AICPA INTERNATIONAL PRACTICES TASK FORCE
AICPA Washington Office
May 17, 2005
HIGHLIGHTS

ATTENDANCE

Task Force Members

D.J. Gannon, Chairman (Deloitte & Touche)
Wayne Carnall (PricewaterhouseCoopers)
Paul Curth (Ernst & Young)
Jon Fehleison (KPMG)
Tim Martin (McGladrey & Pullen)
Peter Nurczynski (Ernst & Young)
Joel Osnoss (Deloitte & Touche)
Eric Phipps (Deloitte & Touche)
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.

BILL DECKER RETIREMENT

It was noted that this would be the last Task Force meeting before Bill Decker's retirement from PricewaterhouseCoopers. While Bill was unable to attend the meeting, the Task Force wished to record their appreciation of Bill's time as a member of the Task Force. Bill was one of the early members of the Task Force. The Task Force expresses its thanks to Bill for all the time, professionalism and expertise he has devoted to the Task Force and its mission.

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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 February 28, 2005, as well as 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, Myanmar, Suriname, Serbia and Montenegro, Turkey and Uzbekistan were all below 100% through April 30, 2005 (with the inflation rate for Myanmar dropping below 100% during 2Q 2005, the 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 2Q 2004). Of 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 for Belarus, Myanmar, Turkey and Uzbekistan 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 April 30, 2005. The Task Force will revisit inflation trends at its next meeting.

For Suriname, Serbia and Montenegro, and the Democratic Republic of Congo, the Task Force concluded that, given the current trends and economic environment, these countries should come off highly inflationary status. Given the time necessary to implement the impact of changes related to coming off inflationary status, the Task Force agreed that registrants may change status as of the first period beginning after June 15, 2005, if practicable, but no later than the first period beginning after December 15, 2005.

Of the countries currently on the Task Force's watch list, it was noted that the three-year cumulative inflation rate for Haiti has been increasing and is at approximately 96% through April 2005. The Task Force also noted that inflation in Romania and Malawi has dropped significantly over the last year. It was further noted that the only other country with estimated inflation above 20% for 2005 was Guinea (23% for 2005 and 63% cumulative through April 2005). Consequently, the Task Force agreed to drop Romania and Malawi and add Guinea to the watch list.

See Appendix A for a list of countries that are considered highly inflationary as of April 30, 2005 and those being monitored by the Task Force.

2. Non-GAAP measures

(a) OFR in UK annual reports

Background

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On November, 25 2004, the UK Government issued a parliamentary announcement that set out a number of changes to the previously voluntary Operating and Financial Review ("OFR") that generally has been regarded as similar to Management Discussion and Analysis within the SEC reporting framework. More specifically, the guidance:

- Includes the requirement that quoted companies prepare a statutory OFR for the first time for financial years beginning on or after 1 April 2005;

- Sets out a high level objective for the OFR, which has to be prepared by directors and addressed to the members of the company so as to assist those members to assess the company's strategies and their potential to succeed; and

- Specifies that the UK Accounting Standard Board is the standard setting body for the OFR.

Pursuant to the subsequent legislation, in March 2005, the UK Accounting Standards Board issued a Reporting Standard (the "Reporting Standard") that:

- Sets out a number of principles for directors to apply when preparing an OFR; and

- Includes a disclosure framework for directors to apply in order to meet the requirements of the Regulations.

More specifically, the Reporting Standard states:

40. To the extent necessary to meet the requirements set out in paragraph 26 (which discusses the disclosure framework) above, the OFR shall include the key performance indicators, both financial and non-financial, used by the directors to assess progress against their stated objectives.

41. The Key Performance Indicators (KPIs) disclosed shall be those that the directors judge are the most effective to use in measuring the delivery of their strategies and managing their business. Regular measurement using KPIs will enable an entity to set and communicate its performance targets and to measure whether it is achieving them.

42. Comparability will be enhanced if the KPIs disclosed are accepted and widely used, either within the industry sector or more generally.

Paragraphs 77-78 of the Reporting Standard go on to state:

77. An entity shall provide information that enables investors to understand each KPI disclosed in the OFR.

78 For each KPI disclosed in the OFR:

- The definition and its calculation method shall be explained;

- Its purpose shall be explained;

- The source of underlying data shall be disclosed and, where relevant, assumptions explained;

- Quantification or commentary on future targets shall be provided;

- Where information from the financial statements has been adjusted for inclusion in the OFR, that fact shall be highlighted and a reconciliation provided;

- Where available, the corresponding amount for the financial year immediately preceding the current year shall be disclosed; and

- Any changes to KPIs shall be disclosed, and the calculation method used compared to previous periods, including significant changes in the underlying accounting policies adopted in the financial statements, shall be identified and explained.

