AICPA INTERNATIONAL PRACTICES TASK FORCE
AICPA Washington Office

November 20, 2001 (all Items other than XXVI and XXVII) and January 14, 2001 (Items XXVI and XXVII only)

HIGHLIGHTS

NOTICE: The AICPA SEC Regulations Committee's International Practices 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

Richard Dieter, Chairman (Arthur Andersen)
William Decker (PricewaterhouseCoopers)
Wayne Carnall (PricewaterhouseCoopers)
Paul Dudek (SEC Observer)
D.J. Gannon (Deloitte & Touche)
Roger Jahncke (Ernst & Young)
Joseph Kelley (KPMG)
Melanie Dolan (KPMG)
Craig Olinger (SEC Observer)
Joel Osnoss (Deloitte and Touche)
Eric Phipps (Arthur Andersen)
Carol Riehl (Grant Thornton)
Annette Schumacher Barr (AICPA)
Lisa Vanjoske (SEC Observer)
Peter S. Nurczynski (Ernst & Young)
Debra MacLaughlin (BDO Seidman)
Tim Martin (McGladrey & Pullen)

II. PRACTICES RELATING TO THE IMPLEMENTATION OF APPENDIX K OF THE SECPS RULES APPLICABLE TO FOREIGN REGISTRANTS

At the May 3, 2001 meeting of the Task Force, there was a discussion of practices in implementing Appendix K of the SECPS rules regarding foreign registrants and it was agreed that an article would be prepared for inclusion in a suitable medium.

It was agreed that the article would appear as appendix A to the minutes of the meeting and that there would be an appropriate link to the article on the AICPA website.

The Task Force also discussed the application of the Appendix K of the SECPS Rules to a number of fact patterns. The Task Force noted the following points:

1. The Task Force believes that the requirements only apply to the principal auditors and, therefore, if the principal auditor referred to another auditor, that secondary auditor did not need to comply with Appendix K of the SECPS Rules.

2. The Task Force also believed that Appendix K did not apply to the auditor of financial statements included in a SEC filing pursuant to Rule 3-05 and Rule 3-09 of Regulation S-X.

3. The Task Force believes that in joint audit situations both auditors are subject to the application of the Appendix K requirements.

The Task Force recognized that these matters of interpretation were for the SECPS of the AICPA to determine and, if necessary, to provide clarification. Mr Dieter indicated that he would pursue these issues with the SECPS.

III. APPLICABILITY OF SAS 50 TO LOCAL GAAP ISSUES

At the May 3, 2001 meeting the Task Force had agreed that compliance with US GAAS included compliance with SAS 50. The Task Force therefore believed that foreign auditors were required to follow SAS 50 if they asserted compliance with US GAAS and the matter under discussion related to the application of US GAAP. The Task Force was less certain where the matter under discussion related to local GAAP issues.

No further discussion is currently planned.

IV. APPLICABILITY OF CHANGE IN AUDITOR REQUIREMENTS TO FOREIGN REGISTRANTS

At the May 3, 2001 meeting the Task Force discussed the applicability of the requirements relating to notification of changes in the auditor of a foreign registrant given that foreign registrants do not file 8-Ks and Item 304 of Regulation S-K does not apply to foreign registrants. The Task Force agreed that there is no reason for a distinction between domestic and foreign registrants with respect to the need for or content of the disclosure called for by Item 304 of Regulation S-K. However, the Task Force also agreed that it would not be appropriate to modify the concepts that require the timing and content of information included in a Form 6-K. Accordingly, the Task Force would be in favour of a rule change whereby the disclosure required by Item 304 of Regulation S-K would be included in the annual report on

Form 20-F with respect to filings under the 1934 Act and the disclosures would be the same as a domestic issuer in filings under the 1933 Act. The Task Force recommended that this issue be discussed with the SECPS to obtain their support for encouraging the SEC to extend the Item 304 disclosure to foreign registrants in the manner discussed. The SEC would need to undertake rule making in relation to any change.

Mr Nurczynski noted the NYSE requires a listed company to notify the market about a change in auditors. Such notification would be required to be filed under cover of a Form 6-K, but would not necessarily include all the information about the circumstances of the change that are required to be included in a Form 8-K.

Mr Dieter reported that he would be raising the matter of Item 304 of Regulation S-K with the newly appointed chair of the SECPS, Mr Robert Kueppers.

V. DETERMINING THE CARRYING VALUE OF NON-MONETARY ASSETS AND LIABILITIES OF RUSSIAN COMPANIES REPORTING IN US DOLLARS – SEC REGISTRANTS

Background

At the May 3, 2001 meeting, the Task Force concluded, and the SEC Staff did not object, that Russian companies could prepare US dollar/US GAAP financial statements.

The Task Force also discussed how Russian companies that report in US dollars should determine the carrying value in US dollars of non- monetary assets/liabilities that were acquired/assumed prior to 1992 given that there was no exchangeability between the Russian Rouble and the US dollar prior to 1992.

Issue

How should Russian companies reporting in US dollars determine the carrying value of non-monetary assets and liabilities acquired/assumed prior to 1992?

The Task Force did not address accounting by:

1) US issuers
2) Non-Russian foreign private issuers for their Russian operations
3) Russian companies for their foreign operations.

Discussion

It is assumed in this discussion that the currency of the primary economic environment for periods prior to 1992 is the Russian Rouble.

On January 1, 1992, the Central Bank of Russia established an exchange rate based on market conditions. This was the rate used for sale of currency between banks. The rate at January 1, 1992 was 110 Roubles to the dollar.

Prior to the establishment of exchangeability in 1992 there was no official inflation rate. Upon the establishment of exchangeability, the economy effectively immediately became highly inflationary.

Unofficially, it appears that the inflation rate in Russia could have exceeded 100% in 1991, however, due to the lack of convertibility, it would not have been viewed as a highly inflationary economy until January 1, 1992, when exchangeability was established.

Rule 3-20 of Regulation S-X requires that financial information for all periods presented in a filing should use the same currency. Where the issuer is in a hyper-inflationary economy, it is permitted to report in a stable currency such as the US dollar using the remeasurement principles of FASB Statement No.52.

Conclusion

The Task Force concluded, and the SEC Staff did not object, that all non-monetary assets and liabilities that existed at January 1, 1992 should be translated from Roubles into US dollars using the exchange rate at January 1, 1992 of 110 Roubles. From this date to the current period, Russia is considered to be a highly inflationary economy.

In addition, the Task Force concluded, and the SEC Staff did not object, that transactions after January 1, 1992 involving non-monetary assets and liabilities would be recorded at historical cost, i.e. amounts could not be based on appraisals, indexed or calculated amounts in lieu of transaction amounts.

The Task Force noted that there will be no cumulative translation adjustment as all amounts would be re-measured from Roubles into US dollars for all periods (as opposed to translated). Hypothetically, if the company had been preparing US dollar financial statements for periods prior to 1992 there would have been an amount in the cumulative translation adjustment account. However, there would be no difference in total equity ~~of~~ for the balances of any of the other non-monetary assets and liabilities as these would have been adjusted when the economy become highly inflationary in 1992.

The SEC Staff stated that, consistent with Rule 3-20 of Regulation S-X, they would require a registrant to use the above methodology for all periods presented in a filing (including those in selected financial data) regardless of whether the registrant may have previously used other methods.

The SEC Staff also stated, consistent with historical Staff practice with respect to privatization transactions, that if adequate fixed asset records in Roubles do not exist, they will consider a request to use appraised values to determine the opening balance of fixed assets. The issue must be addressed with the Staff prior to filing. In addition, in cases where other than historical cost are used, the opinion of the auditor would need to be qualified for the departure from US GAAP.

The SEC Staff also noted that, as the company is reporting in US dollars, the disclosures required by Rule 3-20 of Regulation S-X regarding the payment of dividends in a currency different from the reporting currency of US dollar as well as any exchange restrictions on the Rouble should be provided. In addition, pursuant to Rule 4-08 of Regulation S-X, the company should disclose the amount of equity that is available for dividends, as it would be different from the retained earnings under US GAAP in US dollars.

VI. DETERMINING THE CARRYING VALUE OF NON-MONETARY ASSETS AND LIABILITIES OF RUSSIAN COMPANIES REPORTING IN US DOLLARS – NON – SEC REGISTRANTS

The Task Force noted that Rule 3-20 of Regulation S-X was not applicable to non-SEC registrants. They noted that a number of Russian companies had issued US GAAP financial statements that had adopted a different approach to determining the historical cost of non-monetary assets and liabilities that had been acquired prior to 1992.

The Task Force observed that if a Russian Company was considering filing a registration statement with the SEC in the foreseeable future, it should consider revising its accounting policy to be consistent with guidance for companies required to file with the SEC. If a company were to do so, it is recommended that it justify the change based on the practice of the SEC (Rule 3-20 of Regulation S-X), and restate all periods presented.

