

INTERNATIONAL PRACTICES TASK FORCE
Center for Audit Quality Washington Office
November 24, 2009
HIGHLIGHTS

The Center for Audit Quality (CAQ) SEC Regulations Committee and its International Practices Task Force meets periodically with the staff of the SEC to discuss emerging financial 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. The highlights do not represent official positions of the CAQ. As with all other documents issued by the CAQ, these highlights are not considered authoritative and users are urged to refer directly to applicable authoritative pronouncements for the text of the technical literature. These highlights do not purport to be applicable or sufficient to the circumstances of any work performed by practitioners. They are not intended to be a substitute for professional judgment applied by practitioners.

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As available on this website, highlights of the Joint Meetings of the SEC Regulations Committee and its International Practices Task Force and the SEC staff are not updated for the subsequent issuance of technical pronouncements or positions taken by the SEC staff nor are they deleted when they are superseded by the issuance of subsequent highlights or authoritative accounting or auditing literature. As a result, the information, commentary or guidance contained herein may not be current or accurate and the CAQ is under no obligation to update such information. Readers are therefore urged to refer to current authoritative or source material.

I. Attendance

Task Force Members

Paul Curth (Ernst & Young)
Steven Krohn (KPMG)
Carol Banford (Grant Thornton)
Jon Fehleison (KPMG) (Via Teleconference)
Michael Liesmann (PwC) (Via Teleconference)
Debra MacLaughlin (BDO)
Victor Oliveira (Ernst & Young)
Joel Osnoss (Deloitte & Touche)
Eric Phipps (Deloitte & Touche) (Via Teleconference)
Catherine Samsel (PricewaterhouseCoopers)
Sondra Stokes (Deloitte & Touche)

Observers

Jill Davis (SEC Staff Observer)
Paul Dudek (SEC Staff Observer)
Melanie Dolan (SEC Regulations Committee Observer)
Chris Holmes (SEC Regulations Committee Observer)
Craig Olinger (SEC Staff Observer)
Allison Patti (SEC Staff Observer)
Annette Schumacher Barr (Center for Audit Quality Staff Observer)

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II. Current Practice Issues

- A. Issues related to Venezuela
- B. Monitoring Inflation in Certain Countries
- C. SEC reporting implications: A foreign private issuer that uses US GAAP and the reporting of accounting changes that require retrospective application
- D. SEC reporting implication: A foreign private issuer issues a complete set of interim financial statements prepared in accordance with IFRS-IASB
- E. SEC reporting implications: Restatement of previously issued IFRS-IASB financial statements for IFRS 3R purchase price adjustments
- F. Application of ASC 855, *Subsequent Events* to Financial statements of certain Foreign Private Issuers and certain financial statements filed pursuant to S-X Rule 3-05 and Rule 3-09
- G. SMEs for financial statements of S-X Rule 3-05 and Rule 3-09 of foreign businesses
- H. Selected Financial Data for IFRS-IASB issuers
- I. Applying the Item 17 price level changes accommodation to highly inflationary economies as defined under MFRS
- J. Foreign private issuers that voluntarily file using domestic forms
- K. Canadian registrants and adoption of IFRS

A. Issues related to Venezuela

The Task Force discussed various issues with the SEC staff with respect to Venezuela. These issues included, amongst others, the highly inflationary status of Venezuela and the exchange rate to use for translation of financial statements under ASC 830, *Foreign Currency Matters* (formerly FAS 52). A conclusion was not reached at the meeting. The SEC staff indicated that various accounting issues related to Venezuela would be discussed at the December 7-9, 2009, AICPA National Conference on Current SEC and PCAOB Developments. *[Note: Subsequent to the meeting, the SEC staff made an [announcement](#) at the March 18, 2010 EITF Meeting regarding certain foreign currency issues related to investments in Venezuela.]*

B. 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 providing information about the inflationary status of countries. As a result, it was agreed that a mechanism be developed for proactively monitoring the inflationary status of countries. The approach and the related assumptions used by the Task Force, and the inherent limitations, are summarized in the [May 14, 2009 Task Force meeting Highlights](#).

Conclusion

Venezuela

Subsequent to the November 24, 2009 meeting, the Task Force continued to monitor inflation statistics for Venezuela. As of November 30, 2009 and December 31, 2009, the three year cumulative inflation rate (using a blended Consumer Price Index (CPI) and National Consumer Price Index (NCPI)) was approximately 100.78% and 100.47%, respectively. These inflation rates were computed based upon information published by the Central Bank in Venezuela. Consequently, using a blended CPI and NCPI index Venezuela should be considered highly inflationary for periods beginning on or after December 1, 2009.

