

# SEC Comment Letters on Foreign Private Issuers Using IFRSs *A Closer Look*

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Third Edition



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# Preface

Under the Sarbanes-Oxley Act of 2002, the SEC must review every domestic and foreign private issuer's (FPI's) disclosures, including financial statements, at least once every three years. The SEC staff's comments on these disclosures, and issuers' responses to them, are posted on the SEC's [Web site](#). Issuers can take these comments into account as part of their financial reporting process to help improve their financial statements and disclosures.

The third edition of *SEC Comment Letters on Foreign Private Issuers Using IFRSs — A Closer Look* provides insight into the items that the SEC staff has focused on in reviewing FPI financial statements over the past two years. Such items include financial instruments, presentation of financial statements (including the statement of cash flows), revenue recognition and related costs, segment reporting, income taxes, provisions and contingent liabilities, business combinations, and intangible assets. The third edition includes discussions of the following new areas of frequent SEC comment: first-time adoption; impairment of assets; consolidated financial statements, investments in associates, and interests in joint ventures; property, plant, and equipment; employee benefits; discontinued operations; and other disclosure topics.

This publication features extracts from actual comment letters, analysis, forward-looking considerations, and links to related resources. The [appendixes](#) offer additional valuable information. [Appendix A](#) gives a glimpse into the SEC staff's review and comment letter process, [Appendix B](#) discusses best practices for managing unresolved SEC comment letters, [Appendix C](#) provides helpful tips on searching the SEC's database for comment letters, [Appendix D](#) lists some resources related to IFRSs (including Deloitte Touche Tohmatsu's IAS Plus [Web site](#)), and [Appendix E](#) contains a glossary of standards used throughout this publication.

If you are currently a domestic registrant, you might be interested in the fifth edition of our companion publication, *SEC Comment Letters Including Industry Insights — Improving Transparency*.

We hope that you find the third edition of this publication a valuable tool for improving your disclosures. We welcome your feedback. Please [send](#) us your thoughts and suggestions.

# Executive Summary

Since 2009, the SEC has been executing a work plan to assess whether and, if so, when and how to incorporate IFRSs into the U.S. financial reporting system for U.S. issuers. As part of this work plan, the staff has analyzed the financial statements of entities that report under IFRSs as issued by the IASB and issued a staff paper, *An Analysis of IFRS in Practice*, in November 2011. The staff found that financial statements of the companies included in the analysis “generally appeared to comply with IFRS requirements.” However, the staff noted that the disclosures could be more transparent and clear. The staff paper summarized the most common areas of the staff’s focus in its reviews of filings of FPIs. In addition, the staff has discussed these top IFRS-related topics at the 2010 and 2011 AICPA National Conferences on Current SEC and PCAOB Developments (the “AICPA Conferences”).<sup>1</sup> We expect that finalizing this work plan will remain a priority of the SEC in 2012.<sup>2</sup>

In its recent reviews of FPI filings, the staff in the SEC’s Division of Corporation Finance (the “Division”) has concentrated on the key risks that issuers face. In its comments, the staff has requested “early warning” and enhanced disclosures about issuers’ exposure to risks, including those that could result in material losses. Consequently, the staff has performed more risk-based, targeted reviews, focusing on certain disclosure and accounting areas. In addition, the Division’s focus on risks has led to the establishment this year of a new financial services industry group that continually reviews the largest global financial institutions.

## Financial Statement Accounting and Disclosure Topics

The SEC staff has frequently commented on financial instruments; presentation of financial statements; first-time adoption of IFRSs; impairment of assets; consolidations; revenue recognition; operating segments; income taxes; property, plant, and equipment; employee benefits; provisions and contingent liabilities; and business combinations.

In its comments on financial instruments, the staff has often asked for clarification of and enhanced disclosures about (1) impairment, (2) eurozone sovereign debt, (3) risk disclosures, (4) fair value, (5) transfers of assets, and (6) classification of financial instruments and their components as financial liabilities or equity. The staff has also concentrated on the presentation of financial statements and requested expanded disclosures about exclusions of expenses from certain income statement line items (e.g., subtotals), the nature of expenses, disclosure and presentation of equity, statement of cash flows, references to the use of IFRSs as issued by the IASB, and the presentation of an opening statement of financial position for retrospective changes in accounting policy or reclassifications. In the staff’s comments on first-time adoption, issuers were asked to provide an opening statement of financial position upon initially adopting IFRSs, as well as to clarify adjustments made in adopting IFRSs and the use of IFRS 1 exemptions. Regarding asset impairments, the staff has commented on issuers’ determination of cash-generating units, goodwill allocation, and events and circumstances that led to the recognition of impairment losses. The staff has also focused on the appropriateness of issuers’ consolidation conclusions and issuers’ disclosures about investments in associates and interests in joint ventures. When commenting on revenue recognition, the staff has questioned the completeness and clarity of disclosures about how IAS 18<sup>3</sup> revenue recognition criteria were applied as well as about the accounting for multiple-element arrangements.

Further, the SEC staff has continued to frequently comment on identification and aggregation of operating segments as well as on the completeness of disclosures that issuers provide under IFRS 8. The staff’s comments on income taxes have focused mainly on the completeness and adequacy of disclosures required by IAS 12, particularly the amount of deferred tax assets that was not recognized. The staff has also asked about the frequency of issuers’ reviews of the residual value, useful lives, and depreciation methods related to their property, plant, and equipment. In comments on employee benefits, the staff has questioned the frequency of actuarial reviews of defined benefit plans and policies for calculating the present value of defined benefit obligations and the fair value of plan assets.

In its comments about provisions, the SEC staff has asked for more information and expanded disclosures about the nature, types, and amounts of provisions that were recognized as well as about the completeness of disclosures related to contingent liabilities. In commenting on business combinations, the staff has emphasized the need for expanded accounting policy disclosures and clarification of why the purchase accounting method was used in transactions with common-control entities.

<sup>1</sup> For additional information about the SEC staff’s speeches on key IFRS topics, see Deloitte’s [December 16, 2010](#), and [December 14, 2011](#), *Heads Up* newsletters. As used in this document, “Deloitte” means Deloitte & Touche LLP, a subsidiary of Deloitte LLP. Certain services may not be available to attest clients under the rules and regulations of public accounting. Please see [www.deloitte.com/us/about](http://www.deloitte.com/us/about) for a detailed description of the legal structure of Deloitte LLP and its subsidiaries.

<sup>2</sup> For additional information about the progress of the SEC’s work plan, comments the SEC has received from respondents about incorporating IFRSs into the U.S. financial reporting system, and the SEC staff’s observations related to the application of IFRSs in practice, see Deloitte’s [June 1, 2011](#), [November 8, 2011](#), and [December 2, 2011](#), *Heads Up* newsletters, respectively.

<sup>3</sup> For the full titles of standards and other literature or links to them, see [Appendix E](#).

## Other Disclosure Topics

The SEC staff has frequently commented on the operating and financial review and prospects, particularly in connection with providing a balanced discussion of the risks and opportunities that issuers face. To give investors insight into potential future developments, an issuer should discuss known trends that are reasonably likely to materially affect the issuer's financial position, operations, and liquidity. The staff has also focused on disclosures about risk factors such as the impact of foreign operations, including exposure to sovereign debt and risks related to the political and business climate, currency, and taxation. Regarding risk factors, the staff has reminded issuers to refrain from providing "boilerplate" discussions and instead to disclose specific, known material risks. Issuers should also ensure that disclosure of risk factors is consistent with other disclosures in the filing.

While the staff has generally become more flexible about the use of non-GAAP financial measures, it has continued to comment when an issuer's use or disclosure of such measures may not have complied with the SEC's regulations and has reminded issuers that presenting a misleading financial measure is never appropriate. In addition, disclosures about controls and procedures, state sponsors of terrorism, material contracts, and certifications have received staff attention. The staff has also focused on whether guarantees provided by 100 percent owned subsidiaries on registered debt are truly "full and unconditional" and whether the use of condensed consolidating information as outlined in Regulation S-X, Rule 3-10, is appropriate.

# Financial Statement Accounting and Disclosure Topics

# Financial Instruments

The SEC staff's comments to issuers about financial instruments continue to be more frequent than those about any other topic. Such comments have focused on the determination and sufficiency of disclosures about (1) impairment, (2) eurozone sovereign debt, (3) risk disclosures, (4) fair value, (5) transfers of assets, and (6) classification of financial instruments and their components as financial liabilities or equity.

## Impairment

**Overview of SEC Staff Comments:** In response to the heightened risk in mortgage loans and debt securities as a result of the subprime mortgage and global financial crisis, the SEC staff has requested more information about the nature of and risks associated with such instruments. Specifically, the staff has asked issuers to clarify and provide more disclosures about the criteria they considered in determining whether financial instruments were impaired, in particular those related to past due, renegotiated, and restructured loans. These comments often prompted issuers to provide additional disclosures in future filings.

### Examples of SEC Comments

- You disclose that there were [\$X] million and [\$Y] million of past due but not impaired receivables on your balance sheet as of June 30, [20X9] and [20X8]. Please tell us the amount of each balance that remains uncollected or was subsequently written off. If you did not collect a portion of those receivables, please clarify why there were no impairments recorded. If you have significant amounts of past due but not impaired receivables in future filings, please clarify to your investors whether you intend to impair these receivables once they are 90 days past due, consistent with your accounting policy disclosure . . . and if not, explain why not.
- We note your reference to restructured loans. Please revise your future filings to address the following:
  - a) Discuss how you identify loans to be restructured;
  - b) Quantify the amount of restructured loans (by loan type), and separately disclose the amounts in accrual and nonaccrual status;
  - c) Quantify the types of concessions you have made (e.g. reduction of interest rate, payment extensions, forgiveness of principal, forbearance or other actions) and discuss your success with the different types of concessions (qualitatively and quantitatively);
  - d) Disclose your policy regarding how many payments the borrower needs to make on the restructured loans before you return the loan to accrual status; and
  - e) Discuss how restructured loans impact the timing of the recording of the provisions for impairment losses. For example, discuss whether the largest effect of the loan modification is recorded during the period of the modification or whether the modification has largely been reserved for under your normal reserving methodology prior to the modification.

**Background and Analysis:** IAS 39 requires an assessment, at the end of each reporting period, of whether there is any objective evidence that a financial asset or group of financial assets is impaired. Under IAS 39.58, an asset is impaired, and an impairment loss recognized, if and only if there is evidence of such impairment. IAS 39.59 gives a number of examples of possible loss events. Impairment may occur as a result of the combined effect of several events — it is not always possible to identify a single, discrete event that caused the impairment. In addition, such loss events must have an impact on the estimated future cash flows of the asset, or group of assets, that can be reliably measured. Losses expected as a result of future events are not recognized, no matter how likely those events might be.

The SEC staff has often requested that issuers provide additional information about loans with principal or interest that are more than 90 days past due (e.g., unpaid principal balance, number of loans, average loan-to-value ratios) as well as qualitative information about the entity's policies related to past due loans and timing of recognition of impairment losses. For restructured loans, the staff further asked for quantification of (1) the amount of restructured loans and (2) concessions made in restructuring negotiations.

As noted in the [Risk Disclosures](#) subsection below, IFRS 7 requires issuers to provide a number of qualitative and quantitative disclosures, including credit risk disclosures.

## Eurozone Sovereign Debt

**Overview of SEC Staff Comments:** The SEC staff has also focused on the accounting for and disclosures about exposures to certain eurozone sovereign debt as a result of significant credit deterioration.

### Example of an SEC Comment

- We note the recent downgrades of Greek, Spanish and Portuguese debt and the European Central Bank's recent actions to off-set the negative impacts from the debt ratings downgrades. As it relates to your exposure to sovereign counterparties, please tell us and enhance your disclosure in future filings to provide quantitative exposure, by country, to any country whose credit rating is AA or below. As part of your response, please address which financial statement line item these exposures are included.

**Background and Analysis:** The European sovereign debt crisis has triggered a number of economic and financial concerns. Issuers should focus particularly on impairment and disclosures related to such exposures. For more information about the accounting and disclosures for eurozone sovereign debt holdings, see Deloitte's [Financial Reporting Alerts 12-1 and 11-4](#).

The SEC staff has emphasized the importance of transparent disclosures when issuers have significant exposure to sovereign debt for which the issuing state has experienced a credit downgrade or other indicators of financial difficulty. Issuers should consider providing relevant disclosures regarding both direct and indirect exposures (e.g., guarantees and other financial instruments). On January 6, 2012, The SEC's Division of Corporation Finance issued [Disclosure Guidance: Topic No. 4, "European Sovereign Debt Exposures,"](#) which contains more detailed information regarding the disclosures that the SEC staff generally expects registrants to provide. Specifically, the guidance states that "[i]n deciding what disclosure is relevant and appropriate for the particular facts of each registrant, [the SEC staff] encourage[s] registrants to consider the following [provided separately by country]:

#### I. Gross Funded Exposure

##### a. Countries

- i. The basis for the countries selected for disclosure.
- ii. The basis for determining the domicile of the exposure.

##### b. Type of Counterparty

- i. Separate categories of exposure to Sovereign and Non-Sovereign counterparties.
  1. Sovereign exposures consist of financial instruments entered into with sovereign and local governments.
  2. Non-Sovereign exposures comprise exposure to corporations and financial institutions. To the extent material, separate disclosure may be required between financial and non-financial institutions.

##### c. Categories of Financial Instruments

- i. Categories to be considered for disclosure include loans and leases, held-to-maturity securities, available-for-sale securities, trading securities, derivatives, and other financial exposures to arrive at a gross funded exposure.
  1. For loans and leases, the gross amount prior to the deduction of the impairment provision and the net amount after impairment provision.
  2. For held-to-maturity securities, the amortized cost basis and the fair value.
  3. For available-for-sale securities, the fair value, and if material, the amortized cost basis.
  4. For trading securities, the fair value.
  5. For derivative assets, the fair value, except that amount could be offset by the amount of cash collateral applied if separate footnote disclosure quantifying the amount of the offset is provided.
  6. For credit default contracts sold, the fair value and notional value of protection sold, along with a description of the events that would trigger payout under the contracts.
  7. For other financial exposures, to the extent carried at fair value, the fair value. To the extent carried at amortized cost, the gross amount prior to the deduction of impairment and the net amount after impairment.



## II. Unfunded Exposure

- a. The amount of unfunded commitments by type of counterparty and by country.
- b. The key terms and any potential limitations of the counterparty being able to draw down on the facilities.

## III. Total Gross Exposure (Funded and Unfunded)

- a. The effect of gross funded exposure and total unfunded exposure should be subtotaled to arrive at total gross exposure as of the balance sheet date, separated between type of counterparty and by country.
- b. Appropriate footnote disclosure may be provided highlighting additional key details, such as maturity information for the exposures.

## IV. Effects of Credit Default Protection to Arrive at Net Exposure

- a. The effects of credit default protection purchased separately by counterparty and country.
- b. The fair value and notional value of the purchased credit protection.
- c. The nature of payout or trigger events under the purchased credit protection contracts.
- d. The types of counterparties that the credit protection was purchased from and an indication of the counterparty's credit quality.
- e. Whether credit protection purchased has a shorter maturity date than the bonds or other exposure against which the protection was purchased. If so, clarifying disclosure about this fact and the risks presented by the mismatch of maturity.

## V. Other Risk Management Disclosures

- a. How management is monitoring and/or mitigating exposures to the selected countries, including any stress testing performed.
- b. How management is monitoring and/or mitigating the effects of indirect exposure in the analysis of risk. Disclosure should explain how the registrant identifies their indirect exposures, examples of the identified indirect exposures, along with the level of the indirect exposures.
- c. Current developments (rating downgrades, financial relief plans for impacted countries, widening credit spreads, etc.) of the identified countries, and how those developments, or changes to them, could impact the registrant's financial condition, results of operations, liquidity or capital resources.

## VI. Post-Reporting Date Events

- a. Significant developments since the reporting date and the effects of those events on the reported amounts."

## Risk Disclosures

**Overview of SEC Staff Comments:** The SEC staff has commented on the completeness of certain financial instrument risk disclosures required by IFRS 7.

### Example of an SEC Comment

- Please revise future filings to provide a thorough discussion of any subprime, Alt-A, negative amortizing or other high-risk lending. . . . Please also disclose how you compensate for the fact that [such] lending . . . exposes your company to greater risk than you would normally accept under your traditional lending policies, and address the specific policies and measures you have in place regarding these types of higher-risk lending relationships.

**Background and Analysis:** The introduction to IFRS 7 notes that the standard applies to (1) all risks arising from all financial instruments (except instruments listed in IFRS 7.3) and (2) all entities, regardless of the extent of an issuer's use of financial instruments. To determine the amount of disclosure necessary, an entity should consider the extent to which it uses financial instruments and its risk exposure. IFRS 7 requires disclosure of (1) "the significance of financial instruments for an entity's financial position and performance" and (2) "qualitative and quantitative information about exposure to risks arising from financial instruments."

The following is a summary of the required qualitative and quantitative disclosures under IFRS 7:

## Required Disclosures

### Qualitative Disclosures

- Types of risk exposures and how they arise.
- Risk management objectives, policies, and processes, as well as risk measurement methods.
- Any changes in the above items from the previous period.

### Quantitative Disclosures

- *Summary of quantitative data* — This summary should include information about the risk exposure as of the reporting date and should be based on internal information provided to key management personnel.
- *Credit risk* — Information should include maximum exposure, aging (with particular focus on amounts that are past due), impairments, and a description of collateral by class of financial instrument.
- *Liquidity risk* — Information should include a maturity analysis for nonderivative and derivative financial liabilities and a description of how the entity manages its liquidity risk.
- *Market risk* — Information should include a sensitivity analysis for each type of market risk, showing how profit or loss and equity would be affected by certain changes in the risk variable. An entity should also disclose methods and assumptions used in that sensitivity analysis and any changes in methods and assumptions from the prior period.
- *Risk concentrations* — If not apparent from the above disclosures, the information should include a description of how management determines concentrations, a description of the shared characteristic that identifies each concentration, and the amount of the risk exposure associated with all financial instruments sharing that characteristic.

The SEC requires issuers to provide similar disclosures in Item 11 of [Form 20-F](#). In Item 11, an entity may refer to IFRS 7 disclosures included in the footnotes to the financial statements. Bank holding companies, however, are subject to additional disclosure requirements under the SEC's [Industry Guide 3](#).<sup>1</sup>

## Fair Value

In May 2011, the IASB issued IFRS 13, which establishes a single source of guidance on fair value measurement under IFRSs and is effective prospectively for annual periods beginning on or after January 1, 2013.<sup>2</sup> IFRS 13 defines fair value, provides guidance on its determination, and introduces consistent requirements for disclosures about fair value measurements. Although the SEC staff reviewed the filings analyzed below for periods before the adoption of IFRS 13, many of the staff's comments on these filings would have been applicable under IFRS 13. For more information, see Deloitte's *IFRS in Focus* newsletter summarizing the new standard.

