AICPA INTERNATIONAL PRACTICES TASK FORCE
AICPA Washington Office
March 22, 2005
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)
Reva Steinberg (BDO)
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)
David Sherman (SEC Observer)
Sondra Stokes (SEC Observer)

The meeting commenced at 10:00 am.

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.

Conclusion

The Task Force discussed the inflationary status of countries currently considered highly inflationary through December 31, 2004, as well as those countries on the "watch list".

The Task Force noted that of the countries currently considered highly inflationary, the three-year cumulative inflation rates for Belarus, Democratic Republic of Congo, Suriname, Serbia and Montenegro, Turkey and Uzbekistan were all below 100% through February 2005 (with the inflation rates for Belarus and Turkey dropping below 100% during 1Q 2005, and the rates for the Democratic Republic of Congo, Serbia and Montenegro, Suriname, and Uzbekistan dropping below 100% during the 2Q 2004). 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 February 28, 2005. The Task Force will revisit inflation trends at its next meeting.

See Appendix A for a list of countries that are considered highly inflationary through February 28, 2005 and those being monitored by the Task Force.

2. Reporting issues

(a) Division of responsibility

Historically the SEC Staff has focused on the division of responsibility with respect to the audit of the primary financial statements of foreign private issuers. 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 the "conversion" of the financial statements from the foreign GAAP into the GAAP used in the primary financial statements.

The SEC Staff has indicated that it expects that the division of responsibility for U.S. GAAP reconciliations under Item 17 [or 18] of Form 20-F be explicit in audit reports.

In response to the SEC Staff's expectations, the Task Force has been discussing certain general concepts in an effort to clarify the reporting of the division of responsibility among auditors with respect to the conversion of information in the financial statements of a subsidiary from subsidiary GAAP to the issuer's primary GAAP and, where applicable, to U.S. GAAP.

Background

Generally accepted auditing standards in the United States ("U.S. GAAS"), as well as, the interim Auditing Standards adopted by the PCAOB have historically allowed for auditors to divide responsibility in audits of consolidated financial statements. AU 543 provides guidance on the professional judgments the independent auditor makes in deciding (*a*) whether he/she may serve as principal auditor and use the work and reports of other

independent auditors who have audited the financial statements of one or more subsidiaries, divisions, branches, components, or investments included in the financial statements presented and (*b*) whether to make reference to the report of the other auditors.

If the auditor decides that it is appropriate for him/her to serve as the principal auditor, he/she must then decide whether to make reference in his/her report to the audit performed by another auditor. If the principal auditor decides to assume responsibility for the work of the other auditor insofar as that work relates to the principal auditor's expression of an opinion on the financial statements taken as a whole, no reference should be made to the other auditor's work or report.

On the other hand, if the principal auditor decides not to assume that responsibility, his/her report should make reference to the report of the other auditor and should indicate clearly the division of responsibility between him/herself and the other auditor in expressing his/her opinion on the financial statements (NOTE: the principal auditor would be precluded from making reference to the report of the other auditor if the other auditor has not performed the audit of the subsidiary in accordance with the Standards of the PCAOB – US). Where the principal auditor decides to make reference to the work performed by other auditors, Rule 2-05 of Regulation S-X requires the inclusion of all auditor reports in a filing with the SEC.

Dividing responsibility among auditors of a multinational company may be more complicated, as the basis of accounting (GAAP) used to prepare the financial statements of entities audited by another auditor may be different than those used by the parent company. This is commonplace for foreign private issuers. Additionally, foreign private issuers who prepare their financial statements on a basis of accounting other than U.S. GAAP are required to include certain disclosures relating to U.S. GAAP in the notes to their financial statements that are filed with the SEC.

To illustrate, assume the financial statements of a foreign private issuer are prepared in accordance with U.K. GAAP. The principal auditor refers to the report of another auditor on the financial statements of Subsidiary A. The financial statements of Subsidiary A are prepared in accordance with German GAAP. In this illustration, one of the auditors must assume responsibility for the determination and performance of auditing procedures with respect to the “conversion” of Subsidiary A from German GAAP to U.K. GAAP. In addition, the U.K. foreign private issuer would be required to reconcile information in its U.K. GAAP consolidated financial statements to U.S. GAAP pursuant to Item 17 or 18 of Form 20-F. The reconciliation of the U.K. GAAP consolidated financial information to U.S. GAAP would necessarily include information related to Subsidiary A.

