

**INTERNATIONAL PRACTICES TASK FORCE**  
**Center for Audit Quality Washington Office**  
**May 24, 2011**  
**HIGHLIGHTS**

The Center for Audit Quality (CAQ) SEC Regulations Committee and its International Practices Task Force meet periodically with the staff of the SEC to discuss emerging financial 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 and do not represent an official position of the AICPA or the CAQ. As with all other documents issued by the CAQ, these highlights are not considered authoritative and users are urged to refer directly to applicable authoritative pronouncements for the text of the technical literature. These highlights do not purport to be applicable or sufficient to the circumstances of any work performed by practitioners. They are not intended to be a substitute for professional judgment applied by practitioners.

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.

As available on this website, highlights of the Joint Meetings of the SEC Regulations Committee and its International Practices Task Force and the SEC staff are not updated for the subsequent issuance of technical pronouncements or positions taken by the SEC staff nor are they deleted when they are superseded by the issuance of subsequent highlights or authoritative accounting or auditing literature. As a result, the information, commentary or guidance contained herein may not be current or accurate and the CAQ is under no obligation to update such information. Readers are therefore urged to refer to current authoritative or source material.

**I. Attendance**

Task Force Members

Paul Curth, Chair (Ernst & Young)  
Jonathan Guthart, Vice-Chair (KPMG)  
Rich Davisson (McGladrey & Pullen) (Via Teleconference)  
Jon Fehleison (KPMG)  
Debra MacLaughlin (BDO) (Via Teleconference)  
Victor Oliveira (Ernst & Young)  
Eric Phipps (Deloitte & Touche)  
Scott Ruggiero (Grant Thornton)  
Catherine Samsel (PricewaterhouseCoopers)  
Sondra Stokes (Deloitte & Touche)

Observers

Jill Davis (SEC Staff Observer) (Via Teleconference)  
Paul Dudek (SEC Staff Observer)  
Craig Olinger (SEC Staff Observer)  
Brian Wolohan (Center for Audit Quality Staff Observer)  
Annette Schumacher Barr (Center for Audit Quality Staff Observer)

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II. Current Practice Issues

A. Canadian First Time Application of International Financial Reporting Standards: Interim Period Financial Information in a Registration Statement or Prospectus

In 2011, Canadian listed companies, with certain exceptions, are required to transition from Part V Pre-changeover accounting standards (“Old Canadian GAAP”) in the Canadian Institute of Chartered Accountants Handbook “CICA Handbook” to Part I International Financial Reporting Standards of the CICA Handbook (Canadian GAAP applicable to Publicly Accountable Enterprises). Part I of the CICA Handbook is International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS). The effective transition date is January 1, 2010 for a calendar year entity.

For financial years beginning on or after January 1, 2011, Canadian listed companies are required to prepare financial statements in accordance with IFRS, including interim financial statements prior to the first annual IFRS financial statements, as promulgated by Part I in the CICA Handbook. The Canadian regulator requires that annual financial statements disclose an unreserved statement of compliance with IFRS and an interim financial report disclose an unreserved statement of compliance with IAS 34.

Item 5(b)(2) of Form F-3 (with reference to Item 8.A.5. of Form 20-F) require that if a registration statement is dated more than nine months after the end of the last audited financial year, it should contain consolidated interim financial statements, which may be unaudited, covering at least the first six months of the financial year. Additionally, Item 2 of Form F-10 provides that any financial statements included in the home jurisdiction document must be reconciled to US GAAP as required by Item 18 in Form 20-F.

Currently, Form 20-F General Instruction G.(f)(2) “First Time Application of International Financial Reporting Standards” provides transition guidance:

Interim Period Financial Information in a Registration Statement or Prospectus. This instruction shall apply when an issuer is changing the body of accounting principles used in preparing its financial statements presented pursuant to Item 8.A.2 to IFRS. This instruction shall be available during the financial year in which the issuer is changing its accounting principles to IFRS and during the financial year thereafter until the date as of which the issuer is required to comply with Item 8.A.4.

