INTERNATIONAL PRACTICES TASK FORCE
Center for Audit Quality Washington Office
May 19, 2015
HIGHLIGHTS

I. Attendance

Task Force Members
Cathy Samsel, Chair (PwC)
Sondra Stokes, Vice-Chair (Deloitte & Touche)
Randall Anstine, (Ernst & Young)
Greg Bakeis (PwC)
Jeri Calle (KPMG)
Steven Jacobs (Ernst & Young)
Jonathan Guthart (KPMG)
Kathleen Malone (Deloitte & Touche)
Debra MacLaughlin (BDO USA)
Victor Oliveira (Ernst & Young)
Scott Ruggiero (Grant Thornton)

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

Guests

Jason Bower (KPMG)
Guilaine Saroul (PwC)

II. Task Force Update

Cathy Samsel noted that Sondra Stokes will be retiring from Deloitte & Touche and stepping down as Vice-Chair of the Task Force effective May 30. Sondra has contributed to and participated in Task Force meetings for over ten years, initially as an SEC staff observer and later as member and Vice-Chair. The Task Force and staff thanked Sondra for her years of dedicated service and wished her well in her new endeavors.

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 and Statistics" tab and then click:

- "World Economic Outlook Databases (WEO)" link
  - ◦ Select the most recent database (April, 2015)
  - ▪ 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., 2011-2015); 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.

The following information, based on the WEO Database – April, 2015, 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%

- **Malawi** – The three-year cumulative inflation rate for Malawi was 106% for 2014 and is projected to be 72% by the end of 2015.

  Based on these inflation rates and discussions with the staff, registrants should treat the economy of Malawi as highly-inflationary beginning on or after January 1, 2015. Registrants that have already issued financial statements for interim periods beginning on or after January 1, 2015 which do not reflect the economy of Malawi 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.

- **Venezuela** - The three-year cumulative inflation rate for Venezuela was 216% for 2014 and the three-year cumulative inflation rate at the end of 2015 is projected to be 413%.

  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 158% at the end of 2014 and is projected to be 100% by the end of 2015. Sudan's data excludes South Sudan after July 9, 2011.

  Based on these inflation rates and discussions with the staff, registrants should continue to treat the economy of Sudan 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 2014 was 65% and is projected to be 65% by the end of 2015.

  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 96% as of the end of 2014 and is projected to be 62% by the end of 2015.

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

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

- **South Sudan**

  South Sudan's three-year cumulative inflation rate through the end of 2014 was calculated to be 20%, based on the reported index data in the WEO Report. The three-year cumulative inflation rate is projected to be 1% by the end of 2015.

  As indicated in the May 2014 IPTF Highlights 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%

None.

(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 2014

- Ukraine - Index increased 25% from 2013 to 2014 after a 0.5% increase from 2012 to 2013; the projected three year cumulative inflation rate is 59% by the end of 2015.

Notes:

- **Argentina**

  According to the WEO report, Argentina's estimated cumulative three year inflation rate was 47% in 2014 and is projected to be 60% by the end of 2015. WEO provides the following warning with respect to the comparability of the data:

  "Consumer price data from December 2013 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, the average CPI inflation for 2014 is not reported in the April 2015 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. On December 15, 2014, the Executive Board recognized the implementation of the specified actions it had called for by end-September 2014 and the steps taken by the Argentine authorities to remedy the inaccurate provision of 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 IPCNU is only available for January 2014 and subsequent periods, and not considered to be determined on the same basis as CPI-GBA data. Argentina's estimated cumulative three year inflation rate of 47% at December 31, 2014 as reported in the April 2015 WEO is based on the 2014 inflation as determined under the IPCNU of 24% and the CPI-GBA for 2013 and 2012.

  The SEC staff noted the IMF's concerns on the accuracy of CPI-GBA data for 2013 and prior periods. 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, 2014.

  The staff would expect registrants to monitor the IPCNU inflation data 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.