Using only the CPI index, Venezuela should be considered highly inflationary for periods beginning on or after July 1, 2009. Please refer to the minutes from the [July 27, 2009 Task Force meeting](#).

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Other countries

Countries considered highly inflationary

Based on the World Economic Outlook database – October 2009 Edition:

The following countries should continue to be considered highly inflationary as of September 30, 2009:

- Myanmar (1)
- Zimbabwe

Countries on the highly inflationary “watch list”

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

- Democratic Republic of Congo (2)
- Ethiopia
- Guinea (3)
- Iran
- Iraq
- São Tomé and Príncipe
- Seychelles

- (1) The information available on the International Monetary Fund (IMF) website with respect to Myanmar consists of projected data from 2007. Myanmar has not publicly provided information with respect to inflation and there is no central bank website. In light of the fact that current information is not available, and absent evidence to the contrary, Myanmar should remain on the highly inflationary list.
- (2) Based upon projections for 2009, the three year cumulative inflation rate for The Democratic Republic of the Congo has increased to just over 80%, and has been increasing at approximately a 20% rate over the past two years (40.3% three year cumulative rate in 2007, 65.8% in 2008). Given this trend, it has been added to the Watch List.
- (3) In April 2009, the IMF revised the information in its database related to Guinea for periods from 2005 through 2009. Based upon the revised information the IMF published on its website, Guinea appears to have had inflation in excess of 100% at December 31, 2008. However, it is unclear why the historical data compiled by the IMF has been revised, and the Task Force currently has no access to local information, only IMF data. The Task Force also notes that in late December 2008, the press reports that there was a military coup in Guinea. In light of the nature of the data, companies with investments in Guinea should obtain more up to date information to determine the appropriate accounting.

C. SEC reporting implications: A foreign private issuer that uses US GAAP and the reporting of accounting changes that require retrospective application

Background

Accounting Standards Codification (ASC) Topic 250-10 requires retrospective application for a change in accounting principle or a change in reporting entity. In addition, the transition provisions of certain recently issued accounting standards may require retrospective application.

For example, the SEC Staff in April 2009 shared with the CAQ Regulations Committee its views regarding how the 2009 first quarter adoption of FASB Statement 160 (now included in ASC Topic 810-10), FASB FSP APB 14-1 (now included in ASC Topic 470-20) and FSP EITF 03-6-1 (now included in ASC Topic 260-10) should be considered when filing a registration statement on Form S-3 that incorporates the most recent annual report on Form 10-K and the financial statements for an interim period that includes the date of adoption of those pronouncements. For example, the Staff indicated that once a company has adopted Statement 160 and has filed interim financial statements for a period that includes the date of adoption, Item 11(b) of Form S-3 would require a registrant to recast its prior period annual financial statements that are incorporated by reference into a registration statement to reflect a material retrospective application of Statement 160.

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Those Staff views are consistent with the Staff views as set out in the Division of Corporation Finance Financial Reporting Manual (FRM) Topic 13 (6/30/09) which states:

Certain events that occur after the end of a fiscal year will require retrospective revision of that year's financial statements (the "pre-event financial statements") if they are reissued after financial statements covering the period during which the event occurred have been filed. Such events include reporting a discontinued operation, a change in reportable segments, or a change in accounting principle.

13110.1 Reissuance of the pre-event financial statements is required if those financial statements are required to be included or incorporated by reference into a registration or proxy statement (with the exception of Form S-8 as noted below) along with financial statements covering the period during which the event occurred.

13110.2 In the case of a registration statement on Form S-3, Item 11(b)(ii) of that form would specifically require restatement of the audited financial statements that were incorporated by reference on a Form 10-K to reflect a subsequent change in accounting principle (or consistent with staff practice, discontinued operations and changes in segment presentation). This restatement would be required upon the subsequent filing of the Form 10-Q covering the period of change that reflects the financial presentation differences from the originally incorporated Form 10-K. In contrast, a prospectus supplement used to update a delayed or continuous offering registered on Form S-3 (e.g., a shelf takedown) is not subject to the Item 11(b)(ii) updating requirements. Rather, registrants must update the prospectus in accordance with S-K 512(a) with respect to any fundamental change. It is the responsibility of management to determine what constitutes a fundamental change.

13110.3 If the pre-event financial statements are not reissued in connection with any filing under the Securities Act or Exchange Act, annual information does not need to be retrospectively revised until that information is included in the registrant's next Annual Report on Form 10-K.

