INTERNATIONAL PRACTICES TASK FORCE
Center for Audit Quality Washington Office
May 22, 2012
HIGHLIGHTS

I. Attendance

Task Force Members
Jonathan Guthart, Chair (KPMG)
Cathy Samsel, Vice-Chair (PwC)
Randall Anstine, (Ernst & Young)
Rich Davisson (McGladrey & Pullen)
Jon Fehleison (KPMG)
Steven Jacobs (Ernst & Young)
Debra MacLaughlin (BDO)
Victor Oliveira (Ernst & Young)
Scott Ruggiero (Grant Thornton)
Sondra Stokes (Deloitte & Touche)

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

II. Current Practice Issues

A. Restatement disclosures in initial public offering registration statements that include financial statements prepared in accordance with International Financial Reporting Standards (IFRS) [1]

At the 2011 AICPA National Conference on Current SEC and PCAOB Developments on December 5-7, 2011, the SEC Staff (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 for a new 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 (FPI) would also adhere to this guidance for US GAAP financial statements.

The Task Force inquired of the Staff as to whether the same practice would be required by the Staff for an IFRS registrant who restates its financial statements during the initial registration statement process. The Staff indicated that they would expect that to the extent a restatement of the financial statements for a current and/or prior periods was required, all of the relevant restatement disclosures would be included in all pre-effective amendments to the registration statement. The restatement disclosures would only be removed when the financial statements are updated to include a new fiscal year.

The Staff further shared that if the application of the guidance described above results in the restatement disclosures being included in a registration statement for a very short period of time (for example, if the restated information is filed just prior to an update to include a new annual period in the registration statement), registrants should consult with the Division of Corporation Finance. Restatement disclosures should be available for investors to review for a sufficient period of time to ensure the effects of the restatement are understood.

B. Parent Company Financial Information Prepared under Home Country GAAP

Rule 5-04 of Regulation S-X requires registrants to prepare parent-only financial information (Schedule I) under Rule 12-04 of Regulation S-X if the restricted net assets of consolidated subsidiaries exceed 25 percent of the registrant's consolidated net assets. This requirement most commonly is relevant to regulated entities such as insurance holding companies but may occur with other registrants as well.

Given that the intent of Schedule I is to separately present the parent's financial information (i.e., separate it from the statements in which it is consolidated) and that the financial statement schedules required by Rule 5-04 of Regulation S-X are audited by the independent accountant in the context of its audit of the consolidated financial statements taken as whole, it would generally be expected that the parent-only financial information would be presented on the same basis of

[1] The term "IFRS" throughout this document refers to International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

accounting as the consolidated financial statements. Certain countries (e.g. in Europe) that require or permit IFRS for consolidated financial statements continue to require or permit home-country GAAP for separate entity statutory financial statements. The separate statutory home-country GAAP financial statements of the parent company may be the basis for the determination of the availability of dividends to shareholders.

The Task Force discussed whether an FPI who prepares its consolidated statements in accordance with IFRS could provide the parent-only information prepared in accordance with another comprehensive basis of accounting (Home-Country GAAP).

The Task Force recognizes that there may be situations in which the parent has not historically prepared its financial statements in accordance with IFRS, but has prepared its financial statements under Home-Country GAAP for statutory or other purposes. In such cases, the Staff indicated it would not object to the presentation of the parent-only financial information in Home-Country GAAP if:

1. The parent maintains its accounting records under Home-Country GAAP;
2. The parent has not provided financial information using IFRS for any purposes; and
3. The notes to the parent-only financial information clearly state the basis of accounting and include a reconciliation of equity and net income to the consolidated financial statements prepared under IFRS and a reconciliation of the parent's cash flow statement to IFRS to the extent there are material differences.

The Staff commented that it would accept either a separate audit report on the schedule or reference to the schedule having been audited in the audit report on the consolidated financial statements.

