

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



This publication is provided as an information service by the Accounting Standards and Communications Group of Deloitte & Touche LLP. It does not address all possible fact patterns and the guidance is subject to change. Deloitte & Touche LLP is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte & Touche LLP shall not be responsible for any loss sustained by any person who relies on this publication.

As used in this document, "Deloitte" means Deloitte & Touche LLP, a subsidiary of Deloitte LLP. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries.

Contents

Preface	1
Introduction	3
Financial Instruments	7
Presentation of Financial Statements	12
Share-Based Payment	15
Revenue	17
Provisions	21
Business Combinations	23
Earnings per Share	25
Income Taxes	27
Intangible Assets	29
Segment Reporting	32
Appendix A: SEC Staff Review Process	35
Appendix B: Best Practices for Managing Unresolved SEC Comment Letters	36
Appendix C: Tips for Searching the SEC's Database for Comment Letters	37
Appendix D: Deloitte IFRS and SEC Resources	42
Appendix E: Glossary of Standards	44

Preface

The SEC's Division of Corporation Finance is responsible for reviewing all company filings, including those of foreign private issuers. The Sarbanes-Oxley Act of 2002 requires the SEC staff to review every issuer's disclosures, including financial statements, at least once every three years. As of December 31, 2007, there were 1,058 foreign private issuers; approximately 100 of these issuers were using International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB), in their financial reporting. Like domestic issuers, foreign private issuers have received various comments requesting additional information about their accounting for and disclosure of various financial statement items. In certain cases, the SEC staff has suggested that issuers enhance the 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 *SEC Comment Letters on Foreign Private Issuers Using IFRSs — A Closer Look* is to help financial statement preparers understand the items that the SEC staff has focused on in its reviews of foreign private issuer financial statements over the past two years. The SEC staff has continued to issue comments on topics included in the first edition of this Special Report (issued in January 2008), such as financial instruments, financial statement presentation, revenue recognition, provisions, and income taxes. This second edition not only provides revised coverage of these topics but also adds four new topics (see "[Top 10](#)" list in the introduction): share-based payment, business combinations, earnings per share, and intangible assets.

In addition to an overall analysis of the nature and types of SEC staff comments, this publication includes extracts from actual comment letters, accompanied by a discussion of the topic involved as well as forward-looking considerations. Links to related resources are also included. Individual comment letters and registrants' responses are available on the SEC's [Web site](#).

The appendixes of this Special Report offer additional valuable insights and information. [Appendix A](#) gives a glimpse into the SEC staff's review and comment letter process, [Appendix B](#) discusses best practices for managing unresolved SEC comment letters, [Appendix C](#) provides helpful tips on searching the SEC's database for comment letters, [Appendix D](#) lists Deloitte's resources on IFRSs (including Deloitte Touche Tohmatsu's IAS Plus [Web site](#)), and [Appendix E](#) contains a glossary of standards used throughout this publication.

If you are currently a domestic registrant, you might be interested in the third edition of our companion publication, *SEC Comment Letters on Domestic Registrants — A Closer Look*.

IFRSs in the United States

Over the past two years, the SEC has taken several steps to acknowledge IFRSs as a high-quality set of financial reporting standards. These steps include the elimination of the reconciliation to U.S. GAAP by foreign private issuers using IFRSs and the issuance of a proposed "roadmap" for the use of IFRSs by U.S. domestic registrants. In addition, the SEC has supported the convergence efforts of the Financial Accounting Standards Board (FASB) and the IASB.

In November 2007, the SEC voted to allow foreign private issuers to use IFRSs in preparing their financial statements without reconciling them to U.S. GAAP. This rule¹ became effective on March 4, 2008, for fiscal years ending after November 15, 2007. Therefore, calendar-year-end foreign private issuers did not have to include a reconciliation in their 2007 financial statements. The SEC voted that, with one exception, a foreign private issuer's financial statements must fully comply with the 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. Such issuers would be allowed to use that version in preparing their financial statements for a two-year period as long as they reconcile them to the IASB's version of IFRSs. 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. (For more information about the elimination of the reconciliation requirement, see Deloitte's [November 16, 2007, Heads Up](#).)

On November 14, 2008, the SEC issued its long-awaited [proposed IFRS "roadmap"](#) outlining milestones that, if achieved, could lead to mandatory transition to IFRSs starting in fiscal years ending on or after December 15, 2014. The roadmap also contains proposed rule changes that would give certain U.S. issuers the early option to use IFRSs in financial statements for fiscal years ending on or after December 15, 2009. The comment letters received on the proposed roadmap generally support the SEC's goal of a single, widely accepted set of high-quality accounting standards; however, views differ on how to achieve this goal. Some responders believe that continued emphasis on convergence is the best course of action, while others have requested that the

¹ Final Rule 33-8879.

SEC provide a specific date for IFRS adoption. The SEC is currently analyzing the comments received and is expected to meet in the fourth quarter of 2009 to discuss next steps. (For more information about the proposed roadmap, see Deloitte's [November 17, 2008, Heads Up](#).)

On September 11, 2008, the FASB and IASB issued an updated memorandum of understanding (MOU) describing the priorities and milestones related to their completion of major joint projects by 2011. Despite considerable progress in convergence of the two sets of standards since the original MOU was issued in 2006, the boards' progress on many of the major projects has been limited because of differences in views about (1) agenda size and project scope, (2) the most appropriate approach, and (3) whether and how similar issues in active projects should be resolved consistently. The boards have recently issued proposals on topics such as financial statement presentation, revenue recognition, consolidations, liabilities and equity, leasing, income taxes, derecognition, and postemployment benefits. However, the boards have found it difficult to agree on many aspects of these proposals. At their meeting in Pittsburgh in September 2009, leaders of the G20 countries called on "international accounting bodies to re-double their efforts to achieve a single set of high quality, global accounting standards within the context of their independent standard-setting process, and complete their convergence project by June 2011." In response to the G20 leaders, the FASB and IASB reaffirmed their commitment to improve their respective standards and achieve convergence. To facilitate this process, the boards will begin meeting monthly to try to speed up efforts to develop a common set of accounting standards by the target date of 2011. (For more information about the MOU, see Deloitte's [September 16, 2008, Heads Up](#).)

Acknowledgments

Many hands and minds contributed to this Special Report. We gratefully acknowledge Ignacio Perez, Randall Sogoloff, Sondra Stokes, Stephanie Wolfe, and Ana Zelic for their contributions and extend to them Deloitte's deepest appreciation. In addition, we appreciate the efforts of the Production Group, including Yvonne Donnachie, Jeanine Pagliaro, and Joseph Renouf.

Introduction

Overall, the SEC staff reviewed 43 filings of foreign private issuers and had an average of approximately eight comments per filing during the 2007–2008 comment period. The number of filings reviewed and comments per filing decreased from the 2006–2007 review period, largely because there are fewer issuers as a result of the SEC rules (effective in June 2007)¹ easing deregistration for foreign private issuers. The comment letters we reviewed revealed several overall themes:

- Focus was more on the primary IFRS financial statements than on the U.S. GAAP reconciliation (when applicable).
- Presentation and disclosure were significant areas of focus across industries.
- Recognition and measurement comments varied by industry.
- Comments were geared toward understanding the judgments made and assumptions used in applying IFRSs.

In November 2007, the SEC issued [Final Rule 33-8879](#), which became effective on March 4, 2008. This rule, which allows foreign private issuers to use IFRSs in preparing their financial statements without reconciling them to U.S. GAAP, has contributed to the shift in focus of the SEC’s comments from U.S. GAAP to IFRSs.

The total filings reviewed by industry are as follows:

Industry	Number of Filings Reviewed
Consumer and Industrial Products	9
Energy and Resources	4
Financial Services	11
Health Sciences and Government	6
Technology, Media, and Telecommunications	10
Other	3

Areas of Focus in Each Section of Form 20-F

The SEC staff continued to focus on the financial statements. However, comments on the financial statements decreased as a percentage of the total in 2007–2008, while comments on operating and financial review and prospects (Item 5 of Form 20-F) constituted a higher percentage of the total comments than they had in 2006–2007. The Item 5 comments generally centered on inclusion of estimated interest payments in the contractual obligations table and improved disclosures about uncertainties, trend analysis, and liquidity matters.

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.