13110.4 Retrospectively revised quarterly information is required in Form 10-Qs filed after the event.

13110.5 For the information of investors, following the reporting of such an event in financial statements that include the period during which the event occurred, a registrant may elect (if reissuance is not required) to file under cover of Form 8K (Item 8.01) audited retrospectively revised financial statements for the pre-event periods.

For convenience, the various changes that require retrospective application are hereafter referred to as "accounting changes."

In summary, the Staff view would appear to be that the triggering event requiring that retrospectively recast annual financial statements be included in the registration statement is the issuance of financial statements reflecting the adoption of the accounting change.

These views are well understood in the context of a domestic issuer where the filing of the first 10-Q that includes the date of adoption of the change in accounting principle would be the triggering event. However, most foreign private issuers choose not to report on domestic forms. Many foreign private issuers publish financial information prepared under U.S. GAAP that is furnished on Form 6-K. Such published financial information typically includes:

1. A condensed income statement and balance sheet; but may not include a cash flow statement or a statement of comprehensive income; or
2. Little or no footnote disclosure.

As such, the published financial information is generally not prepared in accordance with Article 10 of Regulation S-X and does not meet all the disclosure requirements set forth in ASC Topic 270-10-50. In situations where such interim financial information is not required to meet the 9-month interim financial statements age requirements of Item 8.A.5 of Form 20-F, when the foreign private issuer files a registration statement on Form F-3 or F-4 it would typically either

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incorporate by reference the previously furnished 6-K or extract the relevant information from the 6-K and include it in a "Recent Developments" Section in the F-3.

Issue

In situations where the published financial information prepared under US GAAP is not required to meet the 9-month interim financial statements age requirements of Item 8.A.5 of Form 20-F, when does the published financial information (in which an accounting change is reflected) that is included in a registration statement trigger the requirement to recast previously issued annual financial information prior to their incorporation into a registration statement (e.g., F-3, F-4) other than an S-8?

Conclusion

Published financial information that includes the following would trigger the requirement to recast previously issued annual financial information prior to its incorporation into a registration statement (e.g., F-3, F-4) other than an S-8:

1. All the condensed primary statements (income statement, balance sheet, cash flow and comprehensive income)
2. All the footnotes required by ASC Topic 270-10-50 and S-X Article 10.

Since the financial statements were not prepared in accordance with S-X Article 10, the entity would not be required to recast prior annual financial statements for accounting changes (See Issue E, below with respect to purchase price adjustments). Generally, when a foreign private issuer is issuing information that in substance is intended to be substantially similar to information prepared in accordance with S-X Article 10, recasting of prior annual financial statements is required. The Staff may challenge any issuer that seeks to avoid recasting prior financial statements by some minor omission of information otherwise required by S-X Article 10. In addition, when the published financial information reflects the adoption of a change in accounting principle that requires retrospective application but the published financial information was not prepared in accordance with Article 10, if the FPI believes that the effect of the accounting change is pervasive on the prior annual financial statements, then recasting of the prior annual financial statements may be necessary in order for investors to understand the financial statements. The FPI is encouraged to consult with the Staff in these circumstances.

In situations where the prior annual financial statements are not recast because the published financial information does not meet the requirements for interim financial statements as required under S-X Article 10, registrants are reminded of the requirements to update the SAB 74 disclosures with respect to new accounting standards that have been issued but not yet adopted.

It is noted that in situations where such interim financial information is required to meet the 9-month interim financial statements age requirements of Item 8.A.5 of Form 20-F, the interim financial statements would be required to comply with S-X Article 10. In such situations, the interim financial statements trigger the requirement to recast previously issued annual financial information prior to its incorporation into a registration statement other than an S-8. Refer to sections 6220 and 13100 of the FRM for further guidance.

Refer to similar issues where the interim financial information is prepared under IFRS-IASB in Issue D, below and Discussion Document A of the [April 24, 2007 Task Force Highlights](#) which considered the circumstances in which a foreign private issuer released locally interim information and the standard to which that information would need to be prepared for it to trigger the updating of a registration statement.