Nevertheless, the Task Force noted that other methods to determine historical cost could continue to be used in US GAAP financial statements not filed with the SEC.

VII. ISSUES ASSOCIATED WITH THE ADOPTION OF IAS IN EU BY 2005

<u>Background</u>

- The European Commission presented in February 2001 a proposal for a regulation that would require all European Union (EU) companies listed on a regulated market to prepare consolidated accounts in accordance with IAS by 2005. The proposal is not expected to be adopted until late 2002 and its final form may be different from the proposal.

<u>Issue</u>

The issue relates to a foreign private issuer that is dual listed (e.g., a Luxembourg company traded on Nasdaq and on the Euronext exchange) that adopted comprehensive US GAAP as their basis of reporting in their initial US public listing.

If IAS is mandated by European exchanges, what is the impact on the companies' SEC reporting obligation?

Alternatives might include:

- Only US GAAP financial statements in SEC filings and IAS financial statements in annual reports to European shareholders (similar to statutory reporting today);

- Dual reports in SEC filings. That is, separate US GAAP financial statements with accompanying MD&A, and IAS financial statements with accompanying MD&A;

- IAS financial statements in SEC filings with a reconciliation to US GAAP, or

Conclusion

The SEC Staff said that under the present rules, it would be necessary for a registrant that had previously reported under US GAAP and decided to change their primary financial statements to IAS in their SEC filings to file IAS financial statements for all periods presented. The registrant would be required to provide a reconciliation to US GAAP for all periods presented, in accordance with Item 17 or Item 18 as applicable.

The SEC Staff said that they had no objections to a registrant changing primary GAAP as used in their filings with the SEC, although generally the Staff would be troubled by the situation in which a registrant filed a first registration statement under US GAAP in one year and then immediately thereafter, for the purpose of their periodic reporting requirements, changed their primary GAAP. A registrant that believes it may be necessary to change away from US GAAP shortly after the initial registration process, should discuss that matter with the Staff as part of the initial registration process.

Form 20-F does not preclude a registrant from changing its primary basis of GAAP, provided that it presents its financial statements on a consistent basis of GAAP for all periods presented. However, registrants intending to change their primary GAAP should have regard to any undertakings made to investors in the past and should consult their own attorneys on matters of interpretation.

VIII. BRAZILIAN TAX ISSUES

Background

This issue was discussed at the November 2000 meeting. Because of the complexities of Brazilian tax law and the Brazilian constitution, as well as the long period of time required for final resolution of judicial proceedings, Brazilian corporate taxpayers frequently file lawsuits to attempt to overturn enacted tax law or suspend the effectiveness of the tax law. The accounting for these tax disputes has varied from company to company. As a result there is inconsistency as to whether companies are recording contingent gains or contingent losses for similar tax issues. The Task Force noted that IBRACON (the Brazilian Institute of Accountants) has a first-hand knowledge of the tax laws and practices. IBRACON is addressing these matters under Brazilian GAAP. For purposes of the US GAAP reconciliation, registrants must comply with FASB Statement 5 regarding contingent gains and losses and some members of the Task Force questioned whether Brazilian and US GAAP relating to contingencies, and tax contingencies in particular, are the same in all respects.

Discussion

Mr Ossnoss provided an English translation of the Brazilian equivalent of Statement 5 and noted that there appeared to be some inconsistencies between the Brazilian standard and US GAAP:

- Paragraph 12 appears to discuss the acceptability of general risk reserves under Brazilian Corporate Law. This appeared to relate to the appropriation of retained earnings, rather than the accrual of a liability with a charge to the income statement. Nevertheless, there is no such provision in US GAAP.

- While the concepts underlying Brazilian GAAP in this area appear similar to those under US GAAP, there are differences in terminology that, in theory, could lead to inconsistencies in Brazilian practice, as well differences from US GAAP. For example, the Brazilian standard indicates that a loss should be accrued with a charge to income when "there is a probability that future events will confirm damages to the entity's assets or incurrence of liabilities as of the balance sheet date". It's not clear what "probability" means, as it is not defined in the standard.

- The document also indicates that losses are measured when "there is a possibility of estimating the amount of loss resulting from the contingency". This appears to be different than the requirement under US GAAP to "reasonably estimate" the loss. It would seem that under Brazilian GAAP there is more subjectivity in determining whether an estimate of a liability can be made. In addition, there is no discussion in Brazilian GAAP of how to go about measuring the loss (e.g., using the "best estimate" or the low end of a range of possibilities).

The Task Force noted that IBRACON has continued to discuss this issue and that local representatives of the Big 5 were involved in that discussion. The Task Force would consider the outcome of those considerations and determine whether the conclusions for Brazilian GAAP purposes were consistent with Statement 5 and, in particular, the offsetting of contingent gains and liabilities which appeared to be permitted by the Brazilian Standard but is prohibited under US GAAP. Mr Osnoss agreed to keep the Task Force current on the IBRACON deliberations.

IX. UPDATING INTERIM INFORMATION BASED ON INFORMATION FILED LOCALLY

Background

Item 8.A.5 of Form 20-F requires interim financial information that is made available on a more current basis than that otherwise required by SEC rules to be included in the registration statement. This information is not required to be reconciled to US GAAP. However, a narrative disclosure about the differences in accounting principles is required and material-reconciling items that have not been previously addressed in the filing must be quantified.

In certain countries, even though the annual financial statements prepared under local GAAP are consolidated, companies prepare and publish interim financial statements on an unconsolidated basis. This practice is acceptable both under the local GAAP and the local regulatory authorities.

Issue

When such unconsolidated interim financial statements are included in a registration statement solely because they have been made available locally on a more current basis than otherwise required by SEC rules, is the registrant required to quantify the differences for non-consolidation?

Conclusion

The Task Force noted that a quantification of the difference due to the non-consolidation should not be required because:

- The intent of the disclosure of the unconsolidated interim financial statements is to ensure that the information available to a US investor is as current as information available to a foreign investor. A quantification of the US GAAP difference would result in more financial information within the registration statement than is being provided locally.

- The unconsolidated interim financial information is not intended to represent the consolidated financial information prepared in accordance with either local GAAP or US GAAP.

- The non-consolidated entity may be viewed as a different reporting entity and not a difference in GAAP.

The SEC Staff said they agreed that the disclosure of local GAAP unconsolidated interim information was not helpful to the investor where there was a material difference between the parent company and the consolidated entity. Presenting unconsolidated interim financial statements would be the presentation of information in respect of a different reporting entity from the registrant on a consolidated basis and as such not required under Item 8.A.5 Instruction 3 of Form 20-F.

The concept of Item 8.A.5 is that US investors should receive the same information that all other investors receive. In these situations, the release of information about the parent only, does not provide an investor from a foreign country with an advantage, as the information is not relevant to the investor in the security of the registrant. Consequently, the Staff would not require the disclosure of the local GAAP unconsolidated information.

X. HYPERINFLATIONARY STATUS – VENEZUELA

<u>Background</u>

The Task Force and Staff discussed whether it would be appropriate to consider Venezuela as non-hyper inflationary and noted EITF Topic D-55 requires a change in inflationary status to be other than temporary before hyper inflationary accounting can be ceased. The Task Force also noted the following:

1. The rate of inflation in Venezuela continues to decline. A summary of the rate of inflation from 1993 through September 30, 2001 follows:

1993	46%
1994	71%
1995	56%
1996	103%
1997	37%
1998	30%
1999	20%
2000	13%
2001	9%

2. The expected rate of inflation for the rest of 2001 will be minimal. Accordingly, the three-year rate of inflation at December 31, 2001 will be approximately 52%.

3. Future inflation can be impacted by the price of oil. However, a decline in the near future is not expected to cause the level of inflation to increase to the point that Venezuela would be considered a highly inflationary economy.

Issue

Should Venezuela be considered non-hyperinflationary for periods beginning after December 31, 2001?

Conclusion

The Task Force concluded, and the SEC Staff did not object, that Venezuela should cease as non-hyper inflationary for periods beginning after December 31, 2001.

XI. ISSUES IN SWEDISH AUDIT REPORTS

At the May 3, 2001 meeting the Task Force noted that auditors' reports in Sweden that were prepared in accordance with Swedish GAAS and company law referred to the auditor having responsibilities regarding the "administration of the company" and for determining whether the directors should be "discharged from their liability" to the company. The Task Force agreed to obtain further information as to the nature of the liabilities referred to by the auditors and whether these were merely liabilities relating to the obligation of the directors to prepare annual financial statements.

Mr Kelley reported that he understood that Swedish professional body was currently looking at the nature of the Swedish audit report. He would report further at a subsequent meeting.