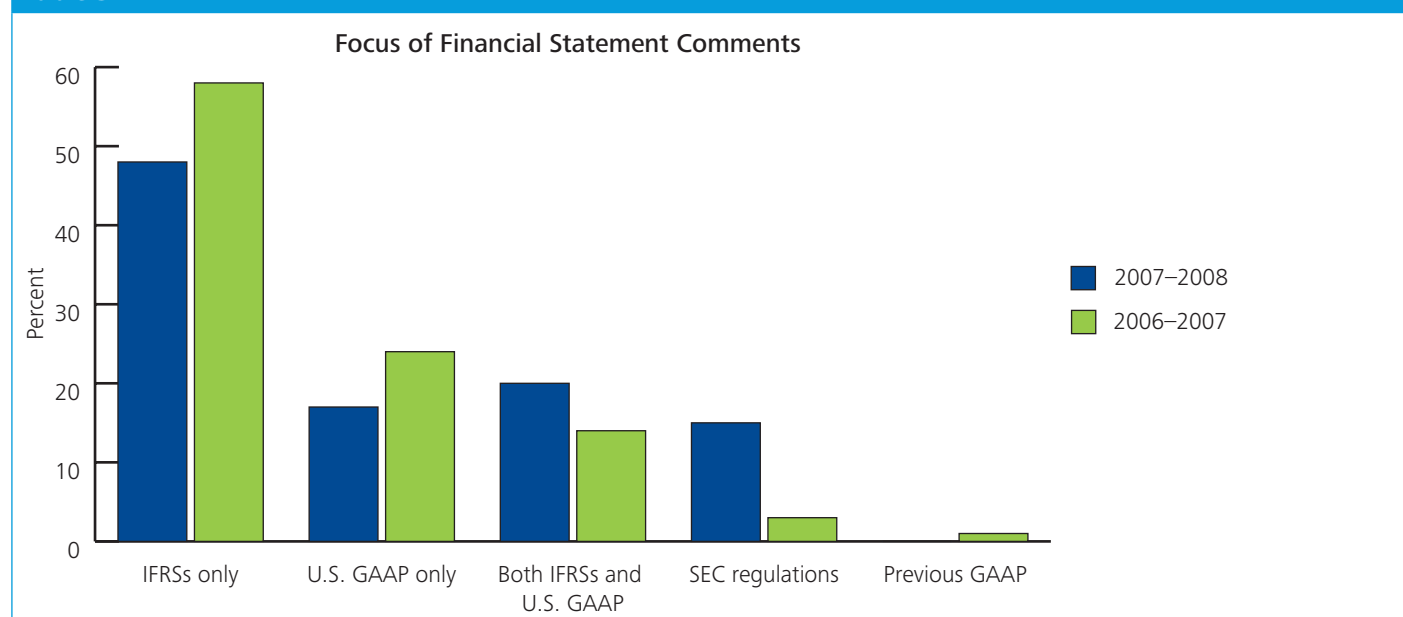
Section of Report	Comments Received	
	2007–2008 % of Total Comments	2006–2007 % of Total Comments
Financial Statements	68	87
Operating and Financial Review and Prospects	13	5
Company Information	6	1
Disclosure Controls and Procedures	2	2
Selected Financial Data	1	1
Other	10	4

¹ Exchange Act Rule 12h-6.

Financial Statement Comment Analysis

The table below summarizes, by GAAP, the financial statement comments we reviewed during each period. A clear majority of the overall financial statement comments focused on the IFRS financial statements. The U.S.-GAAP-only comments decreased, primarily because of the SEC’s ruling to eliminate the U.S. GAAP reconciliation footnote for filings made after March 4, 2008. The comments on previous GAAP relate to the IFRS 1 reconciliation footnote.

Table 3



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 have consistently related to presentation and disclosure issues. The comments on both IFRSs and U.S. GAAP, however, generally related to items included in the U.S. GAAP reconciliation; therefore, the focus of comments in this category was mostly on recognition and measurement differences between the two sets of standards.

Table 4A

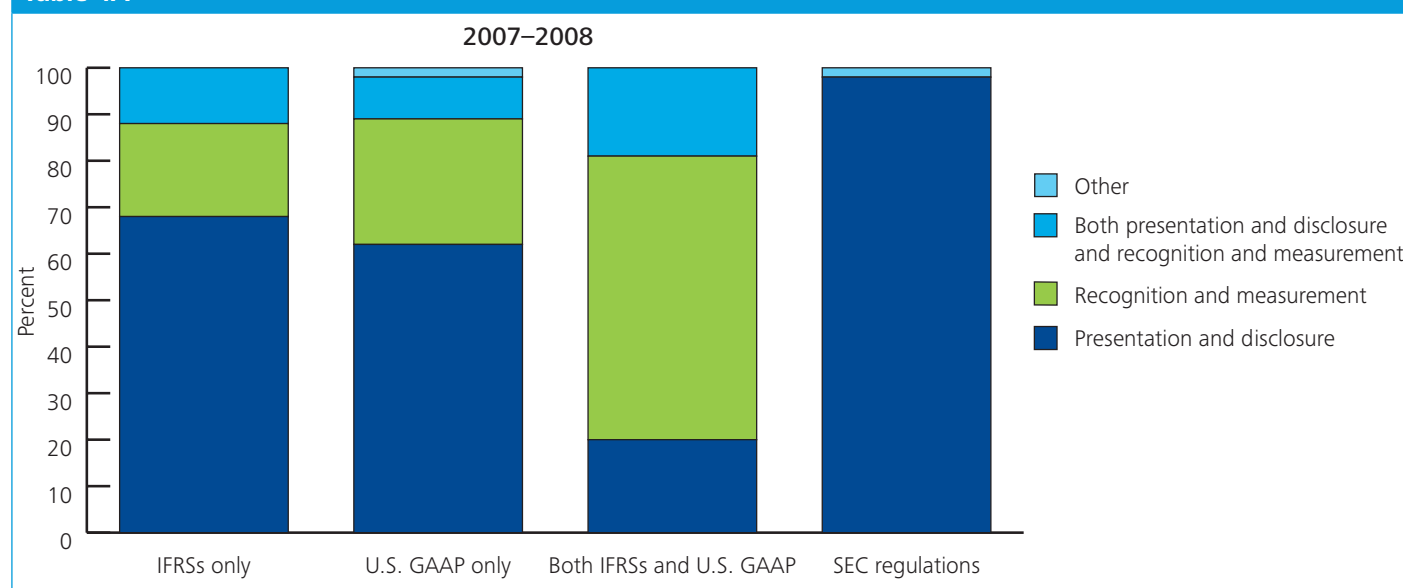
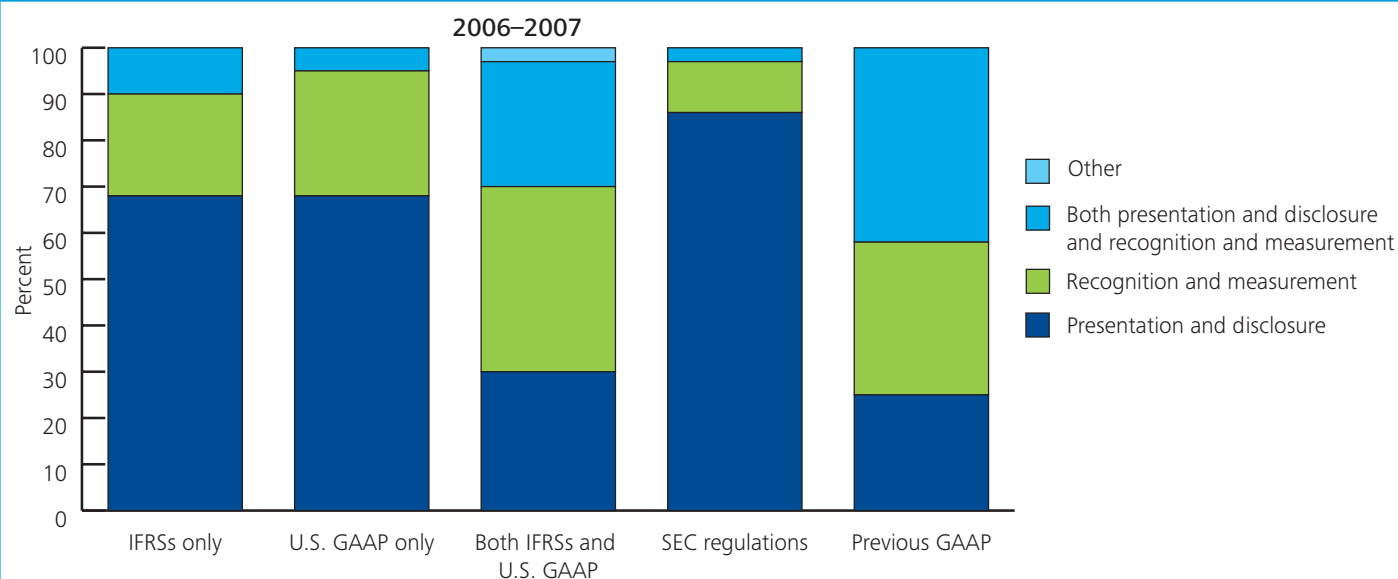


Table 4B



Top 10 IFRS Topics

The table below lists the 10 IFRS topics that received the most commentary. Six of the topics in the Top 10 list are consistent with those noted during the 2006–2007 comment period and analyzed in our first edition of this Special Report. In both periods, financial instruments was the front-runner (15 percent in the 2006–2007 comment period). New to the Top 10 are share-based payment, business combinations, earnings per share, and intangible assets. Topics that received less attention in 2007–2008 than in 2006–2007 were cash flow statements, first-time adoption of IFRSs, employee benefits, and impairment of assets.

