

INTERNATIONAL PRACTICES TASK FORCE
Center for Audit Quality Washington Office
November 23, 2010
HIGHLIGHTS

The Center for Audit Quality (CAQ) SEC Regulations Committee and its International Practices Task Force meet 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 and do not represent an official position of the AICPA or 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.

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.

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subsequent issuance of technical pronouncements or positions taken by the SEC staff nor are they deleted when they are superseded by the issuance of subsequent highlights or authoritative accounting or auditing literature.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)
Carol Banford (Grant Thornton)
Rich Davisson (McGladrey & Pullen)
Jon Fehleison (KPMG)
Jonathan Guthart (KPMG) (Via Teleconference)
Debra MacLaughlin (BDO)
Victor Oliveira (Ernst & Young)
Scott Ruggiero (Grant Thornton)
Catherine Samsel (PricewaterhouseCoopers)
Sondra Stokes (Deloitte & Touche)

Observers

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

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II. Current Practice Issues

- A. 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**
- B. XBRL and Foreign Private Issuers**
- C. Colombia Price-Level Adjusting**
- D. Monitoring inflation in certain countries**

A. 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

Background

Statement of Financial Accounting Standards No. 165, *Subsequent Events* (Statement 165), was issued in May 2009, and was 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*. On February 24, 2010, the FASB issued Accounting Standards Update 2010-09 (ASU) to amend ASC 855.

Under ASC 855, entities are required to recognize in their financial statements the effects of subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. These events are referred to as “recognized subsequent events.” Events that provide evidence about conditions that did not exist at the balance sheet date but arose subsequent to that date are required to be disclosed but not recognized, which are referred to as “nonrecognized subsequent events.”

As a result of the ASU, Securities and Exchange Commission (SEC) Filers¹ are not required to disclose the date through which management evaluated subsequent events in the financial statements — either in originally issued financial statements or reissued financial statements. The Task Force noted that SEC registrants’ considerations with respect to evaluating subsequent events will be consistent with those before the issuance of the accounting guidance for subsequent events.

However, all other entities (i.e., entities that are not SEC Filers or conduit bond obligors) are required to evaluate subsequent events through the date that the financial statements are available to be issued and also must disclose that date.

The Task Force discussed situations when the primary financial statements of a FPI SEC Filer are prepared in accordance with a comprehensive body of accounting principles (Local GAAP) other than U.S. GAAP or International Financial Reporting Standards as issued by the International Accounting Standards Board. In these situations, the Task Force acknowledged that the “recognized subsequent events” period ends when the FPI has widely distributed its Local GAAP financial statements and its auditor has completed the [audit in accordance with PCAOB standards](#) of the Local GAAP financial statements. Under such circumstances in practice, subsequent events occurring between the original issuance of Local GAAP financial statements and the re-issuance of Local GAAP financial statements that include the U.S. GAAP financial information would not result in an adjustment of the Local GAAP financial statements or the U.S. GAAP financial information for recognition of additional

¹ An entity that is required to file or furnish its financial statements with either of the following: a. The Securities and Exchange Commission (SEC); or b. With respect to an entity subject to Section 12(i) of the Securities Exchange Act of 1934, as amended, the appropriate agency under that Section.

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subsequent events included in the SEC filing, unless the event meets the criteria for the correction of an error or the criteria for a prior period adjustment. Disclosures with respect to “nonrecognized subsequent events” arising in the intervening period may be included in the notes to the financial statements.

Issue 1 – Disclosure of subsequent events for financial statements prepared pursuant to Item 18

ASC 855-10-50-1 requires non-SEC Filers to disclose the date through which subsequent events have been evaluated. Also, certain companies may provide such information on a voluntary basis. The definition of SEC Filer specifically excludes entities that are not otherwise SEC Filers whose financial statements are included in a submission by another SEC Filer (e.g., financial statements filed with the SEC pursuant to S-X Rule 3-05 and Rule 3-09 for entities that are not otherwise SEC Filers). Companies filing an initial registration statement also would be considered non-SEC Filers.

For financial statements of companies filing an initial registration statement prepared in accordance with Local GAAP and reconciled to U.S. GAAP in accordance with Item 18 of Form 20-F, or S-X Rule 3-05 and Rule 3-09 financial statements prepared in accordance with Local GAAP and reconciled to U.S. GAAP in accordance with Item 18 of Form 20-F on a voluntary basis, or an SEC Filer that chooses to provide such disclosure on a voluntary basis, what date with respect to the evaluation of subsequent events should be disclosed?

Conclusion

For entities in such situations, the “recognized subsequent events” period ends when the Local GAAP financial statements are “available to be issued” (for non-SEC filers) or “issued” (for SEC filers) and an auditor has completed the PCAOB or U.S. GAAS (depending on the circumstances) audit of the Local GAAP financial statements. The date to be disclosed is the date used for “recognized subsequent events.”

