INTERNATIONAL PRACTICES TASK FORCE
Center for Audit Quality Washington Office
May 17, 2016
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subsequent issuance of technical pronouncements or positions taken by the SEC staff nor are they deleted when they are superseded by the issuance of subsequent highlights or authoritative accounting or auditing literature.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
Cathy Samsel, Chair (PwC)
Steven Jacobs, Vice-Chair (Ernst & Young)
Randall Anstine**,** (Ernst & Young)
Greg Bakeis (PwC)
Jeri Calle (KPMG)
Rich Davisson (RSM-US) – Via Teleconference
Jonathan Guthart (KPMG)
Kathleen Malone (Deloitte & Touche)
Alan Milllings (Ernst & Young)
Debra MacLaughlin (BDO USA)
Victor Oliveira (Ernst & Young)
Ignacio Perez Zaldivar (Deloitte & Touche)
Scott Ruggiero (Grant Thornton)

Observers
Jill Davis (SEC Staff) – Via Teleconference
Paul Dudek (SEC Staff)
Susan Fennedy (SEC Staff)
Craig Olinger (SEC Staff)
Rob Shapiro (SEC Staff)
Mike Willis (SEC Staff)
Annette Schumacher Barr (Center for Audit Quality Staff)

Guests
Guilaine Saroul (PwC)

II. Task Force Update

Cathy Samsel acknowledged the retirements of long-time Task Force members Debbie MacLaughlin and Randy Anstine and thanked them for their service and dedication to the activities and mission of the Task Force.

III. Current Practice Issues

A. Monitoring Inflation in Certain Countries

Introduction

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

Description of how inflation rates are calculated

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, select the "Data" tab and then click:

- "World Economic Outlook Databases (WEO)" link

- ◦ Select the most recent database (April, 2016)
- ▪ Select "By Countries (country-level data)"
  - • Select "All Countries", then click the "continue" button.
    - ◦ Under the "Monetary" subject header, select "Inflation", "end of period consumer prices" (both the index and percent change); then click the "continue" button.
      - ▪ Select a date range (e.g., 2012-2016); click "prepare report" and a table is produced with the data; click the "download" link to export to excel. The data table includes the actual and estimated 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.

Note: From time to time the WEO refines or updates previously reported actual Consumer Price Index (hereafter referred to as "Index" or "CPI") data for certain countries.

Using the downloaded table, the three-year cumulative inflation rate is calculated as follows (assuming the current year is end of year 2015): (2015 End of Year CPI– 2012 End of Year CPI) / 2012 End of Year CPI.

It should be noted that the IMF inflation data used to summarize inflation for these IPTF Highlights could be different from the inflation data reported by the respective countries' central banks or governments. The Task Force has not performed procedures to identify any potential differences. Accordingly, this summarized IMF information should be supplemented, to the extent considered necessary, with other pertinent information that may be available.

For registrants that need additional information to monitor inflation for operations in certain countries, it should be noted that annual or month-end CPI information can be obtained from some countries' central bank or government websites or other publicly available information but that data may differ from the inflation data reported by the IMF and may need to 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). While inflation data published by a central bank or government is often more current than the IMF data, each country releases its inflation data at different times and inflation data for some countries may not be otherwise publicly available.

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The following information, based on the WEO Database – April, 2016, 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%

- **South Sudan**

  South Sudan's three-year cumulative inflation rate through the end of 2015 was estimated to be 110%, based on the reported index data in the WEO Report. The three-year cumulative inflation rate is projected to be 405% by the end of 2016.

  Based on these inflation rates and discussions with the staff, registrants should treat the economy of South Sudan as highly-inflationary for reporting periods beginning on or after January 1, 2016. Registrants that have already issued financial statements for interim periods beginning on or after January 1, 2016 which do not reflect the economy of South Sudan as highly-inflationary are encouraged to discuss their facts and circumstances with the SEC staff to the extent a change to highly inflationary would be material.