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D. SEC reporting implication: A foreign private issuer issues a complete set of interim financial statements prepared in accordance with IFRS-IASB

Background

If more current interim financial information (other than that required to meet the 9-month interim financial statements age requirements) is included [or incorporated by reference into a registration statement](#) under Item 8.A.5 of Form 20-F and if such information contains a reconciliation to U.S. GAAP, the SEC staff believes that such more current financial information will be considered the most recent interim period. This is due to the U.S. GAAP reconciliation not being required in the local market and is being provided to "target" U.S. investors. Accordingly, this more current period should be used for MD&A (OFR) and pro forma financial information. Comparative interim information for the prior year will be required. [See Section 6220.6.c-d of the FRM]

Final Rule 33-8879 eliminated the requirement to provide a U.S. GAAP reconciliation for foreign private issuers that prepare financial statements in accordance with IFRS as issued by the IASB (IFRS-IASB). Among the amendments to Form 20-F related to Release 33-8879 was Instruction 3 to Item 8.A.5; for more current financial information provided by a registrant filing financial information that complies with IFRS-IASB, no reconciling information is required to be provided. This guidance applies to interim period financial information in registration statements and prospectuses when more current financial information is provided. Such information is required to be included in the document under Item 8.A.5. of Form 20-F. Additionally, the amendments also included Instruction 4 to Item 8.A.5, which provides that a registrant filing interim period financial statements (to meet timeliness requirements under Item 8.A.5.), is not required to comply with Article 10 of Regulation S-X if that registrant prepares its annual financial statements in accordance with IFRS-IASB and prepares its interim period financial statements in compliance with IAS 34 and explicitly states its compliance with IAS 34 in the notes to the interim financial statements.

In issue 6(c) of the [March 22, 2005 meeting](#), the IPTF gave consideration to a registrant reporting using IFRS, who adopts a new standard which requires retrospective application, and whether that causes a registrant to recast its previously issued annual financial statements to effect the accounting change for the purposes of a registration statement.

Issue 1

A registrant issues a complete set of IFRS interim financial statements, with comparative periods, indicating compliance with IAS 34 and IFRS-IASB. The financial statements also contain condensed consolidating financial information with respect to guarantor subsidiaries required by Regulation S-X, Rule 3-10.

In situations where the IFRS interim financial statements are not required to meet the 9-month interim financial statements age requirements of Item 8.A.5 of Form 20-F, does issuing a complete set of interim IFRS financial statements result in the foreign private issuer having elected to update certain information (i.e., an updated MD&A/OFR and pro forma (where applicable)) prior to the date they would be required to do so under Form 20-F?

Conclusion

No. The foreign private issuer is merely providing information that has been made public in another jurisdiction so that US investors also have access to this information. In effect, they are not separately "targeting" US investors, by providing such IFRS-IASB IAS 34 compliant information (even if it includes S-X Rule 3-10 guarantor consolidating information). Therefore, the foreign private issuer should not consider such IFRS information "more current information" that would trigger the updating requirements for MD&A/OFR, and any pro forma financial information (where applicable). Although, a best practice would be to provide the updated MD&A/OFR and pro forma financial information (where applicable). In situations where the IFRS interim financial statements are not required to meet the 9-month interim financial statements age requirements of Item 8.A.5 of Form 20-F such updating is not required.

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Issue 2

A registrant issues a complete set of IFRS interim financial statements, with comparative periods, indicating compliance with IAS 34 and IFRS-IASB. The interim IFRS financial statements also contain the adoption of a new standard that requires retrospective application.

Does issuing a complete set of interim IFRS financial statements result in the foreign private issuer being required to revise the prior year annual financial statements to reflect the retrospective application of a new accounting standard, prior to moving forward with a registration statement (other than a S-8)?

Conclusion

Yes. Because the interim information that was released represents a complete set of interim financial statements, the foreign private issuer would need to recast its previously issued annual financial statements prior to proceeding with a registration statement (other than a Form S-8). This recasting is needed in order to meet the requirements of Item 5 of Form F-3 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.”, as well as the Division of Corporation Finance Financial Reporting Manual Topic 13 (6/30/09), paragraphs 13110.1 – 13110.5.

E. SEC reporting implications: Restatement of previously issued IFRS-IASB financial statements for IFRS 3R purchase price adjustments

Background

At past SEC Regulations Committee meetings, the SEC staff has provided guidance related to information required in registration statements when there are retrospective adjustments to provisional amounts after adoption of FAS 141(R). The SEC staff stated that when a material retrospective adjustment to provisional amounts is required and the adjustment has not yet been reflected in subsequent financial statements, the registrant must provide revised financial statements reflecting that material retrospective adjustment prior to effectiveness of a registration statement (other than Form S-8). These circumstances differ from those in which a revision of historical financial statements is required as a result of an accounting change (e.g., discontinued operations, change in reporting segments, retrospective accounting changes). In those cases, revised audited financial statements are not required (or permitted) until the registrant has filed interim financial statements reflecting the subsequent accounting change. There was no discussion in SEC Regulations Committee meetings minutes related to whether the same guidance should be provided to IFRS-IASB filers who have such adjustments under IFRS 3R.