Table 5

Top 10 IFRS Comment Topics

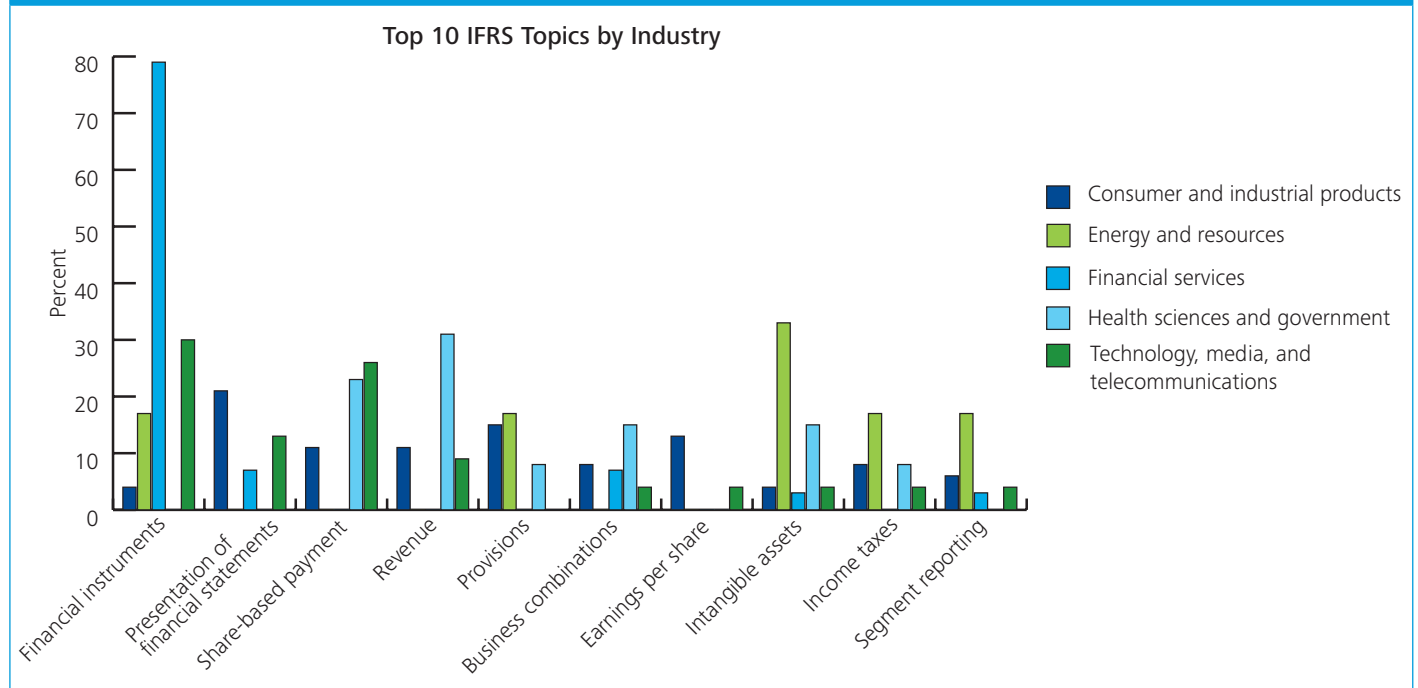
% of Total Comments

Financial Instruments	19
Presentation of Financial Statements	9
Share-Based Payment	9
Revenue	7
Provisions	6
Business Combinations	5
Earnings per Share	5
Income Taxes	5
Intangible Assets	5
Segment Reporting	4

Top 10 IFRS Topics by Industry

It is not surprising that financial instruments received the most comments, given that (1) 26 percent of the filings reviewed were from the financial services industry and (2) within those filings, 79 percent of the comments related to financial instruments. The table below illustrates the percentage of comments on each of the top 10 topics by industry.

Table 6



Financial Instruments

Fair Value Disclosures

Overview of SEC Staff Comments: The SEC staff requested more information about fair value disclosures, including disclosures about valuation models and assumptions that management used to determine fair values. The staff also commented on disclosures about the impact on fair value of changing reasonably possible assumptions. These comments often caused entities to provide additional disclosures in future filings.

Examples of SEC Comments

- [In] future filings, please revise to disclose the following regarding your pricing models:
 - o The specific pricing models you use to calculate the fair value of your financial instruments;
 - o A discussion of the significant assumptions and inputs into each of these different models for each class of financial instruments. For example, disclose the significant inputs into these models that have the potential to most impact the value determined, and the assumptions for those inputs for all periods presented;
 - o The extent to which a particular valuation model is used to value certain of your asset and liability classes; and
 - o A discussion of how the impact of changing assumptions was calculated. For example, disclose the reasonably likely range selected for each alternative assumption and the corresponding percentages used in your sensitivity analysis. Refer to paragraphs 27 and BC38 of IFRS 7. Provide us with your proposed future disclosure.
- We note that when there is no determinable market price for the financial instrument or the price of recent transactions of comparable instruments, [Company A] uses mathematical measurement models “sufficiently tried and trusted by the international financial community”. Please tell us and discuss in future filings the following:
 - o The nature of the mathematical models used, the types of inputs to the model and their limitations for determining fair value when objective market values are not readily determinable.
 - o Alternatively, provide a brief summary and cross reference to where detailed disclosure regarding these mathematical models is included elsewhere in the notes to the financial statements.

Background and Analysis: The IASB amended IFRS 7 in March 2009 to include disclosure requirements that are based on a three-level fair value hierarchy similar to that in ASC 820 (formerly Statement 157) as well as to clarify liquidity risk disclosures. The amendments are effective for annual periods beginning on or after January 1, 2009. Although the SEC staff performed its review of the filings analyzed in this Special Report for periods before the issuance of the amendments to IFRS 7, most of the staff’s comments on fair value disclosures remain applicable under the new guidance.

IFRS 7.27 continues to require entities to disclose “the methods, and when a valuation technique is used, the assumptions applied in determining fair values.” The use of valuation techniques involves significant judgment, and an entity needs to disclose the methods and significant assumptions employed in arriving at fair value to allow users to judge the appropriateness of management’s estimates of fair value.

Under IFRS 7.27A, the three-level hierarchy for classifying fair value measurements is as follows:

- a. quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- b. inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices) (Level 2); and
- c. inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

An entity should always classify a financial instrument as Level 1, 2, or 3 in its entirety and on the basis of the lowest-level input that is “significant” to the fair value measurement. For example, if, in measuring the fair value of a financial instrument, an entity uses observable inputs that must be significantly adjusted on the basis of unobservable inputs, that instrument is classified as Level 3, even though Level 1 and Level 2 inputs may also have been used.

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

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

Note that IFRS 7.27B(e) in particular requires that entities disclose sensitivities of fair value estimates to key valuation assumptions so that users get a sense of the potential variability of fair value estimates when inputs entities use in making such estimates are not based on observable market data.

For more information about the amendments to IFRS 7 discussed in the previous paragraphs, see Deloitte's [March 2009 IAS Plus Update](#).

Risk Disclosures

Overview of SEC Staff Comments: The SEC staff commented on the completeness of certain financial instrument risk disclosures required by IFRS 7. Therefore, entities made changes to, or provided additional disclosures in, future filings.

Examples of SEC Comments

- Please tell us and in future filings include in this section definitions of the various components of market risk such as interest rate risk, currency risk and equity price risk. Also, please consider including definitions of your various factors that are included in the market risk profile for the VaR calculations, such as spread risk, stock-market risk, vega risk and correlation risk and describe in greater detail the methodology used to quantify the various risks.
- We refer to the "Impaired assets and impairment losses" section . . . which includes impaired loans and advances to other debtors and substandard contingent liabilities. Please tell us and in future filings provide the following information:
 - o A discussion of the nature and total amount of "substandard contingent liabilities" and the valuation methodology used to determine the extent of impairment.
 - o For each class of financial instrument disclose the carrying amount of financial assets that have been renegotiated that would otherwise be classified as past due or impaired. Refer to paragraph 36(d) of IFRS 7.
 - o For each class of financial instrument provide an analysis of the age of financial assets that are past due but not impaired as of December 31, 2007. Refer to paragraph 37(a) of IFRS 7.
 - o For each class of financial asset provide an analysis of financial assets that are individually determined to be impaired as of December 31, 2007, the factors considered to determine impairment, and the extent of collateralization or other credit enhancements. Refer to paragraphs 37(b) and 37(c) of IFRS 7.
 - o With respect to assets acquired through repossession of collateral or through the call of other credit enhancements disclose the nature and carrying amounts of the assets obtained. For assets acquired that are not readily convertible into cash please disclose the Company's policies for disposing of or using these assets. Refer to paragraphs 38(a) and 38(b) of IFRS 7.

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

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

Required Disclosures

Qualitative Disclosures

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

Quantitative Disclosures

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

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 entities cross-referred to disclosures contained in the operating and financial review and prospects 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.

Hedge Effectiveness and Related Disclosures

Overview of SEC Staff Comments: The SEC staff requested more information about the methods entities used to assess hedge effectiveness and measure ineffectiveness and commented on the appropriateness of entities' conclusions about the effectiveness of hedging relationships. The staff also commented on the adequacy of disclosures about hedging relationships and hedge effectiveness.