- **Sudan** – According to the WEO report, Sudan’s cumulative three year inflation rate was 101% at the end of 2015 and is projected to be 61% by the end of 2016.

  Based on these inflation rates and discussions with the staff, registrants should continue to treat the economy of Sudan as highly-inflationary.

  The staff would expect registrants to monitor Sudan's reported inflation data and consider other pertinent economic indicators to determine when it is appropriate to cease treating the economy as highly-inflationary.

- **Venezuela** - The three-year cumulative inflation rate for Venezuela was estimated to be 657% for 2015 and the three-year cumulative inflation rate at the end of 2016 is projected to be 3,782%.

  Based on these inflation rates and discussions with the staff, registrants should continue to treat the economy of Venezuela as highly-inflationary.

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

- **Belarus –** The three-year cumulative rate as of the end of 2015 was 52% and is projected to be 49% by the end of 2016.

As indicated in the May 2015 IPTF Highlights, based on these inflation rates and discussions with the staff, registrants should cease treating the economy of Belarus as highly-inflationary no later than the first reporting period beginning on or after July 1, 2015.

- **Islamic Republic of Iran** – The three year cumulative inflation rate, using the data in the WEO Report was 52% as of the end of 2015 and is projected to be 39% by the end of 2016.

  Based on these inflation rates and discussions with the staff, registrants should cease treating the economy of Islamic Republic of Iran as highly-inflationary no later than the first reporting period beginning on or after July 1, 2016.

- **Malawi** – The three-year cumulative inflation rate for Malawi was 91% for 2015 and is projected to be 80% by the end of 2016.

  Based on these inflation rates and discussions with the staff, registrants should continue to treat the economy of Malawi as highly-inflationary.

  The staff would expect registrants to monitor Malawi's reported inflation data and consider other pertinent economic indicators to determine when it is appropriate to cease treating the economy as highly-inflationary.

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%

Ukraine - The three-year cumulative inflation rate for Ukraine was 80% for 2015 and is projected to be 102% by the end of 2016.

The staff would expect registrants to monitor Ukraine's reported inflation data and consider other pertinent economic indicators to determine if Ukraine should be considered a highly-inflationary economy.

Yemen - Yemen's three-year cumulative inflation rate was 43% for 2015 and is projected to be 74% by the end of 2016.

(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 estimated inflation during 2015

Suriname - The estimated index increased 25% from 2014 to 2015 after a 4% increase from 2013 to 2014; the three-year cumulative inflation rate is projected to be 64% by the end of 2016.

<u>Notes:</u>

- **Argentina**

According to the April 2016 WEO report, Argentina's 2016 inflation is projected to be 25% and the cumulative three year inflation rate is projected to be 84% at the end of 2016. The WEO report does not provide inflation data for 2015 and includes the following warning:

> "The consumer price data for Argentina before December 2013 reflect the CPI for the Greater Buenos Aires Area (CPI-GBA), while from December 2013 to October 2015 the data reflect the national CPI (IPCNu). Given the differences in geographical coverage, weights, sampling, and methodology of the two series and the authorities' decision in December 2015 to discontinue the IPCNu, the average CPI inflation for 2014, 2015, and 2016 and end-period inflation for 2015 are not reported in the April 2016 World Economic Outlook. On February 1, 2013, the IMF issued a declaration of censure and in June 2015 called on Argentina to implement additional specified actions to address the quality of its official CPI data according to a specified timetable. The new government that took office in December 2015 has stated that it considers that the IPCNu is flawed and announced its determination to discontinue it and to improve the quality of CPI statistics. It has temporarily suspended the publication of CPI data to review sources and methodology. The Managing Director will report to the Executive Board on this issue again by July 15, 2016. At that time, the Executive Board will review the issue in line with IMF procedures."

As indicated above, the April 2016 WEO report provides projections for 2016 but does not provide inflation data for 2015. However it does include inflation data for prior years including the rate of inflation for 2014 as determined under the IPCNu of 24% and the CPI-GBA of 11% for 2013 and 11% for 2012.

