

INTERNATIONAL PRACTICES TASK FORCE
Center for Audit Quality Washington Office
November 17, 2016
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. **NOTE:** These highlights also incorporate highlights from teleconferences among the Task Force and with the SEC subsequent to the meeting.

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subsequent issuance of technical pronouncements or positions taken by the SEC staff nor are they deleted when they are superseded by the issuance of subsequent highlights or authoritative accounting or auditing literature.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

Cathy Samsel, Chair (PwC)
Steven Jacobs, Vice-Chair (Ernst & Young)
Greg Bakeis (PwC)
Jeri Calle (KPMG)
Rich Davisson (RSM-US) – Via Teleconference
Judy Freeman (KPMG)
Jonathan Guthart (KPMG)
Kathleen Malone (Deloitte & Touche)
Victor Oliveira (Ernst & Young)
Ignacio Perez Zaldivar (Deloitte & Touche)
Scott Ruggiero (Grant Thornton) - Via Teleconference
Julie Valpey (BDO USA)

Observers

Jill Davis (SEC Staff) – Via Teleconference
Craig Olinger (SEC Staff)
Annette Schumacher Barr (Center for Audit Quality Staff)

Guests

Guilaine Saroul (PwC)

INTERNATIONAL PRACTICES TASK FORCE
Center for Audit Quality Washington Office
November 17, 2016
HIGHLIGHTS

II. Task Force Update

Cathy Samsel acknowledged the upcoming retirement of long-time Task Force member Jeri Calle and thanked her for her service and dedication to the activities and mission of the Task Force.

III. Current Practice Issues

A. Monitoring Inflation in Certain Countries

Introduction

Registrants are responsible for monitoring inflation in countries in which they have operations. Application of “highly-inflationary” accounting as defined by ASC 830 is a judgment to be made by the financial statement preparer. The approach and the related assumptions used to monitor country inflation rates are described below. Under ASC paragraph 830-10-45-12, the determination of a highly-inflationary economy begins by calculating the cumulative inflation rate for the three-year period that precedes the beginning of the reporting period, including interim reporting periods. If that calculation results in a cumulative inflation rate in excess of 100%, the economy should be considered highly-inflationary in all instances. However, if that calculation results in the cumulative rate being less than 100%, historical inflation rate trends and other pertinent factors should be considered.

The Task Force discussed three-year cumulative inflation rates for certain countries. Countries were categorized as follows:

1. Countries with three-year cumulative inflation rates exceeding 100%
2. Countries where the three-year cumulative inflation rates had exceeded 100% in recent years
3. Countries, 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

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:

INTERNATIONAL PRACTICES TASK FORCE
Center for Audit Quality Washington Office
November 17, 2016
HIGHLIGHTS

- "World Economic Outlook Databases (WEO)" link
 - Select the [most recent database](#) (October 2016)
 - 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., 2012-2016); 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): $(2016 \text{ End of Year CPI} - 2013 \text{ End of Year CPI}) / 2013 \text{ End of Year CPI}$.

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.

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.

INTERNATIONAL PRACTICES TASK FORCE
Center for Audit Quality Washington Office
November 17, 2016
HIGHLIGHTS

The following information, based on the WEO Database – October, 2016, is provided to assist registrants in applying the US GAAP guidance in determining which countries are considered highly-inflationary:

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

- **Ukraine**

According to the reported index data in the October 2016 WEO report, Ukraine's three-year cumulative inflation rate through the end of 2015 amounted to 80%, and is projected to be 102% at the end of 2016.

The National Bank of Ukraine has published CPI data for periods through the end of 2016. Based on this data, Ukraine's three-year cumulative inflation rate is calculated to be 101% at December 31, 2016.

Based on these calculated inflation rates, Ukraine's economy is highly inflationary which requires registrants to treat Ukraine's economy as highly-inflationary for reporting periods beginning on or after January 1, 2017, if material.

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 October 2016, the three-year cumulative inflation rate is projected to be below 100% by June 30, 2017. Based on the index data in the October 2016 WEO report, Ukraine's three-year cumulative inflation rate is projected to be 76% at the end of 2017 and 30% at the end of 2018. As 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 will likely 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.

- **South Sudan**

South Sudan's three-year cumulative inflation rate through the end of 2015 was estimated to be 110%, based on the reported index data in the WEO Report. The three-year cumulative inflation rate is projected to be 1,477% by the end of 2016.

As indicated in the May 2016 IPTF Highlights, based on these inflation rates, registrants should treat the economy of South Sudan as highly-inflationary for

INTERNATIONAL PRACTICES TASK FORCE
Center for Audit Quality Washington Office
November 17, 2016
HIGHLIGHTS

reporting periods beginning on or after January 1, 2016. Registrants that have already issued financial statements for interim periods beginning on or after January 1, 2016 which do not reflect the economy of South Sudan as highly-inflationary are encouraged to discuss their facts and circumstances with the SEC staff to the extent a change to highly inflationary would be material.

- **Sudan** –According to the WEO report, Sudan’s cumulative three-year inflation rate was 101% at the end of 2015 and is projected to be 65% by the end of 2016.

