

AICPA INTERNATIONAL PRACTICES TASK FORCE

Teleconference

March 7, 2006

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)
John Abbott (PricewaterhouseCoopers)
Wayne Carnall (PricewaterhouseCoopers)
Paul Curth (Ernst & Young)
Jon Fehleison (KPMG)
Tim Martin (McGladrey & Pullen)
Peter Nurczynski (Ernst & Young)
Joel Osness (Deloitte & Touche)
Eric Phipps (Deloitte & Touche)
Debra MacLaughlin (BDO)
Carol Riehl (Grant Thornton)
Michael Walters (KPMG)

Observers

Jill Davis (SEC Staff Observer)
Paul Dudek (SEC Staff Observer)
Chris Holmes (SEC Regulations Committee Observer)
Len Jui (SEC Staff Observer)
Susan Koski-Grafer (SEC Staff Observer)
Mark Mahar (SEC Staff Observer)
Andrew McLelland (SEC Staff Observer)
Craig Olinger (SEC Staff Observer)
Annette Schumacher Barr (AICPA Staff Observer)
Sondra Stokes (SEC Staff Observer)
John Wolfson (SEC Regulations Committee Observer)

The teleconference commenced at 10:00 am.

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AGENDA ITEMS

1. Inflationary status of certain countries

Discussion

A summary of the countries considered to be highly inflationary as well as those on the “watch list” is in Appendix A.

2. Accounting for Minimum Dividends in Various Countries

Background

At its last meeting, the Task Force agreed to follow up on the accounting for minimum dividends in various countries. Task Force members surveyed their respective member firm networks and noted that the countries identified currently having minimum dividend requirements include Brazil, Greece and Chile.

Discussion

The Task Force discussed whether or not its prior discussion in the context of Chile would be applicable to Brazil and Greece. It was noted that while the specific circumstances varied slightly in each of these countries, the overall observation was that the circumstances relating to the minimum dividend requirements were similar enough to warrant consistent accounting. As a result, the Task Force noted that its prior discussions in the context of Chile would appear applicable in the context of Brazil and Greece (i.e., classification of the minimum dividends as temporary equity under U.S. GAAP) although no final conclusion was reached.

The SEC Staff questioned the applicability of the prior Task Force discussion in the context of the Chilean environment, particularly given the current debate more generally on issues related to liability versus equity classification. The Staff also asked the Task Force to further clarify the facts, particularly as they relate to Chile.

3. Application of Rule 3-09 to foreign private issuers

Background

FRR-44: Financial Statements of Significant Foreign Equity Investees and Acquired Foreign Business of Domestic Issuers and Financial Schedules states, in part:

Pursuant to Item 17, the financial statements may be prepared on a comprehensive basis other than U.S. GAAP. Quantitative reconciliation of net income and material balance sheet items is required, but the additional information specified by U.S. GAAP for disclosure in notes to financial statements is not necessary. However, no reconciliation is required at all if the foreign business does not exceed the 30% level under the tests of significance which call for the inclusion of its financial statements of a significant business acquisition...

In addition, SEC Adopting Release 33-7053; 34-33918: SIMPLIFICATION OF REGISTRATION AND REPORTING REQUIREMENTS FOR FOREIGN COMPANIES (April 19, 1994) states, in part:

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The Commission is adopting, substantially as proposed, amendments that forego requiring a quantified reconciliation of separate financial statements of certain acquired businesses and of certain less-than-majority-owned investees ("equity investees") based on higher thresholds of significance. A description of differences in accounting methods would continue to be required. Financial statements of acquirees would not have to be reconciled unless the acquiree exceeds the 30% significance level based on the registrant's investment, assets and pro-tax income. Similarly, financial statements of significant equity investees would not have to be reconciled unless the investee exceeds the 30% significance.

The Task Force discussed the applicability of the above guidance to foreign private issuers. The following scenarios were discussed:

Discussion 1

Company A, a registrant, owns shares in Company B, an equity method investee that prepares its financial statements under local GAAP. For the year ended December 31, 2005, Company B's significance is greater than 30% for the first time under the significance tests of Rule 1-02(w). For the years ended December 31, 2004 and 2003, the significance of Company B was greater than 20% but less than 30%.

Issues 1

1(a) - Is a quantified reconciliation of Company B's financial statements from local GAAP to U.S. GAAP required for the years ended December 31, 2004 and 2003? If so, is the reconciliation for the years ended December 31, 2004 and 2003, required to be audited?

1(b) - If the quantified reconciliation is required, and this is the first time that Company B has ever been required to provide a reconciliation to U.S. GAAP, is Company B permitted to avail itself of the accommodation for first-time registrants to provide a reconciliation for the two most recent years, rather than three?

Conclusion 1

The SEC Staff agreed to consider the issues further. Subsequent to the teleconference the SEC Staff indicated that an audited U.S. GAAP reconciliation would be required for both years ended December 31, 2004 and 2003. The Staff also indicated because this is the first time that the company has ever been required to provide a reconciliation to U.S. GAAP, it would be permitted to avail itself of the accommodation for first-time registrants to provide a reconciliation for the two most recent years, rather than three.

Discussion 2

Company C, a registrant, owns shares in Company D, an equity method investee that prepares its financial statements under local GAAP. For the year ended December 31, 2005, Company D increases in significance to greater than 30% for the first time under the significance tests of Rule 1-02(w). For the years ended December 31, 2004 and 2003, the significance of Company D was less than 20%.

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Issue 2

If a reconciliation of Company D's financial statements from local GAAP to U.S. GAAP is required for the years ended December 31, 2004 and 2003, is it required to be audited? (Note: The first-time reconciler accommodation would apply to this issue also.)