The following example illustrates possible disclosure by a non-SEC Filer in its note that provides the U.S. GAAP financial information:

On March 1, the Company issued its financial statements prepared in accordance with accounting principles generally accepted in [country X]. Subsequent to March 1, the Company completed the preparation of the following information relating to the nature and effect of differences between accounting principles generally accepted in [country X] with accounting principles generally accepted in the United States of America. Subsequent events have been evaluated through March 1, which represents the date the financial statements were issued.

Similar disclosure may be provided by an SEC filer that chooses to provide the ASC 855-10-50-1 disclosures on a voluntary basis.

Issue 2 – Disclosure of subsequent events for financial statements prepared pursuant to Item 17

For financial statements of non-SEC Filers prepared in accordance with Local GAAP and reconciled to U.S. GAAP in accordance with Item 17 of Form 20-F, is there a requirement to provide the disclosures required by ASC 855?

Conclusion

Financial statements prepared in accordance with Local GAAP and reconciled to U.S. GAAP pursuant to Item 17 of Form 20-F are not required to provide additional disclosures that are required by U.S. GAAP. Consequently, such financial statements do not have to provide the disclosures required by ASC 855. However, voluntary disclosure is encouraged of the “recognized subsequent events” date to enable an investor to clearly understand the date through which subsequent events have been evaluated.

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B. XBRL and Foreign Private Issuers

Background

On January 30, 2009, the SEC published a final rule, *Interactive Data to Improve Financial Reporting* that requires the use of eXtensible Business Reporting Language (XBRL) for SEC financial reporting. The final rule applies to most SEC reporting companies. However, XBRL financial statement tagging does not apply to:

- An investment company registered under the Investment Company Act of 1940 (Investment Company)
- A “business development company,” as defined
- A foreign private issuer (FPI) that presents its financial statements on a comprehensive basis of accounting other than US GAAP or International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS-IASB)

XBRL is being phased-in over three years beginning with the first Form 10-Q (or for FPIs, their first Form 20-F or 40-F, if applicable) for the period ending after the specified transition date. The phase-in groups are as follows:

- For fiscal periods ending on or after June 15, 2009, US public companies and FPIs that (a) file financial statements with the SEC using US GAAP and (b) have a worldwide public float over \$5 billion
- For fiscal periods ending on or after June 15, 2010, all other large accelerated filers using US GAAP
- For fiscal periods ending on or after June 15, 2011, all other filers, including smaller reporting companies and all filers that use IFRS-IASB

FPIs that file annual reports on Form 20-F are required only to furnish promptly, in a Form 6-K, material information an issuer:

- Makes or is required to make public pursuant to the law of the jurisdiction of its domicile or in which it is incorporated or organized
- Files or is required to file with a stock exchange on which its securities are traded and which was made public by that exchange
- Distributes or is required to distribute to its security holders

Specifically, with respect to XBRL requirements, General Instruction C.(6)(a) to Form 6-K, states the following:

... is required for a Form 6-K (§249.306 of this chapter) only when the Form 6-K contains either of the following: audited annual financial statements that are a revised version of financial statements that previously were filed with the Commission that have been revised pursuant to applicable accounting standards to reflect the effects of certain subsequent events, including a discontinued operation, a change in reportable segments or a change in accounting principle; or current interim financial statements included pursuant to the nine-month updating requirement of Item 8.A.5 of Form 20-F, and, in either such case, the Interactive Data File would be required only as to such revised financial statements or current interim financial statements regardless whether the Form 6-K contains other financial statements.

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Recently, at the September 21, 2010 Regulations Committee meeting:

Wayne Carnall added that foreign private issuers that use US GAAP and have a float in excess of \$5 billion that block tagged in their December 31, 2009 20-F would be required to detail tag interim information for periods after June 15, 2010 that are provided to comply with Form 20-F Item 8.A.5 nine month updating requirement. While the adopting release could be read to imply that a company would have one year to do block tagging, the regulation text is clear that for periods after June 15, 2010 detailed tagging is required.

Issue 1 - Financial statements prepared using IFRS-IASB

Scenario: A FPI, which is not an Investment Company or a “business development company,” presents its financial statements using IFRS-IASB and files its annual report on Form 20-F. The FPI elects to post XBRL tagged financial statements on its company website for periods prior to the required XBRL compliance transition date in accordance with the SEC’s final rule (fiscal periods ending before June 15, 2011).

In this scenario, the XBRL tagged financial statements available on the company’s website are only in a different format and not new information available to security holders. Consequently, the FPI is not required to furnish the XBRL tagged financial statements on Form 6-K as a result of the inclusion of the XBRL tagged financial information in its website.

Further, the FPI may not voluntarily furnish XBRL tagged financial statements on Form 6-K prior to the SEC’s approval of a taxonomy for IFRS-IASB. As of November 23, 2010, the SEC has not yet approved the taxonomy for IFRS-IASB. Additionally, EDGAR is not yet capable of accepting XBRL filings by a FPI that prepares its financial statements in accordance with IFRS-IASB.

