



On the Horizon for IFRS

May 9, 2008

Center for Audit Quality SEC Regulations Committee – International Practices Task Force

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Center for Audit Quality SEC Regulations Committee – International Practices Task Force

March 4, 2008 teleconference highlights

The International Practices Task Force of the Center for Audit Quality's SEC Regulations Committee meets periodically with the SEC staff to discuss emerging technical accounting and reporting issues related to SEC rules and regulations. The highlights from these meetings are not authoritative positions or interpretations issued by the SEC or its staff and do not present official views of the SEC or its staff. The highlights have not been considered nor acted upon by a senior technical committee of the AICPA or by the FASB and are not an official position of either organization.

Introduction

At its teleconference on March 4, 2008, the International Practices Task Force discussed a Q and A document in response to implementation questions that have arisen since the issuance of the [SEC's final rule, *Acceptance from Foreign Private Issuers of Financial Statements Prepared in Accordance with International Financial Reporting Standards Without Reconciliation to U.S. GAAP*](#) (the Final Rule). The SEC staff indicated that it does not object to

the views expressed in the document, which is attached as Appendix A to the [highlights](#) of the Task Force's March 4, 2008 teleconference. The implementation issues addressed in the document are summarized below.

Transition

The Final Rule's effective date was March 4, 2008. After the effective date, a Foreign Private Issuer (FPI) may provide financial statements in accordance with IFRS as issued by the IASB (IASB-IFRS) without reconciliation to U.S. GAAP for fiscal years ended after November 15, 2007, including interim periods within those years.

Comparative financial statements for periods ended before November 15, 2007 are not required to be reconciled to U.S. GAAP if certain conditions are met. The FPI must state explicitly and unreservedly in a note to the financial statements that its financial statements comply with IASB-IFRS for all periods presented. The FPI's independent auditors must report that the financial statements comply with IASB-IFRS for all periods presented.

For example, an FPI with a calendar year-end files its annual report on Form 20-F in 2008 that includes audited annual financial statements for the years ended December 31, 2007, 2006, and 2005. The notes to the financial statements include an explicit and unreserved statement of compliance with IASB-IFRS. The report of the auditors for the FPI indicates that the financial statements comply with IASB-IFRS. A reconciliation to U.S. GAAP is not required for any of the periods presented. A reconciliation to U.S. GAAP for 2006 and 2005 that had been included in the FPI's prior Form 20-F filings may be excluded from the current year's (2007) Form 20-F.

Reconciliation to U.S. GAAP would not be required for interim financial statements in a registration statement filing that includes a period that is within

a financial year ending after November 15, 2007, and any required comparative interim period, if certain conditions are met. The interim financial statements must include an assertion that they are in compliance with IAS 34, *Interim Financial Reporting*. The most recent Form 20-F that includes a three-year reconciliation to U.S. GAAP must be included or incorporated by reference into the registration statement that includes the interim statements. The FPI must reissue the most recent three years of financial statements in a Form 20-F/A that includes both an unreserved statement of compliance with IASB-IFRS and an auditor's report that includes an opinion on that compliance.

For example, A Company, an FPI, has a June 30 year-end. On June 15, 2008, A Company files a registration statement that requires interim financial statements through March 31, 2008, plus comparable interim statements for the prior year (through March 31, 2007). A Company's June 30, 2007 Form 20-F includes financial statements for years ended June 30, 2007, 2006, and 2005, all of which are reconciled to U.S. GAAP. When A Company files its June 30, 2008 Form 20-F, it will include an explicit and unreserved statement of compliance with IASB-IFRS. A Company may omit the reconciliation to U.S. GAAP for the interim statements included in the registration statement provided that A Company (1) includes an assertion that the interim statements comply with IAS 34, (2) includes or incorporates by reference the previously filed June 30, 2007 Form 20-F into the registration statement, and (3) reissues the financial statements for the three years ended June 30, 2007 in a Form 20-F/A that includes in the notes a statement of compliance with IASB-IFRS, together with an auditor's report opining on that compliance.

Explicit and unreserved statement of compliance

The explicit and unreserved statement of compliance must be just that, clearly written and without any qualifying language. For example, a statement that there are no significant differences between the FPI's primary GAAP and IASB-IFRS would not be acceptable. A statement that the financial statements have been prepared in accordance with IFRS would not be acceptable because it does not indicate that the financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (i.e., IASB-IFRS).

Auditor's report

FPIs are no longer required to provide a reconciliation to U.S. GAAP when they file financial statements that comply with IASB-IFRS. FPIs often are required to file financial statements in other jurisdictions that comply with a variation of IFRS (e.g., Australian IFRS). In cases where there is no difference between IASB-IFRS and the jurisdictional variation of IFRS for an FPI, the FPI may include a dual statement of compliance in the notes to the financial statements. A dual statement of compliance that indicates compliance with IASB-IFRS and the jurisdictional variation would be acceptable to the SEC for purposes of eliminating the reconciliation to U.S. GAAP. The FPI's independent auditor may, but would not need to provide a dual opinion on compliance with IASB-IFRS and the jurisdictional variation to comply with the SEC requirements.

