

ISSUES ADDRESSED BY THE
AICPA INTERNATIONAL
PRACTICES TASK FORCE

INCEPTION THROUGH MAY 2002

Table of Contents

I. INTRODUCTION.....	8
II. ARGENTINA.....	8
A. Exchange Rates	8
B. Re-Implementation of Inflation Accounting in Argentina	10
C. Inflation Index	11
III. BRAZIL	11
A. Corporate Law Reporting	11
B. Income Taxes.....	12
C. Deferral of Foreign Exchange Losses.....	12
D. Actuarial Assumptions Used By Pension Plans	13
IV. CANADA	13
A. Flow Through Shares	13
B. Canadian ACG 11 - Enterprises in the Development Stage	14
C. Non-Foreign Private Issuers	15
D. Compliance With MJDS.....	15
E. US GAAS for MJDS Target in Non-MJDS Filing	15
F. Valuation Allowances of Pension Assets Under Canadian GAAP	16
V. CHILE	16
A. Translation of Foreign Operations.....	16
B. Minimum Dividends.....	17
VI. CHINA	18
A. Revaluations of Property, Plant and Equipment by People’s Republic of China Registrants Under IAS 16.....	18
B. Value Added Taxes.....	18
C. Consolidation of Chinese Joint Ventures.....	18

VII. FRANCE	19
VIII. GERMANY	20
A. Pro Forma Information – German Neuer Markt – 144A	20
B. Special Funds	20
IX. HONG KONG	20
X. ISRAEL	21
A. Income Taxes	21
B. Deferred Taxes	22
C. Devaluation Method	22
D. Pension Plans	22
XI. JAPAN.....	23
A. Compliance with AU 380, “ <i>Communications with Audit Committees</i> ”	23
XII. MEXICO	24
A. Employee Profit Sharing	24
1. Classification	24
2. Determination	24
B. Income Taxes	24
1. Deferred taxes relating to non-monetary assets and liabilities	24
2. Changes in deferred tax attributable to changes in application of replacement cost accounting.....	25
3. Classification of the monetary gain/loss on deferred tax asset/liability.....	25
4. New Mexican Tax Law	26
C. Consolidation of Foreign Subsidiaries	26
D. Capitalized Interest	26
E. Property, Plant and Equipment Acquired Outside of Mexico	27

F. Hedge of Investments in a US Subsidiary.....	27
XIII. RUSSIA	28
Russian companies reporting in US Dollars.....	28
XIV. SWEDEN	29
XV. TAIWAN	29
A. Employee Bonuses and Remuneration	29
B. Income Taxes.....	29
XVI. UK.....	30
A. Market Risk Disclosure – Conflict With UK GAAP.....	30
B. Compliance with UK Companies Act	30
C. Free Cash Flow	30
D. True and Fair Overrides.....	30
E. IAS 22 Exemption from Reconciling Items and UK FRS 10.....	31
XVII. ACCOUNTING IN HYPERINFLATIONARY ECONOMIES.....	32
A. Hyperinflationary Economies.....	32
B. Pensions	33
C. Cash Flow Statement	33
XVIII. 144A – COMFORT LETTERS – BEST PRACTICE	34
XIX. REVISED FORM 20-F	35
A. Age of Financial Statements.....	35
1. 15 month rule.....	35
2. Acquired business.....	35
3. Delayed or continuous offering	36
B. US GAAS	37
1. General	37

2. Opinion Paragraph.....	37
3. Non-Reporting Foreign Targets	38
C. Capitalization and Indebtedness	38
D. Cash Flow Statement	39
E. Segment Information	39
F. Two Years – US GAAP	40
G. Selected Financial Data	41
H. Updating Interim Information Based on Information Filed Locally.....	41
I. Comparative Information for Rule 3-19(f) (New Item 8.A.5. of Form 20-F)	42
J. US GAAP Income Statement Amounts in Reconciled Financial Statements.....	43
K. Rule 3-05 Financial for Poolings Under Home Country GAAP	44
L. Rule 3-05 and 3-09 Financial Statements Below 30% Significance	45
M. Operating Financial Review and Prospects	45
XX. SECPS REQUIREMENTS	46
XXI. APPLICATION OF EDGAR TO FOREIGN REGISTRANTS	48
XXII. AUDITOR RELATED ISSUES.....	49
A. Independence	49
B. Use of Foreign Auditors to Audit Domestic Registrants	49
C. Audit Reports Signed Outside the US but Audit Conducted Primarily in the US.....	50
D. Use of a US Firm’s Name in Foreign Reports.....	50
E. Applicability of SAS 50 to Foreign Auditor Firms.....	51
F. Change in Auditors	51
G. Qualified Auditors’ Report.....	51

H. Manually Signed Reports of Prior Auditors	52
I. References to Other Auditors.....	52
J. Audit Committees	52
K. Consents	53
1. Form 20-F.....	53
2. 40-F Annual Report.....	53
L. Expertization Language	53
M. Reporting Issues Related to Andersen Foreign Affiliates	54
XXIII. REPORTING CURRENCY AND CONVENIENCE TRANSLATIONS.....	55
A. Adoption of the Euro as the Reporting Currency	55
1. Reporting currency for domestic issuers which are foreign companies	55
2. Convenience translations.....	55
XXIV. CONSOLIDATION AND EQUITY METHOD ISSUES	56
A. Consolidation Versus Equity Method.....	56
B. Equity Affiliates.....	57
1. Equity pick-up	57
2. Time lag.....	57
C. Proportionate Consolidation	57
D. Consummation Dates for Business Combinations	59
E. Consolidation Policy Disclosures	59
F. Adoption of SIC-12 “Consolidation – Special Purpose Entities”	59
G. Statement 142 Transition Issues for Foreign Registrants	59
XXV. MISCELLANEOUS	60
A. Confidential Filings	60

B. Conversion from Foreign to Domestic Issuer and Vice Versa.....	61
C. Joint Ventures Owned By Domestic and Foreign Companies.....	61
D. Retained Earnings Available for Distribution Under Reporting Currency Differs from Local Currency	62
E. Use of “Estimated” or “Approximate” in the US GAAP Reconciliation.....	62
F. Financial Statement Schedules.....	62
G. Disclosure of Cash Flow Per Share and Other Alternative per Share Numbers	62
H. Pensions.....	63
I. Stock Compensation Plans.....	64
J. Changes in Tax Rates	64
K. Shares Issued in Connection with Transfers of Amounts From Various Equity Accounts to Capital Stocks (Latin American Companies).....	65
L. Provisions of SAB 74.....	65
M. Application of EITF 99-20 to Foreign Registrants	66
N. Contingent Gains.....	66
O. Other Comprehensive Income.....	66
P. Predecessor Financial Statements	67
Q. Correction of Errors.....	67
1. Treatment of errors.....	67
2. Reference in report	68
R. Accounting Issues Relating to Mining Companies.....	68
S. Issues Associated with the Adoption of IAS in EU by 2005.....	68
T. IAS 22 Issues	69
U. Financial Statements Filed Under Home Country GAAP and IAS.....	69

I. INTRODUCTION

The accounting profession, through the American Institute of Certified Public Accountants ("AICPA") has established an International Practices Task Force ("Task Force"). The objective of the Task Force is to provide advice and assistance to the Securities and Exchange Commission ("SEC" or "the Commission") and the accounting profession on financial reporting matters and auditing issues applicable to non-US entities entering the US capital markets or listing on our exchanges. The Task Force also provides a vehicle for the SEC staff to communicate its views on these issues.

This paper provides a summary of a number of the conclusions of the AICPA International Practice Task Force through its meetings in January 2002. The full text of the applicable minutes should be consulted in evaluating an actual reporting issue. Copies of the actual minutes are available on the AICPA web site: www.AICPA.org.

II. ARGENTINA

A. EXCHANGE RATES

Since 1991, the Argentine peso has been pegged to the US dollar at a rate of 1 to 1. On January 5 and 6, 2002, the Argentine Congress and Senate gave the President the ability to suspend the law that created the fixed rate. The Government subsequently announced the creation of a dual currency system in which certain qualifying transactions will be settled at a fixed rate of 1.4 pesos to the dollar while other transactions will be settled using a free floating market exchange rate. Argentine GAAP has been interpreted by the Argentine standard-setting body to require the use of a 1:1 (Argentine Peso/US\$) exchange rate in remeasuring transactions and translating December 31, 2001 financial statements in accordance with Argentine GAAP.

In February 2002, the Argentine government announced several changes to the monetary policies, including:

- All US\$ loans in Argentine banks would be re-denominated at a rate of 1:1, including loans (receivables and payables) between private parties.
- All US\$ deposits in Argentine banks held by depositors domiciled in Argentina would be re-denominated at a rate of 1.4:1, except that for deposit accounts less than \$30,000, depositors would have 90 days to decide whether to convert those accounts at 1.4:1 or receive 10-year US\$ denominated Argentine government bonds.
- Effective February 11, 2002, there would no longer be an “official” exchange rate for import/export transactions, thus all transactions would be subject to the free market exchange rate.

The Task Force concluded that, for purposes of remeasuring transactions or translation of peso financial statements at December 31, 2001, a rate of 1 to 1 was not appropriate, as there was no exchangeability. Rather, the closing rate on January 11, 2002 - the first date after December 31, 2001 in which there was exchangeability - should be used. Unless an item will specifically receive the preferential rate, the free floating market rate should be used for remeasurement purposes and for translation. EITF Topic D-12 was considered in reaching this conclusion. The Task Force understood that the Argentine standard-setter had determined that this 1:1 exchange rate was required under Argentine GAAP, therefore the Task Force would expect an entity filing with the SEC financial statements prepared in accordance with Argentine GAAP to report a reconciling item to US GAAP in respect of the differences in

exchange rates used to remeasure foreign currency transactions and translate December 31, 2001 financial statements. Further, the Task Force believes that the effect of the January 7, 2002 monetary policy announcement re-denominating US\$ consumer loan balances into Pesos should be recorded in 2002. The Task Force also recognized that there was diversity in practice in the treatment of the January 7, 2002 re-denomination. Given the unusual circumstances, those companies would not be required to change their accounting.