Discussion

The Task Force expects that, in many cases, the principal auditor may not be in a position to determine and perform sufficient procedures relating to the conversion of information in a subsidiary’s financial statements prepared on a “subsidiary GAAP” basis (and that are audited by another auditor), to the GAAP used in the registrant’s primary financial statements (“primary GAAP”) and, where applicable, to U.S. GAAP. This may be the case, for example, because the principal auditor may not have a sufficient understanding of the subsidiary company's internal control over financial reporting or of subsidiary GAAP in order to identify differences with the primary GAAP and, where applicable, with U.S. GAAP.

The Task Force noted that under AU 543, in order to determine and perform auditing procedures relating to the conversion of financial information in the financial statements of a

subsidiary audited by another auditor from subsidiary GAAP to the issuer's primary GAAP and, where applicable, to U.S. GAAP, the principal auditor would need to have sufficient knowledge with respect to the identification of the adjustments necessary to complete such conversion. The Task Force also has noted that when the principal auditor assumes responsibility for the determination and performance of procedures with respect to the conversion of information in the subsidiary's financial statements from subsidiary GAAP to the issuer's primary GAAP and, where applicable, to U.S. GAAP, his/her judgment will govern the extent of procedures to be undertaken. Based on the extent of the procedures performed in these circumstances, the principal auditor also should consider whether reference to the report of the other auditor with respect to its audit of the financial statements of the subsidiary, prepared on the basis of subsidiary GAAP, is appropriate.

The Task Force discussed the following scenarios in situations where a subsidiary prepares its financial statements on a basis of accounting (subsidiary GAAP) other than the basis of accounting used by the issuer (primary GAAP), and the subsidiary's financial statements are audited by another auditor:

The other auditor takes responsibility for the determination and performance of auditing procedures with respect to the conversion of information in the subsidiary's financial statements from subsidiary GAAP to the primary GAAP of the registrant and, where applicable, to U.S. GAAP

The Task Force noted that, in order for the other auditor to take responsibility for the determination and performance of auditing procedures with respect to the conversion of information in the subsidiary's financial statements from subsidiary GAAP to the primary GAAP of the registrant (and, where applicable, to U.S. GAAP), the information related to such conversions would need to be included in the notes to the subsidiary's financial statements. The Task Force suggests that in clarifying the division of responsibility among auditors in such situations, the other auditor include in his/her report an explanatory paragraph referring to the footnote in the subsidiary's financial statements that includes the information relating to such conversion information (this may be similar in format to the explanatory paragraph used in the context of referring to the U.S. GAAP reconciliation information provided by foreign private issuers under Form 20-F). In these situations, such information would be subject to the auditing procedures performed by the other auditor in its audit of the subsidiary's financial statements taken as a whole. If such information is not included in the subsidiary's financial statements, and thus has not been subject to the auditing procedures performed by the other auditor in its audit of the subsidiary's financial statements, then the principal auditor would be precluded from making reference to the other auditor as it relates to the audit of such information.

The Task Force suggests that information relating to the conversion of information in the subsidiary's financial statements prepared using subsidiary GAAP to the primary GAAP used in the financial statements of the registrant be of a content similar to the current reconciliation requirements under Item 18 of Form 20-F. Where the subsidiary's financial statements also include the information related to the conversion of information in the subsidiary's financial statements to U.S. GAAP, the Task Force suggests that such information be of content similar to the current reconciliation requirements under Item 17 or Item 18 of Form 20-F, as applicable to the registrant.

The principal auditor takes responsibility for the determination and performance of auditing procedures with respect to the conversion of information in the subsidiary's financial statements from subsidiary GAAP to the primary GAAP of the registrant and, where applicable, to U.S. GAAP, while still making reference to the report of the other auditor in respect of the subsidiary's financial statements

The Task Force noted that this scenario would be limited to situations where the financial statements of the subsidiary audited by the other auditor do not include information relating to the conversion of the information in the subsidiary's financial statements from subsidiary GAAP to the primary GAAP of the registrant and, where applicable, to U.S. GAAP, but the principal auditor nevertheless makes reference to the report of the other auditor. For the reasons discussed above, the Task Force believes that such circumstances would be rare. In situations where the principal auditor concludes it is appropriate to make such reference, the Task Force suggests that he/she clarify in the introductory paragraph of his/her report the basis of accounting in which the subsidiary's financial statements have been prepared, and also clarify in either the scope paragraph or in a separate explanatory paragraph of his/her report that the conversion of the information in the subsidiary's financial statements (and related disclosures) to the primary GAAP of the registrant and, where applicable, to U.S. GAAP has been subject to the auditing procedures performed by the principal auditor in connection with the audit of the registrant's consolidated financial statements taken as a whole.

