meetings prior to 1996. It was noted that many of the issues that were discussed in these meetings that are still pertinent to practitioners have been included in the SEC staff's Outline (See Section III above). Wayne Carnall agreed to review the highlights for any other pertinent issues that are not addressed in the SEC Outline. These highlights (or excerpts thereof) will be posted to the AICPA website.

V. PRICE LEVEL ADJUSTED CASH FLOW STATEMENTS

Wayne Carnall tabled a correction to the illustrative cash flow computation attached to the Minutes of the November 1999 meeting. It was agreed that the prior Minutes would be amended accordingly. See Appendix A.

VI. ISSUES ENCOUNTERED IN CHANGING TO US GAAP

Background

The trend of foreign companies adopting U.S. generally accepted accounting principles ("GAAP") has continued at an escalating rate during the past several years. This trend is expected to continue due to (1) additional U.S. listings (2) recent changes in legislation in certain European countries which allow companies to fulfill their statutory filing requirements through submission of financial statements prepared in accordance with International Accounting Standards (IAS) or U.S. GAAP, (3) continuing doubts about whether IAS will be accepted without reconciliation any time soon by the U.S. Securities and Exchange Commission (SEC), and (4) the obvious benefits to large companies of being understood in the Global Market place (i.e. comparability to U.S. competitors). Germany is an example of European country that is adopting U.S. GAAP. German law allows a company to select between generally accepted accounting principles in Germany or the United States for local statutory and shareholder communication purposes. If a German company elects to prepare its financial statements in accordance with U.S. GAAP, it is no longer required to prepare financial statements in accordance with German GAAP. As a result, many German companies discontinue the preparation of consolidated financial statements in accordance with German GAAP upon adoption of U.S. GAAP.

This could raise questions concerning the preparation of selected financial data in fiscal years after the change.

For example, in preparation for the registration of securities with the SEC, a foreign private issuer incurs substantial costs to adopt U.S. GAAP for local statutory purposes. On March 31, 2000, the registrant files its initial registration statement on Form F-1 with the SEC. In the Form F-1, the registrant has elected, pursuant to SEC rules, to furnish U.S. GAAP financial statements for the two most recent years (December 31, 1999 and 1998). The registrant also furnishes selected financial data on the basis of U.S. GAAP for the two most recent years and ii) on the basis of local GAAP for each of the years in the five year period ended December 31, 1999.

Effective January 1, 2000, the registrant will no longer prepare financial statements in accordance with local GAAP. New Item 3.A. of Form 20-F permits a registrant to omit selected financial data for the earliest 2 years of the five year period if the registrant represents that the information cannot be provided without unreasonable expense or delay. In its Form 20-F for the year ended December 31, 2000, registrant is unable to comply with the requirement for 5 years selected local GAAP data because it can only furnish the selected financial data on the basis of U.S. GAAP for the most recent three years (2000, 1999, and 1998) or on the basis of local GAAP for four years (1999, 1998, 1997 and 1996).

Issue

In the above fact pattern, would the registrant be able to rely on the new exemption and include financial data on the basis of U.S. GAAP for 2000, 1999 and 1998, and not include selected financial data on the basis of local GAAP?

Discussion

The SEC staff noted that, in the above fact pattern, they would expect local GAAP information as presented in the initial registration statement to continue to be presented in a filing so long as any one of the years previously presented was within the last five years (i.e., they would expect in a 2002 filing local GAAP to be included for 1999, 1998 and 1997 with US GAAP presented for 2001, 2000 and 1999).

VII. REPORTING BY BRAZILIAN ISSUERS

NOTE: This section has been revised subsequent to the November 21 Task Force Meeting. The revised section is included as an Addendum to these highlights. The Addendum has been reviewed by the staff of the Commission and provides useful information regarding the staff's current position on Brazilian reporting issues. The Addendum is attached to the end of the highlights.

Background

Brazilian companies filing with the SEC that elect to use the real as the reporting currency either prepare their financial statements in accordance with US GAAP or Brazilian GAAP. In addition to "normal reconciling differences" these statements differ as to when the effects of inflation cease being applied to the financial statements. Both Brazilian GAAP and US GAAP differ from Brazilian Corporate Law reporting regarding the discontinuance of inflation accounting:

Brazilian GAAP – still requires the application of the effects of inflation and as allowed by Item 17/18 of Form 20-F, the effects of inflation are not eliminated in the reconciliation to US GAAP.

Corporate Law – ceased inflation accounting December 31, 1995.

US GAAP – ceased inflation accounting between July 1 and December 31, 1997 since Brazil was no longer considered hyperinflationary under FASB Statement No. 52.

Brazilian companies are required to distribute to shareholders financial statements prepared using accounting principles in accordance with Corporate Law. This presentation has not been used in filings with the SEC. The Brazilian companies do not distribute as their primary basis of reporting financial statements prepared in accordance with Brazilian GAAP in the Brazilian market (some distribute this information supplementally). Accordingly, the only shareholders that see Brazilian GAAP as the primary financial statements are US investors.

There are two disadvantages of using either US GAAP or Brazilian GAAP in the primary financial statements filed with the SEC.

0. The financial statements filed with the SEC can be materially different with respect to every number compared to financial statements distributed to shareholders and that are used in the primary market in Brazil. These differences are so fundamental they cannot be reconciled.

