

INTERNATIONAL PRACTICES TASK FORCE
Center for Audit Quality Washington Office
May 16, 2017
HIGHLIGHTS

NOTICE:

The Center for Audit Quality (CAQ) SEC Regulations Committee and its International Practices Task Force (the 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subsequent issuance of technical pronouncements or positions taken by the SEC staff nor are they deleted when they are superseded by the issuance of subsequent highlights or authoritative accounting or auditing literature.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

Steven Jacobs, Chair (EY)
DJ Gannon, Vice-Chair (Deloitte)
Greg Bakeis (PwC)
Rich Davisson (RSM-US)
Judy Freeman (KPMG)
Jonathan Guthart (KPMG)
Kathleen Malone (Deloitte)
Alan Millings (EY)
Victor Oliveira (EY)
Ignacio Perez Zaldivar (Deloitte)
Scott Ruggiero (Grant Thornton)
Cathy Samsel (PwC)
Julie Valpey (BDO USA)

Observers

Jill Davis (SEC staff) – Via Teleconference
Craig Olinger (SEC staff)
Annette Schumacher Barr (CAQ staff)

Guests

Julien Boucher (EY)
Eli Hadadi (KPMG)
Guilaine Saroul (PwC) – Via Teleconference

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II. Task Force Update

Steven Jacobs thanked Cathy Samsel for her years of dedicated service and leadership to the Task Force as Chair and Vice-Chair. Task Force and staff members echoed this sentiment of appreciation.

III. Current Practice Issues

A. Monitoring Inflation in Certain Countries

Introduction

Registrants are responsible for monitoring inflation in countries in which they have operations. Under ASC 830-10-45-12, the determination of a highly-inflationary economy begins by calculating the cumulative inflation rate for the three-year period that precedes the beginning of the reporting period, including interim reporting periods. If that calculation results in a cumulative inflation rate in excess of 100%, the economy should be considered highly-inflationary in all instances. However, if that calculation results in the cumulative rate being less than 100%, historical inflation rate trends and other pertinent factors should be considered to determine whether such information suggests that classification of the economy as highly inflationary is appropriate.

In an effort to facilitate greater consistency among practitioners, the Task Force developed a process to identify and monitor country inflation statistics. The discussion below is intended to highlight observations of the Task Force based upon reported inflation statistics.

The Task Force discussed three-year cumulative inflation rates for certain countries. (See Appendix A for a detailed description of how inflation rates are calculated.) Countries were categorized as follows:

1. Countries with three-year cumulative inflation rates exceeding 100%
2. Countries where the three-year cumulative inflation rates had exceeded 100% in recent years
3. Countries, other than those countries already included in the other categories, (a) with projected three-year cumulative inflation rates greater than 100%; (b) with projected three-year cumulative inflation rates between 70% and 100%; (c) where the last known three-year cumulative inflation rates previously exceeded 100% and current actual inflation data has not been obtained; or (d) with a significant increase (25% or more) in inflation during the last calendar year or a significant increase in projected inflation in the current year.

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The following information, unless otherwise indicated, is based on the International Monetary Fund World Economic Outlook (“WEO” Report Database – April, 2017, is provided to assist registrants in applying the U.S. GAAP guidance in determining which countries are considered highly-inflationary:

1. Countries with three-year cumulative inflation rates exceeding 100%

- **South Sudan** - South Sudan's three-year cumulative inflation rate through the end of 2016 was estimated to be 1,237%, based on the reported index data in the WEO Report. The three-year cumulative inflation rate is projected to be 2,575% by the end of 2017.

Current Task Force observation: Considering the guidance in Case A of ASC 830-10-55-24, it appears registrants should continue to treat the economy of South Sudan as highly-inflationary.

- **Ukraine** - According to the reported index data in the April 2017 WEO report, Ukraine’s three-year cumulative inflation rate through the end of 2016 amounted to 101%, and is projected to be 77% at the end of 2017.

