

**INTERNATIONAL PRACTICES TASK FORCE**  
**Center for Audit Quality Washington Office**  
**May 14, 2009**  
**HIGHLIGHTS**

The Center for Audit Quality (CAQ) SEC Regulations Committee's International Practices Task Force (the "Task Force") meets periodically with the Staff of the SEC to discuss emerging technical accounting and 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, or by the Financial Accounting Standards Board, and do not represent an official position of either organization. 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.

**I. Attendance**

Task Force Members

Paul Curth (Ernst & Young)  
Steven Krohn (KPMG) Via Teleconference (II and III.A only)  
Carol Banford (Grant Thornton)  
Jon Fehleison (KPMG)  
DJ Gannon (Deloitte & Touche) (II only)  
Michael Liesmann (PwC)  
Debra MacLaughlin (BDO)  
Victor Oliveira (Ernst & Young)  
Joel Osness (Deloitte & Touche)  
Eric Phipps (Deloitte & Touche) Via Teleconference (III.A only)  
Catherine Samsel (PricewaterhouseCoopers)  
Sondra Stokes (Deloitte & Touche)

Observers

Greg Burton (SEC Staff Observer)  
Jill Davis (SEC Staff Observer)  
Paul Dudek (SEC Staff Observer)  
Cindy Fornelli (Center for Audit Quality Staff Observer) (II only)  
Chris Holmes (SEC Regulations Committee Observer)  
Susan Koski-Grafer (SEC Staff Observer)  
Liza McAndrew-Moberg (SEC Staff Observer)  
Craig Olinger (SEC Staff Observer)  
Allison Patti (SEC Staff Observer)  
Annette Schumacher Barr (Center for Audit Quality Staff Observer)

**II. New Task Force Chair and Vice-Chair**

The Task Force acknowledged DJ Gannon's seven years of service as Task Force Chair and congratulated Paul Curth and Steve Krohn on being named Chair and Vice-Chair of the Task Force, respectively. Cindy Fornelli thanked Mr. Gannon for his dedication and exemplary service to the Task Force over the years. Chris Holmes expressed his appreciation on behalf of the SEC Regulations Committee.

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**III. Current Practice Issues**

- A. Accounting considerations for the tax law related to Advanced and New Technology Enterprises (“ANTES”) in China
- B. Applying the Item 17 price level changes accommodation in light of Mexico’s elimination of inflation accounting
- C. Meaning of "Audited" in Connection with Financial Statements Required Under Regulation TO
- D. SEC Staff Matters
  - Organizational Changes in the Division of Corporation Finance
  - IFRS Roadmap Proposal
  - Timeliness in Responding to Staff Comment Letters
- E. Monitoring Inflation in Certain Countries

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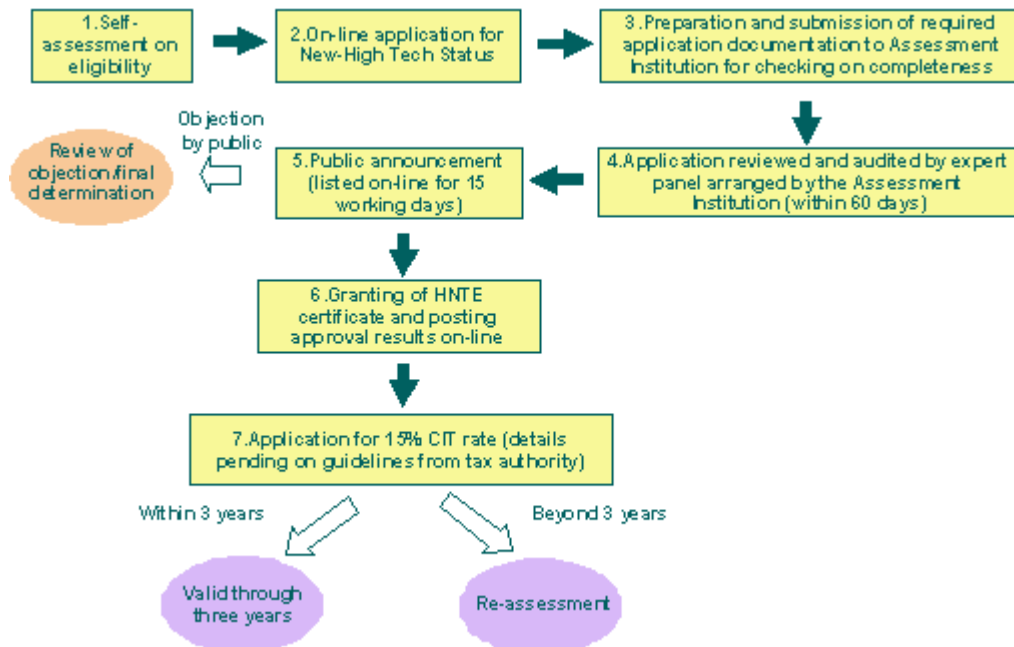
**A. Accounting considerations for the tax law related to Advanced and New Technology Enterprises (“ANTEs”) in China**