1. There is a cost to preparing inflation adjustment financial statements. In evaluating the cost it should be noted that it is only incurred for purposes of the SEC filing and Brazil is not considered to be highly inflationary for

purposes of US reporting. In addition, US investors generally are not familiar with inflation adjusted financial statements.

In addition, the current method of reporting results in a material difference in US GAAP amounts depending on if the company is reconciling from Brazilian GAAP to US GAAP or elects to use US GAAP as the primary financial statements.

Issue

Should the financial statements of Brazilian companies filed with the SEC be prepared in accordance with accounting principles prescribed by Brazilian Corporate Law as the primary basis of accounting, i.e. without inflation adjustment?

Discussion

The Task Force noted that if the Brazilian Corporate Law financial statements were to be accepted as a basis on which the primary financial statements could be filed with the SEC, then they would be the same as those financial statements distributed in the Brazilian market. In addition, the amounts reconciled to US GAAP would the same as if US GAAS were used in the primary financial statements.

It also seemed possible to conclude that Brazilian Corporate Law did represent a comprehensive body of accounting. Brazilian GAAP is established by IBRACON. The accounting principles used in Corporate Law are derived from these principles except for the application of inflation accounting and the discounting of receivables and payables. Equally, it was difficult to conclude that Brazilian GAAP, as that term is used, is generally accepted when it is not used as the primary basis of reporting by any company for distribution in Brazil. Mr. Olinger indicated that the staff would consider recommendations by the Task Force, to address these issues. However, he did point out that, ordinarily, the local accounting profession would take steps to resolve fundamental conflicts between local GAAP and national law. In this case, it is unclear whether that will occur in the foreseeable future. If qualified audit reports would be necessary to accommodate Brazilian Corporate Law reporting, the SEC staff would be reluctant to permit that practice.

In evaluating the possibility of reporting under Brazilian Corporate Law, there are several issues that need to be addressed including the following:

- Acceptability to the issuers of differences in reporting compared to prior year.
- The form of the auditors' report – would it state compliance with Brazilian Corporate Law, state non compliance with Brazilian GAAP?
- Presentation of financial information for prior years.
- Implications in preparing MD&A – comparisons with prior years.
- Implications on preparing selected financial data during the period that Brazil was highly inflationary.
- "Reconciliation" from what was previously reported to Corporate Law reporting.

The Task Force was not asked to reach a consensus. It was agreed that members should consult with their Brazilian member Firms to determine whether there was an

agreed local view. The Firms should also consider the views of the registrants.

The Task Force had a conference call with the SEC staff to discuss this issue further in a January, 2001. There was general agreement that the issuers supported the ability to report using Corporate Law although there was also support to continue to allow registrants to report in the same manner as prior years. It was agreed that Wayne Carnall would prepare a paper on the transition and related issues for the consideration of the Task Force and the SEC staff. The Task Force hopes to resolve this issue before the end of the February, and will post an addendum to these minutes as appropriate.

VIII. TAX DISPUTES IN BRAZIL

Issue

Because of the complexities of Brazilian tax law and the Brazilian constitution, as well as the long period of time required for final resolution of judicial proceedings, Brazilian corporate taxpayers frequently file lawsuits to attempt to overturn enacted tax law or suspend the effectiveness of the tax law. The accounting for these tax disputes has varied from company to company.

The following fact patterns are for purposes of discussion.

Fact Pattern 1:

- Company A is challenging the legitimacy of an enacted tax law on the grounds that it is not in accordance with the Federal Constitution. It has previously paid the amounts due under this law but is now trying to recover them.

- Company A has requested and obtained an injunction which permits it to suspend payment of the disputed tax and deduct the previously paid amounts from other taxes currently payable.

- Although no definite ruling has been made on Company A's specific lawsuit, a similar taxpayer with an identical fact pattern has obtained a favorable final decision from the Federal Supreme Court. However, the Supreme Court's decision is not legally binding with respect to Company A's case. Company A will need to wait for a favorable Supreme Court decision on its specific case or a vote of the Senate which extends a Supreme Court decision to all taxpayers.

- Legal counsel believes that the likelihood of losing its case in the Supreme Court is remote.

Fact Pattern 2:

- Suppose the same set of facts, except that Company A has not obtained an injunction, but nonetheless has decided to deduct the previously paid amounts from other taxes currently payable.

Fact Pattern 3:

- Suppose the same set of facts as in Fact Pattern 1, but assume that, because of numerous taxpayer challenges, the government decides to amend the tax law to eliminate the disputed item, but only on a prospective basis.

Fact Pattern 4:

- Suppose the same situation as Fact Pattern 1, except that Company A is not disputing the legitimacy of an enacted law but rather the tax authorities' interpretation of an unclear section of the law. The company's attorneys believe that it is probable that the company's interpretation will be upheld by the courts.

Discussion

The Task Force agreed that FAS 5 represents the authoritative literature and that contingent gains should not be recognized prior to realization. In some of the fact patterns addressed above it may be difficult to distinguish between a contingent gain and a change in the estimated amount of a contingent loss. For example, in relation to Fact Pattern 4 it had been argued that a challenge to an interpretation of the tax law is similar to an aggressive tax position. On that basis, the disputed amount might be thought to represent a contingent loss.

The Task Force was not asked to reach a consensus. It was agreed that members would consult with their Brazilian member Firms to gain greater understanding of the diversity in practice and the issue would be discussed at our next meeting. Joel Osnoss agreed to follow up on this issue and lead the subsequent discussion.

