

# CAQ

# International Practices Task Force Highlights

**May 16, 2018 – Joint Meeting with SEC Staff**

**SEC Offices – Washington, DC**

**NOTICE:**

The Center for Audit Quality (CAQ) SEC Regulations Committee and its International Practices Task Force (the Task Force or IPTF) 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 or 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 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.

These highlights were prepared by a representative of CAQ who attended the meeting and do not purport to be a transcript of the matters discussed. The views attributed to the SEC staff are informal views of one or more of the staff members present, do not constitute an official statement of the views of the Commission or of the staff of the Commission and should not be relied upon as authoritative.

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issuance of technical pronouncements or positions taken by the SEC staff, nor are they deleted when they are superseded by the issuance of subsequent highlights or authoritative accounting or auditing literature.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

<b>Task Force Members</b>	<b>Observers</b>	<b>Guests</b>
Steven Jacobs, Chair (EY) DJ Gannon, Vice-Chair (Deloitte) Greg Bakeis (PwC) Rich Davisson (RSM-US) Via Teleconference Judy Freeman (KPMG) Via Teleconference Jonathan Guthart (KPMG) Kathleen Malone (Deloitte) Alan Millings (EY) Victor Oliveira (EY) Ignacio Perez Zaldivar (Deloitte) Scott Ruggiero (Grant Thornton) Guilaine Saroul (PwC)	Craig Olinger (SEC staff) Jill Davis (SEC staff) Bobby Klein (SEC staff) Ryan Milne (SEC staff) Kyle Moffatt (SEC staff) Annette Schumacher Barr (CAQ staff)	Grace C. Li (BDO) Polia Nair (EY)



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## II. Discussion of 3-13 Waivers for Foreign Private Issuers

Rule 3-13 of Regulation S-X gives the staff authority, where consistent with investor protection, to permit the omission of or substitution for certain financial statements otherwise required by Regulation S-X. In granting such waivers the staff considers the facts and circumstances specific to each fact pattern. Examples of waiver requests under Rule 3-13 may include provision of abbreviated financial statements (i.e., statement of revenues and direct expenses) in lieu of full financial statements for a recently acquired business under Rule 3-05 of Regulation S-X, omission of one or more years of historical financial statements for a recently acquired business under Rule 3-05 of Regulation S-X, or omission of certain financial statements of an equity method investment under Rule 3-09 of Regulation S-X.

The Task Force and SEC staff (staff) discussed Rule 3-13 waivers for Foreign Private Issuers (FPIs). The staff encouraged companies to reach out to the staff to discuss their facts and circumstances supporting a waiver.

The staff also indicated it may be amenable to reviewing draft registration statements submitted without certain required information consistent with [guidance issued in June and August 2017](#). Companies looking to omit information from a draft registration statement may contact the AD Office to discuss individual facts and circumstances that are not addressed by the published guidance.

## III. Current Practice Issues

### A. Issues/practices around reporting on financial statement presentations that may not comply with IFRS presentation requirements

The Task Force observed that certain SEC rules and staff accommodations provided with respect to those rules can pose a challenge to entities reporting under International Financial Reporting Standards, as issued by the International Accounting Standards Board (IASB) (herein referred to as “IFRS”), given some of the requirements within IFRS (particularly the requirements of IAS 1, *Presentation of Financial Statements* “IAS1”). For example historically, the staff has not objected to the inclusion of a qualified opinion in certain limited instances (e.g., when the IFRS financial statements of a significant business acquired under Rule 3-05 did not contain a comparative period if such comparative period was not required based on the level of significance). At the May 2017 IPTF meeting, the staff indicated that it would not object to the inclusion of a qualified opinion for lack of

comparatives in the IFRS financial statements in a draft registration statement for an IPO, where a company has omitted such period in reliance upon the FAST Act accommodation for Emerging Growth Companies (EGCs) or the SEC staff's guidance for non-EGCs draft registration statements referenced above, and the qualification will be removed prior to effectiveness of the registration statement.

The Task Force observed other reporting scenarios where IFRS filers may be unable to provide the required IFRS financial statements under the SEC rules while also taking available accommodations and relief provided by the SEC staff and still state explicit compliance with IFRS. In certain scenarios, the variations may be so pervasive that the auditors may be unable to issue a qualified opinion and as such the level of effort would be significantly higher for IFRS than US GAAP preparers. These situations generally relate to reporting periods requirements which differ from those prescribed by IAS 1 and providing less than a complete set of financial statements (e.g. the use of abbreviated statements).