The Task Force also believes that receivable and loan balances of Argentine companies should be assessed for impairment based on current information and events (i.e. all relevant facts and circumstances available at the date of the impairment test.) Consequently, the re-denomination of any receivable or loan balances as a result of the emergency orders in 2002 would not result, in and of itself, in impairment. The Task Force noted that any impairment might result in a write-down of a receivable or loan to an amount that may be different than that resulting from any subsequent re-denomination. Also, disclosure of events occurring subsequent to year-end, but before the issuance of financial statements, would be required if material.

The Task Force noted that changes in an entity's transactions and activities following the devaluation may require a re-evaluation of an entity's functional currency. All facts and circumstances should be considered in making this assessment, including an assessment of the expected duration of changes in circumstances.

B. RE-IMPLEMENTATION OF INFLATION ACCOUNTING IN ARGENTINA

Beginning January 1, 2002, Argentine GAAP requires the use of inflation accounting (using the

wholesale price index). Companies are not required to make price-level adjustments for inflation during periods through 2001. However, all prior year amounts are recast by the current rate of inflation to present all amounts in constant pesos as of the balance sheet date. The Task Force concluded that such financial statements would be in accordance with Rule 3-20 of Regulation S-X, as the method constitutes a comprehensive system of price-level accounting. Registrants should disclose the method of applying the re-implementation and its effects on the financial statements.

C. INFLATION INDEX

The inflation index that should be used to measure the effects of inflation under US GAAP should be the consumer price index, not the wholesale price index. This applies for purposes of determining if an economy is highly inflationary under FAS 52 and if the financial statements are adjusted for inflation under US GAAP. However, this conclusion does not require companies that are preparing financial statements under Argentine GAAP that are adjusted for inflation to address this item in the US GAAP reconciliation.

III. BRAZIL

A. CORPORATE LAW REPORTING

Historically, Brazilian companies that prepared financial statements in reals were required to file financial statements with the SEC in accordance with Brazilian GAAP or US GAAP. However, financial statements distributed in Brazil were prepared in accordance with Brazilian Corporate Law. The primary difference between the two standards is that Brazilian GAAP includes the application of inflation accounting where as such effects are excluded under Brazilian

Corporate Law. The SEC staff has stated that it will accept Brazilian Corporate Law as a comprehensive basis of GAAP. A change from either Brazilian GAAP or US GAAP to Corporate Law needs to be applied retroactively, and certain transition disclosures need to be provided. As virtually every number will change, the “Operating and Financial Review and Prospects” would also need to be revised. This new accommodation went into effect for calendar years ended December 31, 2000.

B. INCOME TAXES

The tax law, including rates, can be significantly altered by presidential decree. These measures remain in force for three months and expire automatically if they are not extended. Such provisions can be continuously extended. The provisional measures should not be used as the enacted rate for purposes of recognizing the tax effect of temporary differences under US GAAP.

In March 2002, IBRACON issued Technical Interpretation 3/2002 to address questions surrounding the accounting for contingent tax recoveries and other contingent gains in Brazil. Application of this guidance should insure consistency between Brazilian GAAP and US GAAP.

C. DEFERRAL OF FOREIGN EXCHANGE LOSSES

The Brazilian Securities Commission issued a paper giving companies the option of deferring exchange losses incurred in 1999 and amortizing them over five years. IBRACON has stated that audit opinions must be qualified if those losses are deferred. The SEC staff indicated that they would likely object to such qualifications.

D. ACTUARIAL ASSUMPTIONS USED BY PENSION PLANS

Companies in Brazil have historically prepared information relating to pension and post employment benefits using assumptions for both the discount rate and the rates of return on plan assets at around 6% above inflation. However, there is a wide range of rates being applied by Brazilian SEC registrants. At the end of 2001, the Brazilian government issued long-term securities that pay 6% interest plus inflation measured by the consumer price index that have been rated “brAA” by Standard & Poors in their Brazilian ratings list, but not rated AA outside of Brazil.

The Task Force concluded that the Brazilian government security should be considered a variable rather than a fixed rate security as it is linked to inflation and consequently that security cannot be used as a basis for the discount rate.

The Task Force also concluded that, in general, foreign registrants should have regard for the local rating scheme in making the determination of whether or not a security is considered “high quality”. Finally, the Task Force indicated that the rate of return on high quality zero coupon bonds should be expressed in nominal terms, and that other actuarial assumptions should be based on nominal rates as well. Rates of return on assets should be determined separately from the appropriate discount rate.

IV. CANADA

A. FLOW THROUGH SHARES

“Flow through shares” are typically issued by small Canadian exploration stage companies. The shares permit the investor to claim deductions for tax purposes

related to expenditures incurred by the issuer. The issuer explicitly renounces the right to claim these deductions. The investor's tax basis is reduced by the amount of deductions taken.

The Canadian Institute of Chartered Accountants issued a standard on income taxes that states that when shares are issued they are recorded at their face value. When the entity acquires assets the carrying value may exceed the tax basis as a result of the enterprise renouncing the deductions to the investors. The tax effect of the temporary difference is recorded as a cost of issuing the shares.

This method is not acceptable under US GAAP. The staff of the FASB believes that under SFAS 109, proceeds should be allocated between the offering of shares and the sale of tax benefits when the shares are offered. The allocation is made based on the difference between the quoted price of the existing shares and the amount the investor pays for the flow through shares (given no other differences between the securities). A liability is recognized for this difference. The liability is reversed when tax benefits are renounced and a deferred tax liability is recognized at that time. Income tax expense is the difference between the amount of the deferred tax liability and the liability recognized on issuance.

B. CANADIAN ACG 11 - ENTERPRISES IN THE DEVELOPMENT STAGE

The SEC staff believes that investors should be advised that there are currently two interpretations of AcG 11 - *Enterprises in the Development Stage* that will impact companies in the mining industry. The differing views relate only to Canadian GAAP and not US GAAP. Disclosure of the view adopted by the company and the impact of the alternative method should be made until

the Canadian accounting profession resolves the interpretation of AcG 11.

C. NON-FOREIGN PRIVATE ISSUERS

Companies incorporated outside of the US that do not meet the definition of a foreign private issuer are required to present full US GAAP financial statements. However, the Staff has not objected to Canadian companies that do not meet the definition of a foreign private issuer presenting financial statements under Canadian GAAP provided that reconciliation under Item 18 of 20-F is also presented.

D. COMPLIANCE WITH MJDS

The SEC expects full compliance with the requirements of the MJDS Forms. Companies filing under Item 18 should provide all of the disclosures required by US GAAP and Regulation S-X.

E. US GAAS FOR MJDS TARGET IN NON-MJDS FILING

The financial statements filed on a MJDS form can be audited in accordance with Canadian GAAS. This accommodation from the requirement to have the audit conducted in accordance with US GAAS is not available if the financial statements are included in a non-MJDS filing even if the financial statements are incorporated from a MJDS filing - e.g., 40-F incorporated into a S-4. In this case, the audit of the Canadian company must be in accordance with US GAAS. This applies to any circumstance where the financial statements of the MJDS company are required in filings of a non-MJDS registrant, including under Rules 3-05, 3-09 and 3-10 of S-X.

F. VALUATION ALLOWANCES OF PENSION ASSETS UNDER CANADIAN GAAP

Canadian GAAP requires that any time a surplus (i.e., an over-funding of pension plans) is recognized as an asset, it should be reviewed for impairment via a three-part test and, if appropriate, the pension assets should be reduced by a valuation allowance. Canadian SEC registrants have not reversed the valuation allowance under US GAAP. The Task Force noted that US GAAP does not provide for a valuation allowance against a pension asset, and therefore valuation allowances recognized under Canadian GAAP should be presented as a reconciling item for purposes of the US GAAP reconciliation. The Task Force is discussing with the SEC Staff how Canadian companies should adjust their financial statements to eliminate the valuation allowance.

V. CHILE

A. TRANSLATION OF FOREIGN OPERATIONS

Under the Chilean foreign currency standard, BT 64, investments that are considered to be an extension of the Chilean parent's operations are remeasured in Chilean pesos and price-level restated for the effects of inflation. Companies in stable countries, which are not considered to be an extension of the Chilean parent's operations, use the local currency for measurement. Companies in unstable countries, as defined by the standard, use the US dollar as the currency of measurement. The effects of translation into pesos at year-end exchange rates and adjusting the investment (net assets) for the effects of inflation in Chile are recorded directly to equity. While fundamentally different from SFAS 52, the application of BT 64 is considered part of a comprehensive basis of adjusting for inflation. Accordingly, differences

compared to US GAAP do not need to be eliminated in the reconciliation to US GAAP. However, the following disclosures should be made:

- Description of the methodology used to translate foreign operations;
- Indication of which countries are considered to be stable versus unstable;
- The amount of the foreign exchange gain/loss included in income that is attributable to operations in unstable countries (i.e., the effect of remeasuring transactions into US dollars); and
- MD&A should discuss the effects of the application of BT 64 on the results of operations and explain how the results are affected by changes in exchange and inflation rates. If material, MD&A should also disclose year-end and average exchange rates and average inflation rates for the period.

B. MINIMUM DIVIDENDS

Chilean companies are required by law to distribute 30% of their net income to shareholders. An approval of the majority of shareholders is required for the company not to pay such dividend. The SEC requires registrants to identify as temporary equity, in the reconciliation to US GAAP, the amount of retained earnings applicable to the dividend to be distributed, as the amount is not permanent equity.

VI. CHINA

A. REVALUATIONS OF PROPERTY, PLANT AND EQUIPMENT BY PEOPLE'S REPUBLIC OF CHINA REGISTRANTS UNDER IAS 16

A number of companies from the People's Republic of China use IAS as their primary basis of accounting. As part of the process of "corporatization," these companies revalue their property, plant and equipment to fair value. This adjustment would generally be required to be eliminated in the reconciliation to US GAAP. In addition, if the company revalues property, plant and equipment, they are establishing a policy that will require them to continue these revaluations in the future with sufficient regularity based on the guidance in IAS. Depending on the nature of the business, this can be a substantial incremental cost.

