

AICPA INTERNATIONAL PRACTICES TASK FORCE
AICPA Washington Office
March 9, 2004
HIGHLIGHTS

The AICPA SEC Regulations Committee's International Practices Task Force (the "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.

ATTENDANCE

Task Force Members

D.J. Gannon, Chairman (Deloitte & Touche)
Wayne Carnall (PricewaterhouseCoopers)
Paul Curth (Ernst & Young)
Bill Decker (PricewaterhouseCoopers)
Jon Fehleison (KPMG)
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Observers

Jill Davis (SEC Observer)
Paul Dudek (SEC Observer)
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AGENDA ITEMS

1. Inflationary status of certain countries

Discussion

The Task Force discussed updated inflation data as of December 2003, with projections through February 2004. Based on prior Task Force discussions, it was noted that no new countries had inflation rates above 70% and that of the countries with three-year cumulative inflation rates below 70%, only Haiti had

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projected annual inflation for 2003 above 30% (approximately 32% and 20%, for 2003 and 2004, respectively).

Conclusion

The Task Force noted that Romania's three year cumulative inflation rate dropped below 100% as of September 30, 2003. As a result, the Task Force discussed whether Romania should no longer be considered highly inflationary. Given the current trends and economic environment, the Task Force agreed that Romania should come off highly inflationary status. Regarding the date when Romania should cease to be considered highly inflationary, the Task Force agreed that Romania should come off highly inflationary status no later than October 1, 2004.

The Task Force noted that Turkey's three year cumulative inflation rate continues to exceed 100% and that Turkey, therefore, should continue to be considered highly inflationary.

The Task Force noted that the three year cumulative inflation rates in Venezuela and Argentina are below 100%. It also was noted that inflation continues to increase in Venezuela with an estimated inflation rate of 41% in 2004. Given current trends, the cumulative inflation rate in Venezuela may exceed 100% in the second or third quarter of 2004. The Task Force agreed that while not currently considered highly inflationary, both Argentina and Venezuela should continue to be monitored. The Task Force noted that if the three year cumulative inflation rate exceeds 100% at June 30, 2004, then Venezuela would be considered a hyperinflationary economy beginning on July 1, 2004.

1a. Follow up on Venezuelan currency restrictions

Background

Over the last year the Task Force has discussed issues related to the Venezuelan government's currency control regime. In particular, these discussions have encompassed whether or not companies should continue to consolidate Venezuelan subsidiaries, what rates should be used to remeasure transactions and translate VEB financial statements, and the impact on a Venezuelan subsidiary's functional currency under Statement 52.

The Venezuelan government recently depreciated its currency. The current official rate is approximately 1,900 VEB per dollar.

Conclusion

Given the devaluation of the VEB, the Task Force agreed that use of the official rate would be appropriate to remeasure transactions and translate VEB financial statements. The Task Force also reaffirmed its prior views that:

- It would not be appropriate to deconsolidate Venezuelan operations absent any other control considerations, as the lack of exchangeability by itself does not appear to meet the "other than temporary" threshold in paragraph 26 of Statement 52.
- Use of the U.S. dollar as the functional currency would not be precluded as a result of the currency restrictions in place.

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The Task Force noted that the evolving facts and circumstances in Venezuela may necessitate the Task Force to readdress these items later in 2004. The Task Force also noted that the disclosure considerations in its March 2003 highlights continue to be applicable and agreed that it would revisit issues related to Venezuela at its next meeting.

2. Keeping foreign private issuer shelf registration statements current

Background

The instructions to Item 9 of Form F-1 and Item 10 of Form F-3 require that a foreign private issuer's registration statement comply with Item 512 of Regulation S-K ("Item 512"). Paragraph (a) 1-4 of Item 512 provides a complete list of updates required by a registrant during any period in which offers or sales are being made.

Item 512 also refers to § 210.3-19. Rule 3-19(f), which addressed interim financial information, was superceded by Item 8.A.5 of Form 20-F and related instructions beginning October 1, 2000. The instructions to Item 8.A.5 essentially retain the disclosure provisions of old Rule 3-19(f). However, Item 8.A.5 reduces the updating period for interim financial statements from 10 months after fiscal year end to nine months after fiscal year end.

The discussion in the following paragraph is derived from the Part III, Adoption of International Disclosure Rules, Section B(e), to the Division of Corporate Finance: "International Reporting and Disclosure Issues" dated October 1, 2003 ("the International Outline").

