

INTERNATIONAL PRACTICES TASK FORCE
Center for Audit Quality Washington Office
November 21, 2017
HIGHLIGHTS

NOTICE:

The Center for Audit Quality (CAQ) SEC Regulations Committee and its International Practices Task Force (the 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subsequent issuance of technical pronouncements or positions taken by the SEC staff nor are they deleted when they are superseded by the issuance of subsequent highlights or authoritative accounting or auditing literature.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

Steven Jacobs, Chair (EY)
DJ Gannon, Vice-Chair (Deloitte)
Greg Bakeis (PwC)
Rich Davisson (RSM-US)
Jonathan Guthart (KPMG)
Kathleen Malone (Deloitte)
Alan Millings (EY)
Victor Oliveira (EY)
Ignacio Perez Zaldivar (Deloitte)
Scott Ruggiero (Grant Thornton)
Julie Valpey (BDO USA)

Observers

Craig Olinger (SEC staff)
Mark Green (SEC staff)
Bobby Klein (SEC staff)
Ryan Milne (SEC staff)
Mike Willis (SEC staff)
Annette Schumacher Barr (CAQ staff)

Guests

Julien Boucher (EY)
Guilaine Saroul (PwC)
Tom Young (KPMG)

INTERNATIONAL PRACTICES TASK FORCE
Center for Audit Quality Washington Office
November 21, 2017
HIGHLIGHTS

II. Current Practice Issues

A. Use of General Instruction G accommodations upon making an unreserved statement of compliance with IFRS-IASB for the first time when Previous GAAP was substantially consistent with IFRS-IASB

Rule 3-05 of Regulation S-X and Item 17 of Forms S-4 and F-4 require registrants to provide up to three years of financial statements of an acquired business or a target company (depending on certain thresholds). When the acquired business or the target company is foreign, the Task Force observed that financial statements using accounting standards that are consistent or substantially consistent with IFRS-IASB (but that do not assert compliance with IFRS-IASB) and audited under local auditing standards or ISAs may already be available outside the US, sometimes publicly.

Forms S-4 and F-4 do not require the historical financial statements of target companies to be audited (except for the most recent year) unless they were already audited. However, the November 1, 2004 International Reporting and Disclosure Issues in the Division of Corporation Finance states, “However, if financial statements of a non-reporting foreign target have been previously audited using auditing standards other than US GAAS, and those financial statements have been published for general distribution in the target's home jurisdiction or elsewhere, the staff would generally expect financial statements to be audited in accordance with US GAAS and included in the registration statement.”

Given the hardship in obtaining three years of financial statements re-audited under US GAAS, the Task Force asked the SEC whether a company could rely on General Instruction G to Form 20-F to omit the earliest of the three years if asserting compliance with IFRS-IASB for the first time even if the previous GAAP was substantially similar to IFRS-IASB. The SEC staff noted that it did not believe that foreign businesses could avail themselves of the accommodations provided by General Instruction G (requirement to present only the most recent year, the comparative year and the opening balance sheet of the comparative year) upon making an unreserved statement of compliance with IFRS-IASB given they generally would have used already the IFRS1 accommodation available to first-time adopters in their accounting framework that is substantially consistent with IFRS-IASB.

The SEC staff encouraged companies to consult with the SEC staff with their facts and circumstances to discuss whether relief from the US GAAS audit requirement would be appropriate for the earliest of the three years in (1) Rule 3-05 financial statements or (2) target company financial statements in an S-4 or F-4.

