AICPA INTERNATIONAL PRACTICES TASK FORCE
AICPA Washington Office
November 23, 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)
Tim Martin (McGladrey & Pullen)
Peter Nurczynski (Ernst & Young)
Joel Osnoss (Deloitte & Touche)
Eric Phipps (Deloitte & Touche)
Carol Riehl-Banford (Grant Thornton)
Michael Walters (KPMG)
(BDO)

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. Inflationary status of certain countries

Background

At the March 2003 meeting of the Task Force, it was agreed that inflation rates be monitored regularly in order to identify cases where the Task Force could discuss a country's inflationary status under Statement 52. See the highlights from the March 2003 meeting for the assumptions developed as a means of screening countries in order to determine whether the Task Force should discuss their inflationary status.

Discussion

The Task Force discussed the inflationary status of the following countries:

Venezuela

Democratic Republic of Congo

Ghana

Serbia and Montenegro

Suriname

Uzbekistan

Conclusion

The Task Force reaffirmed its prior conclusion that unless the three-year cumulative inflation rate exceeds 100% by December 31, 2004, Venezuela would not be considered highly inflationary beginning January 1, 2005. Subsequent to the Task Force meeting, the inflation index for the three-years ended December 31, 2004 was 98.75%. Accordingly, Venezuela is not considered to be a highly inflationary economy as of January 1, 2005.

The Task Force noted that the three-year cumulative inflation rates for the Democratic Republic of Congo, Suriname, Serbia and Montenegro, and Uzbekistan all dropped below 100% during 2004. For these countries, the Task Force discussed the current economic environment and noted that at this time there was not sufficient evidence to conclude that the decline in inflation was "other than temporary" as discussed in Example B in EITF Topic D-55. Therefore, the Task Force agreed that these countries should continue to be considered highly inflationary through December 31, 2004. The Task Force will revisit inflation trends at its next meeting.

The Task Force also noted that the three-year cumulative inflation rate for Ghana was below 100% in 2002, 2003 and 2004. Based on the recent trending, the Task Force did not believe that Ghana should be considered highly inflationary, but will continue to be monitored.

See Appendix A for a list of countries that are considered highly inflationary as of December 31, 2004 and are being monitored by the Task Force.

2. Reporting issues

(a) Scope of consolidation in OFR of French companies

Background

The French AMF (successor to the COB) requires information that is similar in many aspects to the Operating and Financial Review (OFR) to be included in the annual report. The rules, along with the interpretations issued by the AMF staff, indicate that it is necessary to analyze changes in revenue and operating income distinguishing the effects to due changes in the scope of consolidation and changes attributable to changes in exchange rates. However, the manner in which French companies present information about the effects of recently acquired businesses may be different than that normally found in SEC filings.

To illustrate, assume a business is acquired on January 1, 2004. The company's revenues pre and post acquisition are as follows:

	2003	2004
Registrant, excluding acquired business	10,000	10,000
Acquired business, consolidated from January 1, 2003	400	500
Total	10,400	10,500

The historical financial statements will present revenue as 10,000 and 10, 500, in 2003 and 2004, respectively. The acquired business is not included in 2003 historical results, but is included for full year in 2004.

For MD&A (or OFR) purposes in the U.S. context, the change between years would be attributed as 500 due to the acquisition of a business.

The OFR rules in France, along with interpretations issued by the AMF staff, indicate that it is necessary to analyze changes in revenue and operating income distinguishing the effects due to changes in the scope of consolidation and changes attributable to changes in exchange rates. These rules do not specify how such information should be disclosed, and there is diversity in practice. Frequently what is presented is not consistent with how it would be presented in the U.S. For example, in describing the change between years, some companies will describe it as a change in the scope of consolation of 400 and an increase in revenue of 100. That is, they are adding the pre-acquisition results to the prior year for the same period – despite not owning the business during that period. In using this format for operating income, it will result in non-comparative information as the adjusted result for the prior year is based off of historical information that does not reflect the new basis of accounting.