Based on these inflation rates, it would appear that registrants should continue to treat the economy of Sudan as highly-inflationary.

Registrants should 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.

- **Venezuela** - The three-year cumulative inflation rate for Venezuela amounted to 639% for 2015 and the three-year cumulative inflation rate at the end of 2016 is projected to be 3,782%.

Based on these inflation rates, 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

- **Islamic Republic of Iran** – The three-year cumulative inflation rate, using the data in the WEO Report was 51% as of the end of 2015 and is projected to be 36% by the end of 2016.

As indicated in the May 2016 IPTF Highlights, based on these inflation rates, registrants should cease treating the economy of Islamic Republic of Iran as highly-inflationary no later than the first reporting period beginning on or after July 1, 2016.

- **Malawi** – The three-year cumulative inflation rate for Malawi was 91% for 2015 and is projected to be 79% by the end of 2016.

Based on the fact the three-year cumulative inflation rates had exceeded 100% in recent years, combined with the actual inflation rates for the most recent year, it would appear that registrants should continue to treat the economy of Malawi as highly-inflationary.

INTERNATIONAL PRACTICES TASK FORCE
Center for Audit Quality Washington Office
November 17, 2016
HIGHLIGHTS

Registrants should have appropriate controls in place to monitor Malawi'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 October 2016 WEO report, Argentina's 2016 inflation is projected to be 39%, and the cumulative three-year inflation rate is projected to be 105% at the end of 2016. The WEO report does not provide inflation data for 2015 or 2016 and includes the following warning:

“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. 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 are not reported in the October 2016 World Economic Outlook. On February 1, 2013, the IMF issued a declaration of censure and since then has called on Argentina to implement specified actions to address the quality of its official CPI data. At the meeting that took place on August 31, 2016, the IMF Executive Board noted the important progress made in strengthening the accuracy of the CPI data. The Managing Director will report to the Executive Board on this issue again by November 15, 2016.”

On November 9, 2016, the IMF removed the declaration of censure on Argentina. In the press release on the decision, the IMF stated that “Argentina’s CPI is now in line with international standards”.

As indicated above, the October 2016 WEO report provides projections for 2016 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.

INTERNATIONAL PRACTICES TASK FORCE
Center for Audit Quality Washington Office
November 17, 2016
HIGHLIGHTS

The three-year cumulative inflation rates presented below were not reported in the October 2016 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
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%
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%
3	National Wholesale Price Index (WPI)	93.5%	90.9%

The Task Force is aware that in late December 2016, certain US accounting firms submitted a white paper to the SEC staff from the Office of the Chief Accountant that asserted that the firms would not require a registrant to consider Argentina’s economy as highly inflationary under US GAAP for the reporting period from October 1, 2016 to December 31, 2016. The SEC staff from the Office of the Chief Accountant, 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 US 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 reflect inflation data published by Argentina’s Bureau of Statistics in January with respect to December 2016. That data is relatively consistent with the data as of September 30, 2016 with WPI (the only consistently calculated national index) improving.

As a result, it does not appear that Argentina would be required to be considered highly inflationary under US GAAP for the reporting period from January 1, 2017 to

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.

INTERNATIONAL PRACTICES TASK FORCE
Center for Audit Quality Washington Office
November 17, 2016
HIGHLIGHTS

March 31, 2017. However, the Task Force is not aware of any consultation with the staff regarding Argentina related to the January 1 to March 31, 2017 period.

Registrants should closely monitor all inflation data and conditions in Argentina throughout 2017 to determine whether there is a change that would result in Argentina being considered highly inflationary.

Suriname – The three-year cumulative inflation rate for Suriname was 31% at the end of 2015 and is projected to be 129% by the end of 2016.

Registrants should have appropriate controls in place to monitor Suriname's reported inflation data and consider other pertinent economic indicators to determine if 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 32% for 2015 and is projected to be 82% by the end of 2016

(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

None.

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.

INTERNATIONAL PRACTICES TASK FORCE
Center for Audit Quality Washington Office
November 17, 2016
HIGHLIGHTS

B. Transition Questions related to the New Leasing Standard IFRS 16

IFRS 16, *Leases*, is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15, *Revenue from Contracts with Customers*, at or before the initial application of this Standard.

A lessee is required to apply IFRS 16 to its leases either:

- (a) Retrospectively to each prior reporting period presented applying IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*; or
- (b) Retrospectively with the cumulative effect of initially applying the Standard recognized at the date of initial application in accordance with paragraphs C7-C13.

Paragraph C7 further provides that if a lessee elected to use option (b) above, the lessee shall not restate comparative information. Instead the lessee shall recognize the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

For those companies that elect the cumulative effect accounting at the date of initial application, comparative information is not restated, and therefore the same information reflected in the financial statements would be appropriate to include in Selected Financial Data for SEC reporting companies.

The Task Force noted that retrospective application is not applicable to lessors, as the transition guidance require a cumulative catch up adjustment at the date of initial application of the Standard, resulting in comparative information not being restated.