**Overview of SEC Staff Comments:** The SEC has continued to request more information about valuation techniques and inputs that management used to determine fair value. The comments have also focused on the sufficiency of fair value disclosures that issuers provided.

## Examples of SEC Comments

- We note your classification of equity securities within the Level 3 hierarchy as outlined in IFRS 7 as well the disclosure that a discounted cash flow analysis was used to determine the fair value. Please tell us more about these equity securities and why they are not based on observable market data. As part of your response, please tell us your consideration of disclosing the assumptions applied in determining fair value of the equity securities as outlined in paragraph 27 of IFRS 7.
- Please tell us how your disclosures provide the information required by paragraph 27B(b) of IFRS 7 (i.e., any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers). If applicable, please provide us with the required disclosures for the latest period presented and confirm that you will include such disclosures in all future filings.
- We note that you provide high level disclosure of your valuation principles beginning on page [X] and more specific information about certain significant product categories and related valuation techniques and models beginning on page [Y]. Given the multitude of financial instruments carried at fair value and the varying degrees of complexity associated with valuing such instruments, please revise your future filings to disclose the valuation methods and assumptions used in determining the fair value for each *class* of financial instrument pursuant to the guidance in paragraph 27 of IFRS 7. Consideration should also be given to providing this disclosure on a more granular level (e.g., by product type).

<sup>1</sup> Guide 3, "Statistical Disclosure by Bank Holding Companies," from the SEC's Securities Act Industry Guides.

<sup>2</sup> Early adoption is permitted.

**Background and Analysis:** The use of valuation techniques involves significant judgment. Under IFRS 7, an entity must disclose the valuation techniques and inputs it used in determining fair value to allow users to judge the appropriateness of management's fair value estimates. In addition, an issuer must provide a tabular disclosure showing the level of the fair value hierarchy in which fair value measurements are categorized. IFRS 13 contains similar requirements.

Under IFRS 7, the three-level hierarchy for classifying fair value measurements is as follows:

- a. quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- b. inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly . . . or indirectly . . . (Level 2); and
- c. [unobservable] inputs . . . (Level 3).

IFRS 7.27B states that an issuer must provide the following fair value disclosures for each class of financial instruments:

- a. the level in the fair value hierarchy into which the fair value measurements are categorised . . .
- b. any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers. . . .
- c. for fair value measurements in Level 3 of the fair value hierarchy, a reconciliation from the beginning balances to the ending balances [of] the following:
  - i. total gains or losses . . . recognised in profit or loss, and a description of where they are presented in the statement of comprehensive income or the separate income statement . . . ;
  - ii. total gains or losses recognised in other comprehensive income;
  - iii. purchases, sales, issues and settlements . . . ; and
  - iv. transfers into or out of Level 3 . . .
- d. the amount of total gains or losses for the period in (c)(i) above included in profit or loss that are attributable to gains or losses relating to those assets and liabilities held at the end of the reporting period and a description of where those gains or losses are presented in the statement of comprehensive income or the separate income statement (if presented).
- e. for fair value measurements in Level 3, if changing one or more of the inputs to reasonably possible alternative assumptions would change the fair value significantly, the entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to a reasonably possible alternative assumption was calculated.

Item (e) above requires that entities disclose sensitivities of fair value estimates to key valuation assumptions to provide information about potential variability of fair value estimates when inputs management used in making such estimates are not based on observable market data. IFRS 13 also requires qualitative and quantitative disclosures about the sensitivity of fair value measurements developed by using unobservable inputs (i.e., Level 3) to changes in such inputs.

## Transfers of Assets

**Overview of SEC Staff Comments:** The SEC staff has requested certain issuers to provide more information about transfers of financial assets in situations in which the issuer has continuing involvement. In particular, the staff has requested issuers to provide transparent disclosures about their use of repurchase and reverse repurchase agreements and similar short-term financings to meet their liquidity needs, particularly if the period-end balance of such instruments is not representative of the volume of their use throughout the reporting period.

### Example of an SEC Comment

- You disclose that securities delivered under repurchase agreements are retained on the balance sheet when substantially all the risks and rewards of ownership remain with the [entity].
  - Please tell us in detail and revise future filings to clearly disclose whether you have derecognized any securities delivered in your repurchase agreements.
  - If you have, please provide us the specific facts and circumstances related to these transactions and provide us your accounting analysis that supports your treatment. Also, revise future filings to quantify the amount derecognized at each balance sheet date, the average amount derecognized for the periods presented and discuss how you calculated the average amount.

**Background and Analysis:** The SEC issued a proposed rule on short-term borrowings on September 17, 2010.<sup>3</sup> Under the proposed rule, financial companies<sup>4</sup> would have to provide more disclosures than are currently required under Industry Guide 3. On the same day, the SEC also issued an interpretive release on presentation of liquidity and capital resources disclosures in MD&A, requesting that entities clarify such disclosures in either the footnotes or forepart to the financial statements. The interpretive release became effective on September 28, 2010; accordingly, issuers should consider it in preparing periodic reports filed after that date.

IFRS 7.42 requires entities to provide disclosures that enable users of financial statements to:

- a. understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and
- b. evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets.

In particular, IFRS 7.42E requires issuers that derecognize transferred financial assets in their entirety, but that maintain some continuing involvement with them, to disclose:

- The carrying amount and fair value of the assets and liabilities representing "the entity's continuing involvement in the derecognised financial assets, and the line items in which the carrying amount of those assets and liabilities are recognised."
- The entity's maximum exposure to loss as a result of its continuing involvement with the derecognized financial assets and information showing how the maximum exposure to loss is determined.
- The undiscounted cash outflows that would or may be necessary for the entity to repurchase the derecognized financial assets and the maturity analysis thereof.

Issuers should also note that IFRS 7.42G(c) requires the following to be disclosed for each type of continuing involvement in the financial assets derecognized in their entirety:

[I]f the total amount of proceeds from transfer activity (that qualifies for derecognition) in a reporting period is not evenly distributed throughout the reporting period (eg if a substantial proportion of the total amount of transfer activity takes place in the closing days of a reporting period):

- i. when the greatest transfer activity took place within that reporting period (eg the last five days before the end of the reporting period),
- ii. the amount (eg related gains or losses) recognised from transfer activity in that part of the reporting period, and
- iii. the total amount of proceeds from transfer activity in that part of the reporting period.

## Classification of Financial Instruments and Their Components as Financial Liabilities or Equity

**Overview of SEC Staff Comments:** The staff has requested clarification about issuers' classification of financial instruments and their components as financial liabilities or equity.

### Example of an SEC Comment

- We note your disclosures here and within the filing related to your . . . coupon convertible notes issued during fiscal [20X6] that matured during fiscal [20X9]. We further note that you issued options in connection with these convertible notes. Please tell us and revise your filing to clearly explain how you originally accounted for this loan under IFRS including the embedded conversion feature and the options issued in connection with the transaction. Cite the accounting literature relied upon and how you applied it to your situation. Refer to the guidance in IFRS 7, IAS 32 and IAS 39.

**Background and Analysis:** IAS 32 requires entities to classify a financial instrument, or its components, as a financial liability or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument. The overriding principles are that when the entity does not have an unconditional right to avoid the obligation to deliver cash or other financial assets, and when the contract does not, in substance, demonstrate a residual interest in the net assets of the entity after all of its liabilities have been deducted, the instrument is not an equity instrument. A derivative contract

<sup>3</sup> As of the date of this publication, the rule has not been finalized.

<sup>4</sup> As defined in the proposed rule.

over an entity's own equity is accounted for as equity only when it will be settled by the entity delivering (or receiving) a fixed number of its own equity instruments and receiving (or delivering) a fixed amount of cash or another financial asset. For this purpose, rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options, and warrants pro rata to all of its existing owners of the same class of its own nonderivative equity instruments.

## IASB's and FASB's Financial Instruments Project

The objective of the IASB's and FASB's financial instruments project is to improve the usefulness of financial statements by simplifying and improving the classification and measurement, impairment, and hedging requirements.

In November 2009, the IASB issued IFRS 9, which superseded IAS 39's guidance on the classification and measurement of financial assets. Moreover, the requirements for classifying and measuring financial liabilities were added to IFRS 9 in October 2010. The IASB has recently decided to defer the effective date of IFRS 9 to January 1, 2015, and to further amend the standard to (1) ensure consistency with the joint insurance project, (2) address identified application issues, and (3) consider possible convergence with the FASB's tentative classification and measurement model for financial instruments. The FASB has nearly completed its redeliberations of the classification and measurement of financial instruments and has tentatively agreed to converge with the IASB on certain key issues related to this topic. In addition, the IASB has started deliberations on macro hedge accounting and plans to issue guidance on general hedge accounting in the second half of 2012. The IASB is also planning to jointly redeliberate the impairment phase of the project with the FASB.

# Presentation of Financial Statements and References to the Use of IFRSs as Issued by the IASB

In July 2011, the IASB amended IAS 1 to highlight the importance of presenting profit or loss and other comprehensive income together and with equal prominence. The amendments will be effective for annual periods beginning on or after July 1, 2012. Issuers should note that IAS 1.10A states:

An entity may present a single statement of profit or loss and other comprehensive income, with profit or loss and other comprehensive income presented in two sections. The sections shall be presented together, with the profit or loss section presented first followed directly by the other comprehensive income section. An entity may present the profit or loss section in a separate statement of profit or loss. If so, the separate statement of profit or loss shall immediately precede the statement presenting comprehensive income, which shall begin with profit or loss.

## Statement of Comprehensive Income

**Overview of SEC Staff Comments:** The SEC staff has commented on a number of issues related to issuers' presentation of items in the statement of comprehensive income. These comments often address the exclusion of certain expenses from amounts presented as results of operating activities as well as missing disclosures about the nature of expenses when issuers used a functional presentation.

### Examples of SEC Comments

- We note that you present a subtotal for "Operating Income" as well as a different subtotal for "Total Operating Income". It appears confusing to have two subtotals with the same title and different amounts on the face of your Consolidated Statements of Income. Further, your line item title of "Total Operating Income" does not appear to accurately describe the components of that subtotal, since it appears to include various revenue line items net of interest expense. Please consider revising these line items to more accurately and transparently [present] the amounts reflected in those subtotals.
- Since you classified expenses by function in your consolidated income statement, please explain to us how you considered the additional disclosures required under paragraphs 104-105 of IAS 1.
- While we note your disclosure of depreciation, amortisation and employee benefit expenses, please also discuss your consideration of disclosing additional information on the nature of expenses to meet the objectives of the statement.

**Background and Analysis:** IAS 1.82 and IAS 1.82A list line items that an entity should include, at a minimum, in the statement of comprehensive income. Disclosure of the results of operating activities as a separate line item in the statement of comprehensive income is not a required disclosure. However, an entity that decides to present the results of operating activities (i.e., operating income) or a similar line item should refer to IAS 1.BC56, which notes the following:

[I]t would be misleading and would impair the comparability of financial statements if items of an operating nature were excluded from the results of operating activities, even if that had been industry practice. For example, it would be inappropriate to exclude items clearly related to operations (such as inventory write-downs and restructuring and relocation expenses) because they occur irregularly or infrequently or are unusual in amount. Similarly, it would be inappropriate to exclude items on the grounds that they do not involve cash flows, such as depreciation and amortisation expenses.

IAS 1.85 permits an entity to present additional line items and subtotals on the face of the statement of comprehensive income "when such presentation is relevant to an understanding of the entity's financial performance." When including such line items and subtotals, an entity should consider providing transparent disclosures that clearly convey the relevance of the items to financial statement users. In such cases, an entity may amend the description of the line items and reorder them to explain the particular element of financial performance.

Further, under IAS 1, an entity can present expenses either by nature or by function. According to IAS 1.104, an entity that presents expenses by function must provide additional disclosures about the "nature of expenses, including depreciation and amortisation expense and employee benefits expense." An entity that uses a functional format should ensure that all additional disclosures are included in the footnotes and should consider including them in a single footnote for greater transparency.

The following tables, extracted from IAS 1.IG6, illustrate income statements by nature and by function:

Income Statement by Nature	
Revenue	X
Other income	X
Changes in inventories of finished goods and work in progress	(X)
Work performed by the entity and capitalised	X
Raw material and consumables used	(X)
Employee benefits expense	(X)
Depreciation and amortisation expense	(X)
Impairment of property, plant and equipment	(X)
Other expenses	(X)
Finance costs	(X)
Share of profit of associates [footnote omitted]	X
Profit before tax	X
Income tax expense	(X)
Profit for the year from continuing operations	X
Loss for the year from discontinued operations	(X)
Profit for the year	X

Income Statement by Function	
Revenue	X
Cost of sales	(X)
Gross profit	X
Other income	X
Distribution costs	(X)
Administrative expenses	(X)
Other expenses	(X)
Finance costs	(X)
Share of profit of associates [footnote omitted]	X
Profit before tax	X
Income tax expense	(X)
Profit for the year from continuing operations	X
Loss for the year from discontinued operations	(X)
Profit for the year	X

## Disclosure and Presentation of Equity

**Overview of SEC Staff Comments:** The SEC staff has commented on the completeness of issuers' disclosures about share capital and the presentation of changes in equity. These comments often caused issuers to make changes to the disclosures in their filings.

### Examples of SEC Comments

- In future filings, please disclose the number of authorized shares in accordance with paragraph 79(a)(i) of IAS 1. Please also provide a description of the nature and purpose of each reserve within equity in accordance with paragraph 79(b) of IAS 1.
- Please include a reconciliation of the number of common and preferred shares outstanding at the beginning and at the end of the period in future filings. Please refer to paragraph 79(a)(iv) of IAS 1 for guidance.
- [F]or each class of shares, please disclose all applicable rights, preferences and restrictions, including restrictions on the distribution of dividends and repayment of capital. Refer to paragraph 79 (a)(v) of IAS 1.
- Please provide an analysis of changes in share capital for each year for which an income statement is required. Please also provide an analysis of changes in share premium and reserves for each year for which an income statement is required. . . . Refer to Rule 3-04 of Regulation S-X and IAS 1.

**Background and Analysis:** IAS 1 requires several disclosures about share capital and reserves. Specifically, IAS 1.79 requires that an entity disclose the following information in either (1) the statement of financial position or statement of changes in equity or (2) the notes to the financial statements:

- a. for each class of share capital:
  - i. the number of shares authorised;
  - ii. the number of shares issued and fully paid, and issued but not fully paid;
  - iii. par value per share, or that the shares have no par value;
  - iv. a reconciliation of the number of shares outstanding at the beginning and at the end of the period;
  - v. the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;
  - vi. shares in the entity held by the entity or by its subsidiaries or associates; and
  - vii. shares reserved for issue under options and contracts for the sale of shares, including terms and amounts; and
- b. a description of the nature and purpose of each reserve within equity.

In addition, IAS 1.106 requires entities to disclose the following in the statement of changes in equity:

- a. total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;
- b. for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with IAS 8; and
- c. for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:
  - i. profit or loss;
  - ii. other comprehensive income; and
  - iii. transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.

Under IAS 1, an entity should present changes in individual components of equity in the statement of changes in equity. In addition, IAS 1.106A requires entities to present, either in the statement of changes in equity or in the notes to the financial statements, an analysis of other comprehensive income by item for each component of changes in equity. (This requirement became effective on January 1, 2011.)



## Statement of Cash Flows

**Overview of SEC Staff Comments:** The SEC staff has often inquired into issuers' conclusions about how certain investments meet the IAS 7 definition of a cash equivalent and has requested additional disclosures about the nature of instruments classified as cash equivalents. As reiterated at the 2011 AICPA Conference, in some instances the SEC staff has also questioned the classification of items as operating, investing, and financing activities in the statement of cash flows.

### Example of an SEC Comment

- Please provide us with the following information for investments you hold with a maturity in excess of three months from the date of acquisition that are classified as cash equivalents:
  - Describe the nature of the investment;
  - Indicate the time to maturity at the date of acquisition;
  - Indicate its balance as of the balance sheet date; and
  - Provide us with an analysis to support your classification of the investment as a cash equivalent as defined in IAS 7.

**Background and Analysis:** IAS 7.7 provides the following guidance on when an investment may qualify as a cash equivalent:

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preferred shares acquired within a short period of their maturity and with a specified redemption date.

In addition, IAS 7.45–49 require several disclosures about an entity's cash and cash equivalents, including the components of cash and cash equivalents, and a reconciliation of amounts in the statement of cash flows to the equivalent items reported in the statement of financial position. Under IAS 7.46, an entity must disclose "the policy which it adopts in determining the composition of cash and cash equivalents." Further, if an entity changes its policy, it must disclose the effect of that change on its financial statements in accordance with IAS 8. Lastly, IAS 7.48 requires entities to disclose, "together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group."

## References to the Use of IFRSs as Issued by the IASB

**Overview of SEC Staff Comments:** The SEC staff has requested that issuers amend their Forms 20-F when they have not asserted, and the audit report has not stated, that the financial statements were prepared in accordance with "IFRSs as issued by the IASB."

### Example of an SEC Comment

- We note your independent registered accountant's report does not include an opinion on whether the financial statements comply with IFRS *as issued by the IASB*. Please amend your filing to either provide an audit report that includes an opinion on whether the financial statements comply with IFRS as issued by the IASB, or a reconciliation from IFRS to US GAAP. Refer to Item 17(c) of Form 20-F.

**Background and Analysis:** Paragraph 6310.2 of the SEC Division of Corporation Finance's *Financial Reporting Manual* indicates that the "accounting policy footnote must state compliance with IFRS as issued by the IASB and the auditor's report must opine on compliance with IFRS as issued by the IASB." An issuer that does not prepare its financial statements in accordance with IFRSs as issued by the IASB is required to provide a reconciliation to U.S. GAAP to assist investors in understanding the nature and effect of the accounting differences on the financial statements.

In addition, the SEC staff reiterated at the 2011 and 2010 AICPA Conferences that using the statement "IFRSs as issued by the IASB" is a prerequisite for omission of the U.S. GAAP reconciliation and that the statement must be included in both the financial statements and the auditor's report. In response to SEC comments on the matter, some issuers have suggested that their filings are merely missing a sentence when the statement is not included. The SEC staff's view is that when the statement is omitted, the issuer has two choices: add the statement or add the U.S. GAAP reconciliation.

## Presenting an Opening Statement of Financial Position — Retrospective Change in Accounting Policy or Reclassification

In the SEC staff paper, *An Analysis of IFRS in Practice*, the SEC staff noted that it has issued comments when registrants did not present an opening statement of financial position in connection with a retrospective change in accounting policy or reclassification.