The January to October 2015 reported IPCNu amounted to 12%.

The SEC staff noted the IMF's concerns on the accuracy of the inflation data. However, the SEC staff noted that they have not observed objectively verifiable data that would indicate the economy of Argentina is highly-inflationary at December 31, 2015.

The staff would expect registrants to monitor the level of inflation, in combination with other pertinent factors and data points, in determining whether Argentina should be considered a highly-inflationary economy.

- **Countries not analyzed in the IMF WEO report**

  There may be additional countries with three-year cumulative inflation rates exceeding 100% or that should be monitored which are not included in the above analysis because the sources used to compile this list do not include inflation data for all countries or current inflation data. One such country, for example, is Syria. Numerous other countries that are not members of the IMF are not included in the WEO reports.

B. New NYSE Rule Related to Interim Financial Information

On February 19, 2016, the Commission designated the proposed rule change set forth in Release No. 34-77198 (the "Release") operative upon filing. In the Release, the New York Stock Exchange ("NYSE") proposed to adopt requirements that each listed foreign private issuer must, at a minimum, submit to the SEC a Form 6-K that includes (i) an interim balance sheet as of the end of its second fiscal quarter and (ii) a semi-annual income statement that covers its first two fiscal quarters. This Form 6-K would be required to be submitted no later than six months following the end of the company's second fiscal quarter. The financial information included in the Form 6-K would be required to be presented in English, but would not be required to be reconciled to U.S. GAAP.

The Task Force noted that the Release does not provide any guidance as to the GAAP that such information has to be provided, including whether it would be required to be provided on the GAAP that the foreign private issuer files its audited financial statements with the SEC. Further, the Release does not require that cash flow information be provided and does not provide guidance on the level of footnote disclosures.

Given the limited nature of the interim guidance included in the Release, the Task Force asked the SEC as to the SEC's expectations regarding the financial information to be included in Form 6-K under this new rule.

The SEC staff indicated that this interim reporting requirement was a NYSE requirement, and that the SEC had no additional expectations from those specified in the Release regarding the financial information to be included in the Form 6-K under this new Rule.

C. Updating annual financial statements for retrospective accounting that is first reflected in a full set of interim financial statements, that are not needed to meet nine-month financial statement timeliness requirements under Item 8.A.5 of Form 20-F

At past IPTF meetings, the staff have expressed their view that previously issued annual financial statements would need to be revised to reflect the retrospective application of a new accounting standard, for which the adoption was first reflected in a full set of interim financial statements, including when those interim financial statements are not needed to meet the timeliness of financial statement requirements (e.g., nine-month rule) in Item 8.A.5.

The November 24, 2009 IPTF Highlights address this matter for IFRS filers in Section D, Issue 2, as follows:

> "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 on an 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 on 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."

The Task Force noted that the SEC staff at the November 17, 2015 IPTF meeting (Topic D) does not consider a full set of interim financial statements under either US GAAP or IFRS-IASB that is not needed to meet the 9-month timeliness requirements as "interim financial statements" for purposes of updating the MD&A (OFR) and any pro forma information in a registration statement.

Additionally, as discussed at the May 19, 2015 Task Force meeting, the SEC staff does not consider it necessary to include S-X Rule 3-10 guarantor consolidating information in a complete set of interim financial statements that are provided in a registration statement, but are not necessary to meet the nine-month timeliness requirements.

The Task Force observed that the current staff's practice in these areas results in no additional reporting requirements (S-X Article 10, MD&A, or pro forma) for a registrant providing more current interim financial information than is required to meet timeliness. Such information, although required by Item 8.A.5 if publicly released, is supplemental to the required information prescribed by the SEC's rules and forms to meet timeliness.