The Task Force asked the SEC staff as to whether the staff would object if registrants that apply IFRS 16 retrospectively only apply it in their selected financial data tables to the periods covered by the financial statements, along with clear disclosure that the earlier years in selected financial data have not been retrospectively adjusted.

The staff indicated that they would not object and noted that this position is similar to the relief granted to registrants that elected retrospective application of the new revenue standard under both US GAAP and IFRS.

C. Use of pre-acquisition and post-acquisition periods to satisfy S-X Rule 3-05 requirements for other than initial registration statements

FRM 2030.4 guidance allows for initial registration statements for companies to use pre-acquisition and post-acquisition audited results in satisfying S-X 3-05 requirements. The Task Force understands that this guidance was written in the context of domestic issuers, as domestic issuers are required to report on Form 8-K significant acquisitions under S-X Rule

INTERNATIONAL PRACTICES TASK FORCE
Center for Audit Quality Washington Office
November 17, 2016
HIGHLIGHTS

3-05, and therefore would not need the accommodation other than for initial registration statements. Foreign private issuers (FPIs), however, are required to provide significant acquiree financial statements related to registration statements, and have no related 1934 Act reporting requirements.

The Task Force asked the SEC staff whether they would require foreign private issuer registrants to request formal relief via a waiver request letter if they want to satisfy S-X Rule 3-05 requirements with pre-acquisition and post-acquisition periods, or whether it would be acceptable for them to rely on this FRM guidance by analogy without sending in a waiver request letter.

The staff indicated that it would be acceptable for foreign private issuer registrants that want to satisfy S-X Rule 3-05 requirements with pre-acquisition and post-acquisition periods to rely on this FRM guidance by analogy without sending in a waiver request letter. The staff added that the periods included in the audited pre and post-acquisition financial statements must be contiguous with no gaps for the period of time necessary to satisfy the S-X Rule 3-05 requirements.

D. Significant equity investee financial statements under S-X Rule 3-09

S-X Rule 3-09 requires that financial statements provided for an equity investee be as of the same dates and for the same periods as the audited consolidated financial statements of the registrant (if practicable). When the financial statements are provided for a “foreign business” under S-X Rule 3-09, and the investee is a first-time adopter of IFRS-IASB, S-X Rule 3-09 would be satisfied by having financial statements for the latest two fiscal years, if the date of transition to IFRS-IASB was at the beginning of the earliest year provided. (See SEC Release 33-8567 and SEC FRM 6340.2). Similarly, the Task Force understands that if financial statements of a foreign business prepared on a US GAAP basis are provided, only two years are needed to satisfy the S-X Rule 3-09 requirements for the first filing of those financial statements. The logic is that the S-X Rule 3-09 financial statements of the foreign business do not have to be provided for more periods than would be required of the entity if it were doing a first-time registration statement.

The Task Force and staff discussed the following scenarios in providing the first time financial statements on either a US GAAP basis or IFRS-IASB basis of a foreign business for S-X Rule 3-09 purposes:

1. Foreign private issuer filing on Form 20-F or domestic issuer filing on Form 10-K, for which foreign business is first significant in the latest fiscal year

In this fact pattern, this is the first time that the S-X Rule 3-09 financial statements have been provided for the foreign business. The financial statements of the foreign business could be provided for two years on either a primary US GAAP basis or for first time adopters of IFRS-IASB, on an IFRS-IASB basis, with the date of transition to IFRS-IASB being the beginning of the two-year period provided.

INTERNATIONAL PRACTICES TASK FORCE
Center for Audit Quality Washington Office
November 17, 2016
HIGHLIGHTS

The staff agreed with the above.

2. Foreign private issuer filing on Form 20-F or domestic issuer filing on Form 10-K, for which foreign business financial statements have previously been provided in prior years on US GAAP basis, and the foreign business has changed its GAAP to IFRS-IASB

In this fact pattern, this is the first time that the S-X Rule 3-09 financial statements have been provided on an IFRS-IASB basis for the foreign business. The financial statements of the foreign business could be provided for two years on an IFRS-IASB basis, with the date of transition to IFRS-IASB being the beginning of the two-year period provided.

The staff agreed with the above.

3. Foreign private issuer filing on Form 20-F or domestic issuer filing on Form 10-K, for which the foreign business financial statements have previously been provided in prior years on IFRS-IASB basis, and the foreign business has changed its GAAP to US GAAP

In this fact pattern, this is the first time that the S-X Rule 3-09 financial statements have been provided on a US GAAP basis for the foreign business; however, previous financial statements for the foreign business were provided on an IFRS-IASB basis.

The staff indicated that in this fact pattern that US GAAP financial statements would be needed for three years, versus two years, because it does not constitute the first-time filing of S-X Rule 3-09 financial statements.

IV. Staff Matters

A. Use of IFRS XBRL Taxonomy by FPIs

The SEC has not yet approved XBRL Taxonomy for IFRS as issued by the IASB and the staff does not plan on approving such a taxonomy for the 2016 calendar year. IFRS filers cannot comply with XBRL until the SEC approves the XBRL Taxonomy.

V. Next Meeting

The next meeting of the Task Force has been set for May 16, 2017.