B. VALUE ADDED TAXES

The value added tax system in the People's Republic of China should be accounted for in accordance with FASB Statement 5 as opposed to FASB Statement 109 and appropriately discounted.

C. CONSOLIDATION OF CHINESE JOINT VENTURES

There have been several situations in which a substantial portion of the business has been conducted through "joint venture" arrangements. Often the underlying businesses are infrastructure projects. The ventures are formed by the contribution of capital by the registrant and contribution of the underlying project by a PRC municipal government entity (PRC partner). The joint venture acquires a long-term concession to operate the project.

Generally, the registrant owns the majority of the voting shares of the venture and the PRC partner owns the remaining shares. The registrant selects a majority of the directors; however, unanimous approval by the board of directors is required for numerous operating decisions such as selection and termination of key operating financial officers, budget approvals, capital expenditures and borrowings in the ordinary course of business.

In these circumstances, the rights are substantive and pervasive, not “protective”. Because the PRC partner retains significant rights and authority over operating decisions despite relinquishing majority ownership, the registrant does not have a controlling financial interest in the joint venture. Accordingly, the venture should not be consolidated under US GAAP. There may be questions by the SEC if consolidation is used under the GAAP in the primary financial statements - e.g., home-country GAAP, if consolidation is not acceptable under US GAAP. If consolidation is permitted under home country GAAP, reconciliation of all financial statement captions may be necessary.

VII. FRANCE

In 1996, France passed a law imposing a 10% income surtax, and indicated, if subsequently approved by parliament, that it would be eliminated in 1998 or 1999. Since the law has yet to be repealed, the Staff would expect that deferred taxes under FAS 109 would be computed using rates that include the 10% surtax.

VIII. GERMANY

A. PRO FORMA INFORMATION – GERMAN NEUER MARKT – 144A

The German Neuer Markt requires pro forma information relating to business combinations during the last three years. As many of these companies prepare their primary financial statements in accordance with US GAAP, the pro forma information will also be labeled as being prepared in accordance with US GAAP. US GAAP does not define how to prepare pro forma information; rather, Regulation S-X and other Commission rules and guidance specify the procedure. Due to the risk that investors could be confused by such disclosure, the offering document should include a description of the basis of presentation and appropriate cautionary language about the information including non-compliance with Article 11 of Regulation S-X. In addition, an accountant's report on such information should not be included in a 144A-offering document.

B. SPECIAL FUNDS

The Staff believes that when there is evidence pointing to the principle of control under IAS 27, registrants should consolidate the entity subject to that control. SIC-12 only clarifies concepts and principles that currently exist within IAS 27.

IX. HONG KONG

The Hong Kong Stock Exchange requires pro forma financial information for a three-year period. This would normally be prohibited by the SEC. Allowance may be granted, however, if the issues are pre-cleared with the Staff.

X. ISRAEL

A. INCOME TAXES

The Israeli Government has established several tax incentive programs for approved enterprises. Under one such program, the company has a tax holiday for a specified period of time as long as profits are retained. Once distributed, taxes would be owed. Under US GAAP, deferred taxes would normally be provided relating to the taxes that would be owed upon distribution. If the company could avoid paying taxes, through a tax-free merger or other transaction, and a liability is not recorded, the following disclosure may be appropriate:

- a description of the approved enterprise zone program indicating if the benefit relates to the parent company or a subsidiary;
- the amount of retained earnings for which taxes have not been provided;
- a statement that such undistributed earnings are essentially permanent in duration;
- a statement that such earnings could be distributed to shareholders tax free in a liquidation, or if applicable, in some other manner;
- the tax rate to the company if the profits were distributed; and
- the amount of tax that would be owed if the profits were distributed.

B. DEFERRED TAXES

Paragraph 9f of SFAS 109 prohibits recognition of deferred taxes for differences related to assets and liabilities that are remeasured from local currency to the functional currency. If the US dollar is the functional currency, the SEC expects the methodology of paragraph 9f to be specifically addressed in the notes to the financial statements. The application of paragraph 9f would be expected to result in a US GAAP reconciling item if the US dollar is the functional currency. If an Israeli registrant elects to pay taxes on a US dollar basis, as allowed under Israeli law, paragraph 9f is not applicable.

C. DEVALUATION METHOD

Israeli GAAP allows companies to prepare price level adjusted financial statements in Shekels based on the devaluation of the US dollar to the Shekel (devaluation method). This method has the same effect as reporting in US dollars, but could be materially different from those companies that prepare price level adjusted financial statements based on the rate of inflation. The devaluation method should not be used in filings with the SEC. If used, extensive additional disclosure will be required.

D. PENSION PLANS

Many Israeli pension plans are accounted for pursuant to EITF 88-1 as opposed to FAS 87. Under EITF 88-1, companies not using FAS 87 for deferred vested benefits should record the obligation as if it was payable at each balance sheet date. The Task Force understands that Israeli registrants are fully accruing the liability on an undiscounted basis as contemplated by EITF 88-1. The Staff will require Israeli registrants to disclose their accounting method for the deferred vested

benefit arrangement, the amount of the related liability accrued and the related assets, if funded (for Israeli purposes the balance sheet amounts are shown net). Registrants would also be required to disclose the components of the net expense (income) vis-à-vis the amount of the gross expense and income from the funding arrangement.

XI. JAPAN

A. COMPLIANCE WITH AU 380, “COMMUNICATIONS WITH AUDIT COMMITTEES”

Under US GAAS, if a company does not have an audit committee, the independent accountants should satisfy their requirement to communicate certain matters to the audit committee by communicating with the Board of Directors. Under the Japanese Commercial Code, all large companies are required to have a Board of Statutory Auditors of at least three members who have responsibility for the supervision of the internal and external audits of the company. The Board of Directors is responsible for nominating the Statutory Auditors. Historically the role of statutory auditor has been considered an honorary position and has been filled by retired managers of the company. The Board of Directors, generally comprised of senior members of management, has the responsibility for the fair presentation of the financial statements.

Given the existing structure, the communications required by AU 380 on audit committees should be addressed in writing to both the Board of Statutory Auditors and the Board of Directors.

XII. MEXICO

A. EMPLOYEE PROFIT SHARING

1. Classification

Under Mexican GAAP, the cost of employee profit sharing is included with income taxes. Under US GAAP, the expense is included in operating income, as it is not an income tax. This difference in classification is required to be disclosed.

2. Determination

While not an income tax, a balance sheet methodology should be used to determine the liability and expense under US GAAP. This methodology is consistent with SFAS 109 “*Accounting for Income Taxes*” and compares the differences between the book basis and the basis used to determine income for profit sharing purposes.

B. INCOME TAXES

1. Deferred taxes relating to non-monetary assets and liabilities

Under Mexican GAAP and Mexican tax law, the basis of non-monetary assets and liabilities are adjusted for the effects of inflation. For financial reporting purposes, the basis of assets and liabilities are as of the balance sheet date (i.e., all amounts are expressed in a currency of equivalent purchasing power as of the balance sheet date). For tax purposes, the assets/liabilities reflect one-half of the rate of inflation in a given year. Circular 54 states

that book amounts should be compared to the basis of the tax amounts adjusted for inflation as of the date of the financial statements. While there is a difference in basis, it does not create a temporary difference as defined by FASB Statement 109 because it is impossible for the difference to result in a taxable or deductible amount in the subsequent year. Accordingly, a reconciling difference would not be created.

2. Changes in deferred tax attributable to changes in application of replacement cost accounting

For purposes of reconciling to US GAAP, changes in the deferred tax that are attributable to changes in the application of replacement cost accounting should generally be allocated to equity. This issue has become less important as the effect of replacement cost accounting has diminished based on the implementation of the Fifth Amendment to Bulletin B-10.

3. Classification of the monetary gain/loss on deferred tax asset/liability

Bulletin D-4 requires the monetary effect generated by the deferred tax asset or liability balance to be allocated between the tax provision and the monetary gain/loss. The allocation is based on whether the item that gives rise to a temporary difference is a monetary or non-monetary item. This method is acceptable for purposes of reconciling to US GAAP. The method of allocation should be described, and Mexican companies should disclose the amount of monetary gains/loss that is included in pretax profits to facilitate a comparison of companies on a pretax basis.

4. New Mexican Tax Law

The enactment date of the new tax law in Mexico should be January 1, 2002; therefore deferred taxes at December 31, 2001 should not be adjusted for the changes in rates.

C. CONSOLIDATION OF FOREIGN SUBSIDIARIES

Mexican companies that consolidate foreign subsidiaries are required to follow the guidance in Bulletin B-15. Under this methodology, prior year balances of a foreign subsidiary are determined by multiplying the local currency units by the rate of inflation of that country by the exchange rate on the current balance sheet date. This methodology is not consistent with Rule 3-20 of Regulation S-X because it can change the relationships and amounts that were previously reported, and it does not result in amounts presented in a currency of equivalent purchasing power.

The difference can impact virtually every number that is presented in the financial statements. As a result, supplemental information needs to be provided in the US GAAP reconciliation including, at a minimum, summarized financial information for all periods as if the amounts were presented in a constant currency. The difference between what was reported under Mexican GAAP and US GAAP depends on the combined effects of inflation in the foreign country and the level of devaluation of the peso to that country's currency compared to inflation in Mexico.

D. CAPITALIZED INTEREST

While permitted under Mexican GAAP, foreign exchange losses are not included in the financing charges that are capitalized under US GAAP.

**E. PROPERTY, PLANT AND EQUIPMENT
ACQUIRED OUTSIDE OF MEXICO**

Under Mexican GAAP, property, plant and equipment acquired from a foreign country should be restated on the basis of devaluation of the peso against the currency of the country of origin after applying a factor for inflation in such country. Assets of Mexican origin are restated based on applying the rate of inflation in Mexico. This methodology would result in fixed assets acquired at the same time having different carrying values simply based on the origin of the asset. This methodology is inconsistent with Rule 3-20 of Regulation S-X and as a result the difference needs to be addressed in the reconciliation to US GAAP.

