INTERNATIONAL PRACTICES TASK FORCE
Center for Audit Quality Washington Office
November 19, 2013
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) Via Teleconference
Victor Oliveira (Ernst & Young)
Scott Ruggiero (Grant Thornton)
Sondra Stokes (Deloitte & Touche)
Donna Ward (Deloitte & Touche)

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

Guests
Ken McKay (KPMG)
Jeff Vanderbilt (KPMG)

II. Current Practice Issues

A. Financial reporting requirements when a Foreign Private Issuer changes its basis of accounting from IFRS to US GAAP

Background:

When a foreign private issuer (FPI) changes its basis of accounting to adopt IFRS as issued by the IASB (IFRS-IASB), in addition to IFRS 1, General Instruction G of Form 20-F provides guidance for reporting the transition in the company's financial statements and other disclosures in SEC filings (e.g. selected financial data). In such scenarios, FPIs are required to present two years of financial statements in the year of adoption of IFRS-IASB, certain reconciliations to their previous GAAP (IFRS 1 Reconciliation) and two years of Selected Financial Data under Item 3 of Form 20-F. Section 6345 of the Division of Corporation Finance Financial Reporting Manual (FRM) also requires FPIs who have previously reported under US GAAP with the SEC (but not in their home jurisdiction at the time of transition to IFRS-IASB) to reconcile from US GAAP to IFRS-IASB in addition to the reconciliation required by IFRS 1. Other than the IFRS 1 Reconciliation and the reconciliation required by Section 6345 of the FRM, there is no requirement to include financial information reported under the previous GAAP in the financial statements or selected financial data.

The FRM provides guidance for situations in which a registrant no longer qualifies as an FPI. Paragraph 6120.4 of the FRM states, in part "If the registrant is no longer eligible to file as a foreign private issuer, the financial statements and selected financial data should be recast into U.S. GAAP for all periods presented in the financial statements ...". The Task Force understands that in those situations, the now domestic registrant must recast the financial statement periods into US GAAP, but the staff does not require any reconciliation to previous GAAP and may permit the issuer to omit the first two years of selected financial data required under Item 301 of Regulation S-K.

For varying reasons, an FPI that historically reported under IFRS-IASB may elect on a voluntary basis to change its basis of accounting to US GAAP. While the guidance summarized in the first paragraph above addresses a change from previous GAAP (including US GAAP) to IFRS-IASB, the Task Force is unaware of any requirements or staff guidance that specifically addresses an FPI's voluntary change from IFRS-IASB to US GAAP.

However, the Instructions to Item 3.A of Form 20-F provides that selected financial data for either or both of the earliest two years of the five-year period may be omitted, if the company discloses the reasons in the filing that such information cannot be provided, or cannot be provided on a restated basis, without unreasonable effort or expense.

The SEC staff commented that when a company changes its basis of accounting in its financial statements from IFRS-IASB to US GAAP, the staff would not expect any reconciliations between the two GAAPs. Further, the staff would not object if a registrant omits the earliest two years of US GAAP information from the selected financial data, when such US GAAP information for such periods cannot be provided without unreasonable effort or expense. The staff further commented that such registrants may also elect to present selected financial data under IFRS-IASB for any prior periods separately from the US GAAP data. However, if a registrant elects to provide IFRS-IASB information in selected financial data, it should provide such information for each year in the five-year period that the IFRS-IASB information is available but not in a contiguous table alongside the US GAAP information.

B. Non-GAAP measures for mining companies -- including by-product credits within the determination of "cash cost"

In order for mining companies to help investors and other stakeholders understand their current and historical operating results, various non-GAAP measures have evolved over time. One such non-GAAP measure is cash cost per unit of an entity's primary metal. Mining companies have historically determined the "cash cost" by utilizing a production cost metric as compared to the total volume of the primary metal sold / produced during the reporting period. Mining companies have generally included offsetting credits from the sale of any secondary metals which are ancillary to the production of the primary metal produced (generally referred to as "by-product credits") within the production cost metric of a primary metal produced.