**Background**

On March 16, 2007, the People’s Republic of China (“PRC”) government passed the new Enterprise Income Tax Law (the “EIT Law”). The EIT Law imposed a single income tax rate of 25% for most domestic and foreign investment enterprises effective from January 1, 2008. Further, according to the EIT Law, entities that qualify as ANTEs are subject to a preferential income tax rate of 15%. However, the recognition conditions and procedures to qualify as an ANTE were not issued until April 14, 2008 (the “Measures”) and further clarified on July 14, 2008 (the “Guidance”), collectively the “ANTEs Regulations”.

Qualification as an ANTE is valid for three years and upon expiry the period can be renewed for another three years, provided that the enterprise meets the re-assessment requirement. The tax authority has to reassess the enterprise and determine if its ANTE status entitlement is still appropriate. However, if at any time an enterprise determines it may no longer fulfil the ANTE conditions, the enterprise must self-report any changes to the tax authority. Renewal of the ANTE tax rate for years beyond tax year six follows the initial approval process. Calendar year entities that applied for ANTE recognition during 2008 and that subsequently received the ANTE certificate after December 31, 2008 will be entitled to a 15% preferential tax rate retroactively from January 1, 2008.

The procedures/process to obtain ANTE recognition for purposes of receiving the 15% preferential tax rate are illustrated in the following chart. For each numbered stage in the chart, a summary description is provided in the table below.



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**Summary Description for Each Initial Recognition Stage (Year 1 to Year 3)**

Stage	Details
1 Self-assessment	Enterprises shall carry out self-assessments in accordance with Article 10 of the Measures and those that consider themselves qualified should register with <a href="http://www.innocom.gov.cn">www.innocom.gov.cn</a>
2 Registration	After logging onto <a href="http://www.innocom.gov.cn">www.innocom.gov.cn</a> , enterprises should fill out the Enterprise Registration Form and upload the form to the recognition department via the Internet.
3 Preparation and submission of documents	Enterprises should enter the online administrative system for recognition with the usernames and passwords they are allocated and submit the required documents to the relevant recognition department as required.
4 Examination and recognition arrangements	<p>(1) After receiving an enterprise's application documents, the recognition department shall randomly select five experts in the relevant technological field from the expert database and distribute the electronic documents (with information identifying the enterprise deleted) to the relevant experts through the online system.</p> <p>(2) After receiving the experts' opinions and the special audit report from the intermediary agency, the recognition department shall issue its opinion on the recognition of the applicant and determine the list of recognized ANTEs.</p> <p>The above work shall be completed within sixty days of receiving the enterprise's application documents.</p>
5 Announcements	The name of any ANTE recognized as such shall be publicized on <a href="http://www.innocom.gov.cn">www.innocom.gov.cn</a> for a period of fifteen days. In the event that any objection is made, the recognition department shall investigate and dispose of the issue and revoke the enterprise's qualification where the objection is valid.
6 Issuance of certificates	In the absence of any objection, the recognition department shall fill out a summary form for the examination and recording of ANTEs and submit it to the general office of the leading group for the record. After the summary form has been submitted, the enterprise's recognition shall be publicized on <a href="http://www.innocom.gov.cn">www.innocom.gov.cn</a> and the recognition department shall issue the enterprise with an ANTE Certificate with the seals of the science and technology, finance and tax authorities.
7 Valid period	All qualification certificates for high-tech enterprises shall be valid for three years from the date of issue of the certificate.