Issues

1. Would the presentation of such information, even if expressed in percentage terms, be viewed as non-GAAP information?

2. Assuming disclosure is acceptable, what additional information should be provided?

Discussion

The Task Force noted that the presentation of the amount as indicated above (i.e., 10,400 in revenues for 2003) would be a non-GAAP measure and as such subject to the requirements of Item 10(e) of Regulation S-K. The Task Force also noted that such an amount would not meet the SEC's pro-forma requirements under Article 11 of Regulation S-X.

Assuming that disclosure is allowed, at a minimum, companies should clearly state how they are presenting the information. This disclosure would include quantifying the amounts that have been added to the historical results during a period in which the company did not own the business. In this case, the OFR should be expanded to describe the changes based on the period that the business was owned. The disclosure should also state that the 10,400 is being presented to satisfy French reporting requirements.

Using the example above, a company would describe the change of 500 as being attributed to the new entity. The OFR would then disclose that the corresponding pre-acquisition result for the acquired business (which is not included in the registrant's financials) was 400. This disclosure also may include the reasons for the 100 increase, as long as it's clear that it relates to the acquired business, not the registrant. This would be similar to the discussion in Question 17 of the SEC's non-GAAP measures FAQ.

Conclusion

The SEC staff indicated that in the context of franchised operations, managed operations and securitizations, it has taken the view that performance measures that include amounts of other entities not controlled/consolidated generally would be prohibited. The Staff noted that it would not object to a registrant using the above form of presentation provided that the requirements of Item 10(e) of Regulation S-K were met and the additional disclosures as suggested by the Task Force were made.

(b) Division of responsibility

The Task Force agreed to defer discussion until a future meeting.

(c) Regulation D

The Task Force agreed to defer discussion until a future meeting.

(d) Follow up on Canadian compilation reports

The Task Force agreed to defer discussion until a future meeting.

(e) New European Prospectus Directives and compilation reports

The Task Force agreed to defer discussion until a future meeting.

3. Price-level adjusted cash flow statements

The Task Force agreed to defer discussion until a future meeting.

4. IFRS issues

(a) Audits of 2004 IFRS amounts

Background

A number of foreign private issuers will be adopting International Financial Reporting Standards (IFRS) beginning January 1, 2005. Many of these issuers are in the process of compiling IFRS information relating to their opening IFRS balance sheet and for the 2004 financial year.

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IFRS 1 *First-time Adoption of International Financial Reporting Standards* applies when an entity adopts IFRS for the first-time. In general, IFRS 1 requires an entity to comply with each IFRS effective at the reporting date for its first IFRS financial statements. In particular, it sets out the requirements, and exemptions from the requirements, with regard to an entity's opening IFRS balance sheet that it prepares as a starting point for its accounting under IFRS. In addition, it requires disclosures that explain how the transition from the previously applied national financial reporting framework to IFRS affected an entity's reported financial position, financial performance and cash flows.

Companies are beginning to release publicly voluntary information relating to IFRS adoption. This voluntary information is generally based on assumptions management has made about the standards and interpretations expected to be effective, and the policies to be adopted when management prepares its first complete set of IFRS financial statements (hereinafter, referred to as "preliminary IFRS"). Additionally, local regulators may require certain information relating to IFRS in a company's 2004 financial statements that are prepared in accordance with local GAAP. Depending on the local regulatory requirements, such information may be included in the notes to the financial statements or elsewhere in the annual report (e.g., in the operating review or management discussion and analysis). This information may take many forms, such as:

- A narrative discussion of differences between local GAAP and "preliminary IFRS";
- A quantified reconciliation from its financial position and results prepared in accordance with local GAAP to "preliminary IFRS";
- Stand-alone "preliminary IFRS" financial statements;
- Interim financial information in accordance with IAS 34 *Interim Financial Reporting*.

