INTERNATIONAL PRACTICES TASK FORCE
Center for Audit Quality Washington Office
May 21, 2014
HIGHLIGHTS

I. Attendance

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

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

Guests
Rohit Elhance (Grant Thornton)

II. Current Practice Issues

A. Venezuela Currency Issues

Until recently, companies generally have used the official exchange rate controlled by the National Center of Foreign Commerce (CENCOEX) which is 6.3 bolivars (Bs) per US dollar (USD) to re-measure a Venezuelan entity's financial statements into US dollars, as the result of Venezuela being considered a highly-inflationary economy, for which the functional currency of a Venezuelan subsidiary is the reporting currency of the parent under US GAAP. The exceptions to this practice have been limited to transactions where an alternative rate was prescribed or where the Venezuelan government had specifically authorized use of the Supplementary Foreign Currency Administration System (SICAD) auction rate.

In January 2014, the Venezuelan government significantly expanded the use of the SICAD rate. More recently, the Venezuelan government created a third currency exchange mechanism called SICAD 2 which may be used by all entities for all transactions. On 24 March 2014, the first day of SICAD 2 operations, the bolivar sold for an average of 51.86 Bs per USD through this market-based exchange mechanism, which is significantly less favorable than the rate of 10.8 Bs per USD that was recently established through the SICAD auction process. Venezuelan government officials also have indicated that the official rate of 6.3 Bs per USD will increasingly be reserved only for the settlement of USD-denominated obligations related to purchases of "essential goods and services." As a result of these events, some companies have considered whether the CENCOEX rate continues to be appropriate for re-measurement of transactions and monetary assets and liabilities denominated in Bs.

The Task Force noted that practices vary as to the rates used for re-measurement and believes that the determination of the appropriate exchange rate to be used should be based on a company's individual facts and circumstances.

The SEC staff acknowledged that the determination of the appropriate exchange rate to be used should be based on a company's individual facts and circumstances. The staff also noted that, if material, registrants should include disclosures in their filings as to the rates used to re-measure their Venezuelan operations, along with a discussion as to how such rates were determined to be appropriate for the company.

Registrants with significant operations in Venezuela may consider including in their filings the disclosures outlined below, if material. These disclosures are similar but different than the disclosures highlighted in the April 6, 2010 SEC Regulations Committee meeting highlights, as the result of applying highly-inflationary accounting in the US GAAP financial statements. The guidance provided in the April 6, 2010 Regulations

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Committee meeting was related to disclosures when Venezuela was not considered highly-inflationary for US GAAP purposes.

- Disaggregated financial information about the Venezuelan operations (e.g., summarized balance sheets, income statements and cash flows statements)

- Exchange rates used for translation from local currency (Bs) into US dollars (e.g., official rate, SICAD rate, or SICAD 2 rate), as well as an explanation of any changes in the rate used

- The amount of foreign exchange gain/loss relating to Venezuela included in the income statement with separate identification, to the extent possible, of the amount relating to changing the source of the exchange rates (e.g., CENCOEX to SICAD).

- The exchange rates used for re-measurement purposes
    - If multiple exchange rates are being used, a registrant should provide an explanation of the criteria used to make the distinction and provide information on the relative significance of the various exchange rates

- The amount of impairment losses in Venezuela, and to the extent possible, the amount relating to changing the source of the exchange rates.

- Net monetary assets and liabilities that are exposed to exchange rate changes (e.g., a receivable in Bs. initially measured at the official rate, but settled at a SICAD rate)

- The amount of Bs. pending government approval for settlement at each rate and the length of time pending

- Discussion of the exchange rate systems and the effects on a registrant's Venezuelan operations and related cash flows

- Discussion of government actions regarding exchange rates, including changes in the registrant's ability to settle transactions at any particular rate

B. 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 and Statistics" tab and 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., 2010-2014); 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 2014): (2014 End of Year CPI– 2011 End of Year CPI) / 2011 End of Year CPI.

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.

The following information, based on the WEO Database – April 2014, 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 -** The three-year cumulative rate as of the end of 2013 was 196% and is projected to be 65% by the end of 2014.

  The three-year cumulative inflation at the end of 2013 of 196% was primarily influenced by the high inflation experienced in 2011 of 108% (the CPI index increased from 169.88 at December 31, 2010 to 354.51 at December 31, 2011, and was at 502.80 at the end of December 31, 2013). Accordingly, the economy of Belarus may transition out of highly-inflationary status in 2014.

