

**INTERNATIONAL PRACTICES TASK FORCE**  
**Center for Audit Quality Washington Office**  
**November 22, 2011**  
**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subsequent issuance of technical pronouncements or positions taken by the SEC staff nor are they deleted when they are superseded by the issuance of subsequent highlights or authoritative accounting or auditing literature.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, Chair (Ernst & Young)  
Jonathan Guthart, Vice-Chair (KPMG) (Via Teleconference)  
Rich Davisson (McGladrey & Pullen)  
Jon Fehleison (KPMG)  
Debra MacLaughlin (BDO)  
Victor Oliveira (Ernst & Young)  
Scott Ruggiero (Grant Thornton)  
Catherine Samsel (PricewaterhouseCoopers)  
Sondra Stokes (Deloitte & Touche)  
Donna Ward (Deloitte & Touche)

Observers

Jill Davis (SEC Staff)  
Paul Dudek (SEC Staff)  
Craig Olinger (SEC Staff)  
Annette Schumacher Barr (Center for Audit Quality Staff)

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**II. Current Practice Issues**

**A. Interim periods presented to comply with S-X Rule 3-10 condensed consolidating financial information for IFRS interim period financial statements**

S-X Rule 3-10(a)(1) states "every issuer of a registered security that is guaranteed and every guarantor of a registered security must file the financial statements required for a registrant by Regulation S-X." Paragraphs (b), (c), (d), (e) and (f) of S-X Rule 3-10 are exceptions to this general rule that allow registrants to provide condensed consolidating financial information within the footnotes to the registrants' financial statements. This condensed consolidating financial information is required in both interim and annual financial statements of a foreign private issuer filing a registration statement.

S-X Rule 3-10 requires that the parent company's financial statements filed for the periods specified by S-X Rule 3-01 and 3-02 must include the related disclosures in a footnote. However, S-X Rule 3-10(a)(3) states "Where any provision of this section requires compliance with Rule 3-01 and Rule 3-02, a foreign private issuer may comply by providing financial statements for the periods specified by Item 8.A of Form 20-F."

The Task Force discussed whether a foreign private issuer (FPI) that prepares its financial statements in accordance with International Financial Accounting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) that is complying with S-X Rule 3-10 condensed consolidating financial information disclosures in its interim IAS 34 financial statements (that includes comprehensive income for both the current interim period (quarter) and cumulatively for the current financial year-to-date) is required to include such condensed consolidating income statement disclosures on a quarterly basis in addition to the year-to-date basis.

The staff confirmed the understanding of the Task Force that condensed interim consolidating financial information disclosures included in the footnotes to comply with S-X Rule 3-10 need only to be provided for the year to date interim (and comparative period) amounts. This is consistent with S-X Rule 3-10(a)(3) allowing a foreign private issuer to comply with Item 8.A of Form 20-F.

**B. Monitoring inflation in certain countries**

The highlights relating to this topic were finalized and posted to the CAQ's website separately on January 20, 2012. They can be found at:

[http://www.thecaq.org/iptf/pdfs/highlights/2011\\_November22\\_IPTF\\_JointMeetingHLs.pdf](http://www.thecaq.org/iptf/pdfs/highlights/2011_November22_IPTF_JointMeetingHLs.pdf)

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**C. IFRS-IASB XBRL Taxonomy**

The SEC staff previously shared its view through an interpretive letter to the Center for Audit Quality (CAQ) that FPIs preparing financial statements in accordance with IFRS as issued by the IASB are not required to submit XBRL financial statements to the SEC or post them on their corporate websites, if any, until the SEC specifies an IFRS taxonomy. Mr. Olinger noted that it is not clear when the Commission will specify an IFRS taxonomy and confirmed his belief that calendar year end 2011 IFRS filers will not be required to comply with XBRL in their 20-F filings.

**D. A change in auditor in the year in which a registrant adopts IFRS as its basis of accounting**

The Task Force discussed the situation in which a change in auditor occurs in the year in which a registrant adopts IFRS as issued by the IASB as its basis of accounting. The example discussed by the Task Force assumes that a registrant appoints a successor auditor in 2011. The 2010 financial statements, prepared in accordance with previous GAAP, were audited by a predecessor auditor. The Task Force discussion was also premised that the 2011 financial statements with 2010 comparative information are a complete set of financial statements fully compliant with IFRS as issued by the IASB.

Generally, to comply with IAS 1 *Presentation of Financial Statements*, the reporting issuer's first IFRS financial statements will include the following:

First IFRS financial statements		
Current Period	Comparative Information	
First IFRS reporting period	2010 IFRS comparative financial statements	Opening IFRS statement of financial position
Statement of financial position as at December 31, 2011	Statement of financial position as at December 31, 2010	Statement of financial position as at January 1, 2010
Statement of comprehensive income for the year ended December 31, 2011	Statement of comprehensive income for the year ended December 31, 2010	
Statement of changes in equity for the year ended December 31, 2011	Statement of changes in equity for the year ended December 31, 2010	

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Statement of cash flows for the year ended December 31, 2011	Statement of cash flows for the year ended December 31, 2010	
Related notes to financial statements	Related notes to financial statements	Related notes to financial statement <sup>1</sup>

- 1** *The footnotes include the IFRS 1 disclosures and reconciliations including previous GAAP comprehensive income to IFRS comprehensive income for 2010 and the equity reconciliations as of January 1, 2010 and December 31, 2010.*

The Task Force discussed the following two possible scenarios:

- A. The predecessor auditor reports on the 2010 IFRS comparative financial statements and the opening IFRS statement of financial position (i.e., the statements of financial position as of December 31, 2010 and January 1, 2010 and the statements of comprehensive income, changes in equity and cash flows for the year ended December 31, 2010); and the successor auditor reports on the financial statements for the first IFRS reporting period (i.e., as of and for the year ended December 31, 2011).
- B. The predecessor auditor reports on the opening IFRS statement of financial position (i.e., January 1, 2010); and the successor auditor reports on the financial statements for the first IFRS reporting period (i.e., as of and for the year ended December 31, 2011) and the 2010 IFRS comparative financial statements (i.e. as of and for the year ended December 31, 2010) but not the opening IFRS statement of financial position (i.e., January 1, 2010).

