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SEC Comment Letters on Foreign Private Issuers Using IFRSs

A Closer Look



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Preface

In November 2007, the SEC voted to allow foreign private issuers to use International Financial Reporting Standards (IFRSs) in preparing their financial statements without reconciling them to U.S. GAAP. The new rule, Securities Act Release No. 33-8879,¹ will become effective on March 4, 2008, for fiscal years ending after November 15, 2007. Therefore, a calendar-year-end foreign private issuer does not have to include a reconciliation in its 2007 financial statements. The SEC voted that, with one exception, a foreign private issuer's financial statements must fully comply with the International Accounting Standards Board's (IASB's) version of IFRSs. The exception relates to foreign private issuers that use the version of IFRSs that includes the European Commission's "carve-out" for IAS 39. The Commission voted to allow such issuers to use that version in preparing their financial statements for a two-year period as long as a reconciliation to the IASB's version of IFRSs is provided. After the two-year period, these issuers will either have to use the IASB's version of IFRSs or provide a reconciliation to U.S. GAAP. As a result of the new rule, the SEC staff is expected to increase its scrutiny of the primary IFRS financial statements.

The SEC's Division of Corporation Finance is responsible for reviewing all company filings, including those of foreign private issuers. Section 408(c) of the Sarbanes-Oxley Act of 2002 mandates that all issuers be reviewed no less than once every three years. While the selection process for filing reviews is nonpublic and confidential, Section 408(b) of the Act requires that the Division consider certain factors when selecting companies for review. Ultimately, the 11 industry groups in the Division determine the type of review performed on a particular filing and the issues material to their industry.

Over the past two years, the SEC staff has reviewed more than 100 filings containing IFRS financial statements of foreign private issuers. Like domestic issuers, foreign private issuers have received various comments requesting additional information about the accounting treatment underlying items in the financial statements and the related disclosures made. In certain cases, the SEC staff has suggested that issuers enhance the

¹ For the full title of each standard, see [Appendix E: Glossary of Standards](#).

disclosures made in filings on a future-filing basis (i.e., make changes in subsequent filings). In a few cases, the staff has requested that issuers revise current filings (i.e., a restatement).

The primary objective of this Special Report is to help financial statement preparers understand the items that the SEC staff has focused on during the review process over the past two years. We include an overall analysis of the comments made, including the nature and types of comments issued. We also include extracts from actual comment letters accompanied by an analysis of the topic involved and forward-looking considerations. Individual comment letters and responses are available on the SEC's Web site at www.sec.gov.

For additional guidance, as well as comprehensive information about international financial reporting, see Deloitte Touche Tohmatsu's IAS Plus Web site at www.iasplus.com. The site, which is free of charge, also features a variety of resources on the IASB and IFRSs.

Many hands and minds contributed to this Special Report. We gratefully acknowledge Kathie Bugg, Laetitia Cerou, D.J. Gannon, Rowena Madla, Magnus Orrell, Ignacio Perez, and Randall Sogoloff for their contributions to this Special Report and extend to them Deloitte & Touche LLP's deepest appreciation. In addition, we appreciate the efforts of the Production Group, including Lynne Campbell, Yvonne Donnachie, Michael Lorenzo, Joan Meyers, Jeanine Pagliaro, and Joseph Renouf.

Introduction

Overall, the SEC staff reviewed more than 100 filings of foreign private issuers and had an average of 19 comments per filing. In the comment letters we reviewed, we noted several overall themes:

- Focus was more on the primary IFRS financial statements than on the U.S. GAAP reconciliation.
- Presentation and disclosure were significant areas of focus across industries.
- Recognition and measurement comments varied by industry.
- There was a particular interest in “converged” standards.
- Comments were geared toward understanding the judgments made and assumptions used in applying IFRSs.

Areas of Focus in Each Section of Form 20-F

Not surprisingly, the SEC staff’s primary focus was on the financial statements. For the comment letters we reviewed, the table below lists the percentage of total comments for each section of the Form 20-F filing that received commentary.

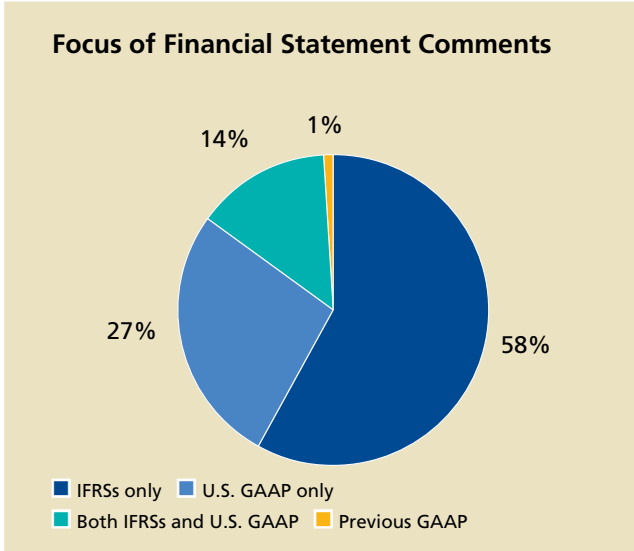
Table 1

Comments by Section of Form 20-F	
Section of Report	% of Total Comments
Financial Statements	87%
Operating and Financial Review and Prospects	5%
Disclosure Controls and Procedures	2%
Selected Financial Data	1%
Company Information	1%
Other	4%

Financial Statement Comment Analysis

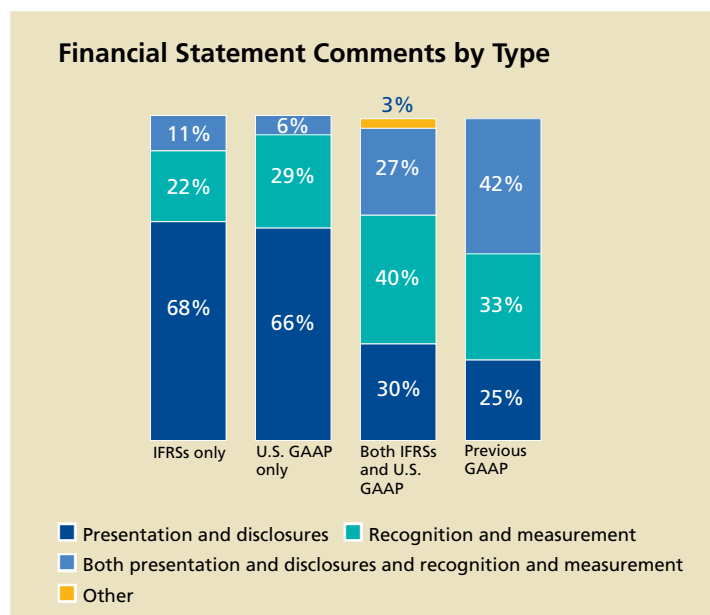
The table below summarizes, by GAAP, the financial statement comments we reviewed. A clear majority of the overall financial statement comments focused on the IFRS financial statements. This represents a shift in focus since, over the years, the primary focus of the financial statement comments in filings of foreign private issuers has been on the U.S. GAAP reconciliation. The comments on previous GAAP relate to the IFRS 1 reconciliation footnote.

Table 2



We also analyzed the nature of the financial statement comments, dividing the comments into those relating to presentation and disclosure and those relating to recognition and measurement. Most of the comments related to presentation and disclosure issues. The comments on both IFRSs and U.S. GAAP generally related to items included in the U.S. GAAP reconciliation.

Table 3



Top 10 IFRS Topics

The table below lists the 10 IFRS topics that received the most commentary. The nature of the comments we reviewed varied by company and by industry. We discuss each of these topics in greater detail below.

Table 4

Top 10 IFRS Comment Topics	
Topic	% of Total Comments
Financial Instruments	15%
Income Statement Presentation	13%
Revenue	8%
Cash Flow Statement	7%
First-Time Adoption of IFRSs	7%
Segment Reporting	5%
Income Taxes	5%
Employee Benefits	4%
Impairment of Assets	4%
Provisions	4%

Financial Instruments

Hedging Disclosures

Overview of SEC Staff Comments: In several comment letters, the SEC staff commented on the adequacy of the disclosures relating to hedging relationships and hedge effectiveness.

Example of SEC Comments

- Please refer to IAS 39 and revise the disclosure . . . in your future filings to address the following:
 - Clearly indicate each type of risk against which you are hedging, the types of transactions or instruments that give rise to that risk, identify the instruments you use to hedge that risk and explain whether the hedges are being designated and accounted for as fair value hedges, cash flow hedges, or hedges of net investments in foreign operations.
 - For cash flow hedges, clearly indicate the periods in which cash flows are expected to occur, when they are expected to enter into the determination of profit or loss, and a description of any forecast transaction for which hedge accounting has previously been used but which is no longer expected to occur.
 - For fair value hedges, as applicable, disclose how you account for the gain or loss from remeasuring the hedging instrument at fair value or the foreign currency component of its carrying amount remeasured in accordance with IAS 21. If the amounts are not recognized in your income statements, please advise us.
 - Similarly, as applicable for fair value hedges, disclose how you account for any gains or losses on the hedged item attributable to the hedged risk. If that gain or loss did not adjust the carrying value of the hedged item and was not recognized in the income statement, please advise us.