The Task Force requested the SEC staff's views with regard to the triggering event that would require the retrospective change to annual financial statements that are incorporated by reference into a registration statement. For purposes of discussion assume that the change is not a correction of a material error or a fundamental change as that term is used in Item 512 of Regulation S-K. Should the triggering event be (i) the inclusion of interim information in the registration statement because it is made public in the Company's home jurisdiction – which may or may not be complete interim information or otherwise voluntarily provided or (ii) the inclusion of interim information that is required to be included to comply with the nine month timeliness requirements of the Commission's rules. That is, should the Commission's rules that require updating of prior year financial statements only be required when the Commission's rules require complete interim financial statements?

The SEC staff indicated that they will consider this issue.

D. More current interim financial statements provided on a local GAAP basis (i.e., other than US GAAP or IFRS-IASB), that is not needed to meet nine-month financial statement timeliness requirements under Item 8.A.5 of Form 20-F

Item 8.A.5 of Form 20-F provides the requirements for the timeliness of financial statements of foreign private issuers when filing a registration statement. If a registration statement is dated more than nine months after the end of the last audited financial year, it should contain consolidated interim financial statements covering at least the first six months of the financial year, on a comparative basis (subsequently referred to as "interim financial statements provided to meet timeliness requirements"). Item 8.A.5 also requires that when a foreign private issuer (FPI) publishes interim financial information that covers a more current period than otherwise required to meet the timeliness of financial statement requirement, the company must include the more current interim financial information in the registration statement (subsequently referred to as "more current interim financial information").

At the November 17, 2015 IPTF meeting, the SEC staff indicated in Topic D of those Highlights, that an FPI that provides "more current interim financial information" that constitutes a full set of interim financial statements under either U.S. GAAP or IFRS-IASB would not need to consider such information "interim financial statements provided to meet timeliness requirements" for purposes of updating MD&A (OFR) and any pro forma information in a registration statement.

The Task Force asked the SEC staff to confirm the Task Force's understanding that the same guidance would be applicable to a foreign private issuer that files local GAAP financial statements reconciled to US GAAP for an interim period that is not necessary to meet timeliness.

The Task Force also asked the SEC staff to confirm whether the conclusion reached in Discussion Document A of the April 24, 2007 IPTF Highlights and the guidance included at FRM 6220.6d (each related to requiring a comparative period reconciliation when an FPI provides more recent interim information reconciled to U.S. GAAP) is still applicable in light of the conclusions reached at the November 17, 2015 meeting.

The SEC staff confirmed that a foreign private issuer that files local GAAP financial statements reconciled to US GAAP for an interim period that is not necessary to meet timeliness would not be required to update MD&A or any pro forma information for such information. Additionally, the SEC staff confirmed that the guidance included in Discussion Document A of the April 24, 2007 IPTF Highlights and at FRM 6220.6d is no longer applicable in light of the conclusions reached at the November 17, 2015 meeting.

E. More current interim financial information provided on a local GAAP basis (other than IFRS-IASB or US GAAP), for an FPI that files its annual financial statements under IFRS-IASB

The Task Force observed that the current application of Item 8.A.5 to an IFRS-IASB filer that provides more current financial information on a local GAAP basis (i.e., other than IFRS-IASB or US GAAP) would require the IFRS-IASB filer to provide a reconciliation to US GAAP of such more current local GAAP information.

In this regard, the third sentence from the end of Item 8.A.5 requires companies to include in the document interim financial information that has been published by the company if that information covers a more current period than the statements required by Item 8. Instruction 3 to Item 8.A.5 provides that the requirement covers any publication of financial information that includes, at a minimum, revenue and income information, even if that information is not published as part of a complete set of financial statements.

This Instruction 3 further provides:

"Whenever you provide more current interim financial information in response to this requirement:

(a) Describe any ways in which the accounting principles, practices and methods used in preparing interim financial information vary materially from the principles, practices and methods accepted in the United States, and

(b) Quantify any material variations, unless they already are quantified because they occur in other financial statements included in the document.