Furthermore, the Reporting Standard includes guidance on the possible content envisaged for each element of the disclosure framework, and illustrative examples of KPIs. These illustrative KPIs include a number of financial KPI's, for example:

> **Return on capital employed (ROCE) -** measures the profit as a percentage of the total capital employed (invested) in the business.
>
> **''Economic profit''** - Economic profit, being a measure of capital adjusted profit based upon operating profit after tax, adjusted for one off items and the cost of capital.

On January 22, 2003, the SEC issued final rules on the presentation and disclosure of financial information of "non-GAAP" financial information.

Item 10(e) of Regulation S-K requires registrants to disclose the following for non-GAAP financial measures presented in an SEC filing:

- The most directly comparable GAAP financial measure;

- A quantitative reconciliation of the non-GAAP financial measure to the most directly comparable GAAP financial measure. This reconciliation requirement applies to historical financial information and, to the extent available without unreasonable effort, to prospective financial information;

- The reason that management believes the presentation of the non-GAAP information is useful for an investor's understanding of the registrant's financial condition and results of operations; and

- The additional purposes, if any, for which management uses non-GAAP measures.

The SEC rules prohibits (1) a non-GAAP measure of performance in an SEC filing that eliminates or adjusts for an income or expense item if a similar type of item has occurred and is reasonably likely to recur within two years, for example, elimination of restructuring charge, and (2) a non-GAAP measure of liquidity (other than EBIT or EBITDA) cannot exclude a charge or liability that requires cash.

Foreign registrants are subject to the same non-GAAP financial information measures as domestic registrants. However, the SEC will permit a foreign registrant to present a non-GAAP measure that would otherwise be prohibited by the SEC's rules if the measure is:

- Required or expressly permitted by the standard setter that is responsible for establishing the GAAP used in the primary financial statements; and

- Included in the annual report issued in its home country.

Issue

The UK requirements for inclusion in the UK Annual Report introduce a potential conflict between practice in the UK and the Commission's release on non-GAAP measures that will encourage companies to include KPIs in their OFR which are based on GAAP measures but as adjusted for one-off items that generally would not be permitted under the SEC's rules. Would these KPIs be acceptable in an SEC filing?

Discussion

The Task Force noted that non-GAAP measures would be permitted in SEC filings if expressly permitted under local GAAP. While the UK Reporting Standard is a standard from the UK Accounting Standards Board, it is not obvious that it is "GAAP" in the sense that it addresses information outside the financial statements. It also was noted that the SEC staff has permitted UK companies to use certain measures that are measures of operating profit before goodwill and intangible amortization and exceptional items based, in part, on the long-standing practice under UK financial reporting.

As noted above, the Reporting Standard provides "economic profit" as an example of a KPI that adds back one-off items to operating profit after tax. Unlike the SEC guidance, the Reporting Standard does not prohibit this performance measure if these one off items have occurred and are reasonably likely to recur within two years. Therefore, under the new UK rules performance measurement KPI's may be included in annual reports that are otherwise prohibited under SEC rules.

The Task Force also noted that although the Reporting Standard does not provide an example of a KPI liquidity measure that excludes a charge or liability that requires cash, the new UK rules allow for a company's directors to include such a KPI to assess progress against their stated objectives. This type of financial measure also would not be in compliance with SEC rules.

The SEC Staff noted the Task Force discussion and indicated that they would consider the issue further.

(b) Non-GAAP measures and IFRS

Background

As noted in the November 2003 Task Force highlights, companies in the UK and other countries are allowed to present their home country financial statements in a manner that would not be allowed for a U.S. company, provided certain specified disclosures are provided. At the September 2004 Task Force meeting, the SEC Staff indicated that foreign private issuers should not assume that a similar accommodation would be applicable for IFRS.

It appears that a number of practitioners in Europe (in particular, those in the United Kingdom) believe that their historical presentation under home country GAAP would be acceptable under IFRS. That is, they do not intend to change their presentation formats.

Companies will start reporting IFRS amounts in the very near future. While an agreement among regulators on the format of IFRS financial statements would be most helpful, it is not clear whether this is a reasonable expectation in the near term.

Issue

What is the SEC Staff view on the acceptability under IFRS of certain presentation formats under home country GAAP (e.g., UK GAAP)?