The staff would expect registrants to monitor Belarus' reported inflation data to determine when it is appropriate to cease treating the economy as highly-inflationary.

The Task Force plans to review the inflation data for Belarus at its next meeting in November 2014.

- **Islamic Republic of Iran** – The three year cumulative inflation rate, using the data in the April, 2014 WEO Report was 108% as of the end of 2013 and is projected to be 114% by the end of 2014.

  As indicated in the November 19, 2013 IPTF Highlights, the staff expects registrants to begin treating the economy of Islamic Republic of Iran as highly-inflationary no later than the first reporting period beginning on or after January 1, 2014.

- **Venezuela** - The three-year cumulative inflation rate for Venezuela was 139% for 2013 and the three-year cumulative inflation rate at the end of 2014 is projected to be 228%.

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

- **Sudan** – According to the WEO report, Sudan's cumulative three year inflation rate was 144% at the end of 2013 and is projected to be 142% by the end of 2014. Sudan's data excludes South Sudan after July 9, 2011. Rates for 2012 and onward pertain to the current Sudan.

  Based on these inflation rates and discussions with the staff, the economy of Sudan should be treated as highly-inflationary no later than the first reporting period beginning on or after January 1, 2014. Registrants that have already issued financial statements for interim periods beginning on or after January 1, 2014 which do not reflect the economy of 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 significant.

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

- **South Sudan** –South Sudan, which became independent of Sudan in July 2011, became a member of the IMF in 2012. Although complete data was not yet available to calculate a three-year cumulative inflation rate through the end of 2012, the two-year cumulative inflation rate was 107% at the end of 2012, based on the index data published in the WEO Report and by the South Sudan National Bureau of Statistics (SSNBS). Data from the October 2013 WEO report and the South Sudan National Bureau of Statistics (SSNBS) had projected three-year cumulative inflation of 129% by the end of 2013.

  However, the actual three-year cumulative inflation rate through the end of 2013 was calculated to be 89%, based on the reported index data in the WEO Report and by the South Sudan National Bureau of Statistics (SSNBS). The three-year cumulative inflation rate is projected to be 30.5% by the end of 2014.

  Based on these inflation rates and discussions with the staff, registrants should cease treating the economy of South Sudan as highly-inflationary as soon as practicable, but no later than the first reporting period beginning on or after April 1, 2014.

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%

- **Malawi** – The three-year cumulative inflation rate for Malawi was 78% for 2013 and is projected to be 77% by the end of 2014.

(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 2013

None, outside of countries already discussed above.

Notes:

- **Argentina**

  Argentina had an estimated three year cumulative inflation rate of 35% in 2013. The consumer price projections for Argentina were excluded from the April 2014 WEO data because of a "structural break in the data" with the following explanation:

  > The data for Argentina are officially reported data. Consumer price data from January 2014 onwards reflect the new national CPI (IPCNu), which differs substantively from the preceding CPI (the CPI for the Greater Buenos Aires Area, CPI-GBA). Because of the differences in geographical coverage, weights, sampling, and methodology, the IPCNu data cannot be directly compared to the earlier CPI-GBA data. Because of this structural break in the data, staff forecasts for CPI inflation are not reported in the Spring 2014 *World Economic Outlook*. Following a declaration of censure by the IMF on February 1, 2013, the public release of a new national CPI by end-March 2014 was one of the specified actions in the IMF Executive Board's December 2013 decision calling on Argentina to address the quality of its official CPI data. The Executive Board will review this issue again as per the calendar specified in December 2013 and in line with the procedures set forth in the Fund's legal framework.

  The Task Force discussed the following observations related to Argentina:

  - The reported three-year inflation based on the consumer price index for the Greater Buenos Aires Area (CPI-GBA) was 35% for calendar 2013.
  - Last year the IMF highlighted Argentina in the World Economic Outlook (WEO) report, as follows:

    > The IMF issued a declaration of censure and called on Argentina to adopt remedial measures to address the quality of the official CPI-GBA data. The IMF noted that alternative data sources have shown considerably higher inflation rates than the official data since 2008. In this context, the IMF is also using alternative estimates of CPI inflation for the surveillance of macroeconomic developments in Argentina.