Examples of SEC Comments

- Please describe in detail the actual methods utilized by you to assess hedge effectiveness pursuant to IFRS under both the previous and current accounting policies. Similarly provide us with a more detailed description of the methods used by you in measuring the ineffectiveness of your hedges under the previous and current accounting policies. Refer to your basis in the accounting literature.
- Provide us with an example that includes an assessment of hedge effectiveness and a calculation of ineffectiveness, including any related journal entries, under both your previous and current accounting policies.
- We note that the ongoing effectiveness of your cash flow hedges is assessed using the dollar-offset approach, with the expected cash flows of hedging instruments being compared to the expected cash flows of the hedged items. Please tell us whether there were any instances where you failed the dollar-offset (i.e., you fell out of the 80-125% range) yet you still concluded the relationship was highly effective and continued hedge accounting under IFRS and US GAAP. If so, tell us your accounting basis for continuing hedge accounting for these cash flow hedges under IFRS and US GAAP.
- Please tell us and disclose in future filings the following information with respect to cash flow hedges:
 - o The periods in which the cash flows are expected to occur and when they are expected to affect profit or loss. Refer to paragraph 7.23(b) of IFRS 7.
 - o Describe any forecasted transaction for which hedge accounting had previously been used but which is no longer expected to occur. Refer to paragraph 7.23(b) of IFRS 7.
- We refer to the [statement that] . . . the amount of cash flow hedges recognized in equity during the period and the amounts removed from equity and included in profit or loss are shown in the “Consolidated Statement recognized income and expense”. Please tell us and in future filings state where these amounts are separately disclosed in the Consolidated Income Statement. . . . Refer to the disclosure requirements for cash flow hedges in paragraph 7.23(c) and paragraph 23(d) of IFRS 7.

Background and Analysis: To qualify for hedge accounting under IAS 39, a hedge must be “highly effective,” both prospectively and retrospectively. In assessing hedge effectiveness, an entity may use ratio analysis or regression analysis, depending on the type of hedge. Subsequently, to measure the amount of ineffectiveness, an entity often uses techniques such as ratio analysis, the hypothetical-derivative method, and the “change in fair value method.”

IAS 39.AG105 specifies that a hedge must meet both of the following conditions to be considered highly effective:

- a. At the inception of the hedge and in subsequent periods, the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. . . .
- b. The actual results of the hedge are within a range of 80–125 per cent. . . .

Within the range of 80 percent to 125 percent, any deviation from 100 percent means that the hedging relationship is partly ineffective; such ineffectiveness must be recognized immediately in profit or loss. Possible sources of ineffectiveness in a hedging relationship include changes in index risk, credit risk, quality risk, and location risk. For hedging relationships that are ineffective, entities must discontinue hedge accounting prospectively.

In addition to qualitative disclosures under IFRS 7.33, IFRS 7.22 requires the following disclosures:

- a. a description of each type of hedge;
- b. a description of the financial instruments designated as hedging instruments and their fair values at the end of the reporting period; and
- c. the nature of the risks being hedged.

Further, under IFRS 7.23, an entity 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 other comprehensive income during the period;
- d. the amount that was reclassified from equity to profit or loss for the period, showing the amount included in each line item in the statement of comprehensive income; 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.

Moreover, IFRS 7.24 states that an entity must separately provide the following additional disclosures about the income statement impact of hedging activities:

- 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.

Presentation of Financial Statements

Disclosure and Presentation of Equity

In September 2007, the IASB issued amendments to IAS 1, which became effective for annual periods beginning on or after January 1, 2009. (For more information about the IAS 1 amendments, see Deloitte's [October 2007 IAS Plus Update](#).) Although the SEC staff performed its review of the filings analyzed in this Special Report for periods before the adoption of IAS 1 (revised 2007), the analysis below refers to IAS 1 (revised 2007) since many of the staff's comments on financial statement presentation would have been applicable under the revised standard.

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

Examples of SEC Comments

- We note your disclosure of the number of shares issued and fully paid as of December 31, 2006. In future filings, please disclose either on the face of the balance sheet or in the notes to the financial statements, the number of shares authorized. See paragraph 76 of IAS 1.
- [F]or each class of shares, please disclose all applicable rights, preferences and restrictions, including restrictions on the distribution of dividends and repayment of capital. Refer to paragraph 76(a)(v) of IAS 1.
- Please provide an analysis of changes in share capital for each year for which an income statement is required. Please also provide an analysis of changes in share premium and reserves for each year for which an income statement is required. . . . Refer to Rule 3-04 of Regulation S-X and IAS 1.

Background and Analysis: IAS 1 requires several disclosures about share capital and reserves. In particular, IAS 1.79 (revised 2007) requires that an entity disclose the following information in either (1) the statement of financial position or statement of changes in equity or (2) the notes to the financial statements:

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

In addition, IAS 1.106 (revised 2007) requires entities to disclose the following in the statement of changes in equity:

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

Under IAS 1 (revised 2007), an entity should present changes in individual components of equity in the statement of changes in equity, not in the notes to the financial statements, as previously permitted under IAS 1 (2003). (Note that in IAS 1 (2003), information about disclosure and presentation of equity was located in paragraphs 76 and 96.) In addition, entities no longer have the option of presenting nonowner changes in equity as separate items in the statement of changes in equity. Rather, such nonowner changes must be presented in the statement of comprehensive income and the total carried to the statement of changes in equity. Note that in its omnibus exposure draft *Improvements to IFRSs*, issued on August 26, 2009, the IASB proposed allowing entities to present the components of changes in equity either in the statement of changes in equity or in the notes to the financial statements. (Comments on the exposure draft were due by November 24, 2009, and the amendments would become effective on January 1, 2011.)

Presentation of Results of Operating Activities

Overview of SEC Staff Comments: The SEC staff commented on items excluded from amounts presented as results of operating activities.

Example of an SEC Comment

- In your consolidated income statement, we note that you present a measure of net operating income that does not include provisions and impairment losses. Paragraph BC13 of IAS 1 expressly states that it would be inappropriate if items of an operating nature were excluded from net operating income. Therefore, please revise this section in future filings to explicitly disclose that this presentation differs from IFRS in this respect, and provide the disclosures required by paragraph 18 of IAS 1.

Background and Analysis: IAS 1.82 (revised 2007) lists line items that an entity should include, at a minimum, in the statement of comprehensive income (previously “income statement” under IAS 1 (2003)). Neither IAS 1 version (2003 or 2007) requires entities to disclose the results of operating activities as a separate line item in the statement of comprehensive income. (Note that in IAS 1 (2003), information about presentation of results of operating activities was located in paragraph 81.) However, when an entity decides to present the results of operating activities (i.e., operating income) or a similar line item, under IAS 1.BC56 (revised 2007), “it would be misleading and would impair the comparability of financial statements if items of an operating nature were excluded from the results of operating activities, even if that had been industry practice.” Examples of items that it would be inappropriate to exclude from the results of operating activities include inventory write-downs, restructuring changes, and share-based payments.

IAS 1.85 (revised 2007) permits an entity to present additional line items and subtotals on the face of the statement of comprehensive income “when such presentation is relevant to an understanding of the entity’s financial performance.” When including such line items and subtotals, an entity should consider providing transparent disclosures that clearly convey the relevance of the items to financial statement users. In such cases, an entity may amend the description of the line items and reorder them to explain the particular element of financial performance.

Expense Presentation

Overview of SEC Staff Comments: The SEC staff commented on the presentation of expenses in the statement of comprehensive income, particularly on omitted disclosures about the nature of expenses when a functional presentation was used.

Example of an SEC Comment

- We note that your analysis of expenses as presented on the face of the income statement is based on the function of expenses or “cost of sales” method. Please revise future filings to include disclosure of additional information on the nature of expenses, including depreciation and amortization expense and employee benefits expense. See paragraph 93 of IAS 1. In order to provide a comparative analysis, we believe this information should be presented together in one table and reconciled to operating and net income.

Background and Analysis: Under IAS 1, an entity can present expenses either by nature or by function. IAS 1.104 (revised 2007) states that an entity that chooses to present expenses by function must provide additional disclosures about the “nature of expenses, including depreciation and amortisation expense and employee benefits expense.” An entity that uses a functional format should ensure that all required additional disclosures are included in the footnotes and should consider including these disclosures in a single footnote for greater transparency.

The following tables, extracted from IAS 1.IG6 (revised 2007), illustrate income statements by nature and by function:

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 [footnote omitted]	<u>X</u>
Profit before tax	X
Income tax expense	<u>(X)</u>
Profit for the year from continuing operations	X
Loss for the year from discontinued operations	<u>(X)</u>
Profit [or loss] for the period	<u>X</u>

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

Under IAS 1 (revised 2007), income statement presentation 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 income statement and other comprehensive income items together in a single statement of comprehensive income.
- In two separate statements (i.e., in an income statement, followed by a second statement beginning with profit or loss and displaying components of other comprehensive income).

Share-Based Payment

Overview of SEC Staff Comments: The SEC staff's comments focused on completeness of disclosures about the specific terms and conditions in share-based payment arrangements. These comments often caused entities to provide additional disclosures in future filings.

Examples of SEC Comments

- Please provide us in disclosure-type format revised disclosure that provides the following information, or explain to us where you have made these disclosures in your filing or why they are not required:
 - o The weighted-average exercise prices of your options outstanding at period end as required by paragraph 45(b)(vi) of IFRS 2.
 - o The number and weighted-average exercise prices of your options exercisable at period end as required by paragraph 45(b)(vii) of IFRS 2.
 - o The range of exercise prices and the weighted-average remaining contractual life of your options outstanding at period end as required by paragraph 45(d) of IFRS 2.
- Reference is made to your disclosure . . . that a liability is recognized for cash settled share schemes. In this regard, for each share-based payment arrangement, please disclose whether settlement will be in cash or shares. Additionally, disclose the vesting requirements for each arrangement. Refer to paragraph 45(a) of IFRS 2.
- Please provide us in disclosure-type format revised disclosure that provides the following information, or explain to us where you have made these disclosures in your filing or why they are not required:
 - o The weighted-average fair value of options granted during the period and information on how that fair value was determined as required by paragraph 47(a) of IFRS 2.