XII. SEC STAFF ISSUES/ANNOUCEMENTS

US GAAS report compliance

The SEC Staff reported that since the SEC had required audit reports on foreign registrants to state explicitly that the audit had been carried out in accordance with US GAAS there had been a high level of compliance. Registrants that have not complied will be expected to amend their Form 20-Fs.

Manually signed reports of prior auditors

Article 2 requires a manually signed audit report for each period required to be audited. Audit reports on all comparative periods must be included in registration statements and annual reports on Form 20-F. This is true even if comparative periods were audited by a different auditor. The former auditor must perform the procedures specified by US GAAS in order to re-issue its report, and must manually sign that report. Rule 402 under the 1933 Act and Rule 12b-11 under the 1934 Act address the mechanics of furnishing signatures in typewritten or electronic form, and how long the manually signed report must be retained by the registrant. However, it is **not** acceptable for a registrant to merely file a photocopy of a previously issued audit report, without obtaining a manually signed, re-issued report.

US GAAP reconciliation

The SEC Staff stated that they would not accept either in the footnotes to the financial statements, selected financial data or auditors' reports, description of amounts presented in accordance with US GAAP as being "estimated" or "approximate".

Quarterly data requirement (Item 302 of Regulation S-K) – change in status from foreign private issuer to domestic issuer

At the May 3, 2001 meeting the Staff had considered the circumstances of a foreign private issuer that ceased to meet the definition and concluded that the first filing after failing the definition of a foreign private issuer would be for the quarter in which the issuer's status changed.

Registrants must also comply with the requirement of Item 302(a) of Regulation S-K to provide summarized quarterly data for each quarter of the two most recent fiscal years, beginning with the first Form 10-K that the registrant must file after its change in status. That means 8 quarters of summarized quarterly data must be presented in the first 10-K. Prospective application is not acceptable. While the Staff will not ordinarily waive the requirements of Item 302(a), the Staff will consider requests for a no-action position in circumstances where it is impracticable to obtain the comparative data. Registrants facing this situation should consult with the Staff well in advance of the filing of the Form 10-K.

Statement 142 transition issues for foreign registrants

FASB Statement 142 significantly changes the accounting for goodwill and other intangible assets. The Standard is generally effective as of January 1, 2002. However, early application is permitted for entities with fiscal years beginning after March 15, 2001, provided that the first interim financial statements have not been issued previously. For domestic registrants, the "first interim financial statements issued previously" would ordinarily have been the Form 10-Q for the quarter ended June 30, 2001.

The Staff has been asked how this provision applies to foreign registrants. Foreign private issuers are not subject to the quarterly reporting requirements of the Exchange Act. However, many foreign registrants publish some type of interim information in their home markets, and furnish that information to the SEC on Form 6-K. Ordinarily, that information is presented under home country GAAP, and is not reconciled to US GAAP. However, some companies may also publish interim US GAAP information, ranging from limited summarized figures to full financial statements.

EITF Topic D-86 sets forth the SEC Staff's views regarding when US GAAP financial statements are considered to be issued. Generally, the Staff believes that financial statements are issued as of the date they are distributed for general use and reliance in a form and format that complies with US GAAP. That would ordinarily be the earlier of the date when the US GAAP statements are widely distributed to all shareholders or filed with the SEC.

For a foreign private issuer that publishes interim financial statements under home country GAAP, US GAAP financial statements are considered to be issued when the home-country GAAP statements meet all of the following conditions:

1. Filed with the SEC,
2. presented in a manner consistent with Article 10 of Regulation S-X, and
3. accompanied by a reconciliation to US GAAP meeting at least the requirements of Item 17 of Form 20-F.

Foreign private issuers with fiscal years beginning after March 15, 2001 that elect to early adopt Statement 142 and issue interim financial statements prepared under or reconciled to US GAAP in the manner just described must adopt Statement 142 in those interim statements. If the interim statements are based on APB Opinions 16 and 17, then Statement 142 cannot be adopted until the following fiscal year.

Foreign private issuers with fiscal years beginning after March 15, 2001 that do not issue interim financial statements prepared under or reconciled to US GAAP in the manner just described may early adopt Statement 142 in the annual statement for that fiscal year when the annual report on Form 20-F is filed.

US GAAS for MJDS target in non-MJDS registration statement

The SEC Staff stated that the MJDS regime and its exception to allow registrants under the MJDS to have their financial statements audited in accordance with Canadian GAAS did not apply to the financial statements of a target (even though the target itself may have previously been reporting under the MJDS) when the registration statement itself was not filed under the MJDS. For example, this may arise when the MJDS company is the target in an S-4 transaction by a domestic issuer or an F-4 by a foreign private issuer.

XIII. PROPOSAL TO EXTEND EDGAR TO FOREIGN REGISTRANTS

Background

On September 28, 2001, the SEC released for comment proposed changes in Regulation S-T and various forms that would require all Foreign Private Issuers (FPI), as well as foreign governments, to file substantially all of their documents through the Electronic Data Gathering, Analysis, and Retrieval ("EDGAR") system - Securities Act Release No. 8016. This would include:

- all annual reports and registration statements under the Securities Exchange Act of 1934;
- all registration statements under the Securities Act of 1933;
- periodic reports on Form 6-K; and
- various other filings with the SEC.

The proposed rules apply equally to Canadian companies that file under MJDS.

In addition to the preparation of financial statements in the new format, FPIs will be required to submit full English language translations of all documents required to be filed with the SEC as the EDGAR system is incapable of handling foreign language documents. Previously, FPIs were permitted to file original foreign language documentation with a brief English language summary. An English language summary would no longer be acceptable. All such translations will be required to be accompanied by written representation from an appropriate company officer that the translation is fair and accurate.

The SEC has proposed that there would be a 4 month transition period from the date such proposals are adopted. After that date, all filings would need to be on EDGAR. Accordingly, some companies may need to file their next annual report on EDGAR.

Conclusion

The Task Force supported the proposed amendments to Regulation S-T and related rules and forms subject to two points:

1. Treatment of Foreign Language Documents

The Task Force agreed with the current practice that stipulates that certain documents required to be filed as exhibits to registration statements or annual reports on Form 20-F are of such importance that filing of summarized English translations would be detrimental to an understanding of the registrant's affairs. However, the Task Force believed that the cost of the proposal to require English language translations of all items submitted using Form 6-K, including local regulatory filings, such as statutory reports, and offerings of securities only made to non-U.S. investors, would exceed the benefit of users in the US.

The Task Force agreed that the Commission reconsider the proposed requirement to have all documents submitted in an unabridged English language format. As an alternative, it would support the new rules codifying existing Commission practices in this area and provide guidance as to what types of documents for which full English translations must be provided and those for which the Commission would be willing to accept the submission of a summarized English translation.

2 Transition Period

The Task Force agreed that the Commission should extend the transition date for requiring the use of the EDGAR to at least six months subsequent to the adoption date of the amendments to provide sufficient time to address implementation issues and problems. In addition, to ensure that calendar year companies do not have to make modifications on short notice, the Task Force recommend that in no event should the rules go into effect prior to July 1, 2002.

A response letter making the above points was subsequently sent to the Commission.

XIV. STATUS OF PRIOR MINUTES – ANALYSIS OF ISSUES BY COUNTRY

As agreed at the May 3, 2001 meeting, Mr Carnall had prepared a thorough analysis of all topics discussed by the Task Force with a view to preparing a topical index for inclusion on the website. He agreed to keep this index current.

The Task Force asked that Mr Jahncke and Ms Riehl review the analysis and report to the Task Force at is next meeting.

XV. APPLICATION OF GUIDANCE FOR CHANGE IN SEGMENT INFORMATION AFTER YEAR-END FOR FOREIGN PRIVATE ISSUERS

Background

The guidance in SEC's Current Accounting and Disclosures issue memo, dated October 1, 2001,, provides the following guidance with regard to "Changes in Segments" in section IIB3 of that memo:

> *"The requirement to recast prior information to correspond with current reportable segments, or to otherwise provide comparable information, is discussed in paragraphs 34 and 35 of FAS 131. Effects of changes in significance of reportable segments are discussed in paragraphs 22 and 23. If management changes the structure of its internal organization after fiscal year end, or intends to make a change, the new segment structure should not be presented in financial statements until operating results managed on the basis of that structure are reported."*

Foreign private issuers providing a US GAAP reconciliation pursuant to Item 17 are not required to provide FAS 131 segment information in their reconciliation to US GAAP for either annual or interim financial statements. FAS 131 segment information is required in interim financial statements complying with Item 18 to Form 20-F.

Issue

A foreign private issuer, filing under Item 18, files its Form 20-F for 12/31/2000 on June 30, 2001. It files a Form 6-K with its interim information for the 3 months ended March 31, 2001 on May 31, 2001 that reflects the new segment structure. On what basis should the segmental disclosures be presented in the Form 20-F for the year ended December 31, 2000?