INTERNATIONAL PRACTICES TASK FORCE
Center for Audit Quality Washington Office
November 21, 2017
HIGHLIGHTS

B. Adoption of IFRS in an interim period in relation to Regulation S-X, Rule 3-05 financial statements

FRM 6340.4 (which summarizes language included in General Instruction G.(f)(2) to Form 20-F) provides guidance for an issuer changing the body of accounting standards used to prepare its financial statements from a previous GAAP to IFRS. It indicates that “a situation may arise in which the most recent annual financial statements are prepared under previous GAAP and any interim financial statements might be prepared under IFRS. Because the most recent annual and interim periods may not be comparable, financial statements in transitional registration statements for first-time adopters may be prepared under one of three options.” Further, as indicated in the 2005 Adopting Release “*First-time application of International Financial Reporting Standards*,” the SEC confirmed that it viewed the accommodations of General Instruction G to also apply to Regulation S-X, Rule 3-05 financial statements of a foreign business. While the guidance in the FRM specifically references an issuer, a foreign business whose financial statements are being provided to satisfy Rule 3-05 of Regulation S-X could find itself in that same situation.

For example, a company may prepare local GAAP financial statements reconciled to US GAAP for the three years ended December 31, 2016, and then transition to IFRS on January 1, 2017. Accordingly, by June 30, 2017, this entity is no longer producing local GAAP financial statements. If an acquirer is required to provide annual and interim financial statements of this company under S-X 3-05, the same lack of comparability exists as noted in the FRM example.

The Task Force inquired of the staff as to whether the guidance in FRM 6340.4 that is applicable to an issuer (i.e. the three options of interim reporting for financial statements in transitional registration statements for first-time adopters of IFRS) would also apply to an entity preparing financial statements pursuant to S-X 3-05.

The staff noted that the three options in FRM 6340.4 also could be used to satisfy interim financial statement requirements for an entity preparing financial statements pursuant to S-X 3-05.

C. Application of New Securities Act Compliance and Disclosure Interpretations (C&DIs) to Foreign Private Issuers

On August 17, 2017, the SEC’s Division of Corporation Finance issued two new Compliance and Disclosure Interpretations (C&DIs) that permit interim financial information to be omitted from a draft registration statement submitted for confidential/non-public review. Under the new guidance, an issuer that is not an EGC, but that is permitted to submit draft registration statements for non-public review, may omit from its draft registration statements interim financial information it reasonably believes will not be required to be separately presented at the time it publicly files its registration statement and an EGC may omit interim information from a confidential submission that it

INTERNATIONAL PRACTICES TASK FORCE
Center for Audit Quality Washington Office
November 21, 2017
HIGHLIGHTS

does not believe will be required at the time of the contemplated offering. In Securities Act registration statements, FPIs must maintain timeliness of interim financial statements by providing at least six months of comparative interim information for filings made or declared effective nine months or more after year-end (Timeliness Requirements). If, at the filing date of the document, the company has published interim financial information that covers a more current period than those otherwise required to meet the Timeliness Requirements, the more current interim financial information must be included or incorporated by reference in the registration statement (pursuant to Form 20-F Item 8.A.5).

1) Interim financial statements to meet the Timeliness Requirements:

The Task Force inquired as to whether the SEC staff would object to a FPI omitting interim financial statements from a draft registration statement where such interim statements would be required to meet the timeliness requirements, if those financial statements will be superseded by more recent interim financial statements for a subsequent interim period in the first public filing at the issuer's election.

As an example, assume a calendar year end FPI submits a draft registration statement on October 15, and plans to either (i) complete the contemplated offering as an EGC, or (ii) make its first public filing in December and voluntarily include comparative interim financial statements for the nine months ended September 30 rather than June 30.

When the FPI submits the draft registration statement on October 15, its September 30 statements are not available, but it has passed September 30, the date when the timeliness requirements applicable to FPIs would require financial statements for at least the six months ended June 30. While the June 30 financial statements would be required to be included if this was a public filing, they ultimately will not be included in the first public filing given the FPI's election to present September 30 financial information.

The staff indicated that they would not object to a FPI omitting interim financial statements from a draft registration statement where such interim statements would be required to meet the timeliness requirements, if those financial statements will be superseded by interim financial statements for a subsequent interim period no later than the first public filing (such financial statements should be included as soon as they are available). In relying on this relief, the staff would recommend registrants submitting a transmittal letter laying out their timeline and what financial information they are reasonably expecting to include in the public filing. Notwithstanding this relief, the staff advised that voluntarily including interim periods in the draft registration statement for periods that will be superseded in later amendments, if available, helps facilitate the review process as it allows for any significant issues or

INTERNATIONAL PRACTICES TASK FORCE
Center for Audit Quality Washington Office
November 21, 2017
HIGHLIGHTS

questions that may be raised related to those periods to be addressed with the staff and resolved earlier (e.g., adoption of a new accounting standard).