- **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. Incorporating by Reference of an MJDS Annual Report into a Non-MJDS Registration Statement

In certain cases, a Canadian issuer who utilizes the multijurisdictional disclosure system ("MJDS") may register securities on a non-MJDS form (e.g. Form F-3, Form F-4). For example, Form F-10 cannot be used to register an exchange offering by an MJDS filer to acquire a non-Canadian company; such registrations would typically be done on Form F-4. Also, Form F-3 may be used for the registration of dividend reinvestment plans and offerings of structured notes.

Item 6 of Form F-3 (and Item 10(b) of Form F-4) require that the latest Form 40-F filed by such an MJDS issuer be incorporated by reference into the registration statement. The MJDS issuer's latest annual report on Form 40-F may contain two years of audited annual financial statements as permitted by Canadian requirements, and is not subject to the financial statement requirements of Rule 3-09 of Regulation S-X (S-X Rule 3-09) for significant investees. In contrast, non-MJDS foreign private issuers using Form F-3 (or Form F-4) would incorporate their latest annual report on Form 20-F which generally would include three years of audited annual financial statements, and be subject to S-X Rule 3-09 requirements.

The Task Force noted the following guidance included in SEC Release 33-6902, that allows an MJDS filer to incorporate by reference its Form 40-F into certain Securities Act registration statements, provided the registrant is eligible to use Form F-10 ("F-10 eligible"):

> "Information filed under cover of Form 40-F or furnished on Form 6-K in connection with the MJDS may be incorporated by reference into certain Securities Act registration statements. Form F-2, F-3, F-4 and S-8 allow such incorporation by reference on the same basis that Form 20-F information may be so incorporated, provided the registrant is eligible to use Form F-10 or, if the securities are being registered on Form F-2, F-3, F-4 or S-8 are Form F-9 eligible securities, the registrant is eligible to use Form F-9. In addition, Forms F-2, F-3 and F-4 allow incorporation of Forms 10-K, 10-Q and 8-K information by Canadian issuers who have been reporting under such forms. To maintain the integrity of the issuer distinctions made in the MJDS registration forms, incorporation by reference of Form 40-F information is limited to issuers eligible to use Form F-10, or Form F-9 (with regard to Form F-9-eligible securities)."

The Task Force asked the SEC staff whether an "F-10 eligible" MJDS issuer would be required to include in its non-MJDS registration statement any revisions to the financial information included in its Form 40-F that is incorporated by reference, related to:

- Supplementing its registration statement by adding a third year of audited annual financial statements when its Form 40-F contains only two years of audited annual financial statements
- Supplementing its registration statement to comply with Rule 3-09 of Regulation S-X

The SEC staff noted that any MJDS issuer may incorporate by reference its 40-F into any non-MJDS filings on the same basis that Form 20-F information may be so incorporated. Accordingly, such MJDS issuers would not need to supplement their registration statements with a third year of audited annual financial statements of the issuer or separate financial statements under S-X Rule 3-09 for any significant equity investee.

The SEC staff reminded the Task Force that a domestic issuer (or a non-MJDS foreign private issuer) that is required to include financial statements of an MJDS filer in its filings with the SEC would not be able to avail themselves of any MJDS accommodations.

Additionally, the staff noted that the determination of MJDS status is made at the end of the issuer's fiscal year, for which the issuer is required to have a public float of at least $75 million. A company that ceases to qualify as an MJDS filer will no longer file an annual report on Form 40-F but will file an annual report on Form 20-F which requires three years of financial statements, audited in accordance with the standards of the PCAOB, and separate financial statements under S-X Rule 3-09, if applicable, audited to the extent required by such rules.

C. Regulation S-X Rule 3-10 Guarantor Matters

SEC rules applicable to Rule 3-10 of Regulation S-X (S-X Rule 3-10) require domestic companies to include guarantor financial information in their annual filings on Form 10-K and in their quarterly filings on Form 10-Q, and for annual and interim financial statement periods that are required to be included in a registration statement. Foreign private issuers (FPIs) are required to include guarantor financial information in their annual filings on Form 20-F; there is no quarterly filing requirement for FPIs to provide interim financial statements under the 1934 Act. For registration statements, FPIs are required to include guarantor financial information for annual financial statement periods and any required interim financial statement periods, necessary to meet timeliness requirements.