(A) Instruction 3 of the Instructions to Item 8.A.5 shall not apply to published financial information that is prepared with reference to IFRS. This General Instruction G(f)(2)(A) shall be available for any financial information for any interim or annual financial period that the issuer publishes that is prepared with reference to IFRS.

(B) An issuer that is required to provide interim financial statements under the first sentence of Item 8.A.5 may satisfy the requirements of that item by providing one of the following:

(i) Three financial years of audited financial statements and interim financial statements (which may be unaudited) for the current and comparable prior year period, prepared in accordance with Previous GAAP and reconciled to U.S. GAAP as required by Item 17(c) or 18, as applicable;

(ii) Two financial years of audited financial statements and interim financial statements (which may be unaudited) for the current and comparable prior year period, prepared in accordance with IFRS as issued by the IASB;

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(iii) Three financial years of audited financial statements prepared in accordance with Previous GAAP interim financial statements (which may be unaudited) for the current and comparable prior year period prepared in accordance with IFRS as issued by the IASB; and condensed financial information prepared in accordance with U.S. GAAP for the most recent financial year and the current and comparable prior year interim period (the form and content of this financial information shall be in a level of detail substantially similar to that required by Article 10 of Regulation S-X).

Instruction: An issuer that is unable to provide information that complies with Instruction G.(f)(2)(B) but has available comparable financial information based on a combination of Previous GAAP, IFRS and U.S. GAAP should contact the Office of International Corporate Finance in the Division of Corporation Finance, in writing and well in advance of any filing deadlines, to discuss its interim period financial information.

As noted above, Form 20-F provides transition guidance for interim financial statements in the year of transition to IFRS, however, each alternative requires some form of either maintaining U.S. GAAP and/or Old Canadian GAAP information for these periods. Many issuers may find these alternatives difficult from a logistical or cost benefit perspective.

As noted in the instruction to General Instruction G.(f)(2), an issuer should contact the Office of International Corporate Finance in the Division of Corporation Finance to discuss alternate presentations for its interim period financial statements to those outlined in Form 20-F Instruction G.(f)(2). If an issuer decided to pre-clear with the Staff an interim financial statement presentation that does not comply with the Form 20-F Instructions G.(f)(2)(b)(i), (ii) or (iii), the Task Force discussed that the issuer should consider how the financial statement presentation will “bridge” the prior previously filed annual financial statements (Canadian GAAP reconciled to US GAAP) to the IFRS financial statements that will be filed in the future.

The Task Force discussed two illustrative approaches for an existing SEC registrant to consider in developing their submission to the Staff. These illustrative approaches provide examples of the important elements of a financial information presentation intended to provide the “bridge” that the registrant should consider in their written submission. The interim period financial information considered responsive to the instruction to General Instruction G.(f)(2) will depend on the registrant’s specific facts and circumstances. These approaches are simply two examples and should not be considered inclusive of all possible acceptable alternatives. These approaches would apply to both F-3 and F-10 filings but would not apply to F-9 filings, as such filings do not require a US GAAP reconciliation.

For both approaches a registrant should consider applying the guidance in the Ontario Securities Commission Issuer Guide: *TOP 10 TIPS FOR PUBLIC COMPANIES FILING THEIR FIRST IFRS INTERIM FINANCIAL REPORT* (OSC Guide). Tips 5, 6 and 7 of the OSC Guide suggest that presentations and disclosures that would be included in annual financial statements should be considered for disclosure in the first-time presentation of interim financial statements by a first-time adopter of IFRS.