IX. REFERENCES TO US GAAS IN AUDITORS' REPORTS ON FINANCIAL STATEMENTS IN FILINGS BY FOREIGN PRIVATE ISSUERS

Background

The requirements for the new Form 20-F include an explicit requirement that the auditors' report state that the audit has been conducted in accordance with US Generally Accepted Auditing Standards. For periodic filings on a Form 20-F, this new requirement will apply to annual reports with respect to fiscal years ending on or after September 30, 2000.

Previously, the SEC staff has accepted auditors' reports that refer to the audit as having been conducted in accordance with local generally accepted auditing standards provided that an assertion is made that those auditing standards are substantially consistent with US Generally Accepted Auditing Standards.

Issue

How should an auditor reporting with respect to a fiscal year ending on or after September 30, 2000 refer to the auditing standards followed in respect of earlier years on which that auditor is reporting in the same filing.

For example, a foreign private issuer files a Form 20-F in respect of the year ending December 31, 2000. The auditor in that report will also need to give an opinion on

the income statements for the years ending December 31,1999 and December 31, 1998 and the balance sheet at December 31, 1999. In the previous Form 20-F for the year ending December 31,1999 the auditor's report stated that the audits for those years were conducted in accordance with local generally accepted auditing standards "which are substantially consistent with US Generally Accepted Auditing Standards".

Discussion

The Task Force agreed (and the SEC staff did not object) that, except in two limited transitional situations, described below, the report should refer to the audit having been conducted in accordance with local GAAS and US GAAS for all periods presented. The auditor must perform whatever steps are necessary to allow the auditor to make such a representation.

0. Where a predecessor auditor is required to re-issue a report on an earlier period and in the earlier report had used the "substantially consistent" wording, the predecessor auditor may continue to use those words in the reissued report. This limited exception does not apply to initial registration statements.

1. The MJDS rules continue to permit Canadian GAAS audits in filings under the MJDS system. In the past, Canadian registrants not under MJDS were also permitted to file Canadian GAAS audit reports that did not assert substantial consistency with US GAAS.

Accordingly, Canadian auditors who had previously been permitted to report in accordance with Canadian GAAS rather than US GAAS are strongly encouraged to refer to compliance with US GAAS for all periods presented, but it would be acceptable for Canadian auditors to continue to refer to Canadian GAAS in respect of prior year audits for fiscal years ending before September 30,2000. The report should clearly state which GAAS has been followed for each period.

The requirement for US GAAS audits applies to any required financial statements, including those of acquired foreign businesses, foreign investees, and foreign guarantors under Rules 3-05, 3-09, and 3-10 of Regulation S-X.

X. HYPERINFLATIONARY STATUS OF VENEZUELA

Background

Venezuela has experienced high levels of inflation during the past decade. During 1999, inflation was 20.09%, as measured by the Indice de Precios al Consumidor (the "Consumer Price Index" or the CPI"), as compared to 29.9% in 1998 and 37.6% in 1997. The inflation rate for the calendar year 2000 is expected to be approximately 15%.

	Cumulative inflation rate

1990	234.77%
1991	223.66%
1992	135.86%
1993	152.10%
1994	228.69%
1995	290.24%
1996	167.47%
1997	343.23%
1998	268.14%
1999	117.42%
Jan-00	115.51%
Feb-00	111.51%
Mar-00	108.01%
Apr-00	106.18%
May-00	101.98%
Jun-00	100.59%
Jul-00	97.08%
Aug-00	92.50%

Issue

For purposes of US GAAP, should Venezuela still be considered to be a highly inflationary economy?

Discussion

- The Task Force noted that foreign private issuers should follow the guidance in EITF Topic D-55. They noted that a reduction in the cumulative rate below 100% is not conclusive evidence on whether a country should cease to be treated as hyper-inflationary. Topic D-55 indicates that hyperinflation accounting should continue to be applied until the reduction is other than temporary. Having regard to the significant current economic uncertainties, the Task Force agreed that available evidence indicates that Venezuela should continue to be treated as hyper-inflationary.

- The Task Force will consider again the hyperinflationary status of Venezuela at the next meeting of the Task Force on May 3, 2001.

XI. AGE REQUIREMENTS FOR THE NEW FORM 20-F

Background

New Item 8. A. 4 of Form 20-F states that:

"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 Release accompanying the rule changes also stated:

"In the case of the issuer's initial public offering, the audited financial statements also must be as of a date not older than 12 months at the time the offering document is filed. The stricter rule for initial public offerings does not apply to foreign issuers offering securities in the United States for the first time if they are already public in their home country".

Issue

Does the 12 month rule apply only when the document is first filed with the Commission, or alternatively, does it apply to all filings?

For example, a registrant in an IPO (first time) has a December 31 year end. Its latest audited balance sheet date is December 31, 2000. It files a registration statement with the Commission in November 2001. At that point its December 31, 2000 audited financial statements meet both the 15 month rule and the 12 month rule. An amendment is filed on January 3, 2002. At that point the 12 month rule would not be met unless the registrant updated its audited financial statements. Is it the Commission's intent that updated audited financial statements would need to be filed (or that a registrant would need to request relief, as discussed in the Instructions to Item 8.A.4. of Form 20-F)?

Discussion

The SEC staff indicated that the 12 month rule apply to each filing, including confidential filings. However, the staff did not believe this was ever likely to be a significant issue.