As a result of the IFRS/US GAAP convergence project, ASC Topic 805 (formerly FAS 141(R)) and IFRS 3R have substantially identical provisions. In this regard, paragraphs 51 through 56 of FAS 141(R) are identical to paragraphs 45-50 of IFRS 3R related to the required retroactive revisions to be made to preliminary purchase accounting done during the measurement period.

Issue

Is the SEC staff guidance provided at the SEC Regulations Committee related to information required in registration statements when there are retrospective adjustments to provisional amounts after adoption of ASC Topic 805 (formerly FAS 141(R)) equally applicable to IFRS as issued by IASB (IFRS-IASB) filers who have such adjustments under IFRS 3R?

Conclusion

Yes. The same guidance should be applied as there are no differences between IFRS as issued by IASB and US GAAP in this area. The SEC Regulations Committee guidance (reproduced below) should be applied to foreign private issuers filing IFRS-IASB financial statements by replacing references to US GAAP guidance with relevant IFRS guidance and to Forms S-3, 10-K, and 8-K with relevant foreign private issuer Forms F-3, 20-F and 6-K.

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Provided below are excerpts from the June 23, 2009 and April 9, 2008 SEC Regulations Committee minutes with regard to such matters.

I Excerpt from the June 23, 2009 SEC Regulations Committee minutes

D. Information required in registration statements when there are retrospective adjustments to provisional amounts after adoption of the FASB's new standard on business combinations (FAS 141R/ASC Topic 805)

Under the FASB's new business combination standard, adjustments to provisional allocations of purchase price during the measurement period result in retrospective changes to prior financial statements. At the April 9, 2008 SEC Regulations Committee Joint Meeting with the SEC staff (see Discussion Document A.7), the SEC staff stated that when a material retrospective adjustment to provisional amounts is required and the adjustment has not yet been reflected in subsequent financial statements, the registrant must provide revised financial statements reflecting that material retrospective adjustment prior to effectiveness of a registration statement (other than Form S-8).

These circumstances differ from those in which a revision of historical financial statements is required as a result of an accounting change (e.g., discontinued operations, change in reporting segments, retrospective accounting changes). In those cases, revised audited financial statements are not required (or permitted) until the registrant has filed interim financial statements reflecting the subsequent accounting change.

Mr. Carnall confirmed the SEC staff's previously expressed view and noted that this information will be incorporated into a future version of the FRM. Mr. Carnall also confirmed that, in the absence of a registration statement, a registrant could file a Form 8-K to voluntarily provide financial statements reflecting a material retrospective adjustment to the provisional amounts previously reported.

II Excerpt from the April 9, 2008 SEC Regulations Committee minutes

7. Information Required in Registration Statements When There are Retrospective Adjustments

Issue: After a registrant adopts FASB Statement 141 (R), *Business Combinations*, it will be required to retrospectively adjust the provisional amounts reflected in its financial statements as it completes accounting for a business combination. This discussion document addresses the implications for registration statement filings when material amounts of such adjustments (1) are known but not reflected in any financial statements, or (2) have been recorded in the most recent interim financial statements but the acquisition has not occurred in the preceding fiscal year and the adjustments are not reflected in the annual financial statements to be presented or incorporated by reference in the registration statement.

Background: After a registrant adopts FASB Statement 141R, it will be required to retrospectively adjust the provisional amounts reflected in its financial statements as it completes its accounting for a business combination, as discussed in paragraph 51:

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the acquirer also shall recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of those assets and liabilities as of that date.

The SEC staff and the Committee have discussed similar issues a number of times. Perhaps the discussion that are most relevant to this issue are the discussions of subsequently discontinued operations (see Discussion Document E

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from the March 2002 meeting) and financial information requirements in registration statements when there are retrospective accounting changes (see Discussion Document F from the June 2006 meeting).

Question 1: After a registrant adopts Statement 141R, if it determines that it must make a material retrospective adjustment to provisional amounts it previously reflected in its financial statements and this adjustment has not yet been reflected in any historical financial statements, what financial information regarding the effects of these adjustments on previously issued financial statements should be included or incorporated by reference in a registration statement?

Discussion: Paragraph 51 of Statement 141R does not contain provisions such as those in paragraph 43 of Statement 144, which precludes presenting a component as a discontinued operation when it is disposed of or classified as held for sale after the balance sheet date but before the financial statements are issued. Such adjustments are also not an accounting change for which the FASB has specified an effective date.