"Item 512(a)(4) requires a foreign private issuer to file a post-effective amendment to its registration statement to include any financial statements required by Item 8.A of Form 20-F at the start of a delayed offering or throughout a continuous offering under Rule 415. For this purpose, delayed or continuous offerings include exchange offers, merger and acquisition transactions registered on Form F-4, and takedowns from effective shelf registration statements. For these types of offerings, Item 8.A ordinarily requires the annual audited financial statements to be not more than 15 months old, and the unaudited interim financial statements to be not more than nine months old. Takedowns from existing shelf registration statements and other types of delayed offerings may not be commenced, and continuous offerings must be suspended, during periods when the financial statements are not current under the Item 512 (a)(4) undertaking. This means that the financial statements must remain current throughout the entire time that an exchange offer is outstanding. It also means that the financial statements must remain current in a merger or acquisition transaction until shareholder approval has occurred. However, this provision does not apply to a registration statement for a typical firm commitment underwritten offering priced under Rule 430A or a listing. "

Item 8.A.5 states, in part:

"If the document is dated more than nine months after the end of the last audited financial year, it should contain consolidated interim financial statements, which may be unaudited (in which case that fact should be stated), covering at least the first six months of the financial year. The interim financial statements should include a balance sheet, income statement, cash flow statement, and a statement showing either (i) changes in equity other than those arising from capital transactions with owners and distributions to owners, or (ii) all changes in equity (including a subtotal of all non-owner items recognized directly in equity). Each of these statements may be in condensed form as long as it contains the major line items from the latest audited financial statements and includes the major components of assets, liabilities and equity

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(in the case of the balance sheet); income and expenses (in the case of the income statement) and the major subtotals of cash flows (in the case of the cash flow statement). The interim financial statements should include comparative statements for the same period in the prior financial year, except that the requirement for comparative balance sheet information may be satisfied by presenting the year-end balance sheet. If not included in the primary financial statements, a note should be provided analyzing the changes in each caption of shareholders' equity presented in the balance sheet. The interim financial statements should include selected note disclosures that will provide an explanation of events and changes that are significant to an understanding of the changes in financial position and performance of the enterprise since the last annual reporting date. "

The discussion in the following two paragraphs has been extracted from Part IX, Other Disclosure Issues and Staff Interpretations, Section A, Updating Interim Financial Information, of the International Outline:

"Item 8.A.5 requires interim financial information that is made available to shareholders, exchanges or others on a more current basis than that otherwise required by SEC rules to be included in the registration statement. This information is not required to be reconciled to US GAAP. However, narrative disclosures about differences in accounting principles are required and material reconciling items that have not been previously addressed in the filing must be quantified. The intent of the disclosure is to ensure that the information available to a US investor is as current as information available to a foreign investor."

Item 8.A.5 applies to annual as well as interim financial information. If the foreign issuer publicly distributes annual financial information before the audited statements are available, the registration statement should include such information.

The instructions to Item 8.A.5 include the following:

The third sentence of Item 8.A.5 explains that the required interim financial statements may be in condensed form using major line items from the latest audited financial statements. To determine which major line items must be included in condensed interim information, see Rules 10-01(a)(1) through (7).

The third sentence from the end of Item 8.A.5 requires the registrant to include in the document interim financial information that has been published by the company if that information covers a more current period than the statements otherwise required by Item 8. The requirement covers any publication of financial information that includes, at a minimum, revenue and income information, even if that information is not published as part of a complete set of financial statements. Whenever more current interim financial information is provided in response to this requirement:

- o Describe any ways in which the accounting principles, practices and methods used in preparing that interim financial information vary materially from the principles, practices and methods accepted in the United States, and*
- o Quantify any material variations, unless they already are quantified because they occur in other financial statements included in the document.*

Issue

What financial information is required to be updated for a shelf or continuous registration statement (hereinafter referred to as "shelf registration") of a foreign private issuer that reconciles from local GAAP

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to U.S. GAAP in accordance with Item 17 or 18 of Form 20-F in order for the shelf registration to remain "current"?