(b) Comfort on narrative descriptions of GAAP differences in Rule 144A offerings

Background

Foreign companies often raise funds in U.S. capital markets by offerings exempt from SEC registration (e.g., a private placement of securities intended to qualify for the Rule 144A resale exemption). In these circumstances, a numerical reconciliation between the primary GAAP used to prepare the company's financial statements and other GAAPs (e.g., U.S. GAAP or International Financial Reporting Standards) generally is not provided. However, over time, companies have developed the practice of including a narrative or qualitative description of the differences between the primary GAAP and other GAAPs (a "qualitative description of certain GAAP differences") in the offering document. Such qualitative descriptions of certain GAAP differences have been outside of the audited financial statements and are usually legended to indicate the inherent limitations in such descriptions of which users should be aware.

Discussion

The Task Force has been considering present practice in respect of whether such descriptions of GAAP differences should be the subject of comfort from the independent auditor to an underwriter in a letter written in accordance with SAS 72. It has noted that:

- Where comfort has been provided, it is typical to limit the procedures in respect of the description of primary GAAP to agreeing the description of back to the stated accounting policies of the Company. Consequently, the description of the Primary GAAP appearing in the description will be consistent with, and as limited or as exhaustive, as the Company's stated accounting policies. The Task Force has noted that descriptions of accounting policies outside the U.S. are often much more abbreviated than a U.S. investor would expect to see. If the description of GAAP differences is confined to only those stated accounting policies of the offeror the description is of very limited value as it does not identify for the user other differences that could be significant in the future.

- The description of GAAP differences could never be so extensive that it identified all existing generic differences between the two GAAPs and therefore any description must entail some judgment and selection the boundaries of which will never be

consistent or clear. The Task Force noted that current practice was for the qualitative description to be preceded by a legend that included various caveats as to the usefulness of the information but it was still possible that a user would conclude that the differences were those that were "significant".

- While the convergence of U.S. GAAP with, for example, IFRS is likely to mean over time that the number of significant differences in principle will diminish, differences of detail, which could numerically be significant, will continue yet will likely not get appropriate prominence in such descriptions in a manner consistent with Item 17 of Form 20-F.

Consequently, the Task Force believes that any qualitative description of GAAP differences is likely to be of limited value in understanding the impact of GAAP differences in the context of a particular entity.

The Task Force also noted that a rigorous reading of paragraph 36 and 54 of SAS 72 would prohibit an independent accountant from commenting in a comfort letter on information that has not been obtained from accounting records that are subject to the entity's controls over financial reporting. The description of the non-primary GAAP generally would not be subject to the entity's controls over financial reporting.

Conclusion

The Task Force believes that it is not appropriate to provide comfort on a qualitative description of GAAP differences.

The Task Force recognizes the legitimate needs of underwriters and others in performing appropriate due diligence on information contained in an offering document and the role that independent accountants have in assisting them within the parameters of SAS 72. The Task Force notes that independent accountants are unlikely to want to be associated with an offering that includes a qualitative description of certain GAAP differences where such a description is not legended and is not described as "Unaudited".

(c) Regulation D

Background

At a previous meeting, the Task Force concluded that financial statements included in an offering document in which the transaction is exempt from registration under Regulation D should include reconciliation to U.S. GAAP and that the audit should be conducted in accordance with U.S. GAAS. The highlights of the July 2003 Task Force meeting state:

> The Task Force noted that it would appear that the objective of the disclosure under Regulation D is to provide the same information in an offering document as would be required if the offering were subject to registration. Accordingly, the Task Force concluded that a reconciliation to U.S. GAAP should be included and prepared in accordance with either Item 18 or Item 17, depending on the nature of the offering to conform to the requirements if the offering were subject to registration.
>
> In addition, the Task Force noted that only U.S. GAAS is allowed to be used in filings with the SEC. As a result, it concluded that if such information is required to be audited, it should be audited in accordance with U.S. GAAS. The Task Force also

> noted this language could be contrasted to that under Rule 144A that states the holder has a right to receive from the issuer financial statements and such financial statements should be audited to the extent practicable. There is no implication that it should be of the same level of disclosure as would be required if the offering and subsequent reporting were subject to the SEC's reporting requirements.