Background and Analysis: IFRSs require a number of disclosures related to financial instruments, including their significance and the nature and extent of risks arising from them. Although IAS 32 and IAS 39 were the effective standards during 2005 and 2006, the paragraphs cited below represent the information in IFRS 7,² the currently effective standard.

² In August 2005, IFRS 7 was issued to enhance disclosures for financial instruments and remove duplicative disclosures within the IFRSs. Existing disclosure requirements were clarified and relocated to IFRS 7. IFRS 7 is effective for annual periods beginning on or after January 1, 2007, with earlier adoption permitted.

The following are the disclosure requirements of IFRS 7 that relate specifically to hedging transactions:

- A description of the enterprise's financial risk management objectives, policies, and processes for managing risk; "exposures to risk and how they arise;" and any changes in the objectives, policies, and exposure from the previous period (IFRS 7.33).
- "[A] description of each type of hedge; . . . a description of the financial instruments designated as hedging instruments and their fair values at the reporting date; and . . . the nature of the risks being hedged" (IFRS 7.22).

Under IFRS 7.23, a company must disclose all of the following for cash flow hedges:

- (a) the periods when the cash flows are expected to occur and when they are expected to affect profit or loss;
- (b) a description of any forecast transaction for which hedge accounting had previously been used, but which is no longer expected to occur;
- (c) the amount that was recognised in equity during the period;
- (d) the amount that was removed from equity and included in profit or loss for the period, showing the amount included in each line item in the income statement; and
- (e) the amount that was removed from equity during the period and included in the initial cost or other carrying amount of a non-financial asset or non-financial liability whose acquisition or incurrence was a hedged highly probable forecast transaction.

IFRS 7.24 provides the following new disclosures relating to the income statement impact of hedging activities. An entity must disclose separately:

- (a) in fair value hedges, gains or losses:
 - (i) on the hedging instrument; and
 - (ii) on the hedged item attributable to the hedged risk.
- (b) the ineffectiveness recognised in profit or loss that arises from cash flow hedges; and
- (c) the ineffectiveness recognised in profit or loss that arises from hedges of net investments in foreign operations.

Risk Disclosures

Overview of SEC Staff Comments: The SEC staff commented on certain financial instrument risk disclosures required by IFRS 7. These disclosures were included in the "Item 11. Quantitative and Qualitative Disclosures About Market Risk" section of the Form 20-F, but were excluded from the financial statements.

Example of SEC Comments

- We note that you have decided to early adopt IFRS 7 and that the disclosures required by IFRS 7 related to the nature and extent of risks arising from financial instruments are provided in the Risk Management section of your Business and Financial Review.
Based on the guidance in paragraphs 8–10 of IAS 1 we would not consider information disclosed in your Business and Financial Review to satisfy the disclosure requirements of IFRS as such disclosures are not a part of your financial statements.

Background and Analysis: The Introduction of IFRS 7 notes that IFRS 7 applies to (1) all financial instrument risks (with certain exceptions) and (2) all companies, regardless of the extent of a company's use of financial instruments. To determine the amount of disclosure necessary, a company would 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 a [company's] financial position and performance" and (2) "qualitative and quantitative information about exposure to risks arising from financial instruments."

Below 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.³
- *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 financial liabilities and a description of how the company manages the liquidity risk.

³ IAS 24 defines key management personnel as "those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity."

Required Disclosures

Quantitative Disclosures, continued

- *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. Methods and assumptions used in that sensitivity analysis should be disclosed. Any changes in methods and assumptions from the prior period should also be disclosed.
- *Risk Concentrations* — 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.

IFRS 7.B6 allows cross-referencing from the financial statements to some other statement that is available to financial statement users both on the same terms and at the same time as the financial statements. For example, in the financial statements, some companies cross-referenced to these disclosures contained in the management section of Form 20-F. Therefore, to comply with IFRS 7, the financial statements must either contain these disclosures or incorporate them by cross-reference.

Impairment Losses

Overview of SEC Staff Comments: The SEC staff had several comments on banks' loan loss reserves. These comments were geared toward understanding the process for establishing such reserves when a reconciling item was reported.

Example of SEC Comments

- [P]lease tell us and revise your filing to more clearly describe in detail how your new US GAAP impairment provisioning methodology differs from your previous methodology as well as from your IFRS impairment provisioning methodology.

Please tell us in detail the differences between US GAAP and IFRS that you have identified in accounting for loan impairment. Provide us with specific sections of the literature that you rely upon to support how you account for loan impairments differently under US GAAP as compared to IFRS.

Background and Analysis: Banks should carefully evaluate their accounting for loan loss reserves under IFRSs, using a method that is consistent with the “incurred loss” model described in IAS 39.59–62. Under this model, a financial asset is impaired and an impairment loss is incurred only if there is objective evidence of an impairment resulting from both of the following:

- “[O]ne or more events that occurred after the initial recognition of the asset (a ‘loss event’).”
- A reliable estimate of the “impact on the estimated future cash flows of the financial asset or group of financial assets” from that loss event.

For individually significant financial assets, a company assesses whether objective evidence of impairment exists on an individual basis (i.e., assesses each specific loan). For individually insignificant financial assets, the company can assess whether impairment exists either on an individual basis or collectively. If there is no objective evidence of impairment for an individually assessed loan (whether significant or not), the company should include it in a group of financial assets with similar credit risk characteristics and collectively assess that group for impairment. A company should not recognize expected losses from future events, regardless of the likelihood of the loss.

Income Statement Presentation

Income Statement Subtotals

Overview of SEC Staff Comments: The SEC staff had several comments on the appropriateness of certain subtotals presented on the face of the income statement. As a result, many companies made changes to the description of the subtotals used in future filings and provided additional disclosure about the nature and purpose of the amounts included.

Examples of SEC Comments

- With reference to the applicable accounting literature, please explain to us how you concluded it was appropriate to present “Current operating income,” which excludes several items of an operating nature, on the face of your income statement.

In this regard, specifically tell us how you complied with paragraph BC 13 of IAS 1, which states, in part, that it is inappropriate to exclude items clearly related to operations, such as restructuring charges, from operating results.

Under US GAAP, there is no concept of current versus non current measures of net income. Therefore, we believe such measure could be potentially confusing to U.S. readers.

Lastly, if you have an accounting policy that outlines the components of “Current operating income,” please describe such policy.
- We note that you present on the face of your group income statement a measure called “Trading profit” which includes revenue, cost of goods sold, selling, general and administrative expenses, and research and development expenses and excludes restructuring and rationalization expenses, acquisition related expenses, macrotextured claim expenses, and amortization of acquisition intangibles. However, from the table included in Note 4, we note that certain amounts included in restructuring and rationalization expenses relate to cost of goods sold

Tell us the purpose and usefulness of presenting the measure called “trading profit.”

Tell us how your presentation complies with paragraph 83–84 and BC 13 of IAS 1 as well as Question 28 of Frequently Asked Questions Regarding the Use of Non-GAAP Financial Measures, prepared by staff members in the Division of Corporation Finance and dated June 13, 2003.

Background and Analysis: IAS 1 provides the overall requirements for the presentation of financial statements and states that additional subtotals may be presented. These additional subtotals or line items should be presented on the face of the income statement when such presentation is relevant to an understanding of the entity's financial performance. When including such items, companies should consider providing more transparent disclosure that clearly conveys the relevance of the subtotal to the readers of the financial statements. For example, a company should consider wording the subtotal on the face of the financial statements to indicate what is included in the subtotal, rather than relegating such information to a footnote.

In addition, it may be necessary to reorder the line items to adequately explain the particular element of financial performance. Companies should consider materiality as well as the nature and function of the components of income and expense.

IAS 1, BC13 notes that when a company decides to present the results of operating activities (i.e., operating income) or a similar line item, the amount should not exclude items of an operating nature, even if this is industry practice. Examples include inventory write-downs, restructuring charges, and share-based payments. Excluding these operating items may mislead or confuse the reader of the financial statements.

Expense Presentation

Overview of SEC Staff Comments: The SEC staff commented on the presentation of expenses in the income statement, particularly (1) expense classifications and (2) omitted disclosures relating to the nature of expenses when a functional presentation was used.

Example of SEC Comments

- We note that you have elected to classify expenses in your income statement by function. Please tell us how you determined that the presentation of "incidentals" on the face of your income statement is consistent with presenting expenses by function. Also tell us how you determined that your current footnote disclosures meet the requirements of paragraph 93 of IAS 1 to also present material expenses by nature.

Background and Analysis: Under IAS 1, expenses can be presented either by their nature or by their function. A company that chooses to present an income statement by function is required to provide additional disclosures on the nature of the expenses within a specific function, "including depreciation and amortisation expense and employee benefits expense." A company that uses a functional format should ensure that all required additional disclosures are included in the footnotes.