Conclusion

When a period is being reported for the first time, the Staff would expect the segment presentation to be based on the structure that was actually used to manage the business during that period. In this example, the segment presentation for the year ended December 31, 2000, would be based on the "old" segment structure. However, the Staff would not object if a registrant provided supplementary data based on the new segment structure.

XVI. CLARIFICATION OF THE DEFINITION OF SEGMENTS FOR PURPOSES OF COMPLIANCE WITH ITEM 5 OF FORM 20-F

Background

Item 5 of Form 20-F requires a discussion of segments without defining segments (i.e. Item 4.B.2., local GAAP, or FAS 131 definition). The old 20-F requirements did not require a specific discussion of segments but required a discussion of categories of activity or other subdivision if necessary to an understanding of the financial statements as a whole.

Item 4.B.2. of Form 20-F requires disclosure of revenues by categories of activity and geographic markets while the old requirements in Item 1 required the same but also required disclosure when contribution to profit significantly differed from their related sales and a narrative discussion of such difference.

Further, the SEC Staff indicated at the 11 May, 2000 meeting that the segment information required by Item 5 should also be presented on the same basis as Item 4 (i.e. in accordance with the basis of accounting in the primary financial statements). Where no segment information is presented in the primary financial statements because local GAAP does not require segment disclosures, the SEC Staff did not believe a registrant could omit discussion of its business segments under Items 4 and 5.

Issues

1. For Item 17 filers for which segment information is disclosed in the local GAAP financial statements and different than the categories of activity and geographic market required by Item 4.B.2. of 20-F, 4.B.2. would require such disclosure of categories of activity. What should be the basis for MD&A segment disclosure in Item 5? (i.e. the 4.B.2. information, or the local GAAP segment information or both?)

2. For Item 17 filers for which no segment information is disclosed in the local GAAP financial statements, the Item 4.B.2. and Item 5 requirements of Form 20-F require segment disclosures. Can Item 5 compliance result in discussion only related to total revenues by category of activity and geographic market for each of the last three years as required by Item 4.B.2.? Or should Item 5 include a discussion of operating profit or loss by segments (even though not required by Item 4.B.2.), if such information is determined necessary to understanding of the financial statements as a whole? *If the latter is the case, then doesn't each registrant have to prepare such information in order to determine whether they need to discuss in MD&A?* If not, should clarification be made that Item 5 discussion can be limited to that segment information provided in Item 4.B.2. (e.g. sales by categories of activity and geographic markets) in cases where no additional segment information on that basis (such as operating profit, etc.) is provided pursuant to local GAAP requirements.

3. Is FAS 131 segment information appropriate for Item 4.B.2. disclosure if it isn't based on categories of activity and geographic markets?

4. Assume a registrant has categories of activity identified per Item 4.B.2. and has local GAAP segment information as well as different SFAS 131 segment information. What is required in the Item 5 MD&A discussion? 4.B.2. information or local GAAP segment information or FAS 131 information or a combination thereof?

Discussion

The SEC Staff confirmed the view they had expressed at the May 11, 2000 meeting of the Task Force.

Where the registrant was not required to present segmental information under local GAAP, they would need to consider the issues further.

XVII. EXPERTS LANGUAGE UNDER ITEM 10G OF FORM 20-F

Background

Item 10-G to Form 20-F requires disclosure of a statement related to the inclusion of an expert's report that such report is included, in the form and context in which it is included, with the consent of that person *who has authorized the contents of that part of the documen*t. Practice is that no reference is being made in the experts' section in registration statements related to this requirement.

Issue

Should the expertizing language:

1. Refer in any way to what portions the independent accountant has "authorized"

2. If it should, should "authorizing the contents of that part of the document" should relate only to the independent accountants' report and not to the underlying financial statements, which the independent accountants do not authorize.

Conclusion

The SEC Staff noted that it was not their intention to change previous practice in respect of expertizing language that should follow that required by US GAAS and in particular AU Section 711. They would therefore expect expertizing language similar to the following:

> "The financial statements of ABC Company as of December 31, 2001 and 2000 and for each of the three years in the period ended December 31, 2001 included in this Registration Statement have been so included in reliance on the audit report of XYZ Auditors, independent accountants, given on the authority of said firm as experts in auditing and accounting."

The SEC Staff noted that Item 10.G also required that where a report was attributed to a person as expert, the qualifications of that person should be described, e.g. membership of a professional body or being licensed to sign audit reports in a particular jurisdiction. The Staff also stated that Item 1.C of Form 20-F also required disclosure of the names and addresses of the noted company's auditors for the preceding three years, together with their membership in a professional body.

XVIII. CONSENT FOR 20-F REGISTRATION STATEMENTS

Background

Items 1 to 9 in Instructions to Form 20-F describe specific exhibits required to be filed and such exhibits do not include the consent for 20-F registration statements. Accordingly, any such consent would be filed as an exhibit under 10G to Instructions to Exhibits, which is defined as any additional exhibits you wish to file as part of the registration statement or report.

Does the Staff agree with this interpretation?

Conclusion

The SEC Staff did not object to the above interpretation.

XIX. USE OF A FOREIGN AUDITOR FOR A DOMESTIC REGISTRANT

Background

The April 28, 1999 minutes of the Taskforce include the following discussion:

"Mr Carnall explained that the Staff of the SEC had traditionally believed that registrants that are not foreign private issuers as defined by Rule 405 of the Securities Act of 1933 and Section 3b-4 of the Securities Exchange Act of 1934 should be audited by a US accounting firm – i.e., licensed in one of the several states or DC and not a foreign accounting firm. The reasons for this policy include the following:

1. *More knowledgeable about US GAAP and US GAAS.*
2. *Easier for SEC to obtain workpapers.*
3. *Easier for shareholders to bring litigation.*

Historically, the Staff has normally not required the use of a US accounting firm if the majority of the registrant's operations are located outside of the United States. These situations involved the conflicting policy to have a US Accounting firm with the policy to have the principal auditor audit over 50% of the operations. Originally, this accommodation primarily involved registrants from Israel that were incorporated in the US but had substantially all of their operations in Israel. The following scenarios illustrate the increasing complexity of this area:

1. *Should there be a distinction in policy if the registrant is incorporated in the US compared to a registrant incorporated in a foreign country but does not meet the definition of a foreign private issuer?*
2. *A company has the majority of its operations outside of the US and in a particular country, but the country is not English speaking e.g., Chile.*
3. *A company has the majority of its operations outside of the US, but less than 50% in any particular country - 40% France, 40% Germany and 20% Switzerland – could the accounting firm be from any of the three countries – assume corporate headquarters in Switzerland.*
4. *Same fact pattern as in 3) except that instead of 40% of the operations being conducted in France, 40% is conducted in the US.*
5. *55% of the operations are in the US, but the company is headquartered in Germany where 45% of the operations are conducted – could a German auditor be used?*

The Staff has historically indicated that it will not object, and pre-clearance is not necessary for the use of a foreign accounting firm to audit a registrant that is not a foreign private issuer provided the following three criteria are met:

1. *The majority of the preparations are conducted in a particular country.*
2. *The accounting firm is licensed in that country.*
3. *The accounting firm is from an English speaking country: e.g., Canada, England, Ireland, Australia, and New Zealand.*

In other circumstances, pre-clearance is required.

There were a number of questions concerning the application of this policy and the need to pre-clear. Moreover, knowledge as to the Staff's expectations were not widespread and there were a number of domestic registrants where, because of a back door listing, the audit was signed by non-US firm without pre-clearance.

Craig Olinger stated that the Staff will consider all observations regarding this issue. The Staff begins with the presumption that registrants other than foreign private issuers should be audited by a U.S. firm. Given the increasing frequency and complexity of these situations, however, the Staff recognizes that some of the historical distinctions may be impractical to apply. The Staff encourages registrants and auditors with unusual situations to consult with the Staff. Pending the development of further guidance, the Staff will generally not object to a reporting company's continued use of a foreign auditor that is otherwise acceptable".

The 2000 SEC Staff Training Manual says:

"SX 2-01 requires that an independent accountant be licensed and in good standing under the laws of the place of the accountant's residence or principal office. The rule is silent as to whether or not the accountant's state or country of licensure must coincide with the location of the registrant's corporate offices or place where the registrant conducts its principal operations.

a) The Staff interprets SX 2-01 to require the audit report on a domestic registrant's financial statements to be rendered by an auditor licensed in the US. However, the Staff has made limited exceptions in the circumstance of a domestic shell company registrant where substantially all operations are foreign, and the audit report is rendered from the location of the principal business".

Issue

The issue only relates to the use of the audit opinion of a foreign firm of auditors on financial statements of a domestic registrant (including foreign incorporated companies that are not foreign private issuers).