**Summary Description of Re-assessment (Year 4 to Year 6) and Re-approval (Year 7 to Year 9) Process**

Stage	Details
1 Application for re-assessment	<p>An enterprise shall file an application for re-assessment within three months of the date on which the valid period of its qualification as an ANTE is due to expire.</p> <p>Any enterprise that fails to file such an application or fails to file an eligible application shall automatically lose its qualification as a high-tech enterprise.</p>

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2	Preparation and submission of documents	
3	Examination and recognition arrangements	The recognition department shall examine the enterprise in accordance with Article 10 of the Measures, with a focus on Paragraph 4.
4	Announcements and issuance of certificates	Any decision to maintain the enterprise's qualification shall be publicized and recorded in accordance with Paragraph 4 of Article 11 (of the Measures) and the recognition department shall issue the enterprise with an ANTE Certificate with the seals of the science and technology, finance and tax authorities (i.e. same as Stage A5 in initial recognition).
5	Valid period	<p>All ANTE Certificates issued to enterprises that pass a re-assessment shall be valid for three years from the date of issue of the certificate.</p> <p>Any enterprise that files another application for recognition after this period lapse shall be treated as an enterprise filing an initial application (i.e. the re-approval process for Year 7 to Year 9 will be the same process as for initial recognition in (A) above).</p>

**Issues**

1. At what point in the approval process should an entity qualifying under regulations for Advanced and New Technology Enterprises be allowed to apply the preferential lower tax rate in the PRC?
2. For what period of time should this preferential lower tax rate be anticipated in measuring gross deferred taxes?

**Discussion**

The Task Force did not reach a conclusion and decided to consider the issue further after additional inquiries were made.

**B. Applying the Item 17 price level changes accommodation in light of Mexico's elimination of inflation accounting**

**Background**

Until December 31, 2007, Mexican Financial Reporting Standards (MFRS) required the preparation of financial statements that comprehensively included the effects of price level changes using a historical cost/constant currency approach. Some FPIs, including certain Mexican registrants, that report under a home-country GAAP that requires inflation accounting do not undertake the determination of functional currencies that would otherwise be required under US GAAP, on the basis that their home-country GAAP does not require the determination of a functional currency, and that the effects of currency fluctuations are reflected in the accounting for the effects of inflation. Accordingly, these FPIs avail themselves of the

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accommodation provided in Form 20-F\*, and do not reflect the application of SFAS 52 as an item in their reconciliations.

Effective January 1, 2008, MFRS discontinued accounting for the effects of price level changes, as a result of the issuance of MFRS B-10 (B-10), "Effects of Inflation". This change has effectively caused Mexican entities to cease the recognition of inflation in their financial information, since cumulative inflation for the three-year period ended December 2007 was approximately 13%. Concurrent with the effectiveness of B-10, MFRS B-15, "Foreign Currency Translation" (B-15) became effective, which eliminates the previous MFRS requirement to classify foreign operations either as "integral foreign operations" or "foreign entities" for the purpose of foreign currency translation, and establishes a new methodology that is similar to SFAS 52, under which amounts in the currency of the books of record are first remeasured into the functional currency using historical exchange rates for non-monetary items, and then translated into Mexican pesos. MFRS requires a prospective approach to the adoption of the two new standards, under which exchange rates as of the January 1, 2008 adoption date are used to establish the initial functional currency bases of monetary and non-monetary items. Under the new standards, the financial statement amounts that were previously reported remained unchanged, and the inflation adjustments previously recognized are maintained in their corresponding caption. In effect, the restated amounts of non-monetary assets as reported at December 31, 2007 become the carrying amounts for those assets effective January 1, 2008. These carrying amounts will also affect net income in future periods. For example, depreciation expense after the adoption of B-10 will be based on carrying amounts of fixed assets that include inflation adjustments recorded prior to the adoption of B-10.