Conclusion

The Task Force noted that the financial information will require updating by a filing on Form 6-K that is incorporated by reference in a registration statement for the following circumstances:

- When financial information has been published and such information covers a more current period than the statements otherwise required by Item 8. This information is not required to be reconciled to U.S. GAAP, but must describe any new material differences in the accounting principles, practices and methods used in preparing that interim financial information from the principles, practices and methods accepted in the United States, and quantify such material variations, unless these have already been described and quantified in other financial statements included in or incorporated by reference in the document.
- If the date of the most recent annual balance sheet is more than nine months old at the time of a takedown or at any time during an exchange offer, the issuer must include or incorporate by reference interim financial statements, which may be unaudited, covering at least the first six months of the financial year. The presentation requirements of such financial statements are as described above. These financial statements also must be reconciled to U.S. GAAP, prepared in compliance with Article 10 of Regulation S-X, and include all required U.S. GAAP interim financial statement footnote disclosures (e.g., Statements 131, 141, 142, and 148).
- If the date of the most recent annual balance sheet is more than fifteen months old at the time of a takedown or at any time during an exchange offer, the issuer must include or incorporate by reference the most recent annual audited financial statements reconciled to U.S. GAAP in accordance with Item 18 of Form 20-F. The Task Force also noted that Item 17 reconciliation is permitted for investment grade securities.
- Fundamental change(s) in the information in the registration statement. The Task Force did not discuss the financial information that would be necessary in this circumstance, as this is a matter that the issuer should address with legal counsel.

As noted in Item 8.A.5, foreign private issuers are encouraged, but not required, to have any interim financial statements in the document reviewed by an independent auditor. The Task Force noted that if such a review had been performed in accordance with SAS 100, "Interim Financial Information", and is referred to in the document, a copy of the auditor's SAS 100 review report must be provided in the document. In these circumstances, the Task Force noted that when an independent accountants' SAS 100 review report has been included or incorporated by reference in a registration statement, Item 601(b)(15) of Regulation S-K requires the accountants to acknowledge their awareness of this fact in writing, and such acknowledgment must be filed as an exhibit to the registration statement.

This acknowledgment is done in the form of a letter, addressed to the registrant, and is often referred to as an "acknowledgment letter" or "awareness letter". If such a review has been performed in accordance with standards other than SAS 100 (e.g., local GAAS), the Task Force noted that the review should not be referred to in the document.

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The Task Force noted that regarding Form F-3, a post-effective amendment need not be filed where financial statements and related information are contained in a Form 6-K that is incorporated by reference in the Form F-3.

The SEC Staff indicated that, in keeping a shelf registration active, it is necessary to update other “financial” information (e.g., MD&A, Quantitative and Qualitative Disclosures of Market Risk, Rule 3-10 disclosures, Selected Financial Data) when the financial statements are updated in order to comply with the age of financial statement requirements. This information typically also would be included in the Form 6-K that includes the interim financial information and which is incorporated by reference into the shelf.

3. Reporting issues – follow up on division of responsibility

Background

The Task Force has been discussing situations involving a division of responsibility among auditors of a foreign private issuer. AU 543 provides guidance on the wording of the auditor’s report if the principal auditor decides to make reference to the work performed by other auditors. In these situations, Rule 2-05 of Regulation S-X requires the inclusion of all auditor reports in the filing. In situations involving a multinational company, the accounting principles used to prepare the financial statements of entities audited by the other auditor may be different than those used by the foreign private issuer, as well as from U.S. GAAP.

Historically the SEC Staff has focused on the division of responsibility with respect to the audit of the primary financial statements. For example, the Staff has indicated in the International Financial Reporting and Disclosure Issues outline that:

[T]he staff expects the division of responsibility among the auditors to be clear. One of the auditor's reports should clearly state who is responsible for auditing (i.e., performing auditing procedures with respect to) the “conversion” of the financial statements from the foreign GAAP into the GAAP used in the primary financial statements.

The SEC Staff has indicated recently that it also expects the division of responsibility among the auditors with respect to the U.S. GAAP reconciliations included in an issuer’s financial statements pursuant to Item 17 [or 18] of Form 20-F to be explicit in audit reports.

Discussion

In response to the concerns noted, the Task Force discussed certain “general concepts” in clarifying the division of responsibility when there is either reliance on another auditor for the performance of procedures with respect to the “conversion”, or when the principal auditor takes responsibility for the performance of procedures with respect to the “conversion”.

The Task Force agreed to further develop these concepts and then develop suggested language to be included in audit reports clarifying the division of responsibility.