C. Monitoring Inflation in Certain Countries

<u>Introduction</u>

Registrants are responsible for monitoring inflation in countries in which they have operations. Application of "highly-inflationary" accounting as defined by ASC 830 is a judgment to be made by the financial statement preparer. The approach and the related assumptions used to monitor country inflation rates are described below. Under ASC paragraph 830-10-45-12, the determination of a highly-inflationary economy begins by calculating the cumulative inflation rate for the three-year period that precedes the beginning of the reporting period, including interim reporting periods. If that calculation results in a cumulative inflation rate in excess of 100%, the economy should be considered highly-inflationary in all instances. However, if that calculation results in the cumulative rate being less than 100%, historical inflation rate trends and other pertinent factors should be considered.

The Task Force discussed three-year cumulative inflation rates for certain countries. Countries were categorized as follows:

1. Countries with three-year cumulative inflation rates exceeding 100%

2. Countries where the three-year cumulative inflation rates had exceeded 100% in recent years

3. Countries (a) with three-year cumulative inflation rates between 70% and 100%; (b) where the last known three-year cumulative inflation rates previously exceeded 100% and current actual inflation data has not been obtained; or (c) with a significant increase in inflation during the current period

<u>Description of how inflation rates are calculated</u>

For all countries, data is extracted from the International Monetary Fund ("IMF") website. IMF data is extracted from www.imf.org as follows:

On the home page, click the "Data and Statistics" tab, then click:

- "World Economic Outlook Databases (WEO)" link
    - ◦ Select the most recent database
    - ▪ Select "By Countries (country-level data)"
        - Select "All Countries", then click the "continue" button.
            - ◦ Select "Inflation, end of period consumer prices" (both the index and percent change)
                - ▪ Select a date range (e.g., 2007-2011); click "prepare report" and a table is produced with the data; click the "download" link to export to excel. The data table includes the end of period price indices for each country.

The IMF World Economic Outlook ("WEO") report estimates inflation when actual inflation data has not been obtained. The text of the report describes the assumptions and conventions used for the projections in the WEO. The data that are estimated are highlighted. While the IMF data has limitations (projected inflation data and varying dates through which actual data is included in the table), the calculated three-year cumulative inflation allows us to determine which country's calculations require further analysis.

Using the downloaded table, the three-year cumulative inflation rate is calculated as follows (assuming the current year is end of year 2011):

(2011 End of Year Consumer Price Index (hereafter referred to as "Index" or "CPI") – 2008 End of Year Index) / 2008 End of Year Index

For certain countries, month-end CPI is obtained from each country's respective central bank website or other publicly available information. Often, that data must be converted because of differences in presentation or other reasons (for example, some countries have reset their base index back to 100 during recent years). Once the data has been converted to an end of period price based on a consistent index, the same calculation described above is used to calculate the three-year cumulative inflation rate. Using the central bank inflation data also has limitations. While it is often more current than the IMF data, each country releases its inflation data at different times. Finally, some countries' central banks do not currently publish inflation data.

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The following information, based on the WEO Database – April 2012, is provided to assist registrants in applying the US GAAP guidance in determining which countries are considered highly-inflationary:

1. Countries with three-year cumulative inflation rates exceeding 100%

- **Belarus - See November 22, 2011 IPTF Highlights Excerpt.**

2. Countries where the three-year cumulative inflation rates had exceeded 100% in recent years

- **Democratic Republic of Congo -** The three-year cumulative inflation rate for The Democratic Republic of the Congo was estimated to be 95% for 2011. The IMF projects the three-year cumulative inflation rate, though, to drop to less than 40% by the end of 2012.

- **Venezuela -** The three-year cumulative inflation rate for Venezuela was estimated to be approximately 99% for 2011 and the three-year cumulative inflation rate at the end of 2012 is projected to be more than 112%.

The Staff would expect registrants to continue to treat the economy of Venezuela as highly-inflationary and to monitor the Democratic Republic of Congo to determine when it is suitable to cease highly-inflationary accounting.