Some have read the above extract from the April 28, 1999 minutes to mean that the SEC Staff permits, without preclearance, a non-US firm to sign the audit report of a domestic registrant if the signing office/partner is from one of a handful of English speaking countries, including Canada, UK and Australia.

The 2000 Training Manual instead implies that pre-clearance is required in all situations where the use of a foreign auditor is proposed.

Conclusion

The Staff said that in writing the 2000 SEC Staff Training Manual, the Staff had not intended to change the previous position. The Staff would encourage the registrant in any situation where the audit report on a domestic registrant's financial statements was intended to be rendered by an auditor, not licensed in the US, to discuss the matter with the Staff before filing the registration statement. While the Staff strongly encourages any registrant to discuss this issue on a pre-filing basis, in determining their view on a facts and circumstance basis, they would have regard to the following factors:

1. Was the company incorporated outside the United States?

2. Was there a requirement by law that a firm from the country of incorporation sign~~s~~ the audit report?
3. Were the majority of the assets located in, and the majority of revenues derived from, non-US operations?
4. Were the majority of the assets located in, and the majority of the revenues derived from, operations in the country that the auditor resides in.

In determining whether to accept a report from a non-US auditor of a company that is not a foreign private issuer, the SEC Staff will expect the auditor to be subject to the same quality control procedures as established by the SECPS in respect of foreign private issuers.

The SEC Staff said they would likely not question the continued use of a foreign auditor by an existing registrant where there was a reasonable basis for the original selection. The above factors may be useful in evaluating whether there was a reasonable basis for the original selection.

XX. DEFINITION OF GAAS AUDIT

Background

Certain SEC rules permit the financial statements of non-reporting target companies in an exchange offer to be unaudited.

Issue

In the question and answer below (Telephone inquiry log) the Staff response was that the exception did not apply when the statements had been audited in accordance with local GAAS. In a particular situation the SEC Staff had insisted that the audited be "upgraded" to US GAAS.

"Question 14

Q: The instructions to Item 17(b)(5) to Form F-4 state that the financial statements of a non-reporting target company for the fiscal years before the latest fiscal year need not be audited if they were not previously audited. A similar provision is included in Form S-4. How do these instructions apply to a situation where those financial statements have been previously audited in accordance with non-U.S. GAAS?

A: If financial statements of a non-reporting foreign target have been previously audited in accordance with non-U.S. GAAS and those financial statements have been published for general distribution in the target's home jurisdiction or elsewhere, financial statements for those periods must be audited in accordance with U.S. GAAS and included in the registration statement.

The Staff will consider granting relief on a case-by-case basis in unusual circumstances."

Discussion

A primary concern of the Task Force related to independence. The cost to determine if an entity is independent is substantial.

Likewise, there can be substantial differences between local GAAS and US GAAS and the time to perform the "upgrade" can be substantial. The Task Force did not necessarily believe the incremental costs to perform such procedures is consistent with the objectives of Item 17 of F-4.

The SEC Staff said they would consider this issue further.

XXI. CLARIFICATION OF STAFF TRAINING MANUAL RELATED TO GUIDANCE FOR UPDATING OF ACQUIREE FINANCIAL STATEMENTS FOR OMITTED PERIODS LESS THAN SIX MONTHS

Background

The Staff Training Material dated March 31, 2000 under Item 7 in Topic Six on page 5 includes the following guidance:

> "Financial statements of acquired and to be acquired foreign businesses under SX 3-05 must comply with the age of financial statement requirements at the time of effectiveness of the registration statement. Interim financial statements for the period preceding the acquisition date may not be omitted on the basis that the acquisition occurred during the first 9 months of the current year. However, the financial statements generally need not be updated if the omitted period is less than 6 months, and the acquired business does not prepare quarterly financial statements under its home-country reporting requirements."

Item 8.A.5 of Form 20-F reads in part as follows:

> "If at the date of the document, the company has *published* interim financial information that covers a more current period than those otherwise required by this standard, the more current interim financial information must be included in the document."

Issues

1. Is the intent of the SEC Staff to require inclusion of more current financial statements for an acquiree that cover a pre-acquisition period during this six month period if such financial statements are *prepared* and *not* published publicly?

2. If the answer in "1" above is yes, then does it apply only to "quarterly financial statements" or does it apply to any more recent financial statements prepared?

3. If the answer to "1" above is yes, then do the financial statements have to be reconciled to US GAAP or should the requirements of Item 8.A.5. apply, which requires a discussion of differences and quantification only when similar differences haven't been quantified in past reconciliations?

4. Do Item 8.A.5 requirements above apply to an acquiree's published interim financial information that covers a more current period than provided in the registration statement if the omitted period is less than 6 months?

Conclusion

The SEC Staff confirmed that it was not their intention that a registrant should be required to include more current information for an acquiree in relation to a pre-acquisition period less than six months prior to the acquisition date if that information was only prepared for management purposes. Accordingly, the words “prepared” in the Staff training Manual should be interpreted as “published”.

The Staff observed that any more currently published interim period must be filed under Item 8.A.5 of Form 20-F, but it does not need to be reconciled.

XXII. CANADIAN AcG 11

Background

In March 2000, the Canadian Accounting Standards Board (ASB) issued AcG 11 "Enterprises in the Development Stage". This Guideline presents the views of the ASB on recognition, measurement, presentation and disclosure by enterprises in the development stage. The ASB believes that the nature of a transaction rather than the degree of maturity of an enterprise should govern accounting treatment. Certain aspects of this Guideline become effective for this calendar year.

Issue

One of the major firms in Canada believes this guidance should be applied to exploration costs for mining in a manner that is not consistent with the rest of the major firms. These differences in views can be significant. This is only an issue for Canadian GAAP, their costs are expensed under US GAAP.

Conclusion

The SEC Staff believe that investors should be advised of the different interpretations. Presented below is a disclosure drafted in the context of a registration statement to comply with SAB 74, but it would also be applicable, subject to some modification, once the standard is adopted.

In the course of considering the appropriateness of this disclosure, the SEC Staff discussed the issues with the Staff in the Office of the Chief Accountant of the Ontario Securities Commission.

> “Released Accounting Standards not yet implemented by the Company
>
> In March 2000, the Accounting Standards Board of the Canadian Institute of Chartered Accountants (CICA) issued Accounting Guideline No. 11 entitled Enterprises in the Development Stage - (AcG 11). The guideline addresses three distinct issues: (i) capitalization of costs/expenditures, (ii) impairment and (iii) disclosure. Prior to its issuance, development stage entities were exempt from following certain aspects of Canadian GAAP. AcG 11 will require that all companies account for transactions based on the underlying characteristics of the transaction rather than the maturity of the enterprise. In addition, AcG 11 will require specific disclosure of information by development stage companies. The guideline is effective no later than fiscal periods beginning on or after April 1, 2000, which is the company's 2001 fiscal year.

The company is aware that there are two alternative views of how AcG 11 affects mining companies with respect to the deferral of exploration costs. CICA Handbook Section 3061 "Property, Plant and Equipment" states that for a mining property, the cost of the asset includes exploration costs if the enterprise considers that such costs have the characteristics of property, plant and equipment. The Company considers that exploration costs have the characteristics of property, plant and equipment, and, accordingly, defers such costs. Under the view adopted by the company, deferred exploration costs would not automatically be subject to regular assessment of recoverability, unless conditions, such as those discussed in AcG 11 exist. Under the alternative view, however, there would be a regular assessment of deferred exploration costs. Assessment of the probability of recoverability of deferred exploration costs from future operations would require the preparation of a projection based on objective evidence of economic reserves, such as a feasibility study. The stage of the Company's operations is such that like most mining companies in the exploration stage, it would not be practicable to obtain a feasibility study or provide other information that could be used to support capitalization of deferred exploration costs under the alternative view.

Under the interpretation followed by the Company, the guideline will not have a significant impact on its financial statements. However should the alternative interpretation be determined by the accounting profession to be appropriate, all deferred exploration costs would be written off as of the beginning of the year. This write-off would be treated as a change in accounting principle. The result would be a reduction of mining assets of XXX, an increase in deferred tax assets of XXX, and a decrease in retained earnings of XXX. [The impact in the XX month interim period ended XXXX, 2001 would be to decrease pretax and net income by XX and XX, respectively.]

The accounting profession is currently evaluating this issue to determine the appropriate interpretation of AcG 11 and CICA Handbook section 3061.

AcG 11 also provides guidance on measuring impairment of when pre-operating costs have been deferred. While this guidance is applicable, the Company does not believe its application will result in impairment."

The Staff confirmed that they would expect a registrant to make the disclosures indicated above until such time as the interpretation of AcG11 was resolved by the Canadian profession and the Ontario Securities Commission. At present, given the uncertainty about the interpretation of the standard they would expect a company to make these disclosures whichever alternative view of the application of the standard was adopted.