Discussion

The Task Force noted certain difficult aspects of applying the Commission's rules to the financial statements of a foreign private issuer using non-U.S. GAAP. More specifically, the SEC rule states the following:

> *Note to paragraph (e).* *A non-GAAP financial measure that would otherwise be prohibited by paragraph (e)(1)(ii) of this section is permitted in a filing of a foreign private issuer if:*
>
> *1. The non-GAAP financial measure relates to the GAAP used in the registrant's primary financial statements included in its filing with the Commission;*
>
> *2. The non-GAAP financial measure is required or expressly permitted by the standard-setter that is responsible for establishing the GAAP used in such financial statements; and*
>
> *3. The non-GAAP financial measure is included in the annual report prepared by the registrant for use in the jurisdiction in which it is domiciled, incorporated or organized or for distribution to its security holders.*

The primary issue relates to the second point above. The Task Force noted that because a particular presentation is not "expressly permitted" does not necessarily mean that it is considered to be non-GAAP in a particular country. UK companies that are, for example, providing the additional disclosures specified by the Task Force believe their UK GAAP financial statements comply with UK GAAP (i.e., they do not view their presentation as non-GAAP).

Under the assumption that the regulators around the world will not reach an agreement on IFRS presentation requirements in the near future, the Task Force discussed the following possible approaches:

- Request that the Commission readdress the rule and simply require FPIs to present an income statement that complies with Article 10 of Regulation S-X in the U.S. GAAP note if the primary financial statements are not consistent with such a format. Of course, the presentation would need to comply with the requirements of the home country, but it would not be based on an "expressly permitted" concept.

- Adopt the same guidelines for IFRS that were developed for UK GAAP.

- Develop new guidelines in how this issue will be addressed under IFRS.
- Debate the issue on a company-by-company basis.

No conclusions were reached on the possible approaches noted above. The Task Force noted the urgency of this issue and urged the SEC Staff consider this issue as soon as possible.

3. Mexico – Statement 112 and D-3

Background

Under Mexican Labor Law, Mexican employees are entitled to receive a severance payment equal to 90 days of salary, plus 20 days salary for every year of services rendered in prior years when they are terminated without a justified reason (i.e. rights accumulate). Should an employee leave on his own, the employer is <u>not</u> required to pay any severance (i.e. rights are non vesting). In practice, many companies negotiate settlements with employees in return for "voluntary resignations".

Accounting under Mexican GAAP

Mexican Bulletin D-3, "Labor Obligations" ("Bulletin D-3") was recently revised and provides guidance on how to account for post-employment benefits, including severance payments, defining them as the benefits paid after employment but before retirement. Bulletin D-3 paragraphs 20-28 indicates that severance payments should be accounted for in the same manner as other retirement benefits and should use actuarial calculations. This provision of Bulletin D-3 goes into effect January 1, 2005. Prior to the revised guidance, severance payments were charged to expense as incurred.

Paragraph 23 of Bulletin D-3 states that:

> *"Remunerations paid at the end of the work relationship for reasons other than reorganization will be subject to the valuation rules for remunerations upon retirement contained in this Bulletin (paragraphs 50 to 85), considering the following assumptions:*
>
> *a) The average amount paid to employees who have been terminated, considering each entity's historical experience. For this purpose, a 3-5-year period should be used, depending on the possibility of reaching specific prospective statistical conclusions.*
>
> *b) Occurrence, that is, the percentage of employees who have historically received severance payments.*
>
> *The probability of receiving such payment before retirement age, according to the formal or informal retirement plan."*

Historical Accounting under US GAAP

Under U.S. GAAP, it historically has been concluded that the employee severance termination benefit constituted a "plan" pursuant to FAS 112, "Employers' Accounting for Post-employment Benefits" ("FAS 112") for the reasons set forth below. SFAS 112, paragraph 6 states that "Post employment benefits that meet the conditions in paragraph 6 of FAS 43 shall be accounted for in accordance with that Statement." Paragraph 6 of FAS 43 states:

> *"An employer shall accrue a liability for employees' compensation for future absences if all of the following conditions are met:*
>
> *a. The employer's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered,*
>
> *b. The obligation relates to rights that vest or accumulate,*
>
> *c. Payment of the compensation is probable, and*
>
> *d. The amount can be reasonably estimated.*
>
> *Post employment benefits that are within the scope of this Statement and that do not meet those conditions shall be accounted for in accordance with Financial Accounting Standard 5 ("FAS 5")."*

Given that the benefit is mandated by law and employees have an understanding of the benefits that they are entitled in the event of a termination this arrangement has been considered a "benefit plan". Further, given the nature of the benefit arrangement, it historically was concluded that the conditions of Para 6(a) and 6(b) above also are met and, therefore, the termination benefit falls within FAS 112 and not FAS 5. Nevertheless, very few Mexican companies (both foreign registrants and subsidiaries of multinationals) have accrued a liability (under either Mexican or U.S. GAAP) for *normal involuntary turnover* because they have concluded that the conditions of Para 6(c) and 6(d) had not been met.

Issue

Is it appropriate to have a liability for this item under Mexican GAAP and not U.S. GAAP?

