International Practices Task Force Highlights

CAQ

Joint Meeting with SEC Staff

November 19, 2024

I. Attendance

Task Force Members	**Observers**
Guilaine Saroul, Chair (PwC) Steven Jacobs, Vice-Chair (EY) Regina Croucher (KPMG) Rich Davisson (RSM-US) Adam Dufour (EY)	SEC staff from the Division of Corporation Finance and Office of the Chief Accountant Annette Schumacher Barr (CAQ staff) Erin Cromwell (CAQ staff)

Task Force Members	Observers
Patrick Higgins (PwC) Mark Kronforst (EY) Grace Li (BDO) Kathleen Malone (Deloitte) Michael Corvari (KPMG) Erin McCloskey (KPMG) Ignacio Perez Zaldivar (Deloitte) Sergey Starysh (BDO) Cindy Williams (GT)	

II. Impact of adoption of IFRS 18 in new registration statements that include interim financial statements

In the May 19, 2021 Task Force meeting with the staff, the Task Force discussed a number of reporting scenarios in which a company includes interim financial statements or financial information for a period more current than required to meet the age of financial statements requirements in Form 20-F Item 8.A.5 (“more current financial information”). The Task Force asked the staff whether it would be appropriate to apply a principle that the requirements of Item 8.A.5 of Form 20-F are not deemed to trigger any SEC requirements to update other disclosures included or incorporated into the registration statement beyond the more current financial information. In that meeting, the staff indicated that registrants with fact patterns different from those addressed in prior meetings should consult with the staff.

The Task Force observed that IFRS 18, “Presentation and Disclosure in Financial Statements” (IFRS 18) states: “*C1. An entity shall apply this Standard for annual reporting periods beginning on or after 1 January 2027. Earlier application is permitted. If an entity applies this Standard for an earlier period, it shall disclose that fact in the notes*” and “*C2. An entity shall apply this Standard retrospectively applying IAS 8. However, an entity is not required to present the quantitative information specified in* paragraph 28*(f) of IAS 8.”*

Given this guidance and noting that Item 8.A.5 states in part, “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,” the Task Force asked the following:

> If a calendar year end Company files a registration statement prior to October 1, 2027 and includes interim financial statements (for example, the three months ended March 31, 2027) pursuant to this requirement (because it has published them in its home country and it is an interim period more current than what is otherwise required) that reflect the adoption of IFRS 18, does the inclusion of such interim financial statements require the Company to recast the year ended December 31, 2026 (and including three years ended (i.e., 2026, 2025 and 2024) to reflect the adoption of IFRS 18 in connection with the registration statement?"

The staff indicated that in this scenario, a Foreign Private Issuer (FPI) could recast the previously filed annual financial statements but would not be required to recast previously filed annual financial statements unless and until financial statements are filed pursuant to the nine-month rule under Item 8.A.5. of Form 20-F. Similar to the guidance provided by the staff in the May 19, 2021 meeting, registrants should consider providing incremental disclosure in the registration statement to serve as a bridge between the annual statements and the interim financial information. The objective of this incremental disclosure is to allow the reader to understand the impact the change will have on the annual financial statements at the time updating is required by Item 8.A.5 and may be accomplished through qualitative or quantitative disclosures included either inside or outside the financial statements.

III. IFRS 18 – Reconciliation

In the year of adoption of IFRS 18, an entity is required to provide a reconciliation in its financial statements in accordance with paragraphs C3 and C6 of IFRS 18 which state:

> *"C3. In its annual financial statements an entity shall disclose, for the comparative period immediately preceding the period in which this Standard is first applied, a reconciliation for each line item in the statement of profit or loss between:*
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> a. *the restated amounts presented applying this Standard; and*
> b. *the amounts previously presented applying IAS 1* Presentation of Financial Statements.*"*
>
> *C6. An entity is permitted, but not required, to disclose the reconciliations described in* paragraphs C3 *and* C5 *for the current period or earlier comparative periods."*

Accordingly, an FPI would generally need to provide three years of income statements and total comprehensive income.