The Canadian Emerging Issues Committee has issued a draft abstract – "Accounting by Mining Enterprises for Exploration Costs. A copy of the abstract can be found on the CICA's website at http://www.cica.ca/cica/cicawebsite.nsf/public/EDOEDEICAbstracts.

XXIII. APPLICATION OF EITF 99-20 TO FOREIGN REGISTRANTS

Background

The transition provisions of EITF No. 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets" provide that the consensus should be applied to the accounting for interest income and impairment of beneficial interests in securitization transactions for all fiscal quarters beginning after March 15, 2001. How should these transition provisions be applied to a foreign private issuer, with a calendar year-end, under the following three scenarios:

1. Company presents quarterly interim information under US GAAP (or reconciled to US GAAP)
2. Company presents semi-annual interim information under US GAAP (or reconciled to US GAAP)
3. Company does not present interim information under US GAAP (or reconciled to US GAAP)

Conclusion

Given the narrow circumstances addressed by EITF Issue 99-20 and its unusual transitional provisions, the Staff said they would not object if a foreign private issuer applied EITF 99-20 in each of the above scenarios as follows:

Scenario 1:
The company would be required to apply the EITF in the quarter beginning on April 1, 2001 - similar to a domestic company.

Scenario 2:
The company would not be required to apply the EITF until it presents US GAAP information for a period commencing after March 15, 2001. That is, the EITF would be applicable for the six-month reporting period beginning on July 1, 2001.

Scenario 3:
The EITF would be applicable for the period beginning on January 1, 2002, but not before.

The above requirements would be applicable when the US GAAP information is required to be filed with the SEC either in a 1933 or 1934 Act Filing or when the information has to be submitted to the Commission on a Form 6-K.

XXIV. INCOME TAXES IN THE REPUBLIC OF CHINA (TAIWAN)

Background

In Taiwan, companies are subject to a 25% income tax on taxable income. Under a revised Taiwan tax rule effective on January 1, 1998, an additional 10% corporate income tax will be assessed on taxable income but only to the extent such taxable income are not distributed before the end of following year. Normally this 10% income tax is determined during the 2nd year when the distribution plan becomes final. The tax will become due in the 3rd year. Once the 10% tax is determined the company will not be entitled to any credit or refund even if the current year's undistributed earnings will be distributed in future years, in which event, the shareholders can claim income tax credit but not the company on which the tax was assessed.

Under ROC GAAP, the 10% tax on undistributed taxable earnings is recorded as a tax expense for the undistributed portion at the time when shareholders resolve the amount of the earning distribution.

For example:

- Company A has a taxable income of $100 for fiscal year ended December 31, 2000, with tax rate 25%

- The board of directors decides in April 2001 that ~~on~~ $40 will be distributed to shareholders

- 10% additional tax will be assessed on undistributed taxable income of $35 ($100-$25-$40) = $3.5

- Under ROC GAAP, $3.5 additional tax is recorded as a tax expense in April 2001 with tax liabilities accrued.

- The additional $3.5 tax does not become due until year 2002.

There appears to be diversity in practice regarding accounting treatment for such taxes under US GAAP among US SEC registrants from Taiwan with some companies not making an adjustment to ROC GAAP, and others are applying the concepts of EITF 95-10.

Issue

How should this additional 10% tax be accounted for under US GAAP?

Discussion

The discussion was deferred until the next meeting.

XXV. MISCELLANEOUS ISSUES

Reverse Reconciliation

1. Is the “reverse reconciliation” referred to in the following excerpt from SEC’s memo required to be audited?

   Occasionally, the interim information that is publicly distributed in the issuer's home country will be prepared using accounting standards that are different from those used in the US registration statement. In this instance, the US investor has not had the benefit of knowing the reconciling items between home-country and US GAAP. Therefore the information disclosed pursuant to Item 8.A.5 would have to be supplemented with a description and quantification of differences in accounting principles.

For example, a foreign issuer uses US GAAP in its primary financial statements in filings with the Commission, but reports in a foreign GAAP in its home country. The company releases more recent earnings information in its home country in foreign GAAP. Item 8.A. 5 requires that information to be included in the prospectus. However, the issuer has never filed reconciliations from foreign GAAP to US GAAP, so a US investor cannot interpret the foreign GAAP information. In this situation, an issuer may either (a) reconcile the Item 8.A.5 information to US GAAP or (b) provide a reconciliation from US GAAP to foreign GAAP (reverse reconciliation) for at least the most recent year required in the registration statement."

The Staff confirmed their view that there was no requirement for the reverse reconciliation to be audited. The Staff encourages registrants to present audited information. However, the Staff noted that a registrant could elect to directly reconcile the interim statements to US GAAP, and there is no requirement to audit that reconciliation.

Financial Statements Schedules

2. What is the Staff's view as to whether the financial statement schedules are required to be reconciled to US GAAP for both Item 17 and Item 18 filers. Such information is frequently included in the primary financial statements on a local GAAP basis making such separate financial statements schedules unnecessary. Reconciled information; however, is rarely included in practice. However the following excerpt from the Staff Training Manual appears to indicate such reconciliations are required.

The related excerpt is from The Staff Training Manual in Topic Six, Section IV, Content of Reconciliation to US GAAP, Subsection A, Item 17 Requirements. Point 6 in this section on page 6-12 reads as follows:

> "A reconciliation for each required supplemental schedule from foreign GAAP to US GAAP that quantifies and describes each significant difference."

The Staff confirmed that they would not require a registrant to reconcile Schedule II disclosures from domestic GAAP to US GAAP.

Rule 3-09

What is the Staff's view as to whether financial statement schedules are required for S-X 3-09 separate financial statements of significant investees.
The Staff confirmed that financial statement schedules were not required for Rule 3-09 financial statements.

Changes in Shareholders' Equity

3. What is the Staff's view as to whether under Item 8.A.5 to Form 20-F a prior year interim period reconciliation is needed for statement of changes in shareholders' equity.

The Staff confirmed that a reconciliation of shareholders' equity was not required to be presented in interim periods (although total comprehensive income for the period was required to be disclosed). Accordingly, a reconciliation was also not required.

XXVI ARGENTINA

Background

Since 1991, the Argentine peso has been pegged to the US dollar at the rate of 1 to 1. However, shortly before Christmas, the Government of Argentina announced an exchange holiday and pesos could not be exchanged into other currencies at December 31, 2001. On January 5 and 6, 2002, the Argentine Congress and Senate gave the President emergency powers and the ability to suspend the law that created the fixed one to one rate. The Government subsequently announced the creation of a dual currency system in which certain qualifying transactions will be settled at an expected fixed rate of 1.4 pesos to the dollar while all other transactions will be settled using a free floating market exchange rate. Under the existing guidance, dividends would not receive the preferential rate.

On January 11, 2002, it was possible to buy and sell pesos for the first time since the exchange holiday. Banks were legally allowed to exchange currencies, but transactions were limited and generally took place at exchange houses. These transactions were conducted primarily by individuals versus being commercial transactions.

Accounting Guidance

FASB Statement 52, Foreign Currency Translation (FAS 52), paragraph 26, states, in part, "....If exchangeability between two currencies is temporarily lacking at the transaction date or balance sheet date, the first subsequent rate at which exchanges could be made shall be used for purposes of this Statement..." The application of this guidance is addressed in EITF Topic D-12 Foreign Currency Translation - Selection of Exchange Rate When Trading Is Temporarily Suspended.

Paragraph 27 of FAS 52, states:

> "The exchange rates to be used for translation of foreign currency transactions and foreign currency statements are as follows:
>
> a) Foreign Currency Transactions - The applicable rate at which a particular transaction could be settled at the transaction date shall be used to translate and record the transaction. At a subsequent balance sheet date, the current rate is that rate at which the related receivable or payable could be settled at that date.
>
> b) Foreign Currency Statements - In the absence of unusual circumstances, the rate applicable to conversion of a currency for purposes of dividend remittances shall be used to translate foreign currency statements."

Issues

The Task Force addressed a number of issues relating to this subject including the following:

Issue 1

Question: Should companies use a 1 to 1 exchange rate for purposes of remeasuring transactions or translation of peso financial statements at December 31, 2001?

Guidance: The Task Force concluded, based on the guidance in paragraph 26 of SFAS 52 and EITF D-12, that a rate of 1 to 1 was NOT appropriate as there was no exchangeability.

Issue 2

Question: Can the fixed rate of 1.4 pesos to the dollar be used for remeasurement or translation purposes?

Guidance: The Task Force concluded, based on the guidance noted above, that unless an item will specifically receive the preferential rate, the free floating market rate should be used for remeasurement purposes. In addition, since dividends would not receive the preferential rate of 1.4 pesos to the dollar, financial statements should be translated at the free floating market rate.