4. Reverse acquisitions and reporting requirements in a registration statement

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Background

Assume the following:

- A is the legal acquirer of B. B will be the accounting acquirer of A.
- A is a domestic registrant. B is a foreign business.
- A has a year end of June 30. Its last audited year-end is June 30, 2003.
- B has a year end of December 31. Its last audited year end is December 31, 2003.
- A proposes to change its year-end from June 30 to December 31 to coincide with the current year-end of the legal acquiree.
- A will need to file an S-4/Proxy Statement.
- A files its S-4 on June 1, 2004.
- Assume A is a timely filer and at that time its most recently filed 10-Q is for the period to March 31, 2004.

Issues

1. What periods should A use in presenting the pro forma information reflecting the effects of the acquisition?
2. What is the most recent interim financial information and MD&A/OFR that should be presented in the S-4 in respect of B?

Discussion

The Staff Training Manual states:

The age of the pro forma financial information included in a registration statement is based on the age of financial statements requirement applicable to the registrant. If a foreign private issuer files a Form F-4 and the target company is a U.S. domestic registrant, the age of the pro forma information may be determined by reference to Item 8 of revised Form 20-F.

Under Topic Three: Pro Forma Financial Information, Forecasts, and Forward Looking Information, in the Staff Training Manual, Part C, Combining Entities with Different Fiscal Years, the Staff Training Manual also notes that an acquired entity's income statement should be brought up to within 93 days of the registrant's fiscal year, if practicable, by adding subsequent interim results to the fiscal year's data and deducting the comparable preceding year interim results, with appropriate disclosure. [SX 11-02(c)(3)]

As to the second issue, the Staff Training Manual states:

"The age requirements in Item 8 of revised Form 20-F also apply to financial statements of:

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- *foreign businesses acquired by both foreign and domestic registrants under SX 3-05*
- *foreign target businesses required in Form S-4 or Form F-4*
- *foreign equity investees of both foreign and domestic registrants under SX 3-09”.*

This would imply that where the target is a foreign business, then the foreign business need not present more recent information in respect of itself than Item 8 of Form 20-F would require. In the above fact pattern, December 31 2003 information would suffice.

But the Task Force noted that this seemed an odd conclusion given that post-acquisition, effectively the accounting acquirer will be the registrant and therefore will be following a quarterly reporting regime.

Conclusion

On Issue 1, the Task Force agreed that it would be acceptable to present:

- Pro forma income statement for the year ended December 31, 2003 and any subsequent interim period in respect of which A has filed information (i.e. March 31, 2004).
- Pro forma balance sheet as at March 31, 2004.

The alternative would be to present a pro forma income statement for the year ended June 30, 2003 and for the nine months ended March 31, 2004.

The Task Force noted that it should be clear in the S-4 that the year end of A is intended to change. Likewise, in cases where A was the accounting acquirer, but also intended to change its year end to that of B upon completion of the transaction, the Task Force agreed that it would be more meaningful to present the pro forma information on the same basis as above.

On Issue 2, the Task Force agreed that the financial statements and MD&A/OFR of B should be current to A’s most recent date (i.e., March 31). The SEC Staff indicated that it would consider requests for relief in unusual circumstances.

5. Follow up on auditor licensing and signature requirements

Background

As discussed at the July 2003 Task Force meeting, Rule 2-01(a) of Regulation S-X requires that the auditor be duly registered and in good standing [licensed] under the laws of the place of his residence or principal office. The SEC Staff considers "place of his residence or principal office" to be the city and state (or country) in which the report is signed, as contemplated in Rule 2-02(a) of Regulation S-X.

The Task Force has noted that certain foreign affiliates of U.S. accounting firms were signing audit reports in SEC filings using the “international name” of the Firm rather than the legal name of the firm.

Conclusion

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The Task Force noted that non-U.S. accounting firms were presently in the process of registering with the PCAOB, and concluded that once registered in their legal name should sign reports filed with the Commission using that name.

The SEC Staff noted that it has not historically objected to use of the “international name” in circumstances where the affiliated SECPS member firm was readily determinable from the international name. The SEC Staff also noted that transparent disclosure of a firm's identity and registration status would benefit investors. The staff encourages firms to make both of these clear on the face of the audit report. If the firm’s legal name does not include the international name, it also should indicate the international affiliation.