Background and Analysis: The SEC staff expects a discussion of all information that, in accordance with IFRS 2.44, enables financial statement users to “understand the nature and extent of share-based payment arrangements that existed during the period.” IFRS 2.45 requires that entities disclose the following information:

- a. a description of each type of share-based payment arrangement that existed at any time during the period, including the general terms and conditions of each arrangement, such as vesting requirements, the maximum term of options granted, and the method of settlement (eg whether in cash or equity). An entity with substantially similar types of share-based payment arrangements may aggregate this information, unless separate disclosure of each arrangement is necessary to satisfy the principle in paragraph 44.
- b. the number and weighted average exercise prices of share options for each of the following groups of options:
 - i. outstanding at the beginning of the period;
 - ii. granted during the period;
 - iii. forfeited during the period;
 - iv. exercised during the period;
 - v. expired during the period;
 - vi. outstanding at the end of the period; and
 - vii. exercisable at the end of the period.
- c. for share options exercised during the period, the weighted average share price at the date of exercise. If options were exercised on a regular basis throughout the period, the entity may instead disclose the weighted average share price during the period.
- d. for share options outstanding at the end of the period, the range of exercise prices and weighted average remaining contractual life. If the range of exercise prices is wide, the outstanding options shall be divided into ranges that are meaningful for assessing the number and timing of additional shares that may be issued and the cash that may be received upon exercise of those options.

IFRS 2.46 requires an entity to disclose enough information for “users of the financial statements to understand how the fair value of the goods or services received, or the fair value of the equity instruments granted . . . was determined.” Under IFRS 2.10–13, some entities may, on the basis of facts and circumstances, use an option pricing model to measure the fair value of the goods or services received on the basis of the fair value of the equity instruments granted, while other entities may base the measurement on the market price of the goods or services received. The required disclosures under IFRS 2 depend on how an entity measures the fair value of the good or services received.

Under IFRS 2.47, an entity must disclose the following if it “has measured the fair value of goods or services received . . . indirectly, by reference to the fair value of the equity instruments granted”:

- a. for share options granted during the period, the weighted average fair value of those options at the measurement date and information on how that fair value was measured, including:
 - i. the option pricing model used and the inputs to that model, including the weighted average share price, exercise price, expected volatility, option life, expected dividends, the risk-free interest rate and any other inputs to the model, including the method used and the assumptions made to incorporate the effects of expected early exercise;
 - ii. how expected volatility was determined, including an explanation of the extent to which expected volatility was based on historical volatility; and
 - iii. whether and how any other features of the option grant were incorporated into the measurement of fair value, such as a market condition.
- b. for other equity instruments granted during the period (ie other than share options), the number and weighted average fair value of those equity instruments at the measurement date, and information on how that fair value was measured, including:
 - i. if fair value was not measured on the basis of an observable market price, how it was determined;
 - ii. whether and how expected dividends were incorporated into the measurement of fair value; and
 - iii. whether and how any other features of the equity instruments granted were incorporated into the measurement of fair value.
- c. for share-based payment arrangements that were modified during the period:
 - i. an explanation of those modifications;
 - ii. the incremental fair value granted (as a result of those modifications); and
 - iii. information on how the incremental fair value granted was measured, consistently with the requirements set out in (a) and (b) above, where applicable.

Furthermore, under IFRS 2.48, an entity that directly “measured the fair value of goods or services received during the period [must] disclose how that fair value was determined, eg whether fair value was measured at a market price for those goods or services.”

Revenue

Disclosures

Overview of SEC Staff Comments: Many of the SEC staff's comments focused on the completeness of disclosures about the specific terms and conditions in revenue arrangements and about significant categories of revenue recognized. In some instances, the staff indicated that disclosures could be improved and requested that specific disclosures be included in the filing under review or in a future filing.

Examples of SEC Comments

- If applicable, discuss any shipments made as a result of incentives and/or in excess of your customer's ordinary course of business inventory level. Discuss your revenue recognition policy for such shipments.
- We note that you recognize revenue from both the sale of goods and from the rendering of services. We also note the description of various products that you sell and services that you provide in your Business Overview. . . . Please tell us what consideration you gave to separately quantifying your revenues from goods and your revenues from services, and supplementally provide us with this information. Refer to paragraph 35(b) of IAS 18.

Background and Analysis: The SEC staff expects a discussion of all relevant information about the entity's revenue activities. IAS 18.35 requires that an entity disclose the following information:

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

An entity should also consider including the following in its revenue recognition accounting policy disclosure:

- If an entity has different policies for different types of revenue transactions, the detailed policy for each material type of transaction, the specific factors the entity considered in developing these policies, and how those policies meet the conditions in IAS 18.
- If sales transactions have multiple elements, such as products and services, the accounting policy for each element, as well as how multiple elements are determined and valued.
- Changes in estimates that underlie revenue recognition, such as changes in estimated returns.
- Separate disclosure of any specific revenue transactions that are unusual because of their nature, size, or frequency of occurrence.
- Specific terms of revenue transactions, including the details of any rights to return and when risks transfer from the seller to the customer.

Costs Associated With Revenue Transactions

Overview of SEC Staff Comments: In several letters, the SEC staff commented on the appropriateness of an entity's accounting policy for certain expenditures associated with revenue transactions. Specifically, the staff commented on the appropriateness of capitalizing certain costs and the classification of costs as a reduction of revenue or as an expense.

Examples of SEC Comments

- Tell us if there are any excess costs that have been deferred. If so, tell us why it is appropriate to capitalize these costs under IFRS.
- We note your disclosure in the last paragraph of your disclosure on revenue recognition, that other benefits granted to customers in cash or in kind are classified as marketing and distribution expenses. Please explain to us, and disclose in future filings, the nature of these other benefits and why you believe it is appropriate to record these as marketing and distribution expenses, rather than as reductions of revenue.
- Please tell us how you are accounting for your loyalty programs under IFRS Include in your response references to the appropriate accounting literature. Also, tell us why the accounting for these programs is not disclosed in your notes to the financial statements.

Background and Analysis: Many entities enter into multiple-element arrangements in which certain costs are incurred. An entity should determine whether, on the basis of the specific terms of a revenue arrangement, it is appropriate to (1) expense the costs, as incurred, as marketing and distribution expense under IAS 38.69(c); (2) capitalize them as customer acquisition costs; or (3) account for them as part of a separately identifiable component of a single transaction.

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

In evaluating when to recognize the related revenue in a multiple-element arrangement, an entity must determine (1) the different identifiable components of the arrangement, (2) when those identifiable components meet the revenue recognition criteria under IAS 18, and (3) what amount of consideration should be allocated to each component. In accordance with 18.13, the basic revenue recognition criteria (discussed below under “Criteria for Revenue Recognition”) are usually applied separately to each transaction unless:

- It is “necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction.”
- Two or more transactions are linked such that “the commercial effect cannot be understood without reference to the series of transactions as a whole.”

Although not effective for the filings the SEC commented on, the recently issued IFRIC Interpretations 15 and 18 provide additional guidance on separating the identifiable components of a multiple-element revenue arrangement.

According to the principle in IAS 18.9, the amount of revenue attributed to each component should be “measured at the fair value of the consideration received.” In clarifying this principle, IFRIC 13.BC13–BC14 indicate that the amount the customer is paying for each component is most representative of fair value. However, this amount is often not directly observable and must be estimated by using an appropriate method to allocate the total consideration between the components. The Basis for Conclusions of IFRIC 13 indicates that IAS 18 does not prescribe a specific allocation method and that an entity may therefore consider multiple allocation methods. However, an entity should use judgment in selecting the method that most appropriately reflects the fair value of a component (i.e., the amount a customer is paying for each component).

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

Criteria for Revenue Recognition

Overview of SEC Staff Comments: The SEC staff has requested clarification of the terms and conditions of revenue transactions and the circumstances that lead to the recognition of revenue. The SEC staff commented on whether certain conditions for revenue recognition have been met, in particular those relating to the transfer of significant risks and rewards of ownership to the buyer.

Examples of SEC Comments

- You recorded a £ . . . million performance milestone . . . that was “earned for the development of [Company A’s] development process.” Please explain more specifically in a disclosure-type format the specific factors that you considered in concluding that the earnings process was complete. Clarify for us in disclosure-type format the facts and circumstances that will determine the timing and recognition of the remainder of the . . . payment received . . . to date and the [funds] that may be received in the future on achievement of further milestones. Also, explain the factors that you consider in distinguishing between a “substantive” and a non-substantive performance milestone.
- You state that “revenue is partly recognized upon shipment of products to the distributor . . . with further amounts being recognized in accordance with the contractual terms upon shipment to the end user.” Please describe, in disclosure-type format, the contractual terms governing your sales to distributors and distributor sales to end users to clarify your revenue recognition policy. In your response, address how recognizing part of the revenue upon shipment to distributors meets all of the conditions in paragraph 14 of IAS 18.
- Please tell us the terms of the extended service/warranty contracts for which you retain the contractual obligation. With respect to lifetime service/warranty contracts, please tell us how you recognize revenue for these contracts including how you determine the historical claims experience for lifetime warranties.

