INTERNATIONAL PRACTICES TASK FORCE
Center for Audit Quality Washington Office
May 21, 2013
HIGHLIGHTS

I. Attendance

Task Force Members
Jonathan Guthart, Chair (KPMG)
Cathy Samsel, Vice-Chair (PwC)
Randall Anstine, (Ernst & Young)
Jeri Calli (KPMG)
Rich Davisson (McGladrey & Pullen)
Jon Fehleison (KPMG)
Steven Jacobs (Ernst & Young)
Debra MacLaughlin (BDO)
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
Elizabeth Miller (KPMG)

II. Current Practice Issues

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

Beginning on January 1, 2013 (for calendar year companies), IFRS filers will adopt what is commonly referred to as the group of five – three new standards and two significantly amended existing standards, all of which impact the "reporting entity." These standards include IFRS 10 *Consolidated financial statements*, IFRS 11 *Joint arrangements*, IFRS 12 *Disclosure of interests in other entities*, IAS 28 *Investments in associates* and IAS 27, which has been renamed *Separate financial statements*. These standards are required to be applied retrospectively.

Under IFRS 11, certain joint arrangements that were previously accounted for using proportionate consolidation will have to be accounted for under the equity method. This could result in some entities that were previously proportionately consolidated becoming significant under Rule 3-09 upon the adoption of the group of five.

The SEC staff has provided guidance on assessing significance under Rule 3-09 in a registration statement to be filed subsequent to reporting a discontinued operation:

> **Rule 3-09**
> 2410.8 Income Test – Implementation Point 6 -Effect of Discontinued Operations
> (Last updated: 6/30/2010)
>
> A registrant that has already filed a Form 10-K and subsequently has a discontinued operation should evaluate the need for S-X 3-09 financial statements in a subsequently filed registration 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 and are included or incorporated into the registration or proxy statement. However, when the registrant files its next Form 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 discontinued operation period, using the historical financial statements that have been retrospectively adjusted to give effect to the discontinued operation. The practical effect of this requirement is that a previously insignificant investee may become significant as a result of the discontinued operation. 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.

The staff indicated that in a registration statement filed during the year of adoption (after the re-casted, prior annual financial statements are filed, but before the Form 20-F covering the year of adoption is filed), it is appropriate to follow the model outlined for Rule 3-09 with respect to discontinued operations (set forth in FRM 2410.8) to the retroactive adoption of IFRS 11, *Joint Arrangements*, and its companion IFRS standards.

The Task Force noted the requirement for transition disclosures at IFRS 11C and also noted that the disclosure requirements of IFRS 12 relative to an equity investee (IFRS 12.B12) are applicable so long as the investee is considered material under IFRS 12.21(b)(ii). Accordingly, investors would be provided with such disclosures in the retrospectively revised financial statements in these situations. Given these disclosures, the Task Force asked the staff if it would consider relief under Rule 3-09 in the year of adoption of the group of five. For example, when the recasted financial statements are used, the entity now being accounted for under the equity method was previously significant but is not in the current year (e.g. significant in 2012 or 2011, but not in 2013), could relief for separate financial statements for all three years be granted since the entity was previously consolidated (i.e. accounted for via proportionate consolidation) by the registrant and those consolidated financial statements for the periods when significant continue to be available for investors? The staff agreed to give this question further consideration.

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, 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" (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 – April 2013, is provided to assist registrants <u>in applying the US GAAP guidance</u> 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 estimated to be 179% and is projected to be 197% by the end of 2013.

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

- **South Sudan** – South Sudan, which became independent of Sudan in July 2011, became a member of the IMF in 2012. Index data is available beginning in 2010. Although 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 and the three-year cumulative inflation rate is projected to be 125% by the end of 2013.

  As indicated in the November 20, 2012 IPTF Highlights, the staff expects registrants to begin treating the economy of South Sudan as highly-inflationary no later than the first reporting period beginning on or after January 1, 2013.
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2. Countries where the three-year cumulative inflation rates had exceeded 100% in recent years

- **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 96%.

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

- **Democratic Republic of Congo** - The three-year cumulative inflation rate for The Democratic Republic of the Congo was 34% for 2012 and is projected to be 32% 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 76% for 2012 and is projected to be 70% by the end of 2013.
- **Islamic Republic of Iran** – The three year cumulative inflation rate was 93% at the end of 2012 and is projected to be 96% by the end of 2013. The last year actual data was obtained for the Islamic Republic of Iran was 2012.
- **Sudan** – The three year cumulative inflation rate was estimated to be 98% at the end of 2012 and is projected to be 114% by the end of 2013. Sudan's data for 2011 excludes South Sudan after July 9, 2011. Projections for 2012 and onward pertain to the current Sudan. The last year actual data was obtained for Sudan was 2010.

  The staff would expect registrants to monitor the timing of the treatment of Sudan and the Islamic Republic of Iran as highly inflationary.

(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 2007. 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.

- **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.

III. Staff Matters

A. Acceptability of absence of retrospectively restated audited annual financial statements for MJDS filers

As a result of changes to certain professional standards of the Canadian Institute of Chartered Accountants, Canadian registration statements are no longer expected to include the restatement of previously issued audited financial statements to reflect retrospective changes, for changes that are first adopted in subsequent interim financial statements, provided the company includes appropriate disclosures about the impact of the change ("pro forma effect") elsewhere in the prospectus. Such retrospective changes include all retrospective changes (other than error corrections), including changes in accounting policies, discontinued operations, and changes in segments, for example.

The Task Force confirmed their understanding with the SEC staff that registration statements on MJDS forms filed with the SEC are not required to include restatement of the audited annual financial statements to reflect any retrospective changes, when such annual financial statements are not required to be restated in the Canadian registration statement. Canadian foreign private issuers filing registration statements and annual reports under the MJDS are permitted to use their disclosure documents prepared in accordance with Canadian requirements in filings with the SEC.

The SEC staff also stated that an MJDS company filing a registration statement with the SEC on a non-MJDS form would be required to maintain the timeliness of financial statements and comply with the restatement requirements of the non-MJDS registration statement form.

B. 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 will announce when such taxonomy will be available along with implementation guidance and timing when it is appropriate to do so. IFRS filers cannot comply with XBRL until the SEC approves the XBRL Taxonomy.

C. Staff Observations Regarding Argentina

The staff noted that an official exchange rate exists in Argentina that is significantly more favorable 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).

IV. Next Meeting

The next meeting of the Task Force has been set for November 19, 2013.