Discussion

The Task Force noted that the adoption of IFRS has given rise to requests for auditors to audit, review, or otherwise report on various forms of financial and non-financial information during the transition to adopting IFRS as the entity's financial reporting framework.

Reporting on such information prior to the company's reporting date for its first complete set of IFRS financial statements (i.e., December 31, 2005) is difficult for several reasons. Ultimately, a company does not know which standards it will apply in 2005. For example, there may be changes to standards or interpretations of the International Accounting Standards Board. Also, changes may be made to standards, which although not mandatory for 2005 may be permitted to be adopted early. In addition, additional interpretation material may not be fully developed.

Consequently, a company cannot be certain that the accounting policies it applies to prepare a preliminary opening balance sheet or 2004 comparative information will be the same policies that will be applied to the final opening balance sheet when the company prepares its first complete set of IFRS financial statements (i.e., at December 31, 2005).

The Task Force noted that some of these issues are being addressed in the context of the International Standards on Auditing, as promulgated by the IAASB.

The Task Force agreed to discuss further these issues in the context of reporting in an SEC environment.

5. SEC Staff issues

(a) MJDS and Canadian consents

Under relatively recent CICA rules, the consent of the audit firm must be included as part of a Canadian offering prospectus. Under the MJDS, the document that it filed with the SEC must be the same as the document used in Canada, subject to limited exceptions. These exceptions do not specify to the auditor's consent. The SEC Staff noted that most MJDS filings included the consent, although practice was inconsistent. The SEC Staff also solicited views of practitioners in this area.

(b) Date of a business combination transaction

The SEC Staff recently has seen circumstances where an acquisition occurred during the middle of a reporting period (e.g., a quarter). In these circumstances, the acquiring foreign private issuer did not close its books until the end of the reporting period (i.e., quarter) and wished to designate the acquisition date at the beginning of the next reporting period (i.e., quarter). The SEC Staff indicated that, in the absence of a written agreement, it may challenge designation of a date different than the date consideration is exchanged for the acquisition of a business if it appears that the impact on the financial statements of the registrant may be material. The Staff noted that paragraph 48 of Statement 141 states, in part:

> However, the parties may, for convenience, designate as the effective date the end of an accounting period between the dates a business combination is initiated and consummated. The designated date should ordinarily be the acquisition date for accounting purposes if a written agreement provides that effective control of the acquired entity is transferred to the acquiring entity on that date without restrictions except those required to protect the shareholders or other owners of the acquired entity, such as restrictions on significant changes in the operations, permission to pay dividends equal to those regularly paid before the effective date, and the like.

The Staff noted the November 1, 2004 outline *International Reporting and Disclosures Issues in the Division of Corporation Finance* that indicates that recognizing a business combination as of a date subsequent to the date assets of the acquired business are received in exchange for consideration from the acquirer, such as a monthly or quarterly closing date, would not be appropriate unless the registrant is able to demonstrate that the effects are immaterial. The Staff also noted that, consistent with the discussion above, it would not expect any deviations from the date of acquisition under IFRS if it appears that the impact on the financial statements of the registrant is material.

(c) Pro-forma information and hostile takeovers

The SEC Staff noted that unique issues could arise in the context of a hostile takeover. For example, modified registration statement requirements may apply to registration statements covering hostile takeovers to shareholders of a company that will not provide its financial statements or a reconciliation to U.S. GAAP if presented in some other GAAP. The Staff further noted that in such fact patterns the presentation of pro-forma information under Article 11 of Regulation S-X showing the effect of the acquisition on a U.S. GAAP basis may be very difficult. The Staff indicated that pro-formas ordinarily should be based on the same

GAAP basis for the same periods for each of the entities being combined. The Staff noted that it was not acceptable to simply present pro-forma information that "added together" information derived under different GAAPs or for different fiscal years. Accordingly, in the case of such difficulties early consultation with the SEC staff was advised.