Discussion

The Task Force noted that the key issue was whether there was any difference between Mexican and U.S. GAAP in the application of the "probability" concept for the purpose of recognizing a liability. It appeared that Mexican GAAP was now based, in part, on an assessment of probability, but it was not clear that the application of that concept was determined in the same way as either FAS 5 or FAS 43.

Task Force members agreed to follow up with their respective Mexican firms to better understand practice in applying the new Mexican standard. The Task Force also agreed to consider the issue further at its next meeting.

4. SEC release on first-time adoption of IFRS

Background

On April 12, 2005, the SEC adopted its final rule *First-time Application of International Financial Reporting Standards (IFRS)*. Since the issuance of the final rule, several implementation questions have arisen.

Conclusion

In an effort to promote consistency in the application of the final rule and reduce uncertainties foreign private issuers may face during the transition year, the Task Force has developed an implementation questions document (see Appendix B).

The SEC staff has indicated that it does not object to the views expressed therein.

5. SEC Staff issues

(a) Italian GAAP versus Italian company law

The SEC Staff noted several recent filings (especially in the context of Rule 3-05 and Rule 3-09 financial statements) where the audit report referred to the financial statements being in compliance with Italian law rather than conformity with Italian generally accepted accounting principles. Several Task Force members noted that audit reports filed in Italy typically refer to compliance with Italian law, but that the underlying standards are the same. The staff indicated that it would be more transparent to clarify future audit reports by referring either to (1) Italian GAAP or (2) both Italian law and Italian GAAP.

DATE OF NEXT MEETING

The Task Force agreed to meet on July 26, 2005.

The meeting adjourned at 4:00 pm.

APPENDIX A

The following countries are considered highly inflationary through April 30, 2005:

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

* These countries will come off highly inflationary status. The Task Force agreed that registrants may change status as of the first period beginning after June 15, 2005, if practicable, but no later than the first period beginning after December 15, 2005.

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	Guinea
Venezuela	Zambia

Implementation Questions:
SEC Rule *First-Time Application of International Financial Reporting Standards*

On April 12, 2005, the SEC adopted its final rule *First-time Application of International Financial Reporting Standards (IFRS)*. Since the issuance of the final rule, several implementation questions have arisen. In an effort to promote consistency in the application of the final rule and reduce uncertainties foreign private issuers may face during the transition year, the AICPA International Practices Task Force has developed the following implementation questions based on discussions with the SEC staff. The SEC staff has indicated that it does not object to the views expressed herein.

The parenthetical references throughout the Appendix are to pages in the final rule, SEC Release No. 33-8567 (hereinafter, referred to as the "adopting release" or "Release") and are included to facilitate reference to the Release as it relates to the specific question.

I. Eligibility

Q1. The adopting release specifies that a foreign private issuer is eligible for the accommodation when an "annual report relates to the first financial year starting on or after January 1, 2007 or an earlier financial year" (page 8). The Instructions to Form 20-F specify that "The annual report relates to the 2007 financial year or an earlier financial year" (page 56). New General Instruction G(a) (page 55) indicates that "… the term 'financial year' refers to the first financial year beginning on or after January 1 of the same calendar year." Is the two-year accommodation limited to financial years that begin prior to or on December 31, 2007?

A. Yes. The accommodation is limited to financial years that begin prior to or on December 31, 2007.

Q2. The adopting release provides that if a first-time adopter has published (voluntarily or has been required to do so pursuant to other regulations) audited IFRS financial statements for the third financial year, then the SEC filing must include audited financial statements prepared in accordance with IFRS for all three years (i.e., the date of transition is January 1, 2003) (Pages 12 and 60). Would the IFRS financial statements for the third financial year included in a SEC filing need to fully comply with IFRS and be audited in accordance with PCAOB standards?

A. Yes. The financial statements for the third preceding financial year should fully comply with IFRS and be audited in accordance with PCAOB standards.

Q3. The adopting release provides that if a first-time adopter has published (voluntarily or has been required to do so pursuant to other regulations) audited IFRS financial statements for the third financial year, then the SEC filing must include audited financial statements prepared in accordance with IFRS for all three years (Pages 12 and 60). If presented, would the first-time adopter be required to provide a reconciliation from IFRS to US GAAP for the third year?

A. Yes. The first-time adopter would be required to provide a reconciliation from IFRS to US GAAP for all three years presented, unless otherwise allowed by SEC rules for a first-time SEC registrant to omit the US GAAP reconciliation for the third preceding year.