Issue 2 - Financial statements prepared using US GAAP

Scenario: A FPI, with a worldwide public float over \$5 billion, prepares its financial statements using US GAAP. The FPI’s Form 20-F for the year ended December 31, 2009 included an XBRL exhibit. In a Form 6-K, the FPI furnishes a full set of interim financial statements for the period ended June 30, 2010. The interim financial statements are not being submitted pursuant to the nine-month updating requirement of Item 8.A.5 of Form 20-F.

In this scenario, since the FPI is furnishing interim financial statements in a Form 6-K that are not being submitted pursuant to the nine-month updating requirements of Item 8.A.5 of Form 20-F, the FPI is not required to submit an XBRL exhibit pursuant to General Instruction C.(6)(a) to Form 6-K.

If the FPI was furnishing a full set of interim financial statements in a Form 6-K that are being submitted pursuant to the nine-month updating requirements of Item 8.A.5 of Form 20-F, pursuant to General Instruction C.(6)(a) to Form 6-K, the FPI is required to submit an XBRL exhibit. Further, in this fact pattern, based on the September 21, 2010 Regulations Committee meeting (Item V), the XBRL exhibit should be detailed tagged.

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C. Colombia – Price Level Adjusting

Background

The International Reporting and Disclosure Issues in the Division of Corporation Finance Appendix A – Country Specific Issues, Section 3. South America includes the following guidance with respect to Colombia:

Colombia – Price Level Adjusting

As of January 1, 1992, Colombia began using price level accounting on a prospective basis. The effects of inflation not recognized in periods prior to 1992 when Colombia was hyperinflationary would result in a US GAAP difference. When presenting comparative financial statements in the US, Rule 3-20 of Regulation S-X requires all financial statements be retroactively restated to reflect constant currency as of the balance sheet date. Under Colombian GAAP, prior year financial statements are not restated. The requirement regarding the use of a constant currency of equivalent purchasing power must be applied in the primary financial statements. That is, it cannot be “corrected” in the reconciliation to US GAAP.

Colombia’s economy was classified as hyperinflationary from the mid 1960’s to 2000.

In implementing the above, the retroactive effect of applying price level accounting not recognized in periods prior to 1992 on Colombian GAAP financial statements (reconciled to US GAAP), developed for periods subsequent to the period in which the Colombian economy was classified as hyperinflationary (e.g., for a US IPO that would include fiscal years 2008, 2009 and 2010), would be reflected in the opening balance sheet as an increase in long lived assets and accumulated depreciation and in the statement of operations as an increase in depreciation and amortization expense.

As the adoption provision in Colombian GAAP required price level accounting on a prospective basis, the presentation of the Colombian GAAP financial statements where the price level accounting was applied for periods prior to 1992 on a retroactive basis would be considered an exception in Colombian GAAP requiring the independent auditor to issue a qualified or adverse opinion or decline issuing an audit report.

A strict interpretation of Rule 3-20 of Regulation S-X (c) would require only supplementary information to quantify the effects of changing prices for a registrant that is developing financial statements for the 3 most recent years for inclusion in a filing, since these years are not hyperinflationary. However, simply providing supplementary information would not result in a set of constant currency Colombian GAAP financial statements.

Issue

How should the retroactive effect of applying price level accounting not recognized in periods prior to 1992 on Colombian GAAP financial statements (reconciled to US GAAP), developed for periods subsequent to the period in which the Colombian economy was classified as hyperinflationary, be reflected in financial statements filed with the SEC?

Conclusion

Given that the effects of the price level accounting are for hyperinflationary periods prior to any periods included in a current registration statement, or other filing, the hyperinflationary effects that are not reflected in the Colombian GAAP financial statements may be presented through an adjusting line item in the US GAAP reconciliation. This hyperinflationary effect line item will adjust net income on a Colombian GAAP basis to a subtotal for an Inflation Adjusted Colombian GAAP net income. The customary GAAP reconciling items would then be used to reconcile Inflation Adjusted Colombian GAAP net income to US GAAP net income. Similarly, price level inflation

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adjustments to balance sheet line items (e.g., property, plant and equipment, intangibles) would be disclosed consistent with the balance sheet presentation compliant with Form 20-F, Item 17 and adopted by the company.

D. 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

Countries considered highly inflationary

Based on the World Economic Outlook database – September 2010 Edition:

The following countries should continue to be considered highly inflationary as of September 30, 2010:

- Democratic Republic of Congo (1)
- Myanmar (2)
- Venezuela

Countries on the highly inflationary “watch list”

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

- Eritrea
- Ethiopia

- (1) The three year cumulative inflation rate through 2009 for The Democratic Republic of the Congo was approximately 113%, having increased dramatically in the later part of 2009.
- (2) The information available on the International Monetary Fund (IMF) website with respect to Myanmar consists of projected data from 2008. 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.

Other

Due to the recent “dollarization” of the Zimbabwe economy, as reported in the press, Zimbabwe is no longer considered highly inflationary.