(d) Follow-up on the impact of new Canadian Regulations permitting U.S. GAAP financial statements on the Staff accommodation regarding Canadian-incorporated registrants on Form 10-K that use Canadian GAAP with an Item 18 reconciliation

At its September 2004 meeting, the Task Force agreed that if Canadian companies were not required to use Canadian GAAP in their Canadian filings, that the SEC Staff's historical accommodation permitting the use of Canadian GAAP with an Item 18 reconciliation in Form 10-Ks should be eliminated (i.e., all companies regardless of country of incorporation that are legally a domestic issuer should be subject to the same rules). The Task Force agreed an appropriate amount of lead time would be necessary before this change became a requirement, as certain Canadian jurisdictions had not yet changed their corporate laws to match the change in Canadian securities regulations. The Task Force also agreed to discuss this issue further at a future meeting.

Subsequent to the September 2004 meeting, it was noted that the applicability of this issue to Small Business Issuers had not been addressed. Note 2 to Item 310 of Regulation S-B specifically permits an eligible Canadian-incorporated Small Business Issuer to present its financial statements in Canadian GAAP with a reconciliation to U.S. GAAP. Accordingly, the eventual elimination of the accommodation would not apply to Small Business Issuers.

(e) Extractive industries update

Subsequent to the November 2004 meeting the SEC Staff provided an update of certain issues related to finding cost per unit that were discussed at the September 2004. See Appendix B

6. Altersteilzeit plans

Background

Altersteilzeit ("ATZ") in Germany is an early retirement program designed to create an incentive for employees, within a certain age group, to leave the employer before their legal retirement age. The program was created by legislation in July 1996 and was originally scheduled to expire in July 2001. However, the expiration date was subsequently extended on at least two occasions and the latest extension is to expire in 2009. Although the program was established by law, the actual arrangement between employers and employees is determined by reference to negotiated benefit arrangements between individual employers and the respective workers' councils (unions).

Discussion

Members of the Task Force noted that diverse practices exist, and have existed for several years, in the accounting for ATZ arrangements. The diversity in practice concern becomes more acute as companies are converting to IFRS (i.e., the appropriate accounting for these arrangements under IFRS and whether it should be different from U.S. GAAP).

Although a much bigger issue for German issuers, the issue impacts any company with operations in Germany. Task Force members agreed that this appeared to be an appropriate issue for the Emerging Issues Task Force to consider adding to its agenda given the diversity in practice and the fact that not only foreign private issuers were affected.

Subsequent to the Task Force meeting, the EITF Agenda Committee agreed to add this issue to the EITF Agenda.

7. Black economic empowerment transactions in South Africa

The Task Force agreed to defer discussion until a future meeting.

DATE OF NEXT MEETING

The Task Force agreed to meet on March 22, 2005.

APPENDIX A

The following countries are considered highly inflationary through December 31, 2004:

Angola
Belarus
Democratic Republic of Congo
Dominican Republic
Myanmar
Serbia and Montenegro
Suriname
Turkey
Uzbekistan
Zimbabwe

APPENDIX A

The following countries are on the Task Force's inflation "watch list":

Cumulative inflation greater than 70%	*Significant inflation in current or prior year*
Eritrea	Ghana
Haiti	Malawi
Venezuela	Romania
Zambia	

Finding Cost Per Unit

Finding cost per unit is a measure that is often used to determine how much it costs a company, on a per unit basis, to find new proved reserves as a result of their exploration and development efforts. This ratio is often calculated by dividing the *sum of costs incurred for exploration and development activities* by *total proved reserve additions*.

The Staff has noted that information used to calculate this measure may not be comparable, which could result in a cost per unit that does not include all of, or includes more than, the costs associated with a particular set of reserve additions. This measure is often calculated using data over a 3 to 5 year period, in an attempt to overcome timing differences between when costs are incurred (the numerator) and the proved reserve quantities are added (the denominator). For example:

- Exploration efforts related to a particular set of reserve additions may extend over several years. As a result, the exploration costs incurred in earlier periods are not included in the amount of exploration costs incurred during the period in which that set of proved reserves is added. This results in a unit cost that is lower because it does not include all of the costs of exploring for those reserves. Also, those costs incurred in prior periods are being added to the cost to find a different set of proved reserves, which results in a higher unit cost.