  - Argentina responded to the IMF's concerns by discontinuing the CPI-GBA, and from January 2014 onwards reports the new national CPI (IPCNU), which differs substantively from the preceding CPI-GBA as noted above.

- Inflation reported in the first months of 2014 for the IPCNU was 3.7%, 3.4% and 2.6% for January, February and March, respectively. The IPCNU is only available for January 2014 and subsequent periods, and not considered to be determined on the same basis as CPI-GBA data.

The SEC staff noted the IMF's concerns on the accuracy of CPI-GBA data for 2013 and prior periods. Given the apparent lack of any other objectively verifiable inflation data, and the relatively low level of three-year cumulative inflation, the SEC staff had not observed data that supported Argentina being highly inflationary in 2013.

Additionally, the SEC staff noted that it had not observed objectively verifiable data that would indicate the economy of Argentina is highly-inflationary at March 31, 2014. However, the staff noted that an annual projection of the reported inflation during the first quarter of 2014 as per IPCNU would be higher than projections using the previous inflation reported by CPI-GBA.

The staff would expect registrants to monitor the IPCNU inflation data during 2014 and consider the level of inflation, in combination with other pertinent factors and data points, in determining whether Argentina should be considered a highly-inflationary economy.

The IPTF plans to discuss Argentina at its next meeting in November 2014.

- **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.

III. Staff Matters

A. Status update of the staff's study of the disclosure requirements in Regulation S-K as mandated by the Jumpstart Our Business Startups Act (JOBS Act)

Mr. Olinger discussed the staff's Disclosure Effectiveness Initiative, noting that the Division of Corporation Finance is reviewing Regulation S-X and Regulation S-K disclosure requirements with the objective of identifying potential improvements. He referred to a recent speech by Division Director Keith Higgins which provided details on the staff's initiative. He added that the staff welcomes input and suggestions throughout this process, including those related to Form 20-F filings.

B. Processing 12 month audit waiver requests directly through Corp Fin (versus EDGAR or by transmittal letter)

Item 8.A.4 of Form 20-F requires that in the case of a company's initial public offering, additional audited financial statements are required as of a date not older than 12 months at the time the document is filed, and may cover a period of less than a full year. Instruction 2 to Item 8.A.4 provides that this requirement will be waived by the staff where the company is able to represent adequately to the SEC that it is not required to comply with this requirement in any other jurisdiction outside the United States and that complying with the requirement is impracticable or involves undue hardship. It further provides that this representation should be filed as an exhibit to the registration statement.

Mr. Olinger noted that some registrants have requested this waiver via submission of an EDGAR exhibit or in their transmittal letter. The staff requests that registrants submit the request directly to the Division of Corporation Finance Office of Chief Accountant's (CFOCA) email box at DCAOLetters@sec.gov to assure more timely processing. The required representation should also be filed as an Exhibit.

C. Issues relating to Form 20-F, Item 7b

Item 7b of Form 20-F requires disclosure of specified related party information for the period since the beginning of the company's preceding three financial years up to the date of the document, with Instruction 1 providing that if information is provided in the annual report, the required information for the period from the beginning of the last full fiscal year up to latest practicable date is required. In contrast, the domestic SEC reporting counterpart to this requirement is in Regulation S-K Item 404 which requires description of any transaction since the beginning of registrant's last fiscal year.

The SEC staff noted that there are circumstances for which the foreign private issuer registrants may provide only two years of audited financial statements in registration statements (i.e., US GAAP first-time registrants, Emerging Growth companies, and IFRS first-time adopters), whereas the literal requirement of Item 7b of Form 20-F is to disclose related party transactions for three years. The staff noted that this Item 7b requirement was written when registrants were generally required to provide three years of audited financial statements. The staff indicated it will not object to a registrant disclosing related party transactions in satisfaction of Item 7b for annual periods corresponding to those for which audited financial statements are included in the filing, and any subsequent interim periods required by Item 7b.

D. Staff Observations Regarding the Use of IFRS XBRL Taxonomy by FPIs

Mr. Olinger noted that the SEC has not yet approved an IFRS XBRL Taxonomy for IFRS filers. IFRS filers cannot comply with XBRL until the SEC approves the XBRL Taxonomy.

IV. Next Meeting

The next meeting of the Task Force has been set for November 18, 2014.