The 12 month rule only applies in the case of a genuine IPO. The staff practice will be to waive compliance with the 12 month rule unless a regulator elsewhere at the time of the offering requires compliance with the 12 month rule. In that case, the staff will apply the same interpretation to the point in time at when the 12 month rule should be met as that foreign regulator.

The staff also noted that where a foreign private issuer was not yet subject to the 12 month rule but would likely become so then they would entertain a request for a waiver from the rule at the time the document was first filed. For example, in the fact pattern addressed above they would accept a request from waiver in November 2001.

XII. SEC TOPICS

0. SPEs under IAS

Use of Benchmark Treatment (Retroactive Application) to Adopt SIC-12

SIC-12, "Consolidation – Special Purpose Entities," is effective for annual financial periods beginning on or after July 1, 1999, with earlier application encouraged. SIC-12, by reference to paragraph 46 of IAS 8, permits transition by either retroactive application (benchmark) or cumulative adjustment (allowed alternative). Based on circumstances the staff has seen, the staff believes that the benchmark treatment should be followed.

In circumstances the staff has seen, there was considerable evidence pointing toward consolidation under the pre-existing requirements of IAS 27. However, the staff recognizes that registrants either have or will soon adopt SIC-12. Where the application of IAS 27 was not egregious, the staff has not sought restatement of previously published financial statements, provided that the registrant timely adopts SIC-12 using the benchmark treatment.

The staff believes that use of the allowed alternative treatment will generally not produce financial statements that are consistent between periods and comparable to those of other SEC registrants. In addition, they would lack the appropriate degree of transparency for investors in US capital markets. Registrants that intend to use the allowed alternative treatment should consult with the staff prior to filing. Substantial disclosure, including extensive US GAAP information, would be necessary as part of any proposal.

Consolidation of German Special Funds under IAS

The staff has significant concerns in certain circumstances regarding the non-consolidation of German Special Funds under IAS for periods prior to the effective date of SIC-12. These include circumstances where majority-ownership and decision-making authority over the Special Funds reside in different subsidiaries within the same consolidated group. The staff believes that IAS 27 already requires consolidation in these circumstances. However, the staff understands that companies will soon begin consolidating Special Funds under the requirements of SIC-12. The staff will generally not require restatement of previously published financial statements if a registrant's accounting treatment was not egregious. This accommodation is available only if a registrant adopts SIC-12 by retroactive restatement (IAS 8 benchmark treatment) in its first filing that requires implementation of SIC-12 and consolidates the Special Funds for all periods presented. A registrant seeking effectiveness of a registration statement prior to the adoption of SIC–12 would be required to provide substantial additional disclosures. Under US GAAP, the Special Funds should be consolidated for all periods presented.

Background

Special Funds (Spezial Fonds) are a widely used investment vehicle in Germany. Special Funds are used to obtain tax benefits because the sponsor of a Special Fund is taxed when the Special Fund makes distributions to the sponsor, rather than when investment income or realized gains on an underlying portfolio of marketable securities occur. The staff has been advised

that Special Funds hold about euro 500 billion of marketable securities.

A sponsor forms the Special Fund, whose structure and operation are specified by German law. A Special Fund may not have more than 10 investors. However, the sponsor may fund and own up to the entire economic interest in the Special Fund. The underlying assets held by the Special Funds consist of marketable debt and equity securities. German law restricts both the extent of concentration within the Special Fund (5-10% of the Special Funds assets in a single issuer) and the percentage of ownership in any individual issuer (10% of the issuer). The sponsor's interest in the Special Fund may be redeemed at net asset value derived from the market values of the underlying securities held by the Special Fund.

The sponsor appoints an investment management company (KAG). Under German law, the investment management company has authority over all operating and financial decisions related to the Special Fund, including the acquisition, disposition, and voting of the underlying marketable securities. By law, neither the sponsor of the fund nor the owner of the investment management company is permitted to dictate or influence the investment management company's decisions. Once appointed, the investment management company cannot be removed except in extraordinary circumstances such as its insolvency. The investment management company may also provide investment management services for unrelated third parties. However, the investment management company may be an affiliate or subsidiary of the sponsor.

The sponsor also appoints a depositary bank, who acts as custodian of the Special Fund's assets. Under German law, the depositary bank is responsible for ensuring that the investment management company complies with applicable laws in its administration of the special fund. However, the depositary bank must generally comply with instructions of the investment management company.

In some cases, there may be no unrelated third party (other than the depositary bank) involved in the structure or operation of the Special Fund. That is, no party outside the sponsor and its consolidated subsidiaries has a substantive ownership interest, financial interest, or decision-making authority with respect to the Special Funds. For example, the sponsor, through a consolidated subsidiary, may fund and own the entire Special Fund, and may also own, control and consolidate the investment management company.

Accounting

Note – the staff has not addressed a situation where the Special Fund was less than majority-owned by the sponsor, or where the investment management company was an unrelated third party.

The staff understands that under longstanding practice in German GAAP, neither the sponsor nor the investment management company consolidates the Special Funds. For periods prior to the effective date of SIC-12

Consolidation – Special Purpose Entities, we understand that German companies adopting IAS have also concluded that neither the sponsor nor the investment management company should consolidate the Special Funds. Instead, the sponsor's investment in the Special Funds (not the underlying securities held by the Special Fund) has been viewed as an investment under IAS 25. We understand that German companies view Special Funds as SPEs falling within the scope of SIC-12. They generally believe that paragraph 10(c) of SIC–12 introduces new criterion that applies to the Special Funds, but was not contemplated by IAS 27.