Rule 502(b)(1) of Regulation D states the following

> *(1) When information must be furnished*
>
> If the issuer sells securities under Rule 505 or Rule 506 to any purchaser that is not an accredited investor, the issuer shall furnish the information specified in paragraph (b)(2) of Rule 502 [*this is the section that requires the same financial statements as if the offering were a registration statement*] to such purchaser a reasonable time prior to the sale. The issuer is not required to furnish information to purchasers when it sells securities under Rule 504, or to any accredited investor.
>
> Note: When an issuer provides information to investors pursuant to paragraph (b)(1), it should consider providing such information to accredited investors as well, in view of the antifraud provisions of the federal securities laws.

Conclusion

The Task Force noted that its prior discussion was not clear in cases where a company only is offering securities to accredited investors. The Task Force also noted that Regulation D offers to accredited investors are similar to a typical Rule 144A offering and that a company may elect to include local GAAP/GAAS financial statements with no U.S. GAAP information.

The SEC staff did not object to the Task Force conclusion.

(d) Follow up on MJDS and consents

Background

Generally all information distributed in Canada should be part of the MJDS filing with the SEC. However, the MJDS forms, such as in Item 1 of Part 1 of Form F-10, state that the prospectus used in the United States need not contain any disclosure applicable solely to Canadian offerees or purchasers that would not be material to the offerees or purchasers in the United States. While the forms list several items that can be excluded it states it is not a complete list.

Issue

Is a company required to include the Canadian consent from its auditors in a MJDS filing with the SEC?

Conclusion

The Task Force noted that the inclusion of two consents has the potential to be confusing to investors and generally serves little value for U.S. investors. The Canadian consent is for Canadian investors and the U.S. consent is for U.S. investors. Therefore, the Task Force believes that registrants should not be required to include the Canadian consent in a MJDS filing with the SEC.

The SEC staff noted that many MJDS registrants were including the consent as part of the MJDS prospectus filed with the SEC. Because the offering document filed with the SEC under the MJDS is supposed to include the entire Canadian prospectus (subject to limited exceptions), this appeared to be the appropriate practice. The staff expressed a willingness to discuss the matter further with interested parties.

(e) Filing Dates for MJDS

Background

The Task Force discussed at its September 2004 filing dates under MJDS (given the multiple dates that information is released). The Task Force noted the following.

- Instruction D(3) to Form 40-F states that "An annual report on this Form or any amendment thereto shall be filed the same day the information included therein is due to be filed with any securities commission or equivalent regulatory authority in Canada."

- Canadian requirements under National Instrument 51-102 *Continuous Disclosure Obligations* which results in information being filed separately rather in one discrete document (like the Form 10-K).

It was noted that at the time the MJDS system was established the filings with the SEC were the same information filed in Canada on Canadian forms (except for the U.S. GAAP reconciliation). This is no longer true. Now there is substantial incremental information required in the U.S. document so it is not possible to file all of the forms with the SEC as soon as the information is available in Canada.

Conclusion

Given that the differences between Forms 20-F and 40-F have narrowed, the Task Force suggests that the SEC staff either change the rule or adopt a policy that the due date of Form 40-F is when Form 20-F would be due. The Task Force also noted there would not be a loss or delay of information in the U.S. market as the company would still furnish the information on Form 6-K. It also was noted that it would be helpful to seek input from the Canadian Bar on any proposed rule changes.

The SEC staff noted the Task Force comments and agreed to take them under consideration. In the mean time, the SEC staff noted that existing practice would continue to be acceptable.

(f) Issues related to SOX 404 reporting

Background

Foreign private issuers in certain countries, such as Australia, are required by company law to include parent company only financial statements in their principal financial statements. A number of these companies prepare "combined annual reports" and such information is included in Form 20-F.