3. Countries (a) with projected three-year cumulative inflation rates between 70% and 100%; (b) where the last known three-year cumulative inflation rates previously exceeded 100% and current actual inflation data has not been obtained; or (c) with a significant increase in inflation during the current period

(a) Countries with projected three-year cumulative inflation rates between 70% and 100%

- Ethiopia – Index increased 38% from 2010 to 2011 after a 7% increase from 2009 to 2010; the projected three-year cumulative inflation rate is 86% by the end of 2012

- Sudan* – Index estimated to have increased by 19% from 2010 to 2011 after a 15% increase from 2009 to 2010; the projected three year cumulative inflation rate is 75% by the end of 2012

* Sudan's data for 2011 excludes South Sudan after July 9, 2011. Projections for 2012 and onward pertain to the current Sudan. South Sudan is not a member of the International Monetary Fund; therefore, the WEO Database does not monitor South Sudan's economy.

(b) Countries where the last known three-year cumulative inflation rates previously exceeded 100% and current actual inflation data has not been obtained

None.

(c) Countries with a significant increase in inflation during 2011

- Guinea – Index increased 21% from 2010 to 2011 after a 21% increase from 2009 to 2010; the projected three year cumulative inflation rate is 63% by the end of 2012

- Islamic Republic of Iran – Index estimated to have increased 20% from 2010 to 2011 after a 20% increase from 2009 to 2010; the projected three year cumulative inflation rate is 69% by the end of 2012

- Republic of Yemen – Index estimated to have increased 22% from 2010 to 2011 after an estimated 12% increase from 2009 to 2010; the projected three year cumulative inflation rate is 60% for by the end of 2012

Note: Argentina had an estimated cumulative inflation rate of 31% in 2011, and, although not appearing in any of the lists above, is highlighted in the WEO report as follows:

> Figures are based on Argentina's official consumer price index (CPI-GBA) data. The IMF has called on Argentina to adopt remedial measures to address the quality of these data. The IMF staff is also using alternative measures of inflation for macroeconomic surveillance, including data produced by provincial statistical offices and private analysts, which have shown considerably higher inflation figures than the official data since 2007.

Developments resulting from the IMF's efforts to address the quality of the official data should continue to be monitored.

There may be additional countries with three-year cumulative inflation rates exceeding 100% or that should be monitored which are not included above because the sources used to compile this list do not include inflation data for all countries or current inflation data.

D. Staff Matters

1. Staff Observations Regarding Reporting Matters for Registrants that have Adopted IFRS as Issued by the IASB for the First-time

There are about 250 registrants that recently filed or will soon file their first Form 20-F or Form 40-F with IFRS financial statements. The majority are Canadian registrants. The Staff is monitoring these filings to understand the impact of their first-time adoption of IFRS as Issued by the IASB as well as compliance with reporting matters specific to registrants that adopt IFRS for the first-time. The Staff shared with the Task Force observations and common themes noted.

- **Statement of Compliance with International Financial Reporting Standards (IFRS) as Issued by the International Accounting Standards Board (IASB)**

  Some filings did not include, or included incomplete statements of compliance in the registrant's financial statement footnotes and/or the related audit report. The Staff emphasized that a statement of compliance with IFRS as Issued by the IASB is required in both the financial statement footnotes and the related audit report to omit the reconciliation to US GAAP. (See also CAQ Alert 2012-05 for more information regarding the Staff's expectations regarding statements of compliance.)

- **Going Concern Language**

  The Staff observed instances in which registrants included PCAOB audit reports that did not use the unconditional statement of "substantial doubt" when referring to a going concern matter. The Staff noted that it expects to see the PCAOB wording relating to going concern matters in reports issued in accordance with PCAOB standards. (For more information regarding this topic, see highlights of the November 22, 2011 Joint Meeting of the IPTF and the Staff.)

- **Mandatory Exceptions and Optional Exemptions Applied Under IFRS 1**

  The Staff has noted that a number of registrants did not disclose the mandatory exceptions and/or provided limited disclosure of the optional exemptions applied in its first time adoption of IFRS in accordance with IFRS 1. The Staff expects registrants to identify each mandatory exception and optional exemption applied; indicate the items or class of items to which they were applied and describe the accounting principle used and how it was applied under IFRS 1.