As indicated in the November 2016 Highlights, based on these inflation rates, Ukraine’s economy is considered highly-inflationary.

The three-year cumulative inflation rate at the end of 2016 of 101% was primarily influenced by a spike in inflation reported in 2015 of 43%. Using quarterly projected inflation data published by the National Bank of Ukraine in April 2017, the three-year cumulative inflation rate is projected to be below 100% by June 30, 2017. Based on the index data in the April 2017 WEO report, Ukraine’s three-year cumulative inflation rate is projected to be 77% at the end of 2017 and 32% at the end of 2018.

Current Task Force observation: Considering the guidance in Case C of ASC 830-10-55-26, the historical inflation rate suggests the highly-inflationary classification results from an isolated spike in the annual inflation in 2015. Absent unforeseen developments, Ukraine’s economy may cease being considered highly-inflationary by the end of 2017 and potentially sooner. As a result, registrants should actively monitor and consider Ukraine’s reported inflation data to determine the periods in which the economy should be treated as highly-inflationary.

- **Venezuela** - The three-year cumulative inflation rate for Venezuela amounted to 1,672% for 2016 and the three-year cumulative inflation rate at the end of 2017 is projected to be 12,873%.

Current Task Force observation: Considering the guidance in Case A of ASC 830-

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10-55-24, it appears registrants should continue to treat the economy of Venezuela as highly-inflationary.

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

- **Malawi** - The three-year cumulative inflation rate for Malawi was 91% at the end of 2015, 85% at the end of 2016 and is projected to be 67% by the end of 2017.

Current Task Force observation: Considering the guidance in Case B of ASC 830-10-55-25, the inflation statistics suggest that the drop below 100% would appear to be other than temporary. As a result, it appears registrants should cease treating the economy of Malawi as highly inflationary.

- **Sudan** - According to the WEO report, Sudan's cumulative three-year inflation rate was 101% at the end of 2015, 85% at the end of 2016 and is projected to be 72% by the end of 2017.

Current Task Force observation: Considering the guidance in Case B of ASC 830-10-55-25, the inflation statistics suggest that the drop below 100% would not appear to be other than temporary. As a result, it appears registrants should continue to treat the economy of Sudan as highly-inflationary. Registrants would be expected to have appropriate controls in place to monitor Sudan's reported inflation data and consider other pertinent economic indicators to determine when it is appropriate to cease treating the economy as highly-inflationary.

3. Countries, other than those countries already included in the other categories, (a) with projected three-year cumulative inflation rates greater than 100%; (b) with projected three-year cumulative inflation rates between 70% and 100%; (c) where the last known three-year cumulative inflation rates previously exceeded 100% and current actual inflation data has not been obtained; or (d) with a significant (25% or more) increase in inflation during the last calendar year or a significant increase in projected inflation in the current year

(a) Countries other than those countries already included in the other categories, with projected three-year cumulative inflation rates greater than 100%

Argentina - According to the April 2017 WEO report, Argentina's 2017 inflation is projected to be 22% and, based on the 2013 index and the projected 2017 index presented, the cumulative three-year inflation rate is projected to be 103% at the end of 2017. The WEO report does not provide annual inflation data for 2015 or 2016 and includes the following warning:

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“The consumer price data for Argentina before December 2013 reflect the consumer price index (CPI) for the Greater Buenos Aires Area (CPI-GBA), while from December 2013 to October 2015 the data reflect the national CPI (IPCNu). The new government that took office in December 2015 discontinued the IPCNu, stating that it was flawed, and released a new CPI for the Greater Buenos Aires Area on June 15, 2016. At its November 9, 2016, meeting, the IMF Executive Board considered the new CPI series to be in line with international standards and lifted the declaration of censure issued in 2013. Given the differences in geographical coverage, weights, sampling, and methodology of these series, the average CPI inflation for 2014, 2015, and 2016 and end-of period inflation for 2015 and 2016 are not reported in the April 2017 World Economic Outlook.”