The staff has objected to that view in circumstances where majority-ownership and decision-making authority over the Special Funds reside in different subsidiaries within the same consolidated group. The staff believes that when there is evidence pointing to the principle of control under IAS 27, registrants should consolidate the entity subject to that control. The staff believes that SIC-12 only clarifies concepts and principles that currently exist within IAS 27.

Staff Accommodation in Certain Circumstances

IAS 25 has multiple alternative treatments. Depending upon how IAS 25 has been applied, there may be significant differences between IAS 25 and consolidation in the measurement and classification of balance sheet and income statement amounts.

If the sponsor's investment in a wholly-owned Special Fund has been carried at market value with unrealized gains and losses recorded in stockholders' equity under IAS 25, the principal difference between IAS 25 and consolidation of Special Funds is that investment income and realized gains and losses on the underlying securities held by the Special Funds are not recognized in the sponsor's income statement under IAS 25. Instead, only distributions from the Special Funds to the sponsor are recognized in the sponsor's income statements. Under this application of IAS 25, there would be no significant differences in major balance sheet captions or stockholders' equity. In this circumstance, the staff will generally request the registrant to adopt SIC-12 using the benchmark treatment under IAS 8, which requires retroactive application.

A registrant in this limited circumstance seeking effectiveness of a registration statement prior to the time that it first applies SIC-12 will generally be requested to provide the following additional disclosures:

- state in the current registration statement that it will adopt SIC-12 with retroactive application to all periods presented (benchmark treatment under IAS 8) in its next annual report;

- provide SAB 74 disclosures in the registration statement about the upcoming SIC-12 adoption, including quantification for all periods; and

- expand the US GAAP reconciling disclosures in the registration statement to include:

* a condensed US GAAP balance sheet and income statement showing the measurement and classification differences; and

* MD&A discussion of the US GAAP amounts to the extent necessary for US investors to understand trends.

1. **Italian Opinions**

The SEC staff reported that they had now reached a resolution of this matter with the Italian CONSOB. A letter sent by the Chief Accountant dated 24 August 2000 to Mr. Antonio Rosati of CONSOB which enclosed a model report that auditors of an Italian company would be required to issue to that Italian company when certain transactions occur is available on the SEC website.

In a brief discussion, it was noted that as well as the use of the model report, the auditor needs to provide a representation that the report did not involve the rendering of any opinion on the fairness of the transaction, the value of the securities or the adequacy of consideration. If the transaction that were the subject of the model report is itself the subject of a registration statement then the representation and the report need to be included in that registration statement.

Where the transaction itself is not the subject of a registration statement, then the representation described above should be furnished to the staff at the time the next audit report is included in an SEC filing. Once the representation for a particular transaction has been furnished to the staff it need not be re-submitted with respect to subsequent filings.

2. **Consummation dates for business combinations**

The SEC staff has noted a number of recent instances where a foreign private issuer had as a matter of convenience treated the date of the purchase combination as occurring either at the beginning of the year or as at the end of the year. The staff believe that the date of acquisition under US GAAP was clear and should be the date as defined in paragraph 93 of Opinion 16 and not some earlier or later point other than the specific circumstances addressed in Opinion 16. For a pooling the literature was clear that the pooling could not have taken place before the relevant shares had been issued.

3. **Equity Method Investees**

The staff had noted a number of recent instances where the registrant had not adjusted the financial statements of the equity method investee onto the investor GAAP basis for the purposes of determining the amount of equity pick up.

The position was clear that if it was US GAAP being used in the primary financial statements then the equity pick up had to be done on the basis of US GAAP information in respect of the equity method investee. The staff was also clear that that was the case where the primary financial statements were prepared in accordance with IAS.

The staff were aware of other situations where the local GAAP did not require the equity pick up to be determined on the same basis and if that was what local GAAP required then the staff would accept that for the purpose of the treatment in the primary financial statements. In that case any difference between that GAAP and US GAAP would be reflected directly in the US GAAP reconciliation.

In relation to time lags, the staff had noted that sometimes there could be a significant time lag between the date of the investor's financial statements and the date to which the equity method pick up was done. The staff's view was that there was no particular reason why the 93-day rule used in the consolidation literature should not apply to equity method investees. In discussion, it was noted that the 93-day rule used for the purposes of US GAAP was driven by the quarterly reporting system in the US. In many overseas jurisdictions the reporting was on a 6 monthly basis and therefore it was difficult sometimes to get more up to date information. Indeed where the equity method investee was the only equity method investee and itself was publicly quoted there could be issues of commercially confidentiality in releasing more recent information than that already made available by the equity method investee itself. The SEC staff believes that generally the 93-day rule should be followed for equity investments. If circumstances arise where this is not practicable, the staff should be consulted in advance. In all cases the lag period should be disclosed and the period of lag should be consistently followed each period.

4. **Consolidation Policy Disclosures**

The staff believes that whenever an entity consolidated another entity in unusual circumstances or indeed did not consolidate another entity in unusual circumstances then the facts and circumstances leading to that conclusion should be disclosed within the accounting policy disclosures. For example, if an entity applied EITF 97-2 to consolidate an entity in which it did not hold a majority of the voting shares, then that would need to be disclosed as would the application of EITF 96-16 to not consolidate an entity that would otherwise meet the definition of a subsidiary.