**F. HEDGE OF INVESTMENTS IN A US
SUBSIDIARY**

The Task Force reached a consensus that prospectively from January 1, 1996, the monetary gain on debt that is used to hedge the investment in a foreign subsidiary should be recorded directly to equity if it is based on the rate of inflation in Mexico. If a company recorded the monetary gain in the income statement in prior years, pro forma information should be presented that removes the gain from the income statement. Inclusion of the monetary gain in the income statement is acceptable if it is based on inflation in the country whose investment is being hedged. For example, if the Mexican parent is hedging an investment in the US, it would be acceptable to include the monetary gain in the income statement if it is based on inflation in the US. The amount of the monetary gain included in the income statement would be the same as if the debt were recorded on the books of the US subsidiary and the US operations were price level adjusted for inflation in the US.

XIII. RUSSIA

RUSSIAN COMPANIES REPORTING IN US DOLLARS

The SEC staff has agreed with the Task Force that a Russian company can use the US dollar as its reporting currency.

Prior to 1992, there was no exchangeability between the US dollar and the Russian rouble. In determining the current value in US dollars of non-monetary assets that were acquired prior to 1992, amounts should be translated using the exchange rate at January 1, 1992 of 110 roubles to the dollar. Transactions after January 1, 1992 involving non-monetary assets should be recorded at historical cost. This methodology should be used for all periods presented in a filing (including those in selected financial data) regardless of whether the registrant previously used other methods. In cases where other than historical cost is used, an auditor would need to qualify the audit opinion for a departure from US GAAP. A company should discuss any proposal to use a method other than fair value with the SEC staff prior to filing.

If a Russian company is reporting in US dollars, the disclosures required by Rule 3-20 of Regulation S-X regarding the payment of dividends in a currency different from the reporting currency of US dollar as well as any exchange restrictions on the rouble should be provided. The company should also disclose, pursuant to S-X Rule 4-08, the amount of equity that is available for dividends, as it would be different from the retained earnings under US GAAP in US dollars.

XIV. SWEDEN

The Swedish professional accounting body is currently evaluating the nature of Swedish audit reports prepared under Swedish GAAS that refer to the auditor as having responsibilities regarding the administration of the company and for determining whether the directors should be discharged from their liability to the company. The issue will be discussed further at a future Task Force meeting.

XV. TAIWAN

A. EMPLOYEE BONUSES AND REMUNERATION

Under Taiwan GAAP, employee bonuses and remuneration to directors and supervisors are paid in accordance with a company's articles of incorporation subsequent to year-end and are subject to shareholder approval. The bonuses may be settled in cash or stock and, in many cases, the bonuses are settled in stock. For local valuation purposes, only the par value of the stock is considered. As a result, it is common for shares to be issued whose value would significantly exceed the amount of the cash compensation. The SEC has indicated that, absent unusual facts and circumstances, the fair value of the stock issued should be recorded at the date of shareholder approval.

B. INCOME TAXES

In Taiwan, companies are subject to a 25% income tax on taxable income plus an additional 10% corporate income tax on taxable income to the extent that such taxable income is not distributed before the end of the following year. A question has been raised about how to account for the additional 10% tax and this issue will be addressed at the next Task Force meeting.

XVI. UK

A. MARKET RISK DISCLOSURE – CONFLICT WITH UK GAAP

UK Financial Reporting Standard No. 13 “*Derivatives and Other Financial Instruments—Disclosures*” requires certain quantitative and qualitative information about market risk to be part of the audited financial statements. Similar information is required to be presented under the SEC’s market risk disclosure rules.¹ However, the Form states that such information must be presented outside of the financial statements.² The SEC staff will waive this requirement, and allow the information to be part of the financial statements to comply with the UK GAAP. As a result of including this information in the financial statements, there is no Safe Harbor protection.

B. COMPLIANCE WITH UK COMPANIES ACT

UK companies that prepare financial statements in accordance with UK GAAP are expected to comply with the disclosure provisions of the Companies Act.

C. FREE CASH FLOW

Disclosure in the financial statements of “Free Cash Flow” or similar items, which may include a reconciliation of the amount in the statement of cash flows to free cash flow, is a violation of ASR 142.

D. TRUE AND FAIR OVERRIDES

Certain UK registrants have applied the use of the “true and fair override” in UK GAAP to override a UK

¹ See Item 11 of Form 20-F.

² See General Instruction 6 to Item 11 of Form 20-F.

accounting pronouncement in their primary statements on the grounds that the adopted treatment resulted in a more true and fair view in the context of the specific facts and circumstances. This may be necessary to address a conflict between the requirements of UK GAAP and the Companies Act. The SEC will vigorously question the basis on which such an override is used and the basis on which the auditors provide an unqualified report.

Registrants must fully comply with the disclosure requirements of UK GAAP and IAS, as applicable, regarding true and fair overrides.

E. IAS 22 EXEMPTION FROM RECONCILING ITEMS AND UK FRS 10

The SEC will not object if a registrant that prepares its financial statements in conformity with UK GAAP, including FRS 10, omits the US GAAP reconciling disclosures specified by Item 17 or Item 18 with respect to the amortization period of goodwill and negative goodwill, provided that all of the following conditions are met:

- The registrant has adopted FRS 10 by retroactive restatement;
- The period of amortization used in the UK GAAP financial statements is also in conformity with IAS 22, as amended in 1993;
- The applicable provisions of IAS 22 are applied to all business combinations as outlined in the instructions to Form 20-F; and

- The disclosures set forth in paragraph 28 of APB 20, “*Accounting Changes*”, are provided to highlight the nature and effects of the retroactive change in UK GAAP on previously reported reconciled income amounts.

XVII. ACCOUNTING IN HYPERINFLATIONARY ECONOMIES

A. HYPERINFLATIONARY ECONOMIES

The Task Force has addressed whether certain economies such as Mexico, Brazil, Venezuela³ and Russia⁴ should be considered highly inflationary economies under SFAS 52 *Foreign Currency Translation*. While this primarily affects US domestic companies, the inflationary status of a company can determine the currency used for measurement (functional currency). To illustrate, assume a Mexican company has US dollar debt. If Mexico is a highly inflationary economy and its parent company reports in US dollars, the currency used for measurement of the Mexican subsidiary is US dollars and there is no foreign currency gain or loss on the debt. However, if the economy were not considered to be highly inflationary, the functional currency would be the peso and there would be a foreign currency exchange gain/loss included in the income statement.⁵

³ The Task Force concluded that Venezuela should not be considered a highly inflationary economy for periods beginning after December 31, 2001.

⁴ The Task Force indicated that Russia may no longer be considered highly inflationary as of January 1, 2003 if the declining trend in inflation continues.

⁵ Assumes that the other factors in SFAS 52 do not indicate that the currency of the company’s primary economic environment is the US dollar.

The determination of a highly inflationary economy must begin by calculating the cumulative inflation rate for the three years that precede the beginning of the reporting period, including interim reporting periods. If the calculation results in a cumulative inflation rate in excess of 100 percent, the economy should be considered highly inflationary in all instances. However, if the rate is less than 100 percent, historical inflation rate trends (increasing or decreasing) and other pertinent economic factors should be considered. EITF Topic D-55 was considered in reaching this conclusion.

B. PENSIONS

Some companies have improperly recognized large monetary gains associated with pension liabilities resulting in an overstatement of income. Companies that prepare price level adjusted financial statements have two options:

- Use real rates (interest rates net of inflation) and treat the pension liability/asset as non-monetary, or
- Use nominal rates (interest rates that include assumed rates of inflation) and treat the pension liability/asset as monetary. The portion of the monetary gain/loss attributable to the difference between the actual rate of inflation and the assumed rate of inflation would be deferred as part of the actuarial gain/loss.

The two methods will yield the same results.

C. CASH FLOW STATEMENT

The Task Force developed a model that should be used in preparing cash flow statements for purposes of providing US GAAP information. Mexican GAAP requires the preparation of a statement of changes in

financial position that would appear to be similar to a cash flow statement required by US GAAP, but the differences are substantial. The Mexican statement includes changes in balances that are attributable to the application of price level accounting even if there is no cash flow activity.

Under the method adopted by the Task Force, all amounts are presented in cash flows in a constant currency. This presentation requires the use of a fourth caption after operating, investing and financing activity – “effects of inflation on cash flow”. This method is applicable anytime the primary financial statements are presented in a currency that comprehensively includes the effects of price level changes. If a different method were used in the primary financial statements, the company would need to address in the note that includes the US GAAP reconciliation.

XVIII. 144A – COMFORT LETTERS – BEST PRACTICE

The Task Force developed a best practice summary regarding comfort letters in 144A offerings. The purpose of developing the guidance is to ensure consistent views in the profession and to assist engagement teams in dealing with investment bankers and their legal counsel. It is expected that these best practice procedures will be able to be given to the bankers and their legal counsel to demonstrate a collective view on a particular issue. A copy of the summary can be found on the AICPA website.

XIX. REVISED FORM 20-F

A. AGE OF FINANCIAL STATEMENTS

1. 15 month rule

Item 8.A.4 of Form 20-F states that the last year of audited financial statements may not be older than 15 months at the time of offering or listing; provided that in the case of the company's initial public offering, the audited financial statements also shall be of a date not older than 12 months at the time the document is filed. In such cases, the audited financial statements may cover a period of less than one year. The 12-month rule applies to each filing, but the requirement may be waived unless a regulator elsewhere requires compliance.

Audited annual financial statements must be provided three months after a company's fiscal year end. Audited interim financial statements will not be sufficient.