Although including those additional disclosures within other footnotes of the financial statements would satisfy the requirement under IAS 1, a company should consider including those disclosures in a single footnote for greater transparency.

The following tables illustrate income statements by nature and by function (IAS 1, IG4):

Illustrations of Income Statements

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	X
Profit before tax	X
Income tax expense	(X)
Profit [or loss] for the period	<u>X</u>
[Footnote omitted]	

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	X
Profit before tax	X
Income tax expense	(X)
Profit [or loss] for the period	<u>X</u>
[Footnote omitted]	

The IASB issued IAS 1 (revised) in September 2007. Under this revised standard, the presentation of the income statement generally remains the same. However, components of “other comprehensive income” in the statement of recognized income and expense (SORIE) that were previously included in the statement of changes in equity may now be presented as one of the following:

1. Income statement and other comprehensive income items together in a single statement of comprehensive income with subtotals.
2. In two separate statements (i.e., income statement, followed by a separate statement of comprehensive income).

The revised standard is effective for annual periods beginning on or after January 1, 2009, with earlier adoption permitted.

Revenue

Disclosures

Overview of SEC Staff Comments: The SEC staff commented on the completeness of the disclosures regarding the specific terms and conditions in revenue arrangements. These comments often resulted in requests for additional information and in companies ultimately making changes to the disclosures in future filings.

Example of SEC Comments

- Please supplementally tell us, and tell us what consideration you gave to disclosing, your accounting policies related to shipping and handling, sales discounts, and rights of return.

Background and Analysis: The SEC staff expects a discussion of all information relevant to the company's revenue activities. IAS 18.35 requires that the following information be disclosed:

- (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 following should also be considered for inclusion in the revenue recognition accounting policy disclosure:

- If a company has different policies for different types of revenue transactions, the detailed policy for each material type of transaction.
- If sales transactions have multiple elements, such as product and service, the accounting policy for each element, as well as how multiple elements are determined and valued.
- Changes in estimates that underlie revenue recognition, such as changes in estimated returns.
- Any specific revenue transactions that are unusual because of their nature, size, or frequency of occurrence may require separate disclosure.
- Specific terms of revenue transactions, including the details of any rights to return and when risks transfer from the seller to the customer.

The following is a sample revenue policy disclosure:

The following represents a sample footnote for a manufacturing company that specializes in air treatment products, including air conditioners, air purifiers, humidifiers, and dehumidifiers. The company's products range from residential products sold in retail stores to large-scale units constructed for the industrial or commercial sector.

REVENUE RECOGNITION

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectibility is probable. The Group records reductions to revenue for special pricing agreements, price protection, and other volume-based discounts. Provisions are made to cover return of products, estimated future warranty obligations, and other claims. We deduct provisions for returned defective goods or related to contractual arrangements to return salable products on the date of sale or at the time when the amount of future returns can be reasonably estimated. If future product returns cannot be reasonably estimated and are significant to the sale transaction, both the recognition of revenues and of the related cost of sales are deferred until an estimate may reasonably be made or when the right to return the goods has expired. When the Group acts as agent in a transaction, it recognizes revenue net of directly attributable costs.

For revenues and expenses generated from construction contracts, we apply the percentage-of-completion method of accounting, provided certain specified conditions are met, on the basis of either the achievement of contractually defined milestones or costs incurred compared with total estimated costs. The determination of the stage of completion and the revenues to be recognized rely on numerous estimations based on costs incurred and acquired experience. Adjustments of initial estimates can, however, occur throughout the life of the contract, which can have significant impacts on our net income (loss).

A portion of the Group's sales, primarily those products sold to commercial or industrial customers, may involve complex contractual arrangements that require significant revenue recognition judgments, particularly in the areas of the sale of goods and equipment with related services constituting multiple-element arrangements, construction contract accounting, and the assessment of collectibility.

Revenues from contracts with multiple-element arrangements, such as those including products with installation and maintenance services, are recognized as the revenue for each unit of accounting is earned based on the relative fair value of each unit of accounting as determined by internal or third-party analyses of market-based prices. A delivered element is considered a separate unit of accounting, if it has value to the customer on a stand-alone basis, there is objective and reliable evidence of the fair value of the undelivered elements in the arrangement, and delivery or performance of the undelivered elements is considered probable and substantially under the Group's control. If these criteria are not met, revenue for the arrangement as a whole is accounted for as a single unit of accounting in accordance with the criteria described in the preceding paragraph.

Under IAS 11, construction contracts are defined as contracts specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology, and function or their ultimate purpose of use (primarily those related to industrial air treatment units whose design and installation are customized to the customer). For revenues generated from construction contracts, the Group applies the percentage-of-completion method of accounting in application of the above principles, provided that certain conditions are met, on the basis of either the achievement of contractually defined milestones or costs incurred compared with total estimated costs. Any probable construction contract losses are recognized immediately in cost of sales. If uncertainty exists regarding customer acceptance, or the contract's duration is relatively short, revenues are recognized only to the extent of costs incurred that are recoverable, or on completion of the contract. Work in progress on construction contracts is stated at production cost, excluding administrative and selling expenses. Changes in provisions for penalties for delayed delivery or poor contract execution are reported in revenues and not in cost of sales.

Advance payments received on construction contracts, before corresponding work has been carried out, are recorded in customers' deposits and advances. Costs incurred to date, plus recognized profits less the sum of recognized losses (in the case of provisions for contract losses) and progress billings, are determined on a contract-by-contract basis.

Recognition

Overview of SEC Staff Comments: Many of the SEC staff's comments related to obtaining a better understanding of when the significant risks and rewards of ownership of goods sold were transferred to the buyer. The staff also commented on the accounting for multiple-element and royalty arrangements, as well as principal/agency relationships.

Example of SEC Comments

- Tell us supplementally when you transfer to the buyer the significant risks and rewards of ownership of the goods. Specifically, when does title transfer?
Tell us of any circumstances for which you would recognize revenue prior to the delivery of the goods.
Tell us what consideration you have given to disclosing this additional information.

Background and Analysis: Revenue recognition continues to be a focus of the SEC staff. The staff expects the criteria in IAS 18 to be met before revenue is recognized. IAS 18.14 states that:

Revenue from the sale of goods [is] recognised when all of the following conditions have been satisfied:

- (a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;
- (b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- (c) the amount of revenue can be measured reliably;
- (d) it is probable that the economic benefits associated with the transaction will flow to the entity; and
- (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

IAS 18.15 notes that:

The assessment of when an entity has transferred the significant risks and rewards of ownership to the buyer requires an examination of the circumstances of the transaction. In most cases, the transfer of the risks and rewards of ownership coincides with the transfer of the legal title or the passing of possession to the buyer. . . . In other cases, the transfer of risks and rewards of ownership occurs at a different time from the transfer of legal title or the passing of possession.

In determining whether it is appropriate to recognize revenue, a company must evaluate whether it retains the significant risks of ownership. IAS 18.16 notes that:

Examples of situations in which the [company] may retain the significant risks and rewards of ownership are:

- (a) when the entity retains an obligation for unsatisfactory performance not covered by normal warranty provisions;

- (b) when the receipt of the revenue from a particular sale is contingent on the derivation of revenue by the buyer from its sale of the goods;
- (c) when the goods are shipped subject to installation and the installation is a significant part of the contract which has not yet been completed by the entity; and
- (d) when the buyer has the right to rescind the purchase for a reason specified in the sales contract and the entity is uncertain about the probability of return.

In general, revenue recognition principles under IFRSs are consistent with U.S. GAAP. It may be appropriate to consider using the U.S. GAAP guidance, including in the following situations:

- **Multiple-Element Arrangements** — While IAS 18.13 requires identifying the separate components of a single transaction, guidance on separating the components is limited to IAS 18.16(c) and IAS 11.8–9. Thus, it may be helpful to consider the guidance in EITF Issue 00-21.
- **Principal/Agency Relationships** — The appendix in IAS 18 acknowledges situations in which a buyer acts as an agent, but does not clarify how to determine whether a party is a principal or an agent. Also, IAS 18 does not provide guidance on the presentation of revenue when a principal/agency relationship exists. In such cases, it may be helpful to consider the guidance in EITF Issue 99-19.⁴

⁴ At the October 2007 IASB meeting, the IASB tentatively agreed to include guidance in IAS 18 on determining whether a party is a principal or an agent. The drafted guidance includes indicators that are similar to those in Issue 99-19. This guidance will be included in IAS 18's implementation guidance appendix as part of the IASB's first "Annual Improvements" project, which is expected to be effective on January 1, 2009.

Cash Flow Statement

Sale of Marketable Securities

Overview of SEC Staff Comments: SEC staff comments focused on how certain items were classified in the cash flow statement, including the classification of changes in marketable securities. In certain cases, these comments led companies to make changes to their current financial statements.

Example of SEC Comments

- We note that your cash flows from financing activities include a line item titled "Change in marketable securities and other liquid assets." Please provide us with a more detailed description of what this line item represents, including the corresponding balance sheet accounts.