A registrant filing financial information that complies with IFRS as issued by the IASB is not required to provide the information described in paragraphs 3(a) and (b) to this Instruction to Item 8.A.5, if that registrant prepares its annual financial statements in accordance with IFRS as issued by the IASB."

The Task Force noted that the reconciliation to US GAAP of such financial information would not be relevant to any financial statement user, as there is no US GAAP information in any filings by the IFRS-IASB filer.

The Task Force noted that the rules do not specifically allow for a reconciliation to IFRS-IASB in lieu of US GAAP for such information.

Note: Subsequent to the meeting, the staff indicated that registrants who believe that it is more meaningful to reconcile such local GAAP information to IFRS-IASB are encouraged to reach out to the staff to discuss their facts and circumstances.

F. Period to be covered for changes in internal control over financial reporting in the first 10-K filed by an issuer that was previously an FPI filing annual reports on Form 20-F

Foreign private issuers ("FPIs") are required as of their second quarter of each fiscal year to determine whether they meet the definition of a "foreign private issuer." An FPI must begin reporting on domestic forms starting with the first day of the fiscal year following the one in which it ceased to meet the definition.

Item 15(d) of Form 20-F requires disclosure of any change in the company's internal control over financial reporting that occurred during the period covered by the annual report. In contrast, a US domestic company is required to report in Item 9A of Form 10-K changes that occurred in internal control during the registrant's last fiscal quarter. This is due to domestic registrants also being required to report in Item 4 of Form 10-Q changes in internal control that occurred during the quarter.

Given these differences in reporting changes in internal control, the Task Force asked the staff how a registrant that no longer meets the FPI definition and is now considered a domestic filer should address changes in its internal control in its first Form 10-K. Specifically, the Task Force asked whether the disclosure should pertain to changes over the entire year given they would not have previously disclosed any change since management's prior year assessment of internal control over financial reporting, notwithstanding the explicit language in Item 308(c) of Regulation S-K.

The SEC staff indicated that a registrant that has lost FPI status and is filing its first Form 10-K should disclose any changes in internal control during the year that is covered by its Form 10-K, versus the last fiscal quarter specified in Item 9A of Form 10-K. The Staff does not believe that there should be a break in reporting of changes in internal control.

IV. Staff Matters

A. Disclosure Effectiveness

Mr. Olinger provided an update of the staff's Disclosure Effectiveness initiative, noting that the staff is reviewing comment letters received in response to the Commission's *Request for Comment on the Effectiveness of Financial Disclosures about Entities Other than the Registrant.* The staff is also evaluating other aspects of current disclosure requirements to identify rules that contain superseded requirements/references. Lastly, the staff recently issued a Concept Release, *Business and Financial Disclosure Required by Regulation S-K*, to gather input regarding improvements to the disclosures required under Regulation S-K. The Concept Release has a comment deadline of July 21, 2016.

B. Non-GAAP Measures

Mr. Olinger observed that the use of non-GAAP measures by registrants in filings with the SEC continues to be an area of focus, as indicated in several recent staff speeches.

Note: Subsequent to the meeting, the Task Force noted that on May 17, 2016 the SEC issued several new C&DI's related to the use of Non-GAAP measures which can be found on the SEC website:
https://www.sec.gov/divisions/corpfin/cfguidance.shtml#nongaap

C. XBRL IFRS Briefing

Mr. Willis, Assistant Director of the SEC's Office of Structured Disclosure, noted that the SEC has not yet approved the XBRL Taxonomy for IFRS as issued by the IASB and that the Commission staff is continuing to review taxonomies for use by FPIs. He added that the IFRS Foundation periodically publishes versions of the IFRS Taxonomy for public comment and that the staff encourages filers, investors, analysts, software service providers and other interest parties to participate in this public review to assist the IFRS Foundation in continuing to develop the IFRS Taxonomy. IFRS filers cannot comply with the XBRL Interactive Data mandate for use within EDGAR until the SEC approves the IFRS Taxonomy.

V. Next Meeting

The next meeting of the Task Force has been set for November 17, 2016.