Q4. Assume a first-time adopter, in its first year of adoption, publishes IFRS financial information for periods prior to its transition date to IFRS (voluntarily or has been required to do so pursuant to other regulations). This information could take various forms, but in all instances would include information intended to depict what the IFRS information would have been had the issuer reported under IFRS in periods preceding the transition date (for example, a 2005 first-time adopter with a January 1, 2004 transition date has published IFRS financial information with respect to 2003 "as if" the issuer had applied IFRS in 2003). Would the first-time adopter be required to, or could it elect to, include the previously published IFRS financial information for periods prior to its transition date in an SEC filing?

A. No. Consistent with the requirements of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, a first-time adopter should only include IFRS information in a registration statement or annual report that includes periods that begin on or after its transition date to IFRS (this would exclude furnished information on Form 6-K that is not incorporated by reference into a registration statement).

II. Registration Statements in the Transition Year

Q5. The adopting release acknowledges that an issuer may be unable to comply fully with IFRS for interim financial information during the Transition Year because, for example, the standards and interpretations effective at the reporting date are not fully known. What standards would be acceptable to use as part of a disclosed basis of presentation in preparing IFRS financial information (annual or interim) during the Transition Year?

A. The accounting standards (and related interpretations) used as part of the basis of presentation would be determined by each issuer based on its particular facts and circumstances. The following are alternative bases of presentation that may make "reference to IFRS" during the transition year:

- "IFRS as Published" (sometimes referred to as "IFRS as Issued") means that the financial information is prepared in accordance with the IFRS standards that are published/issued as of a date at or prior to the issuance of the financial information (e.g., June 30, 2005 interim financial information issued on August 1 would be prepared in accordance with IFRS, including IFRIC interpretations published as of August 1). Management should disclose that the published/issued IFRS standards may change due to new IASB standards or promulgated interpretations that would be effective when management prepares its first set of IFRS financial statements at its reporting date (e.g., December 31, 2005). For example, a company could not apply the proposed amendments to the transitional provisions of IAS 39 when reporting on an "IFRS as Published" basis, prior to the IASB's approval and issuance of a final standard. In substance, this is no different from any other company preparing its financial statements under IFRS.

- "IFRS as adopted by the European Commission for use in the European Union" ("EU GAAP") means that the financial information is prepared in accordance with EU GAAP standards that are effective, or issued and early adopted as of a date at or prior to the issuance of the financial information (e.g., June 30, 2005 interim financial information issued on August 1 would be prepared in accordance with EU GAAP as of August 1). Management should disclose that the published/issued EU GAAP may change due to new IASB standards, promulgated interpretations, or actions by the European Commission that would be effective when management prepares its first set of IFRS financial statements at its reporting date (e.g., December 31, 2005 for a 2005 calendar year-end first-time adopter). Because EU companies must comply with accounting standards adopted by the European Commission, it may be possible for EU companies to prepare financial statements that comply with EU accounting regulations ("EU GAAP") but do not comply with IFRS.

In some cases, first-time adopters have applied "Expected IFRS" as a disclosed basis of accounting. This disclosed basis of accounting may include, for example, those standards that have not been adopted by the IASB and/or endorsed by EU, but are "expected" to be adopted and/or endorsed by the EU by December 31, 2005. That is, in preparing the financial information at an interim date, the company would be applying accounting standards that have been issued and/or endorsed, as well as accounting standards that it expects to be issued and/or endorsed by December 31, 2005. For example, if an EU foreign private issuer applies the proposed amendments to the transitional provisions of IAS 39 when reporting on an "Expected IFRS" basis, management would not be able to represent that the 2005 interim financial information was prepared in accordance with currently published/issued standards (i.e., the disclosed basis of accounting would not represent a comprehensive basis of generally accepted accounting principles). <u>This basis of presentation (i.e., "Expected IFRS") should not be included in or incorporated by reference into an SEC registration statement.</u>

Q6. The adopting release acknowledges that an issuer may be unable to comply fully with IFRS for interim financial information during the Transition Year and that the issuer should provide appropriate cautionary language in this regard (footnote 41 and pages 23 and 24). What would be "appropriate cautionary language" to disclose in IFRS financial information (annual or interim) presented during the Transition Year?

A. Appropriate disclosure should be determined by each issuer based on its particular facts and circumstances. Set forth below are examples of disclosures that an issuer might include in the notes to the interim financial information that makes "reference to IFRS" during the transition year; however, as noted above, such examples should be modified, where appropriate, in response to the facts and circumstances applicable to a specific issuer.