6. Application of SEC accelerated filer rules

Background

According to the SEC’s rule, *Acceleration of Periodic Filing Dates and Disclosure Concerning Website Access to Reports*, companies will be subject to accelerated filing dates for their periodic filings. Under the final rule, accelerated deadlines apply to a company after it first meets the following conditions as of the end of its fiscal year:

- Its common equity public float was \$75 million or more as of the last business day of its most recently completed second fiscal quarter;
- The company has been subject to the reporting requirements of Section 13(a) or 15(d) of the Exchange Act for a period of at least 12 calendar months;
- The company has previously filed at least one annual report pursuant to Section 13(a) or 15(d) of the Exchange Act; and
- The company is not eligible to use Forms 10-KSB and 10-QSB.

While a foreign private issuer that meets the above definition would be considered an accelerated filer, the due date for annual reports on Form 20-F has not been accelerated, so the accelerated filer status has no practical consequence.

Under Rule 13(a)-1 of the Securities Exchange Act of 1934:

Every issuer having securities registered pursuant to [section 12](#) of the Act shall file an annual report on the appropriate form authorized or prescribed therefore for each fiscal year after the last full fiscal year for which financial statements were filed in its registration statement. Annual reports shall be filed within the period specified in the appropriate form.

Additionally, under Rule 13(a)-16 of the Securities Exchange Act of 1934:

- a. *Every foreign private issuer which is subject to Rule 13a-1 shall make reports on Form 6-K, except that this rule shall not apply to:*
 1. *Investment companies required to file reports pursuant to Rule 30b1-1;*

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2. *Issuers of American depositary receipts for securities of any foreign issuer; or*
3. *Issuers filing periodic reports on Forms 10-K, 10-KSB, 10-Q, 10-QSB and 8-K.*

Issues

1. Does the filing of Form 20-F (and related Form 6-K's) satisfy the SEC's requirement for accelerated filers having been subject to the reporting requirements of Sections 13(a) and 15(d) of the Exchange Act for a period of 12 months?
2. If yes to issue 1, what would be the first report required to be filed with the SEC as a U.S. registrant and when must such report be filed?

Discussion

Previous Task Force discussions as to the consequence of changing status from a foreign private issuer to a domestic issuer have focused on the immediate effect of the change. See following extract from previous highlights:

B. Conversion from Foreign to Domestic Issuer

When a foreign private issuer fails to meet the definition of an FPI and thus becomes a domestic issuer, the company's first filing should be for the quarter in which the issuer's status changed.

Conclusion

On Issue 1, the Task Force noted that the filing of Form 20-F (and related Form 6-K) would meet the SEC's 12 month rule for reporting under Sections 13(a) and 15(d) of the Exchange Act. Therefore, a company would be subject to the accelerated filer rules once it loses its status as a foreign private issuer.

On Issue 2, the Task Force noted that if a company loses its foreign private issuer status in the first quarter (e.g., March 15 for a calendar year company), it would need to file Form 10-Qs beginning with the quarter ended March 31 of that year. The due dates for the Form 10-Qs would be determined according to the phase-in effective for that year, as set forth in General Instruction A.1.a to Form 10-Q. Because the company was still a foreign private issuer at the end of most recently completed fiscal year, its annual report for that year could still be filed on Form 20-F. The Form 20-F would be due six months after the end of the fiscal year.

Additionally, the SEC Staff noted that an accelerated filer's Form 10-K for the year ended December 31, 2004 would be required to comply with the Section 404 internal control reporting requirements in Release 33-8238. Registrants that believe they face unusual circumstances in implementing the 404 requirements for 2004, because of change of status and other unique facts, should consult the SEC Staff.

This guidance does not apply to foreign private issuers filing under MJDS, which are required to follow the guidance Release No. 34-29354. For purposes of Exchange Act reporting, the Task Force noted that this Release does not require monitoring or changing during the year. However, this exception does not apply to registration statements under the Securities Act.

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7. Issues related to discontinued operations

Background

At the November 2002 Task Force meeting, the Task Force addressed situations where fundamental differences exist in the accounting for a business combination between the GAAP used in the primary financial statements and U.S. GAAP (e.g., pooling of interest in the primary financial statements and an acquisition under U.S. GAAP). In these situations, the impact on the financial statements generally is so significant that it is necessary to provide expanded disclosure so an investor can understand the implications and differences in the accounting. The highlights of that meeting provided the minimum disclosure that the Task Force believed was necessary.