For *US GAAP* purposes, under SFAS 52, to establish the functional currency bases of *monetary assets and liabilities* as January 1, 2008, the exchange rate as of that date would be used. However, to establish the initial functional currency bases of *non-monetary items*, the exchange rates as of their respective dates of acquisition/incurrence would be required to be used. For most companies, this approach to arriving at the functional currency bases of non-monetary items would not be available or obtainable without unreasonable cost or expense.

### **Issue**

The accommodation set forth in Item 17 of Form 20-F does not provide guidance on the accounting treatment to be followed when discontinuing the preparation of financial statements that comprehensively include the effect of price-level changes. Would it be acceptable to consider the amounts restated for inflation as of January 1, 2008 as the carrying amounts of non-monetary items consistent with MFRS B-10, without reflecting in the GAAP reconciliation the effects of recording them based upon exchange rates at the respective dates of their acquisition/incurrence?

### **Conclusion**

Yes. Although Mexico was not a highly inflationary economy as of January 1, 2008, the prospective approach is similar to the consensus reached in EITF 92-4, "Accounting for a Change in Functional Currency When an Economy Ceases to Be Considered Highly Inflationary," in which the functional currency accounting bases on the date of cessation of hyperinflation are determined using the exchange rates as of that date. Since there would be no tracing of non-monetary items back to their respective dates of acquisition/incurrence, the equity and net income resulting in the reconciliation from Mexican GAAP will not be equal to their amounts under US GAAP had US GAAP been applied historically. As a result, the

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\* Under Item 17(c)(2)(iv)(A), a company that prepares its financial statements on a basis of accounting other than US generally accepted accounting principles in a reporting currency that comprehensively includes the effects of price level changes in its primary financial statements using the historical cost/constant currency or current cost approach need not reflect the effects of such accounting in its reconciliation.

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bottom line in the equity and net income reconciliations cannot be characterized as “US GAAP”. Nevertheless, the reconciliation would still qualify as meeting the 20-F requirements to reconcile to US GAAP. Consistent with the requirements of Item 17, the financial statements should continue to describe the basis of presentation, and state the effects of price level changes that were recorded prior to 2008 have not been included in the reconciliation.

The Staff also noted that it would not object if a registrant chooses to present the non-monetary items in accordance with US GAAP.

### **C. Meaning of "Audited" in Connection with Financial Statements Required Under Schedule TO**

#### **Background**

In a tender offer, an offeror may offer cash, securities, or a combination of cash and securities to security holders of a target company with an offer to buy their shares. In connection with a tender offer, Schedule TO is the primary 1934 Act document to file tender offers and sets forth the requirements with respect to information to be provided to security holders.

Item 10 to Schedule TO with respect to financial statements indicates that, if material, the financial information required by Item 1010(a) and (b) of Regulation M-A for the issuer in an issuer tender offer and for the offeror in a third-party tender offer must be filed as part of the tender offer information. Instructions (1) and (2) to Item 10 provide additional guidance as to when financial statements would be considered material to a security holder’s decision to sell, tender or hold the securities sought by the offeror.

Instruction (7) to Item 10 indicates that, “If the offeror is not subject to the periodic reporting requirements of the [1934] Act, the financial statements required by this Item need not be audited if audited financial statements are not available or obtainable without unreasonable cost or expense. Make a statement to that effect and the reasons for their unavailability.”