If this line item represents changes in your investments in debt securities, classified on your balance sheet as financial receivables, please provide us with your analysis under IAS 7 to support the classification of this item as a financing activity.

Background and Analysis: Cash flows associated with changes in marketable securities and other short-term assets were sometimes presented as part of cash flows from financing activities. This treatment may have resulted from a long-standing practice in certain countries, referred to as "net debt," that focuses on the company's cash management practices. Some companies believe there is a correlation between the amount of marketable securities held that do not meet the definition of cash equivalents in IAS 7.6 and debt outstanding (i.e., debt is repaid with proceeds from the sale of marketable securities). These companies presented the changes in marketable securities as a separate line in the financing activities section.

The guidance in IAS 7.21 was used to support this presentation by analogy. IAS 7.21 states that "major classes of gross cash receipts and gross cash payments arising from investing and financing activities" should be reported separately, except for the following cash flows, which may be reported on a net basis as specified in IAS 7.22:

- (a) cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the entity; and

- (b) cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.

IAS 7.24 states:

Cash flows arising from each of the following activities of a financial institution may [also] be reported on a net basis:

- (a) cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date;
- (b) the placement of deposits with and withdrawal of deposits from other financial institutions; and
- (c) cash advances and loans made to customers and the repayment of those advances and loans.

However, cash flows associated with changes in marketable securities often will not represent cash receipts and payments eligible for net reporting in IAS 7.22(a) and 7.24. They also may not meet the net reporting criteria in IAS 7.22(b) if their maturities are not considered short-term (i.e., three months or less, as stated in IAS 7.23). In such cases, the changes in marketable securities and the changes in debt outstanding should be reported separately within their appropriate classifications.

IAS 7.16–17 provides information about characteristics and examples of investing activities and financing activities. Changes in marketable securities represent cash flow changes from securities an entity invests in rather than cash flows due to or from others providing capital to the entity. Under IAS 7, therefore, changes in marketable securities should be classified as an investing activity rather than a financing activity. Changes in debt outstanding, however, represent cash flow changes due to or from others that provide capital to the company. Therefore, changes in debt outstanding should be classified as a financing activity.

Pension Contributions

Overview of SEC Staff Comments: The SEC staff commented on the classification of pension contributions. In certain cases, these comments led companies to make changes to their current financial statements.

Example of SEC Comments

- We note that your cash flows from financing activities include a line item titled “Contributions to post-employment benefit plan.” Please help us to better understand your classification of these payments under IAS 7.

Tell us what consideration you gave to whether these payments are effectively cash payments made to and on behalf of your employees as contemplated by paragraph 14(d) of IAS 7.

Background and Analysis: Some companies consider postemployment benefit obligations to be interest-bearing obligations (i.e., a loan). Thus, they consider contributions made to employee benefit plans equivalent to cash repayments of amounts borrowed, which is a financing activity under IAS 7.17(d). However, postemployment benefit obligations are not considered loans because the company receives no cash proceeds and therefore has not incurred an obligation to pay back proceeds. In addition, postemployment benefit obligations do not represent claims on future cash flows by providers of capital to the company. Instead, contributions to employee benefit plans are considered compensation because they are payments to or on behalf of employees. Under IAS 7.14(d), that type of payment is an example of a cash flow from an operating activity.

Interest and Dividends

Overview of SEC Staff Comments: The SEC staff commented on the disclosures and classification of interest and dividends paid and received. In certain cases, these comments led companies to make changes to their current financial statements.

Examples of SEC Comments

- We note that you present interest/dividends paid as a financing activity. Please explain to us how the classification of interest paid as a financing activity impacted your net cash flows from operating activities. For example, given that your consolidated net profit for the year includes amounts reported as interest expense, we would expect to see an adjustment in the operating section of your Cash Flow Statement to reflect the amount of interest paid that has been classified as a financing activity
- As paragraph 33 of IAS 7 indicates that interest received should be classified within cash flows from operating activities or investing activities, please explain to us why you classified “Interest received on cash and cash equivalents” within cash flows from financing activities.

Background and Analysis: Under IAS 7.33, interest and dividends paid can be classified as either an operating or financing activity while interest and dividends received can be classified as either an operating or investing activity. A company should consistently apply its accounting policy choice on the classification of interest and dividends paid and received.

In certain cases, companies presented interest paid and received on a net basis as either a financing or investing activity. The SEC staff commented that these amounts should be presented on a gross basis. IAS 7.31, states, in part, "Cash flows from interest and dividends received and paid shall each be disclosed separately." Therefore, companies should present interest paid and received and dividends paid and received on a gross basis in the cash flow statement.

First-Time Adoption of IFRSs

IFRS 1 provides guidance on how to transition to IFRSs from local GAAP. 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 IFRS 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, 2007, financial statements and adopting IFRSs for the first time. In this example, the date of transition to IFRSs will be January 1, 2006. The financial statements, including the comparative period, must be prepared in accordance with IFRSs that are effective as of December 31, 2007. 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, there are some exceptions.

The SEC recognized that the objective of IFRS 1 was to ease the transition to IFRSs. Accordingly, 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 its first year of reporting under IFRSs. This accommodation was extended for an indefinite period under Securities Act Release No. 33-8879.

Exemptions and Adjustment Disclosures

Overview of SEC Staff Comments: Many of the comments on first-time adoption related to disclosure of the exemptions used and adjustments made in applying IFRS 1.

Example of SEC Comments

- Please tell us how you applied the following elective exemptions under IFRS 1:
 - Exemption under paragraph 25D of IFRS 1 regarding the application of the transitional provisions in IFRS 4, “Insurance Contracts,” for first-time adopters.
 - Exemptions under paragraph 25F of IFRS 1 for first time adopters for applying the transitional provisions of IFRIC 4, “Determining when an arrangement contains a lease.”

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 reclassified 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 recognized directly in equity as of the date of transition to IFRSs.

Companies should consider disclosing the nature of material adjustments, and should limit the aggregation of material adjustments when applying IFRS 1.

To ease the cost of transitioning to IFRSs, IFRS 1 allows a company to elect specific exemptions from the guidance of other IFRSs. These exemptions ease the reporting requirements by permitting entities not to show comparative information that is required under other IFRSs⁵ or by not permitting retrospective application of certain aspects of other IFRSs. A company may elect to use one or more of the following exemptions under IFRS 1.13:

- (a) business combinations;
- (b) fair value or revaluation as deemed cost;
- (c) employee benefits;
- (d) cumulative translation differences;
- (e) compound financial instruments;
- (f) assets and liabilities of subsidiaries, associates and joint ventures;
- (g) designation of previously recognised financial instruments;
- (h) share-based payment transactions;
- (i) insurance contracts;
- (j) decommissioning liabilities included in the cost of property, plant and equipment;
- (k) leases;
- (l) fair value measurement of financial assets or financial liabilities at initial recognition;

⁵ Under the “Annual Improvements” project (for which the draft amendments were available for comment in October 2007), some of the exemptions permitting an entity not to show certain comparative information would no longer be available. These proposed amendments are still subject to editorial corrections and are expected to be effective beginning on January 1, 2009.

- (m) a financial asset or an intangible asset accounted for in accordance with IFRIC 12; and
- (n) borrowing costs.⁶

A company should disclose the specific exemptions used in applying IFRS 1, if any, and the extent to which an exemption is used. For example, how many years did the company go 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. . . .

Under these amendments, an 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, which provides information on the issuer's financial and operating review and prospects. First-time adopters must provide this type of information under paragraph 38 of IFRS 1, which generally requires an explanation of how the transition to IFRS would affect an issuer's financial position. However, because paragraph 38 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]

Transition Disclosure Requirements

Overview of SEC Staff Comments: The SEC staff commented on the detail of the transition disclosures under IFRS 1.

Example of SEC Comments

- Please tell us what you are attempting to convey to investors with the disclosure in this section given the elections you have made with regard to paragraphs 13–25G of IFRS 1 and the requirements set forth in IFRS 1 when adopting IFRS for the first time.

⁶ IAS 23 was amended in March 2007. The exception for borrowing costs noted here was added as a result of those amendments. IAS 23 (revised) is effective for annual periods beginning on or after January 1, 2009. However, earlier application is permitted. If a company elects to early adopt, this exemption may be applied.

Background and Analysis: IFRS 1 requires a company to explain how the transition to IFRSs affects its reported financial position, financial performance, and cash flows, for all comparative periods.

A company should include the following transition disclosures in its first financial statements:

- (a) reconciliations of its equity reported under previous GAAP to its equity under 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 under previous GAAP;
- (b) a reconciliation of the profit or loss reported under previous GAAP for the latest period in the entity's most recent annual financial statements to its profit or loss under IFRSs for the same period; and
- (c) if the entity recognised or reversed any impairment losses for the first time in preparing its opening IFRS balance sheet, 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.