During 2013, the Task Force noted that registrants in the mining industry were receiving SEC comment letters that included questions related to the registrant's non-GAAP disclosures in this area. In particular, the SEC staff questioned registrants as to the appropriateness of reducing the costs of production of the primary metal with by-product credits as they were concerned that an investor may not have a clear understanding of the total cost of producing the primary metal.

The SEC staff commented that it would not object to the use and disclosure of cash costs net of by-product credits as a non-GAAP measure as long as it is accompanied by disclosures necessary for an investor to understand the total cost of producing the primary metal and the importance of the by-product metals to an entity's operations. Those additional disclosures include the following:

- cash cost of the primary metal without reduction for by-product credits (such disclosure to have equal or greater prominence than disclosure of cash cost which is reduced by by-product credits);
- a description of the by-product credits by metal in the by-product credits caption of the cash cost calculation (note that this may be facilitated through footnote disclosure to the calculation);
- the amount of by-product credits by metal and on a per unit basis of the primary metal;
- reasons why the Company believes that the metals are considered to be by-products rather than primary products;
- specific reason(s) why management believes this measure is useful to investors; and,
- if management uses this measure to assess performance, operating results or cash flows, a statement to that effect with an explanation of the results of that assessment.

C. Monitoring Inflation in Certain Countries

Topic: Monitoring Inflation in Certain Countries

<u>Introduction</u>

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., 2009-2013); 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 2013): (2013 End of Year CPI– 2010 End of Year CPI) / 2010 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 – October 2013, 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 2012 was 179% and is projected to be 185% by the end of 2013.

  The staff would expect registrants to continue to treat the economy of Belarus as highly-inflationary.

- **Islamic Republic of Iran** – The data from the April, 2013 WEO Report resulted in a three year cumulative inflation rate of 93% at the end of 2012. However, the data reported in the October, 2013 WEO Report contains revised 2012 CPI data, resulting in three year cumulative inflation at the end of 2012 being 106%. (As noted above, the IMF may from time to time refine or update previously reported actual CPI data for certain countries.)

  The three year cumulative inflation rate, using the data in the October, 2013 WEO Report is projected to be 132% by the end of 2013. The last year actual inflation data was obtained for the Islamic Republic of Iran was 2012.

  The staff would expect 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.

- **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). The three-year cumulative inflation rate is projected to be 129% by the end of 2013.

As indicated in the November 20, 2012 IPTF Highlights, the staff expects registrants to treat the economy of South Sudan as highly-inflationary no later than the first reporting period beginning on or after January 1, 2013.

- **Venezuela** - The three-year cumulative inflation rate for Venezuela was 95% for 2012 (per Venezuela's central bank) and the three-year cumulative inflation rate at the end of 2013 is projected to be 124%.

  The staff would expect registrants to continue to treat the economy of Venezuela as highly-inflationary.

- **Sudan** –The three year cumulative inflation rate, based on data from Sudan Central Bureau of Statistics, was 98% at the end of 2012. According to the WEO report, Sudan's cumulative three year inflation rate is projected to be 106% by the end of 2013. Sudan's data excludes South Sudan after July 9, 2011. Rates for 2012 and onward pertain to the current Sudan.

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

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

- **Democratic Republic of Congo -** The three-year cumulative inflation rate for The Democratic Republic of the Congo was 30% for 2012 and is projected to be 26% by the end of 2013.

  As indicated in the November 20, 2012 IPTF Highlights, the staff expects registrants to cease treating the economy of the Democratic Republic of Congo as highly-inflationary no later than the first reporting period beginning on or after January 1, 2013.

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%

- **Ethiopia** – The three-year cumulative inflation rate for Ethiopia was 79% for 2012 and is projected to be 69% by the end of 2013.

(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 2012 and the three year cumulative inflation rate is projected to be 34% by the end of 2013. Although not appearing in any of the lists above, Argentina is highlighted in the WEO report as follows:

  > The data for Argentina are officially reported consumer price index (CPI-GBA) data. The IMF has, however, issued a declaration of censure and called on Argentina to adopt remedial measures to address the quality of the official CPI-GBA data. Alternative data sources have shown considerably higher inflation rates than the official data since 2008. In this context, the Fund [IMF] is also using alternative estimates of CPI inflation for the surveillance of macroeconomic developments in Argentina.