Under IAS 1.10(f), entities are required to present an additional statement of financial position, as of the beginning of the earliest comparative period, when they apply a new accounting policy retrospectively, make a retrospective restatement of items in financial statements, or reclassify items in the financial statements. The term “reclassifies” in the phrase “when it reclassifies items in its financial statements” in IAS 1.10(f) refers to the types of reclassifications described in IAS 1.41 (i.e., when an entity changes its policy on the presentation or classification of a particular item) rather than other types of reclassifications (i.e., the passage of time, or a change in the nature or status of the items themselves, such as reclassification of an asset from current to noncurrent).

Issuers sometimes have questions about what disclosures are required related to the additional statement of financial position. Although IAS 1 is not explicit, it would appear that only those notes that may be described as supporting the statement of financial position in accordance with IAS 1.77–1.80A are required. However, in January 2012, the IASB approved amendments proposed in June 2011, to clarify that:

- “Related notes” concerning the additional statement of financial position are not required.
- The opening statement of financial position should be presented as of the beginning of the required comparative period.

# First-Time Adoption of IFRSs

IFRS 1 provides guidance on preparing financial statements in compliance with IFRSs for the first time. It applies (1) when a company first adopts IFRSs in its annual financial statements and (2) to interim financial statements for the part of the reporting period covered by a company's first IFRS financial statements.

Under IFRS 1, the date of transition to IFRSs is the beginning of the earliest period for which full comparative information is presented. IFRS 1 requires that at least one comparative period be presented. For example, assume that a calendar-year-end company is preparing its December 31, 2013, financial statements and is adopting IFRSs for the first time and presenting one period of comparable information. In this example, the date of transition to IFRSs will be January 1, 2012.

The financial statements, including the comparative period, must be prepared in accordance with IFRSs that will be effective as of December 31, 2013, even though different versions of IFRSs might be effective as of January 1, 2012. The financial statements generally include only assets and liabilities that qualify for recognition under IFRSs; a company measures those assets and liabilities by applying IFRSs. Although a company must use the same accounting policies throughout all periods presented in its first IFRS financial statements, IFRS 1 provides some exceptions.

The SEC issued [Final Rule 33-8567](#), which provides an accommodation for first-time IFRS adopters and allows the issuer to present only two years of IFRS financial statements instead of three years for the year in which it adopts IFRSs. This accommodation was extended for an indefinite period under SEC [Final Rule 33-8879](#).

**Overview of SEC Staff Comments:** The SEC staff has commented and required amendments to filings when issuers have not presented an opening statement of financial position upon initially adopting IFRSs. Many of the comments also related to adjustments made in applying IFRSs for the first time and disclosure of the exemptions used.

## Examples of SEC Comments

- Please file an amended Form 20-F to provide an audited balance sheet at the date of your transition to IFRS . . . [r]efer to paragraphs 6 and 21 of IFRS 1.
- Please revise to clarify your application of the exemption for cumulative translation differences. We note the opening translation reserve balance at January 1, [20X8]. In this regard, if you elected to recognize all translation differences that existed at the date of transition to IFRS, please explain to us why the translation reserve is not reset to zero. Please refer to Appendix D, paragraphs D12 and D13 of IFRS 1.
- We note your disclosure regarding several of the adjustments to the reconciliation states the adjustment is due to your accounting for the item under IFRS. Please tell us in more detail the basis for adjustments [(X, X1, X2, X3, X4, and X5)] and expand your disclosure to provide sufficient detail to enable a reader to better understand the reason for the difference in [your local GAAP] and IFRS for the specific adjustment reflected in your reconciliation. Please refer to paragraph 25 and IG63 of IFRS 1.

**Background and Analysis:** Under IFRS 1, a company prepares an opening IFRS balance sheet as of the date of transition to IFRSs and analyzes balance sheet items to ensure that they are recognized and classified as required under IFRSs. Adjustments may arise because of differences in accounting policies between the accounting standards used immediately before and upon adoption of IFRSs. Such adjustments are generally recognized directly in retained earnings (or if appropriate, another category of equity) as of the date of transition to IFRSs.

Under IFRS 1, a company must explain how the transition to IFRSs affects its reported financial position, financial performance, and cash flows, for all comparative periods. IFRS 1.24 states that a company should include the following transition disclosures in its first financial statements:

- a. reconciliations of its equity reported in accordance with previous GAAP to its equity in accordance with IFRSs for both of the following dates:
  - i. the date of transition to IFRSs; and
  - ii. the end of the latest period presented in the entity's most recent annual financial statements in accordance with previous GAAP.

- b. a reconciliation to its total comprehensive income in accordance with IFRSs for the latest period in the entity's most recent annual financial statements. The starting point for that reconciliation shall be total comprehensive income in accordance with previous GAAP for the same period or, if an entity did not report such a total, profit or loss under previous GAAP.
- c. if the entity recognised or reversed any impairment losses for the first time in preparing its opening IFRS statement of financial position, the disclosures that IAS 36, Impairment of Assets would have required if the entity had recognised those impairment losses or reversals in the period beginning with the date of transition to IFRSs.

Furthermore, IFRS 1.25–28 note that the reconciliations should be detailed enough for “users to understand the material adjustments to the statement of financial position and statement of comprehensive income. If an entity presented a statement of cash flows under its previous GAAP, it shall also explain the material adjustments to statement of cash flows. If an entity becomes aware of errors made under previous GAAP, the reconciliations also shall distinguish the correction of those errors from changes in accounting policies. . . . If an entity did not present financial statements for previous periods, its first IFRS financial statements shall disclose that fact.”

In Final Rule 33-8567, the SEC provided guidance on its expectations regarding first-time adoption transition disclosures:

The Commission is adopting as proposed a new instruction 3 to Item 8 of Form 20-F to require that the mandatory reconciliation from Previous GAAP to IFRS give “sufficient data to enable users to understand the material adjustments to the balance sheet and income statement,” and, if presented under Previous GAAP, the cash flow statement.

The SEC did not mandate any specific form or content for the reconciliation. However, it noted that in determining the form and content for the reconciliation, issuers might consider a reconciliation prepared under Item 17 of Form 20-F and the reconciliation in the example 11 of IFRS 1.IG63.

Regarding the staff's comments on exemptions under IFRS 1, issuers should note that IFRS 1 allows a company to elect specific exemptions (1) to the retrospective application of certain IFRSs, (2) for business combinations, and (3) from some of the guidance in other IFRSs related to the following topics:

- Share-based payment transactions.
- Insurance contracts.
- Deemed cost.
- Leases.
- Cumulative translation differences.
- Investments in subsidiaries, joint ventures, and associates.
- Assets and liabilities of subsidiaries, associates, and joint ventures.
- Compound financial instruments.
- Designation of previously recognized financial instruments.
- Fair value measurement of financial assets or financial liabilities at initial recognition.
- Decommissioning liabilities included in the cost of property, plant, and equipment.
- Financial assets or intangible assets accounted for in accordance with IFRIC 12.
- Borrowing costs.
- Transfers of assets from customers.
- Extinguishing financial liabilities with equity instruments.
- Severe hyperinflation.
- Joint arrangements.

An entity should disclose the specific exemptions used in applying IFRS 1, if any, and the extent to which an exemption is used. For example, the company should disclose how many years it went back when applying the business combination exemption in IFRS 1.

The following excerpts from SEC Final Rule 33-8567 contain the SEC's expectations regarding first-time adoption disclosures involving exemptions and adjustments:

Issuers should assess the information needs of their shareholders and the investment community at large and should provide meaningful, reliable and transparent information in connection with their implementation of IFRS. The Commission reminds issuers of their responsibilities under the federal securities laws to provide investors with information that is not misleading. . . . [A]n issuer must identify the items to which an exception was applied, describe which accounting principle it used, and explain how it applied that principle. When relying on an elective exception, an issuer must include, where material, qualitative disclosure of the impact on the issuer's financial condition changes in financial condition and results of operations. When relying on a mandatory exception, an issuer must describe the exception as provided for in IFRS 1 and state that it complied. This disclosure would be contained in an issuer's disclosure pursuant to Item 5 [of Form 20-F], which provides information on the issuer's Financial and Operating Review and Prospects. First-time adopters must provide this type of information under . . . IFRS 1, which generally requires an explanation of how the transition to IFRS would affect an issuer's financial position. However, because [IFRS 1] does not specifically reference disclosure related to the use of exceptions, the Commission believes more guidance through the amendments to Form 20-F to be appropriate. [Footnote omitted]

# Intangible Assets

## Recognition

**Overview of SEC Staff Comments:** The SEC staff has often requested more information about the nature and type of expenditures capitalized as intangible assets and questioned the basis for their recognition.

### Example of an SEC Comment

- Please tell us and disclose in more detail how you met the criteria in paragraph 57 of IAS 38 for the capitalized development costs.

**Background and Analysis:** Under IAS 38.18, for an expenditure to be capitalized, it must meet the definition of an intangible asset as well as specific recognition criteria. IAS 38.8 defines an intangible asset as an “identifiable non-monetary asset without physical substance.”

IAS 38.21 states that intangible assets should be recognized only if:

- a. it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity [(the probability criterion)]; and
- b. the cost of the asset can be measured reliably.

Because it is sometimes difficult to determine whether expenditures related to an internally generated intangible asset qualify for recognition, IAS 38 requires an entity to meet additional recognition criteria for these expenditures. IAS 38.52 distinguishes between two phases in the internal generation of an intangible asset: the research phase and the development phase. An entity is not permitted to recognize the cost as an intangible asset when it is incurred in the research phase of an internal project. Under IAS 38.57, an entity is only permitted to capitalize expenditures during the development phase if it can demonstrate all of the following:

- a. the technical feasibility of completing the intangible asset so that it will be available for use or sale.
- b. its intention to complete the intangible asset and use or sell it.
- c. its ability to use or sell the intangible asset.
- d. how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
- e. the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- f. its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Issuers must often exercise significant judgment in applying these criteria. For example, IAS 38 does not provide any guidance on the technical feasibility criterion. Because there are different types of internally generated intangible assets, it is difficult to set one guideline. However, issuers might consider whether they have completed all the planning, design, and testing activities that are necessary to establish that an asset can be produced to meet its design specifications, including functions, features, and technical performance requirements. If regulatory approval is required before the technical feasibility can be established, issuers should carefully consider the process involved and the likelihood of achieving approval.

IAS 38.53 states, “If an entity cannot distinguish the research phase from the development phase of an internal project . . . , the entity treats the expenditure on that project as if it were incurred in the research phase only.” IAS 38.69 gives the following examples of costs that should always be recognized as an expense:

- Research (unless the costs relate to an intangible acquired in a business combination).
- Start-up activities, unless the expenditure qualifies for inclusion in the cost of an item of property, plant, and equipment. Start-up costs may include:
  - Establishment costs, “such as legal and secretarial costs incurred in establishing a legal entity.”

- Expenditures for opening “a new facility or business” (i.e., preopening costs).
- Expenditures for “starting new operations or launching new products or processes” (i.e., preoperating costs).
- Training activities.
- Advertising and promotional activities.
- Relocating or reorganizing part or all of an entity.

## Determination of the Indefinite Useful Life and Related Disclosures

**Overview of SEC Staff Comments:** The SEC staff has commented on an issuer’s consideration of factors that played a significant role in its determination of the indefinite useful life of an intangible asset. The staff has also commented on the completeness of the related disclosures.

### Example of an SEC Comment

- You disclose that [intangible assets] acquired as part of a business combination are not amortized. Please tell us what the [assets acquired] represent and the reasons supporting your indefinite life assessment, and disclose those supporting reasons in future filings as required by paragraph 122 of IAS 38.

**Background and Analysis:** An issuer’s subsequent accounting for an intangible asset depends on its assessment of whether that asset has an indefinite useful life. Finite-lived intangible assets are amortized over their useful lives, whereas indefinite-lived intangible assets are not amortized and are subject to a different impairment analysis.

Under IAS 38.88, an intangible asset has an indefinite useful life when, “based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.”

IAS 38.90 requires an entity to consider the following factors in estimating the useful life of an intangible asset:

- a. the expected usage of the asset by the entity and whether the asset could be managed efficiently by another management team;
- b. typical product life cycles for the asset and public information on estimates of useful lives of similar [types of] assets that are used in a similar way;
- c. technical, technological, commercial or other types of obsolescence;
- d. the stability of the industry in which the asset operates and changes in the market demand for the products or services output from the asset;
- e. expected actions by competitors or potential competitors;
- f. the level of maintenance expenditure required to obtain the expected future economic benefits from the asset and the entity’s ability and intention to reach such a level;
- g. the period of control over the asset and legal or similar limits on the use of the asset, such as the expiry dates of related leases; and
- h. whether the useful life of the asset is dependent on the useful life of other assets of the entity.

IAS 38.122(a) states that when an issuer determines that an intangible asset has an indefinite useful life, the issuer must disclose the “carrying amount of that asset and the reasons supporting the assessment of an indefinite useful life.” These reasons should include the “factor(s) that played a significant role in determining that the asset has an indefinite useful life.”

After initially determining that an intangible asset has an indefinite useful life, an issuer should establish sufficient procedures to identify and evaluate events or circumstances that, if they have occurred or changed since the initial determination, may affect the estimated useful life. Some events or circumstances will represent discrete and readily identifiable events to which issuers should respond (e.g., a change in regulation). However, issuers should also monitor and consider other events or circumstances that may develop more gradually (e.g., obsolescence, competition, and demand).

## Disclosures About Useful Lives or Amortization Rates

**Overview of SEC Staff Comments:** The SEC staff has often requested disclosures about useful lives or the amortization rates used, as well as the amortization method used, for each class of intangible assets. The staff will accept the disclosure of useful lives in a range for each class of intangible asset.

### Example of an SEC Comment

- In future filings, please disclose the useful lives or the amortization rates for each class of intangible assets and the amortization method used. Please refer to paragraphs 118(a) and 118(b) of IAS 38 for guidance.

**Background and Analysis:** IAS 38.118(a)–(b) require an entity to disclose the following for each class of intangible assets:

- “[W]hether the useful lives are indefinite or finite and, if finite, the useful lives or the amortisation rates used.”
- “[T]he amortisation methods used for intangible assets with finite useful lives.”

In providing these disclosures, the issuer should distinguish between internally generated intangible assets and other types of intangible assets.

## Review of Amortization Period and Amortization Method

**Overview of SEC Staff Comments:** The SEC staff has often requested issuers to expand their accounting policy disclosures to clarify how frequently they review the amortization periods and amortization methods of their finite-lived intangible assets.

### Example of an SEC Comment

- Please confirm to us that you review the amortisation period and amortisation method for your finite-lived intangible assets at the end of each financial year-end, at a minimum. Please also revise your disclosure to clarify your accounting policy in future filings. Please refer to paragraph 104 of IAS 38 for guidance.

**Background and Analysis:** IAS 38.104 requires an entity to, at a minimum, review the amortization period and method for an intangible asset with a finite useful life at each financial year-end. The entity should change the amortization period to the extent that the expected useful life of the asset differs from the previous estimates or to the extent that there is a change in the expected pattern of consumption of the future economic benefits. Such changes would be accounted for as changes in accounting estimates in accordance with IAS 8 and should be recognized prospectively.



# Impairment of Assets

**Overview of SEC Staff Comments:** The SEC staff has frequently commented on issuers' disclosures about the events and circumstances that led to an impairment loss as well as about the processes and assumptions management used to identify cash-generating units (CGUs) and to allocate goodwill to them. The staff's comments include asking issuers to add disclosures within both the footnotes to the financial statements and the Operating and Financial Review and Prospects (OFR) section of Form 20-F. These disclosures should allow investors to assess (1) the likelihood that an issuer's goodwill and other long-lived assets will be impaired in the future and (2) the sensitivity of the assumptions used in assessing them for impairment.

## Examples of SEC Comments

- We note that you recorded a material goodwill impairment charge . . . . In light of the impact of this charge, please revise future filings to explain in more detail the events and circumstances that led to the impairment at the specific cash generating units that were impacted. Your current disclosure . . . does not appear to provide your investors with sufficient detail to allow them to assess the likelihood of similar future impairment charges.
- In future filings, please provide the disclosures required by paragraph 134 of IAS 36 for each of your CGUs that have been allocated a significant amount of goodwill in comparison to the total carrying amount of goodwill. If you have determined that none of your CGUs have been allocated a significant amount of goodwill in comparison to the total carrying amount of goodwill, please provide the disclosures required by paragraph 135 of IAS 36 to the extent appropriate.
- Please tell us how the after tax discount rate was used in your impairment test and how your determination of value in use complies with paragraph 50 and 55 of IAS 36, which requires estimates of future cash flows and the discount rate to be determined on a pre-tax basis.

**Background and Analysis:** The SEC staff has frequently commented on issuers' disclosures about any material impairment loss recognized during the period. Under IAS 36.130, for each material impairment loss recognized or reversed, an entity should disclose the amount and "the events and circumstances that led to the recognition or reversal of the impairment loss."

The SEC staff's comments about asset impairment tests in general have focused on determining the basis for assumptions issuers used in their calculations of value in use. Specifically, the staff has commented when issuers (1) used an after-tax discount rate in value-in-use calculations (since IAS 36.55 requires a pretax discount rate) and (2) based an impairment test on cash flow projections made for a period of more than five years. IAS 36.35 notes that budget and forecast information used to estimate future cash flows should not exceed five years unless management can demonstrate its ability to accurately forecast for a longer period.

Impairment of goodwill (and other indefinite-lived asset intangible assets) has been another area of staff focus in connection with asset impairment. The staff frequently asks issuers how they identified their CGUs when testing goodwill. Under IAS 36.80, a CGU (1) is "the lowest level . . . at which goodwill is monitored for internal management purposes" and (2) should "not be larger than an operating segment."

IAS 36.134 also requires entities to provide a number of disclosures by CGU when the carrying amount of goodwill or other indefinite-lived intangible assets allocated to a CGU is significant to the entity's total goodwill or other indefinite-lived intangible assets. These disclosures include:

- The carrying amount of goodwill or other indefinite-lived intangible assets allocated to the CGU.
- Whether the CGU's recoverable amount is based on its value in use or its fair value less costs to sell.
- A description of the processes and key assumptions used as well as of management's approach to determining the recoverable amount.

Further, the SEC staff has requested enhanced disclosures when a CGU's recoverable amount was close to its carrying amount. Under IAS 36.134(f), if it is reasonably possible that changes in key assumptions would cause the CGU's carrying amount to be greater than its recoverable amount an entity should disclose (1) the amount by which the recoverable amount exceeds the carrying amount, (2) "the value assigned to the key assumption," and (3) the amount by which the key assumption would have to change for the CGU's recoverable amount to equal its carrying amount.