The Task Force understands that the 2016 index presented in the April 2017 WEO is an estimate and is only included to show a forecast for 2017.

As indicated above, the April 2017 WEO report provides projections for 2017 but does not provide inflation data for 2015 and 2016. However, it does include inflation data for prior years, including the 24% rate for 2014, as determined under the IPCNu, as well as the CPI-GBA rate of 11% for both 2013 and 2012.

The three-year cumulative inflation rates presented below were not reported in the April 2017 WEO report, but were calculated based on monthly amounts from various indices, as follows:

	Indices Considered¹	As of 9/30/16	As of 12/31/16	As of 3/31/17
1	Various indices used — Greater Buenos Aires (CPI-GBA) to December 2013, IPCNu January 2014 to October 2015, City of Buenos Aires only index (IPC-BA) November 2015 to April 2016, new CPI-GBA from May 2016 to relevant period-end	100.2%	104.2%	97.3%
2	Same as #1 except that the San Luis province index (IPC-SL) was used instead of the IPC-BA for November 2015 to April 2016	98.3%	102.2%	95.5%
3	National Wholesale Price Index (WPI)	93.5%	90.9%	75.9%

¹ Other indices or combinations of indices are published in Argentina that registrants may also consider relevant in applying judgment to determining the best available rate that reflects the three-year cumulative inflation in Argentina.

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The Task Force is aware that in late December 2016, certain U.S. accounting firms submitted a white paper to the SEC staff from the Office of the Chief Accountant (OCA) that asserted that the firms would not require a registrant to consider Argentina's economy as highly inflationary under U.S. GAAP for the reporting period from October 1, 2016 to December 31, 2016. The SEC staff from the OCA, after reviewing the white paper submitted by the firms, stated that the staff would not object to a calendar year-end registrant's determination that Argentina's economy would not be considered highly inflationary under U.S. GAAP for the reporting period from October 1, 2016 to December 31, 2016.

The staff indicated that registrants with Argentine operations should continue to closely monitor the economic environment within the country and have appropriate processes in place to identify relevant inflation data in order to determine whether Argentina should be considered a highly inflationary economy on an ongoing basis.

The three-year cumulative inflation rates presented above as of December 31, 2016 and March 31, 2017 reflect inflation data published by Argentina's Bureau of Statistics after December 2016. That data as of December 31, 2016 is relatively consistent with the data as of September 30, 2016 with WPI (the only consistently calculated national index) improving. The data as of March 31, 2017 shows improvement in all indices.

Current Task Force observation: Considering the guidance in ASC 830, it does not appear that Argentina would be required to be considered highly-inflationary for the reporting periods from January 1, 2017 to June 30, 2017 for calendar year-end registrants. Registrants would be expected to have appropriate controls in place to monitor Argentina's reported inflation data throughout 2017 and consider other pertinent economic indicators to determine if and when Argentina should be considered highly-inflationary.

Libya - The three-year cumulative inflation rate for Libya was estimated to be 61% at the end of 2016 and is projected to be 103% by the end of 2017.

Current Task Force observation: Registrants would be expected to have appropriate controls in place to monitor Libya's reported inflation data throughout 2017 and consider other pertinent economic indicators to determine if and when Libya should be considered a highly-inflationary economy.

Suriname – The three-year cumulative inflation rate for Suriname was 98% at the end of 2016 and is projected to be 148% by the end of 2017.

Current Task Force observation: Based on the three-year cumulative inflation of 98% at the end of 2016, it does not appear that Suriname is required to be considered highly-inflationary at such date. Registrants would be expected to have appropriate

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controls in place to monitor Suriname's reported inflation data throughout 2017 and consider other pertinent economic indicators to determine if and when Suriname should be considered a highly-inflationary economy.

(b) Countries, other than those countries already included in the other categories, with projected three-year cumulative inflation rates between 70% and 100%

Angola - Angola's three-year cumulative inflation rate was estimated to be 74% for 2016 and is projected to be 95% by the end of 2017.