Background and Analysis: The SEC staff continued to focus on the criteria for revenue recognition in IAS 18. IAS 18.14 states:

Revenue from the sale of goods [is] recognised when all 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.

As noted above, an entity needs to assess when the significant risks and rewards of ownership have been transferred to the buyer. IAS 18.15 further states that ordinarily, “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” but that it sometimes occurs at a different time. In addition, IAS 18.13 notes that if an entity enters into a multiple-element arrangement, the revenue recognition criteria should be applied to the separately identifiable components of a single transaction. An entity should closely review the specific terms of its arrangements to ensure that its revenue recognition policy is consistent with when risks and rewards are transferred to the buyer.

As discussed in IAS 18.16, an entity may retain the risks and rewards of ownership even after title is transferred (e.g., when the entity has a continuing obligation to the buyer). If an entity retains significant risks of ownership, the transaction cannot be considered a sale and the entity cannot recognize revenue. IAS 18.16 gives the following examples of when an entity may retain significant risks of ownership:

- 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.

Under IAS 18.17, however, if the “entity retains only an insignificant risk of ownership, the transaction is a sale and revenue is recognised.”

An entity should carefully consider the types of ongoing obligations in determining whether the recognition criteria are met. If all other recognition criteria are met, revenue may be recognized for a sales arrangement, notwithstanding the seller’s remaining obligation for additional performance or delivery, if the seller’s remaining obligation is inconsequential or perfunctory. A remaining performance obligation is not inconsequential or perfunctory if:

- It is essential to the functionality of the delivered products or services (e.g., installation, training, or both).

- Failure to complete the activities would result in the customer's receiving a full or partial refund or the right to reject the products delivered or services performed to date.

In addition, a remaining performance obligation **may not** be inconsequential or perfunctory if:

- The seller does not have a demonstrated history of completing the remaining tasks in a timely manner and reliably estimating their costs.
- The cost or time to perform the remaining obligations for similar contracts historically has varied significantly from one instance to another.
- The skills or equipment required to complete the remaining activity are specialized or are not readily available in the marketplace.
- The cost of completing the obligation, or the fair value of the obligation, is more than insignificant in relation to such items as the total contract fee, gross profit, and operating income.
- The period before the remaining obligation will be extinguished is lengthy.
- The timing of payment of a portion of the sales price is coincident with completing performance of the remaining activity.

In accordance with IAS 18.20, for revenue associated with the rendering of services, an entity should recognize revenue "by reference to the stage of completion of the transaction at the end of the reporting period" (the percentage-of-completion method), provided that all of the following criteria are met:

- The "amount of revenue can be measured reliably."
- "[I]t is probable that the economic benefits . . . will flow to the entity."
- The stage of completion at the end of the reporting period can be measured reliably.
- The costs incurred, or to be incurred, in the transaction can be measured reliably.

Under IAS 18.26, when the above criteria are not met, an entity should recognize revenue "only to the extent of the expenses recognised that are recoverable" (a "cost-recovery approach").

IASB Revenue Recognition Project

In December 2008, the IASB and FASB jointly issued a discussion paper outlining their preliminary views on a single, contract-based revenue recognition model. The two boards intend to improve current revenue recognition guidance by enhancing consistency and comparability, simplifying U.S. GAAP, and providing additional guidance in IFRSs. Under the proposed model, entities would apply a contract-based revenue recognition principle and recognize revenue only as a result of satisfying a performance obligation. Cash collection or production of inventory not transferred to a customer (whether under contract or not) would not trigger revenue recognition. Comments on the discussion paper were due by June 19, 2009. The boards expect to publish an exposure draft in the second quarter of 2010 and a final standard in 2011. For more information about the discussion paper, see Deloitte's [January 6, 2009, Heads Up](#).

Provisions

Overview of SEC Staff Comments: The SEC requested more information about the nature, types, and amounts of provisions that were recognized. The staff also commented on the completeness of disclosures about provisions recorded and contingent liabilities. Several of these comments caused entities to make changes to the disclosures in future filings.

Examples of SEC Comments

- We note the column labeled “Other provisions”. Please tell us and disclose in future filings a brief description of the types of obligations that are captured in this category. Refer to paragraph 85(a) of IAS 37.
- We note your disclosure that provisions are recorded for estimated product returns at the time revenues are recognized. Please tell us the amount of such provisions recorded as of each balance sheet presented and tell us where the amount is included in the balance sheet. As it does not appear that this provision is included in the amount of provisions detailed . . . , in future filings, please disclose in the notes to the financial statements, the carrying amount at the beginning and end of the period; additional provisions made in the period; amounts used during the period; and unused amounts reversed during the period. See paragraph 84 of IAS 37.
- We note several legal proceedings and related provisions and possible contingent liabilities . . . that are not disclosed in your notes to your financial statements. Please refer to paragraphs 84 through 92 of IAS 37 regarding the disclosure of provisions and contingent liabilities and revise future filings to include these legal proceedings in your financial statements. Your revised disclosures should clearly indicate any amounts recorded as provisions in your financial statements and those determined to be contingent liabilities. If an estimate cannot be made of amounts that may be owed, please disclose this fact or if possible, disclose a range of possible amounts. Please provide us with your proposed disclosures in your response.
- We note your disclosure that indicates there is a likelihood of being fined by the . . . government regarding currency dispositions and pricing discrepancies relating to oil forward sales. Please clarify if this likelihood has been recognized in your financial statements. Please refer to paragraph 86 of IAS 37 and provide the required disclosures or otherwise why the disclosures are not necessary.

Background and Analysis: IAS 37.10 defines a provision as “a liability of uncertain timing or amount.” IAS 37.14 requires that a provision be 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 “an outflow of resources . . . will be required to settle the obligation.”
- The obligation’s amount can be reliably estimated.

A contingent liability is one that does not meet any of the criteria above and that therefore is not recognized in the financial statements. An entity must disclose the following for each class of contingent liability that is not remote:

- A “description of the nature of the contingent liability.”
- The estimated financial effect of the contingent liability.
- An “indication of the uncertainties relating to the amount or timing of any outflow.”
- The “possibility of any reimbursement.”

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

In addition, IAS 37.84–85 state:

For each class of provision, an entity shall disclose:

- a. the carrying amount at the beginning and end of the period;
- b. additional provisions made in the period, including increases to existing provisions;
- c. amounts used (ie incurred and charged against the provision) during the period;

- d. unused amounts reversed during the period; and
- e. the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.

Comparative information is not required.

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

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

IAS 37.92 indicates that in extremely rare cases, disclosure of the above information may prejudice the position of the entity (e.g., a provision related to litigation). In such cases, an entity can omit these disclosures; however, the entity 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 investors' interests against any possible prejudice of the entity's position.

Business Combinations

In January 2008, the IASB issued a revised version of IFRS 3, *Business Combinations*. IFRS 3 (revised 2008) is effective prospectively for all business combinations whose acquisition date is at or after the beginning of the first annual reporting period beginning on or after July 1, 2009; earlier adoption is permitted. Although the SEC staff performed its review of the filings analyzed in this Special Report for periods before the adoption of IFRS 3 (revised 2008), the analysis below refers to IFRS 3 (revised 2008) since many of the staff's comments on business combinations would have been applicable under the revised standard. For information about applying IFRS 3 (revised 2008), see Deloitte's *Business Combinations and Changes in Ownership Interests: A Guide to the Revised IFRS 3 and IAS 27*.

Intangible Assets Acquired

Overview of SEC Staff Comments: The SEC staff requested more information about how entities determined that the definition of an intangible asset under IAS 38 was met and how the relative fair value of the intangible asset was calculated.

Examples of SEC Comments

- For the IPR&D [in-process research and development] capitalized as part of the 2006 and 2007 acquisitions, please explain to us the nature of the amounts capitalized. Also, please explain how you determined that the amounts met the definition of an intangible asset, how the cost is reliably measurable, and how you determined or calculated the fair value of the asset. See paragraphs 21 and 34 of IAS 38.
- We note that you determined fair value of the shareholder's agreement intangible asset based on the difference between "the purchase price of [the acquisition] of a 34% stake in . . . share capital and the payable price of a previous transaction with former shareholders. . . ." Please tell us in more detail how this fair value was determined.

Background and Analysis: Under IFRS 3 (revised 2008), the cost of a business combination should be allocated to the assets acquired and liabilities assumed at their fair values as of the acquisition date, with limited exceptions. Intangible assets should be recognized separately from goodwill, regardless of whether they were previously recorded in the acquiree's financial statements. IFRS 3.B31 (revised 2008) states that "[a]n intangible asset is identifiable if it meets either the separability criterion or the contractual-legal criterion."

In addition to the guidance in IFRS 3 (revised 2008), IAS 38 (as amended by IFRS 3 (revised 2008)) includes overall recognition criteria for intangible assets and provides specific guidance on intangible assets acquired as part of a business combination. IAS 38.21 states:

An intangible asset shall be recognised if, and only if:

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

Specifically, regarding intangible assets acquired as part of a business combination, IAS 38.33–34 state:

In accordance with IFRS 3, *Business Combinations*, if an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date. The fair value of an intangible asset will reflect expectations about the probability that the expected future economic benefits embodied in the asset will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits, even if there is uncertainty about the timing or the amount of the inflow. Therefore, the probability recognition criterion in paragraph 21(a) is always considered to be satisfied for intangible assets acquired in business combinations. If an asset acquired in a business combination is separable or arises from contractual or other legal rights, sufficient information exists to measure reliably the fair value of the asset. Thus, the reliable measurement criterion in paragraph 21(b) is always considered to be satisfied for intangible assets acquired in business combinations.

