

AICPA INTERNATIONAL PRACTICES TASK FORCE

Conference Call

July 27, 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)
Debra MacLaughlin (BDO Seidman)
Joel Osness (Deloitte & Touche)
Eric Phipps (Deloitte & Touche)
Carol Riehl (Grant Thornton)
Michael Walters (KPMG)

Observers

Jill Davis (SEC Observer)
Paul Dudek (SEC Observer)
Susan Koski-Grafer (SEC Observer)
Craig Olinger (SEC Observer)
Georgene Palacky (SEC Observer)
Annette Schumacher Barr (AICPA)
Sondra Stokes (SEC Observer)

AGENDA ITEMS

1. **Issues related to Venezuela**

Background

Over the last year the Task Force has discussed issues related to Venezuela, including inflationary status and the 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 (Venezuelan Bolivar) financial statements, and the impact on a Venezuelan subsidiary's functional currency under Statement 52.

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Discussion

The Task Force noted that in March 2004, the Venezuelan government depreciated its currency to approximately 1,900 VEB per dollar, which continues to be the official rate. The current government is facing a recall election in the coming weeks, which may, depending on the outcome, impact the economic environment.

Inflation continues to rise, with the three-year cumulative inflation rate at approximately 96% through June 30, 2004. It was noted that if the inflation rate continues to increase in Venezuela (with an estimated inflation rate of 41% in 2004), the cumulative inflation rate may exceed 100% before the end of the year.

Conclusion

The Task Force noted that the three-year cumulative inflation rate continues to approach 100%. Under EITF Topic D-55, when the three-year cumulative inflation rate is below 100%, historical inflation trends and other pertinent economic factors should be considered in determining whether highly inflationary classification is appropriate. Given the increasing inflation rate trend during the year, and the continued uncertainties in the economic environment, the Task Force agreed that absent any significant changes before the end of 2004, Venezuela should be considered highly inflationary no later than January 1, 2005.

The Task Force also reaffirmed its prior views that:

- Use of the official rate would be appropriate to remeasure transactions and translate VEB financial statements.
- 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.

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. SEC Staff issues

(a) Filing reviewer procedures and PCAOB registration

The Staff noted that it had received questions about whether a foreign audit firm’s registration with the PCAOB would supercede existing means by which a firm demonstrates its qualifications to practice before the SEC (US affiliation and Appendix K compliance, or demonstrate to the Office of the Chief Accountant sufficient knowledge and experience in applying US GAAP, US GAAS, SEC financial reporting rules, and SEC independence requirements). The Staff indicated that foreign auditors are still expected to demonstrate their qualifications to practice before the SEC. The Staff also emphasized the importance of the filing reviewer procedures and noted that they have been adopted as part of the PCAOB standards, and therefore, continue to be applicable.

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The Task Force noted that in fulfilling a principal auditor's responsibility under AU 543 to determine whether it may rely on the work of a subsidiary auditor, it may not be clear whether or not an unaffiliated foreign audit firm that serves as a subsidiary auditor has demonstrated its qualifications to practice before the SEC. The SEC staff noted that a foreign auditor that has demonstrated to the SEC staff its qualifications to practice before the SEC generally would have documentation of that fact.

(b) References to local GAAS in audit reports

The Staff noted that an issue has been raised about the acceptability of making reference to compliance with both home-country GAAS and PCAOB Standards in audit reports of foreign private issuers. The Staff indicated that they will not object to such references. The Staff also noted that, consistent with the discussion in the November 2003 Task Force highlights, auditors of Canadian MJDS filers may continue to refer to only Canadian GAAS in audit reports filed with the Commission.

(c) PCAOB registration and quarterly reviews

The Staff noted that in situations where a foreign audit firm audits a registrant that files on domestic forms, there may be an issue with regard to the timing of PCAOB registration and the need to conduct the quarterly review required by Item 10-01(d) of Regulation S-X. Foreign audit firms had until July 19, 2004 to complete their registration with the PCAOB. However, there may be cases involving reviews of quarterly financial statements with a period ending June 30, 2004 where the audit firm's application is still pending with the PCAOB.

The Staff indicated that in cases where an application for registration has been submitted prior to commencing review procedures, but is pending PCAOB approval, for a limited time a foreign audit firm may conduct the quarterly review required by Item 10-01(d) of Regulation S-X. This "grace period" would be limited to quarters-ended no later than August 30, 2004. Foreign audit firms that need to conduct a review for quarters-ended after August 30, 2004 that still have applications pending PCAOB approval should consult the Staff before commencing any work.

It was noted that this guidance also would be applicable to the review of a domestic registrant's subsidiary by a foreign audit firm, where such a review is relied upon by the principal auditor.

The Staff also noted that after July 19, 2004, a foreign audit firm is precluded by the Sarbanes-Oxley Act from commencing audit work or signing audit reports with respect to financial statements of registrants until it has completed its registration with the PCAOB.

DATE OF NEXT MEETING

The Task Force agreed to meet on September 27, 2004.