Issue 3

Question: Given the limited exchange activity that took place on January 11, 2002, should this be the date used to determine that there was exchangeability?

Guidance: The Task Force concluded, based on the information that was publicly available, that there was exchangeability on January 11, 2002. Transactions were conducted and Banco De La Nacion Argentina published an official exchange rate. While there may have been little or no commercial activity, this can be attributed to a variety of factors, including the overall economic environment. There was no indication that larger transactions could not take place. The Task Force was concerned that it would not be possible, nor appropriate, to develop guidance that would delay the conclusion about exchangeability until there was a greater volume of activity. Any such guidance would be subjective and likely applied inconsistently.

Issue 4

Question: In determining the rate to use how should the phrase "the first subsequent rate at which exchanges could be made" in paragraph 26 of FAS 52 be applied.

Guidance: The Task Force did not believe that this guidance should be read literally as the "first" exchange transaction. Certain members of the Task Force informally discussed this issue with the staff of the FASB, who indicated their view that the guidance in FAS 52 was not intended to be literally the "first" transaction. The Task Force believed that it would be reasonable to look to closing rates on January 11, 2002 in making the determination of the rate to use at December 31, 2001.

Issue 5

Question: What rate should be used to remeasure transactions and to translate financial statements that will not receive the preferential fixed rate of 1.4 pesos to the dollar.

Guidance: With respect to transactions, a company will need to determine if they would be buying or selling dollars - or other currency, to settle the transaction. To determine the rate for translation, a company would use the rate to buy US dollars (or other currency as appropriate) and sell pesos.

The Task Force concluded that a company should use the same procedures to determine the appropriate free-market exchange rate that they have historically used - assuming such sources provide information about the value of the Argentine peso. The Task Force understands that at the end of the day on January 11, 2002, exchange houses in Argentina closed at approximately 1.7 pesos to buy dollars and 1.5 pesos to sell dollars. Banco De La Nacion Argentina published its official rate for January 11, 2002 at 1.6 pesos to buy dollars and at 1.4 pesos to sell dollars. The Wall St. Journal published a rate of 1.65.

Based on the information available in the published media, the Task Force would not expect the exchange rate selected by companies using their normal procedures to be significantly different from those described in the preceding paragraph.

XXVII. NEW MEXICAN TAX LAW

The Mexican Congress recently passed tax legislation that includes a phased-in reduction in Income Tax rates for corporations. A question has arisen about whether the effect of that new tax law on a corporation's computation of its deferred tax assets and liabilities should be recognized, for a calendar year corporation, in 2001 or 2002.

Paragraph 27 of FASB Statement No. 109, *Accounting for Income Taxes,* states that changes in tax law "shall be included in income from continuing operations for the period that includes the enactment date." Paragraph 112 of Statement 109 states, "A change in tax law or rate or a change in the tax status of an enterprise is an event that has economic consequences for an enterprise in the year that the change occurs, that is, in the year that a change in tax law or rate is enacted or a change in tax status is approved." The following is from the SEC's International Financial Reporting and Disclosures Issues document dated May 1, 2001 (Section V.5).

- FAS 109 states that deferred tax assets and liabilities should be adjusted for the effects of a change in tax law or rates in the period that includes the enactment date. In the US, enactment date is considered to be the date that the President of the United States signs the legislation and it becomes law.

- FAS 109 does not address specifically how to determine the enactment date in jurisdictions outside the US. Simply stated, enactment date is when all steps in the process for legislation to become law have been completed. For example, in Australia enactment date would be when Royal Assent is given to the Bill, not when a Bill is passed by Parliament. This conclusion is equally applicable to foreign subsidiaries of US companies.

- In Brazil, the tax law is sometimes significantly altered by provisional measures that remain in force for three months and expire automatically if they are not extended for an additional three-month period. The provisional measures are not enacted by the legislature and should not be used as the enacted rate for the purpose of recognizing the tax effect of temporary differences under FAS 109 .

It was the understanding of the Task force that in Mexico legislation is enacted as soon as (1) Congress passes the legislation and (2) the legislation is published in the Diario Official ("Official Daily Gazette").

The Mexican Congress was in session and debating the tax legislation on December 31, 2001. However, the Congress continued to work on this legislation into the night. The legislation was then published in the Diario Official on January 1, 2002.

Issue

Should the effect of this legislation be recognized in 2001 or 2002?

Conclusion

The Task Force agreed that the effect of this legislation should be reflected in years commencing after December, 31, 2001.

XXVIII. DATE FOR NEXT MEETING - Proposed date is May 23, 2001

Appendix A

Survey on SECPS Rules on Foreign Filers

In 1999, the SECPS introduced new rules that required the international organization or individual foreign associated firms of SECPS member firms to adopt policies and procedures consistent with the following objectives:

a) Procedures for Certain Filings by SEC Registrants – The policies and procedures should address the performance of procedures with respect to certain SEC filings by SEC registrants that are clients of foreign associated firms by a person or persons knowledgeable in accounting, auditing, and independence standards generally accepted in the U.S., independence requirements of the SEC and ISB, and SEC rules and regulations in areas where such rules and regulations are pertinent (the "filing reviewer"). The procedures are performed to provide assistance to the partner of the foreign associated firm responsible for the audit (the "audit partner-in-charge of the engagement") and the foreign associated firm. Such filings are limited to registration statements, annual reports on Form 20-F and 10-K, and other SEC filings that include or incorporate the foreign associated firm's audit report on the financial statements of a SEC registrant. The procedures performed by the filing reviewer should generally include the following:

1) Reading the document to be filed with the SEC with particular attention given to compliance as to form of the financial statements (and related schedules) and auditors' report with the applicable accounting and financial reporting requirements for such filings by the SEC registrant.

2) Discussing with the audit partner-in-charge of the engagement:

   (i) the engagement team's familiarity with and understanding of the applicable U.S. auditing, accounting, financial reporting, and independence standards, including independence requirements of the SEC and the ISB;

   (ii) the significant differences between: (a) the accounting and financial reporting standards used in the presentation of the financial statements included or incorporated in the document to be filed with the SEC and those applicable in the U.S., and (b) the auditing and independence standards of the foreign associated firm's domicile country and those applicable in the U.S.; and

   (iii) any significant auditing, accounting, financial reporting, and independence matters that come to the attention of the filing reviewer when performing the procedures described above, including how any such matters were addressed and resolved by the audit partner-in-charge of the engagement.

3) Documenting the results of the procedures performed. The procedures performed by the filing reviewer described above do not relieve the audit partner-in-charge of the engagement of any of the responsibilities for the performance of the audit of, and the report rendered by the foreign associated firm on, the financial statements included in the document to be filed with the SEC. Also, the filing reviewer does not assume any of the responsibilities of the audit partner-in-charge of the engagement or of any concurring reviewer. Because of the limited nature of the procedures described above, it is recognized that the filing reviewer can not and does not assume any responsibility for detecting a departure from, or non-compliance with, accounting, auditing, and

independence standards generally accepted in the U.S., independence requirements of the SEC and ISB, or SEC rules and regulations."

The International Practices Task Force of the AICPA SEC Regulations Committee conducted a survey of its members in 2001 to determine how these rules were being applied in practice and to see whether there were any evolving common practices.

The remainder of this article sets out the results of the survey.

1. Identify of Filing Reviewer

The SECPS rules provide that the filing reviewer must be somebody with an appropriate knowledge of US Generally Accepted Accounting Principals ("GAAP") and US Generally Accepted Auditing Standards ("GAAS"). Beyond that it provides no further guidance and does not require the person to be a certified public accountant in the United States. The survey covered the following issues:

a) *The seniority of the reviewer*. The filing reviewer should be a partner or a senior manager.
b) *The location of the filing reviewer*. Firms organize themselves differently. Some firms require that the filing reviewer should be located in the National Office or possibly elsewhere within the United States. Other firms use filing reviewers that are designated by the National Office but which are generally located in local offices around the world. The key point was that the filing reviewer should be somebody with the appropriate experience of not just US GAAS and US GAAP, but also of the rules and requirements of the SEC including those relating to independence.
c) *Is it possible for the filing reviewer to fulfil other engagement responsibilities such as the engagement partner or the concurring review partner?* Generally, the filing reviewer is someone other than the engagement partner. It would also be unusual for the filing reviewer to serve as a concurring review partner.
d) *Does the filing reviewer need to be a specialist in that role?* Generally for the firms in the survey, the filing reviewer would be a specialist in that role.
e) *Can the filing reviewer delegate some of the review functions to another Staff member?* Although some of the work may be delegated to managers and other support Staff, the filing reviewer retains his or her responsibilities and, therefore, cannot delegate responsibility.
f) *Are filing reviewers always approved in advance by the National Office?* For all the firms in the survey the answer was yes, on the basis that it is the National Office that is responsible overall generally for the firm's relationship with the SEC.