In accordance with this Standard and IFRS 3 (as revised in 2008), an acquirer recognises at the acquisition date, separately from goodwill, an intangible asset of the acquiree, irrespective of whether the asset had been recognised by the acquiree before the business combination. This means that the acquirer recognises as an asset separately from goodwill an in-process research and development project of the acquiree if the project meets the definition of an intangible asset. An acquiree's in-process research and development project meets the definition of an intangible asset when it:

- a. meets the definition of an asset [i.e., is a resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity]; and
- b. is identifiable, ie is separable or arises from contractual or other legal rights.

IFRS 3 (revised 2008) includes examples of items acquired in a business combination that meet the definition of an intangible asset.

IAS 38 provides guidance on determining the fair value of intangible assets acquired in a business combination. IAS 38.39–40 state:

Quoted market prices in an active market provide the most reliable estimate of the fair value of an intangible asset (see also paragraph 78). The appropriate market price is usually the current bid price. If current bid prices are unavailable, the price of the most recent similar transaction may provide a basis from which to estimate fair value, provided that there has not been a significant change in economic circumstances between the transaction date and the date at which the asset's fair value is estimated.

If no active market exists for an intangible asset, its fair value is the amount that the entity would have paid for the asset, at the acquisition date, in an arm's length transaction between knowledgeable and willing parties, on the basis of the best information available. In determining this amount, an entity considers the outcome of recent transactions for similar assets.

Disclosure of Pro Forma Financial Information

Overview of SEC Staff Comments: The SEC staff commented on the completeness of disclosures about pro forma information as part of a business combination. The staff requested entities that omitted this information because they deemed it impracticable to include disclosures explaining why it was impractical in future filings.

Examples of SEC Comments

- Paragraph 70 of IFRS 3 requires disclosure of pro forma financial information for a business combination as if it had occurred at the beginning of the period unless impractical. Please provide us this information in a disclosure-type format or explain and disclose your basis for omitting this disclosure.
- We note your disclosure of historical trading profit and operating profit contributed by the acquisitions and your disclosure of trading profit as if the acquisitions had been completed on the first day of the fiscal year. Please tell us how you determined that these disclosures satisfied the requirements of paragraphs 67(i) and 70(b) of IFRS 3. Please revise future filings if necessary.

Background and Analysis: IFRS 3.59 (revised 2008) states:

The acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of a business combination that occurs either

- a. during the current reporting period; or
- b. after the end of the reporting period but before the financial statements are authorised for issue.

IFRS 3.B64 (revised 2008) indicates the specific disclosures an entity should provide in accordance with the above principle in IFRS 3.59. Subparagraph (q) stipulates the following disclosures (previously located in IFRS 3.67 and IFRS 3.70 (2004)) about pro forma financial information:

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

If disclosure of any of the information required by this subparagraph is impracticable, the acquirer shall disclose that fact and explain why the disclosure is impracticable. This IFRS uses the term 'impracticable' with the same meaning as in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Earnings per Share

Computation of Earnings per Share

Overview of SEC Staff Comments: The SEC staff requested more information about the earnings per share (EPS) computation, particularly the weighted-average number of shares used in the computation.

Examples of SEC Comments

- We note your discussion of employee benefit trusts at the bottom of this page. Please help us to understand if or how your shares held by these employee benefit trusts were considered in determining the number of shares allotted and issued, as seen at the top of Note 28, or the weighted average shares outstanding for calculation of earnings per share, as discussed in Note 8. Please clarify this information to your investors in future filings.
- We note your disclosure that potential ordinary shares are composed of incremental shares issuable upon the exercise of share options of the equity settled Plan 1998 and are included in diluted earnings per share to the extent such shares are dilutive. Please explain to us how you considered the guidance in paragraphs 58–61 of IAS 33 in excluding the cash-settled options in the Plan 1998, Plan 2001 and Plan 2005.

Background and Analysis: Under IAS 33.10, when providing EPS information in the financial statements, an entity must calculate the basic EPS by “dividing profit or loss attributable to ordinary equity holders of the parent entity . . . by the weighted average number of ordinary shares outstanding . . . during the period.” In addition, IAS 33.20 states that the “weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor.” When computing the weighted-average number of ordinary shares, an entity should carefully consider the following:

- *Timing for inclusion of new shares* — Under IAS 33.21, shares are usually considered outstanding from the date that the consideration for the shares becomes receivable, which is generally the date of their issuance. Entities should examine the specific “terms and conditions attaching to” the issuance of the shares to ensure that the “substance of any contract associated with the issue” prevails over its legal form.
- *Situations in which the shares were issued or the number of ordinary shares outstanding was reduced, without a corresponding change in resources (e.g., stock dividends, stock split and a reverse stock split, rights issues for less than a full market price)* — Under IAS 33.26, the “weighted average number of ordinary shares outstanding during the period and for all periods presented [in such circumstances] shall be adjusted for events, other than the conversion of potential ordinary shares, that have changed the number of ordinary shares outstanding without a corresponding change in resources.”
- *Preference shares with characteristics of ordinary shares* — When computing basic EPS, an entity should evaluate such preference shares on the basis of their substance rather than their form. When preference shares share the characteristics of ordinary shares and have no preference attributed to them, such instruments should be considered ordinary shares for purposes of basic EPS, regardless of the legal name assigned to them.
- *Ordinary shares issued to trusts to fund retirement benefit payments and shares held in trust for equity-settled share-based payments* — When the trust is consolidated, the shares held by the trust should not be considered outstanding in the computation of EPS; such shares are considered treasury shares in the consolidated financial statements.

When calculating diluted EPS under IAS 33.31–32, entities are required to increase the:

- a. profit or loss attributable to ordinary equity holders of the parent entity . . . by the after-tax amount of dividends and interest recognised in the period in respect of the dilutive potential ordinary shares and [to adjust it] for any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares; and
- b. the weighted average number of ordinary shares outstanding . . . by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

IAS 33.7 gives the following examples of potential ordinary shares that may entitle the holder to ordinary shares:

- a. financial liabilities or equity instruments, including preference shares, that are convertible into ordinary shares;
- b. options and warrants;
- c. shares that would be issued upon the satisfaction of conditions resulting from contractual arrangements, such as the purchase of a business or other assets.

The SEC staff commented on the EPS treatment of contracts that may be settled in ordinary shares or cash at the entity's option (contingently issuable shares). For such contracts, IAS 33.58 requires that an entity "presume that the contract will be settled in ordinary shares, and the resulting potential ordinary shares shall be included in diluted [EPS] if the effect is dilutive." IAS 33.60 requires that the "more dilutive of cash settlement and share settlement . . . be used in calculating diluted [EPS]" if the holder has the option to choose between settlement in ordinary shares or cash.

Disclosure

Overview of SEC Staff Comments: The SEC had several comments on the completeness of disclosures about instruments that could potentially dilute basic EPS in the future that entities did not include in the calculation of diluted EPS because the instruments were antidilutive for the period presented.

Examples of SEC Comments

- [P]lease disclose the instruments that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they are antidilutive for the periods presented. Refer to paragraph 70(c) of IAS 33.
- We note your discussion of certain share options granted that were not included in your calculation of diluted EPS because such options were anti-dilutive for the periods presented. Please tell us what consideration you gave to quantifying the underlying number of shares represented by these anti-dilutive options, either here or in Note 35. Refer to paragraph 70(c) of IAS 33.

Background and Analysis: The SEC staff expects companies to provide all of the following disclosures under IAS 33.70:

- a. the amounts used as the numerators in calculating basic and diluted earnings per share, and a reconciliation of those amounts to profit or loss attributable to the parent entity for the period. The reconciliation shall include the individual effect of each class of instruments that affects [EPS].
- b. the weighted average number of ordinary shares used as the denominator in calculating basic and diluted [EPS], and a reconciliation of these denominators to each other. The reconciliation shall include the individual effect of each class of instruments that affects [EPS].
- c. instruments (including contingently issuable shares) that could potentially dilute basic [EPS] in the future, but were not included in the calculation of diluted [EPS] because they are antidilutive for the period(s) presented.
- d. a description of ordinary share transactions or potential ordinary share transactions, other than those accounted for in accordance with paragraph 64, that occur after the reporting period and that would have changed significantly the number of ordinary shares or potential ordinary shares outstanding at the end of the period if those transactions had occurred before the end of the reporting period.

In addition, IAS 33.71 lists examples of transactions that an entity might disclose under paragraph 70(d) above.

When the terms and conditions of an instrument that generates potential ordinary shares affect the measurement of basic and diluted EPS, IAS 33.72 encourages, but does not require, disclosures about these terms and conditions.

Income Taxes

Disclosures

Overview of SEC Staff Comments: The SEC staff commented on the completeness and adequacy of the disclosures that registrants provided under IAS 12. More specifically, the staff's comments focused on the following items, which resulted in enhanced disclosures in future filings:

- Nature of adjustments and reconciling items.
- Specific facts and circumstances related to the timing of adjustments.
- Explanation of changes in applicable tax rates.
- Recognized amounts for each type of temporary difference.
- Income tax consequences of dividends declared.