1. The following is an example of the cautionary language that could be included, modified as appropriate in light of particular facts and circumstances, in the basis of presentation note to interim financial information prepared in accordance with "IFRS as Published" during the transition year:

> *The Company will adopt IFRS for the first time in its financial statements for the year ended December 31, 2005, which will include comparative financial statements for the year ended December 31, 2004. IFRS 1 First-time Adoption of International Financial Reporting Standards requires that an entity develop accounting policies based on the standards and related interpretations effective at the reporting date of its first annual IFRS financial statements (e.g., December 31, 2005). IFRS 1 also requires that those policies be applied as of the date of transition to IFRS (e.g., January 1, 2004) and throughout all periods presented in the first IFRS financial statements. The accompanying interim financial information as of and for the six month periods ended June 30, 2005 and 2004, have been prepared in accordance with those IASB standards and IFRIC interpretations issued and effective, or issued and early-adopted, at [insert date]. The IASB standards and IFRIC interpretations that will be applicable at December 31, 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing this interim financial information. As a result, the accounting policies used to prepare*

these financial statements are subject to change up to the reporting date of the Company's first IFRS financial statements.

2. The following is an example of the cautionary language that could be included, modified as appropriate in light of particular facts and circumstances, in the basis of presentation note to interim financial information prepared in accordance with "EU GAAP" during the transition year:

The Company will adopt "IFRS as adopted by the European Commission for use in the European Union" ("EU GAAP") for the first time in its financial statements for the year ended December 31, 2005, which will include comparative financial statements for the year ended December 31, 2004. IFRS 1 First-time Adoption of International Financial Reporting Standards requires that an entity develop accounting policies based on the standards and related interpretations effective at the reporting date of its first annual IFRS financial statements (e.g., December 31, 2005). IFRS 1 also requires that those policies be applied as of the date of transition to IFRS (e.g., January 1, 2004) and throughout all periods presented in the first IFRS financial statements. The accompanying interim financial information as of and for the six month periods ended June 30, 2005 and 2004, have been prepared in accordance with those EU GAAP effective, or issued and early adopted, at [insert date]. The EU GAAP that will be applicable at December 31, 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing this interim financial information. As a result, the accounting policies used to prepare these financial statements are subject to change up to the reporting date of the Company's first IFRS financial statements.

Q7. For registration statements effective 9 months or less after year-end, new Instruction G(f)(2)(A) specifies that Instruction 3 of the Instructions to Item 8.A.5 does not apply to financial information (annual or interim) prepared with a "reference to IFRS." The final rule does not define what is meant by "reference to IFRS." What basis of presentation would be acceptable in preparing financial information (annual or interim) with "reference to IFRS"?

A. A first-time adopter could satisfy the requirement in Instruction G(f)(2)(A) by providing financial information (annual or interim) on a basis of presentation, as discussed in Question 5 (i.e., "IFRS as Published" or "EU GAAP" versus "Expected IFRS," which would not be acceptable). The accounting principles used to prepare the financial information would be disclosed under the relevant basis of presentation.

Management may not necessarily disclose that its interim IFRS financial information is presented in accordance with IAS 34, *Interim Financial Reporting*. In such instances, although a first-time adopter may have represented that it had prepared its interim IFRS financial information in accordance with the recognition and measurement principles under IFRS, it would not have represented that it had prepared such information in accordance with IAS 34. Therefore, any subsequent accounting policy changes made during the Transition Year would not need to comply with IAS 8, *Accounting Policies, Changes in Estimates and Errors*. Consequently, any subsequent accounting policy changes made during the Transition Year would not be subject to the "preferability" test in IAS 8 and would not result in the retrospective application of the new accounting policy to prior interim IFRS financial information. However, appropriate disclosure regarding any such accounting policy changes should be included in any interim IFRS financial information of a subsequent interim period during the Transition Year.

However, if management discloses that its interim IFRS financial information is presented in accordance with IAS 34, any subsequent accounting policy changes made would need to comply with IAS 8, as specified under IAS 34.

In all instances, if interim IFRS financial information is determined to be in error, such information would be corrected pursuant to IAS 8 and the relevant guidance in the SEC's rules and regulations.

Q8. For registration statements (including the updating of an existing registration statement under Item 512(a)(4) of Regulation S-K) effective more than 9 months after year-end, New Instruction G(f)(2)(B)(iii) (the "US GAAP Condensed Information Option") provides interim financial information should be "in accordance with IFRS." For purposes of the "US GAAP Condensed Information Option," how would a foreign private issuer satisfy this requirement?

A. A foreign private issuer could satisfy the requirement by providing interim financial information that complies with IAS 34, which includes the disclosures in paragraphs 15-19 of IAS 34. The foreign private issuer also would need to make the disclosures required by paragraphs 45 and 46 of IFRS 1.

Alternatively, a foreign private issuer could satisfy the requirement by providing a complete set of financial statements, including a balance sheet, an income statement, a statement showing either all changes in equity or changes in equity other than those arising from capital transactions with owners and distributions to owners, a cash flow statement, and accounting policies and other explanatory notes that would be required by IAS 1 *Presentation of Financial Statements*. There would be no difference in informational content compared to the annual financial statements.