A similar situation can exist with respect to differences relating to discontinued operations in which the disposal of a business is presented as discontinued operations under one GAAP but not the other (e.g., no discontinued operations in the primary financial statements but discontinued operations under U.S. GAAP). As a result of the issuance of Statement 144, *Accounting for the Impairment or Disposal of Long Lived Assets*, the frequency of discontinued operations is likely to increase.

Issues

1. What disclosures should be provided if there is a difference in the accounting for discontinued operations in the primary financial statements and U.S. GAAP, assuming the difference is considered material?
2. Does a registration statement under the 1933 Act need to be updated for discontinued operations if there is a discontinued operation that results in the need to restate either the primary financial statements or the U.S. GAAP balances?

Conclusion

On Issue 1, the Task Force agreed that the following disclosures would be appropriate:

- The reconciliation should be in sufficient detail to allow a user to understand the differences between the amounts reflected in the primary financial statements and amounts reflected in the U.S. GAAP reconciliation. A columnar reconciliation that addresses the business that is treated as discontinued operations under one GAAP but not the other GAAP with a separate column for “other reconciling items” may be necessary. With respect to the balance sheet, issuers should provide the disclosures in paragraph 46 of Statement 144. This disclosure should be provided even if filing under Item 17.
- A condensed income statement for the applicable years in a level of detail to comply with Article 10 of Regulation S-X may be necessary.
- If there are fundamental differences in the notes to the financial statements, the U.S. GAAP reconciliation footnote may be expanded to present information on a U.S. GAAP basis. The extent of this disclosure will depend on the level of significance of the entity that is considered to be discontinued operations under one GAAP but not the other.

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- Additional discussion in the OFR/MD&A on a U.S. GAAP basis may be appropriate.

On Issue 2, the Task Force noted that if a registrant disposed of a component of an entity or otherwise met the criteria for that component to be classified as held for sale and it met the criteria in paragraph 42 of Statement 144 to be shown as a discontinued operation, restatement of prior financial statements in a registration or proxy statement prior to effectiveness or mailing would be required in accordance with paragraphs 43 to 46 of Statement 144. This would be applicable even where the filing incorporates by reference annual audited financial statements issued prior to the measurement date. Additionally, the auditor's consent to inclusion of its report with respect to those financial statements in a registration statement or proxy is deemed a reissuance that requires consideration of the effects of subsequent events. Moreover, the financial statements included in the filing are required to comply with GAAP at the date of effectiveness or mailing. The Task Force agreed that this conclusion is equally applicable to the classification of discontinued operations under primary GAAP or in the U.S. GAAP reconciliation footnote.

8. Issues related to first-time application of IFRS

Background

The Task Force discussed issues related to the first-time application of International Financial Reporting Standards – IFRS at its July 2003 meeting. At that meeting, the SEC Staff noted its consideration of a proposal on how certain matters relating to the first-time application of IFRS should be addressed in the context of financial statements filed with the SEC and, in particular, the issue of whether three years of income statements would need to be presented in the year of adoption on the basis of consistent GAAP.

Discussion

The SEC Staff indicated that these issues will be addressed in a proposal to be discussed by the Commission on March 11, 2004.

Subsequent to the Task Force meeting, the SEC approved Release No. 33-8397, *First-Time Application of International Financial Reporting Standards*. The Release can be found at <http://sec.gov/rules/proposed/33-8397.htm>.

9. Issues related to changes in auditors

Background

In prior years, the Task Force has discussed the fact that foreign private issuers are not subject to the disclosure requirements relating to changes in auditors set forth in Item 304 of Regulation S-K. Presented below is an extract from the Highlights of the November 2001 meeting.

At the May 3, 2001 meeting the Task Force discussed the applicability of the requirements relating to notification of changes in the auditor of a foreign registrant given that foreign registrants do not file 8-Ks and Item 304 of Regulation S-K does not apply to foreign registrants. The Task Force agreed that there is no reason for a distinction between domestic and foreign registrants with respect to the need for or content of the disclosure called for by Item 304 of Regulation S-K. However, the Task Force also agreed that it would not be appropriate to modify the concepts that require the timing and content of information included in a Form 6-K. Accordingly, the Task Force would be in favor of a rule change whereby the

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disclosure required by Item 304 of Regulation S-K would be included in the annual report on Form 20-F with respect to filings under the 1934 Act and the disclosures would be the same as a domestic issuer in filings under the 1933 Act. The Task Force recommended that this issue be discussed with the SECPS to obtain their support for encouraging the SEC to extend the Item 304 disclosure to foreign registrants in the manner discussed. The SEC would need to undertake rule making in relation to any change.