The Task Force addressed with the staff the following two questions relating to the need for guarantor financial information in a registration statement of an FPI.

1. **In a registration statement for new debt securities with a new guarantor structure (or equity securities with no guarantor structure), would an issuer be required to provide interim guarantor financial information prescribed in Rule 3-10 of Regulation S-X related to existing debt securities, that are not the subject of the registration statement?**

The staff indicated that when interim financial statements are provided to meet timeliness requirements related to financial statements included in a registered equity offering, guarantor financial information for guarantees related to existing debt securities would not need to be included in the registration statement.

Similarly, the staff indicated that when interim financial statements are provided to meet timeliness requirements related to financial statements included in a registration statement for guaranteed debt securities, guarantor financial information for guarantees related to existing debt securities would not need to be included in the registration statement.

2. **Would Rule 3-10 of Regulation S-X guarantor financial information (related to guarantees of securities being offered pursuant to a registration statement) be required to be included for the more "current interim information" that is provided to meet Item 8.A.5 requirements of Form 20-F (i.e. not needed to meet 9 month requirements)?**

The Task Force requested the SEC staff's views with regard to this question for reporting under IFRS as issued by the IASB as well as US GAAP. The Task Force noted the following with regard to this question.

- Companies will be required to maintain timeliness of financial statements pursuant to Regulation S-K Item 512. Item 512 requires a foreign private issuer to maintain timeliness of financial statements at the start of a delayed or continuous offering, which results in timeliness required at the date of take-down on Form F-3, and through the consummation date on Form F-4.

The SEC staff indicated that registrants are not required to include guarantor financial information in more current interim financial information provided to meet Item 8.A.5 requirements (but not required to meet 9 month timeliness requirements), regardless of whether such information is provided on an IFRS as issued by IASB basis or a US GAAP basis. The staff noted that guarantor financial information is not an IFRS or US GAAP requirement, but rather an SEC regulatory requirement, that is required only for those financial statements provided to meet timeliness.

D. Venezuela Currency Issues

While retaining the country's official foreign currency exchange rate, in February 2015, the Venezuelan government announced the merger of its two supplementary foreign currency exchange systems (i.e., Sistema Complementario de Administración de Divisas, or SICAD 1, and Sistema Cambiario Alternativo de Divisas, or SICAD 2) into one system it calls SICAD. The government also introduced the Sistema Marginal de Divisas (Marginal Currency System, or SIMADI) a new rate to compete with the unofficial parallel currency exchange market. As a result, companies now need to consider whether to use the new SIMADI rate (approximately 190 bolivars (Bs) per US dollar (USD) as of 31 March 2015), the new SICAD rate (approximately 12 Bs per USD) or the official rate (6.3 Bs per USD).

The Task Force and the SEC staff discussed recent observations regarding the selection of remeasurement rates and related disclosures. It was observed that the SEC staff does not prescribe which rate to be used but rather the appropriate rate to be used should be based upon the unique facts and circumstances attributable to a company and its transactions. In some situations, it may be appropriate to use multiple rates. It was noted that there should be complete and transparent disclosure of the rates used to re-measure Venezuelan operations and the basis for selecting a particular rate. Separately, it was noted that all companies operating in Venezuela should ensure they have appropriately considered any exposure to asset impairments.

[Note: At the May 21, 2014 IPTF meeting, there was a discussion of Venezuela currency issues, and the disclosures that should be considered by registrants with significant operations in Venezuela. See Section IIA in the May 21, 2014 IPTF Highlights for such disclosures.]

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

The staff noted that the SEC has not yet approved an IFRS XBRL Taxonomy for IFRS filers. The staff encourages the public to review and provide comments on the draft IFRS Taxonomy published by the IFRS Foundation. More information on this effort can be found on the SEC website at **http://www.sec.gov/info/edgar/drafttaxonomies.shtml**.

IV. Next Meeting

The next meeting of the Task Force has been set for November 17, 2015.