In addition, the SEC staff believes that issuers should provide enhanced goodwill impairment disclosures in their OFR. Because the requirements for an issuer's OFR are similar to those for a domestic registrant's MD&A, issuers should consider the staff's interpretive guidance in Section 9510 of the SEC Division of Corporation Finance's *Financial Reporting Manual*. Section 9510 discusses the SEC staff's views on goodwill impairment disclosures in the critical accounting estimates section of MD&A and states:

Registrants should consider providing the following disclosures for each reporting unit that is at risk of failing . . . the impairment test . . . :

- a. The percentage by which fair value exceeded carrying value as of the date of the most recent test;
- b. The amount of goodwill allocated to the reporting unit;
- c. A description of the methods and key assumptions used and how the key assumptions were determined;
- d. A discussion of the degree of uncertainty associated with the key assumptions. The discussion regarding uncertainty should provide specifics to the extent possible (e.g., the valuation model assumes recovery from a business downturn within a defined period of time); and
- e. A description of potential events and/or changes in circumstances that could reasonably be expected to negatively affect the key assumptions.

For additional considerations related to an issuer's OFR, see the discussion under [Other Disclosure Topics](#).

# Consolidated Financial Statements, Investments in Associates, and Interests in Joint Ventures

The SEC staff's comments have focused on the application of IAS 27 and SIC-12, which provide guidance on determining when and how to prepare consolidated financial statements. The IASB has recently been working with the FASB to develop improved and converged consolidation standards that would apply to all entities (i.e., variable interest entities, voting interest entities, and investment companies). While the boards ultimately decided not to converge their respective consolidation models, in May 2011 the IASB issued the following new and revised standards:

- IFRS 10, which replaces IAS 27 and SIC-12 and creates a single consolidation model under IFRSs.
- IFRS 11.
- IFRS 12.
- IAS 27 (revised 2011), which has been amended for the issuance of IFRS 10 but retains the current guidance on separate financial statements.
- IAS 28 (revised 2011), which has been amended for conforming changes on the basis of the issuance of IFRS 10 and IFRS 11.

The new guidance, which is effective for annual periods beginning on or after January 1, 2013 (with early application permitted provided that each of the standards is early adopted at the same time), still requires a reporting entity to consolidate an entity that it controls; however, the criteria and assessment for determining whether a reporting entity has control have changed. For further details about the revised assessment of control, see the [Consolidated Financial Statements](#) subsection below. For more information about the new IFRSs, see Deloitte's May 27, 2011, [Heads Up](#).

## Consolidated Financial Statements

**Overview of SEC Staff Comments:** The SEC staff has increased its emphasis on issuers' consolidation conclusions under IAS 27. The staff has asked for clarification regarding how a reporting entity determined whether it controls (and therefore whether it must consolidate) an investee (including special-purpose entities (SPEs)). In addition, when a determination has been made that the issuer will not consolidate because it considers the entity immaterial, the staff has requested additional qualitative and quantitative information about the basis for issuers' materiality conclusions.

At the 2011 AICPA Conference, the SEC staff reemphasized its focus on issuers' consolidation conclusions, particularly regarding situations in which an entity accounts for an investee under the equity method (instead of consolidating the investee) even though the issuer holds more than 50 percent of the voting power in the investee.

### Examples of SEC Comments

- Please provide an example of the common types of structures used in [your] structured transactions and how you concluded that off-balance sheet accounting was appropriate under IFRS. Please specifically address how you concluded you do not have the ability to control the entities. In this regard, tell us the role you play in setting up the structures, all types of fee arrangements, any ongoing roles you play, the decisions you can make, who manages the structures after set up and what happens when events of default occur. Please also discuss the materiality of these structures both from a balance sheet and income statement perspective.
- We note that you consolidate [SPEs] when you conclude that you control the SPE based upon the substance of the relationship. . . . Please tell us and revise your future filings to clearly disclose the criteria/indicators that you utilize to determine whether or not to consolidate [an] SPE. Within your discussion, please explain the factors that you use to determine if you control the SPE.

**Background and Analysis:** IAS 27 requires the consolidation of entities that are controlled by the reporting entity. IAS 27.13 states:<sup>1</sup>

Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Control also exists when the parent owns half or less of the voting power of an entity when there is:  
[footnote omitted]

<sup>1</sup> Note that this guidance is effective before an entity's adoption of IFRS 10.

- a. power over more than half of the voting rights by virtue of an agreement with other investors;
- b. power to govern the financial and operating policies of the entity under a statute or an agreement;
- c. power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or
- d. power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by the board or body.

Furthermore, SIC-12.10<sup>2</sup> describes four scenarios in which an entity may control an SPE (and thus should consolidate the SPE):

- a. in substance, the activities of the SPE are being conducted on behalf of the entity according to its specific business needs so that the entity obtains benefits from the SPE's operation;
- b. in substance, the entity has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an 'autopilot' mechanism, the entity has delegated these decision-making powers;
- c. in substance, the entity has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE; or
- d. in substance, the entity retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

Under the new guidance in IFRS 10, an entity that possesses the following three elements is deemed to have control over an investee and therefore must consolidate the investee:

- "[P]ower over the investee."
- "[E]xposure, or rights, to variable returns from involvement with the investee."
- "[T]he ability to use power over the investee to affect the amount of the investor's returns."

In assessing control, an entity should consider all relevant facts and circumstances. Moreover, the entity should perform a reassessment if there are changes to at least one of the three elements.

## Investments in Associates and Interests in Joint Ventures

**Overview of SEC Staff Comments:** The SEC staff has focused on the adequacy of issuers' disclosures about the nature and extent of their involvement with such investments. Particularly, the staff has commented when an expected disclosure is omitted or incomplete, thus resulting in an unclear understanding of the nature of amounts disclosed, the basis of accounting used or currency applied in deriving the balances, and the overall impact of the associate or joint venture on an entity's operations and financial statements.

### Example of an SEC Comment

- We note that you account for your investment in [Entity X] using the equity method of accounting despite only holding [approximately 9%] equity interest in the entity. In accordance with paragraph 37 of IAS 28, please tell us and disclose in future filings the reasons why the presumption that an investor does not have significant influence is overcome if the investor holds, directly or indirectly through subsidiaries, less than 20% of the voting or potential voting power of the investee but concludes that it has significant influence. Please tell us the percentage equity interest of [Entity X] held by your associate, [Entity X's] investment balance at December 31, [20X9] and your share of [Entity X's] profit or loss for fiscal [20X9].

**Background and Analysis:** IAS 28 and IAS 31 provide guidance on accounting for investments in associates and interests in joint ventures, respectively. IAS 28.37–40 outline the disclosure requirements for an entity's investments in associates. These requirements primarily focus on financial information about an entity's associates as well as about how an entity has (or does not have) significant influence over its associate(s). IAS 31.54–57 require similar disclosures for interests in joint ventures, including information about (1) any commitments and contingencies associated with a joint venture and (2) an entity's ownership interests in jointly controlled entities.

<sup>2</sup> See footnote 1.

## Subsidiary's or Associate's Ability to Transfer Funds

**Overview of SEC Staff Comments:** In its comments, the staff has emphasized the need for issuers to provide disclosures about the nature and extent of any restrictions on a subsidiary's or associate's ability to transfer funds to its parent.

### Example of an SEC Comment

- In future filings, please disclose the nature and extent of any significant restrictions on the ability of any of your subsidiaries to transfer funds to you through dividends or loan repayments/advances. Please refer to paragraph 41(d) of IAS 27. To the extent applicable, please also provide this disclosure for your associates and joint ventures in accordance with paragraph 37(f) of [IAS 28].

**Background and Analysis:** Both IAS 27.41(d) and IAS 28.37(f)<sup>3</sup> require the disclosure of the nature and extent of any significant restrictions on the ability of subsidiaries or associates, respectively, to transfer funds to the parent in the form of cash dividends or to repay loans or advances. These significant restrictions can result, for example, from borrowing arrangements or regulatory requirements. Entities should also consider the liquidity discussion in the OFR. For additional considerations related to an issuer's OFR, see the discussion under [Other Disclosure Topics](#).

<sup>3</sup> Note that this guidance is effective before an entity's adoption of IFRS 10.

# Revenue Recognition and Related Costs

## Criteria for Revenue Recognition and Disclosure

**Overview of SEC Staff Comments:** The SEC staff has commented on the completeness and clarity of issuers' disclosures when the issuers recited the IAS 18 revenue recognition criteria but did not explain how they applied the criteria to their revenue transactions. The SEC staff often asks issuers for (1) supplemental information and (2) additional and specific disclosures in future filings.

### Examples of SEC Comments

- We note from the first paragraph of this section that you recognize revenue to the extent that it is probable that the economic benefits associated with the transaction will flow to the company. Please tell us how you considered the other four criteria in paragraph 14 and those in paragraph 20 of IAS 18 in determining when to record revenue.
- We note that you recognize revenue from long-term contractual arrangements by reference to stage of completion as determined by measures such as contract milestone customer acceptance. Provide us with more details of these contracts and your accounting for them. Explain why your accounting is appropriate under IAS 18.

**Background and Analysis:** The SEC staff expects issuers to disclose all relevant information about their revenue activities. IAS 18.35 requires that an entity disclose the following information:

- a. the accounting policies adopted for the recognition of revenue, including the methods adopted to determine the stage of completion of transactions involving the rendering of services;
- b. the amount of each significant category of revenue recognised during the period, including revenue arising from:
  - i. the sale of goods;
  - ii. the rendering of services;
  - iii. interest;
  - iv. royalties;
  - v. dividends; and
- c. the amount of revenue arising from exchanges of goods or services included in each significant category of revenue.

The SEC staff has often requested expanded disclosures about revenue recognition policies, specifically elaboration of how such policies relate to the entity's revenue-generating activities and how the revenue criteria of IAS 18 are being applied to various transactions. Depending on the complexity or subjectivity of an issuer's revenue recognition policies, the SEC staff's disclosure requests may be more granular. An issuer should also consider including the following in its revenue recognition accounting policy disclosure:

- If an entity has different policies for different types of revenue transactions, the detailed policy for each material type of transaction, the specific factors the entity considered in developing these policies, and how those policies meet the conditions in IAS 18.
- If sales transactions have multiple elements, such as products and services, the accounting policy for each element, as well as how multiple elements are determined and valued (see the [Multiple-Element Arrangements](#) subsection below).
- Changes in estimates that underlie revenue recognition, such as changes in estimated returns.
- Separate disclosure of any revenue transactions that are unusual because of their nature, size, or frequency of occurrence.
- Details of discounts, return policies, post-shipment obligations, customer acceptance, warranties, credits, rebates, and price protection or similar privileges, and how these affect revenue recognition.

## Multiple-Element Arrangements

**Overview of SEC Staff Comments:** The SEC staff has often asked issuers about the nature of, and accounting for, their multiple-element arrangements and how they value the individual elements in these arrangements in accordance with IAS 18.

### Examples of SEC Comments

- Please explain how you account for and value the maintenance services element for each of the arrangements where such services may be linked together with other elements. See paragraph 13 of IAS 18.
- We note that you use the residual value method when there is reliable fair value evidence of the undelivered elements but not for one or more of the delivered elements. Please tell us and revise your future filings to explain in more detail why you utilize the residual method of accounting. Within your response, discuss how your accounting is consistent with the guidance in IAS 18 and paragraphs BC12 to BC14 of IFRIC 13. Cite the accounting literature relied upon and how you applied the accounting literature to your situation.

**Background and Analysis:** There is limited application guidance under IFRSs on complex transactions related to multiple-element arrangements. As a result, the SEC staff has continued to see diversity in practice in this area. Although they are not required to do so, certain issuers may look to U.S. GAAP after considering the guidance in IAS 8 on selecting and applying accounting policies. Accordingly, the SEC staff may request additional information about multiple-element arrangements, such as (1) the different identifiable components of the arrangement, (2) when those identifiable components meet the revenue recognition criteria under IAS 18, and (3) the amount of consideration that should be allocated to each component and how that amount was determined.

The amount of revenue attributed to each component of a transaction should be measured at the fair value of the consideration received. This principle was clarified in IFRIC 13.BC12–BC14, which indicate that the amount the customer is paying for each component is most representative of fair value. However, this amount is often not directly observable and must be estimated by using an appropriate method to allocate the total consideration between the components. IFRIC 13.BC14 indicates that IAS 18 does not prescribe a specific allocation method. However, an entity should use judgment in selecting a method that most appropriately reflects the fair value of a component (i.e., the amount a customer is paying for each component). When an entity uses a residual method to allocate consideration between components, the SEC staff will frequently request additional disclosure regarding why the issuer uses that method and why it believes the method selected is consistent with the principles of IAS 18 and IFRIC 13.

## Construction Contracts

**Overview of SEC Staff Comments:** The SEC staff has frequently asked issuers to clarify their accounting for and disclosures about construction contracts under IAS 11.

### Example of an SEC Comment

- With respect to your construction contracts, please address the following . . . :  
The types of construction contracts (i.e. fixed price, cost plus) that you enter into. For each type of contract, please disclose further details regarding the method used to determine contract revenue recognized and the stage of completion. Refer to paragraphs 23 and 24 and the illustrative examples in the appendix to IAS 11. Please also ensure your disclosure provides investors with sufficient information to understand the portion of revenues recognized under each type of construction contract.

**Background and Analysis:** IAS 11 provides guidance on how and when to recognize revenue and costs for construction contracts. The SEC staff has asked issuers to provide the following information clarifying their treatment of these contracts under IAS 11:

- Policy disclosures, including details on the method used to determine contract revenue and measure progress toward completion (e.g., cost-to-cost, units of work).
- How the entity determined contract costs when measuring progress toward completion and how those costs relate directly to contract performance.
- How the entity treats costs incurred in connection with future activity (e.g., precontract and early-stage contract costs), which should normally be capitalized when it is probable that they will be recovered.

- A description of the nature and type of variations (e.g., change orders) and claims, and how the entity accounted for them.

## Costs Associated With Revenue Transactions

**Overview of SEC Staff Comments:** The SEC staff has commented on the appropriateness of an issuer’s accounting policy for certain expenditures associated with revenue transactions and often cites warranties as an example. In addition, the staff has commented on the appropriateness of capitalizing certain costs and the classification of costs as either a reduction of revenue or as an expense.

### Example of an SEC Comment

- Please clarify for us the nature of the subscription products and services and related costs that are deferred and amortized over the estimated life of the customer relationship.

**Background and Analysis:** When an issuer incurs certain costs in connection with a revenue transaction, it should determine whether, on the basis of the specific terms of the revenue arrangement, it is appropriate to (1) expense the costs, as incurred, as advertising and promotional expenses under IAS 38.69(c); (2) capitalize them as customer acquisition costs; or (3) account for them as part of a separately identifiable component of a single transaction.

Although marketing and distribution costs are expensed as incurred, certain types of costs may be more similar to customer acquisition costs. Customer acquisition costs can be capitalized when they meet both the definition of an intangible asset and the criteria for recognition as an intangible asset in accordance with IAS 38.18. Customer acquisition costs that do not meet the capitalization criteria are expensed as incurred. In certain situations, a cost is treated as part of a separately identifiable component of a single transaction and expensed when the related revenue is recognized. These situations arise when an entity incurs “setup” costs that are directly related to the sale of a product or service for which it is probable that revenue will be recognized in the future. For additional information on the SEC staff’s comments on capitalization of costs, see the [Intangible Assets](#) section.

The SEC staff also questioned whether it is appropriate for an issuer to account for consideration given to its customers as a reduction of revenue or as an expense. An issuer should determine whether this consideration (1) represents an incentive (e.g., trade, volume rebate) for the customer in the revenue transaction and thus should generally be accounted for as a reduction of revenue or (2) is given in exchange for an identifiable benefit (goods or services received from a customer), in which case the consideration is generally recognized as a cost. In making this determination, an issuer should carefully consider all the facts and circumstances, including the terms of the arrangement between the vendor and the customer.

## Inventory

**Overview of SEC Staff Comments:** Most of the SEC staff’s inventory-related comments have focused on the estimates an entity is required to make, and the disclosures an issuer provides about these estimates, when determining whether costs capitalized as inventory are recoverable or need to be written down to net realizable value.

### Examples of SEC Comments

- In future filings, please provide investors with an understanding of the considerations made when estimating the net realizable value of your inventories. Please refer to paragraphs 30-33 of IAS 2 for guidance.
- In future filings, please provide investors with an explanation for the reversals in the obsolescence allowance . . . . Please refer to paragraph 36(g) of IAS 2 for guidance. Please provide us with the disclosure you intend to include in future filings.

**Background and Analysis:** The SEC staff will frequently ask about the information an issuer considered when estimating the net realizable value of inventory to determine whether a write-down from the costs capitalized as inventory is necessary. When making this estimate, an issuer should consider events that occur after the reporting period that may serve as evidence of the net realizable value at the end of the reporting period (e.g., sales after the reporting period). IAS 2.30–33 provide guidance on the type of information that an entity generally considers in each reporting period when making this estimate. The SEC staff may request that an issuer provide additional information when there is a significant write-down or a reversal of a write-down of inventory in the financial statements.



In addition, the SEC staff will ask about any disclosures that appear to be missing from an issuer's financial statements. IAS 2.36 requires entities to disclose the following in their financial statements:

- a. the accounting policies adopted in measuring inventories, including the cost formula used;
- b. the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;
- c. the carrying amount of inventories carried at fair value less costs to sell;
- d. the amount of inventories recognised as an expense during the period;
- e. the amount of any write-down of inventories recognised as an expense in the period in accordance with paragraph 34;
- f. the amount of any reversal of any write-down that is recognised as a reduction in the amount of inventories recognised as expense in the period in accordance with paragraph 34;
- g. the circumstances or events that led to the reversal of a write-down of inventories in accordance with paragraph 34; and
- h. the carrying amount of inventories pledged as security for liabilities.

## The IASB's and FASB's Revenue Recognition Project

This project represents a broad reconsideration of how entities recognize and report information about revenue from contracts with customers. It would supersede essentially all of the current guidance on revenue recognition in IFRSs and U.S. GAAP. Instead, entities would apply a broad principle when recognizing revenue for contracts under which goods or services are provided to customers. That broad principle would require an entity to (1) identify the contract(s) with a customer, (2) identify the separate performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the separate performance obligations, and (5) recognize revenue when the entity satisfies each of the performance obligations.

In November 2011, the IASB and FASB issued a revised revenue recognition exposure draft for a 120-day comment period. The standard's effective date would be no earlier than annual periods beginning on or after January 1, 2015, for public entities and January 1, 2016, for nonpublic entities. See Deloitte's November 15, 2011, [Heads Up](#) for an in-depth look at the revised exposure draft.

# Segment Reporting

## Identification of Operating Segments

**Overview of SEC Staff Comments:** The SEC staff has frequently asked issuers to explain how operating segments were determined and what information the chief operating decision maker (CODM) regularly receives and reviews. In several instances, those comments have prompted entities to change their segment disclosures in future filings. Because of the interrelationship of the identification of operating segments and CGUs for goodwill impairment tests, the SEC staff has also often asked issuers to confirm how they have identified their CGUs. See the [Impairment of Assets](#) section for further considerations.

### Example of an SEC Comment

- Please tell us how you determined your reportable segments. Tell us specifically how [Division X] meets the criteria for an operating segment in accordance with paragraph 5 of IFRS 8.