View A: Disclosure of the impending change is sufficient. This situation is analogous to an accounting change. When a registrant decides to make an accounting change and it has not yet been reflected in any financial statements, disclosure that is consistent with SAB 74 is sufficient.

View B: Pro forma information depicting the accounting change is sufficient. Consistent with the treatment of retrospective changes related to discontinued operations (and reportable segments), the historical financial statements should not be revised until a company reports a period that reflects the retrospective adjustment.

View C: The registrant must provide or incorporate by reference revised financial statements reflecting the retrospective adjustment if the adjustment is material. (Although revised financial statements must be provide or incorporated by reference in the registration statement, because they did not contain errors when they were filed, it would be inappropriate to amend previously filed Exchange Act periodic reports (e.g., Forms 10-Q and 10-K).)
Committee Recommendation: The Committee supports View C.

SEC Staff Response:

The staff agrees with View C.

Question 2: After a registrant adopts Statement 141R, if it determines that it must make a material retrospective adjustment to provisional amounts it previously reflected in its financial statements and this adjustment has been reflected in subsequent interim historical financial statements but the acquisition occurred in the preceding fiscal year and the adjustments are not reflected in the annual financial statements, what financial information regarding the effects of these adjustments on previously issued financial statements should be included in a registration statement? Would the conclusion be different if the previously issued annual financial statements are incorporated by reference, rather than included?

Committee Recommended Approach: The Committee believes that a registrant in this situation should provide revised audited financial statements for the year of acquisition reflecting the adjustments. Note that the conclusion would not be different if the previously issued financial statements are incorporated by reference, rather than included. (Although revised financial statements must be provided or incorporated by reference in the registration statement, because they did not contain errors when they were filed, it would be inappropriate to amend previously filed Exchange Act periodic reports (e.g., Forms 10-Q and 10-K).)

SEC Staff Response:

The staff agrees with the Committee Recommended Approach.

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F. Application of ASC 855, *Subsequent Events* to Financial statements of certain Foreign Private Issuers and certain financial statements filed pursuant to S-X Rule 3-05 and Rule 3-09

Statement of Financial Accounting Standards No. 165, *Subsequent Events* (Statement 165), was issued in May 2009, and is effective, on a prospective basis, for interim or annual financial periods ending after September 15, 2009. Statement 165 was codified in ASC 855, *Subsequent Events*. The Task Force discussed the application of ASC 855 to financial statements of certain FPIs and certain financial statements filed pursuant to S-X Rule 3-05 and Rule 3-09. In light of the November 4, 2009 FASB board meeting and the planned issuance of a Proposed Accounting Standards Update, the Task Force deferred discussion on this issue to a future date.

G. IFRS for SMEs for financial statements of S-X Rule 3-05 and Rule 3-09 of foreign businesses

On July 9, 2009, the International Accounting Standards Board (IASB) issued its International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs). This standard is the culmination of a five year project to address the financial reporting needs of small and medium-sized entities that do not have public accountability.

The Task Force discussed whether or not IFRS for SMEs might be acceptable for the preparation of Rule 3-05 and Rule 3-09 financial statements of foreign businesses. Further discussion is planned in the future.

H. Selected Financial Data for IFRS-IASB issuers

Issue: Is U.S. GAAP Selected Financial Data (SFD) required for any years in the five-year period for issuers that prepare their financial statements in accordance with IFRS as issued by the IASB (IFRS-IASB), including those that are first-time adopters and those that have previously prepared IFRS-IASB financial statements?

Background

Release 33-8879 adopted amendments to Form 20-F that eliminated the reconciliation to U.S. GAAP requirement for foreign private issuers that file their financial statements on an IFRS-IASB basis and meet the other criteria in Instruction G to Form 20-F.

The IPTF addressed implementation questions regarding SEC Release No. 33-8879, and such Q&A's were included in the March 4, 2008 Teleconference Highlights.

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Q&As 11 and 17 previously addressed matters related to Selected Financial Data (SFD) and are reproduced below.

Q&A 11

- Q. Example Scenario: An FPI with a December 31 year-end files its annual report on Form 20-F in April 2008. The Form 20-F includes audited financial statements for the years ended December 31, 2007, 2006 and 2005 prepared in accordance with IFRS as issued by the IASB. An FPI that prepares its financial statements using IFRS as issued by the IASB is not required to provide selected financial data on a basis reconciled to U.S. GAAP after the Compliance Date. For periods prior to the Compliance Date, is the FPI required to provide the selected financial data on a basis reconciled to U.S. GAAP?
- A. Since the selected financial data for periods prior to the Compliance Date are derived from financial statements prepared using IFRS as issued by the IASB without reconciliation to U.S. GAAP, such U.S. GAAP selected financial data is not required to be presented. However, if such selected financial data is derived from financial statements prepared using another comprehensive basis of accounting that is required to be reconciled to U.S. GAAP, the FPI is required to provide selected financial data on a basis reconciled to U.S. GAAP.