2. Acquired business

The period between the date that the last financial information is provided and when the acquisition took place cannot exceed six months for a foreign business. More current information might be required if it is publicly available. A registrant is not required to include more current information for an acquiree in relation to a pre-acquisition period less than six months prior to the acquisition date if that information was only prepared for management purposes. More recently published interim period information must be filed under Item 8.A.5 of Form 20-F but it does not need to be reconciled.

3. Delayed or continuous offering

Foreign private issuers are required by Item 512(a)(4) of Regulation S-K to make an undertaking to file a post-effective amendment to the registration statement to include any financial statements required by Item 8.A. of Form 20-F at the start of any delayed offering or throughout a continuous offering. Financial statements and information otherwise required by Section 10(a)(3) need not be furnished provided that the registrant includes in the prospectus, by way of a post-effective amendment, financial statements required pursuant to paragraph (a)(4) and other information necessary to ensure that all other information in the prospectus is at least as current as the date of the financial statements. For registration statements on Form F-3, a post-effective amendment need not be filed to include financial statements and information if such information is contained in periodic reports filed with or furnished to the Commission.

Exchange offers on Form F-4 for a previous 144A offering are considered to be a continuous offering and the financial statements need to be current during the offering period.

The Staff discussed an error in the 2000 edition of the Division of Corporation Finance's Accounting and Disclosure Rules and Practices, and confirmed that Rule 512(A)(4) requires that a foreign private issuer will have to update its financial statements as soon as they no longer meet the age of financial statement requirements of Item 8.

B. US GAAS

1. General

All audits, except financial statements filed on MJDS Forms, must be conducted in accordance with US GAAS. This requirement should be applied for all periods presented, with two exceptions:

- A report issued by a predecessor auditor can be the same as that originally issued; and
- Canadian companies can continue to make reference to Canadian GAAS for fiscal years ended prior to September 30, 2000; however the report should clearly specify which GAAS was used for which years.

These accommodations apply only to existing registrants. The requirement for US GAAS applies to any required financial statements, including those of acquired foreign businesses, foreign investees, and foreign guarantors.

2. Opinion Paragraph

As indicated in the 1999 release on International Disclosure Standards, the Staff accepts style variations in audit reports to accommodate local requirements. The Staff has historically accepted “true and fair” wording on this basis since it was believed to have the same meaning as “presents fairly”. The SEC staff has indicated that while in some cases a “true and fair” view is meant to be the same as “presents fairly”, in other cases it may not, and there is no practicable way of distinguishing which “true and fair” reports mean “presents fairly”. As a result, the Staff revised its position to require

the opinion paragraph of all audit reports in filings with the SEC to follow the wording requirements of US GAAS. The Staff will not object to the inclusion of both a primary GAAS opinion and US GAAS opinion. “Presents fairly” opinion paragraphs are expected for reports issued on or after September 30, 2002.

3. Non-Reporting Foreign Targets

The instructions to Item 17(b) to Form F-4 state that the financial statements of a non-reporting target company for the fiscal years before the latest fiscal year need not be audited if they were not previously audited. The SEC staff indicated that the exception did not apply when the statements had been audited in accordance with local GAAS when such statements had been published for general distribution in the target’s home jurisdiction or elsewhere. In that situation, the financial statements included in the registration statement would need to be audited in accordance with US GAAS. The SEC indicated that this guidance was appropriate, but that requests for relief will be considered on a case-by-case basis. Relief can be expected to be granted where the registrant demonstrates that obtaining a US GAAS audit of the target company would require undue effort or expense.

C. CAPITALIZATION AND INDEBTEDNESS

Item 3.B of Form 20-F requires a statement of capitalization and indebtedness as of a date no earlier than 60 days prior to the date of the document. The Staff did not intend to change existing practice, and will generally accept information that is presented as of the most recent balance sheet date that is adjusted only for major subsequent events.

D. CASH FLOW STATEMENT

Even if a cash flow statement is not required by the accounting standards used in the primary financial statements, a cash flow statement must be provided for all periods that an income statement is required in filings with the SEC. This statement could be presented in accordance with US GAAP or IAS. This requirement applies even if a reconciliation is not required – e.g., financial statements of acquired businesses and equity investees below the 30% significance level.

E. SEGMENT INFORMATION

If segment information is not required by the GAAP used in the primary financial statements, a registrant would still need to provide information regarding segments under both Item 4.B “Business Overview” and Item 5 “Operating and Financial Review and Prospects.” It is also necessary to discuss any segmental information that provides new or additional information as to how management views the business or that indicates material trends or relationships not apparent from the local GAAP segmental disclosures.

The SEC requires the segment information to be presented using the segments that were used to manage the business during the most recent period presented. If management changes its organizational structure after year-end, the new segment structure should not be presented in the financial statements until operating results managed on the new basis have been reported. This guidance applies even if the company files interim information on Form 6-K with the new structure before the 20-F is filed.

Other notable implementation points regarding presentation of segment information by foreign registrants are as follows:

- A foreign registrant should present financial information using the same basis of accounting as used internally, even if that information is on a local GAAP basis. No US GAAP reconciliation of the data is required. The measurement basis for the data would be disclosed.
- For purposes of measuring materiality using the 10% criterion in FAS 131, materiality should be based on the internal basis of accounting. As required by FAS 131, all reported segments must comprise at least 75% of consolidated revenues.
- In reconciling segment data to the consolidated financial statements, the final column in the reconciliation should be to the consolidated financial statements presented under local GAAP. The reconciling items should be isolated in a separate column and described.
- All financial information should be reported in the same currency. Accordingly, if the foreign registrant chooses to present its financial statements in US dollars, then the segment data must be presented in US dollars.

F. TWO YEARS – US GAAP

Foreign private issuers that present their primary financial statements in accordance with US GAAP are only required to provide an income statement and cash flow statement for two years.⁶ In this situation, selected financial data for five years would be based on the accounting standards used in preparing shareholder reports. The Operating Financial Review and Prospects would only compare the two years presented.

⁶ See Item 8.A.2 of Form 20-F.

G. SELECTED FINANCIAL DATA

Selected financial data should be presented for every line item specified by Item 3 of Form 20-F where US GAAP is different than the GAAP used in the primary financial statements. This also applies to income from continuing operations even if that item was not presented under primary GAAP.

Also, in response to requests for relief from selected financial data requirements, waivers will generally only be granted for initial filers where data for the fourth or fifth year would not be meaningful or reliable because of a privatization transaction or other fundamental change in the underlying business. It would virtually always be necessary for the third year. When data depicting adverse trends in revenues and operating profits has been omitted due to concerns over the reliability of corporate overhead allocations, waiver requests will generally be rejected.

New Item 3 of Form 20-F requires within selected financial data certain per share measures such as income from operations and other per share information that are not required by FASB Statement 128. Such measures will not need to be presented if they are not presented in the primary financial statements.

In situations where a registrant is changing from local GAAP to US GAAP, the SEC will expect local GAAP information to be presented in the initial registration statement so selected financial data is presented for five years.

H. UPDATING INTERIM INFORMATION BASED ON INFORMATION FILED LOCALLY

Item 8.A.5 of Form 20-F requires interim financial information that is made available on a more current basis than that otherwise required by SEC rules to be

included in the registration statement. This information is not required to be reconciled to US GAAP, but a narrative disclosure about the differences in accounting principles is required and material reconciling items that have not been previously addressed in the filing must be quantified.

When unconsolidated interim financial statements are included in a registration statement solely because they have been made available locally on a more current basis than otherwise required by SEC rules, a quantification of the difference due to the non-consolidation is not required.

I. COMPARATIVE INFORMATION FOR RULE 3-19(F) (NEW ITEM 8.A.5. OF FORM 20-F)

If a US GAAP reconciliation is included in information provided pursuant to Item 8.A.5., then comparatives (both in local GAAP and including a US GAAP reconciliation) need to be provided. When a foreign private issuer presents more current US GAAP information, it effectively has decided to present interim financial statements, and is therefore required to present comparatives as required by Item 8.A.5 of new Form 20-F. In these circumstances, the current and comparative interim period would need to be covered by MD&A and pro forma information would need to be updated to that date. In general, there will be no waiver of these requirements. Comparable interim information for the statement of changes in shareholders' equity is not required.

- When interim information is publicly distributed in the issuer's home country prepared using accounting standards different from those in the US registration statement, Item 8.A.5. requires that information disclosed pursuant to Item 8.A.5. will need to be supplemented with a description and quantification

of differences in accounting principles. However, in some instances an issuer may never have filed reconciliations from foreign GAAP to US GAAP information, resulting in a US investor being unable to interpret the foreign GAAP information. Accordingly, the issuer would have to either (a) reconcile the Item 8.A.5. information to US GAAP or (b) provide a reconciliation from US GAAP to foreign GAAP (reverse reconciliation). Such a reverse reconciliation should be provided for at least the most recent fiscal year provided in the registration statement. If a reverse reconciliation is required it does not need to be part of the audited financial statements.

J. US GAAP INCOME STATEMENT AMOUNTS IN RECONCILED FINANCIAL STATEMENTS

Item 17 of Form 20-F requires for each balance sheet presented a quantification of each material variation between the amount of a line item under primary GAAP and the amount under US GAAP. However, Item 17 appears to only require a reconciliation of net income, and does not address the variation between line items in the income statement. The following points summarize the SEC's position:

- Whether or not US GAAP income statement line items need to be presented as part of the reconciliation is not affected by whether the reconciliation is presented pursuant to Item 17 or Item 18.
- The staff would not require presentation of US GAAP income statement amounts in all circumstances, but quantification of the effects on pre-tax income resulting from differences for certain components may be required and is necessary to

determine the classifications for the US GAAP balance sheet reconciliation.

- If US GAAP income statement line items might be of significance to users, especially if the US GAAP measure gives a different impression in either absolute or relative terms than the local GAAP measure. A registrant may have to disclose operating income on a US GAAP basis.
- If revenues under local GAAP vary materially from those under US GAAP, a registrant will likely have to disclose US GAAP revenues.
- The staff's position in Section IV.J of the International Financial Reporting and Disclosure Issues did not necessarily require presentation of US GAAP income statement line items.