**Background and Analysis:** IFRS 8 replaced IAS 14 and aligned the requirements for basis of segmentation with those in ASC 280 under U.S. GAAP. IFRS 8 essentially converges with ASC 280, although some minor differences remain. These differences are highlighted in the IFRS 8 Basis for Conclusions.

IFRS 8 requires an entity to provide information about the components of the entity that management uses to make decisions about operating matters. The operating segments are identified on the basis of what is reported to the CODM. IFRS 8.5 defines “[a]n operating segment as a component of an entity:

- a. that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
- b. whose operating results are regularly reviewed by the entity’s chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- c. for which discrete financial information is available.”

Other factors that an issuer should consider when identifying operating segments include the existence of segment managers, more than one set of segment information used by the CODM, or information presented to the board of directors. As discussed in IFRS 8.9, an operating segment manager may be responsible for more than one operating segment. When a CODM regularly receives and reviews a component’s discrete financial information, the component may be an operating segment. The SEC staff may request the financial information reviewed by the CODM to help the staff understand the issuer’s current types of business activities and the different economic environments in which the entity operates. In addition, the SEC staff will most likely review the information in the forepart of the Form 20-F, such as the business section and OFR, and information from public sources, such as the issuer’s Web site, analysts’ reports, and press releases, for consistency with the issuer’s segment disclosures.

At the 2011 AICPA Conference, the SEC staff reminded issuers that the receipt of prior SEC comments would not preclude future ones and gave the following examples of changes that should prompt registrants to assess the need for potential modifications to their operating and reportable segments: (1) new internal reporting systems, (2) organizational changes by new management or other reorganizations, and (3) acquisitions and dispositions.

## Aggregation of Operating Segments

**Overview of SEC Staff Comments:** The SEC staff has asked issuers to explain in detail how they evaluated the aggregation criteria in IFRS 8 to support their conclusions to aggregate operating segments.

### Example of an SEC Comment

- If you aggregate two or more operating segments into [one] reportable segment, tell us how you satisfied the aggregation criteria of paragraph 12 of IFRS 8, and advise us of your basis for aggregation.

**Background and Analysis:** Once the entity identifies its operating segments, it must determine which operating segments are reportable. Under IFRS 8.11, “[a]n entity shall report separately information about each operating segment that:

- a. has been identified in accordance with paragraphs 5–10 or results from aggregating two or more of those segments in accordance with paragraph 12, and
- b. exceeds the quantitative thresholds in paragraph 13.”

When deciding whether to aggregate operating segments, an entity is permitted by IFRS 8.12 to aggregate two or more operating segments into a single operating segment if “aggregation is consistent with the core principle of [IFRS 8], the segments have similar economic characteristics, and the segments are similar in each of the following respects:

- a. the nature of the products and services;
- b. the nature of the production processes;
- c. the type or class of customer for their products and services;
- d. the methods used to distribute their products or provide their services; and
- e. if applicable, the nature of the regulatory environment, for example, banking, insurance or public utilities.”

The core principle of IFRS 8 is that “[a]n entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.”

An entity should use the same basis for providing segment disclosures as it does for reporting internally derived data. Such disclosures should allow users to understand and draw conclusions about the operations of the entity’s segments. IFRSs no longer distinguish between business and geographical segments; rather, reporting segments are based solely on the entity’s internal reporting structure.

For domestic filers, the SEC staff has indicated that it views aggregation as a “high hurdle.” Issuers should maintain detailed analyses of their operating segments and consideration of the aggregation criteria. Regarding the evaluation of the aggregation of operating segments, the SEC staff believes that investors are interested in reviewing the same information that the issuer’s management reviews. See Deloitte’s *SEC Comment Letters — Including Industry Insights: Improving Transparency* for more information.

At the 2011 AICPA Conference, the SEC staff underscored that segments can only be aggregated when certain criteria are met, including the requirement that the operating segments must be economically similar. There is little authoritative literature on what is meant by “economically similar.” Although the staff did not define “economic similarity,” it conveyed its view that disaggregated information is generally better for investors. The staff indicated its belief that operating segments must be so similar that an issuer’s reporting of them separately would not help a user understand the issuer’s performance. The staff further indicated that it may question an issuer’s assertion of economic similarity on the basis of future prospects when these prospects appear unreasonable relative to past performance. See Deloitte’s December 14, 2011, *Heads Up* for more information.

## Disclosures

**Overview of SEC Staff Comments:** The SEC staff has commented on the completeness of an issuer’s disclosures under IFRS 8, specifically those related to information about products and services, geographical areas, and major customers, as well as reconciliations of segment financial information to consolidated results.

### Examples of SEC Comments

- Please provide to us the entity-wide information about products and services, geographical areas, and major customers for the fiscal years [presented] required by paragraphs 32–34 of IFRS 8 or, alternatively, tell us where this information has been disclosed in your Form 20-F or why it is not applicable. Also confirm to us that you will provide this information in future filings, to the extent applicable.
- We note that you have reconciled the total of your reportable segments’ measures of profit or loss to operating profit. It appears that you should provide a reconciliation to profit or loss before tax expense, as described in paragraph 28(b) of IFRS 8. Please revise or advise.

**Background and Analysis:** In accordance with IFRS 8.20, the SEC staff expects issuers to disclose information that enables financial statement users to evaluate “the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.”

Further, IFRS 8.21 requires an entity to provide the following disclosures for each period for which it presents a statement of comprehensive income:

- a. general information as described in paragraph 22;
- b. information about reported segment profit or loss, including specified revenues and expenses included in reported segment profit or loss, segment assets, segment liabilities and the basis of measurement, as described in paragraphs 23–27; and
- c. reconciliations of the totals of segment revenues, reported segment profit or loss, segment assets, segment liabilities and other material segment items to corresponding entity amounts as described in paragraph 28.

IFRS 8.21 further states:

Reconciliations of the amounts in the statement of financial position for reportable segments to the amounts in the entity’s statement of financial position are required for each date at which a statement of financial position is presented. Information for prior periods shall be restated as described in paragraphs 29 and 30.

The SEC staff inquired into the nature of reconciling items because IFRS 8.28 requires that “[a]ll material reconciling items . . . be separately identified and described.” In addition, the staff has questioned issuers when reconciliations presented a total that was inconsistent with the consolidated financial results.

IFRS 8 also requires an entity to provide entity-wide disclosures, even if the entity has only a single reportable segment, on the basis of the financial information used to produce the entity’s financial statements. Except for information about major customers, this requirement is subject to the availability of the information and cost considerations. The disclosures must include the following information (if not already included in the disclosures described above):

- *Information about products and services* — IFRS 8.32 states:

An entity shall report the revenues from external customers for each product and service, or each group of similar products and services, unless the necessary information is not available and the cost to develop it would be excessive, in which case that fact shall be disclosed. The amounts of revenues reported shall be based on the financial information used to produce the entity’s financial statements.

- *Information about geographical areas* — IFRS 8.33 states, in part:

An entity shall report the following geographical information, unless the necessary information is not available and the cost to develop it would be excessive:

- a. revenues from external customers (i) attributed to the entity’s country of domicile and (ii) attributed to all foreign countries in total from which the entity derives revenues. If revenues from external customers attributed to an individual foreign country are material, those revenues shall be disclosed separately. An entity shall disclose the basis for attributing revenues from external customers to individual countries.
- b. non-current assets [footnote omitted] other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts (i) located in the entity’s country of domicile and (ii) located in all foreign countries in total in which the entity holds assets. If assets in an individual foreign country are material, those assets shall be disclosed separately.

- *Information about major customers* — IFRS 8.34 states, in part:

An entity shall provide information about the extent of its reliance on its major customers. If revenues from transactions with a single external customer amount to 10 per cent or more of an entity’s revenues, the entity shall disclose that fact, the total amount of revenues from each such customer, and the identity of the segment or segments reporting the revenues. The entity need not disclose the identity of a major customer or the amount of revenues that each segment reports from that customer. For the purposes of this IFRS, a group of entities known to a reporting entity to be under common control shall be considered a single customer, and a government (national, state, provincial, territorial, local or foreign) and entities known to the reporting entity to be under the control of that government shall be considered a single customer.

For additional information about the SEC staff’s views on segment reporting, see Deloitte’s December 14, 2011, [Heads Up](#) on the 2011 AICPA Conference.

# Income Taxes

**Overview of SEC Staff Comments:** The SEC staff has commented on the completeness and adequacy of issuers' disclosures under IAS 12 and IAS 1. In particular, the staff has focused on enhancing disclosure of the following items in future filings:

- Nature of adjustments and reconciling items set forth in the rate reconciliation.
- Specific facts and circumstances related to the timing of adjustments.
- Information supporting the recoverability of deferred tax assets.
- Recognized amounts for each type of temporary difference.
- Explanation of changes in applicable tax rates.

## Examples of SEC Comments

- In future filings, please revise your disclosures for the reconciling line items for income tax expense (benefit) to the statutory tax expense (benefit) to provide investors with a better understanding of the underlying components.
- In future filings, please provide investors with a better understanding of the material factors you considered in your assessment that it is probable you will utilize your deferred tax assets. For example, if you are relying on the reversal of your deferred tax liabilities, please disclose as such and confirm that the deferred tax liabilities will reverse in the same period, are for the same jurisdiction, and are of the same character as the temporary differences giving rise to the deferred tax assets. Please quantify the extent to which you are relying on deferred tax liabilities. If you are relying on the recognition of future pre-tax income, please disclose the amount of pre-tax income that you need to generate to realize the deferred tax assets. If you are relying on tax planning strategies, please disclose the nature of your tax planning strategies, how each strategy supports the realization of deferred tax assets, the amount of the shortfall that each strategy covers, and any uncertainties, risks, or assumptions related to these tax-planning strategies. Please refer to paragraphs 125–133 of IAS 1 and Section 501.14 of the Financial Reporting Codification for guidance. Please provide us with the disclosure you intend to include in future filings.
- In future filings, please disclose the expiration dates of your tax losses recognized as deferred tax assets in addition to those tax losses that are not recognized. This disclosure will allow investors to better understand the realizability of these deferred tax assets. This disclosure will allow investors to better understand the realizability of these deferred tax assets.

**Background and Analysis:** When requesting enhanced disclosures, the staff often has also asked issuers to support how income tax transactions are appropriately measured and recognized. For example, as a result of the global economic downturn, the SEC staff has remained focused on whether it is probable that sufficient future taxable income will be generated to realize deferred tax assets and has questioned (and requested additional disclosures about) whether an issuer was relying on the (1) use of tax planning opportunities or (2) reversals of deferred tax liabilities to realize deferred tax assets. In addition, the SEC staff has requested that issuers disclose the amount of deferred tax assets that were not recognized and whether they reevaluated such assets at the end of each year.

In its comments to issuers, the SEC staff has also asked about the income tax rate used to record current deferred tax assets and liabilities when it has appeared that the rate was other than that enacted, or substantively enacted, under IAS 12.46–47. The staff has also commented when an issuer does not disclose when tax loss carryforwards will expire. With respect to the rate reconciliation, the staff has asked for clarification regarding (1) the sources of the tax rate and (2) the line-item components.

IFRSs do not provide explicit guidance on the accounting for uncertain tax positions. IAS 12 indicates that disclosures about tax contingencies should follow IAS 37; therefore, entities may also consider the recognition guidance in IAS 37 in determining whether they need to provide disclosures. The staff has observed inconsistent levels of disclosure about income tax contingencies and uncertainties. As a result, its comments have focused on requesting issuers to provide more detailed accounting policy disclosures and additional information about the risks related to income tax positions with taxing authorities. The staff has also noted inconsistencies in the classification and presentation of business taxes (i.e., operating expenses) and income taxes. In such circumstances, the staff has requested issuers to support their classification.

Because IAS 12.79–82A require entities to provide a number of disclosures about the accounting for income taxes, an entity should ensure that its financial statements include all disclosures required by IAS 12 and that these disclosures sufficiently describe the nature of the transactions to promote users’ understanding of current and future tax consequences. An entity should also pay particular attention to significant adjustments and reconciling items to ensure that their recognition is (1) consistent with the requirements in IAS 12 and (2) adequately disclosed in the financial statements so that the tax consequences are transparent to financial statement users.

# Property, Plant, and Equipment

## Change in Asset Measurement Model After Initial Recognition

**Overview of SEC Staff Comments:** When an issuer changes its measurement model after initial recognition (e.g., from the revaluation model to the cost model), the SEC staff will frequently ask the issuer to disclose its rationale for the change, including how the change would yield more meaningful information for investors.

### Example of an SEC Comment

- We note that in [the current year] you changed the measurement of your property, plant and equipment to the cost model from the revaluation model to align your accounting policy with your industry peers. Please provide us with a more comprehensive explanation as to how you determined that this change in accounting policy results in providing investors with reliable and more relevant information.

**Background and Analysis:** IAS 16.29 states that, after the initial measurement of property, plant, and equipment, “[a]n entity shall choose either the cost model in paragraph 30 or the revaluation model in paragraph 31 as its accounting policy and shall apply that policy to an entire class of property, plant and equipment” when subsequently measuring those assets. When an entity voluntarily changes this accounting policy election from one model to the other, the SEC staff will frequently ask the entity to disclose how it determined that the “new accounting policy provides investors with reliable and more relevant information.” Under IAS 8.29, an entity must disclose the following “[w]hen a voluntary change in accounting policy has an effect on the current period or any prior period, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods”:

- a. the nature of the change in accounting policy;
- b. the reasons why applying the new accounting policy provides reliable and more relevant information;
- c. for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
  - i. for each financial statement line item affected; and
  - ii. if IAS 33 applies to the entity, for basic and diluted earnings per share;
- d. the amount of the adjustment relating to periods before those presented, to the extent practicable; and
- e. if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

## Disclosures About Review of Residual Values, Useful Lives, and Depreciation Methods

**Overview of SEC Staff Comments:** The SEC staff has frequently asked issuers to confirm, in their accounting policy disclosures, that they reviewed the residual values, useful lives, and depreciation methods of property, plant, and equipment at least annually in accordance with IAS 16.51 and IAS 16.61. Note that in accordance with IAS 16.75, such disclosures should be provided for each class of property, plant, and equipment.

### Example of an SEC Comment

- In future filings, please include disclosure in your accounting policy that confirms you review the residual value, the useful lives and the depreciation method of your property, plant and equipment at least annually. Please refer to paragraphs 51 and 61 of IAS 16 for guidance.

**Background and Analysis:** When an issuer does not disclose its accounting policies related to such items, the SEC staff often asks the issuer to revise its disclosures about these policies (or add them if previously omitted) in future filings.

# Employee Benefits

IAS 19 provides financial reporting and disclosure guidance on employee benefits. The SEC staff's comments discussed in this section primarily focus on (1) the valuation of defined benefit obligations and (2) IAS 19 required disclosures.

In June 2011, the IASB revised IAS 19. The amendments, which are effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, (1) eliminate previous options for deferred recognition of changes in the net defined benefit liability (asset), (2) amend where those changes should be recognized, and (3) amend the disclosure requirements for defined benefit plans and multiemployer plans. (See Deloitte's June 27, 2011, [Heads Up](#) for an in-depth look at the revisions to IAS 19.) Issuers that elect to early adopt the revisions should nonetheless consider how the staff's comments and observations discussed in this section affect their periodic filings.

## Valuation of Defined Benefit Obligations

**Overview of SEC Staff Comments:** Many of the SEC staff's comments have pertained to issuers' policies on (1) calculating the present value of defined benefit obligations, including the timing of such calculations and the appropriateness of assumptions used (e.g., the discount rate), and (2) assumptions and valuations related to the fair value of any plan assets.

### Examples of SEC Comments

- We note that a full valuation performed by qualified actuaries of your defined benefit plans is carried out at least every three years and that you have had restructurings and other changes in your operations during recent years. Please provide us with, and in future filings expand, your disclosure to clarify how your accounting policy complies with paragraph 56 of IAS 19 which requires the present value of defined benefit obligations and the fair value of plan assets to be determined with sufficient regularity so that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.
- We note in your statement that you calculate the present value of the defined benefit pension obligation at least annually. Please confirm to us that this evaluation was performed as of [end of reporting period], or that you updated the results of the valuation for any material transaction and other material changes in circumstances through the end of the reporting period. Please also revise your disclosures in future filings accordingly. Please refer to paragraphs 56–57 of IAS 19 for guidance.

**Background and Analysis:** In comment letters to issuers, the staff has focused on the timing of an issuer's actuarial valuations. Specifically, if the valuations were performed as of a date other than the reporting date (many issuers may have their actuaries perform a full valuation less often than annually or as of a date other than the reporting date), the SEC staff asks for both supplemental information and enhanced disclosures about the procedures that were performed to ensure that the amounts reported in the financial statements reflect any material changes in circumstances or other events through the end of the reporting period. Thus, regarding the timing of actuarial valuations, the SEC staff's comments have largely centered on ensuring compliance with the guidance in IAS 19.56–57. These paragraphs state:

An entity shall determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.

[IAS 19] encourages, but does not require, an entity to involve a qualified actuary in the measurement of all material post-employment benefit obligations. For practical reasons, an entity may request a qualified actuary to carry out a detailed valuation of the obligation before the end of the reporting period. Nevertheless, the results of that valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the end of the reporting period.

If an issuer performs the valuations required by IAS 19.56 as of a date other than the reporting date, it should maintain appropriate policies and procedures to ensure that any material transactions or other material changes in circumstances that occur after the valuation date, but before the end of the reporting period, are appropriately captured and reflected in the financial statements. Relevant factors to consider in determining the frequency of actuarial valuations may include the volatility of the economic environment and the impact of the defined benefit obligation and costs on the financial statements.

Although a full plan valuation may not be required every year under local legislation, issuers may need to review some aspects of the valuation (e.g., the fair value of plan assets and financial assumptions, such as the discount rate and the rate of salary



increase) at the end of each reporting period to comply with IAS 19.56. Annual review may not be required for demographic assumptions, such as mortality rates and rate of employee turnover.

The staff has also requested issuers to clarify the source of the discount rate used to determine postemployment benefit obligations that, under IAS 19.78, should be based on market yields for high-quality corporate bonds (or government bonds if applicable) with a term and currency consistent with the related obligation. The staff frequently notes inconsistent (and often insufficient) information and level of disclosure in this area; consequently, in their comments to issuers, the staff requests additional discount rate information. In addition, the SEC staff has frequently commented on issuers' disclosures regarding the valuation techniques and inputs used to measure the fair value of plan assets.

## Disclosures

**Overview of SEC Staff Comments:** The SEC staff has increased its focus on the adequacy and completeness of required disclosures about defined benefit plans and has requested that the required IAS 19 disclosures be included in future filings — including requests to clarify (or expand) accounting policy disclosures about settlements and curtailments. In addition, the staff has asked registrants to expand disclosures of the critical accounting estimates and liquidity implications related to the funding of pension plans.