The annual report under Australian reporting standards, for example, makes reference to both the group accounts and the parent company accounts whereas the report that is

prepared and states reference to the standards of the PCAOB only makes reference to the group accounts.

Issue

Must the company's report on its internal controls over financial reporting and the related audit report thereon make reference specifically to the parent company only statements or can such reports on the assessment on internal control solely address the controls related to the group financial statements?

Conclusion

The Task Force noted that the significance of this issue is that the scope of a report on internal controls over financial reporting for the parent company only financial statements will likely have a lower materiality threshold than that for the group. The Task Force also noted that since the PCAOB report on the financial statements is only in relation to the group statements, it would follow that the 404 report only would need to cover the group statements and not the parent only financial statements.

The SEC staff indicated that it does not object to the Task Force conclusion.

3. GAAP to be used in capitalization tables

Background

Item 3.B of Form 20-F does not state whether the capitalization table is required to be reconciled to U.S. GAAP.

Issue

Is a foreign private issuer required to provide U.S. GAAP reconciling information related to the capitalization table?

Conclusion

The Task Force noted that, in practice, many capitalization tables are silent as to the GAAP being used. The Task Force believes that a reconciliation to U.S. GAAP would not be necessary and noted that better practice would perhaps be to make explicit that the capitalization table is presented in accordance with the primary GAAP.

The SEC staff indicated that U.S. GAAP reconciling information is not required in the capitalization table.

4. GAAP to be used in Schedule I

Background

Rules 5-04 and 12-04 of Regulation S-X discuss the requirement for Schedule I, the condensed financial information of the registrant. Rule 12-04(a) provides the following description of what should be included:

> *Provide condensed financial information as to financial position, changes in financial position and results of operations of the registrant as of the same dates and for the same periods for*

> *which audited consolidated financial statements are required. The financial information required need not be presented in greater detail than is required for condensed statements by § 210.10-01(a)(2), (3) and (4). Detailed footnote disclosure which would normally be included with complete financial statements may be omitted with the exception of disclosures regarding material contingencies, long-term obligations and guarantees. Descriptions of significant provisions of the registrant's long-term obligations, mandatory dividend or redemption requirements of redeemable stocks, and guarantees of the registrant shall be provided along with a five-year schedule of maturities of debt. If the material contingencies, long-term obligations, redeemable dock requirements and guarantees of the registrant have been separately disclosed in the consolidated statements, they need not be repeated in this schedule.*

This results in Schedule I, when required, including the balance sheet, income statement, and cash flows of the parent company on a stand alone basis, with limited footnote disclosure.

The current Staff Training Manual states:

> A reconciliation for each required supplemental schedule from foreign GAAP to U.S. GAAP that quantifies and describes each significant difference.

Issue

Does Schedule I information need to be reconciled to U.S. GAAP?

Conclusion

The Task Force noted that there was diversity in practice as to whether Schedule I was reconciled to U.S. GAAP for the relevant disclosures. The Task Force also noted that given the purpose of Schedule I (i.e., to allow a user to assess to some extent the ability of the parent to make distributions, which are ordinarily based on home-country accounting rather than U.S. GAAP) the usefulness of reconciling the information to U.S. GAAP was unclear. The Task Force further noted that this also would be the case with other Schedules required under Article 12.

The SEC Staff indicated that it did not object to the above conclusions and noted that the Training Manual was being revised and would no longer suggest that a foreign private issuer needed to reconcile Article 12 Schedule information to U.S. GAAP.

5. Price-level adjusted cash flow statements

Background

Below is an extract from the SEC staff's paper on International Reporting and Disclosure Issues.

> FASB Statement 95 and Form 20-F do not address the presentation of the statement of cash flows by registrants that prepare price-level adjusted financial statements in filings with the SEC.
>
> Inclusion of the effects of inflation in the line items comprising the three major categories of the cash flow statement may make the presentation less meaningful and possibly misleading. For example, the financing activities section may depict reductions of foreign-currency denominated debt because of the recasting of prior balance sheet amounts for inflation, even though no cash repayment has occurred. In

some cases, these effects may permeate the statement of cash flows. However, presentation of a "fourth caption" that comprehensively segregates the effects of inflation/currency devaluation from the cash flows from operating, investing and financing activities has been adopted in several countries (Chile, Colombia).