In situations where the offeror is a foreign business and is not subject to the periodic reporting requirements of the 1934 Act, the offeror’s financial statements may have been audited in accordance with International Standards on Auditing (ISAs) (or other local country generally accepted auditing standards (GAAS)). In addition, such audited financial statements may be available on the offeror’s website. However, financial statements of the offeror audited in accordance with US GAAS or the audit standards of the Public Company Accounting Oversight Board (PCAOB) are not available.

#### **Issue**

Would financial statements of the offeror audited in accordance with the ISAs or other local country GAAS be considered “audited” financial statements with respect to the application of instruction (7) to Item 10 of Schedule TO?

#### **Conclusion**

No. The reference to “audited” financial statements in instruction (7) to Item 10 of Schedule TO refers to financial statements audited in accordance with US GAAS or PCAOB standards. Financial statements audited under the ISAs or other local country GAAS would not be considered “audited” financial statements. Accordingly, the offeror would need to evaluate whether it could obtain financial statements audited under US GAAS or PCAOB standards without unreasonable cost or expense. If financial statements audited under US GAAS or PCAOB standards cannot be obtained without unreasonable cost or expense, the offeror’s financial statements provided pursuant to Item 10 of Schedule TO would be presented as

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unaudited financial statements. In addition, the offeror would make a statement that financial statements audited under US GAAS or PCAOB standards were not available or obtainable without unreasonable cost or expense and the reasons that such audited financial statements were unavailable.

The Staff also indicated that offerors should not include nor make reference to local or ISA audit reports in filed documents.

#### **D. SEC Matters**

##### **Organizational Changes in the Division of Corporation Finance (Division)**

Craig Olinger stated that Meredith Cross has been named the new Director of the Division (see [related SEC Press Release](#) for more information). Mr. Olinger also described recent organizational changes in the Division's Chief Accountant's Office. In addition to the Division's existing Operations Group led by Craig Olinger, a Policy Group has been formed that will:

- Facilitate sharing of information and resolution of issues among Division accounting staff
- Coordinate the updating and publication of the Financial Reporting Manual (FRM)
- Create and issue guidance (primarily internal but also external) on financial reporting and disclosure matters
- Organize and develop accounting training sessions

The Policy Group will consist of a Deputy Chief Accountant (Mark Kronforst), an Associate Chief Accountant (to be appointed), a Staff Accountant (Mike Stehlik) and an Academic Fellow (Greg Burton).

##### **IFRS Roadmap Proposal**

The SEC has received over 200 comment letters on the SEC's IFRS Roadmap proposal. The Staff is in the process of reviewing and summarizing the comments. The staff observed that comments were submitted by a wide range of interested parties.

[Note: The Center for Audit Quality's comment letter on the IFRS Roadmap proposal can be found at: <http://thecaq.org/newsroom/pdfs/CAQCommentLetter-IFRSRoadmap.pdf>]



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**Timeliness in Responding to Staff Comment Letters**

The Staff has observed that comments provided to foreign private issuers on 20-F filings are not always responded to on a timely basis. The staff would like to see the timeliness of these responses improve. The Task Force noted that language barriers can often slow down the process of assisting registrants in responding to Staff comments.

**E. 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 assessing 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 are described below.

Approach

The Task Force agreed to regularly consider the inflationary status of a number of countries for the purpose of determining whether they were highly inflationary as defined in FASB Statement 52. It was agreed that inflation rates be monitored regularly in order to identify cases where the Task Force could discuss a country's inflationary status. Based on the cumulative inflation information, countries would be categorized as follows:

1. Countries that are clearly highly inflationary (i.e., that have cumulative inflation approaching or exceeding 100%).
2. Countries with increasing cumulative inflation rates that should be monitored.
3. Countries that are clearly not highly inflationary (i.e., with sufficiently low cumulative inflation).