The reconciliations should be detailed enough for “users to understand the material adjustments to the balance sheet and income statement. If [a company] presented a cash flow statement under its previous GAAP, it [should] also explain the material adjustments to the cash flow statement. If [a company] becomes aware of errors made under previous GAAP, the reconciliations [also should] distinguish the correction of those errors from changes in accounting policies. . . . If a company did not present financial statements for previous periods, its first IFRS financial statements [should] 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 Commission did not propose, and is not adopting, specific form or content requirements. It notes, however, that a reconciliation following example 11 under Implementation Guidance 63 (“IG 63”) of IFRS 1 will meet the requirement that it is adopting. Similarly, a reconciliation based on the form and content provisions of Item 17 of Form 20-F would meet the requirement.

Segment Reporting

Basis of Segmentation

Overview of SEC Staff Comments: The SEC staff commented on the basis of segmentation and how the reportable segments were determined. These comments often resulted in a request for additional information and ultimately led companies to make changes to the disclosures in future filings.

Example of SEC Comments

- In determining your primary segments under IFRS, tell us how you considered your internal organizational and management structure and system of internal financial reporting to the board of directors and chief executive officer. Refer to paragraphs 27, 28, 30 and 33 of IAS 14. Also, tell us how you determined your reportable segments under paragraph 34 of IAS 14.

So that we may better understand your response, please provide us the following information:

- A chart of your organizational structure. In particular, we note from your web site that your business units consist of Access, Systems, Global Services, Transmission and Transport Networks.
- A representative set of financial reports in 2005 for a quarter and the full year as provided to the CEO and the Board of Directors.

Supplementally provide us a quantitative analysis of the similarities in risks and returns, as well as the long-term economic performance, of major product groups identified in the reports. Refer to paragraphs 9, 11, 13 and 15 of IAS 14.

Background and Analysis: IAS 14 states that a reportable segment is either a business segment or a geographical segment.⁷ A company may divide its operations into both lines of business and geographical regions. IAS 14 prescribes the following three steps for determining the appropriate way to report segments:

⁷ IAS 14.9 defines a business segment as "a distinguishable component of an entity that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments." A geographical segment is "a distinguishable component of an entity that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments."

Step 1: Identify operating segments and determine the primary reporting format and secondary reporting format.

The primary reporting format is based on the dominant source and nature of an entity's risks and rates of return. Identify what information key management personnel use to evaluate past performance and to make decisions about future allocation of resources. In the event that the entity's risks and returns are affected by both the products and the geographical areas where it operates (i.e., a "matrix approach"), the entity should use business segmentation as the primary format and geographical segmentation as the secondary format. If the internal management structure is based on neither products nor geography, management should assess whether the risks and returns are related more to products or geography and choose business or geographical segments as the primary reporting format accordingly.



Step 2: Determine whether the operating segments identified in step 1 meet the definition of a business segment or geographical segment.

If this criterion is met, proceed to step 3. If not, look to the next lower level of internal segmentation for operating segments along product lines or geographical lines, which then may be reportable segments.



Step 3: Determine whether the operating segments identified as business or geographical segments in step 2 are reportable segments.

Two or more of the segments may be combined into a single business or geographical segment if they are substantially similar, as defined in IAS 14.34. If a majority of the revenue of the business or geographical segment is earned from sales to external customers and the segment meets certain quantitative thresholds in IAS 14.35, then the business or geographical segment is a reportable segment. It is important to ensure that the final reportable segments are consistent with the primary format of reporting determined in step 1.

Because the SEC staff performed its review on fiscal year 2005 filings, its comments relate to the application of IAS 14. However, in November 2006, the IASB issued IFRS 8, which replaces IAS 14 and aligns the basis of segmentation requirements with FASB Statement 131. IFRS 8 is effective for annual periods beginning January 1, 2009, but earlier adoption is encouraged.

Although the IFRS 8 requirements change the approach for determining segments, many of the comments under IAS 14 remain applicable. The approach in IFRS 8 is consistent with the pure management approach of identifying segments under U.S. GAAP. Under IAS 14, reportable segments are either business segments or geographical segments,

with one being primary and another secondary on the basis of the dominant source of risk and returns and the internal reporting structure. However, under IFRS 8, the segments are identified on the basis of what is reported to the chief operating decision maker (CODM). Thus, the distinction between business and geographical segments will no longer exist, and segments will be based solely on the company's internal reporting structure. However, while the approach is different, we expect that the SEC staff, as with domestic filers, will continue to focus on understanding the type of information that the CODM receives and how that information is used to determine the reportable segments.

Disclosures

Overview of SEC Staff Comments: The SEC staff requested clarification about required performance measure disclosures for each segment, particularly when the total of the segment disclosures did not reconcile to the corresponding line item in the income statement. The staff also commented on the completeness of required disclosures, specifically segment liabilities and capital expenditures.

Examples of SEC Comments

- Please revise to include all segment reporting disclosures required by IAS 14.
- Please provide us the disclosures contemplated by paragraphs 56 and 58 of IAS 14, tell us where and how you have already provided them, or advise us why they are not necessary.

Background and Analysis: Under IAS 14, there are three types of disclosures: (1) required primary-format disclosures, (2) secondary-format disclosures, and (3) other required disclosures. The required disclosures will depend on the primary format of reporting (business vs. geographical). Under IAS 14.49–67, an entity should disclose the following on the basis of its primary reporting format for each reportable segment:

An entity shall disclose segment revenue for each reportable segment. Segment revenue from sales to external customers and segment revenue from transactions with other segments shall be separately reported. [IAS 14.51]

An entity shall disclose segment result for each reportable segment, presenting the result from continuing operations separately from the result from discontinued operations. [IAS 14.52]

An entity shall restate segment results in prior periods presented in the financial statements so that the disclosures required by paragraph 52 relating to discontinued operations relate to all operations that had been classified as discontinued at the end of the latest reporting period presented. [IAS 14.52A]

If an entity can compute segment profit or loss or some other measure of segment

profitability other than segment result without arbitrary allocations, reporting of such amount(s) is encouraged in addition to segment result, appropriately described. If that measure is prepared on a basis other than the accounting policies adopted for the consolidated or entity financial statements, the entity will include in its financial statements a clear description of the basis of measurement. [IAS 14.53]

An entity shall disclose the total carrying amount of segment assets for each reportable segment. [IAS 14.55]

An entity shall disclose segment liabilities for each reportable segment. [IAS 14.56]

An entity shall disclose the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (property, plant, equipment, and intangible assets) for each reportable segment. While this sometimes is referred to as capital additions or capital expenditure, the measurement required by this principle shall be on an accrual basis, not a cash basis. [IAS 14.57]

An entity shall disclose the total amount of expense included in segment result for depreciation and amortisation of segment assets for the period for each reportable segment. [IAS 14.58]

An entity shall disclose, for each reportable segment, the total amount of significant non-cash expenses, other than depreciation and amortisation for which separate disclosure is required by paragraph 58, that were included in segment expense and, therefore, deducted in measuring segment result. [IAS 14.61]

An entity that provides the segment cash flow disclosures that are encouraged by IAS 7 need not also disclose depreciation and amortisation expense pursuant to paragraph 58 or non-cash expenses pursuant to paragraph 61. [IAS 14.63]

An entity shall disclose, for each reportable segment, the aggregate of the entity's share of the profit or loss of associates, joint ventures, or other investments accounted for under the equity method if substantially all of those associates' operations are within that single segment. [IAS 14.64]

If an entity's aggregate share of the profit or loss of associates, joint ventures, or other investments accounted for under the equity method is disclosed by reportable segment, the aggregate investments in those associates and joint ventures shall also be disclosed by reportable segment. [IAS 14.66]

An entity shall present a reconciliation between the information disclosed for reportable segments and the aggregated information in the consolidated or individual financial statements. In presenting the reconciliation, the entity shall reconcile segment revenue to entity revenue from external customers (including disclosures of the amount of entity revenue from external customers not included in any segment); segment result from continuing operations shall be reconciled to a comparable measure of entity operating profit or loss from continuing operations as well as to entity profit or loss from continuing operations; segment result from discontinued

operations shall be reconciled to entity profit or loss from discontinued operations; segment assets shall be reconciled to entity assets; and segment liabilities shall be reconciled to entity liabilities. [IAS 14.67]

Companies that early adopt IFRS 8 should remember that unlike IAS 14, IFRS 8 does not define segment revenue, segment expense, segment result, segment assets, or segment liabilities. Rather, the basis used in internal reports to the CODM would be used to determine what is included in these amounts. In addition, the following new disclosures are required:

- Segment identification and the types of products and services within each segment.
- Entity-wide disclosures.
- Revenues from major customers and identification of the segments reporting that revenue.

Income Taxes

Disclosures

Overview of SEC Staff Comments: The SEC staff commented on the completeness of the disclosures required by IAS 12.81. Companies often failed to disclose (1) the reconciliation of tax expense or the average effective tax rate; (2) an explanation of changes in the applicable tax rate(s); (3) temporary differences associated with subsidiaries, branches, associates, and joint ventures for which deferred tax liabilities have not been recognized; and (4) tax expense relating to discontinued operations.