XIII. DISAGREEMENTS WITH ACCOUNTANTS

Background

SAS 50 covers "Reports on the Application of Accounting Principles". The Task Force was asked whether it believed that non US auditors who conduct their audits of foreign registrant financial statements in accordance with US GAAS also would need to follow SAS 50. SAS 50 reports are also indirectly related to various SEC rules associated with changes in auditors.

The SECPS rules require an accounting firm to notify the Chief Accountant of the Commission when they have resigned or have been terminated, etc. The objective of the direct reporting is to ensure that all changes in accountants are reported to the SEC. This information is matched with the 8-K filed by the Company in respect of a change in auditor information. However, foreign private issuers are not subject to

the 8-K reporting requirements in respect of changes in auditors and therefore foreign auditors do not send a letter to the Chief Accountant.

Likewise, Item 304 of Regulation S-K does not apply to foreign private issuers.

The 8-K reporting requirement and the requirements of Item 304 were, in part, intended to provide information about whether there had been a disagreement with predecessor accountants as result of advice being obtained from other accountants.

Issues

Should the SEC be encouraged to consider whether Item 304 should apply to foreign registrants?
Was it clear that where a foreign auditor referred to having conducted the audit in accordance with both local and US GAAS the foreign auditor was required to follow SAS 50?

Discussion

Following a brief discussion it was decided that members should consult more widely about the advantages and disadvantages of the proposal. As to compliance or otherwise with SAS 50 this also needed further discussion.

XIV. DATE OF NEXT MEETING

The next Task Force meeting was scheduled for May 3, 2001. The meeting agenda will include the following topics:

0. Best Practices – SECPS US Expert requirements (E. Phipps)
1. Brazilian FAS 5 tax issues (J. Osnoss)
2. Status of Prior Minutes/Website (W. Carnall/A. Schumacher)
3. Hyperinflationary Status Venezuela (W. Carnall)
4. Disagreements with Accountants (W. Carnall)

Addendum

AICPA INTERNATIONAL PRACTICES TASK FORCE
REPORTING BY BRAZILIAN ISSUERS
Corporate Law vs Brazilian GAAP

Summary

Over 30 Brazilian companies are registered with the SEC. Under SEC rules, a foreign company is required to present its financial statements under either US generally accepted accounting principles (GAAP) or home country GAAP with reconciliation to US GAAP.

Generally speaking, the SEC accepts as home country GAAP the comprehensive body of

accounting principles established by the home country accounting standard setting body.

In Brazil, the Federal Accountancy Council establishes GAAP. However, Brazilian companies are required to prepare financial statements under accounting principles established under Brazilian Corporate Law. The difference between these standards is that Brazilian Corporate Law prohibits price-level accounting for periods after December 31, 1995 and prohibits discounting of fixed rate monetary assets/liabilities, while Brazilian GAAP continues to require price-level accounting and requires discounting if the effect is material. Brazilian Corporate Law and Brazilian GAAP are the same in all other respects.

As a result, Brazilian companies that file reports with the both the SEC and the CVM file different financial statements with each regulator:

- The financial statements filed with the CVM and distributed to shareholders in the annual report have been prepared under Brazilian Corporate Law.
- The financial statements filed with the SEC have been prepared under Brazilian GAAP, with reconciliation to US GAAP.

Brazilian companies, through their Brazilian and US accountants, have indicated that they would like to file with the SEC their financial statements in accordance with Brazilian Corporate Law (reconciled to US GAAP) rather than in accordance with Brazilian GAAP. Based on informal guidance from the SEC staff, Brazilian companies will be allowed to do this for their next annual reports covering the year ended December 31, 2000 and for the future.

Background

Brazilian companies filing with the SEC that elect to use the real as the reporting currency either prepare their financial statements in accordance with US GAAP or Brazilian GAAP. In addition to "normal reconciling differences" these statements differ as to when the effects of inflation cease being applied to the financial statements. Both Brazilian GAAP and US GAAP differ from Brazilian Corporate Law reporting regarding the discontinuance of inflation accounting:

Brazilian GAAP – still requires the application of the effects of inflation and as allowed by Item 17/18 of Form 20-F, the effects of inflation are not eliminated in the reconciliation to US GAAP.

Corporate Law – ceased inflation accounting at December 31, 1995.

US GAAP – ceased inflation accounting between July 1 and December 31, 1997.

To illustrate the difference in these financial statements assume the following:

- Fixed asset acquired for R$ 200 on December 31, 1995
- Assets are depreciated over 10 years.
- The rate of inflation between January 1, 1996 and December 31, 2000: follows: 1996: 9%, 1997: 8%, 1998: 2%, 1999: 20%, 2000: 6%.