Registrants are required to prepare price-level adjusted cash flow statements in a manner that comprehensively segregates the effects of inflation from the cash flows from operating, investing and financing activities. The November 1998 AICPA International Practices Task Force minutes include an illustrative example. Because of the difficulties of retroactive compliance, this guidance should be adopted for fiscal years *ending* after November 1998. Recasting of comparative periods is encouraged but not required.

A number of companies from Mexico only present information about cash flows using the major captions – operating, financing and investing and changes due to the effects of inflation.

Issue

Should a company that prepares price level adjusted financial statements and does not present a cash flow statement in its primary financial statements be required to present a complete statement of cash flows reflecting the effects of inflation or is condensed cash flow information (i.e., major captions) acceptable as part of the U.S. GAAP reconciliation?

Conclusion

The Task Force noted that condensed cash flow information is of limited value. It was further noted that the reason for this disclosure regarding cash flow information in a constant currency is to allow the investor to understand cash flow activity that is not apparent from the statement of changes in financial position presented under Mexican GAAP. This is not achievable with condensed information.

Therefore, the Task Force suggests that a full cash flow statement be presented. The Task Force suggested that this practice be applicable beginning for years ending after December 15, 2005.

The SEC staff indicated that it agrees with the Task Force conclusion.

6. IFRS issues

(a) Reporting on 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.

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.

The accounting profession in Europe and the IAASB has developed an opinion that can be issued when companies want to report 2004 financial information under IFRS. Presented below is an example of the opinion that would be issued.

Special purpose audit report on the preliminary IFRS financial information

To the Board/Management of XYZ Company

We have audited the accompanying preliminary special purpose IFRS balance sheet of XYZ Company as at 31 December 2004, and the related statements of income, cash flows and of changes in shareholders' equity for the year then ended (hereinafter referred to as "special purpose financial information"). This special purpose financial information is the responsibility of the company's [directors or management]. It has been prepared as part of the company's conversion to International Financial Reporting Standards (IFRS). Our responsibility is to express an opinion on this special purpose financial information based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the special purpose financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special purpose financial information. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the special purpose financial information. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the special purpose financial information as at 31 December 2004 has been prepared, in all material respects, in accordance with the basis set out in Note [x], which describes how IFRS have been applied under IFRS 1, including the assumptions management has made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when management prepares its first complete set of IFRS financial statements as at 31 December 2005.

Without qualifying our opinion, we draw attention to the fact that Note [x] explains why there is a possibility that the accompanying special purpose financial information may require adjustment before constituting the final comparative 2004 IFRS figures. Moreover, we draw attention to the fact that, under IFRS, only a complete set of financial statements comprising a balance sheet, income statement, statement of changes in equity, and cash flow statement, together with comparative financial information and explanatory notes, can provide a fair presentation of the company's financial position, results of operations, and cash flows in accordance with IFRS.

*This report is intended solely for the information and use of the [Board of Directors or Executive or Supervisory Board, Audit Committee, or management] of the company in connection with its conversion of the basis of the preparation of the financial statements to IFRS. It should not be used for any other purpose or provided to other parties.**

[AUDITOR]

[Date]

* *Include in private reports to board or management. Omit in a public report.*

** *Refer to ISA 700 or to internal guidance 'Reporting under ISA' for guidance on where to include any report qualifications or modifications.*

Issues

1. Does such an opinion comply with the requirements of Article 2 of Regulation S-X (e.g., is it a clear expression of an opinion) and would it be acceptable for this opinion to be included or incorporated into an SEC filings (excluding information furnished on Form 6-K)?

2. Assuming such a report is issued and when the company reports in 2005, the amounts for 2004 have changed (i) Would the company need to publish a reconciliation from the original amounts to the revised amounts? (ii) If there was an error in the amount reported in the original 2004 information, would that amount need to be disclosed in the 2005 audited financial statements as a correction of an error?

Issue 1

Conclusion

The Task Force believes that the form of report noted above would not comply with Article 2 because it's not a clear expression of opinion and would, therefore, not be acceptable in an SEC filing, whether included directly or incorporated by reference.

The SEC staff indicated that it does not object to the Task Force conclusion.