- Likewise, since proved reserves include both proved developed and proved undeveloped reserves, the development costs that are yet to be incurred for a particular set of proved undeveloped reserves will also not be included in the amount of costs incurred during the period the proved undeveloped reserves were added. This also results in a unit cost that is lower because it does not include all of the costs of developing those reserves. Also, those development costs incurred in future periods will be added to the cost to develop a different set of proved reserves, which results in a higher unit cost.

When disclosing this information, the following should be considered and/or disclosed:

- Describe how the ratio is calculated.

  The information used to calculate this ratio should be derived directly from the line items disclosed in the schedule of costs incurred and the reconciliation of beginning and ending proved reserve quantities, which is required to be disclosed by paragraphs 11 and 21 of FAS 69. To the extent applicable, certain information contained in the disclosure required by paragraph 30(b) of FAS 69 should also be used to calculate this ratio.

  If the ratio does not use data determined in accordance with FAS 69, please identify:

  - the source of the data;

  - indicate whether or not the ratio is a non-GAAP measure, as defined by Item10(e)(2) of Regulation S-K;

  - if the ratio is a non-GAAP measure, supplementally explain why it is appropriate to disclose it in Commission filings based on the conditions identified in Item 10(e)(1)(ii) of Regulation S-K; and,

  - if it is determined that it is appropriate to disclose the non-GAAP measure in Commission filings, provide the disclosure required by Item 10(e)(1)(i) and Question 8 of the Frequently Asked Questions Regarding the Use of Non-

GAAP Financial Measures, which can be located at http://www.sec.gov/divisions/corpfin/faqs/nongaapfaq.htm.

- Note that finding and development costs include asset retirement costs. Therefore, this ratio should also include asset retirement costs. Refer to the February 24, 2004 sample letter sent to oil and gas producers regarding FAS 69 and FAS 143: http://www.sec.gov/divisions/corpfin/guidance/oilgasletter.htm

- Note that future development costs expected to be incurred relative to the specific set of reserve additions included in the calculation of the ratio should also be included in the calculation.

- Identify the status of the proved reserves that have been added (e.g., proved developed vs. proved undeveloped).

    - As with the calculation of the reserve replacement ratio, it is not appropriate to calculate this ratio using non-proved reserves or to use a figure for proved reserve additions that includes both proved reserve additions attributable to consolidated entities combined with proved reserve additions attributable to investments accounted for using the equity method.

    - When a significant portion of the proved reserve additions is proved undeveloped, disclose that additional development costs will need to be incurred before these proved reserves are ultimately produced, and the impact this has on the use and reliability of the measure.

    - Disclose the amount of the estimated future development costs. Explain to investors, if true, that the amount of estimated future development costs related to the proved reserve additions is a component of amounts disclosed in the FAS 69 disclosures

- Identify the reasons why proved reserves were added.

    - As with the calculation of the reserve replacement ratio, the reconciliation of beginning and ending proved reserves, referred to above, includes several line items that could be identified as potential sources of proved reserve additions. Explain to investors the nature of the reserve additions, whether or not the historical sources of reserve additions are expected to continue, and the extent to which external factors outside of managements' control impact the amount of reserve additions from that source from period to period.

    - Identify all situations that resulted in a reserve addition that did not require the expenditure of additional costs. For example, changes in commodity prices and foreign exchange rates routinely have a direct impact on the quantity of proved reserves, but do not require the expenditure of additional exploration or development costs.

- Disclose how management uses this measure.

- Disclose the limitations of this measure.

- Indicate whether the finding and development cost per unit measure is comparable to other like measures disclosed by other companies.