  Developments resulting from the IMF's efforts to address the quality of the official data should continue to be monitored.

  The SEC staff has noted the IMF's concerns on the accuracy of the CPI-GBA data. Given the apparent lack of any other objectively verifiable inflation data, and the relatively low level of reported three-year cumulative inflation, the SEC staff has not observed data to date that would support Argentina being considered highly-inflationary in 2013. The Task Force intends to continue to monitor the situation in Argentina.

The staff also noted that an official exchange rate exists in Argentina that is significantly more favourable than a parallel market rate (referred to as the Blue Chip rate). The staff reminds registrants that have significant operations in Argentina, that when the exchange rate used for re-measurement purposes or translation of financial statements may not be reflective of economic reality, additional disclosure in MD&A may be necessary (e.g., summarized financial information of the operations; disclosure of exchange rate used; disclosure of the net monetary assets and liabilities by currency; and discussion of the potential impact of a change in exchange rates).

- **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. For example, countries that are not members of the IMF are not included in the WEO reports.

D. Adoption of IFRS 11 *Joint Arrangements,* and Application of Regulation S-X, Rule 3-09

At the May 21, 2013 meeting, the Task Force discussed the application of Rule 3-09 when a new standard is adopted that requires retrospective application, specifically with respect to the adoption of the group of five – three new standards and two significantly amended standards, all of which impact the "reporting entity." These standards include IFRS 10 *Consolidated financial statements*, IFRS 11 *Joint arrangements*, IFRS 12 *Disclosure of interest in other entities*, IAS 28 *Investments in associates* and IAS 27, which has been renamed *Separate financial statements* (collectively "the group of five"). The staff agreed to give further consideration to certain of the questions raised in the discussion about potential relief under Rule 3-09.

Consistent with the guidance provided by the staff at the May 21, 2013 meeting, the Division of Corporation Finance's (DCF) Financial Reporting Manual (FRM), paragraph 2410.8 was subsequently updated as follows:

> If a registrant has a discontinued operation or a retrospectively applied change in accounting principle subsequent to the registrant's filing of its Form 10-K, the registrant should evaluate the need for S-X 3-09 financial statements in a subsequently filed registration statement or proxy statement based on its historical financials in its most recent Form 10-K, not the financial statements that give retrospective effect to the discontinued operation or change in accounting principle and are included or incorporated by reference into the registration or proxy statement. However, when the

registrant files its next 10-K, it must recompute the S-X 3-09 significance for each fiscal year presented, even if one or more fiscal years pre-dates the period in which the registrant's discontinued operation or change in accounting principle occurred, using the historical financial statements that have been retrospectively adjusted to give effect to the discontinued operation or change in accounting principle. The practical effect of this requirement is that a previously insignificant investee may become significant as a result of the discontinued operations or change in accounting principle. Registrants are encouraged to contact CF-OCA if they believe this requirement results in the presentation of investee financial statements that are not necessary to reasonably inform investors.

If registrants believe the requirement above results in presentation of investee financial statements that are not necessary to reasonably inform investors, they are encouraged to prepare a pre-filing letter addressed to the Office of the Chief Accountant in DCF to discuss potential relief from the requirements of Rule 3-09. Protocol for the submission of such a letter may be found at http://www.sec.gov/divisions/corpfin/cfconcise.shtml.

The Task Force discussed a hypothetical situation whereby in a 20-F annual report filed with the SEC, significance under S-X Rule 3-09 for the equity investee was not met in the most recent year, and not expected to be met in future years, but was met during the restated prior years, as the result of retroactively giving effect to the adoption of the group of five IFRS standards. The staff encourages submission letters to include a discussion relating to the following items that would be helpful to the staff in reaching a conclusion:

1) Significance levels - for the current year coupled with historical significance levels for the two earliest years both pre-retrospective revision and when using the retrospectively revised financial statements, and an indication as to significance in the future.
2) Actual (or proposed) disclosures in the annual financial statements pursuant to IFRS 12 – Registrants are encouraged to address the disclosures provided (to be provided) in accordance with IFRS 12. These disclosures may compensate for the omission of the financial statements of the equity method investee which would otherwise be required under Rule 3-09. IFRS 12 includes the following specific disclosure requirements in relation to joint ventures and associates.