S-X Rules 3-05 and 3-09

The Final Rule states that the amendments adopted to accept IFRS financial statements without reconciliation to U.S. GAAP will apply equally in their application. Both FPIs and U.S. Issuers will be permitted to include the financial statements of significant foreign acquirees (pursuant to S-X Rule 3-05) and significant foreign investees (pursuant to S-X Rule 3-09) prepared in accordance

with (a) IASB-IFRS, (b) U.S. GAAP, or (c) another comprehensive basis of accounting reconciled to U.S. GAAP.

Questions may arise on how to apply Rules 3-05 and 3-09 when the financial statements of the acquiree or investee have been prepared under a permitted basis of accounting that differs from the parent company. For example, an FPI that prepares financial statements in accordance with IASB-IFRS has a significant investee that prepares financial statements in accordance with local-country GAAP. To perform its equity method accounting, the FPI requires the investee to reconcile its local-country GAAP financial statements to IASB-IFRS. In order to meet the Rule 3-09 requirement to include the separate financial statements of the investee, the investee would have to also provide the FPI either (a) IASB-IFRS financial statements, (b) local-country GAAP financial statements reconciled to U.S. GAAP, or (c) U.S. GAAP financial statements. The previously prepared investee statements that are reconciled from local-country GAAP to IASB-IFRS would not meet the requirement for separately provided statements of the investee. The same would hold true in applying the Rule 3-05 requirements for the separate financial statements of the significant acquiree.

FPIs that file financial statements that comply with IASB-IFRS may perform the significance tests required under Rules 3-05 and 3-09 using IASB-IFRS. FPIs only need to do so on a prospective basis. Different results may have been obtained in prior periods, because the tests were performed on a U.S. GAAP basis, resulting in the inclusion or exclusion of separate financial statements of the acquiree or investee. FPIs are not required to reperform significance tests for those earlier periods unless either the investee or the investor restated their IASB-IFRS financial

statements. If there is a restatement of an earlier period for an accounting change, correction of an error, or discontinued operations, the significance test would be reperformed using IASB-IFRS data for financial years ending after November 15, 2007 in filings made after March 4, 2008.

Where the results of the Rule 3-09 significance tests using IASB-IFRS are not significant in the current period, an FPI would not need to include separate financial statements of the investee for prior periods, even when those prior financial statements were included because of their significance under U.S. GAAP.

There is a provision in S-X Rule 1-02(w) for relief in determining significance where consolidated income of a registrant is at least 10 percent lower than the average of the last five years. If five years of data using IFRS is not available, FPIs performing the significance test should not use the shorter period but should consult with the SEC staff instead.

In determining whether the financial statements of other entities required by Rules 3-05 and 3-09 may be prepared in accordance with IASB-IFRS or must be reconciled to U.S. GAAP, registrants can look to the later of the year-end of the registrant or the year-end of the other entity.

For example, a calendar year registrant files a registration statement that includes three years of financial statements through December 31, 2007. Pursuant to Rule 3-05, it is required to include two years of financial statements of an entity acquired in early 2007, in this case for the two years ended December 31, 2006. The separate statements of the acquiree may be prepared using IASB-IFRS without reconciliation to U.S. GAAP, because the IASB-IFRS financial statements of the parent are for a financial year ending after November 15, 2007.

In another case, an FPI with a September year-end files its Form 20-F on March 5, 2008 with three years of financial statements ended September 30, 2007. Because the latest financial period is before November 15, 2007, the FPI must reconcile its financial statements to U.S. GAAP. The FPI has a significant investee, for which three years of financial statements are required pursuant to Rule 3-09. The investee, which has a calendar year-end, has available three years of IASB-IFRS financial statements through the period ended December 31, 2007. The FPI could include those IASB-IFRS statements of the investee without reconciliations to U.S. GAAP even though the FPI's primary financial statements must be reconciled.

Selected financial data

An FPI that files its Form 20-F using IASB-IFRS financial statements is not required to provide selected financial data reconciled to U.S. GAAP. However, if selected financial data for a period prior to November 15, 2007 is derived from financial statements using local GAAP that must be reconciled to U.S. GAAP, the FPI must provide selected financial data for that period that is reconciled to U.S. GAAP.

Article 11 pro forma financial information

Pro forma results must be presented using the same basis of accounting as the issuer. An FPI using IASB-IFRS would convert the financial statements of an acquired business into IASB-IFRS in the pro forma presentation. An FPI using a local GAAP with reconciliation to U.S. GAAP would be permitted to present the pro forma financial statements of an acquired business using either local GAAP reconciled to U.S. GAAP or U.S. GAAP.