Bridging forward to IFRS approach:

The first approach would be to develop interim financial information that includes the reconciliations and disclosures typically included in an annual set of IFRS first-time adoption financial statements. For example (assume a calendar year end reporting company):

- Provide 2010, 2009 and 2008 annual financial statements under Canadian GAAP with a US GAAP reconciliation.
- Provide comparative interim financial statements (including the cumulative year to date periods) meeting the age requirements of Form 20-F, Item 8.A.5. (e.g., June 30, 2011 and 2010), compliant with IAS 34 and enhanced with additional reconciliations and disclosures as follows:

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- Statements of Financial Position at January 1, 2010 (opening IFRS) and December 31, 2010
- IFRS 1 Reconciliations related to the:
  - date of transition to IFRS, January 1, 2010
  - recent annual period, December 31, 2010 and
  - comparative interim period, the six months ended June 30, 2010.
- Disclosure of exemptions and elections taken under IFRS1
- Disclosure of significant accounting policies adopted by the issuer under IFRS, even if those policies harmonized with Canadian GAAP
- Significant footnote disclosures as of and for the six months ended June 30, 2011 that would ordinarily be included only in annual financial statements

Bridging back to US GAAP approach:

A second approach would be to present IFRS interim financial information that include a reconciliation to US GAAP (in lieu of condensed S-X Article 10 US GAAP financial information, for the interim and prior year financial information as contemplated by Form 20-F Instructions G(f)(2)(b)(iii)) For example (assume a calendar year end reporting company):

- Provide 2010, 2009 and 2008 annual financial statements under Canadian GAAP with a US GAAP reconciliation.
- Incorporate by reference, or include in the filing, the previously furnished IFRS interim financial statements as of and for the three month periods ended March 31, 2010 and 2011 meeting the requirements for a first quarter filing of the Canadian Securities Regulators, including the guidance in the OSC Guide.
- Provide comparative interim IFRS financial statements (including the cumulative year to date periods) meeting the age requirements of Form 20-F, Item 8.A.5. (e.g., June 30, 2011 and 2010), compliant with IAS 34 and including the US GAAP reconciling information normally required by Form 20-F.

**B. The application of GAAP applicable to private entities in Canada and the financial statement requirements pursuant to S-X Rule 3-05 and Rule 3-09 of foreign businesses**

Effective January 1, 2011, private enterprises in Canada may apply either GAAP applicable to private entities (PE GAAP) in Part II of the CICA Handbook or IFRS in Part I of the CICA Handbook. Private enterprises have the option to retroactively apply PE GAAP in their 2010 financial statements.

PE GAAP encourages the use of professional judgment, with fewer prescriptive requirements and less detailed guidance than Canadian GAAP under Part V of the CICA Handbook. One of the many significant differences between PE GAAP and US GAAP relates to consolidation, significant influence and joint ventures. PE GAAP permits subsidiaries to be carried at cost or using the equity method or the consolidation method. There are similar options for investments subject to significant influence and joint ventures.

The Canadian Securities Administrators (CSA) National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* (CSA 52-107) provides that financial statements of an acquired business can be prepared in accordance with PE GAAP if the following conditions are met:

1. The acquired business financial statements consolidate subsidiaries and account for significantly influenced investees and joint ventures using the equity method;

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2. The acquired business financial statements were not previously prepared in accordance with IFRS, Canadian GAAP, US GAAP and certain other foreign GAAPs, where permitted; and
3. The acquired business financial statements are accompanied by a notice stating that they are in accordance with PE GAAP which may differ from IFRS.

In instances where the acquired business financial statements are prepared in accordance with PE GAAP, the CSA requires a reconciliation from PE GAAP to the issuer's GAAP be presented in the notes to the financial statements. The reconciliation is required for all annual periods and the most recently completed interim period. A reconciliation of the comparative interim period is not required.

Financial statements filed with the SEC to fulfill the requirements of Regulation S-X Rule 3-05 and Rule 3-09 of entities that qualify as foreign businesses, as defined in S-X 1-02(l), may be prepared in accordance with U.S. GAAP, IFRS, or according to a comprehensive body of accounting principles other than U.S. GAAP or IFRS (Local GAAP). If the primary financial statements are prepared in accordance with Local GAAP, reconciliation to U.S. GAAP is required. The reconciliation to U.S. GAAP should meet the requirements of Item 17 of Form 20-F. This accommodation is available for Rule 3-05 and Rule 3-09 financial statements filed by both U.S. Domestic issuers and FPIs. When a reconciliation of interim financial statements is required, SEC rules require a reconciliation of both the most recently completed interim period and the comparative interim period.