- **Detail Provided in IFRS Reconciliations**

  The Staff has noted that certain IFRS 1 reconciliations from Previous GAAP to IFRS were prepared at a high, aggregated level that did not provide clear disclosure of the reconciling items. Reconciliations should be granular enough to ensure full transparency of the reconciled amounts.

- **Item 17 and Item 18 Reporting on Form 20-F**

  The Staff has noted that registrants included IFRS financial statements under Item 17 when their inclusion in Item 18 would be more appropriate. IFRS filers should mark "IFRS as issued by the IASB" on the cover of Form 20-F. Within the Form 20-F itself, IFRS filers should include the financial statements or references thereto under Item 18.

- **Selected Financial Data Reported in 20-F Filings**

  Form 20-F permits but does not require the inclusion of historical home-country GAAP selected financial data by a registrant that files IFRS as issued by the IASB financial statements. The Staff noted that a number of registrants presented tables of selected financial data showing a side-by-side comparison of home-country GAAP and IFRS information. As noted in Instruction 3 to General Instruction G to Form 20-F, the presentation of IFRS information must be disclosed separately from the historic local GAAP information (e.g., in two separate tables). In addition, to the extent a registrant has included home-country information in the selected financial data, it must also include selected financial data on a basis reconciled from home-country to US GAAP (see March 4, 2008 IPTF Meeting Highlights, Question No. 11). This collective guidance would not apply to the selected financial data included in a Form 40-F as the informational requirements for this form are dictated by Canadian requirements.

- **MD&A Disclosures**

  Some registrants have submitted MD&A disclosures that have included comparisons of annual data from IFRS periods to home-country periods. General Instruction G(e) to Form 20-F, in regards to operating and financial reviews, specifically states that no part of the discussion should relate to financial statements prepared in accordance with previous GAAP. As such, comparisons between IFRS and home-country GAAP are not appropriate and should be omitted from filings

2. Policy with regard to confidential submissions

The Staff discussed with the Task Force a change in the process for FPIs who submit draft registration statements for non-public review. The SEC's Division of Corporation Finance has a non-public submission policy, amended in December 2011, that allows an FPI to submit for Staff review initial registration statements and amendments on a confidential basis. The Staff also has confidential registration statement review procedures for a company that qualifies as an emerging growth company (EGC) under the Jumpstart Our Business Startups (JOBS) Act. An FPI can qualify as an EGC.

The Staff indicated that they are in the process of updating their current policy (as amended in December 2011) to reflect provisions of the JOBS Act. An FPI that is eligible under the foreign issuer non-public submission policy must submit its draft registration statement in the same manner and to the same address as a domestic EGC under the JOBS Act. The SEC e-mail address previously available for submissions by FPIs no longer is active. An FPI that is seeking to be treated as an EGC must follow the procedures that apply to an EGC that relate to both confidential submissions and the timing of the public filing of its registration statements. In addition, an FPI, whether submitting a draft registration statement under the foreign issuer non-public submission policy or as an EGC under the JOBS Act, will be required, at the time it publicly files its registration statement, to publicly file its previously submitted non-public draft registration statements as Exhibit 99 and to resubmit all previously submitted response letters to Staff comments as correspondence on EDGAR. For an FPI that is making a non-public submission under the existing foreign issuer non-public submission policy, not under the procedures available to EGCs, this requirement will apply only to registration statements in which the initial draft submission is made after May 30, 2012.

[Note: Subsequent to the meeting, updated guidance regarding non-public submissions from FPIs was posted to the SEC website (see http://sec.gov/divisions/corpfin/internatl/nonpublicsubmissions.htm).]

3. Insights on Recent Speech by Meredith Cross

The Staff shared some observations on remarks by Meredith Cross on March 8, 2012, which discussed the possibility of considering changes in the reporting requirements for foreign private issuers. The speech was prior to the enactment of the JOBS Act, which has consumed much of the Staff's time and resources. The Staff will pursue its considerations as its resources allow.

(See http://sec.gov/news/speech/2012/spch030812mc.htm for the full text of Meredith Cross's speech.)