2. Role of Filing Reviewer

The SECPS requirements as to what the filing reviewer must do are general rather than specific. Some firms have developed practice aids to assist the filing reviewer to discharge his or her responsibilities for reviewing the SEC filing to determine their compliance with US GAAS, US GAAP and SEC requirements including independence.

The SECPS rules require that the filing reviewer assess the knowledge of the engagement team in US GAAP and US GAAS, but are not specific about how this should be done or how the assessment should determine the subsequent level of review. For most firms, evaluating the knowledge and experience of the engagement team is a matter of professional judgement for the filing reviewer. Where the level of knowledge of the team about US GAAP and US GAAS is strong, then most firms would influence the level of involvement by the filing reviewer. But where the filing reviewer identified weaknesses in team knowledge, then filing reviewers had a potentially significant input into addressing training needs for people working on foreign filer engagements. It was recognized that some local practices would not have sufficient knowledge of US GAAP or US GAAS and SEC rules to properly discharge their responsibilities and in those circumstances the US firm would typically provide additional resources to the engagement team. Additionally, the SECPS rules do not prohibit the filing reviewer from providing guidance and advice to the engagement team on the application of US GAAS, US GAAP, and the SEC's requirements throughout the performance of the engagement. In most cases, firms recognize that it is desirable, over the longer term, to increase the capability of local engagement teams regarding US GAAP and US GAAS issues if the investment of resources makes economic sense.

3. Application of US GAAS

The SECPS rules require that the filing reviewer assess the US GAAS competency of the engagement team and, of course, SEC requires that the auditor state that the audit was conducted in accordance with US GAAS (possibly in addition to local GAAS). The changes in the Commission's rules relating to explicit statements as to compliance with US GAAS has focussed the minds of many firms on ensuring that the audit has been conducted in accordance with US GAAS. Firms tend to have common audit methodologies world-wide, but which may not of themselves, ensure compliance with US GAAS. Where that is the case, most firms covered in the survey do have additional practice aids that identify the additional procedures that need to be done in order to make sure that the audit has been conducted in accordance with US GAAS.

4. Application of US GAAP

Many foreign private issuers choose to file financial statements in local GAAP, with reconciliation to US GAAP, pursuant to either item 17 or item 18 of Form 20-F. All firms covered in the survey believe that it is the responsibility of the local engagement team to identify the relevant differences between local GAAP and US GAAP, but have developed various approaches to assisting teams to identify the relevant differences. In some cases this is done by the use of summaries of GAAP differences on a country-by-country basis. In addition, the relevant filing reviewer will often be selected as someone with experience of the local GAAP of a particular country, such that they can more readily identify differences from US GAAP or build up that expertise by experience.

5. Review of Work Papers

Most firms specify the minimum documentation that the filing reviewer must review. However, it should generally be possible for the filing reviewer to discharge their responsibilities without reviewing underlying audit work papers, although if necessary, the filing reviewer may consider it appropriate to ask for certain working papers dependent upon their professional judgement.

6. Documentation of Review

The SECPS rules require that the filing reviewer document the fact that they have appropriately discharged their responsibilities. All firms require some form of documentation that the review has been performed and a sign-off by the filing reviewer that they have discharged their responsibilities. However, it is emphasized that the filing reviewer is not required, in the same way that the engagement partner is required, to be satisfied that the financial statements are US GAAP compliant and US GAAS compliant.

7. Other US GAAP Engagements

The requirements of the SECPS as to the involvement of filing reviewers, only apply to SEC filings. In recent years there has been a tendency for financial statements of non-US companies to be prepared in accordance with US GAAP, even though those financial statements are not intended for use in a SEC filing. Some firms already require that those financial statements also are subject to review by a filing reviewer, and others are evolving their policy in this area.

While the SECPS requirements are only applicable if the company is a foreign private issuer, the SEC Staff will expect similar procedures to be applied if a non US firm signs an opinion on financial statements of an entity that is not a foreign private issuer as a condition to accepting the opinion.

Appendix B

Contingencies

Introduction

1. The term "Contingencies" appearing in this pronouncement relates to certain conditions or situations involving uncertainty as to their ultimate outcome as of the fiscal year ending of the financial statements of an enterprise and, as such, dependent upon future events which may occur or may not.

2. This pronouncement does not deal with the treatment to be given to events which occur between the date of the fiscal year or period end of the financial statements and the reporting or publication date ("subsequent events"), which will be treated in another pronouncement.

General

3. Contingencies, which may result in future favorable or unfavorable effects; may cause gains or losses, which, as of the balance sheet date, prove to be only potential gains or losses.

4. In many cases, the probable amount of contingency is determinable and, therefore, can be recorded or disclosed in the notes to the financial statements. In various other cases, the actual financial effect can be determined only when relevant aspects of the matter are known and defined; however, estimates can be used in such cases to calculate the probable amount of the contingency. The use of estimates does not imply the same nature of uncertainties as contingencies have. For example, estimates of useful life are generally used to determine depreciation of permanent assets; in spite of that, depreciation does not have the nature of a contingency as the useful life of the assets is not perpetual - there is a period of time that expires. In the same manner, certain provisions calculated to cover costs or expenses of services provided for the entity are not contingencies, since the incurrence of the costs of the services is unquestionable.

5. A contingency can be related to events, which have occurred, and are not accurately defined as of the balance sheet date and are widely or reasonably known by company management.

6. Estimates of possible consequences and respective financial effects of a contingency will also depend on management's judgment. Such judgment will be made in light of the available facts and information at the time of the preparation and consequent publication of the financial statements, and should take into consideration the experience gained in similar situations and other useful factors.

Accounting treatment for contingent gains:

7. As a general rule contingent gains should not be accounted for, by the accounting convention of conservatism revenue should be recognized only when realized. In these cases, only disclosures should be made in a note to the financial statements as to the nature of the gain and as to the estimated amount of future revenue (preferably net of income tax and probable costs and expenses).

Accounting treatment for contingent losses:

8. Loss contingencies should be accrued against income in the year when the loss is considered probable and the amount can be determined. The nature of the loss and other relevant information should be appropriately disclosed in a note to the financial statements.

9. If the elements available to estimate the amount of the loss contingency are insufficient or inconsistent, the information should be restricted to the nature of the contingency.

10. It should be noted that, in certain circumstances, a contingent liability may be reduced or even canceled as a result of actions or claims filed against third parties who are involved in the same matter. In such cases, one of the following alternatives can be adopted, whichever best suits the circumstances in light of the accounting convention of conservatism:

    a) Account for loss by the estimated net amount provided the portion attributable to third parties is likely to be realized; or
    b) Account for loss by the gross amount and, at the same time, disclose the possible recoverable amount.

11. Normally, collateral obligations resulting from discounted notes, guarantees and other similar liabilities are disclosed in the notes to the financial statements and in principle it is unnecessary to create specific accruals for contingencies, unless losses of this nature are considered probable.

Contingency reserves:

12. In certain uncommon situations, the net equity of an entity may be subject to threats caused by absolutely involuntary, uncontrollable, but foreseeable cyclical or other events, such as those caused by nature (atmospheric or geological), predatory actions (plague of insects) or civil conflicts (wars, riot, revolutions, etc.) or imposed by government acts (expropriations, etc.). Although a contingency factor is involved in such cases (occurrence of a future loss or not), this kind of contingency is not necessarily among those requiring accrual accounting for loss contingencies. Article 195 of Corporate Law determines the procedure to be followed in such cases, primarily to avoid distribution of current profits to the detriment of future years' profits as a result of a loss, which is considered probable. Article 195 states:

    "The general meeting can, by proposal by management bodies, allocate a portion of the net income to a reserve for the purpose of offsetting, in a future year, the decrease in profit resulting from a loss, which is considered probable, the amount of which is determinable.

    § 1) the proposal of the management bodies should state the cause of the anticipated loss and justify, in a prudent manner, the reserve.

    § 2) the reserve will be reversed in the year in which the reasons that justify their accounting for no longer exist or in which the loss occurs."

IBRACON'S (Brazilian Institute of Accountants) OPINION

13. A loss contingency should be accrued against a debit to income when:

    a) There is a probability that future events will confirm damages to the entity's assets or incurrence of liabilities as of the balance sheet date; and

    b) There is a possibility of estimating the amount of loss resulting from the contingency.

14. The existence of a loss contingency should be appropriately disclosed in the financial statements, even if the above-mentioned conditions do not exist, unless the possibility of the loss occurring is remote.

15. Gain contingencies should not be accounted for unless directly related to a loss, as stated in Paragraph 10. The existence of gains of this nature should, however, be disclosed in a note to the financial statements whenever there is a probability that the gain will be realized, but all care should be taken to avoid misinterpretation.