Examples of SEC Comments
<ul style="list-style-type: none">• Please tell us what consideration you gave to the disclosure requirements in paragraphs 81(d), 81(f), 81(i), and 82A of IAS 12.• With respect to your discontinued operations, please disclose the related income tax expense as required by paragraph 81(h) of IAS 12.• Please expand your disclosures regarding average tax rates and their derivation. It may be appropriate to further describe the two income taxes to which you are subject. We also suggest that you expand your disclosures supporting your deferred tax assets.• Please expand your accounting policy disclosure to provide your policy for recognizing deferred taxes associated with decommissioning assets and liabilities arising from your capital projects.

Background and Analysis: IAS 12.81 requires the following disclosures:

- (a) the aggregate current and deferred tax relating to items that are charged or credited to equity. . . .
- (b) an explanation of the relationship between tax expense (income) and accounting profit in either or both of the following forms:
 - (i) numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed; or
 - (ii) a numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed;

- (d) an explanation of changes in the applicable tax rate(s) compared with the previous accounting period;
- (e) the amount (and expiry date, if any) of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognised in the balance sheet;
- (f) the aggregate amount of temporary differences associated with investments in subsidiaries, branches, and associates and interests in joint ventures, for which deferred tax liabilities have not been recognised;
- (g) in respect of each type of temporary difference, and in respect of each type of unused tax losses and unused tax credits;
 - (i) The amount of the deferred tax assets and liabilities recognised in the balance sheet for each period presented;
 - (ii) The amount of the deferred tax income or expense recognised in the income statement, if this is not apparent from the changes in the amounts recognised in the balance sheet; and
- (h) in respect of discontinued operations, the tax expense relating [to both of the following]:
 - (i) The gain or loss on discontinuance; and
 - (ii) the profit or loss from the ordinary activities of the discontinued operation for the period, together with the corresponding amounts for each prior period presented.
- (i) the amount of income tax consequences of dividends to shareholders of the entity that were proposed or declared before the financial statements were authorized for issue, but are not recognized as a liability in the financial statements.

Although the SEC comments focused on the paragraph 81 disclosures, companies should ensure that all disclosures required under IAS 12 are included in the financial statements.

Recognition and Measurement of Deferred Income Taxes

Overview of SEC Staff Comments: The SEC staff commented on the recognition of “valuation allowances” relating to the measurement of deferred income tax items.

Example of SEC Comments

- You indicate that income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available. It is unclear to us why then, based on this accounting policy as well as the accounting set forth in paragraph 24 of IAS 12, your critical accounting policy disclosures on page 50 discusses a valuation allowance. In this regard, we also note your disclosure on page F-29 which indicates that this above referenced accounting policy results in deferred tax assets for which you have provided a “depreciation/impairment” reserve. Please advise.

Background and Analysis: Although IFRSs and U.S. GAAP take different approaches to recognition of deferred tax assets, the overall amount generally will be the same. Under U.S. GAAP, a deferred tax asset is recognized in full and then reduced by a valuation allowance if it is more likely than not that some or all of the deferred tax asset will not be realized (i.e., the gross deferred tax asset amount and the related valuation allowance are disclosed). However, under IAS 12.24, a deferred tax asset is recognized if "it is probable that sufficient taxable profit will be available against which the deductible temporary difference can be utilised" (i.e., only the net amount is disclosed). This guidance under U.S. GAAP and IFRSs is subject to certain exceptions.

As a result, no valuation allowance is contemplated under IFRSs. Also, while the term "probable" is not defined in IAS 12, under IFRSs the term probable is generally interpreted as meaning "more likely than not," on the basis of the definition of the term in Appendix A of IFRS 3.

The IASB and FASB have undertaken a joint convergence project on income taxes to eliminate many of the differences between U.S. GAAP and IFRSs. For example, the IASB agreed to (1) adopt the valuation allowance approach under Statement 109 and (2) define probable as "more likely than not." A final standard is expected to be issued in 2009.

Employee Benefits

Disclosures

Overview of SEC Staff Comments: Many of the SEC staff's comments on employee benefits related to the completeness of the required disclosures under IAS 19.120A. More specifically, these comments focused on the following disclosures:

- Cumulative amount of actuarial gains and losses recognized when using the SORIE.
- Return on plan assets.
- Sensitivity analysis.
- Experience adjustments.

Example of SEC Comments

- We see that you are accounting for employees' leaving entitlements as a defined benefit plan under IFRS. It appears that additional disclosures may be required under paragraph 120A of IAS 19. Please expand your presentation to include these disclosures or supplementally support your determination that no additional disclosures are required.

Background and Analysis: IAS 19.120A requires numerous disclosures regarding defined benefit plans. Companies should ensure that financial statements include all the required defined benefit plan disclosures. The following excerpts from paragraph 120A contain the required disclosures with respect to the items commented on by the SEC staff:

- (h) the total amount recognised in the statement of recognised income and expense for each of the following:
 - (i) actuarial gains and losses; and
 - (ii) the effect of the limit in paragraph 58(b).
- (i) for entities that recognise actuarial gains and losses in the statement of recognised income and expense in accordance with paragraph 93A, the cumulative amount of actuarial gains and losses recognised in the statement of recognised income and expense.
- (l) a narrative description of the basis used to determine the overall expected rate of return on assets, including the effect of the major categories of plan assets.

- (m) the actual return on plan assets, as well as the actual return on any reimbursement right recognised as an asset in accordance with paragraph 104A.
- (n) the principal actuarial assumptions used as at the balance sheet date, including, when applicable:
 - (i) the discount rates;
 - (ii) the expected rates of return on any plan assets for the periods presented in the financial statements;
 - (iii) the expected rates of return for the periods presented in the financial statements on any reimbursement right recognised as an asset in accordance with paragraph 104A;
 - (iv) the expected rates of salary increases (and of changes in an index or other variable specified in the formal or constructive terms of a plan as the basis for future benefit increases);
 - (v) medical cost trend rates; and
 - (vi) any other material actuarial assumptions used.

An entity shall disclose each actuarial assumption in absolute terms (for example, as an absolute percentage) and not just as a margin between different percentages or other variables.

- (o) the effect of an increase of one percentage point and the effect of a decrease of one percentage point in the assumed medical cost trend rates on:
 - (i) the aggregate of the current service cost and interest cost components of net periodic post-employment medical costs; and
 - (ii) the accumulated post-employment benefit obligation for medical costs.

For the purposes of this disclosure, all other assumptions shall be held constant. For plans operating in a high inflation environment, the disclosure shall be the effect of a percentage increase or decrease in the assumed medical cost trend rate of a significance similar to one percentage point in a low inflation environment.

- (p) the amounts for the current annual period and previous four annual periods of:
 - (i) the present value of the defined benefit obligation, the fair value of the plan assets and the surplus or deficit in the plan; and
 - (ii) the experience adjustments arising on:
 - (A) the plan liabilities expressed either as (1) an amount or (2) a percentage of the plan liabilities at the balance sheet date; and
 - (B) the plan assets expressed either as (1) an amount or (2) a percentage of the plan assets at the balance sheet date.

Reimbursement Rights

Overview of SEC Staff Comments: The SEC staff commented on the clarity of certain disclosures related to whether reimbursement rights were recognized as assets in accordance with IAS 19.104A.

Example of SEC Comments

- Please tell us what consideration you gave to the disclosure requirements stated in paragraph 46 of IAS 19 regarding the amount of expense recognized for your defined contribution plans and paragraph 120A(m) of IAS 19 regarding the actual return on plan assets, as well as the actual return on any reimbursement right recognized as an asset in accordance with paragraph 104A.

Background and Analysis: For defined benefit plans, the defined benefit liability is calculated as:

1. The present value of the defined benefit obligation.
2. Plus any actuarial gains not recognized.
3. Minus actuarial losses not recognized.
4. Minus any past service cost not yet recognized.
5. Minus the fair value of plan assets.

Plan assets reduce the defined benefit plan obligation and affect the pension cost calculation since they are the basis for determining actual and expected rates of return. Although the fair value of plan assets includes qualifying insurance policies, a company could have other insurance policies that do not meet the criteria for qualifying insurance policies. Such insurance policies are not considered plan assets and therefore do not reduce the defined benefit liability shown in the balance sheet. Rather, they are covered by IAS 19.104A, and their reimbursement right is recognized as a separate asset.

Other than this difference, the company treats the reimbursement right asset similarly to plan assets.

Several disclosures are required for reimbursement rights, as described in IAS 19.120A. Because of the difference between plan assets and reimbursement right assets, it is important to disclose reimbursement right assets' effect on employee benefits. See paragraphs 120A(f)(iv), 120A(g)(iv), 120A(m), and 120A(n)(iii) for disclosures regarding reimbursement rights.

Impairment of Assets

Recognition and Reversals of Impairment Losses

Overview of SEC Staff Comments: The SEC staff often commented on the assumptions used to determine an impairment loss. The staff also commented on the circumstances surrounding the reversal of impairment charges.