The Task Force and staff discussed whether there are reporting alternatives the staff may consider where an IFRS filer is complying with the SEC rules or wishing to take advantage of one of the staff accommodations to those rules such as those for financial statements required by Rule 3-05 of Regulation S-X, but would not be able to make an unreserved statement of compliance with IFRS because of the presentation resulting from such an accommodation. Both the Task Force and staff agreed to consider the issue and discuss in further detail in the November Joint Meeting.

## **B. Impact of Change in Reporting Currency when filing a New (or Amended) Registration Statement**

Rule 3-20(e) of Regulation S-X requires the issuer to state all its comparative financial statements in a filing with the SEC on the same reporting currency. If the financial statements of a later period are stated in a currency that is different from that used in financial statements previously filed with the Commission, the issuer must recast its financial statements as if the newly adopted currency had been used since at least the earliest period presented in the filing.

Further, instructions to the various registration statement forms for foreign private issuers (e.g. F-1 Item 4A(b)(1)(ii), Form F-3 Item 5(b)(1)(ii) and Form F-4 Item 10(c)(2)) require the issuer to include in the registration statement, if not in reports filed under the Exchange Act that are incorporated by reference, restated financial statements if there has been a change in accounting principles where such change requires material retroactive restatement of financial statements (under the applicable GAAP).

The Task Force and staff discussed whether a change in reporting currency that requires retroactive application should be treated akin to a material change in accounting principles

requiring retroactive application for purposes of new or amended registration statements on Forms F-1, F-3 and F-4. The staff concurred with the analogy and stated that when the change in reporting currency is reflected in one set of interim financial statements that are included or incorporated by reference in a new registration statement on Form F-1, F-3 or F-4 to meet the timeliness requirements of Item 8.A.5 of Form 20-F, the annual financial statements included or incorporated by reference in the registration statement must be retrospectively recast to reflect the same reporting currency as the interim statements.

The Task Force and staff also discussed whether the answer is impacted if the interim financial statements reflecting the new reporting currency are only presented in the registration statement as “more current published financial information” (as referenced in Item 8.A.5 of Form 20-F) as opposed to interim financial statements included or incorporated by reference to meet the registration statement timeliness requirements. The staff indicated it would further consider this aspect of the issue but any conclusion could depend on the nature of the interim financial information (i.e. capsule information vs. IAS 34 compliant interim financial statements) and the level of disclosure about the impact of the change in reporting currency.

### **C. Change in auditor disclosure considerations when subject to shareholder’s approval**

The disclosures required by Item 16F, *Changes in Registrant’s Certifying Accountant*, are required in annual reports on Form 20-F, as well as registration statements on Form 20-F, Form F-1, Form F-3, and Form F-4 if the registrant has had a change in its certifying accountant during its two most recent fiscal years or any subsequent interim period.

In many jurisdictions, the change in auditor is subject to shareholder approval. In some cases, the audit committee and/or the board of directors may have approved the dismissal of the certifying accountant and/or the engagement of a new certifying accountant at the time of filing the annual report or registration statement, yet the termination and/or the engagement is subject to shareholder approval, which has not yet occurred at the time of the filing as the annual meeting of shareholders is typically after the filing of the annual Form 20-F.

While it has historically been rare for the shareholders to not approve the conclusions of the audit committee/board of directors; the registrant generally would be bound by the vote of the shareholders.

The Task Force and staff discussed this fact pattern, in particular whether the event that triggers the disclosure in Item 16F is the approval by the audit committee/board of directors or the shareholder approval. In the interest of providing timely information about the decisions made by those charged with governance, including any related reportable events,



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companies likely should disclose the change and the related Item 16F disclosures in the Form 20-F for the period in which a decision to dismiss or appoint a new auditor has been made by the audit committee or those charged with governance.

## **D. Monitoring Inflation in Certain Countries**

Previously, the Task Force has discussed inflation in certain countries in this meeting. Since the May 2016 meeting, the Task Force has re-evaluated how best to communicate the information. The summarizing the inflation data collected by the members of the IPTF document can be found on the CAQ website at:  
<https://www.thecaq.org/resources/publications>.

## **IV. Next Meeting**

The next meeting of the Task Force has been set for November 27, 2018.