First-time adopters preparing interim IFRS financial information that complies with either of the above alternatives would need to comply with IAS 8 for any errors and subsequent accounting policy changes made during the Transition Year. In the case of accounting policy changes, the new accounting policy should result in the IFRS financial information providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows (i.e., it is "preferable"). In addition, the new accounting policy would be retrospectively applied to prior interim periods containing IFRS financial information during the Transition Year and the comparable interim periods of any prior financial years in accordance with IAS 8.

Q9. If a foreign private issuer utilizes the "US GAAP Condensed Information Option" to satisfy the interim financial information requirements in either updating an existing registration statement under Item 512(a)(4) of Regulation S-K or a new registration statement that is effective more than 9 months after year-end, is the foreign private issuer required to provide a full set of interim financial information prepared in accordance with US GAAP for the interim period in order to satisfy the final rule's requirement that the condensed US GAAP information provided be at a level of detail consistent with that required by Article 10 of Regulation S-X?

A. No. A condensed balance sheet, income statement and applicable footnotes prepared in accordance with US GAAP (on a level of detail consistent with Article 10 of Regulation S-X) would satisfy the final rule's requirement, provided the interim IFRS financial information at least complies with IAS 34 (including the disclosures required by paragraphs 45 and 46 of IFRS 1) and includes a condensed statement of cash flows prepared in accordance with IAS 7.

Q10. New Instruction G(f)(2)(B)(ii) (the "IFRS Option") specifies that, for registration statements (including the updating of an existing registration statement under Item 512(a)(4) of Regulation S-K) effective more than 9 months after year-end, financial information (i.e., annual and interim) should be "in accordance with IFRS." The adopting release provides the following example: "… a 2005 first-time adopter would present audited financial statements for 2003 and 2004 and unaudited financial statements for the six months (or nine months) of 2004 and 2005, all in accordance with IFRS and reconciled to U.S. GAAP" (Page 26). In this example, what would be the foreign private issuer's reporting date for purposes of its first-time adoption of IFRS?

A. A foreign private issuer that provides audited financial statements "in accordance with IFRS" for the 2003 and 2004 years would have adopted IFRS as of a 2004 reporting date (e.g., December 31, 2004). Therefore, the foreign private issuer would be adopting IFRS earlier than 2005 (i.e., the transition date would be January 1, 2003). However, in this case, the foreign private issuer still would be able to avail itself of the accommodation provided by the final rule that permits a first-time adopter to omit IFRS financial statements for the third financial year (i.e., IFRS financial statements for 2002 would not be required).

III. Exceptions Mandated or Permitted by IFRS 1

Q11. The adopting release provides that when relying on a mandatory exception, an issuer must describe the exception as provided for in IFRS 1 and state that it complied (page 31), and further indicates that this disclosure should be included in an issuer's disclosure pursuant to Item 5, which provides information on the issuer's financial and operating review and prospects. However, this requirement is not included in the new Instruction G or in other parts of the amended Form 20-F. When relying on a mandatory exception, is an issuer required to describe the exception required by IFRS 1 and state that it complied?

A. Yes. A foreign private issuer is required to provide this disclosure pursuant to Item 5, *Operating and Financial Review and Prospects*. Further, Instructions 3.b to Item 8 (page 62) provides that "To the extent the primary financial statements reflect the use of exceptions permitted or required by IFRS 1, the issuer shall identify each exception used, including: i) An indication of the items or class of items to which the exception was applied; and ii) A description of what accounting principle was used and how it was applied."

Q12. A new Instruction to Item 5, *Operating and Financial Review and Prospects* outlines the disclosure requirements related to the use of exceptions permitted or required by IFRS 1. Specifically, new Instruction 5 4.b. to Item 5 provides "where material, qualitative disclosure of the impact on financial condition, changes in financial condition and results of operations that the treatment specified by IFRS would have had absent the election to rely on the exception." Is the first-time adopter required to provide these disclosures only for "elective" exceptions?

A. Yes. This disclosure is required only for "elective" exceptions. This is based on the adopting release (page 31), which states that "when relying on an elective exception, an issuer must include, where material, qualitative disclosure of the impact on the issuer's financial condition, changes in financial condition and results of operations."

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IV. EU GAAP Matters

Q13. Under the "IFRS Option," which is available for registration statements filed in the Transition Year, could a foreign private issuer provide financial statements in accordance with EU GAAP" to satisfy the requirements?