Conclusion 2

The SEC Staff agreed to consider the issues further. Subsequent to the teleconference the SEC staff indicated that a US GAAP reconciliation is required for the years ended December 31, 2004 and 2003. However, because the financial statements for those years are not required to be audited, the reconciliation is not required to be audited.

Discussion 3

Company E, a registrant, owns shares in Company F, an equity method investee that prepares its financial statements under local GAAP. For the year ended December 31, 2005, Company F decreases in significance to below 30% under the significance tests of Rule 1-02(w). For the years ended December 31, 2004 and 2003, the significance of Company F was greater than 30%. Accordingly, in its 2004 Form 20-F, Company E included Company F's audited local GAAP financial statements, with its audited reconciliation to U.S. GAAP for the three years ended December 31, 2004.

Issue 3

Is a reconciliation of Company F's financial statements from local GAAP to U.S. GAAP required for the year ended December 31, 2005? If no, must Company F's audited reconciliations for the years ended December 31, 2004 and 2003, which were included in Company E's 2004 Form 20-F, be included in Company F's 2005 Form 20-F?

Conclusion 3

The SEC Staff agreed to consider the issues further. Subsequent to the teleconference the SEC Staff indicated that a U.S. GAAP reconciliation would be required for the year ended December 31, 2005. Regarding audit requirements of the U.S. GAAP reconciliation, the SEC Staff noted that if significance is between 20% and 30%, the reconciliation would need to be audited; if significance is below 20% the reconciliation need not be audited. In addition, the SEC Staff indicated that 2004 and 2003 comparatives would still be required.

DATE OF NEXT MEETING

The Task Force agreed to meet on July 25, 2006.

The teleconference adjourned at 1:00 pm.

Monitoring inflation in certain countries

Background

At the March 2003 meeting of the Task Force, it was noted that it would be helpful to be more proactive in assessing the inflationary status of countries. As a result, it was agreed that a mechanism be developed for proactively monitoring the inflationary status of countries. That approach and the related assumptions used by the Task Force are described below:

Approach

The Task Force agreed to regularly consider the inflationary status of a number of countries for the purpose of determining whether they were highly inflationary as defined in FASB Statement 52. It was agreed that inflation rates be monitored regularly (monthly to the extent possible) in order to identify cases where the Task Force could discuss a country's inflationary status. Based on the cumulative inflation information, countries would be categorized as follows:

1. Countries that are clearly highly inflationary (i.e., that have cumulative inflation approaching or exceeding 100%).
2. Countries with increasing cumulative inflation rates that should be monitored.
3. Countries that are clearly not highly inflationary (i.e., with sufficiently low cumulative inflation).

Assumptions

The following assumptions were developed as a means of screening countries in order to determine whether the Task Force should discuss their inflationary status:

- Inflation rates used would be based on a consumer price index, unless otherwise noted. Where an index other than the CPI is used, the Task Force would need to discuss the appropriateness of the index.
- Inflation information would be derived from the "International Financial Statistics" on the IMF website. In cases where information is not provided to the IMF, local sources would be used (e.g., country central bank data).
- Countries with cumulative inflation rates not exceeding a certain level, say 70%, generally would not be considered highly inflationary based on quantitative factors alone. However, qualitative factors ultimately would be considered pursuant to EITF Topic D-55, as deemed necessary by the Task Force.
- Countries with cumulative inflation rates between 70% and 100% would be assessed for highly inflationary status given recent trends, based on the guidance in EITF Topic D-55. For example, in cases where the cumulative rate has declined below 100%, is that decline "other than temporary"? Or, in cases where the inflation rate has been increasing, is the cumulative rate at a level that "approximates" 100%? In addition, countries with a significant increase in inflation during the current period would be monitored.

In certain cases inflation information is not updated regularly. In such cases the following was agreed:

- Where a country was previously considered highly inflationary (i.e., the last known cumulative inflation rate previously exceeded or approached 100%), presume that still highly inflationary.
- Where a country was previously not considered highly inflationary (i.e., the last known cumulative inflation rate did not previously exceed or approach 100%), deduce the current inflation rate necessary in order to exceed 100% (the “deduced rate”). The deduced rate would be calculated solely for the purpose of determining whether or not the Task should analyze a particular country’s inflationary status. The ultimate determination of that status would depend on all relevant facts and circumstances.
 - If deduced inflation rate for the current period(s) exceeds a certain level, say 30%, then presume that not highly inflationary unless the deduced rate is consistent with the trend in recent known periods.
 - If deduced inflation rate does not exceed a certain level, say 30%, then presume highly inflationary unless the deduced rate is not consistent with the trend in recent known periods.

The Task Force agreed that qualitative factors also should be considered. The Task Force noted that the existence of objective and verifiable evidence would be necessary for a country to no longer be considered highly inflationary.

Current inflationary status of certain countries

Countries considered highly inflationary

At its March 7, 2006 teleconference the Task Force concluded that the following countries should be considered highly inflationary through March 31, 2006:

Angola	Turkey **
Belarus **	Uzbekistan **
Dominican Republic	Zimbabwe
Myanmar	

** These countries will come off highly inflationary status. The Task Force agreed that registrants may change status as of the first period beginning after December 15, 2005, if practicable, but no later than the first period beginning after March 15, 2006.

Countries on the highly inflationary “watch list”

The following countries are on the Task Force’s inflation “watch list”:

<i>Significant cumulative inflation</i>	<i>Significant inflation in current or prior year</i>
Eritrea	Ghana
Haiti	Guinea

<i>Significant cumulative inflation</i>	<i>Significant inflation in current or prior year</i>
Venezuela	Zambia