Q&A 17

- Q. General Instruction G.(c) Selected Financial Data, which was not amended by the Release, requires selected financial data for 5 years in accordance with U.S. GAAP except if the issuer is otherwise permitted to omit selected financial data for either or both of the earliest two years of the five-year period pursuant to Item 3.A.1 of Form 20-F. Is a first-time adopter of IFRS required to present selected financial data in accordance with U.S. GAAP for those periods that are presented in accordance with IFRS as issued by the IASB and are not required to be reconciled to U.S. GAAP?
- A. No. A first-time adopter of IFRS is not required to present selected financial in accordance with U.S. GAAP for those periods that are presented in accordance with IFRS as issued by the IASB and are not required to be reconciled to U.S. GAAP. First-time adopters of IFRS are permitted to follow the guidance in Item 3.A of Form 20-F, which does not require selected financial data on a U.S. GAAP basis when the financial statements are presented in conformity with IFRS as issued by the IASB.

The above guidance provides that IFRS-IASB issuers are not required to present SFD in accordance with U.S. GAAP for "those periods" presented in accordance with IFRS-IASB. Although the last sentence in Q&A 17 could be interpreted to indicate that Item 3.A. of Form 20-F does not require selected financial data on a US GAAP basis "for any period", it could also be interpreted to "not require SFD on a US GAAP basis for (only) those periods in which IFRS-IASB financial information is provided".

Conclusion

The interpretation of the Task Force and the SEC Staff of the Q&A is that IFRS/IASB filers do not have to present US GAAP information for any of the years in the five-year period for SFD, unless a company voluntarily provides Previous GAAP information in SFD (for those years prior to adopting IFRS/IASB), which would also trigger a requirement to include US GAAP SFD for such periods.

Although Instruction G(c) was not amended by the Release 33-8779 and continues to contain guidance that "the issuer shall present selected historical financial data in accordance with U.S. GAAP for the five most recent financial years, except as the issuer is otherwise permitted to omit U.S. GAAP information for any of the earliest of five years pursuant to Item 3.A.1", IFRS/IASB filers do not have to consider any further criteria in Item 3.A.1 in order to omit U.S. GAAP information from SFD. Therefore, for new and existing IFRS/IASB filers, US GAAP information is not needed for any of the years in the five-year period for SFD, unless a company voluntarily provides Previous GAAP information in SFD. This guidance also applies to IFRS/IASB filers that previously filed local GAAP financial statements reconciled to US GAAP or US GAAP primary financial statements with the SEC and change their basis of accounting for filing with the SEC to IFRS-IASB financial statements even if they do not reflect first-time adoption of IFRS/IASB under IFRS 1.

INTERNATIONAL PRACTICES TASK FORCE
Center for Audit Quality Washington Office
November 24, 2009
HIGHLIGHTS

I. Applying the Item 17 price level changes accommodation to highly inflationary economies as defined under MFRS

Background

Until December 31, 2007, Mexican Financial Reporting Standards (MFRS) required the preparation of financial statements that comprehensively included the effects of price level changes using a historical cost/constant currency approach.

On January 1, 2008, MFRS B-10, *Effects of Inflation* and MFRS B-15 *Foreign Currency Translation* became effective. This change has effectively caused Mexican entities to cease the recognition of inflation in their financial information, except for “inflationary subsidiaries.” MFRS defines inflationary subsidiaries as those having a cumulative three-year inflation of 26% or more.

MFRS requires a prospective approach to the adoption of the two new standards. Under the new standards, the financial statement amounts that were previously reported remained unchanged, and the inflation adjustments previously recognized are maintained in their corresponding caption. In effect, the restated amounts of non-monetary assets as reported at December 31, 2007 become the carrying amounts for those assets effective January 1, 2008.

Both Regulation S-X 3-20 (d) and ASC 830-10-45-17 define a hyperinflationary economy as one that has cumulative inflation of approximately 100 percent or more over the most recent three year period. Consequently, the MFRS definition of inflationary subsidiaries does not meet the definition of hyperinflationary under U.S. GAAP.