### Examples of SEC Comments

- In future filings, please provide investors with the following additional disclosures:
  - Whether each defined benefit plan is wholly unfunded or wholly or partly funded. To the extent applicable, please also provide the disclosures required by paragraph 120A(d) of IAS 19 in future filings.
  - The cumulative amount of actuarial gains and losses recognized in other comprehensive income. Please refer to paragraph 120A(i) of IAS 19 for guidance.
  - A description of your basis used to determine the overall expected rate of return on assets for each of your plans. Please refer to paragraph 120A(l) of IAS 19 for guidance.
  - The actual return on plan assets for each period presented. Please refer to paragraph 120A(m) of IAS 19 for guidance.
  - A sensitivity analysis of the discount rate and expected rate of return on plan assets. Please refer to paragraph 129 of IAS 19 for guidance.
  - A sensitivity analysis of the medical cost trend rates. Please refer to paragraph 120A(o) of IAS 19 for guidance.
- In future filings, please disclose your accounting policy for the measurement of curtailment gains or losses.

**Background and Analysis:** Recent SEC staff comments on employee benefit plan disclosures have primarily focused on the requirements in IAS 19.120A. This paragraph requires, among other items, disclosures about an issuer's applicable accounting policies, a general description of the type of plan(s), the principal actuarial assumptions, and detailed quantitative information about how the obligations and periodic activity of a plan affect the issuer's overall financial statements.

The SEC staff has also continued to comment on issuers' disclosures about key assumptions that represent critical inputs for calculating (1) pensions and other postretirement obligations (OPEB) and (2) net periodic benefit cost in the discussion of "sources of estimation uncertainty" in the footnotes to the financial statements, in accordance with IAS 1, or in the OFR. The staff has focused on issuers' assumptions that may be inconsistent with market information or with the assumptions of companies that have similar plan asset allocations and has indicated that it often uses tools to compare the assumptions of registrants with similar characteristics.

At the 2011 AICPA Conference, the SEC staff reiterated that the economy and volatility in the financial markets may affect a company's defined benefit plans and related disclosures. The staff noted that issuers should provide sufficient disclosure about how changes to their plan assets and obligations may affect their liquidity and capital resources. Staff members encouraged issuers to explain the trends and uncertainties related to their pension or OPEB obligations, citing an example of how an entity's statutory minimum funding requirements may be affected by changes in the measurement of its pension plan obligations and assets. When discussing liquidity in the OFR, a company also may need to disclose in both qualitative and quantitative terms what its pension plan contributions have been in the past and the expected changes to those contributions.

In addition, the SEC staff has requested sensitivity analyses for critical accounting estimates associated with an issuer's pension and other postretirement obligations. These disclosures should focus on changes in key assumptions that are reasonably likely to occur and that could be material to an entity (e.g., changes in the discount rate used to calculate an entity's benefit obligation).

# Business Combinations

## Disclosures

**Overview of SEC Staff Comments:** The SEC staff has requested issuers to revise their disclosures about business combinations to include items outlined in IFRS 3. In particular, the staff has asked issuers to disclose the fair value of assets acquired and liabilities assumed, components of goodwill, and the acquired entity's financial statement results after the acquisition date.

### Examples of SEC Comments

- In future filings, please revise your disclosure to address the following:
  - Please include the value of identified intangible assets recognized in the tables containing information for the estimated fair value of the assets acquired and liabilities assumed. Please refer to paragraph 67(f) of IFRS 3 for guidance.
  - Please discuss the factors that contributed to the recognition of goodwill to the extent that goodwill represented a material portion of the purchase price. Please refer to paragraph 67(h) of IFRS 3[(2004)] for guidance.
  - Please include the amount of profit or loss for each [acquiree] since the acquisition date. Please refer to paragraph 67(i) of IFRS 3 for guidance.
- In future filings, please provide all of the disclosures required by paragraphs 67, 72, and 73 of IFRS 3 (2006) for material acquisitions completed in prior periods and paragraph 68 of IFRS 3 (2006) for individually immaterial acquisitions completed in prior periods. Please refer to paragraphs 38-40 of IAS 1 for guidance.
- In future filings, please provide investors with a more comprehensive understanding as to your accounting policy for business combinations with consideration as to whether any material acquisitions have occurred during any of the periods presented. Specifically, please ensure you address the following:
  - The determination of the acquisition date.
  - The process for recognizing and measuring assets, liabilities, and non-controlling interest.
  - The process for recognizing goodwill or a gain from a bargain purchase.
  - The measurement period for the recognition of assets and liabilities.
  - The treatment of any subsequent measurement and accounting for reacquired rights, contingent liabilities, indemnification assets, and contingent consideration.Please refer to IFRS 3 for guidance.
- In future filings, please provide investors with an understanding of your accounting policy for acquisitions. This disclosure should include (a) step-acquisitions in which control is obtained; (b) acquisitions in which control is obtained initially; and (c) acquisitions of non-controlling interests. Please also note that your disclosure should explain your accounting policies for all periods presented.

**Background and Analysis:** IFRS 3 “requires the acquirer to disclose information that enables users of its financial statements to evaluate the nature and financial effect of business combinations that occurred during the current reporting period or after the reporting date but before the financial statements are authorised for issue.” Although the revised IFRS specifies various disclosures that an acquirer must include in the financial statements within its filings, it also requires an acquirer to consider whether financial statement users need additional information to understand the nature and financial effect of a business combination. For example, IFRS 3.37 states that an acquirer must measure the consideration transferred in a business combination “as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer.” Consequently, the SEC staff frequently asks issuers about the nature of adjustments made in calculating consideration transferred and asks issuers to provide omitted disclosures that are required by IFRS 3.B64, including the components comprising goodwill and the fair value of assets acquired and liabilities assumed.

IFRS 3.B64 states, in part:

To meet the objective in paragraph 59, the acquirer shall disclose the following information for each business combination that occurs during the reporting period: . . .

- e. a qualitative description of the factors that make up the goodwill recognised, such as expected synergies from combining operations of the acquiree and the acquirer, intangible assets that do not qualify for separate recognition or other factors.

- f. the acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration, such as:
  - i. cash;
  - ii. other tangible or intangible assets, including a business or subsidiary of the acquirer;
  - iii. liabilities incurred, for example, a liability for contingent consideration; and
  - iv. equity interests of the acquirer, including the number of instruments or interests issued or issuable and the method of determining the fair value of those instruments or interests. . . .
- i. the amounts recognised as of the acquisition date for each major class of assets acquired and liabilities assumed.

The SEC staff has also asked issuers to revise their disclosures to include the impact that the acquired entity had on their results of the operations. Specifically, issuers must disclose the following information under IFRS 3.B64(q):

- i. the amounts of revenue and profit or loss of the acquiree since the acquisition date included in the consolidated statement of comprehensive income for the reporting period; and
- ii. the revenue and profit or loss of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period.

If disclosure of any of the information required by this subparagraph is impracticable, the acquirer shall disclose that fact and explain why the disclosure is impracticable. This IFRS uses the term ‘impracticable’ with the same meaning as in IAS 8.

Regarding types of acquisitions, the SEC staff has asked issuers for additional information in their accounting policy disclosures about how they accounted for (1) acquisitions in which control is obtained initially, (2) step-acquisitions in which control is obtained, and (3) acquisitions of noncontrolling interests. IFRS 3 defines a business combination as “a transaction or other event in which an acquirer obtains control of one or more businesses” and specifies that business combinations should be accounted for by applying the acquisition method. This method requires “(a) identifying the acquirer; (b) determining the acquisition date; (c) recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; and (d) recognising and measuring goodwill or a gain from a bargain purchase.” Accordingly, enhanced accounting policy disclosures would help investors understand which types of an issuer’s transactions would be accounted for as a business combination and the related effects of each type of acquisition.

## Common-Control Transactions

**Overview of SEC Staff Comments:** The SEC staff has asked issuers to explain why the purchase accounting method was used in transactions with common-control entities.

### Example of an SEC Comment

- We note that you apply the purchase method in accounting for acquisitions from common control shareholders. Please explain to us how you determined that you should account for these common control acquisitions using the purchase method as opposed to historical cost accounting. In doing so, please tell us the substance of and reasons for these acquisitions.

**Background and Analysis:** IFRS 3 applies to transactions that meet the definition of a business combination. Appendix A of this IFRS defines a business combination as “[a] transaction or other event in which an acquirer obtains control of one or more businesses. Transactions sometimes referred to as ‘true mergers’ or ‘mergers of equals’ are also business combinations as that term is used in this IFRS.”

IFRS 3.B1 states:

This IFRS does not apply to a business combination of entities or businesses under common control. A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

To account for common-control transactions, an issuer should select an appropriate accounting policy and apply the guidance in IAS 8.

## European Financial Reporting Advisory Group's Project on Accounting for Business Combinations Under Common Control

In October 2011, the European Financial Reporting Advisory Group issued a discussion paper on accounting for business combinations under common control. IFRSs currently do not address how an entity should account for such transactions, and consequently there is diversity in practice. The discussion paper was issued to start the process of addressing that diversity.

# Provisions and Contingent Liabilities

**Overview of SEC Staff Comments:** The SEC staff has requested issuers to provide more information about the nature, types, and amounts of provisions recognized. The staff also commented on the completeness of disclosures about provisions recorded and contingent liabilities. As a result of these comments, some entities changed their disclosures in future filings.

Regarding both provisions and contingent liabilities, the staff has requested issuers to disclose the following:

- Comprehensive explanation of why a provision or contingent liability has been established.
- Greater insight into the uncertainties associated with the amount or timing of expected payments.
- Details regarding the methods and assumptions used to calculate provisions.
- A summary of the provisions that were reversed.
- The impact of discounting.

In addition, the SEC staff has asked issuers to disaggregate dissimilar provisions or contingencies when the staff deemed aggregation inappropriate.

## Examples of SEC Comments

- Provide us with proposed revised disclosure for your [20X0] Form 20-F that:
  - clarifies that what you appear to have recorded for contingent liabilities are what IAS 37 refers to as provisions;
  - indicates the classes of provisions and provides the disclosures required by paragraphs 84 and 85 of IAS 37; and
  - indicates the classes of contingent liabilities and provides the disclosures required by paragraph 86 of IAS 37 given your disclosure that there are cases where provisions are not recorded (i.e. the recognition criteria are not met).
- We note your disclosure that the final decisions for your judicial and administrative proceedings will not have a significant effect on your financial position. In future filings, please expand your conclusion regarding materiality as it also relates to your results [of] operations and liquidity. In addition, to the extent that the final decisions could have a material impact on your operating results and/or liquidity, please revise your disclosures for each provision to state the amount or range by which your consolidated financial statements could be impacted above the amount of provision recognized, if any. Please refer to paragraph 86 of IAS 37 for guidance.
- Please tell us and disclose in future filings how you determined the amount to recognize as a provision for onerous contracts.

**Background and Analysis:** The SEC staff has increased its focus on provisions and contingent liabilities, expressing concern about the lack of timely and transparent disclosures on this topic.

IAS 37 distinguishes between a provision and a contingent liability. A provision is a liability whose timing or amount is uncertain. Under IAS 37.14, a provision must be recognized as a liability when the following criteria are met:

- a. an entity has a present obligation (legal or constructive) as a result of a past event;
- b. it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- c. a reliable estimate can be made of the amount of the obligation.

As of each reporting date, the issuer should review its provisions and adjust them to reflect its current best estimate. If the obligation is no longer probable, the provision amount should be derecognized.

IAS 37 defines a contingent liability as follows:

- a. a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- b. a present obligation that arises from past events but is not recognised because [it does not meet criteria in IAS 37.14(b) and (c)].

However, an entity must disclose the following for each class of contingent liability that is not remote:

- A “brief description of the nature of the contingent liability.”
- The estimated financial effect of the contingent liability (or the fact that it is not practicable to disclose this information).
- An “indication of the uncertainties relating to the amount or timing of any outflow” (or the fact that it is not practicable to disclose this information).
- The “possibility of any reimbursement” (or the fact that it is not practicable to disclose this information).

When disclosing the estimated financial effect of the contingent liability, an issuer should consider whether the effect could be material to any of its financial statements or to its liquidity. The SEC staff has commented when issuers limit the assessment of materiality to the statement of financial position.

Loss contingency disclosures were discussed at the June 2010 CAQ SEC Regulations Committee joint meeting with the SEC staff, at which the SEC staff reiterated its expectation that “disclosures about a loss contingency would be updated as additional information becomes available [and that with] the passage of time, there is a greater presumption that it would be possible for the company to provide quantitative information.” The meeting highlights also note that “the disclosure can be aggregated in a logical manner vs. separate disclosure for each asserted claim [and that] the staff has also recently issued comments when there was a large settlement with little or no disclosure in earlier periods.”

Although geared toward compliance with U.S. GAAP by domestic registrants, Deloitte’s [Financial Reporting Alert 11-1, “SEC’s Focus on Compliance With Loss Contingency Disclosures,”](#) provides additional insight into the SEC’s expectations regarding disclosures about contingent liabilities.

The staff has also commented when there is inconsistency between the issuer’s disclosures (1) within the filing and (2) outside of the filing (e.g., in press releases and earnings calls). In addition, if different issuers are parties to a claim, the SEC may also review the counterparty’s filings and comment if the information is not consistent.

In addition, IAS 37.84–85 state:

For each class of provision, an entity shall disclose:

- a. the carrying amount at the beginning and end of the period;
- b. additional provisions made in the period, including increases to existing provisions;
- c. amounts used (ie incurred and charged against the provision) during the period;
- d. unused amounts reversed during the period; and
- e. the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.

Comparative information is not required.

An entity shall disclose the following for each class of provision:

- a. a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;
- b. an indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph 48; and
- c. the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Further, the staff has frequently commented on issuers’ provisions for onerous contracts. Under IAS 37.66, a provision should be recognized for the present obligation under an onerous contract, which is defined as a “contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.”

# Discontinued Operations

**Overview of SEC Staff Comments:** The SEC staff's comments related to IFRS 5 have focused on the appropriateness of issuers' conclusions about whether to classify and present components as discontinued operations. Specifically, the staff has inquired into issuers' policies for discontinued operations, including the criteria they use to determine when a component should be separately classified as a discontinued operation. In some cases, the staff's comments were in response to other disclosures in issuers' filings, such as discussions about disposals of businesses or other operations. In addition, the staff has focused on the disclosure requirements of IFRS 5.

## Examples of SEC Comments

- We note that during [20X9] you sold certain businesses. Please explain why these operations were not presented as discontinued operations. Refer to paragraph 32 of IFRS 5.
- We note your disclosure here and on pages [x] through [x] related to discontinued operations. Please tell us and revise your future filings to disclose the criteria that you utilize in determining when to classify a component of an entity as a discontinued operation. Refer to the guidance in paragraphs 33–36 of IFRS 5.
- Please tell us how you complied with the disclosure and reporting requirements for discontinued operations as set forth in paragraphs 33 and 34 of IFRS 5.

**Background and Analysis:** IFRS 5.31 notes that a component of an entity must have operations and cash flows that “can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.” Further, IFRS 5.32 defines a discontinued operation as follows:

- A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and
- a. represents a separate major line of business or geographical area of operations,
  - b. is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
  - c. is a subsidiary acquired exclusively with a view to resale.

Issuers may need to exercise judgment in determining whether a disposal group represents a major line of business, and they are strongly encouraged to document such determination and apply it consistently. The disclosures that an issuer is required to provide about its discontinued operations are primarily listed in IFRS 5.33. These disclosures include information about a discontinued operation's revenues, expenses, profit or loss, related tax effects, and cash flows.

# Other Disclosure Topics



# Operating and Financial Review and Prospects

Item 5 of Form 20-F requires issuers to provide qualitative and quantitative analyses of certain factors that affect their financial condition and results of operations for the historical periods covered by the financial statements. These analyses also contain management's assessment of factors and trends that may have a material effect on the entity's financial condition and results of operations in future periods.

Item 5 covers topics such as (1) operating results, (2) liquidity and capital resources, (3) trend information, (4) off-balance-sheet arrangements, and (5) contractual obligations. The Item 5 disclosure requirements are generally consistent with those in Item 303 of SEC Regulation S-K, which covers MD&A in a domestic registrant's filing. The SEC staff has issued other related interpretive guidance as well (e.g., [SEC Interpretive Release 33-8350](#), which is applicable to both issuers and domestic registrants, and Topic 9 of the SEC Division of Corporation Finance's *Financial Reporting Manual*, which addresses MD&A).

Because of the similar requirements, the SEC staff's Item 5-related comments to issuers have focused on many of the same topics as its comments to domestic registrants. The SEC staff has asked issuers to (1) expand discussion of the results of their operations, (2) increase early-warning disclosures, and (3) enhance liquidity disclosures. See the "Management's Discussion and Analysis" section of Deloitte's [SEC Comment Letters — Including Industry Insights: Improving Transparency](#) for further discussion and analysis of the staff's comments to domestic registrants. Issuers should also consider these comments when preparing their disclosures.

In addition, the SEC staff has repeatedly stressed the importance of an analysis of financial performance for investors. At the 2011 AICPA Conference, the SEC staff reiterated this notion by urging registrants to focus more on investors' needs than on avoiding potential staff comments. The staff indicated that "disclosure overload" — that is, the repetition of information within a filing — can prevent investors from effectively using registrants' filings. Further, the staff pointed out that registrants often (1) disclose immaterial items (including the immaterial impacts of new accounting pronouncements), (2) carry forward disclosures that were added to address previous staff comments but that may no longer be relevant, and (3) include redundant disclosures in a periodic filing. The SEC staff also reminded registrants of their obligation to disclose material risks in both MD&A and other sections of their filings. See the [Disclosures About Risk, Including Risk Factors](#) section for additional considerations related to risk disclosures.

At the 2011 AICPA Conference, the SEC staff also discussed the importance of improved liquidity disclosures and cited the ongoing turmoil in the financial markets as the primary reason for the staff's increased focus on such disclosures. Registrants were advised to disclose key liquidity indicators and consider the impact of factors such as (1) changes in leverage strategies, (2) changes in availability of previously reliable funding, (3) intraperiod debt levels, and (4) restrictions on intercompany cash flows.

For more information about the SEC staff's views, see Deloitte's December 14, 2011, [Heads Up](#) on the 2011 AICPA Conference.

Item 11 of Form 20-F requires comprehensive quantitative and qualitative disclosures about market risk and provides three alternatives for presenting the required information: tabular disclosure, sensitivity analysis disclosure, and value at risk disclosures. In many respects, the requirements of Item 11 are similar to those found in IFRS 7, the requirements of which are discussed in more detail in the [Financial Instruments](#) section. While the SEC staff comments on many aspects of the disclosures required by Item 11, value-at-risk disclosures have become a particular area of staff focus. For market sensitive instruments, value-at-risk disclosures give investors information about potential future losses related to earnings, fair value, or cash flows. Issuers are required to provide these disclosures by category (e.g., instruments sensitive to interest rates, currency exchange rates, and commodity prices). They are also required to disclose (1) the model used and (2) the related assumptions needed for investors to understand the value-at-risk disclosures. Accordingly, the SEC staff has asked issuers to provide detailed supplemental information to the staff and enhanced disclosures supporting why the issuer selected the model used (as opposed to any alternatives) and the basis for its assumptions.