   "[F]or each joint venture and associate that is material to the reporting entity…summarized financial information about the joint venture or associate as specified in paragraphs B12 and B13."

   IFRS 12.B12 "For each joint venture and associate that is material to the reporting entity, an entity shall disclose…(b) summarized financial information for the joint venture or associate…including, but not necessarily limited to:
   (i) Current assets

(ii) Non-current assets
(iii) Current liabilities
(iv) Non-current liabilities
(v) Revenue
(vi) Profit or loss from continuing operations
(vii) Post-tax profit or loss from discontinued operations
(viii) Other comprehensive income
(ix) Total comprehensive income."

IFRS 12.B13 "In addition to the summarized financial information required by paragraph B12, an entity shall disclose for each joint venture that is material to the reporting entity the amount of:
(a) Cash and cash equivalents included in B12(b)(i)
(b) Current financial liabilities (excluding trade and other payables and provisions) included in paragraph B12(b)(iii)
(c) Non-current financial liabilities (excluding trade and other payables and provisions) included in paragraph B12(b)(iv)
(d) Depreciation and amortization
(e) Interest income
(f) Interest expense
(g) Income tax expense or income"

3) Actual (or proposed) disclosures in the annual financial statements pursuant to IAS 8 *Accounting policies, changes in accounting estimates and errors* - Registrants are encouraged to discuss the disclosures provided (to be provided) in accordance with IAS 8 which requires disclosure of the impact of the adoption of a new standard on each financial statement line affected for the current period and any prior period presented.

E. Satisfying the Registration Statement Requirements for Restated Financial Statements with IFRS-IASB financial information

At the November 20, 2012 IPTF meeting, this topic was discussed and included in November 2012 Final Highlights in Item II E of those Highlights. This matter was further discussed at the May 2013 and November 2013 IPTF meetings, and the results of this discussion are summarized below.

The Task Force discussed the interaction between (1) the requirements for restated financial statements (e.g. Form F-1, 4A(b)(1)(ii), Form F-3, Item 5(b)(1)(ii); Form F-4, Item 10(c)(2)) to be included (or incorporated by reference) in a registration statement in circumstances where there has been a retroactive accounting change reported in a subsequent interim period that will require a material retroactive restatement of comparative annual periods in financial statements to be issued in the future and (2) the IAS 10, *Events after the Reporting Period*, requirement to have a single authorized for issue date for evaluating adjusting and non-adjusting subsequent events.

The staff noted that the registration statement requirements to update previously issued financial statements to reflect retroactive accounting changes (such as changes in accounting principles, discontinued operations or changes in segments) was intended to provide investors with relevant material information related to the changes being given retroactive effect. However, this requirement was not meant to result in changing the cut-off date for adjusting subsequent events.

At the November 20, 2012 IPTF meeting, various possible alternatives for compliance with the registration statement requirements for restated IFRS financial statements were discussed with the staff, and it was agreed that that it would be given further consideration.

At the November 19, 2013 IPTF meeting, the SEC staff and the Task Force acknowledged that developments have occurred that clarified that an IFRS filer is able restate its previously issued annual financial statements to give effect to retroactive accounting changes (other than error correction) and to retain the original "authorized for issue" date under IAS 10 for the evaluation of subsequent events when such financial statements are reissued in an offering document. In this scenario, the SEC staff noted it has observed that the restated financial statements include an explanation of the relevant adjustments, accompanied by a dual-dated auditors' report. Accordingly, no further discussion is expected on this matter.

III. Staff Matters

A. 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. He does not expect that calendar year IFRS filers will have to comply with XBRL in their 2013 annual reports filed with the SEC. 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 May 21, 2014.