Form 10-K filers

The amendments to allow FPIs to use IASB-IFRS without reconciliation to U.S. GAAP only apply to FPIs that file on F Forms, e.g., Form F-1, Form

20-F. The accommodation does not extend to those FPIs that file with the SEC using domestic forms, such as Form 10-K.

Voluntarily providing U.S. GAAP reconciliation in Form 20-F

Although an FPI using IASB-IFRS is not required to provide a reconciliation to U.S. GAAP, it would not be precluded from doing so voluntarily. If the FPI provides U.S. GAAP information in the financial statements, it must comply with the applicable reconciliation requirements for the Form used (either Item 17 or 18 of Form 20-F). Also, if the FPI includes a reconciliation to U.S. GAAP in its financial statements, it should provide additional selected financial data in accordance with U.S. GAAP. If the FPI provides U.S. GAAP information outside of the financial statements, it would not be required to provide an Item 17 or 18 reconciliation, but the U.S. GAAP information cannot include a material misstatement or omission.

First-time adopters of IFRS

An FPI may rely on the IFRS first-time adopter accommodation to provide only the two most recent years' financial statements. If the FPI must include interim information to satisfy Item 8.A.5 of Form 20-F, it would look to General Instruction G.(f)(2)(B) for guidance on satisfying the requirements. In the revisions to General Instruction G.(f)(2)(B)(iii), the references to reconciliation to U.S. GAAP are omitted, which should not be interpreted to mean no reconciliation is necessary for the three financial years prepared in accordance with previous local GAAP. The three financial years prepared in accordance with previous GAAP would still need a reconciliation to U.S. GAAP, pursuant to revised General Instruction G.(h)(2).

A first-time adopter of IFRS is not required to present selected financial data in accordance with U.S. GAAP for those periods that are presented in accordance with IASB-IFRS and are not required to be reconciled to U.S. GAAP.

Industry guides

FPIs should continue to provide the disclosures required by the Industry Guides. The disclosures should be based on information determined in accordance with IASB-IFRS.

Three years of financial statements

Item 17(a) of Form 20-F was not amended in the Final Rule. That Item requires financial statements for the same fiscal years as if Form 10 or Form 10-K were being used, that is, three years of financial statements as described in Article 3 of Regulation S-X.

IASB issues *Insight* newsletter for Q1/Q2 2008

The IASB recently issued the Q1/Q2 2008 [Insight newsletter](#) which discusses the following:

- Discussing the credit crunch
- Interview with Pedro Malan, Trustee
- Four principles ensuring sustainable funding
- IASC Foundation update
- Interview with Jeff Lucy, Trustee
- Five questions on adoption and translation
- Challenging but rewarding—Korea and IFRSs
- Working towards 2011—Canada and IFRSs
- IFRS for SMEs
- Facing up to pensions accounting
- IASB/IFRIC project updates
- Staff changes

What's new in the IFRS practice

Publications

IFRS 5 guide

IFRS Alert 2008-08 announced the issuance of a new GTI publication entitled *Non-current Assets Held For Sale and Discontinued Operations – Challenges in Applying IFRS 5* (the IFRS 5 Guide).

The IFRS 5 Guide explains key implementation issues and common approaches to practical application and also includes several examples illustrating disclosure and presentation requirements. The IFRS 5 Guide has been developed both for sharing within member firms and for external distribution to clients and contacts. The document is available on the [firm's public website](#).

Comment letters

GTI has recently issued comment letters in response to the following documents:

- IFRIC Draft Interpretation D24, *Customer Contributions* (April 7, 2008)
- IFRIC Draft Interpretation D23, *Distributions of Non-cash Assets to Owners* (April 4, 2008)

The [comment letters](#) are available on the firm's public website.

IFRS reference materials

Comparison between U.S. GAAP and IFRS

The Grant Thornton LLP [comparison document](#) highlights the major areas of similarity and differences between U.S. GAAP and IFRS.

GTI IFRS News

GTI IFRS News, a new quarterly update, offers a high level summary of the more significant developments in IFRS along with insights into topical issues and comments and views from the GTI IFRS Team. *IFRS News* has been developed both for sharing within member firms and for external distribution to clients and contacts. The publication is available on the [firm's public website](#).

IASB projects, meetings, and effective dates

See the [IASB website](#) for information on projects, meetings, and effective dates.

International Financial Reporting Standards 2008 Bound Volume

The IASB issued its *International Financial Reporting Standards (IFRSs) 2008 Bound Volume*. The 2008 edition includes the latest version of IFRSs, IASs, and IFRIC and SIC Interpretations as approved for issue by the IASB at January 1, 2008. The 2008 bound volume may be purchased through the [IASB website](#)

Revised reference guide by the IASB and IASC Foundation

The IASB and the IASC Foundation issued a [revised reference guide](#), *IASB and the IASC Foundation: Who we are and what we do*.