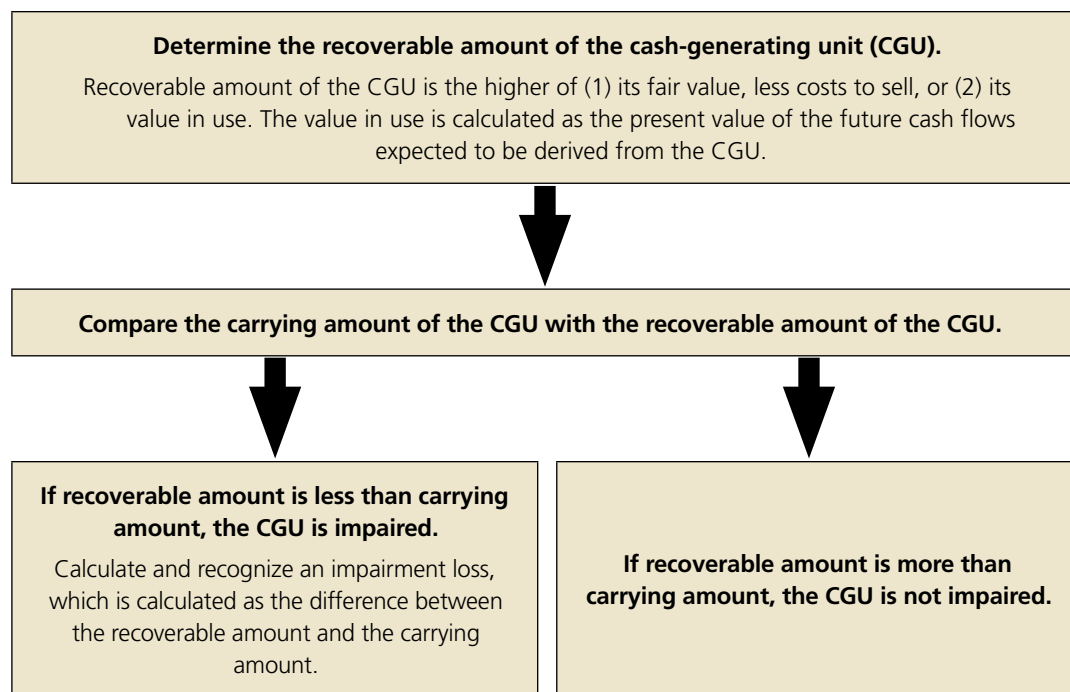
Examples of SEC Comments

- We note that your cash-generating units (CGU) correspond to a country in each division. Based on your discussion of your business and MD&A, it appears to us that the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets may be at a lower level than that of the country. For example, we note that your acquisitions and disposals appear to be at a level lower than country in each division. As such, based on paragraph 69 of IAS 36, it would appear that your CGUs may be at a level more consistent with the level at which you make acquisitions and dispositions. Further, based on your disclosures on page F-51, it appears that you previously monitored goodwill at a level lower than your current CGU level. It is unclear why, for business purposes, you would now monitor goodwill at a higher level. Accordingly, please provide us with your analysis of CGUs and how you have determined that this is the appropriate level to perform your goodwill impairment analysis.
- Please tell us your policy regarding the reversal of impairment charges, as well as what consideration you gave to disclosing this policy.

Background and Analysis: Under IAS 36, the impairment test for goodwill consists of the following:

Test goodwill for impairment annually or when impairment indicators are present.





When performing an impairment test, a company should be aware that the CGU represents the smallest identifiable group of assets that generates cash flows independent of other assets. As part of the goodwill impairment testing, a company may aggregate CGUs, but the group of units may not be larger than a segment level.

Under IAS 36.110–111, reversals of impairment losses on assets or CGUs in prior periods are required if the impairment loss no longer exists or has decreased because of a subsequent increase in the estimated service potential of an asset. As of each reporting date, a company should assess indicators of whether a previously recognized impairment loss is still appropriate. IAS 36.111 discusses some indicators to consider. If such indicators do exist, then the company must estimate the recoverable amount. Generally, if there was a change in estimate used to determine the recoverable amount, the carrying amount of the asset or CGU is increased to its recoverable amount. However, IAS 36.123 indicates that the reversal of the impairment loss shall not exceed “the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.”

IAS 36 prohibits the reversal of impairment losses on goodwill.

Disclosures

Overview of SEC Staff Comments: The SEC staff commented on the completeness of the disclosures relating to the (1) policies for identifying and evaluating impairment, (2) circumstances resulting in a recognized impairment, and (3) circumstances surrounding impairment reversals of long-lived assets that include goodwill.

Examples of SEC Comments

- Please describe for us why regarding the Group as a single, cash-generating unit, for purposes of testing goodwill for impairment, is consistent with the relevant paragraphs of IAS 36.

Please provide us the disclosures contemplated by paragraphs 134(d) and (f) and IAS 36, tell us where and how you have already provided them, or advise us why they are not necessary.
- We note that there was a €30 million impairment of intangible assets in 2005. In future filings, please ensure that you provide the disclosures required by paragraph 130 of IAS 36. We understand that this particular impairment was relatively minor to your overall operating results. However, it appears that some disclosure would be appropriate.

Background and Analysis: IAS 36.126–137 requires companies to disclose the following information:

A class of asset is a grouping of assets that are similar in nature and use. A company should disclose the following for each class of assets:

- (a) The amount of impairment losses recognised in profit or loss during the period and the line item(s) of the income statement in which those impairment losses are included.
- (b) The amount of reversals of impairment losses recognised in profit or loss during the period and the line item(s) of the income statement in which those impairment losses are reversed.
- (c) The amount of impairment losses on revalued assets recognised directly in equity during the period.
- (d) The amount of reversals of impairment losses on revalued assets recognised directly in equity during the period.

The following disclosures also are required:

- Impairment losses and reversals of impairment losses for each reportable segment if the company reports segment information in accordance with IAS 14 (or IFRS 8 for companies that elected to adopt that standard early).
- Further disclosures for each material impairment loss recognized or reversed during the period for an individual asset, including goodwill, or a CGU.

- Main classes of assets affected by, and circumstances surrounding, “the aggregate impairment losses and aggregate reversals of impairment losses recognised” that have not already been disclosed individually.
- The amount of the unallocated goodwill should be disclosed, along with the reasons why that amount remains unallocated, if any portion of the goodwill acquired in a business combination has not been allocated to a CGU or group of units as of the reporting date.
- Further disclosures about the estimates used to measure recoverable amounts of CGUs containing goodwill or intangible assets with indefinite useful lives.
 - Under IAS 36.134, companies are required to disclose information for each CGU (group of units) for which the “carrying amount of goodwill or intangible assets with indefinite useful lives” allocated to that unit (group of units) “is significant in comparison with the entity’s total carrying amount of goodwill or intangible assets with indefinite useful lives.”
 - Under IAS 36.135, companies are required to disclose whether “some or all of the carrying amount of goodwill or intangible assets with indefinite useful lives is allocated across multiple” CGUs and whether the allocated amounts to each unit are “significant in comparison with the entity’s total carrying amount of goodwill or intangible assets with indefinite useful lives.” If the allocated amounts are significant to the total carrying amount of goodwill or intangible assets with indefinite useful lives, additional disclosures are required on whether “the recoverable amounts . . . are based on the same key assumption(s)” along with a more detailed explanation of those key assumptions.

Companies are encouraged to disclose the approach and assumptions used to determine the recoverable amount of assets (CGUs) during the period.

Provisions

Overview of SEC Staff Comments: The SEC staff requested more information about the nature and type of provisions that were recognized, including the facts and circumstances leading to the reversals of provisions. The staff also commented on missing, unclear, or generic disclosures. Many of these comments resulted in companies making changes to the disclosures in future filings.

Examples of SEC Comments
<ul style="list-style-type: none">• Tell us and disclose your accounting policy for contingent liabilities as required under IAS 37. Also, with respect to each claim disclosed, advise us and disclose the amount of contingent liability recorded, and where you have recorded them in the financial statements. If not, please explain why not.• Please clarify, in disclosure-type format, how your provisions ‘do not include . . . costs that, by agreement, will be borne by viable third party indemnitors’ and ‘reflect expected insurance recoveries where an insurer has agreed to provide an indemnity.’ To the extent the amount of these recoveries is not treated as a separate asset, please advise us how this is consistent with paragraph 53 of IAS 37.

Background and Analysis: IAS 37.10 defines a provision as “a liability of uncertain timing or amount.” According to IAS 37.14, a provision is recognized as a liability when the following criteria are met:

- There is a present legal or constructive obligation resulting from a past event.
- It is probable (i.e., more likely than not) that the obligation will lead to an outflow of resources.
- The obligation can be reliably estimated.

A contingent liability does not meet these criteria and, therefore, is not recognized in the financial statements. The following are required disclosures for each class of contingent liability that is not remote:

- Description of the nature of the contingent liability.
- Estimate of its financial effect.

- An indication of the uncertainties relating to the amount or timing of any outflow.
- The possibility of any reimbursement.

As of each balance sheet date, companies should review their provisions and adjust them to reflect the current best estimate. If the obligation is no longer probable, the provision should be reversed.