While the predecessor and successor auditors' opinions individually cover different aspects of the first IFRS financial statements, the combination of the predecessor and successor auditors' opinions cover these first IFRS financial statements in their entirety.

The Task Force discussed certain general concepts in an effort to clarify the division of responsibility and the reporting among auditors with respect to a registrant's first set of IFRS financial statements which include the conversion of financial information from previous GAAP to IFRS.

The SEC staff expressed a view that they would not object to separate auditor reports from a successor and predecessor auditor in the first IFRS financial statements in the scenarios outlined in A. and B. above. However, it is implicit that the auditor opining on a specific financial statement would be auditing all footnote disclosures, including IFRS 1 transition disclosures, related to that specific financial statement.

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**E. Acceptability of going concern language in SEC filings**

Canada adopted new auditing standards (CAS), based on International Standards on Auditing (ISA), for audits of financial statements for periods ending on or after December 14, 2010. The new standards require that an emphasis of matter paragraph be included in the audit report when events or conditions create uncertainties related to an entity's ability to continue as a going concern. The Comments for US Readers addendum paragraph previously used in SEC filings to highlight going concern matters has been eliminated from CAS. The specific wording, provided as an illustration in both CAS and ISA 570.A21, is as follows:

“Without qualifying our opinion, we draw attention to Note X in the financial statements which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY. These conditions, along with other matters as set forth in Note X, indicate the existence of a material uncertainty that **may cast significant doubt** about the Company's ability to continue as a going concern (emphasis added).”

The comparable language under US GAAS and PCAOB standards requires that an explanatory paragraph use the term **substantial doubt**. It also precludes the auditor from using conditional language when expressing the conclusion. The specific guidance is as follows:

- AU 341.12 states that “the auditor's conclusion about the entity's ability to continue as a going concern should be expressed through the use of the phrase “**substantial doubt** about its (the entity's) ability to continue as a going concern” (or similar wording that includes the terms *substantial doubt and going concern*) (emphasis added).
- Footnote 5 to AU 341.13 states that “the auditor should not use conditional language in expressing a conclusion concerning the existence of substantial doubt about the entity's ability to continue as a going concern. Examples of inappropriate wording in the explanatory paragraph would be “If the Company continues to suffer recurring losses from operations and continues to have a net capital deficiency, there **may** be substantial doubt about its ability to continue as a going concern” (emphasis added).”

The SEC staff has emphasized the importance of the phrase “substantial doubt” and unconditional language in the following publications:

- Financial Reporting Manual (FRM) (Section 4230.1c) states that “going concern opinions that do not use the words “substantial doubt” when referencing a going concern matter do not comply with PCAOB standards/US GAAS.”

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- FRM (Section 4230.1d) states that “going concern opinions that use conditional language in expressing a conclusion concerning the existence of substantial doubt about the entity’s ability to continue as a going concern are not appropriate.”

The SEC staff would expect to see the PCAOB wording relating to going concern matters in reports issued in accordance with PCAOB standards.

**F. SEC Staff Matters**

1. Mr. Olinger noted that on November 16 the staff released the following two papers relating to IFRS:
  - **A Comparison of U.S. GAAP and IFRS**  
The Staff reviewed U.S. GAAP accounting requirements and compared those requirements to equivalent or corresponding IFRS requirements, as applicable. The Staff omitted from its review any U.S. GAAP requirements and the IFRS equivalents that are subject to the ongoing joint standard-setting efforts either through the Memorandum of Understanding joint standard-setting projects of the FASB and the IASB (together with the FASB, the “Boards”) or other efforts by the Boards to work together.
  - **An Analysis of IFRS in Practice**  
The Staff analyzed the most recent annual consolidated financial statements of 183 companies, including both SEC registrants and companies that are not SEC registrants, which prepare financial statements in accordance with IFRS.
2. At the 2011 AICPA National Conference on Current SEC & PCAOB Matters, the staff noted that if a registrant files an initial registration statement and discovers a material error in the financial statements prior to effectiveness, then the registrant should file a pre-effective amendment to the initial registration statement to include the restated financial statements with applicable restatement disclosures. The staff believes U.S. GAAP is clear that registrants may remove restatement disclosures only if the pre-effective amendment includes updated financial statements of the subsequent fiscal year. In the November 22, 2011 IPTF meeting, Craig Olinger noted that the staff would expect that a non-public submission of an initial registration statement of a foreign private issuer would also adhere to this guidance for US GAAP financial statements.
3. On December 8, 2011, the SEC [announced](#) limits to its policy with respect to the acceptance and review of non-public submission of initial registration statements by foreign private issuers. The announcement can be found on the SEC website at <http://www.sec.gov/divisions/corpfin/internatl/nonpublicsubmissions.htm>.