## Disclosures About Risk, Including Risk Factors

Item 3 of Form 20-F requires issuers to disclose certain key information, including risk factors specific to an entity or its industry. Like its comments to domestic registrants, the SEC staff's comments to issuers have addressed the specificity of risk factors in general and in particular have focused on those related to foreign operations and foreign currency. Accordingly, the staff has encouraged issuers to (1) avoid "boilerplate" disclosures, (2) verify that all material risks and related risk factors are disclosed, and (3) ensure that information conveyed in other communications to investors is consistent with disclosures in periodic filings.

An MD&A-related panel discussion at the 2011 AICPA Conference also addressed considerations related to risk disclosures. In addressing risks associated with both MD&A and other sections of a filing, panelists stressed that registrants should (1) tailor risk disclosures; (2) update risk disclosures regularly for changes and discuss how such changes affect them; (3) focus on key risks, trends, and uncertainties that are likely to have a material impact on cash flows and performance; and (4) ensure that information presented in MD&A is consistent with the registrant's other SEC filings, Web sites, and public releases. See Deloitte's December 14, 2011, *Heads Up* on the 2011 AICPA Conference for more information.

Also see the "Core Disclosures, Including Disclosures About Risk" section of Deloitte's *SEC Comment Letters — Including Industry Insights: Improving Transparency* for additional discussion of the SEC staff's comments to domestic registrants.

## Non-GAAP Financial Measures

Section C of the general instructions to Form 20-F refers to Item 10 of Regulation S-K to explain the SEC's rules on the use of non-GAAP measures. *SEC Final Rule Release 33-8176* defines a non-GAAP financial measure as a "numerical measure of a registrant's historical or future financial performance, financial position or cash flows" that includes amounts that are not part of the most directly comparable GAAP measure (e.g., free cash flows) or excludes amounts that are part of the most directly comparable GAAP measure (e.g., EBITDA<sup>1</sup>). Common non-GAAP financial measures include EBITDA or adjusted EBITDA, adjusted revenues, free cash flows, core earnings, funds from operations, and measures presented on a constant-currency basis.

In January 2010, the SEC staff replaced its 2003 interpretive guidance *Frequently Asked Questions Regarding the Use of Non-GAAP Measures* with Compliance and Disclosure Interpretations (C&DIs) of non-GAAP financial measures. The purpose of this replacement is to allow issuers to include information in their periodic filings that (1) complies with Item 10(e) of Regulation S-K and (2) is otherwise communicated to investors in earnings press releases or analyst calls. Section 106 of the C&DIs specifically addresses items that affect issuers, including the SEC's views about measures that are considered "expressly permitted." On June 24, 2011, in a [webcast](#) held jointly by the Center for Audit Quality and the SEC's Division of Corporation Finance, the SEC staff indicated that it has seen a resurgence in the types of potentially misleading non-GAAP measures that prompted the SEC to issue the Final Rule 33-8176 in 2003. While the SEC has become more flexible about the use of non-GAAP financial measures, it continues to comment when an issuer's use or disclosure of such measures may not comply with regulations and may be misleading (regardless of whether such measures are inside or outside a filing).

Like its comments to domestic registrants, the SEC staff's comments to issuers on non-GAAP financial measures have focused on the extent of disclosures and on whether issuers demonstrated the purpose of the measures and their usefulness to investors. Specifically, the staff often asked issuers to explain how their disclosures complied with Item 10(e) of Regulation S-K and with the C&DIs. Further, the staff asked issuers to address disclosure issues associated with non-GAAP financial measures, including (1) titles of non-GAAP financial measures, (2) reconciliation issues, (3) per-share non-GAAP financial measures, and (4) measures of operating performance versus liquidity.

At the 2011 AICPA Conference, the SEC staff noted that non-GAAP financial measures can be helpful to investors but reiterated that registrants should not present misleading non-GAAP financial measures either inside or outside of filings (e.g., Web sites and press releases). The staff cited two examples of items that should not constitute adjustments of non-GAAP measures because they may make the non-GAAP measures misleading: (1) recurring cash operating expenses necessary to run the business and (2) the largest expenses necessary to generate revenues. The staff also reminded conference participants that they should not eliminate recurring cash charges in a misleading manner. For additional information, see Deloitte's December 14, 2011, *Heads Up* on the 2011 AICPA Conference.

Also see the "Non-GAAP Financial Measures" section of Deloitte's *SEC Comment Letters — Including Industry Insights: Improving Transparency* for further discussion and analysis of the SEC staff's comments to domestic registrants.

<sup>1</sup> Earnings before interest, taxes, depreciation, and amortization.

## Controls and Procedures

Item 15 of Form 20-F outlines a number of filing requirements, including those related to (1) disclosure controls and procedures, (2) management's annual report on internal control over financial reporting, (3) the attestation report of the registered public accounting firm, and (4) changes in internal control over financial reporting.

When an issuer uses Form 20-F as an annual report filed in accordance with Section 13(a) or 15(d) of the Exchange Act of 1934, it is required to disclose its principal executive's and principal officers' conclusions on the effectiveness of disclosure controls and procedures as of the end of the reporting period. As with its comments to domestic registrants, the SEC staff often comments when issuers (1) do not use the proper definition of "disclosure controls and procedures," as stated in Exchange Act Rule 13a-15(e); (2) do not conclude on the effectiveness of their disclosure controls or procedures (or their basis for conclusions is unclear); or (3) refer to the level of assurance in the design or effectiveness of their disclosure controls and procedures. In these situations, the staff frequently requires issuers to verify that their disclosure controls and procedures are effective in the current year and to revise their disclosures in future filings.

Item 15 requires issuers that use Form 20-F as an annual report to provide management's annual report on internal control over financial reporting, an attestation report of the registered public accountant (if applicable), and disclosures about the changes in internal control over financial reporting during the annual period. Because the requirements for issuers are substantially the same as those for domestic registrants, the SEC staff has asked issuers for clarification and additional disclosures about (1) significant changes in internal control over financial reporting, (2) the remediation of material weaknesses in, and the impact of such weaknesses on, the issuer's filings, and (3) incomplete definitions of ICFR.

See the "Disclosure Controls and Procedures" and "Internal Control Over Financial Reporting" sections of Deloitte's *SEC Comment Letters — Including Industry Insights: Improving Transparency* for further discussion and analysis of the SEC staff's comments to domestic registrants.

## Certifications

### Example of an SEC Comment

- We note that your certifications are not in the exact form prescribed by Instruction 12 to the Exhibits of Form 20-F. . . . Please amend your filings to include revised certifications . . . and conform to the exact wording required by Instruction 12 to the Exhibits of Form 20-F.

Instruction 12 in Item 19 of Form 20-F states that certifications are required by Rules 13a-14(a) and 15d-14(a) of the Exchange Act. Issuers must present the certifications exactly as set forth in the instructions (e.g., including punctuation marks and parenthetical phrases). The requirements in Instruction 12 are substantially similar to the requirements for domestic registrants under Item 601(b)(31) of Regulation S-K. The SEC staff has often asked issuers to file an amendment of an entire periodic filing when these certifications contain errors. Like domestic registrants, issuers may consult Interpretation 246.14 of the C&DIs of Regulation S-K (issued by the SEC staff in July 2008), which states:

The following errors in a certification required by Item 601(b)(31) are examples of errors that will require the company to file a corrected certification that is accompanied by the entire periodic report: (1) the company identifies the wrong periodic report in paragraph 1 of the certification; (2) the certification omits a conformed signature above the signature line at the end of the certification; (3) the certification fails to include a date; and (4) the individuals who sign the certification are neither the company's principal executive officer nor the principal financial officer, or persons performing equivalent functions.

In addition, the staff routinely notes that including an issuer's certifying officer's title constitutes an inappropriate modification.

# Disclosures Regarding State Sponsors of Terrorism

## Example of an SEC Comment

- Please discuss the materiality of your contacts with Iran, Syria, [Sudan], and Cuba, and whether those contacts constitute a material investment risk for your security holders. You should address materiality in quantitative terms, including the approximate dollar amounts of any associated revenues, assets, and liabilities for the last three fiscal years. Also, address materiality in terms of qualitative factors that a reasonable investor would deem important in making an investment decision, including the potential impact of corporate activities upon a company's reputation and share value. As you know, various state and municipal governments, universities, and other investors have proposed or adopted divestment or similar initiatives regarding investment in companies that do business with U.S.-designated state sponsors of terrorism. Your materiality analysis should address the potential impact of the investor sentiment evidenced by such actions directed toward companies that have operations associated with Iran, Syria, [Sudan], and Cuba.

The U.S. Department of State has designated four countries as state sponsors of terrorism: Cuba, Iran, Sudan, and Syria. These countries are subject to U.S. economic sanctions and export controls. Domestic registrants that do business in these countries are required to disclose material operations in these locations and any agreements, commercial arrangements, or other contracts with the governments or entities controlled by those governments.<sup>2</sup> The SEC staff regularly comments on this subject and believes that these disclosures are important to helping investors make investment decisions. The staff has asked issuers to disclose the nature and extent of these contracts (past, present, and probable) as well as to provide a detailed analysis of the materiality of contacts with these countries. In addition to providing quantitative disclosures about revenues, assets, and liabilities associated with these countries, issuers are encouraged to disclose any qualitative factors that may have a significant impact.

## Material Contracts

### Example of an SEC Comment

- You indicated that you did not have any material contracts that were required to be disclosed under Item 10C of Form 20-F. However, we note that in December [20X9] you signed a [contract agreement for a \$XX million loan]. Please provide the disclosures requested under Item 10C of Form 20-F for this contract and any other material contracts or tell us why you are not required to do so. Also, please confirm to us that you will file as exhibits any contracts described under paragraph four of the "Instruction as to Exhibits" for Form 20-F in your next annual statement, if applicable.

Item 10C of Form 20-F requires issuers to provide "a summary of each material contract, other than contracts entered into in the ordinary course of business, to which the company or any member of the group is a party, for the two years immediately preceding publication of the document." This disclosure should include relevant dates and parties, as well as information about the nature of the contracts, terms and conditions, and amount of any consideration passing to or from the company or any other member of the group. The instructions to Item 19 of Form 20-F outline the circumstances in which an issuer should file, or incorporate by reference, material contracts as exhibits. The criteria are consistent with those in Item 601 of Regulation S-K. Consequently, SEC staff comments to issuers regarding material contracts are often similar to those received by domestic registrants. The staff comments when it appears an issuer has omitted certain material agreements from its Item 10C disclosure or listing of exhibits.

See the "Material Contracts" section of Deloitte's *SEC Comment Letters — Including Industry Insights: Improving Transparency* for further discussion and analysis of SEC staff comments to domestic registrants.

<sup>2</sup> In 2007, the SEC issued a concept release that requested input on certain matters related to sponsors of state terrorism. The concept release indicates the "federal securities laws do not impose a specific disclosure requirement that addresses business activities in or with a country based upon its designation as a State Sponsor of Terrorism." However, as with other disclosure requirements of material information, the "federal securities laws do require disclosure of business activities in or with a State Sponsor of Terrorism if this constitutes material information that is necessary to make a company's statements, in the light of the circumstances under which they are made, not misleading [or] there is a substantial likelihood that a reasonable investor would consider the information important in making an investment decision or if the information would significantly alter the total mix of available information."

# SEC Reporting — Guarantors of Registered Securities (Regulation S-X, Rule 3-10)

SEC authoritative literature includes a number of requirements that govern the form and content of an issuer's financial statements and other information that must be included in filings with the SEC. While the SEC staff often comments about such form and content requirements, its recent focus has been on disclosures about guarantors of registered securities. This topic has also been the subject of SEC staff discussions at both the 2011 and 2010 AICPA Conferences. See Deloitte's *Heads Up* on the 2010 and 2011 AICPA Conferences for more information.

Under Rule 3-10, a registrant must provide full financial statements for each subsidiary issuer and guarantor of registered debt securities. If certain conditions are met, however, an issuer may be able to present more limited information (e.g., condensed consolidating financial information) in a footnote to the parent company's financial statements in lieu of the separate financial statements of the subsidiary issuer or guarantor. Further, in these circumstances, the subsidiary issuer and guarantor would be exempt from filing their own periodic reports under the Securities Exchange Act of 1934. Therefore, issuers should consider the requirements of Rule 3-10 if (1) the issuer registers debt and one or more of its subsidiaries guarantee the debt or (2) one of the issuer's subsidiaries registers debt and the parent company or one or more of its other subsidiaries guarantee the debt.

All the exceptions under Rule 3-10 require (1) the subsidiary issuer and guarantors to be "100 percent owned" by the registrant and (2) the guarantee to be "full and unconditional." The SEC staff may comment on whether the issuer specifically meets these and other criteria necessary for the presentation of modified financial information.

Whether a guarantee is truly "full and unconditional" has recently been a topic of enhanced focus by the SEC staff. At the 2010 AICPA Conference, the SEC staff discussed the requirement that guarantees must be full and unconditional for registrants to qualify for relief from providing full financial statements. The SEC staff noted that the guarantee must, among other requirements, be in force throughout the term of the registered debt and that a provision that allowed a guarantor to "opt out" of the guarantee during the term of the debt would not meet the full and unconditional criterion.

At the 2011 AICPA Conference, the SEC staff noted typical problems issuers have had in complying with the "full and unconditional" criterion, which include:

- Limiting or capping the guarantee amount so that the definition of "full" is not met.
- Delaying the guarantor's payment obligation, in the event of the issuer's default, thereby resulting in a guarantee that is not "unconditional."

In addition, the SEC staff noted that paragraph 2510.4 of the SEC Division of Corporation Finance's *Financial Reporting Manual* (FRM) was updated to indicate that an "arrangement that permits a guarantor to opt out of its obligation prior to or during the term of the debt is not a full and unconditional guarantee."

At the 2011 AICPA Conference, the SEC staff indicated that the guidance in paragraph 2510.5 of the FRM related to subsidiary guarantee provisions was also updated. The staff highlighted that in certain situations (i.e., when the subsidiary's guarantee is automatically released under "customary circumstances" often common in high-yield debt offerings), an issuer may still rely upon Rule 3-10 provided the other requirements in Rule 3-10 are met. However, if such subsidiary guarantee release provisions have the effect of releasing a subsidiary's guarantee when specified events occur, the guarantee is not full and unconditional because the guarantee must be in force throughout the term of the registered debt. Accordingly, although the SEC staff stressed that issuers should clearly disclose the nature of the subsidiary guarantee and the circumstances under which it will be released, issuers should carefully analyze a guarantee's underlying conditions before characterizing it as full and unconditional.

The staff also reiterated that the guidance in paragraph 2510.5 of the FRM applies only to subsidiary guarantees and not to parent guarantees that have release provisions.

# Appendix

# Appendix A: SEC Staff Review Process

The SEC's Division of Corporation Finance (the "Division") selectively reviews filings made under the Securities Act of 1933 and the Securities Exchange Act of 1934. In January 2009, the SEC staff issued an [overview](#) that explains its filing review and comment letter process. The overview aims to increase transparency in the review process and expresses the staff's willingness to discuss issues with registrants. For example, the overview indicates that the "[staff] views the comment process as a dialogue with a company about its disclosure" and that a "company should not hesitate to request that the staff reconsider a comment it has issued or reconsider a staff member's view of the company's response to a comment at any point in the filing review process."

The overview is divided into two main sections:

- *The Filing Review Process* — This section explains that the Division comprises 12 offices staffed by experts in specialized industries, accounting, and disclosures. The section includes background on the different types of review (required and selective) and covers the comment process, indicating that "[m]uch of the [staff's] review [process] involves reviewing the disclosure from a potential investor's perspective and asking questions that an investor might ask when reading the document." The section also addresses how to respond to staff comments and close a filing review.
- *The Reconsideration Process* — This section emphasizes that "staff members, at all levels, are available to discuss disclosure and financial statement presentation matters with a company and its legal, accounting, and other advisors." In addressing a registrant's potential request for the SEC staff to reconsider a staff member's comment or view on a registrant's response, the staff emphasizes that registrants do not have to "follow a formal protocol." However, the staff explains where registrants should start and the steps involved in the normal course of the reconsideration process. The staff also specifies contact information for each office for both accounting and financial disclosure matters and legal and textual disclosure matters.

Registrants may involve the SEC's Office of the Chief Accountant (OCA) during any stage of the review process. Unlike the Division's role, which is to address matters related to the age, form, and content of registrants' financial statements that are required to be filed, the OCA's role is to address questions concerning a registrant's application of GAAP. [Guidance](#) on consulting with the OCA is available on the SEC's Web site.

A registrant that receives an SEC comment letter should generally respond within the time frame indicated in the letter. See [Appendix B](#) for more information about responding to SEC comment letters. The registrant should continue to respond to any requests for more information until it receives a letter from the Division stating that the Division has no further comments. A registrant that does not receive a completion letter within a reasonable amount of time after submitting a response letter should call its SEC staff reviewer (named in the letter) to ask about the status of the review. If the review is complete, the registrant should request a completion letter.

To increase the transparency of the Division's review process, comment letters are made public, via the SEC's Web site, no more than 20 days after the review is completed. See [Appendix C](#) for tips on searching the SEC's comment letter database.



# Appendix B: Best Practices for Managing Unresolved SEC Comment Letters

The best practices below are intended to help registrants resolve any staff comment letters in a timely manner. Unresolved comments may affect a registrant's ability to issue financial statements and an auditor's ability to issue the current-year audit report. A registrant should do the following:

- Consider the impact the comment letter may have on its ability to issue the financial statements.
- Consult with its SEC legal counsel about the impact the comment letter may have on the certifications contained in its Form 20-F.
- Consult with its auditors to discuss the impact the comment letter may have on their ability to issue the current-year audit report.
- Review the comment letter immediately and respond to the SEC staff reviewer (named in the letter) within the time indicated in the comment letter (usually 10 business days). If possible, the registrant should not request an extension, since this may delay resolution of the comment letter. However, in certain circumstances, the registrant should consider requesting an extension to provide a more thorough and complete response that addresses all of the staff's comments.
- If the registrant does not fully understand any specific comment, the registrant should contact its SEC staff reviewer quickly for clarification so that it can provide an appropriate response.
- Include in the response a discussion of supporting authoritative accounting literature and references to the specific paragraph(s) from the standard(s).
- Because some comments may request disclosure in future filings, the registrant should consider including such disclosure in the response letter to potentially eliminate additional requests from its SEC staff reviewer.
- If an immaterial disclosure is requested, the registrant should consider explaining why the disclosure is immaterial instead of including the immaterial disclosure in future filings.
- Maintain contact with its SEC staff reviewer and make the reviewer aware of the registrant's required timing (on the basis of its current-year filing deadlines).
- If the registrant has not received a follow-up letter or been contacted within two weeks of filing the initial response letter, the registrant should contact its SEC staff reviewer to determine the status of the comments. The registrant should promptly address any follow-up questions.
- If the registrant is uncertain about whether its review has been completed without further comments, it should ask the SEC staff reviewer about the status of the review. If the review is complete, the registrant should ask the reviewer for a completion letter.