The Task Force discussed the circumstances (if any) that PE GAAP would be considered a comprehensive body of accounting principles, and, therefore, an acceptable basis of accounting for the preparation of Rule 3-05 and Rule 3-09 financial statements of foreign businesses.

Item 17(b) of Form 20-F requires that financial statements disclose an information content substantially similar to financial statements that comply with US GAAP and Regulation S-X. Ordinarily, consolidation of all controlled subsidiaries is necessary to meet this requirement, regardless of the GAAP being used. An accounting policy that excludes subsidiaries from consolidation would not satisfy this requirement. Historically, the Task Force observed that consolidation of controlled subsidiaries and the application of equity accounting for significantly influenced investees are significant considerations in the SEC staff's view of whether a set of financial statements were prepared in accordance with a comprehensive body of accounting to satisfy the requirements of Item 17 and Regulation S-X.

The Task Force discussed that PE GAAP is derived from the fundamental principles of Canadian GAAP. The SEC Staff stated that if financial statements filed with the SEC to fulfill the requirements of Regulation S-X Rule 3-05 and Rule 3-09 of entities that qualify as foreign businesses were prepared in accordance with PE GAAP, including consolidation of subsidiaries and accounting for significantly influenced investees and joint ventures using the equity method, then those financial statements would be considered prepared according to a comprehensive body of accounting principles other than U.S. GAAP or IFRS for purposes of Regulation S-X. Therefore, PE GAAP that meets the requirements of CSA 52-107 should be an acceptable basis of accounting for the preparation of financial statements of a foreign business filed pursuant to the requirements of Regulation S-X Rule 3-05 and Rule 3-09. For financial statements of a foreign business prepared in accordance with PE GAAP in these circumstances, a reconciliation to U.S. GAAP is required when filed to satisfy the requirements of Regulation S-X Rule 3-05 and Rule 3-09. A reconciliation to another GAAP is not acceptable. Further, when a reconciliation of interim financial statements is required, a reconciliation to US GAAP of both the most recently completed interim period and the comparative interim period is required.

As with other Local GAAPs, the accommodation to not provide a quantified reconciliation to US GAAP for financial statements of a foreign business filed pursuant to the requirements of Rule 3-05 and Rule 3-09 that do not exceed the 30% significance level is available for financial statements prepared in accordance with PE GAAP.

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The Task Force observed that PE GAAP is not intended for public companies. The SEC Staff noted that PE GAAP is not an acceptable basis of accounting for preparation of financial statements of issuers and predecessors of issuers.

**C. Acceptance of Proposed CAS Task Force Auditors Report in SEC filings**

Effective for audits of financial statements for periods ending on or after December 14, 2010, *International Standards on Auditing* (ISA) has been adopted as Canadian Auditing Standards (CAS). A CICA reporting Task Force has been developing guidance materials addressing the adoption of the CAS reporting standards. A report has been developed by the CICA Task Force to meet both the CAS and PCAOB standards (Proposed CICA Task Force Auditors Report). (See page 91 of the CICA publication *Reporting Implications of New Auditing and Accounting Standards - Issue No. 3 - February 2011* at <http://www.aasbcanada.ca/reference-material-for-practitioners/item42988.pdf>.)

Paragraph 8 of AU 508 *Reports on Audited Financial Statements*, identifies the basic elements in a PCAOB auditors' report. AU 508 does not prescribe the form of the report. The Proposed CAS Task Force Auditors Report appears to contain the identified basic elements in AU 508.08. However, some question whether the element addressing audit evidence is fully complied with in the Proposed CICA Task Force Auditors Report. This element is as follows (AU 508.f.(1): "A statement that an audit includes - Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements"

The comparable language in the Proposed CAS Task Force Report states: "An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements."