K. RULE 3-05 FINANCIAL FOR POOLINGS UNDER HOME COUNTRY GAAP

Previously, Rule 3-05 financial statements were not required in a registration statement if the business combination was accounted for as a "pooling of interests" and was reflected in the registrant's restated audited financial statements. With the adoption of FAS 141, pooling of interests is no longer an acceptable method of accounting for a business combination under US GAAP. As a result, the Staff will require the registrant to file the financial statements required under Rule 3-05 even if a foreign issuer adopted pooling of interests accounting under home country GAAP. This applies to business combination transactions initiated after June 30, 2002.

L. RULE 3-05 AND 3-09 FINANCIAL STATEMENTS BELOW 30% SIGNIFICANCE

When reconciliation to US GAAP is not required under Rule 3-05 or 3-09 because the significance level is below 30%, qualitative footnote disclosure discussing the areas of difference in accounting principles, practices and methods used in preparing the non-US GAAP financial statements from those accepted in the US is still required and must be part of the audited financial statements.

M. OPERATING FINANCIAL REVIEW AND PROSPECTS

The Operating Financial Review and Prospects (OFR) is prepared based on the accounting standards used in the primary financial statements. However, there can be instances in which additional information on a US GAAP basis is required, including:

- significant differences in key financial indicators not ordinarily required to be reconciled, such as revenues or operating income;
- differences resulting in a significant divergence of trends between home country GAAP and US GAAP amounts;
- differences that are likely to grow significantly in future periods because they relate to outstanding long-term contracts with fixed terms;
- differences related to specialized industry accounting that might be unfamiliar to US investors, particularly where home country GAAP would not ordinarily be expected to produce significant differences;

- significant differences reflected in the separate financial statements of a recently acquired business that are not yet fully reflected in the registrant's financial statements;
- differences reflected in the separate financial statements of an equity method investee, whose effects are not fully apparent in the registrant's financial statements;
- an expanded presentation of selected financial data on a US GAAP basis may also be necessary to highlight unusual or highly material matters that might not be disclosed with sufficient prominence; and
- the application of critical accounting policies in connection with its reconciliation of both its primary financial statements and its reconciliation to US GAAP.

XX. SECPS REQUIREMENTS

The SECPS is an organization of CPA firms within the American Institute of Certified Public Accountants. The objective of the SECPS is to improve the quality of practice by CPA firms before the SEC. It is through this organization that the profession officially interacts with the Staff of the SEC. SECPS rules, while not having the force of law, are the profession's way of regulating itself.

One of the new membership requirements of the SECPS is that, before a foreign issuer can file with the Commission, a filing reviewer knowledgeable about US GAAP, US GAAS, US independence rules and SEC requirements review the filing and perform certain other procedures. The Task Force has prepared an article outlining best practices to the implementation of the SECPS rules regarding designated

reviewers. The article will be included on the AICPA's website.

The SEC has also confirmed that it is their intention to identify the "filing reviewer" when asked to perform a confidential filing review.

The Task Force discussed the application of Appendix K of the SECPS rules and noted the following points:

- The requirements of Appendix K only apply to the principal auditors and, therefore, if the principal auditor referred to another auditor, that secondary auditor did not need to comply with Appendix K of the SECPS rules.
- Appendix K does not apply to the auditor of financial statements included in an SEC filing pursuant to Rule 3-05 and Rule 3-09 of Regulation S-X.
- Both auditors are subject to the requirements of Appendix K in a joint audit.

The Task Force recognized that these matters of interpretation were for the SECPS of the AICPA to determine and, if necessary, provide clarification. A joint task force has been formed to further address the matters. While the filing reviewer procedures may not be required in certain of the circumstances described above, the procedures can improve the quality of financial reporting and disclosure, and thus their application is encouraged.

It was also noted that each SECPS member firm should update the list of foreign firms contained in its annual report to reflect additions or deletions in the foreign associated firms that are part of its international organization and subject to the objectives set forth in Appendix K as soon as

practicable after such change (ordinarily presumed to be within 30 days).

The Task Force agreed that Appendix K would not be applicable in certain situations involving 6-K filings, including situations in which a US GAAP reconciliation is included in home country GAAP financial statements with a home country opinion filed with the SEC, or in situations in which 6-Ks include interim financial information using US GAAP.

XXI. APPLICATION OF EDGAR TO FOREIGN REGISTRANTS

The Commission has approved the SEC's rule proposal on mandatory use of EDGAR by foreign private issuers. The Release contained a number of amendments to the proposed rule. On transition, the Staff believed that a period of six months was sufficient to enable a foreign issuer to prepare itself for EDGAR and therefore adopted the following transition:

- The new rules apply to any documents filed or submitted on or after November 4, 2002
- A registrant filing its registration statement in paper before the effective date would be able to complete its filing in paper through December 31, 2002.
- The SEC staff will continue to accept confidential drafts of initial registration statements in paper during the review process. Public filings of registration statements must be on EDGAR, and the exchange of correspondence during the confidential review process must be submitted electronically at that time.

XXII. AUDITOR RELATED ISSUES

A. INDEPENDENCE

If an auditor renders an opinion on the value of a company, the adequacy of consideration, or the fairness of a transaction (fairness opinion) that the auditor will subsequently audit, the auditor's independence will be impaired. This position conflicts with statutes in a number of countries, especially in Europe, that require an audit report with respect to mergers and other transactions. It may be necessary for a different firm to audit the financial statements.

The SEC staff has reached a resolution of these conflicts in Italy with the Italian CONSOB in which an agreed-upon procedures report would be issued to comply with the requirements in Italy, and its issuance would not cause the auditor to violate the Commission's independence requirements. This type of report may be able to be used in similar situations in other countries. In addition, the SEC staff views any indemnification of auditors by their clients as a matter that would impair auditor independence.

B. USE OF FOREIGN AUDITORS TO AUDIT DOMESTIC REGISTRANTS

There is an increasing number of companies that are incorporated in the US or for other reasons do not meet the definition of a foreign private issuer that are audited by a non-US firm. The SEC staff presumes that a US accounting firm should audit a domestic company. There have been exceptions when the majority of the operations are conducted in a particular country. It is recommended to discuss the circumstances with the SEC staff on a pre-filing basis if a foreign accounting firm signs the audit report of a non-foreign private issuer.

The SEC staff indicated that they would likely not question the continued use of a foreign auditor by an existing registrant where there was a reasonable basis for the original selection. However, as a condition of accepting an opinion from a non-US firm on a company that is not a foreign private issuer, the SEC staff will require the firm to follow the same SECPS quality control procedures that would be followed if the company were a foreign private issuer, which would require a designated reviewer.

C. AUDIT REPORTS SIGNED OUTSIDE THE US BUT AUDIT CONDUCTED PRIMARILY IN THE US

In situations in which companies are incorporated outside the US (but file on domestic forms as they do not meet the definition of a “foreign private issuer”) and the US audit firm performs the audit work but the non-US firm signs the report, the SEC would expect the US firm to sign the audit report. In cases where there is a legal requirement for the local firm to sign the audit report, both firms should sign the opinion for purposes of an SEC filing.

D. USE OF A US FIRM’S NAME IN FOREIGN REPORTS

At times underwriters may request that a US firm sign an audit report when the audit was conducted by a foreign affiliate. Similarly, they may request that the US firm issue a comfort letter on the US GAAP reconciliation even though the US firm had no audit base. It is inappropriate to honor either such request.

E. APPLICABILITY OF SAS 50 TO FOREIGN AUDITOR FIRMS

Compliance with US GAAS includes compliance with SAS 50 as it relates to US GAAP issues.

F. CHANGE IN AUDITORS

It is not necessary to file a SECPS letter when an accounting firm has resigned or has been terminated and the disclosure requirements of Item 304 of Regulation S-K do not apply.

The Task Force agreed that there are no reason for a distinction between a domestic and a foreign registrant regarding the disclosure requirements for a change in auditor. The Task Force will recommend to the Chair of the SECPS that the AICPA should propose that the SEC change Item 304 of Regulation S-K to eliminate the distinction between domestic and foreign issuers.

G. QUALIFIED AUDITORS' REPORT

Situations in which a company and its auditors believe a qualified audit report is appropriate should be very rare and should be discussed with the staff on a prefiling basis. This will be applicable even if the securities regulator in the company's home country will accept such a report. The acceptability of a qualified auditor's report in the past has generally been limited to situations in which the deviation from GAAP was necessary to comply with the law in the applicable country.⁷

⁷ For example, the Argentine Securities Commission was ordered by decree not to accept price level adjusted financial statements after September 1, 1995. Argentine GAAP, at the time, still required the presentation of price level adjusted financial statements. The staff agreed to accept a qualified report for not applying price level accounting.

H. MANUALLY SIGNED REPORTS OF PRIOR AUDITORS

Article 2 of Regulation S-X requires a manually signed audit report for each period to be audited. Audit reports on all comparative periods must be included in registration statements and annual reports on Form 20-F, even if a different auditor audited comparative periods. The former auditor must perform the procedures specified by US GAAS in order to re-issue its report, and must manually sign that report. It is not acceptable for a registrant to file a photocopy of a previously issued audit report without obtaining a manually signed, re-issued report.

I. REFERENCES TO OTHER AUDITORS

When more than one auditor is used, the GAAP used in the other financial statements may be different from the GAAP used in the primary financial statements. In this situation, there must be a clear delineation of who is assuming responsibility for the GAAP used in the primary financial statements. Where there are references to other auditors of subsidiaries of a foreign registrant, consents must be obtained from each of the referenced auditors.

J. AUDIT COMMITTEES

None of the rules and amendments included in the Commission's release and rules on Audit Committees applies to any foreign private issuer including those that file on domestic forms.⁸

⁸ See *Securities Exchange Act Release No. 42266*

K. CONSENTS

1. Form 20-F

When Form 20-F is used as a registration statement, a consent should be provided in the same way as when a Form F-1 is used. Items 1 – 9 in Instructions to Form 20-F describe specific exhibits required to be filed and such exhibits do not include the consent for 20-F registration statements. Any such consent would be filed as an exhibit under 10a to Instructions to Exhibits.