The Item 17 (Item 18) reconciliation requirements provide two accommodations for foreign private issuers to not require reconciliation of price level changes, as follows:

Under Item 17(c)(2)(iv)(a) of Form 20-F, a company that is otherwise required to reconcile to U.S. GAAP and comprehensively includes the effects of price level changes in its primary financial statements using the historical cost/constant currency or current cost approach, need not reflect the effects of such accounting in its reconciliation (Item 17 Indexation Accommodation).

Under Item 17(c)(2)(iv)(b) of Form 20-F, a foreign private issuer that accounts in its primary financial statements for an operation in a hyperinflationary economy in accordance with IAS 21, *The Effects of Changes in Exchange Rates*, as amended, may omit quantification of any differences that would have resulted from application of ASC 830 in U.S. GAAP. The SEC's historical interpretation (documented in prior task force minutes) of this accommodation for not having to reconcile inclusion of highly-inflationary operations uses the IFRS-IASB definition for highly-inflationary to obtain the accommodation (generally, cumulative inflation in excess of 100% over 3 year period). (Item 17 IAS 21/29 Accommodation)

Issue

Effective January 1, 2008, does MFRS qualify for the Item 17 Indexation Accommodation?

Conclusion

Effective January 1, 2008, MFRS ceased to require the preparation of financial statements that comprehensively includes the effects of price level changes. As a result, MFRS no longer meets the Item 17 Indexation Accommodation that requires companies to prepare their financial statements in a reporting currency that comprehensively includes the effects of price level changes using the historical cost/constant currency or current cost approach.

Mexican entities continuing to include the MFRS inflationary subsidiaries in consolidation using the restate/translate method would now be required to reconcile to U.S. GAAP the effects of inclusion of such subsidiaries that do not meet the higher threshold of the Item 17 IAS 21/29 Accommodation. The application of the Item 17 IAS 21/29 Accommodation is based on the hyperinflationary status of the individual countries where the operations are located.

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However, registrants may apply the consensus in the May 14, 2008 issue relating to Mexico (Issue B) to determine the carrying amounts as of January 1, 2008.

J. Foreign private issuers that voluntarily file using domestic forms

Background

There are a number of companies that meet the definition of a foreign private issuer (FPI) but voluntarily file their financial statements using SEC domestic forms.

Issue

Should companies that qualify as FPIs but voluntarily file their financial statements using the domestic filer forms (e.g., Form 10-K, Form 10-Q) be permitted to file their financial statements using IFRS-IASB?

Conclusion

The Task Force discussed this matter. Subsequent to the meeting, the SEC staff expressed the following view:

Foreign private issuers that voluntarily file on domestic forms may file financial statements prepared under home-country GAAP and provide a reconciliation to U.S. GAAP under Item 18 of Form 20-F. Foreign private issuers that voluntarily file on domestic forms may file financial statements prepared under IFRS as issued by the IASB without reconciliation to U.S. GAAP. In both cases the filings should prominently disclose that the company meets the foreign private issuer definition but is voluntarily filing on domestic forms.

This view is based on Rule 4-01(a)(2) of Regulation S-X and is included in the SEC Staff's Financial Reporting Manual (Section 6120.6).

K. Canadian registrants and adoption of IFRS

Background

Certain Canadian entities that do not qualify as FPIs file on U.S. domestic forms (e.g., Form 10-K, 10-Q) and their financial statements are prepared under Canadian GAAP (CGAAP) reconciled to U.S. GAAP. A SEC staff accommodation permitted this practice because Canadian securities and corporate laws required Canadian incorporated and/or listed companies to report in accordance with CGAAP. As with all foreign private issuers, Canadian foreign private issuers that prepare their financial statements in accordance with IFRS as issued by the IASB need not reconcile to U.S. GAAP.

Commencing with years beginning January 1, 2011, all public companies following CGAAP will have to convert to IFRS as issued by the IASB (IFRS-IASB).

Issue

Should Canadian registrants [that are not foreign private issuers](#) be permitted to file their financial statements using IFRS-IASB?

Conclusion

The Task Force discussed this matter. Subsequent to the meeting, the SEC staff expressed the following view:

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- a. A Canadian company that is not a foreign private issuer that has historically used Canadian GAAP in filings with the SEC may continue to do so for fiscal years prior to 2011. It must file on domestic forms and provide a reconciliation to U.S. GAAP under Item 18 of Form 20-F.
- b. Beginning with fiscal year 2011, a Canadian company that is not a foreign private issuer must use U.S. GAAP in filings with the SEC. The financial statements and selected financial data should be recast into U.S. GAAP for all periods presented in the financial statements.

This view is included in the SEC Staff's Financial Reporting Manual (Section 6120.5).

DATE OF NEXT MEETING

The Task Force agreed to meet on May 25, 2010.