

INTERNATIONAL PRACTICES TASK FORCE
Center for Audit Quality Washington Office
April 24, 2007
HIGHLIGHTS

The 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.

I. Attendance

Task Force Members

D.J. Gannon, Chairman (Deloitte & Touche)
Wayne Carnall (PricewaterhouseCoopers)
Paul Curth (Ernst & Young)
Jon Fehleison (KPMG)
Steven Krohn (KPMG)
Debra MacLaughlin (BDO)
Tim Martin (McGladrey & Pullen)
Peter Nurczynski (Ernst & Young)
Joel Osness (Deloitte & Touche)
Eric Phipps (Deloitte & Touche)
Carol Riehl Banford (Grant Thornton)
David Schmid (PricewaterhouseCoopers)

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)
Thomas Noland (SEC Staff Observer)
Craig Olinger (SEC Staff Observer)
Annette Schumacher Barr (Center for Audit Quality Staff Observer)
Sondra Stokes (SEC Staff Observer)
John Wolfson (SEC Regulations Committee Observer)

II. Current Practice Issues Addressed in Discussion Documents

TOPIC	DISCUSSION DOCUMENT
Interim financial information issued by a foreign private issuer	A
Differences in Reporting Periods – A Forward Lag in Consolidated Financial Statements	B
Inflationary Status of Certain Countries	C

Discussion Document A

Topic:

Interim financial information issued by a foreign private issuer

Background:

The following is an extract from the highlights of the March 2001 Task Force meeting:

COMPARATIVES FOR RULE 3-19(F)

Background

Section VIII.A of the Division of Corporation Finance's International Financial Reporting and Disclosure Issues (published on the SEC website and dated July 21, 2000) states:

"3-19(f) information does not trigger a requirement to include full interim financial statements more recent than otherwise required by Rule 3-19. For example, if complete financial statements related to the most recent quarter (but not the comparative period) is distributed in a foreign issuer's home country, that information must be included in the US registration statement. Comparative prior period information is not required because the information provided is included only because of 3-19(f). In order to avoid confusing US readers the registrants should include disclosure explaining why this information is provided particularly when the information is placed with other financial statements and may look incomplete. If the information provided contains a reconciliation to GAAP, the staff believes that inclusion of reconciled information for the prior periods generally will also be necessary to prevent the current period information for being misleading."

It is understood the staff applies the last sentence of this excerpt to mean that if a US GAAP reconciliation is included in the information provided pursuant to Rule 3-19(f), then comparatives (both in local GAAP and including a US GAAP reconciliation) have to be provided.

Issue

1. What is the rationale for the staff's interpretation of Rule 3-19(f)?
2. Are there any circumstances where although the information provided pursuant to Rule 3-19(f) includes a US GAAP reconciliation the SEC staff will not require that comparatives be presented?
3. Does other information in the filing (e.g., selected financial data, MD&A pro forma information) also need to be updated?

Discussion

1. The SEC staff said that the basis for Rule 3-19(f) was to ensure a level playing field. It ensured that if more recent information than would otherwise be required by the age of financial statement rules has been made available to investors in one jurisdiction, then that information should be made available to all investors. Equally, if a domestic registrant presented more recent information than that required by Rule 3-01 it would be required to present comparatives. A foreign private issuer is not ordinarily required to provide US GAAP information in its home jurisdiction. Accordingly, when a foreign private issuer presents more current US GAAP information, it effectively has decided to present interim financial statements, and is also required to present comparatives as required by Item 8.A.5 of new Form 20.F.

The SEC staff also noted that in these circumstances the current and comparative interim period would need to be covered by MD&A and pro forma information would need to be updated to that date.

2. The SEC staff said that while they would consider a waiver in circumstances involving hardship, there were no general circumstances that would automatically result in a waiver.

Generally, registrants should proceed on the basis that the staff would not waive the requirement for comparatives.

Item III.C of the November 2004 International Issues Outline notes the following, in part:

...Inclusion of published information under Item 8.A.5 does not ordinarily trigger a requirement to include full interim financial statements more recent than otherwise required. For example, if **complete** financial statements related to the most recent quarter (but not the comparative period) are distributed in a foreign issuer's home country, that information must be included in the US registration statement. Comparative prior period information is not required because the information provided is included only because of Item 8.A.5. In order to avoid confusing US readers, the registrant should include disclosure explaining why the information is provided particularly when the information is placed with other financial statements and may look incomplete. [emphasis added]

However, if the information provided contains a reconciliation to US GAAP, the staff believes that inclusion of reconciled information for the comparative prior periods generally will also be necessary to prevent the current period information from being misleading. A foreign private issuer is not ordinarily required to provide US GAAP information in its home jurisdiction. Accordingly, **when a foreign private issuer presents more current US GAAP information, it effectively has decided to present interim financial statements, and is also required to present comparatives as required by Item 8.A.5 of new Form 20F.** In these circumstances the current and comparative interim period would need to be covered by MD&A and pro forma information would need to be updated to that date. [Emphasis added]

Issue:

To what standard does the interim information issued by the registrant in its local jurisdiction need to be prepared for it to trigger the updating requirements?

Task Force Recommendation:

The Task Force believes that the relevant test should be based on a combination of whether the interim financial information released locally comprises a balance sheet, income statement, and a cash flow statement of sufficient detail and whether that information is reconciled to US GAAP. Consequently, the Task Force believes that the updating requirement is triggered if the interim financial information released locally includes a balance sheet, income statement, and a cash flow statement that meets or exceeds the requirements of Article 10 and such information is reconciled to US GAAP. A balance sheet, income statement, and cash flow statement prepared in accordance with IAS 34 would be considered to be in a format consistent with Article 10. For example, the Task Force noted that the publication of annual or interim summarized or capsule US GAAP information would not normally trigger the comparative or updating requirement.