Assumptions

The following assumptions were developed as a means of screening countries in order to determine whether the Task Force should discuss their inflationary status:

- Inflation rates used would be based on a consumer price index, unless otherwise noted. Where an index other than the CPI is used, the Task Force would need to discuss the appropriateness of the index.
- Inflation information would be derived from the "International Financial Statistics" on the IMF website. In cases where information is not provided to the IMF, local sources would be used (e.g., country central bank data).
- Countries with cumulative inflation rates not exceeding a certain level, say 70%, generally would not be considered highly inflationary based on quantitative factors alone. However, qualitative factors ultimately would be considered pursuant to EITF Topic D-55, as deemed necessary by the Task Force.
- Countries with cumulative inflation rates between 70% and 100% would be assessed for highly inflationary status given recent trends, based on the guidance in EITF Topic D-55. For example, in

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cases where the cumulative rate has declined below 100%, is that decline “other than temporary”? Or, in cases where the inflation rate has been increasing, is the cumulative rate at a level that “approximates” 100%? In addition, countries with a significant increase in inflation during the current period would be monitored.

In certain cases inflation information is not updated regularly. In such cases the following was agreed:

- Where a country was previously considered highly inflationary (i.e., the last known cumulative inflation rate previously exceeded or approached 100%), presume that still highly inflationary.
- Where a country was previously not considered highly inflationary (i.e., the last known cumulative inflation rate did not previously exceed or approach 100%), deduce the current inflation rate necessary in order to exceed 100% (the “deduced rate”). The deduced rate would be calculated solely for the purpose of determining whether or not the Task should analyze a particular country’s inflationary status. The ultimate determination of that status would depend on all relevant facts and circumstances.
  - If deduced inflation rate for the current period(s) exceeds a certain level, say 30%, then presume that not highly inflationary unless the deduced rate is consistent with the trend in recent known periods.
  - If deduced inflation rate does not exceed a certain level, say 30%, then presume highly inflationary unless the deduced rate is not consistent with the trend in recent known periods.

The Task Force agreed that qualitative factors also should be considered. The Task Force noted that the existence of objective and verifiable evidence would be necessary for a country to no longer be considered highly inflationary.

Description of how inflation rates are determined

For all countries, data is extracted from the International Monetary Fund (“IMF”) website. IMF data is extracted from [www.imf.org](http://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”
          - Select a date range (i.e. 2004-2008); 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 where 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 as opposed to actual 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 3-year cumulative inflation allows us to determine which country’s calculations require further analysis.

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Using the downloaded table, the 3-year cumulative inflation rate is calculated as follows (assuming the current year is 2008):

$(2008 \text{ End of Year Index} - 2005 \text{ End of Year Index}) / 2005 \text{ End of Year Index}$

*Countries on the "Watch List"*

For countries on the watch list, monthly inflation data (CPI) is obtained from each country's respective central bank website. Often, that data must be manipulated 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 3-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.

**Conclusion**

Countries considered highly inflationary

Based on the World Economic Outlook database – April 2009 Edition:

It was concluded that the following countries should continue to be considered highly inflationary as of March 31, 2009:

- Myanmar
- Zimbabwe

Countries on the highly inflationary "watch list"

The following countries are on the Task Force's inflation "watch list":

- Ethiopia
- Guinea (1)
- Iran
- Iraq
- São Tomé and Príncipe
- Seychelles
- Venezuela (2)

- (1) In April 2009, the IMF revised the information in its database related to Guinea for periods from 2005 through 2009. Based upon the revised information the IMF published on its website, Guinea appears to have had inflation in excess of 100% at December 31, 2008. However, it is unclear why the historical data compiled by the IMF has been revised, and the Task Force currently has no access to local information, only IMF data. The Task Force also notes that in late December 2008, the press reports that there was a military coup in Guinea. In light of the nature of the data, companies with investments in Guinea should obtain more up to date information to determine the appropriate accounting.
- (2) The Task Force will continue to monitor the situation in Venezuela. As of March 2009 (the latest period for which data is currently available), the three year cumulative inflation rate is

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approximately 95%. This is based upon information published by the Central Bank in Venezuela. The Task Force plans to update this analysis in the future.

**DATE OF NEXT MEETING**

The Task Force agreed to meet on November 24, 2009.