A. Yes. The Special Instruction for Certain European Issuers (page 60) provides that financial information "in accordance with EU GAAP" would be acceptable to satisfy the requirements of the "IFRS Option." In addition, the foreign private issuer would be required to provide reconciliations to IFRS as published by the IASB that includes information relating to financial statement line items and footnote disclosures equivalent to that required under IFRS as published by the IASB. Furthermore, the foreign private issuer should provide additional selected financial data based on IFRS as published by the IASB, and Item 5, *Operating and Financial Review and Prospects* should focus on the primary financial statements prepared in accordance with EU GAAP, with a discussion of any differences between EU GAAP, IFRS as published by the IASB, and U.S. GAAP not otherwise discussed in the reconciliation footnote to the extent necessary to understand the financial statements as a whole.

Q14. <u>For registration statements filed more than 9 months after year-end</u>, the "US GAAP Condensed Information Option" specifies that interim financial information should be "in accordance with IFRS" (see Question 8). Under the "US GAAP Condensed Information Option," would interim financial information prepared in accordance with EU GAAP satisfy the requirements?

A. Yes, provided the informational content of the interim financial information would comply with one of the alternatives in the answer to Question 8. In addition, the foreign private issuer would be required to provide reconciliations to IFRS as published by the IASB that includes information relating to financial statement line items and footnote disclosures equivalent to that required under IFRS as published by the IASB for interim financial information. Furthermore, the foreign private issuer should provide additional selected financial data based on IFRS as published by the IASB, and Item 5, *Operating and Financial Review and Prospects* should focus on the primary financial statements prepared in accordance with EU GAAP, with a discussion of any differences between EU GAAP, IFRS as published by the IASB, and U.S. GAAP not otherwise discussed in the reconciliation footnote to the extent necessary to understand the financial statements as a whole.

Q15. New Instruction G specifies that Item 4.B, *Business Overview* and Item 11, *Quantitative and Qualitative Disclosures about Market Risk* should be presented on the basis of IFRS (page 56 & 57). If the primary financial statements are EU GAAP, should these items be prepared on the basis of EU GAAP?

A. Yes. The Special Instruction for Certain European Issuers (page 60) provides that financial information "in accordance with EU GAAP" would be required to satisfy the requirements of Item 4.B and Item 11.

V. Other Disclosures

Q16. New Instruction G permits foreign private issuers in the first year of adoption of IFRS to provide Previous GAAP selected financial data (pages 59 -60). In filings for years following the year of transition (e.g., 2006 for a 2005 first-time adopter), can the foreign private issuer continue to provide the previous GAAP selected financial data for years prior to the transition date?

A. Although new Instruction G (b) only addresses the provision of Previous GAAP selected financial data in the Transition Year, a foreign private issuer may continue to provide selected financial data for prior years under Previous GAAP in the year following the year of transition and in each year thereafter until 5 years of IFRS selected financial data is required to be presented.

Q17. New Instruction G provides "Special Instruction for Certain European Issuers" when a foreign private issuer changes from Previous GAAP to IFRS as adopted by the European Union (page 60). As part of these special instructions, a European issuer would provide an audited footnote reconciliation to IFRS as published by the IASB, containing information relating to financial statement line items and footnote disclosures equivalent to that required under IFRS as published by the IASB. For example, an entity applying EU GAAP must include footnote disclosure that complies with IAS 32, *Financial Instruments: Disclosure and Presentation*, based on amounts reflecting full compliance with IAS 39 even if it does not fully apply IAS 39 relating to hedge accounting in its primary financial statements. In the years after the year of transition (e.g., 2006 and after for a 2005 first-time adopter), is the European issuer required to continue to provide a reconciliation from EU GAAP to IFRS as published by the IASB (e.g., 2006)?

A. No. New Instruction G, including instruction G (b), is only applicable in annual reports and registration statements for the year in which the foreign private issuer adopts EU GAAP for the first time and utilizes the two-year accommodation available to foreign private issuers upon their initial adoption of IFRS.

VI. Furnished Information

Q18. A foreign private issuer may furnish IFRS financial information (annual or interim) on a Form 6-K during the Transition Year. This information may or may not comply with one of the disclosed bases of presentation discussed in Question 5. How should any accounting policy changes or error corrections reflected in subsequent IFRS financial information furnished on a Form 6-K be accounted for?

A. Where such information complies with one of the disclosed bases of presentation discussed in Question 5, the accounting for any subsequent accounting policy changes made during the Transition Year will depend on whether or not the issuer has represented that such information is presented in accordance with IAS 34. If such an assertion has been made, the applicable guidance in Question 7 should be followed.

If the IFRS information furnished on a Form 6-K does not comply with one of the disclosed bases of presentation discussed in Question 5, the procedures required to reflect any subsequent accounting policy changes will depend on the particular facts and circumstances. In these instances, issuers should consult with their legal counsel.

In all instances, if the IFRS financial information furnished on a Form 6-K is determined to be in error, such information should be corrected pursuant to IAS 8 and the relevant guidance in the SEC's rules and regulations.