The Task Force asked the staff whether it would object to an FPI that applies IFRS Accounting Standards as issued by the IASB (IFRS) presenting three years of financial statements including a reconciliation only for the first preceding year versus the preceding two years of comparative financial information in accordance with IFRS 18 paragraph C6. The staff noted that paragraph 33 of IFRS 18 requires reclassification of all comparative amounts, unless impracticable, and indicated that they believe that the requirement to provide a reconciliation as described in paragraph C3 should apply to each of the comparative period(s) *required* to be presented, similar to the requirement of paragraph 33. The staff considered that the guidance in paragraph C6, which provides optionality on reconciling the earliest fiscal year, is provided under a framework in IFRS whereby the presentation of that earliest fiscal year is optional, whereas Item 8.A.2. to Form 20-F requires that presentation. In other words, an FPI that applies IFRS would be required to provide a reconciliation for all periods required to be presented in Form 20-F, which facilitates investors' assessment of the impacts of IFRS 18 adoption across all periods presented.

IV. IFRS 18 – MPM Considerations

IFRS 18 will be adopted for annual periods beginning on or after January 1, 2027 with early adoption permitted. Upon adoption of IFRS 18, entities that report using IFRS will be required to include management-defined performance measures (MPMs) in a single note to their consolidated financial statements. MPMs are subtotals of income and expenses that are used in an entity's public communications outside of the financial statements to communicate management's view of an aspect of the financial performance of the entity as a whole.

In the May 2024 IPTF Meeting, the staff indicated that FPIs shall disclose MPMs required by IFRS 18 in their financial statements with disclosures in accordance IFRS 18. However, when such measures are presented outside the financial statements, they are subject to the SEC's non-GAAP rules in Regulation G and Item 10(e) of Regulation S-K, as applicable.

Generally, Regulation G does not apply to a non-GAAP measure presented by an FPI in publicly disclosed information provided the following conditions are met:

- "The securities of the registrant are listed or quoted on a securities exchange or inter-dealer quotation system outside the United States" (e.g., the London Stock Exchange Group).
- "The non-GAAP financial measure is not derived from or based on a measure calculated and presented in accordance with generally accepted accounting principles in the United States" (e.g., IFRS).

- "The disclosure is made by or on behalf of the registrant outside the United States, or is included in a written communication that is released by or on behalf of the registrant outside the United States." [Part 244 – Regulation G; §244.100(c)]

In the November 2024 IPTF Meeting, The Task Force noted that currently an FPI may present a performance measure in filings in its local jurisdiction, but not include such measure in its Form 20-F. Under IFRS 18, a company would be required to include local jurisdiction measures that meet the definition of an MPM in a note to its financial statements, along with all of the disclosures required by IFRS 18. In some cases, the measure presented in the local jurisdiction may not need to be fully compliant with the SEC rules and staff interpretations for non-GAAP measures if the measure is not subject to Regulation G based on the exception for FPIs (when the above criteria are met).

The Task Force asked the staff for their expectations related to the disclosure of MPMs under IFRS 18 in an FPI's SEC filings that are communicated in the FPI's local market in reliance on the exemption in Regulation G.

The staff indicated that, upon adoption of IFRS 18, a measure that is not subject to Regulation G may be disclosed as an MPM in an FPI's SEC filings to the extent required by IFRS 18. For example, if an FPI that is dual-listed and reports using IFRS publicly communicates Adjusted Operating Profit outside the United States, it is likely scoped out of Regulation G. If Adjusted Operating Profit meets the definition of an MPM, it will be disclosed as such in the FPI's financial statements in accordance with IFRS 18. The staff's response led to additional dialogue and new questions. The staff agreed to continue the discussion at the next scheduled meeting.

V. Basis of accounting with respect to the FASB ASC Topic 932 disclosures for an entity that applies IFRS

The instructions to Item 18 of Form 20-F states the following: *"2. An issuer that is required to provide disclosure under FASB ASC Topic 932, Extractive Activities – Oil and Gas, shall do so regardless of the basis of accounting on which it prepares its financial statements."* In the May 21, 2019 IPTF Joint Meeting, the staff confirmed that FPIs that have significant oil and gas-producing activities that apply IFRS are required to comply with the supplemental oil and gas disclosures in ASC 932, to satisfy the Item 18 requirement. However, consideration of the impact of differences in accounting between IFRS and US GAAP on the ASC 932 disclosures was not contemplated in the question posed to the SEC staff at that meeting. For example, differences in accounting principles under IFRS and US GAAP, and in particular differences relating to the reversal of impairments would impact the amounts presented in those disclosures.