Subsequent to the March meeting, the Task Force addressed issues related to the SEC rule, *First-time Application of International Financial Reporting Standards*. See Appendix B of the May 17, 2005 Task Force highlights (specifically Q5).

Issue 2

Conclusion

Regarding errors, the Task Force believes that where IFRS financial information was deemed to be in error, such amounts should be corrected in accordance with IAS 8 *Accounting Policies, Changes in Estimates and Errors*.

The SEC staff indicated that it does not object to the Task Force conclusion.

Subsequent to the March meeting, the Task Force addressed issues related to the SEC rule, *First-time Application of International Financial Reporting Standards*. See Appendix B of the May 17, 2005 Task Force highlights (specifically Q7, Q8, and Q18).

(b) Applicability of SAB 74 disclosures

Background

The Task Force has discussed previously the issue of SAB 74 as it relates to the first-time application of International Financial Reporting Standards. The highlights from the November 25, 2002 Task Force meeting provide:

> "The Task Force noted that SAB 74 was written in the context of adopting a new accounting standard rather than a wholesale change in the GAAP used to prepare the financial statements. While the Task Force agreed that SAB 74 disclosures would not be directly applicable for companies transitioning to IFRS, it did note that it may be useful as a guide in developing MD&A disclosure about first-time application of IFRS."

Issue

Do SAB 74 disclosure requirements apply to a Company preparing for its first-time adoption of IFRS as its primary basis of accounting?

Conclusion

The Task Force reaffirmed its prior conclusion, as discussed above. The Task force noted that SAB 74 was written in the context of adopting a new accounting standard rather than a wholesale change in the GAAP used to prepare the financial statements, and therefore, SAB 74 would not apply to a Company's first-time adoption of IFRS.

(c) Considerations for a Registrant that has reported using IFRS when adopting the IASB's improved standards

Background

The International Accounting Standard Board originally issued revisions to 15 of its 32 International Accounting Standards (IAS) [now known, and hereafter referred to, as International Financial Reporting Standards (IFRS)] in December 2003. The application of these revised IFRS is required for annual periods beginning on or after January 1, 2005.

In 2005, companies will be making a number of changes to their accounting, presentation and disclosure that may require restatement of comparative prior periods related to certain of these revised accounting standards. For example, the revision to IAS 27 requires a company to consolidate a subsidiary even when control over it is temporary in certain circumstances. As a result, a company will restate financial statements to reflect investments previously accounted for as "held for sale" as consolidated subsidiaries.

The following scenarios highlight certain considerations for these registrants related to disclosure of the impact of adopting the revised IFRS and related to filing registration statements:

- A registrant prepares its financial statements using IFRS as its primary GAAP. As a result, the registrant is making a number of changes, voluntary or otherwise, to its accounting, presentation and disclosure in 2005. Some of these changes require restatement of comparative prior periods. The registrant plans to file its Form 20-F for the year ending December 31, 2004 on March 31, 2005.

- On April 25, the registrant publishes its first quarter report reflecting the adoption of the IFRS mentioned above and retroactively restates the comparative first quarter in 2004. This first quarter report is furnished under Form 6-K.

- On May 10, the registrant files a Form F-3 for the initial registration of debt securities.

Issues

1. Should the previously issued annual financial statements (included on Form 20-F filed March 31, 2005) that are incorporated by reference into the Form F-3 filed on May 10 be restated once a registrant adopts the revised IFRS in 2005?

2. If the financial statements have been retroactively restated for an accounting change in the current-year, should the summary of selected financial data also be restated and the effect on income and related per share amounts be disclosed for all periods?

Issue 1

Discussion

Form F-3 Item 5 provides guidance when there have been "material changes" in the financial statements incorporated by reference in the filing. Specifically, Item 5(b)(1)(ii) provides, in part, that:

> *Include in the prospectus, if not included in documents incorporated by reference into the prospectus pursuant to Item 6 or a prospectus previously filed pursuant to Rule 424(b) or (c) under the Securities Act or, where no prospectus was required to be filed pursuant to Rule 424(b), the prospectus included in the registration statement at effectiveness, or a Form 6-K filed during either of the two preceding years:*
>
> *ii. restated financial statements if there has been a change in accounting principles or a correction of an error where such change or correction requires a material retroactive restatement of financial statements;*

The Task Force noted that there are several situations where U.S. GAAP requires restatement of previously issued financial statements once a subsequent period's financial statements reflect a U.S. GAAP triggering event. These situations include stock splits, changes in segments under FAS 131, discontinued operations under FAS 144, initial adoption of FAS 128, transitional/pro forma disclosures under FAS 142 and FAS 143 and reclassifications upon adoption of FAS 145. For changes in segments and discontinued operations reclassifications, the SEC staff has historically insisted on full restatement of annual financial statements to be included or incorporated by reference in a registration statement or proxy/information statement once a registrant has filed subsequent interim period financial statements that reflect the change in segments or discontinued operations treatment.