Section 6800 of the SEC's Financial Reporting Manual addresses foreign auditor matters relating to FPIs. Section 6820 states, in part, the following (March 2011 version):

6820.1 The report of the independent accountant must comply with all requirements of S-X 2-02.

6820.2 The report of the independent accountant, except for MJDS filers in Canada, should include a statement that the audit was conducted "in accordance with the standards of the Public Company Accounting Oversight Board (United States)." The staff will not object if the report also refers to compliance with home-country GAAS. [Instruction 2 to Item 8.A.2 of Form 20-F; Release No. 337745]

6820.3 Reports of independent accountants issued for MJDS filers may still refer solely to Canadian GAAS when filed on MJDS forms. [Release No. 33-6902] However, if financial statements of an MJDS filer are included in a non-MJDS form, such as Rule 3-05 financial statements in a domestic issuer's Form 8K or a foreign private issuer's Form F-3, then the audit must be conducted, at a minimum, in accordance with, and the audit report must refer to, U.S. GAAS.

In situations where the auditors' report with respect to a Canadian company is required to indicate compliance with PCAOB reporting standards or US GAAS, the Task Force discussed and plans to continue to discuss at a future meeting whether the form of the Proposed CICA Task Force Auditors Report would be acceptable in a SEC filing considering the guidance in the SEC's financial Reporting Manual.

**D. Monitoring inflation in certain countries**

At the March 2003 meeting of the Task Force, that the Task Force observed that it would be helpful to proactively provide information about the inflationary status of countries. The approach and the related assumptions used by the Task Force, and the inherent limitations, are summarized in the [May 14, 2009 Task Force meeting Highlights](#).

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Based on the World Economic Outlook database – April 2011 Edition. The following countries should continue to be considered highly inflationary as of March 31, 2011:

- Democratic Republic of Congo
- Myanmar – The information available on the International Monetary Fund (IMF) website with respect to Myanmar consists of projected data from 2009. Myanmar has not publicly provided information with respect to inflation and there is no central bank website. In light of the fact that current information is not available, and absent evidence to the contrary, Myanmar should remain on the highly inflationary list.
- Venezuela

The following countries are on the Task Force’s inflation “watch list”:

- Eritrea – The information available on the IMF website with respect to Eritrea indicates it last reported data in 2008.
- Ethiopia

**E. IFRS-IASB XBRL Taxonomy**

On January 30, 2009, the SEC published a final rule, Interactive Data to Improve Financial Reporting that requires the use of eXtensible Business Reporting Language (XBRL) for SEC financial reporting. These requirements are applicable to IFRS issuers for fiscal periods ending on or after June 15, 2011. As of May 24, 2011, the SEC has not yet approved the taxonomy for IFRS. Additionally, EDGAR is not yet capable of accepting XBRL filings by a FPI that prepares its financial statements in accordance with IFRS.

The Task Force noted that on April 8, 2011 the SEC staff issued an [Interpretive Letter](#) to the CAQ stating, in part, that “foreign private issuers that prepare their financial statements in accordance with IFRS as issued by the IASB are not required to submit to the Commission and post on their corporate websites, if any, Interactive Data Files until the Commission specifies on its website a taxonomy for use by such foreign private issuers in preparing their Interactive Data Files.”

**F. Registrant Delinquent in its Exchange Act Reporting**

The Financial Reporting Manual describes a process by which a registrant that is delinquent in its Exchange Act reports may “catch-up” with a comprehensive Form 10-K annual report that includes all audited financial statements and other material information that would have been available had the registrant filed timely and complete reports. See Section 1320.1(c). The staff noted that this procedure is available for foreign private issuers that file on Form 20-F and also noted that home-country GAAP financial statements included in a catch-up filing would be required to include reconciliations to U.S. GAAP for all periods presented. A foreign private issuer must be current in its Exchange Act reporting obligation in order to deregister its securities using Form 15 or 15F.