A literal reading of the instructions to Item 18 of Form 20-F and the guidance in ASC 932 might suggest that an FPI that is required to comply with the disclosure requirements of ASC 932 should present the disclosures using a US GAAP basis of accounting with respect to impairments rather than IFRS. Under that interpretation, in a period when the reversal of an impairment occurs (for an FPI that applies IFRS), the amounts reported within the ASC 932 disclosures would be inconsistent with the amounts presented in the FPI's underlying financial statements.

Given this guidance, the Task Force asked the staff whether an FPI with oil and gas-producing activities that applies IFRS to its financial statements should apply the same basis of accounting (IFRS) to the preparation of the amounts presented within the ASC 932 disclosures. The staff indicated that the FPI in this scenario should present the ASC 932 disclosures based on the IFRS recognition and measurement principles used in its financial statements, consistent with the historical application of Item 18 of Form 20-F to other disclosures provided under home country GAAP.

VI. SAB Topic 4.C – Change in capital structure - Applicability to stock splits

SAB Topic 4.C states that if there has been a change in capital structure after the date of the latest reported balance sheet but before the release of the financial statements, such changes must be given retroactive effect in the balance sheet. It is common for entities in the process of an IPO to declare and complete a change in capital structure (e.g., stock splits) prior to the effectiveness of its registration statement.

It is clear for U.S. GAAP SEC filers as a result of the application of SAB Topic 4.C., that if a stock split is effective before the effective date of a registration statement, it is necessary to update the financial statements to retroactively reflect the stock split in the historical earnings per share (EPS) information on an audited basis. The updated financial statements are included in the next amendment to the registration statement.

For companies reporting under IFRS, IAS 10, *Subsequent Events,* requires that both adjusting and non-adjusting subsequent events be evaluated through the authorized for issuance date, and that such authorized for issuance date be disclosed in the financial statements. IFRS financial statements are not adjusted after the date of authorization (IAS 10.18), and IAS 10 does not require the financial statement to be reissued to reflect a change in capital structure, e.g. a stock split or reverse stock split subsequent to the date of authorization. FRM 6320.5 states that IFRS filers need not apply SABs that related specifically to U.S. GAAP (e.g., SAB 104). However, in selecting accounting policies under IAS 8, a registrant may apply SABs that relate to U.S. GAAP and otherwise meet the IAS 8 requirements.

Given the above guidance, the Task Force asked the staff whether a company reporting under IFRS in the process of an IPO must revise the historical financial statements to reflect a stock split completed prior to the effective date of a registration statement, or whether it could or should be reflected through the use of pro forma financial information outside of the financial statements.

The staff indicated that SAB Topic 4.C applies to IFRS filers in this scenario. The staff observed that the guidance in IAS 33.64 for IFRS filers and ASC 260-10-55-12 under U.S. GAAP are similar in that a change in capital structure that occurs after the financial statements are authorized for issuance under IFRS or issued or available to be issued under U.S. GAAP do not require recognition of the change in capital structure. The staff also observed that the IFRIC acknowledged in March 2013 that the form for representations of financial statements in offering documents, such as those related to capital restructurings, may be dictated by the individual jurisdiction regulations. SAB Topic 4:C includes, in part, a requirement specific to an offering document regarding the presentation of capital restructuring that occurs before the effective date of a registration statement. A U.S. GAAP-filer would apply Topic 4:C, and the staff does not see a basis for an IFRS-filer to not comply with Topic 4:C the same as a US GAAP-filer. The staff believes that the application of Topic 4:C will provide relevant and transparent information in the audited financial statements regarding recent changes in capital structure necessary to assess the potential per share effects on their investment.

VII. Next Meeting

The Task Force and staff will meet next on May 22, 2025.