The SEC staff has commented on missing, unclear, or generic disclosures. In accordance with IAS 37.84–86, a registrant should ensure that it includes the following list of required disclosures for each class of provision:

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 (i.e., 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.

IAS 37.92 recognizes that in rare cases, disclosure of the above information may prejudice the position of the company (e.g., a provision related to litigation). In such cases, the standard allows the company to omit the disclosures; however, the company must disclose “the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.” Notwithstanding this guidance, the SEC staff carefully weighs whether the interests of the investor overcome any potential prejudice of the company.

Appendix A: SEC Staff Review Process

The SEC's Division of Corporation Finance is responsible for reviewing companies' filings. The Division's staff comprises more than 500 members, primarily accountants and attorneys, organized in 11 industry groups that perform filing reviews. Additional support offices include the Office of the Chief Accountant, the Office of the Chief Counsel, and the Office of Mergers and Acquisitions.

Documents Subject to SEC Staff Review

The Division handles reviews of several types of company filings, including:

- Registration statements (filings under both the Securities Act of 1933 and the Securities Exchange Act of 1934).
- Proxy statements.
- Form 10-K and related filings under the Securities Exchange Act of 1934 (i.e., Forms 10-Q and 8-K, including Form 8-K, Item 4.01 or Item 4.02).
- Form 20-Fs.

Selection Process

Section 408(c) of the Sarbanes-Oxley Act of 2002 mandates that all issuers be reviewed no less than once every three years. While the selection process for filing reviews is nonpublic and confidential, Section 408(b) of the Act requires the Division's consideration of the following factors when selecting companies for review:

- Recent material restatement of financial results.
- Significant volatility in stock price.
- Large market capitalization.
- Emerging companies with disparities in price-to-earning ratios.
- Operations that affect a material sector of the economy.
- Other factors the SEC may consider relevant.

While the Division has historically focused on the third factor (issuers with the largest market capitalization), it has also concentrated on the other factors described in Section 408(b) of the Act. In addition, the 11 industry groups in the Division determine the type of review performed on a particular filing and the issues material to their industry.

Types of Reviews

The Division's staff performs the following types of reviews:

- *Preliminary* — This is the initial review of a filing and is the most common type of review. Typically, this review is performed on a company's annual report and may lead to a more comprehensive review. This review primarily focuses on the company's financial statements and related disclosures.
- *Full* — This review involves the Division's legal and accounting staff and is the most comprehensive review. It can be performed on any type of filing but is generally performed on initial public offering documents and other registration or proxy statements. In addition, typically all documents associated with the selected filing (i.e., recent Form 20-F) are considered. Information from a company's Web site or an analyst's report may also be considered.
- *Financial Statement* — This review typically is performed by the accounting staff and focuses on MD&A and the company's financial statements and related disclosures.
- *Legal* — This review is performed by the Division's legal staff and focuses on technical legal aspects of a company's filing.
- *Targeted/Monitor* — This review focuses on one or more specific accounting or disclosure issues. The Division's staff may perform targeted reviews as needed. For example, in August 2007, the Division issued comment letters to 350 companies regarding their executive compensation disclosures to help them improve their disclosures about the new rules.

Review Process

Once the Division's staff has completed its review of the selected filing, a comment letter may be prepared and submitted to the company, typically by facsimile. Although the Division's staff usually communicates to companies via formal written comment letters, occasionally it will comment orally. In such cases, companies are encouraged to document their communications with the SEC in writing and submit them to the staff for final clearance, as if the comments were received in the traditional manner.

A company 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 Division's staff may have further questions for the company and may send additional comment letters to address these concerns. The company 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 company 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 company should request a completion letter.

Appendix B: Best Practices for Managing Unresolved SEC Comment Letters

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

- Consider the impact the comment letter may have on your ability to issue the financial statements.
- Consult with your SEC legal counsel about the impact the comment letter may have on the certifications contained in your Form 10-K or 20-F.
- Consult with your 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, do not request an extension, since this may delay resolution of the comment letter. However, in certain circumstances, a registrant may consider requesting an extension to provide a response that addresses all of the staff's comments.
- If you do not fully understand any specific comment, contact your SEC staff reviewer for clarification so that you can provide an appropriate response.
- Because some comments may require disclosures in future filings, consider including such disclosures in the response letter to potentially eliminate additional requests from your SEC staff reviewer.
- Maintain contact with your SEC staff reviewer and make the reviewer aware of your required timing (on the basis of your current-year filing deadlines).

- If you have not received a follow-up letter or been contacted within two weeks of filing the initial response letter, contact your SEC staff reviewer to determine the status of the comments. Promptly address any follow-up questions.
- If you are uncertain about whether your review has been completed without further comments, ask the SEC staff reviewer about the status of the review. If the review is complete, ask the reviewer for a completion letter.

Disclosure Requirements

In addition, under the Securities Offering Reform,⁸ for fiscal years ending on or after December 1, 2005, large accelerated filers, accelerated filers, and well-known seasoned issuers must disclose in their Forms 10-K and 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.

⁸ The SEC adopted final rules, effective as of December 1, 2005, which modified the registration, communications, and offering processes under the Securities Act of 1933.

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

The SEC releases comment letters and responses on EDGAR no earlier than 45 days after the review of the filing is completed. Database search tips are available on the SEC's [Web site](#).

Companies may also search the database on a quarterly basis as part of their financial statement review process. A company could designate an individual to look at both industry-related and other comments to gain insights into accounting and disclosure matters that the SEC staff may deem significant to investors. Registrants can use this information to improve their overall disclosure.

Appendix D: Deloitte IFRS Resources

In addition to this publication, Deloitte Touche Tohmatsu has a range of tools and publications to assist with implementing and reporting under IFRSs. These include:

www.iasplus.com	Updated daily, IAS Plus is your one-stop shop for information about IFRSs.
Deloitte's IFRS e-Learning module	E-learning IFRS training materials, one module for each IAS and IFRS and the Framework, with self-tests, available without charge at www.iasplus.com .
IAS Plus newsletter	A quarterly newsletter on recent developments in IFRSs and accounting updates for individual countries. In addition, special editions are issued for important developments. To subscribe, visit www.iasplus.com .
Presentation and disclosure checklist	Checklist incorporating all of the presentation and disclosure checklist requirements of standards.
Compliance questionnaire	Questionnaire to assess compliance with the recognition and measurement principles in IFRSs.
Model financial statements	Model financial statements illustrating the presentation and disclosure requirements of IFRSs.
<i>iGAAP 2007 Financial Instruments</i>	Third edition (March 2007). Guidance on how to apply these complex standards, including illustrative examples and interpretations.
<i>First-time Adoption: A Guide to IFRS 1</i>	Application guidance for IFRS 1, effective in 2005.
<i>Share-based Payments: A Guide to IFRS 2</i>	Guidance on applying IFRS 2 to many common share-based payment transactions.
<i>Business Combinations: A Guide to IFRS 3</i>	Supplements the IASB's own guidance for applying this standard.
<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>IFRSs in Your Pocket</i>	Pocket guide includes a description of the IASB structure; biographies of IASB members; an IASB/IASB chronology; table on use of IFRSs around the world; summaries of all IFRSs; overviews of all IASB agenda projects; and more. Updated annually.
Comparison of IFRSs and US GAAP	Standard-by-standard comparison of key differences.
Deloitte Technical Library	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 U.S. GAAP and IFRSs. Updated every business day.

Appendix E: Glossary of Standards

IFRS 8, *Operating Segments*

IFRS 7, *Financial Instruments: Disclosures*

IFRS 4, *Insurance Contracts*

IFRS 3, *Business Combinations*

IFRS 1, *First-time Adoption of International Financial Reporting Standards*

IAS 39, *Financial Instruments: Recognition and Measurement*

IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*

IAS 36, *Impairment of Assets*

IAS 32, *Financial Instruments: Presentation*

IAS 24, *Related Party Disclosures*

IAS 23, *Borrowing Costs*

IAS 21, *The Effect of Changes in Foreign Exchange Rates*

IAS 19, *Employee Benefits*

IAS 18, *Revenue*

IAS 14, *Segment Reporting*

IAS 12, *Income Taxes*

IAS 11, *Construction Contracts*

IAS 7, *Cash Flow Statements*

IAS 1, *Presentation of Financial Statements*

IFRIC Interpretation 12, *Service Concession Arrangements*

FASB Statement No. 131, *Disclosures About Segments of an Enterprise and Related Information*

FASB Statement No. 109, *Accounting for Income Taxes*

EITF Issue No. 00-21, "Revenue Arrangements With Multiple Deliverables"

EITF Issue No. 99-19, "Reporting Revenue Gross as a Principal Versus Net as an Agent"

SEC 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*

SEC Final Rule No. 33-8567, *First-Time Application of International Financial Reporting Standards*

SEC Form 8-K, Section 4 — "Matters Related to Accountants and Financial Statements"

Item 4.01, "Changes in Registrant's Certifying Accountant"

Item 4.02, "Non-Reliance on Previously Issued Financial Statements or a Related Audit Report or Completed Interim Review"

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