Issues

Should the Task Force encourage foreign private issuers to voluntarily comply with Item 304 of Regulation S-K – including the submission on Form 6-K. If so, should the Task Force adopt a policy that if the information is not provided on Form 6-K that the former auditor will provide such information required by Item 304 in a letter to the Chief Accountant with a copy to the company.

Conclusion

The Task Force encourages the Commission to propose and adopt rules to require foreign private issuers to provide the information required by Item 304 of Regulation S-K in both registration statements and annual reports on Form 20-F.

10. SEC Staff issues

(a) Subsidiary audit report issues

The SEC Staff noted again that they have encountered numerous deficiencies in filings with respect to the reports of other auditors on subsidiaries and investees required under Rule 2-05 of Regulation S-X when the principal auditor relies upon and makes reference to other auditors. The Staff will require amendment of filings that contain audit report deficiencies. Deficiencies noted include:

- Reference is made to a subsidiary's auditor in the report of the principal auditor, but the report of the subsidiary auditor is not included in the filing.
- Report of the subsidiary auditor fails to refer to U.S. GAAS.
- Subsidiary auditor is not recognized by the Commission as being eligible to practice before it (i.e., it has not been listed on another firm's Appendix K listing or otherwise demonstrated to the SEC Staff its knowledge and experience in applying U.S. GAAP, PCAOB Standards (formerly U.S. GAAS) and SEC Rules and Regulations).

(b) Filing reviewer procedures

The SEC Staff noted that deficiencies have been encountered in various annual reports on Form 20-F of a nature that indicates the filings may not have been fully subjected to the filing reviewer procedures specified in Appendix K. The Staff emphasized the importance of these procedures on annual reports as well as registration statements.

(c) Update on International Outline

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The Staff noted that they had recently published on the SEC website an updated version of "International Reporting and Disclosure Issues". The updated outline can be found at <http://sec.gov/divisions/corpfin/internatl/issues1004.htm>.

11. Application of U.S. GAAP when no interim information is presented

Discussion was deferred to a future meeting.

12. Follow up on FIN 46

Background

Subsequent to the Task Force meeting in December 2003, the FASB issued FIN 46-R. In discussions between Task Force representatives and the SEC staff, it was noted that the effective date for certain foreign private issuers of FIN 46-R is earlier than that under the original FIN 46. In issuing FIN 46-R, the FASB Staff has advised representatives of the Task Force that the intent was not to accelerate the application of either FIN 46 or FIN 46-R, but rather to provide for a deferral of the effective date of FIN 46 and FIN 46-R in order to provide enterprises sufficient time to understand and implement the guidance. This is consistent with the discussion in paragraphs D62-D65 and paragraph E49 of FIN 46-R.

Conclusion

The Task Force discussions were summarized in a letter sent to the Chief Accountant who confirmed such understanding. These letters are included in the Appendix to these highlights.

13. French audit opinions

Background

As a result of a recent change in the French Financial Security Law, financial statements for periods ending after August 2003 require the auditor to explain their assessments of the company's business and to include additional explanatory paragraphs in audit reports under French GAAS for situations such as:

- Significant accounting estimates, where judgment has been required;
- Where different accounting treatments are available, and the options which have been selected;
- Areas of uncertainty, particularly with regard to the going concern principle.

The French auditing profession has been discussing how to apply the requirements of the new law and is in the process of developing guidance for French auditors that will include suggested wording to be included in audit reports.

Discussion

The Task Force noted that some of what is required by the new requirements in France would be presented in a Form 20-F as part of the MD&A/OFR rather than in the auditor's report.

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The Task Force briefly discussed the impact of the changes in the law and acceptability of such reports in the U.S. It was noted that the required explanatory paragraphs appear, in many instances, to be inconsistent with Article 2 of Regulation S-X, as well as U.S. GAAS and, depending on how this issue develops, it may be appropriate for the Task Force to revisit the issue.

DATE OF NEXT MEETING

The Task Force agreed to meet on July 13, 2004.