SEC Staff Response:

The Staff agrees with the Task Force recommendation.

Discussion Document B

Topic:

Differences in Reporting Periods – A Forward Lag in Consolidated Financial Statements

Background:

Company P's fiscal year ends on December 31. Company S, Company P's subsidiary, has a fiscal year-end of January 31. Under Home Country GAAP, Company P consolidates the results of Company S for the year ending January 31, 2008 into its December 31, 2007 financial statements. Would Company P be required to "reconcile out" the "forward lag" when preparing its reconciliation to US GAAP?

Regulation S-X, Rule 3A-02 (b) states:

"Different fiscal periods: Generally, registrants shall not consolidate any entity whose financial statements are as of a date or for periods substantially different from those of the registrant. Rather, the earnings or losses of such entities should be reflected in the registrant's financial statements on the equity method of accounting. However:

(1) A difference in fiscal periods does not of itself justify the exclusion of an entity from consolidation. It ordinarily is feasible for such entity to prepare, for consolidation purposes, statements for a period which corresponds with or closely approaches the fiscal year of the registrant. Where the difference is not more than 93 days, it is usually acceptable to use, for consolidation purposes, such entity's statements for its fiscal period. Such difference, when it exists, should be disclosed as follows: the closing date of the entity should be expressly indicated, and the necessity for the use of different closing dates should be briefly explained. Furthermore, recognition should be given by disclosure or otherwise to the effect of intervening events which materially affect the financial position or results of operations."

In the context of accounting for investments under the equity method, APB 18, paragraph 19 (g), states:

"If financial statements of an investee are not sufficiently timely for an investor to apply the equity method currently, the investor ordinarily should record its share of the earnings or losses of an investee from the most recent available financial statements. *A lag in reporting* should be consistent from period to period." (emphasis added)

ARB 51, paragraph 4 states:

"A difference in fiscal periods of a parent and a subsidiary does not of itself justify the exclusion of the subsidiary from consolidation. It ordinarily is feasible for the subsidiary to prepare, for consolidation purposes, statements for a period which corresponds with or closely approaches the fiscal period of the parent. However, where the difference is not more than about three months, it usually is acceptable to use, for consolidation purposes, the subsidiary's statements for its fiscal period; when this is done, recognition should be given by disclosure or otherwise to the effect of intervening events which materially affect the financial position or results of operations."

Issue:

Is a "forward lag" in reporting periods under Home Country GAAP permitted without reconciliation to US GAAP?

Task Force Recommendation:

Yes. If the parent and the subsidiary have different fiscal years, the best available data from the subsidiary should be used in preparing consolidated financial statements. Timely, current information is preferred. Therefore, it may be better for consolidation purposes to use the subsidiary's financial information as of a date closer to the reporting date. Further, there is no clear prohibition against using a forward lag. ARB 51 only discusses "*differences*" in fiscal periods. It does not preclude the use of a forward lag.

Lastly, it should be noted that at a recent meeting of the Emerging Issues Task Force, in the context of Issue 06-9, "Reporting a Change in (or the Elimination of) a Previously Existing Difference between the Fiscal Year-End of a Parent Company and That of a Consolidated Entity or between the Reporting Period of an Investor and That of an Equity Method Investee," the EITF appeared to have acknowledged that a "forward lag" is acceptable:

Prior to the November 16, 2006 meeting of the EITF, the first sentence of paragraph 1 of the working draft of the abstract of Issue 06-9 was as follows:

To allow for more timely preparation of consolidated financial statements, ARB 51 and Opinion 18 allow an entity to consolidate the results of an entity's operations (or recognize changes in the net assets of an equity method investment) as of, and for a period ending not more than three months prior to the parent's or investor's fiscal year-end.

As a result of the November 16, 2006 meeting, paragraph 1 of the abstract of Issue 06-9 was changed to the following:

ARB 51 and Opinion 18 allow a parent to have a difference between the parent's reporting year-end and the reporting year-end of a consolidated entity or an investor to have a difference between the reporting year-end of the investor and the reporting year-end of an equity method investee to consolidate the results of an entity's operations (or recognize changes in the net assets of an equity method investment).

The changes made to the penultimate draft of the abstract of Issue 06-9, and the wording of the final version appear to provide support for the acceptability of a "forward lag".

SEC Staff Response:

The Staff agrees with the Task Force recommendation.

Discussion Document C

Topic:

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) does not exceed 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 exceeds 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.

Task Force Recommendation:

Countries considered highly inflationary

The Task Force concluded that the following countries should be considered highly inflationary through March 31, 2007:

Angola *	Myanmar
Dominican Republic **	Zimbabwe

* Continues to be highly inflationary through March 31, 2007. The Task Force agreed to continue discussions on whether the country should come off highly inflationary status as of the first period beginning after December 15, 2007.

** This country will come off highly inflationary status. The Task Force agreed that registrants may change status as of the first period beginning after March 15, 2007, if practicable, but no later than the first period beginning after September 15, 2007.

Countries on the highly inflationary “watch list”

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

Eritrea	Guinea
Haiti	Venezuela
Iran	Zambia

SEC Staff Response:

The Staff agrees with the Task Force recommendation.