Yemen - Yemen's three-year cumulative inflation rate was estimated to be 59% at the end of 2016 and is projected to be 75% at the end of 2017.

(c) Countries where the last known three-year cumulative inflation rates previously exceeded 100% and current actual inflation data has not been obtained

None.

(d) Countries, other than those countries already included in the other categories, with a significant increase (25% or more) in inflation during the last calendar year or a significant increase in projected inflation in the current year

Egypt - Inflation is projected to amount to 26% in 2017. The three-year cumulative inflation rate is projected to be 60% by the end of 2017.

Mozambique - Inflation amounted to 25% in 2016. The three-year cumulative inflation rate is projected to be 57% by the end of 2017.

Note:

- **Countries not analyzed in the IMF WEO report**

There may be additional countries with three-year cumulative inflation rates exceeding 100% or that should be monitored which are not included in the above analysis because the sources used to compile this list do not include inflation data for all countries or current inflation data. One such country, for example, is Syria. Numerous other countries that are not members of the IMF are not included in the WEO reports.

B. FAST Act amendments to the JOBS Act and IFRS reporting (lack of comparable period)

As specified by the FAST Act, the SEC revised Forms S-1 and F-1 to permit emerging growth companies (EGCs) to omit financial information for certain annual historical

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periods from pre-effective IPO filings if that information relates to periods that are not reasonably expected to be required at the time the registration statement becomes effective.

Under IFRS, as issued by the IASB (IFRS), IAS 1 requires comparative information to be included. When the comparative information is missing, the PCAOB audit report would include an "except for" qualification for the omission.

The Task Force inquired of the staff as to whether they would review a confidentially submitted or filed Form F-1 for an EGC that includes a qualified PCAOB audit report for the omission of the prior year comparative financial statements, when the comparative year will not be needed at the time the registration statement becomes effective (due to a more recent year being included).

The staff noted that they will review an otherwise-compliant registration statement on Form F-1 for an EGC that contains a PCAOB audit report qualified solely for the omission of the prior year comparative financial statements. The staff also notes that at the effective date of the Form F-1, an unqualified audit report is required related to the annual financial statements that meet the timeliness requirements at such date. Companies are encouraged to highlight in their cover letter or contact the SEC staff that the company has included a qualified audit report, and that it will be replaced with an unqualified audit report prior to the effective date of the registration statement.

C. XBRL IFRS Taxonomy

On March 1, 2017, the SEC published the [XBRL IFRS Taxonomy for Foreign Private Issuers That Prepare Their Financial Statements in Accordance with International Financial Reporting Standards as Issued by the International Accounting Standards Board \(IFRS Taxonomy\)](#). The IFRS Taxonomy will allow foreign private issuers (FPIs) preparing financial statements in accordance with IFRS to submit financial information in interactive data format using XBRL. XBRL interactive data is required to be included in annual reports on Form 20-F or 40-F for fiscal periods ending on or after December 15, 2017. FPIs may elect to begin submitting XBRL information immediately.

The Task Force understands that XBRL information needs to be provided for information contained in a General Instruction C(6)(a) of Form 6-K in the following situations:

- Revisions of annual financial statements of the FPI previously filed with the Commission to reflect the retrospective effects of certain subsequent events, including a discontinued operation, a change in reportable segments or a change in accounting principle;
- Current interim financial statements of the FPI included pursuant to the nine-month updating requirement of Item 8.A.5 of Form 20-F included (or incorporated by reference) in a registration statement (including circumstances to keep an existing shelf registration current).

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The Interactive Data File does not need to be created for other financial statements that may be included in Form 6-K, such as more current published financial information required by Item 8.A.5 of Form 20-F.

The staff confirmed the Task Force's understanding above. If a more recent interim financial information is provided that is not necessary to meet the nine-month timeliness requirement, such information does not have to be XBRL compliant.

The staff also shared that they are not aware of any plans to change the effective date of XBRL for IFRS filers being fiscal periods ending on or after December 15, 2017.