2. 40-F Annual Report

A consent is required to be filed in an annual report on Form 40-F. The consent does not have to be dated within 30 days of filing; rather, it can be dated on or after the date of the audit report. As a result, an accountant can sign the consent the same day as the audit opinion and the keeping current procedures would not be applicable regardless of when the registrant filed the annual report.

L. EXPERTIZATION LANGUAGE

Item 10G to Form 20-F requires disclosure of a statement related to the inclusion of an expert's report that such report is included, in the form and context in which it is included, with the consent of that person who has authorized the contents of that part of the document. The Task Force concluded that it was not appropriate for independent accountants to indicate that they have authorized the issuance of the financial statements.

M. REPORTING ISSUES RELATED TO ANDERSEN FOREIGN AFFILIATES

As a result of the March 14, 2002 indictment against Arthur Andersen LLP, various foreign affiliates of Andersen announced that they were in the process of concluding transactions with other Firms whereby generally partners and staff would transfer to another Firm. The Task Force discussed several issues related to former Andersen affiliates including:

- The unwillingness of the SEC staff to accept a written consent from Andersen once the engagement partner and manager have both left Andersen
- In its Release dated March 18, 2002, the SEC addressed circumstances where Andersen was unable to issue a consent or reissue an opinion and in those circumstances permitted the registrant to include a copy of the prior Andersen report in the filing and “make prominent disclosure that the report is a copy of the previously issued ... report and that the report has not been reissued by Andersen”
- AU Section 315 states that when one Firm has issued a report stating compliance with US GAAS, another Firm cannot issue a US GAAS report on the same financial statements without performing a reaudit.

The SEC staff also noted foreign affiliates of Andersen LLP were in various states of transition to new relationships. To the extent that an Andersen foreign affiliate was no longer subject to the Andersen quality assurance procedure but had not yet formed an association with another SECPS member and was not subject to such quality assurance procedures, the SEC would require that ex-Andersen foreign affiliate to go through the process of being validated as competent to practice before the Commission prior to the Commission accepting reports signed in the name of that Firm.

XXIII. REPORTING CURRENCY AND CONVENIENCE TRANSLATIONS

A. ADOPTION OF THE EURO AS THE REPORTING CURRENCY

EITF D-71 outlines the current position regarding adoption of the Euro.⁹

While all amounts in a document need to be presented in the same currency, including selected financial data, a company reporting in its legacy currency may present both a translation into Euros and a US dollar convenience translation for the most recent year. The guidance in D-71 is not limited to European Community countries. It would apply to any country that wanted to report in Euros.

1. Reporting currency for domestic issuers which are foreign companies

A domestic issuer may use a reporting currency other than the US dollar in situations where substantially all of its operations are conducted in a single functional currency and that currency is used as the reporting currency. The position is the same for domestic issuers incorporated outside the US as for those incorporated in the US.

2. Convenience translations

There is no requirement to present a convenience translation in filings with the Commission. If a convenience translation is presented, Rule 3-20 of Regulation S-X states the exchange rate should be as of the balance sheet date except that a rate as of a

⁹ See Topic No. D-71 "Accounting Issues Relating to the Introduction of the European Economic and Monetary Union (EMU)."

more recent practicable date shall be used if materially different. In practice, the Staff will not object if companies elect to use the balance sheet rate regardless of exchange rate fluctuations.

If a convenience translation is provided, all financial statements included in the same registration statement must use the same rate. However, it is not necessary to update a 20-F if it is incorporated by reference and interim financial information has a convenience translation at a more current date.

XXIV. CONSOLIDATION AND EQUITY METHOD ISSUES

A. CONSOLIDATION VERSUS EQUITY METHOD

In situations in which an entity would be consolidated using the GAAP in the primary financial statements, but accounted for under the equity method under US GAAP, a number of additional disclosures need to be provided, including:

- reconciliation of all financial statement captions;
- US GAAP selected financial data will need to be in the same level of detail as the primary financial statements;
- separate financial statements of a significant equity investee under Rule 3-09 of Regulation S-X may be required;
- separate condensed balance sheet, income statement and cash flow information for each entity may be necessary; and

- OFR would need to address these presentational differences.

B. EQUITY AFFILIATES

1. Equity pick-up

Under both US GAAP and IAS, the equity pick-up of an affiliate must be based on the same GAAP that is being used for reporting on the consolidated entity. For example, in reconciling to US GAAP, the earnings of an equity affiliate in the UK must be adjusted to US GAAP. If local GAAP did not require the equity pick up to be determined on the same basis and if that was what local GAAP required then the Staff would accept that for the purpose of the treatment in the primary financial statements. In that case, any difference between that GAAP and US GAAP would be reflected directly in the US GAAP reconciliation.

2. Time lag

The time lag between the equity pick-up of an affiliate and the balance sheet date should not be more than 93 days. Periods more than 93 days should be discussed with the staff on a pre-filing basis. In all cases, the lag period should be disclosed, and the period of the lag should be consistently followed.

C. PROPORTIONATE CONSOLIDATION

Item 17/18 of Form 20-F permits a registrant whose local GAAP permits proportionate consolidation for investments in joint ventures that would be accounted for under the equity method under US GAAP to omit as a reconciling item differences in presentation provided

certain conditions are met. It is unlikely that an investment in an entity that under US GAAP is accounted for under the equity method pursuant to EITF 96-16 would meet the relevant conditions as it is not a jointly controlled entity.

When financial statements are prepared in accordance with US GAAP, the Staff may favorably consider a written request to allow foreign private issuers to use proportionate consolidation subject to the following conditions:

- The joint venture is an operating entity, the significant financial operating policies of which are, by contractual arrangement, jointly controlled by all entities having an equity interest in the entity;
- The auditor's report addresses this departure from US GAAP;
- The disclosures required by Item 17/18(c)(2)(vi) of Form 20-F regarding proportionate consolidation are provided; and
- Retained earnings relating to the joint venture are disclosed similar to entities accounted for under the equity method consistent with Rule 4-08(e)(2) of Regulation S-X.

The SEC has encountered several situations involving proportionate consolidation under IAS, and has objected to proportionate consolidation of majority owned, controlled investees. The Staff also objected to the characterization of a controlled subsidiary as a joint venture.

D. CONSUMMATION DATES FOR BUSINESS COMBINATIONS

The date of a purchase business combination under US GAAP should be the date defined in paragraph 93 of Opinion 16 and not some earlier or later point other than the specific circumstances addressed in Opinion 16.

E. CONSOLIDATION POLICY DISCLOSURES

Whenever an entity consolidates another entity in unusual circumstances or does not consolidate another entity in unusual circumstances then the facts and circumstances leading to that conclusion should be disclosed within the accounting policy disclosures.

F. ADOPTION OF SIC-12 “CONSOLIDATION – SPECIAL PURPOSE ENTITIES”

SIC-12 is effective for annual financial periods beginning on or after July 1, 1999, and permits transition by either retroactive application (benchmark) or cumulative adjustment (allowed alternative). The benchmark treatment should be followed, as the alternative will generally not produce financial statements that are consistent between periods and comparable to those of other SEC registrants. Registrants that intend to use the allowed alternative treatment should consult with the Staff prior to filing. Substantial disclosure, including extensive US GAAP information, would be necessary.

G. STATEMENT 142 TRANSITION ISSUES FOR FOREIGN REGISTRANTS

SFAS 142 significantly changes the accounting for goodwill and other intangibles, and is generally effective as of January 1, 2002. Early application is permitted for entities with fiscal years beginning after March 15, 2001

provided that the first interim financial statements have not been issued previously.

For a foreign private issuer that publishes interim financial statements under home country GAAP, US GAAP financial statements are considered issued when the home-country GAAP statements are filed with the SEC, presented in a manner consistent with Article 10 of Regulation S-X, and accompanied by a reconciliation to US GAAP meeting at least the requirements of Item 17 of Form 20-F. Foreign private issuers with fiscal years beginning after March 15, 2001 that elect to early adopt FAS 142 and issue interim financial statements prepared under or reconciled to US GAAP in the manner just described must adopt FAS 142 in those interim statements. If the interim statements are based on APB 16 and 17, then FAS 142 cannot be adopted until the following fiscal year.

Foreign private issuers with fiscal years beginning after March 15, 2001 that do not issue interim financial statements prepared under or reconciled to US GAAP may early adopt FAS 142 in the annual statements for that fiscal year when the annual report on Form 20-F is filed.

XXV. MISCELLANEOUS

A. CONFIDENTIAL FILINGS

The confidential review process will be available only for IPOs or other initial registration statements or in other “extraordinary situations”. Accordingly, foreign private issuers which have become reporting companies under the 1934 Act should expect that all registration statements will need to be publicly filed and include all necessary consents and all other appropriate signatures, etc. In addition, the staff expects the auditor’s report to be signed and dated at the time the confidential draft

registration statement is first submitted. Exceptions should be agreed upon in advance with the Office of International Corporate Finance.

The SEC staff will also want to know the name of the filing reviewer to contact with questions.

B. CONVERSION FROM FOREIGN TO DOMESTIC ISSUER AND VICE VERSA

When a foreign private issuer fails to meet the definition of an FPI and thus becomes a domestic issuer, the company's first filing should be for the quarter in which the issuer's status changed.

It is desirable, but not required, that changes in status be communicated by filing Forms 8-K or Forms 6-K to communicate the change.

Registrants must also comply with the requirement of Item 302(a) of Regulation S-K to provide summarized quarterly data for each quarter of the two most recent fiscal years, beginning with the first Form 10-K that the registrant must file after its change in status (i.e., 8 quarters of summarized quarterly data must be presented in the first 10-K). While the staff will not ordinarily waive the requirements of Item 302(a), they will consider requests for a no-action position when it is impracticable to obtain the comparative data.