## Oral Comments

In certain circumstances, the SEC staff may provide oral comments to a registrant instead of a written comment letter. The registrant should ask the SEC staff reviewer how he or she would like to receive the registrant's response to the oral comments. If the reviewer requests a response via EDGAR, a registrant should respond with a written letter. If the reviewer requests an oral response or identifies no preference, a registrant should still, although it is not required to do so, consider responding to the staff's comments with a letter to formally document the registrant's understanding of the staff's comments and the discussions held as well as the registrant's response.

## Disclosure Requirements

Under the Securities Offering Reform, large accelerated filers, accelerated filers, and well-known seasoned issuers must disclose in their Forms 20-F the substance of any material unresolved SEC staff comments that were issued 180 or more days before the end of the current fiscal year.



# Appendix C: Tips for Searching the SEC's Database for Comment Letters

The SEC releases comment letters and responses on its Web site no earlier than 45 days after the review of the filing is complete. Users can search the database on a quarterly basis as part of their financial statement review process. Registrants and nonregistrants can use these comments to improve their accounting and overall disclosure.

The guide below contains tips for using the "Full-Text Search" feature to find relevant comment letters on the SEC's database.

## Full-Text Search Feature

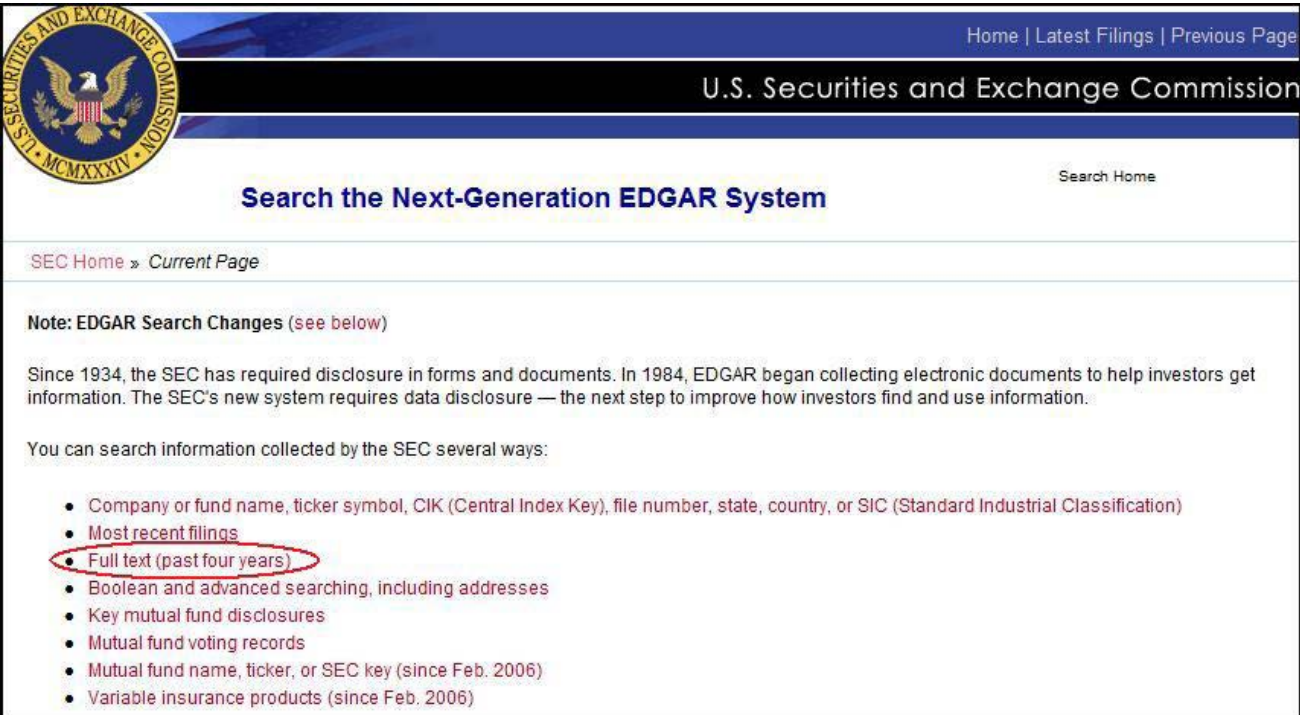
This is one of the more helpful tools for finding relevant comment letters on the SEC's Web site. The Full-Text Search feature allows users to search the complete text of all filings posted electronically within the last four years. It performs two types of searches: basic and advanced. The basic search looks for all form types, while the advanced search can limit search results to specific filings.

To access the advanced search feature:

1. On the SEC's home page ([www.sec.gov](http://www.sec.gov)), select "Search for Company Filings" under "Filings & Forms." (Note: You may need to scroll down to find these selections.)



2. On the “Search the Next-Generation EDGAR System” Web page, select “Full text (past four years).”



Home | Latest Filings | Previous Page

U.S. Securities and Exchange Commission

Search Home

## Search the Next-Generation EDGAR System

SEC Home » Current Page

**Note: EDGAR Search Changes** ([see below](#))

Since 1934, the SEC has required disclosure in forms and documents. In 1984, EDGAR began collecting electronic documents to help investors get information. The SEC's new system requires data disclosure — the next step to improve how investors find and use information.

You can search information collected by the SEC several ways:

- Company or fund name, ticker symbol, CIK (Central Index Key), file number, state, country, or SIC (Standard Industrial Classification)
- [Most recent filings](#)
- [Full text \(past four years\)](#)
- Boolean and advanced searching, including addresses
- Key mutual fund disclosures
- Mutual fund voting records
- Mutual fund name, ticker, or SEC key (since Feb. 2006)
- Variable insurance products (since Feb. 2006)

3. On the “Full-Text Search” Web page, select “Advanced Search Page.”



Home | FAQ

U.S. Securities and Exchange Commission

## Full-Text Search

This page allows you to search the full text of EDGAR filings from the last four years. The full text of a filing includes all data in the filing as well as all attachments to the filing. To find the information you need and make your search easy and enjoyable, please visit our [FAQ](#) page. We are still developing this feature, and we plan to enhance it based on user feedback. Please email your comments and suggestions for improvement to [textsearch@sec.gov](mailto:textsearch@sec.gov).

Search For Text:

[Advanced Search Page](#)

Search Reset

4. This brings up the following Web page.

The screenshot shows the U.S. Securities and Exchange Commission's Full-Text Search interface. At the top left is the SEC seal, and at the top right are links for 'Home' and 'FAQ'. The title 'U.S. Securities and Exchange Commission' is centered. Below the title, the heading 'Full-Text Search' is followed by a paragraph explaining the search capabilities and providing the email [textsearch@sec.gov](mailto:textsearch@sec.gov). The search form includes a 'Search For Text:' input field with a 'Basic Search Page' link. Below this are dropdown menus for 'In Form Type:' (set to 'All Forms') and 'Sort By:' (set to 'Date (Latest First)'). To the right, 'Results Per Page:' is set to '10' and 'Use Stemming:' is checked. A section for searching 'For' includes radio buttons for 'Company Name:', 'Central Index Key (CIK):', and 'Standard Industrial Classification:' (set to 'All SICs'). At the bottom, there are 'Start Date:' and 'End Date:' fields with date pickers, and 'Search' and 'Reset' buttons.

The following are tips for using this page:

### Form Types

To limit the search results to comment letters, use the drop-down menu next to “In Form Type:” and choose “CORRESP” for the registrant’s response to the SEC (which usually includes the text of the SEC’s comments) or “UPLOAD” for the comments only. To search for other items (e.g., sample disclosures in Forms 20-F, 10-K, and 10-Q), select the relevant form.

### Performing Searches

Searches are performed by entering text into the “Search for Text” field. Full-Text Search features both “natural-language” and Boolean searching. With natural-language searching, one can search for a concept by using the language that would be used to express that concept to another person (e.g., fluctuations in interest rates). Full-Text Search will find all comment letters that include at least one of the words entered into the “Search for Text” field and will automatically find variations of the key word(s).

To search for a specific phrase, enclose the words in the search box within quotations (e.g., “management’s discussion and analysis”). Full-Text Search will find all comment letters that include the exact phrase or a similar phrase, such as “managerial discussion and analysis.”

Boolean searching includes the use of Boolean operators to make a search more precise. Some commonly used Boolean operators are AND, OR, and NOT (capitalization of these terms is required). For the operator to work effectively, a key word or phrase generally must be included before and after the operator (e.g., investments AND temporary).

- AND — Using AND in a search will find documents that include all terms connected by the AND operator (but not necessarily in the same sentence or paragraph). These terms can appear in any order in the document.
- OR — Using OR in a search will find documents containing any of the terms connected by the OR operator.
- NOT — Using NOT in a search will find documents that contain one term but not another term.

### Modifications to Searches

Full-Text Search also allows a user to narrow search results by employing additional tools within the “Search for Text” field. Depending on the search criteria used, the results of the search could range from broad to more specific. These tools include Wildcard and Nearness searches.

**Wildcard**— While Full-Text Search automatically finds certain variations of a key word within comment letters, a user can ensure that all variations are considered by using a wildcard. An asterisk (\*) is a wildcard that can be used in place of missing character(s) of the key word(s) to find all comment letters that include a variation of the word indicated (e.g., *impair\** would search for *impair*, *impaired*, *impairing*, *impairment*, and *impairs*).

**Nearness**— A user can search for key words or phrases within a certain proximity of each other by stipulating a range. The range is determined by using the term “NEARn” with the “n” as the maximum number of words within the range (e.g., “*impair NEAR5 down*” would find comment letters with *impair* and *down* within five words of each other).

Many of these tools can be combined. For example, the use of quotations to find a specified phrase can be combined with the use of the Boolean operators (e.g., *investments AND “temporary decline”*).

Full-Text Search does not index numbers; therefore, numbers included within a query will be ignored. For example, a search for the terms *route 66 hotels* will locate documents that contain the terms “*route*” and “*hotels*” but will not identify any documents containing the number “66.” The advanced search function can, however, limit searches to filings associated with certain special kinds of numbers, such as CIK numbers, dates, and filing types (see “Other Search Criteria” below for additional information).

### Other Search Criteria

In addition to particular words or phrases, comment letters can be searched by:

- Company name.
- Central index key (CIK).<sup>1</sup>
- Standard industrial classification (SIC) code.<sup>2</sup>
- Date range.

The search engine includes specific boxes for each of these items, allowing further customization of results.

**Note:** A user can see a list of additional companies that have the same SIC code as the one in a list of search results by clicking on the SIC Code appearing in the list of search results.

#### Example

09/14/2006 EX-10.1 of 10SB12G for AOB BIOTECH INC  
COMPANY NAME(s) - [AOB BIOTECH INC (CIK - 1363449) (SIC - 6022)]  
*Exhibit 10.1 DEVELOPMENT AGREEMENT In this Agreement AOB BIOTECH INC. ("Developer"), a California registered company, doing business at 301 North Lake Ave., Pasadena and SuperMax USA, INC. ("Contractor"), located at Japan, agrees that on August, 2005. AOB BIOTECH INC. is to develop five formulas*

### Displaying Search Results

A user can select the number of results to include on each page by adjusting the “Results per page” drop-down list on the right side of the page. The most recent filings are listed first.

To open the comment letters, click on the underlined title of the form to the right of the date. The comment letters will include any attachments or exhibits.

#### Example of Benefits of Using Full-Text Search

Assume that a user in the hotel industry was interested in recent SEC comments on the determination of operating segments. By searching for the words “operating segments” in all forms, for all dates, a user would get 8,000+ results, many of which are not relevant.

We recently tried narrowing our search to the form type CORRESP by using the specific phrase in quotations, “operating segments”; using the industry code for the hotel/motel industry (SIC 7011); and providing a date range spanning only the last two years. We got a much lower number of results, all of which are relevant and are more manageable to review.

<sup>1</sup> According to the SEC’s Web site, “a CIK is the unique number that the SEC’s computer system assigns to individuals and corporations who file disclosure documents with the SEC. All new electronic and paper filers, foreign and domestic, receive a CIK number.”

<sup>2</sup> A SIC code is an industry designation. Note that some of the SIC code descriptions are similar, so narrowing results by SIC code may not include certain issuers that are in a similar industry yet have a different assigned SIC code.

### ***Finding Search Terms Within the Filing Document***

#### *HTML or Text Documents*

Once the comment letter is opened, the user can find search terms by pressing the Ctrl and F keys simultaneously, then typing one or more of the key words into the box and clicking Find.

#### *PDF Documents*

Once the comment letter is opened, the user can find search terms by clicking on the binocular icon and typing one or more of the key words into the box and clicking Search.

### ***Additional Help on Using Full-Text Search***

The [Full-Text Search Frequently Asked Questions \(FAQ\)](#) page includes a valuable list of FAQs and answers. One of the FAQs indicates that if a user is having trouble, he or she may “[s]end an e-mail to the [textsearch@sec.gov](mailto:textsearch@sec.gov) mailbox, telling . . . what [he or she is] trying to find and how [he or she has] been searching for it.”



# Appendix D: Other Resources

A number of resources, including those listed below, are available from the SEC and Deloitte to assist with implementing and reporting under IFRSs.

## SEC and Related Resources

- [Division of Corporation Finance \*Financial Reporting Manual\*](#)
- [Compliance and Disclosure Interpretations](#)
- [Corporation Finance Disclosure Guidance](#)
- [Center for Audit Quality SEC Regulations Committee's International Practices Task Force](#)

## Deloitte Resources

IAS Plus	Updated daily, <a href="#">IAS Plus</a> is your one-stop shop for information about IFRSs. Most of the publications listed below are available on IAS Plus.
IFRS e-Learning module	E-learning IFRS training materials, one module for each IAS and IFRS and the Framework, with self-tests.
<i>IFRS in Focus</i> newsletter	Summarizes new and revised IASB standards and interpretations, exposure drafts, and discussion documents.
Presentation and disclosure checklist	Incorporates all of the presentation and disclosure checklist requirements of standards.
Compliance questionnaire	For use in assessing compliance with the recognition and measurement principles in IFRSs.
Model financial statements	Sample financial statements illustrating the presentation and disclosure requirements of IFRSs.
<i>iGAAP 2012</i>	Printed books designed to introduce and explain the financial reporting requirements under IFRSs.
<i>First-time Adoption of IFRSs: A Guide to IFRS 1</i>	Guidance on applying IFRS 1.
<i>Business Combinations and Changes in Ownership Interests: A Guide to Revised IFRS 3 and IAS 27</i>	Guidance on applying these standards.
<i>Interim Financial Reporting: A Guide to IAS 34</i>	Guidance on applying the interim reporting standard, including a model interim financial report and an IAS 34 compliance checklist.
<i>Assets Held for Sale and Discontinued Operations: A Guide to IFRS 5</i>	Detailed summaries and explanations of the requirements of IFRS 5; includes supplementary guidance and examples based on Deloitte's experience with IFRS 5.
<i>IFRIC 12 Service Concession Arrangements: A Pocket Practical Guide</i>	Analysis of the requirements of IFRIC 12 and practical guidance with examples that address some of the more complex issues related to service concession arrangements.
<i>IFRSs in Your Pocket</i>	Pocket guide that includes a description of the IASB structure, biographies of IASB members, an IASB/IASB chronology, a table on use of IFRSs around the world, summaries of all IFRSs, and overviews of all IASB agenda projects. Updated annually.
<i>Comparison of IFRSs and U.S. GAAP</i>	Standard-by-standard comparison of key differences.
<a href="#">Deloitte Technical Library</a>	Online library of accounting and financial disclosure literature, including all IASB and FASB standards and literature; SEC rules, regulations, and forms; AICPA accounting and auditing guides; and Deloitte's own accounting manuals and other interpretive guidance on IFRSs and U.S. GAAP. Updated every business day.

# Appendix E: Titles of Standards and Other Literature

## FASB Literature

For the titles of citations to the *FASB Accounting Standards Codification* (ASC) used in this publication, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."

See the FASB's Web site for the titles of citations to:

- [Accounting Standards Updates](#).
- [Exposure documents open for comment](#).
- [Exposure documents issued for public comment \(archive\)](#).
- [Pre-Codification literature \(Statements, Staff Positions, EITF Issues, and Topics\)](#).
- [Concepts Statements](#).

## International Standards

See Deloitte's IAS Plus Web site for the titles of citations to:

- [International Financial Reporting Standards \(IFRSs\)](#).
- [International Accounting Standards \(IASs\)](#).
- [International Financial Reporting Interpretations Committee \(IFRIC\)](#).
- [Standing Interpretations Committee \(SIC\)](#).

## SEC Literature

- Final Rules, Proposed Rules, Concept Releases, and Interpretive Releases:
  - Final Rule No. 33-8176, *Conditions for Use of Non-GAAP Financial Measures*
  - Final Rule No. 33-8567, *First-Time Application of International Financial Reporting Standards*
  - Final Rule No. 33-8879, *Acceptance From Foreign Private Issuers of Financial Statements Prepared in Accordance With International Financial Reporting Standards Without Reconciliation to U.S. GAAP*
  - Proposed Rule No. 33-9143, *Short-Term Borrowings Disclosure*
  - Concept Release Nos. 33-8860 and 34-56803, *Mechanisms to Access Disclosures Relating to Business Activities in or With Countries Designated as State Sponsors of Terrorism*
  - Interpretive Release No. 33-8350, *Commission Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations*
  - Interpretive Release No. 33-9144, *Commission Guidance on Presentation of Liquidity and Capital Resources Disclosures in Management's Discussion and Analysis*
- [C&DI Topics](#):
  - Regulation S-K
  - Non-GAAP Financial Measures
- Forms:
  - Form 10-K, "General Form of Annual Report"
  - Form 20-F

- SEC Division of Corporation Finance's *Financial Reporting Manual*:
  - Topic 2, "Other Financial Statements Required"
  - Topic 6, "Foreign Private Issuers & Foreign Businesses"
  - Topic 9, "Management's Discussion and Analysis of Financial Position and Results of Operations (MD&A)"
- Regulation S-K:
  - Item 10, "General"
  - Item 303, "Management's Discussion and Analysis of Financial Condition and Results of Operations"
  - Item 601, "Exhibits"
- Regulation S-X:
  - Rule 3-04, "Changes in Stockholders' Equity and Noncontrolling Interests"
  - Rule 3-10, "Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered"
- Securities Exchange Act of 1934, Rule 13a-15, "Issuer's Disclosure Controls and Procedures Related to Preparation of Required Reports"