Nominal and Corporate Law

	1996	1997	1998	1999	2000
Revenue	100	100	100	100	100
Operating expenses	70	70	70	70	70
Depreciation	20	20	20	20	20
Total expenses	90	90	90	90	90
Net income	10	10	10	10	10
Fixed assets	200	200	200	200	200
Brazilian GAAP and US GAAP reconciled					
	1996	1997	1998	1999	2000
Revenue	152	140	130	127	106
Operating expenses	106	98	91	89	74
Depreciation	31	31	31	31	31
Total expenses	137	129	122	120	105
Net income	15	11	8	7	1
Fixed asset value	304	304	304	304	304
US GAAP					
	1996	1997	1998	1999	2000
Revenue	118	108	100	100	100
Operating expenses	82	75	70	70	70
Depreciation	24	24	24	24	24
Total expenses	106	99	94	94	94
Net income	12	9	6	6	6
Fixed asset value	236	236	236	236	236

The Brazilian companies are required to distribute to shareholders financial statements prepared using accounting principles in accordance with Corporate Law. This presentation has not been used in filings with the SEC. The Brazilian companies do not distribute as their primary basis of reporting financial statements prepared in accordance with Brazilian GAAP in the Brazilian market (a few distribute this information supplementally). Accordingly, with certain exceptions, the only shareholders that see Brazilian GAAP financial statements are US investors.

What are the disadvantages of using Brazilian GAAP?

There are a number of disadvantages of using Brazilian GAAP in the primary financial statements filed with the SEC.

- The financial statements filed with the SEC can be materially different with respect to every number compared to financial statements distributed to shareholders and that are used in the primary market in Brazil. These differences are so fundamental they cannot be reconciled in a meaningful manner.

- There is a cost to preparing inflation adjustment financial statements. In evaluating the cost it should be noted that it is only incurred for purposes of the SEC filing, and Brazil is not considered to be a highly inflationary economy for purposes of US reporting. In addition, US investors generally are not familiar with inflation adjusted financial statements.

- Management does not use Brazilian GAAP to manage the business nor is it prepared on a regular basis. Accordingly, it is difficult for management to prepare a MD&A and other information for investors using information prepared in accordance with Brazilian GAAP. Even segment data, which is intended to reflect the management approach, cannot reflect the same information provided to the Chief Operating Decision Maker since the Brazilian GAAP numbers are effectively presented in a different "currency" from that used in the Corporate Law accounts.

- Interim information that is made public is made on a Corporate Law basis. As most companies do not provide Brazilian GAAP information on an interim basis, it is not possible for an investor to evaluate the interim information in relation to the annual Brazilian GAAP information.

In addition, if Brazilian GAAP is used for the primary financial statements, the effects of inflation are not eliminated in the reconciliation to US GAAP. This would result in material differences compared to primary financial statements prepared in accordance with US GAAP that would not reflect the effects of inflation for periods after 1997.

Is Brazilian Corporate Law a comprehensive basis of GAAP?

Yes, Brazilian Corporate Law is considered to be a comprehensive basis of GAAP. In fact, it is difficult to conclude that Brazilian GAAP, as that term is used, is generally accepted when it is not used as the primary basis of reporting in Brazil. The foundation of Brazilian GAAP is a series of resolutions and standards of the CFC (the Federal Accountancy Council), a professional regulatory board for the accounting and auditing profession. The foundation for Corporate Law principles is the corporate legislation. Both Brazilian GAAP and Corporate Law are supplemented by standards issued by IBRACON (the Brazilian Institute of Accountants). A preparer of financial statements, either corporate law or Brazilian GAAP, would look to all of this guidance EXCEPT as it relates to the two differences noted in the next paragraph which are required by the CFC and prohibited by corporate legislation. Given that the guidance is essentially the same, there is no difference in the level of disclosure that is included in the financial statements.

What are the differences between accounting under Brazilian Corporate Law and Brazilian GAAP?

The only differences between Brazilian Corporate Law and Brazilian GAAP are as follows:

1. Inflation accounting – as discussed above, Corporate Law ceased inflation accounting in 1995 while it is still required under Brazilian GAAP.
2. Present value discounting – Brazilian GAAP requires present value discounting of fixed rate monetary assets and liabilities, if the difference between the stated rate and the market rate is significant. Corporate Law does not permit such discounting.

Are the differences between Corporate Law and GAAP significant?

The effect of discounting would generally not be significant for most companies. However, the effects of inflation accounting can be significant and is pervasive. Virtually every number in the financial statements except the monetary assets and liabilities for the most recent period, will be different under Corporate Law compared to Brazilian GAAP. The effect on net income and the balance sheet will depend on a variety of factors including the rate of inflation for the period and how the company is capitalized.

Why was Corporate Law accounting not previously acceptable?

During periods that Brazil was highly inflationary, the method to adjust for the effects of inflation was not a comprehensive method that resulted in all amounts being presented in a currency of equivalent purchasing power. In fact, there was not even a requirement to restate prior year information. Accordingly, during the period Brazil was highly inflationary, the use of the Corporate Law method would have been inconsistent with Rule 3-20 of Regulation S-X, and therefore was not acceptable in Commission filings.

IMPLEMENTATION ISSUES

The following is a summary of various implementation issues:

What kind of change is this?

The change from presenting financial statements under Brazilian GAAP to Corporate Law can be viewed as a combination of:

- A change in reporting currency under Rule 3-20(e) of Regulation S-X. Under Brazilian GAAP, the reporting currency is defined as reels of purchasing power as of the most recent period presented. Under Corporate Law, the reporting currency is defined as reels of equivalent purchasing power as of December 31, 1995. Under Rule 3-20 of Regulation S-X, a change in reporting currency requires the restatement of all periods presented.

- A change in basis of accounting from price level accounting to nominal basis.

In both situations, financial statements for all periods need to be restated for consistent presentation.