C. JOINT VENTURES OWNED BY DOMESTIC AND FOREIGN COMPANIES

The Task Force asked if joint ventures that are 50% owned by domestic companies and 50% owned by foreign registrants are to be considered a foreign business. The Staff indicated that such entities are not considered to be foreign businesses.

D. RETAINED EARNINGS AVAILABLE FOR DISTRIBUTION UNDER REPORTING CURRENCY DIFFERS FROM LOCAL CURRENCY

Registrants that prepare financial statements using a GAAP or a reporting currency in SEC filings that is different from that used in its home currency should disclose the amount of retained earnings that is available for distribution if different from the amount presented in the financial statements.

E. USE OF “ESTIMATED” OR “APPROXIMATE” IN THE US GAAP RECONCILIATION

The SEC will not accept either in the footnotes to the financial statements, selected financial data or auditors’ reports descriptions of amounts presented in accordance with US GAAS as being “estimated” or “approximate”.

F. FINANCIAL STATEMENT SCHEDULES

Financial statement schedules are not required to be reconciled to US GAAP and are not required for Rule 3-09 financial statements.

G. DISCLOSURE OF CASH FLOW PER SHARE AND OTHER ALTERNATIVE PER SHARE NUMBERS

International companies are increasingly disclosing alternative per share amounts in financial statements. A number of non-US companies in home country GAAP financial statements are disclosing alternative per share numbers on the face of the income statements. The per share numbers are often derived directly from the income statements, but frequently have adjustments to net income that must be made to determine per share amounts. The Task Force concluded that, provided

registrants complied fully with the requirements of home country GAAP in presenting alternative per share amounts, such measures could be presented in SEC filings if appropriately described. Disclosure similar to UK FRS 3 should be included in an SEC filing when alternative performance measures are presented in order to ensure that the measures are not misleading. Registrants can expect to be challenged in cases where at a minimum the UK FRS 3 disclosures are not made. Also, registrants should consider the cautionary statement issued by IOSCO regarding non-GAAP earnings measures. In response to provisions of the Sarbanes-Oxley Act, the SEC released proposed rules in November 2002 that address conditions for use of non-GAAP financial measures in filings.

H. PENSIONS

Some foreign issuers have concluded that it is not feasible to obtain the actuarial information necessary to implement SFAS 87 as of the effective date specified in the standard - January 1, 1989 for foreign plans with a calendar year-end. The Staff will not object if a foreign issuer that cannot implement SFAS 87 as of the effective date due to the unavailability of actuarial data adopts the standard as of a later date. However, the standard must be adopted as of a date no later than the beginning of the first period for which US GAAP reconciled data is required in a Commission filing.

A foreign issuer adopting SFAS 87 later than the effective date specified in the standard should allocate a portion of the transition obligation/asset directly to equity on the adoption date based on the ratio of: (a) the years elapsed between the effective date in the standard and the adoption date, to (b) the remaining service period of employees expected to receive benefits as estimated at the adoption date. This process is using the

service period at adoption date as a surrogate for the service period at the effective date specified in SFAS 87. The transition asset/obligation should be extinguished at the same date as if SFAS 87 were adopted on the effective date.

Foreign private issuers implementing this accommodation should disclose the following:

- the date SFAS 87 was adopted;
- a statement that it was not feasible to apply SFAS 87 on the effective date(s) specified in the standard; and
- the amortization period for the transition obligation/asset, and the amount that was recorded directly to equity in the opening balance sheet under US GAAP.

The disclosure of this information would be applicable for financial statements prepared under both Item 17 and Item 18 of Form 20-F, and should be presented for periods that include the year that SFAS 87 was adopted.

I. STOCK COMPENSATION PLANS

The SEC has noted an increase in the use of variable-type stock option awards by foreign registrants that are not accounted for as variable plan awards under APB 25. The SEC will look to APB 25 in determining whether such awards are variable plans and will require that they be accounted for properly in the US GAAP reconciliation.

J. CHANGES IN TAX RATES

Under US GAAP, deferred tax assets and liabilities are adjusted for the effects of a change in tax law or rates

in the period that includes the enactment date.¹⁰ The enactment date is when all steps in the process for legislation to become law have been completed. In Australia and a number of other Commonwealth countries (England, Canada, New Zealand, etc.), the enactment date would be when Royal Assent is given to the bill.

K. SHARES ISSUED IN CONNECTION WITH TRANSFERS OF AMOUNTS FROM VARIOUS EQUITY ACCOUNTS TO CAPITAL STOCKS (LATIN AMERICAN COMPANIES)

In most of Latin America there is a “Restatement” account within the equity accounts which represents the effect of restating capital stock to constant currency. There may also be other designated reserve accounts. These transactions are deemed to be most similar to a stock split or stock dividend, since each holder’s pro rata ownership and total shareholders’ equity remains unchanged. Therefore, these issuances should be treated as if they were outstanding for all periods presented for basic and diluted earnings per share as required by FAS 128.

L. PROVISIONS OF SAB 74

SAB 74 requires that when a new accounting standard has been released but has not yet been adopted, the registrant should discuss the effect that the new standard will have on the registrant’s financial statements when adopted. If alternative adoption methods and dates are permitted, the registrant should indicate the anticipated method and adoption date. This disclosure requirement applies not only to the US GAAP information but also to the local GAAP financial

¹⁰ See paragraph 27 of SFAS 109 “Accounting for Income Taxes”

statements. The affect of the new standard should also be discussed in the MD&A.

M. APPLICATION OF EITF 99-20 TO FOREIGN REGISTRANTS

The transition provisions of EITF 99-20, “*Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets*”, provide that the consensus should be applied for all fiscal quarters beginning after March 15, 2001. The Task Force concluded that the guidance in EITF 99-20 only had to be applied commencing in periods after March 15, 2001 in which US GAAP information is published. For example, if interim information on a US GAAP basis is not provided, the guidance in EITF 99-20 would not need to be provided until January 1, 2002.

N. CONTINGENT GAINS

Under GAAP in certain countries, contingent gains are recognized prior to their realization based on probability. The Staff has indicated that it would be extremely rare for circumstances to exist where recognition of a contingent gain could be justified under US GAAP prior to realization of cash.

O. OTHER COMPREHENSIVE INCOME

FASB Statement 130 states that changes in balances under Statements 52, 80, 87 and 115 are reported as a separate component of equity in a statement of other comprehensive income. The requirements of FASB Statement 130 apply to both Item 17 and 18 filers and can be provided under either local GAAP or US GAAP.

A Statement of Total Recognized Gains and Losses prepared by a UK entity in accordance with the UK

standard FRS 3 and IAS 1 should be regarded as being consistent with FASB Statement 130.

If a registrant recognizes **revaluations** of assets in conformity with home country GAAP, the statement of other comprehensive income should include such changes.

P. PREDECESSOR FINANCIAL STATEMENTS

The financial statements of an acquired foreign business by a domestic issuer may be prepared on a basis other than US GAAP but must be reconciled to US GAAP in compliance with Item 17. This accommodation does not apply if the financial statements are those of a predecessor, as such statements are not being provided pursuant to Rule 3-05. Accordingly, these statements must be prepared under US GAAP.

Q. CORRECTION OF ERRORS

1. Treatment of errors

IAS 8 permits two methods to account for fundamental errors: restatement of prior periods (benchmark) and correction in the current period income statement (permitted alternative). The permitted alternative treatment is not acceptable in SEC filings because prior periods continue to be materially misstated.

If the primary GAAP requires correction of an error in the current period income statement without alternative, the issue should be discussed with the Staff prior to filing.

2. Reference in report

A material departure from US GAAP (including a material omission) in the US GAAP reconciliation must be referenced in the auditor's report. Accordingly, a correction of an error in the US GAAP reconciliation should also be referenced in the audit report.

R. ACCOUNTING ISSUES RELATING TO MINING COMPANIES

In disclosing the policy on depletion of capitalized mining expenditures, many companies simply state that it is on a units of production method over the expected economic life of the mine with some reference to some form of mineral reserves. The SEC expects mining companies to provide explicit disclosure of the types of reserves that are included in the base—which are “proven and probable” reserves. The disclosure of possible reserves is prohibited, as the Staff does not believe that the base of depletion should include such amounts.

S. ISSUES ASSOCIATED WITH THE ADOPTION OF IAS IN EU BY 2005

In February 2001 the European Commission presented a proposal for a regulation that would require all European Union (EU) companies listed on a regulated market to prepare consolidated accounts in accordance with IAS by 2005. The proposal is not expected to be adopted until late 2002.

It is possible that a foreign private issuer that is dual listed on both a US exchange and on a European exchange that adopted comprehensive US GAAP as their basis of reporting could have to change their primary reporting to IAS if this proposal is adopted. The SEC

Staff stated that it would be necessary for a registrant that made such a change to present all periods under IAS. The registrant would be required to provide a reconciliation to US GAAP for all periods presented, in accordance with Item 17 or Item 18 as applicable.

T. IAS 22 ISSUES

There was divergent practice as to the application of IAS 22 prior to the August 1988 issuance of SIC-9 by the Standing Interpretations Committee. SIC-9 confirmed the need for a rigorous application of IAS 22, including an exhaustive search for an acquirer, which should facilitate a more comparable interpretation of IAS 22. The Staff will continue to challenge presentations in the primary financial statements that are abusive applications of IAS 22 and in such cases will require restatement.

Additionally, IAS 22 eliminates the 20-year maximum life on goodwill. Goodwill is to be amortized over its estimated useful life, which is presumed to be 20 years or less. The Staff may be expected to challenge a registrant's assertion that the 20-year presumption has been rebutted.

U. FINANCIAL STATEMENTS FILED UNDER HOME COUNTRY GAAP AND IAS

Situations exist whereby a registrant prepares its financial statements in accordance with home country GAAP and in its footnotes asserts that the financial statements "comply, in all material respects, with" or "are consistent with" IAS. Enterprises that comply with IAS must disclose that fact, but may only do so if they comply with all of the requirements of each applicable standard and interpretation. No reference should be made regarding substantial compliance.