Conclusion

The Task Force noted that irrespective of whether the financial statements are included or incorporated by reference in the registration statement, the registrant generally will restate its financial statements to retroactively reflect the revised IFRS. Additionally, Item 5 of Form F-3 indicates that the prospectus must include or incorporate by reference "restated financial statements if there has been a change in accounting principles…where such change...requires a material retroactive restatement of financial statements." In this case, a registrant that incorporates by reference a prior annual report on Form 20-F need not amend the prior filing,

but should file restated financial statements in the registration statement or under cover of a Form 6-K that is incorporated by reference.

The SEC staff did not object to the Task Force conclusion.

Issue 2

Conclusion

The Task Force noted that if financial statements have been retroactively restated for an accounting change in the current-year, the summary of selected financial data also should be restated and the effect on income and related per share amounts should be disclosed for the five most recent financial years (or such shorter period that the company has been in operation). However, registrants may omit selected financial data for either or both of the earliest two years of the five-year period, if the company represents that such information cannot be provided on a restated basis, without unreasonable effort or expense.

The SEC staff did not object to the Task Force conclusion

7. SEC Staff issues

(a) Staff accommodation permitting proportionate consolidation in U.S. GAAP financial statements of a foreign private issuer

Background

Except in very narrow circumstances, U.S. GAAP does not permit the use of proportionate consolidation of partially-owned entities. However, the staff has a long-standing practice of permitting, on a pre-clearance basis, proportionate consolidation in U.S. GAAP financial statements of a foreign private issuer if proportionate consolidation of joint ventures is required or permitted in the issuer's home country.

This accommodation was based on analogy to Item 17(c)(2)(vii), which permits a foreign private issuer that uses proportionate consolidation in its home country GAAP financial statements to provide alternative disclosures in lieu of a complete reconciliation to the equity method under U.S. GAAP if certain conditions are met. Unlike the Item 17(c)(2)(vii) accommodation, however, use of the staff accommodation in U.S. GAAP financial statements also requires the auditor to render, and the staff to accept, an audit report qualification on the U.S. GAAP financial statements with respect to the departure from the requirements of equity method accounting.

The Staff noted that it appears that very few registrants use this accommodation in U.S. GAAP financial statements filed with the SEC.

Issue

Does the Staff accommodation continue to be necessary?

Discussion

The SEC Staff solicited the views of the Task Force as to whether the staff accommodation continues to be necessary. The Staff noted that the availability of the Item 17(c)(2)(vii)

accommodation to registrants that file home-country GAAP financial statements would not be impacted by this issue.

The Task Force believed that the accommodation should not be withdrawn from registrants to whom it had already been granted.

(b) Extractive industries update

Subsequent to the November 2004 Task Force meeting the SEC Staff provided an update of certain issues related to finding cost per unit. See Appendix B for an updated discussion of the issues.

(c) Follow-up on Canadian Compilation Reports

The Task Force previously discussed the appropriateness of including Canadian compilation reports in US registration statements and prospectuses. The SEC staff indicated that the CSA, as part of a larger rulemaking initiative regarding prospectus requirements, issued a rule proposal in Jan 2005 to eliminate the public filing requirement of the compilation report in Canadian prospectuses. The CSA hopes to adopt the proposed rule during 2005. Prior to adoption, the SEC staff understands that the Canadian regulators have indicated a willingness to entertain requests to waive the requirement.

8. Non-GAAP measures – OFR in UK financial statements

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

9. Mexico – Statement 112 and D-3

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

10. 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 May 17, 2005.

The meeting adjourned at 4:00 pm.

APPENDIX A

The following countries are considered highly inflationary through February 28, 2005:

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

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.

    - 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.