While the change relating to discounting could be considered as a change in accounting principle, the effect is not expected to be material to require separate accounting. Discounting of receivables and payables is part of preparing price level adjusted financial statements.

What impact will this have on the Auditors' report?

Currently, in filings with the SEC, the opinion paragraph states that the financial statements are prepared in accordance with generally accepted accounting principles in Brazil. The only change is that the opinion would state that the financial statements are prepared in conformity with accounting principles determined by Brazilian corporate legislation.

The opinion would not contain a qualification for a departure from Brazilian GAAP, as no reference to Brazilian GAAP would be included in the auditors' report.

Would the change impact US GAAP information?

As permitted by Item 17/18 of Form 20-F, companies that prepare financial statements in accordance with Brazilian GAAP do not eliminate the effects of inflation in the US GAAP reconciliation. Accordingly, if the "starting point" is Corporate Law that does not include the effects of inflation, the US GAAP numbers will change from that previously presented.

What is the effect on US GAAP information of using a different date to discontinue inflation accounting?

The Corporate Law financial statements discontinued applying the effects of inflation as of December 31, 1995 compared to a period of July 1 to December 31, 1997 under US GAAP. Accordingly, the date that non-monetary assets/liabilities are "frozen" as the new carrying basis will be different – the US GAAP amounts will include up to two years of additional inflation.

As discussed at the August 1996 meeting of the Task Force, in determining amounts under US GAAP, the effects of inflation for 1996 and 1997 should generally be determined using the IGP index. For periods prior to 1996, the company can use the index that they believe is most appropriate even if different from the index used in the Corporate Law financial statements.

In the year of implementation, what disclosures would need to be provided?

In the year of implementation, the following disclosures would need to take place:

Operating and Financial Review and Prospects (MD&A) – As the financial statements are revised, the operating and financial review and prospects will also need to be revised to correspond to the new financial statements. As virtually all the numbers would have changed and the trends can be different, this will be a substantial rewrite from that previously presented in filings with the Commission. However, it will be consistent with that information presented in the Brazilian market. In addition, in the introductory paragraph of this section, the company should describe the change from Brazilian GAAP to Corporate Law. The disclosure should include the following:

1. Describe the change in reporting currency/basis of accounting – i.e.; explain conceptually what has changed in how the financial statements are prepared;

2. Describe why the change was made; and

3. Include a statement that all periods have been revised for a consistent presentation.

Selected Financial Data – Selected financial data will be presented using the Corporate

Law method for all years presented. Given that the Corporate Law method for periods prior to January 1, 1996 did not comprehensively adjust for the effects of inflation, the US GAAP information for 1996 and 1997 would need to be adjusted to reflect the effects of inflation accounting. This information would be expected to be the same as was previously presented when a company reconciled from Brazilian GAAP. The US GAAP information for periods subsequent to 1997 will change from that previously presented to eliminate the effects of inflation.

The selected financial data should also include a description of the change from Brazilian GAAP to Corporate Law and reference to a discussion in the financial statements.

Financial statements – All periods presented would need to be on a Corporate Law basis. It would not be acceptable to change the current year to Corporate Law but retain Brazilian GAAP for prior periods. The financial statements should include the same three items described above for Operating and Financial Review and Prospects. In addition, to allow a comparison to that previously presented, the following information should be presented in the financial statements:

1. Summarized financial information for the prior two years under Brazilian GAAP in a level of detail consistent with Rule 1-02(bb) of Regulation S-X.

2. A reconciliation of net income and equity from Brazilian Corporate Law to Brazilian GAAP for the prior two years. Currently, companies that present Brazilian GAAP financial statements in filings with the Commission present such information. An example from the financial statements of one of those companies is presented below.

	Stockholders' equity		**Net income**	
	December 31		**Years ended December 31**	
	1999	**1998**	**1999**	**1998**
Corporate law financial statements before Restatement	819.6	474.1	87.9	44.5
Restatement through December 31, 1999	_____	95.3	_____	8.9
Corporate law financial statements restate	819.6	569.4	87.9	53.4
Restatement of permanent assets and equity	150.7	88.1	(30.3)	(10.3)
Deferred	2.9		2.9	

income tax				
Restatement of inventories and discount to present value of receivables and payables	3.1	3.2	(0.1)	(0.9)
Consolidated constant currency financial statements (Brazilian GAAP)	976.3	660.7	60.4	42.2

While this reconciliation can be included to serve as a bridge between the financial statements previously filed and those currently being filed, it is of limited value. It would be similar to changing reporting currency from pounds sterling to dollars and reconciling the different financial statements. The reconciliation will effectively include a "plug" number.

As the US GAAP numbers will be different from that previously presented, a similar reconciliation should be presented from US GAAP previously presented to US GAAP as currently presented.

If the change were made for the year ended December 31, 2000, this additional information described above would be presented for 1999 and 1998. This additional information is only required in the initial year of the change from Brazilian GAAP to Corporate Law.

Other –

Could Brazilian GAAP still be used in filings with the SEC?

For a variety of reasons, including timing this year, a company may want to continue using Brazilian GAAP in filings with the Commission. These companies can continue to use Brazilian GAAP.

What happens if Brazil becomes a highly inflationary economy?

If Brazil's three-year cumulative rate of inflation were to exceed 100%, the accounting in this memorandum would need to be evaluated to determine the appropriate modifications.