D. Non-GAAP Financial Measures under IFRS

1. Segment Information

[Section 104 to the Non-GAAP Financial Measures, Compliance & Disclosure Interpretations \("C&DIs"\)](#) dated January 11, 2010, discusses non-GAAP measures in the context of segment information under ASC 280, *Segment Reporting* (ASC 280). The Task Force asked the SEC staff whether the answers to the questions in Section 104 of the C&DIs are applicable to International Financial Reporting Standard 8, *Operating Segments* (IFRS 8) as well as ASC 280.

The staff indicated that they would apply the answers to the questions in Section 104 to segment disclosures presented in accordance with IFRS 8.

2. Other Measures on the Face of the Financial Statements

In a broader discussion, the Task Force noted that it has been getting more questions about the presentation of additional measures on the face of the financial statements, as a result of the December 2014 amendments to IAS 1 that added paragraphs 85A and 85B (which became effective for annual periods beginning on or after January 1, 2016). Determining whether a measure is compliant with IAS 1 or is a non-GAAP measure requires judgement. The staff acknowledged that other financial measures, including sub-totals in the primary financial statements, that comply with IFRS are not considered to be non-GAAP financial measures subject to Item 10(e) of Regulation S-K and Regulation G. Issuers will need to consider the guidance in IAS 1, including paragraph 17 of IAS 1 when determining if a financial statement subtotal results in a fair presentation.

IV. Staff Matters

A. New Division Director in Corporation Finance

Mr. Olinger noted that on May 9, 2017, the SEC announced that [William H. Hinman](#) was named the new director of the Division of Corporation Finance.

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V. Next Meeting

The next meeting of the Task Force has been set for November 21, 2017.

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Appendix A

Description of how inflation rates are calculated

For all countries, data is extracted from the International Monetary Fund ("IMF") website. IMF data is extracted from www.imf.org as follows:

On the home page, select the "Data" tab and then click:

- "World Economic Outlook Databases (WEO)" link
 - Select the [most recent database](#) (April, 2017)
 - Select "By Countries (country-level data)"
 - Select "All Countries", then click the "continue" button.
 - Under the "Monetary" subject header, select "Inflation", "end of period consumer prices" (both the index and percent change); then click the "continue" button.
 - Select a date range (e.g., 2013-2017); click "prepare report" and a table is produced with the data; click the "download" link to export to excel. The data table includes the actual and estimated end of period price indices for each country.

The IMF World Economic Outlook ("WEO") report estimates inflation when actual inflation data has not been obtained. The text of the report describes the assumptions and conventions used for the projections in the WEO. The data that are estimated are highlighted. While the IMF data has limitations (projected inflation data and varying dates through which actual data is included in the table), the calculated three-year cumulative inflation allows us to determine which country's calculations require further analysis.

Note: From time to time the WEO refines or updates previously reported actual Consumer Price Index (hereafter referred to as "Index" or "CPI") data for certain countries.

Using the downloaded table, the three-year cumulative inflation rate is calculated as follows (assuming the current year is end of year 2016): (2016 End of Year CPI– 2013 End of Year CPI) / 2013 End of Year CPI.

It should be noted that the IMF inflation data used to summarize inflation for these IPTF Highlights could be different from the inflation data reported by the respective countries' central banks or governments. The Task Force has not performed procedures to identify any potential differences. Accordingly, this summarized IMF information should be supplemented, to the extent considered necessary, with other pertinent information that may be available.

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For registrants that need additional information to monitor inflation for operations in certain countries, it should be noted that annual or month-end CPI information can be obtained from some countries' central bank or government websites or other publicly available information but that data may differ from the inflation data reported by the IMF and may need to be converted because of differences in presentation or other reasons (for example, some countries have reset their base index back to 100 during recent years). While inflation data published by a central bank or government is often more current than the IMF data, each country releases its inflation data at different times and inflation data for some countries may not be otherwise publicly available.