2) Current published interim information to meet the requirements under Item 8.A.5 of Form 20-F

The Task Force further inquired of the staff as to whether the SEC staff would object to a FPI omitting more current published information under Item 8.A.5 of Form 20-F from a draft registration statement (where such interim information would not be required to meet the timeliness requirements for full interim financial statements), if that financial information will be superseded by interim (or full year annual) financial statements for a subsequent interim (or full year annual) period in the first public filing.

For example, assume a calendar year end EGC or non-EGC FPI is public in a local jurisdiction and raising capital in the United States for the first time. This FPI is planning to submit its first draft registration statement on September 15 (i.e., no interim financial statements required to meet timeliness). This FPI published interim financial statements under IAS34 in the local territory for the six-month period ended June 30. In its first public filing, the FPI intends to either include interim financial information for the nine months ended September 30 as discussed above or annual financial statements.

The staff indicated that it would not object to an FPI omitting more current published information under Item 8.A.5 of Form 20-F from a draft registration statement (where such interim information would not be required to meet the timeliness requirements for full interim financial statements), if that financial information will be superseded by interim financial statements for a subsequent interim or the full year annual period financial statements. As discussed above, the staff would recommend that registrants submit a transmittal letter laying out their timeline and what financial information they are reasonably expecting to include in the public filing. The staff again emphasized that, while not required, including more recent current published interim financial information could facilitate more efficient staff review.

D. Update on XBRL Implementation for IFRS Filers

On March 1, 2017, the SEC published the [XBRL IFRS Taxonomy for Foreign Private Issuers That Prepare Their Financial Statements in Accordance with International Financial Reporting Standards as Issued by the International Accounting Standards Board \(IFRS Taxonomy\)](#). The IFRS Taxonomy will allow foreign private issuers (FPIs) preparing financial statements in accordance with IFRS to submit financial information in interactive data format using XBRL.

INTERNATIONAL PRACTICES TASK FORCE
Center for Audit Quality Washington Office
November 21, 2017
HIGHLIGHTS

Mike Willis and Mark Green provided an update on XBRL implementation for IFRS filers, noting the following:

- XBRL interactive data is required to be included starting with the first annual reports on Form 20-F or 40-F for fiscal periods ending on or after December 15, 2017. FPIs may elect to begin submitting XBRL information immediately. The staff clarified that tagging is not required before that Form 20-F or 40-F is due or filed.
- If required financial statements physically contain information that is voluntarily provided, that information must be tagged.
- Disclosure physically outside of required financial statements is required to be tagged when, nonetheless, it is part of those financial statements (e.g., IFRS 7 disclosures would require tagging when physically presented outside a Form 20-F's required financial statements where the required balance sheet specifically references these disclosures, notes their location elsewhere in the same filing and states that they form an integral part of the financial statements).
- The program to utilize Inline XBRL applies to IFRS filers as well as US GAAP filers.

More information regarding XBRL implementation issues for IFRS filers can be found in the highlights of the [May 16, 2017 IPTF Meeting](#).

E. Monitoring Inflation in Certain Countries

Previously, the Task Force has discussed inflation in certain countries in this meeting. Since the last meeting, the Task Force has re-evaluated how best to communicate the information. In connection with changes to the way that the information is documented, the Task Force has concluded that it will no longer include this document as a component of the semi-annual meeting with SEC staff, but rather it will generate a separate document to summarize the inflation data collected by the members of the IPTF. This document will not be reviewed by the SEC staff, however, the SEC staff has indicated that they are available for consultation should an entity wish to seek preclearance on its conclusions in this area.

III. Next Meeting

The next meeting of the Task Force has been set for May 16, 2018.