Examples of SEC Comments

- Please tell us in further detail the nature of the adjustments to current tax expense for prior periods recognized during 2006 . . . and that are included as part of that periods current income tax expense. Your response should explain why these amounts were recognized during 2006 when they relate to periods prior to 2006. Please revise the discussion provided in future filings to quantify the amounts attributable to each of the matters discussed.
- We note your disclosure that the effective tax rate in 2006 differed from the statutory rate . . . primarily due to an adjustment of tax losses carry forwards. Please explain to us the nature and specific timing of the facts and circumstances that resulted in this reversal including why you believe it was appropriate to recognize this reversal this year.
- Please tell us what consideration you gave to paragraphs 81(d), 81(g)(i) and 81(i) of IAS 12. Also tell us what consideration you gave to disclosing in more detail your methodology for assessing the recoverability of deferred tax assets.

Background and Analysis: IAS 12 requires a number of disclosures about the accounting for income taxes. An entity should ensure that its financial statements include all disclosures required by IAS 12 and that these disclosures are in sufficient detail to enable users to understand the current and future tax consequences of transactions and related events of the entity. An entity should pay particular attention to significant adjustments and reconciling items to ensure that its recognition is consistent with the requirements in IAS 12 and is adequately disclosed in the financial statements.

IAS 12.81 requires the following disclosures:

- a. the aggregate current and deferred tax relating to items that are charged or credited directly to equity . . . ;
- ab. the amount of income tax relating to each component of other comprehensive income . . . ;
- b. [deleted]
- c. an explanation of the relationship between tax expense (income) and accounting profit in either or both of the following forms:
 - i. a 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 to 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 statement of financial position;
- 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 statement of financial position for each period presented;
 - ii. the amount of the deferred tax income or expense recognised in profit or loss, if this is not apparent from the changes in the amounts recognised in the statement of financial position; 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 authorised for issue, but are not recognised as a liability in the financial statements;
- j. if a business combination in which the entity is the acquirer causes a change in the amount recognised for its pre-acquisition deferred tax asset . . . , the amount of that change; and
- k. if the deferred tax benefits acquired in a business combination are not recognised at the acquisition date but are recognised after the acquisition date . . . , a description of the event or change in circumstances that caused the deferred tax benefits to be recognised.

IASB Income Taxes Project

On March 31, 2009, the IASB, as part of a short-term convergence project with the FASB, issued an exposure draft of an IFRS that would replace IAS 12. (For more information, see Deloitte's [April 9, 2009, Heads Up](#).) The objective of the project is to improve the current guidance on accounting for income taxes and the related disclosures by reducing complexity and differences with U.S. GAAP. The IASB is currently reviewing the comments received on the proposed IFRS, most of which were critical of the proposed changes, and is discussing the best way to move forward on this project.

The FASB has suspended its deliberations on the income taxes project while it determines how to proceed with the short-term convergence projects in the memorandum of understanding.

Intangible Assets

Recognition

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

Examples of SEC Comments

- We note your disclosures . . . that you capitalize, as intangible assets, directly attributable subscriber acquisition costs (represented by commissions for the sales network and subsidies for the purchase of handsets) and amortize these costs over the period of the underlying contract. In this regard, explain to us your basis under IFRS for capitalizing these costs. Tell us how you considered paragraph 69(c) of IAS 38 in concluding the appropriateness of the capitalization of these costs.
- Please provide us a list of the activities (completed and not completed) and their capitalized amounts that comprise . . . “development costs” at December 31, 2006. . . . For each activity (completed and not completed tell us the date capitalized, the nature of the activity and address how you met each of the criteria in paragraph 57 of IAS 38. For activities not completed at December 31, 2006, also tell us the nature and dollar amount and timing of efforts remaining to be completed.

Background and Analysis: Under IAS 38.18, for an expenditure to be capitalized, it must meet the definition of an intangible asset as well as specific recognition criteria. IAS 38.8 defines an intangible asset as “an identifiable non-monetary asset without physical substance.” IAS 38.12 states that an asset is identifiable when it:

- a. is separable, i.e., is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or [as part of a package] regardless of whether the entity intends to do so; or
- b. arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

IAS 38.21 provides the following recognition criteria for expenditures that meet the definition of an intangible asset:

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

IAS 38 acknowledges that it is sometimes difficult to determine whether expenditures relating to an internally generated intangible asset qualify for recognition. Therefore, IAS 38 requires that in addition to complying with the requirements for the recognition and initial measurement of an intangible asset, an entity meet additional recognition criteria for expenditures relating to an internally generated intangible asset. IAS 38.52 distinguishes between two phases in the generation of an intangible asset internally — the research phase and the development phase. An entity is not permitted to recognize the cost as an intangible asset when the cost is incurred in the research phase of an internal project. Under IAS 39.57, an entity is only permitted to capitalize expenditures during the development phase if it can demonstrate all of the following:

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

IAS 38. 53 states, “If an entity cannot distinguish the research phase from the development phase of an internal project . . . , the entity treats the expenditure on that project as if it were incurred in the research phase only.” IAS 38.69 gives the following examples of costs that should always be recognized as an expense:

- Research (unless the costs relate to an intangible acquired in a business combination).
- Start-up activities, unless the expenditure qualifies for inclusion in the cost of an item of property, plant, and equipment. Start-up costs may include:
 - o Establishment costs, “such as legal and secretarial costs incurred in establishing a legal entity.”
 - o Expenditures for opening “a new facility or business (ie preopening costs).”
 - o Expenditures for “starting new operations or launching new products or processes” (i.e., preoperating costs).
- Training activities.
- Advertising and promotional activities.
- Relocating or reorganizing part or all of an entity.

IAS 38 indicates that an entity can use one of two models to subsequently recognize an intangible asset: the amortized cost model (benchmark treatment) or the revaluation model (allowed alternative). Under IAS 38.75, an entity may only carry an intangible asset at its revalued amount when an active market exists, which rarely occurs in practice. IAS 38.8 states that an active market exists only when the following conditions are met:

- a. the items traded in the market are homogeneous;
- b. willing buyers and sellers can normally be found at any time; and
- c. prices are available to the public.

Determination of the Indefinite Useful Life and Related Disclosures

Overview of SEC Staff Comments: The SEC staff commented on an entity’s consideration of factors that played a significant role in determining the indefinite useful life of an intangible asset. The staff also commented on the completeness of the related disclosures. Therefore, some entities made revisions to, or provided additional disclosures in, future filings.

Examples of SEC Comments

- Please tell us how you evaluated the factors in IAS 38 . . . in determining that the useful life of the shareholders’ agreement is indefinite. Also, tell us the terms of the agreement and how you considered any provision in the agreement that may limit the useful life.
- You indicate that management contracts include . . . amounts acquired in 2006 related to the . . . acquisition that have indefinite lives and therefore are not subject to amortization. Please disclose the reasons supporting your assessment of an indefinite useful life for these management contracts in accordance with paragraph 122(a) of IAS 38. Please also describe and disclose the factors that play a significant role in determining that the useful life of your management contracts are indefinite. See paragraph 90 of IAS 38.

Background and Analysis: An entity’s subsequent accounting for the intangible asset depends on its assessment of whether an intangible asset has an indefinite useful life, because indefinite-lived intangible assets are not amortized and are subject to a different impairment analysis. Under IAS 38.88, an intangible asset has an indefinite useful life when, “based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.”

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

- a. the expected usage of the asset by the entity and whether the asset could be managed efficiently by another management team;
- b. typical product life cycles for the asset and public information on estimates of useful lives of similar [types of] assets that are used in a similar way;
- c. technical, technological, commercial or other types of obsolescence;
- d. the stability of the industry in which the asset operates and changes in the market demand for the products or services output from the asset;
- e. expected actions by competitors or potential competitors;

- f. the level of maintenance expenditure required to obtain the expected future economic benefits from the asset and the entity's ability and intention to reach such a level;
- g. the period of control over the asset and legal or similar limits on the use of the asset, such as the expiry dates of related leases; and
- h. whether the useful life of the asset is dependent on the useful life of other assets of the entity.

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

After initially determining that the useful life is indefinite, an entity should establish sufficient procedures to identify and evaluate events or circumstances that, if they have occurred or changed since the initial determination, may affect the estimated useful life. Some events or circumstances will represent discrete and readily identifiable events to which the entity should respond (i.e., a change in regulation). Other events or circumstances may develop more gradually but, nevertheless, must be monitored and given appropriate consideration by the entity (i.e., obsolescence, competition, and demand).

Segment Reporting

Basis of Segmentation

Overview of SEC Staff Comments: Many of the SEC staff's comments on segment reporting related to obtaining a better understanding of the basis of segmentation and, in particular, how entities determined the number of reportable segments. In several instances, those comments caused entities to make changes to their segment disclosures in future filings.

In November 2006, the IASB issued IFRS 8, which replaces IAS 14 and aligns the requirements for basis of segmentation with those in ASC 280 (formerly Statement 131). IFRS 8 is effective for annual periods beginning on or after January 1, 2009, with earlier adoption encouraged. Although the SEC staff performed its review of the filings analyzed in this Special Report for periods before the adoption of IFRS 8, the analysis below refers to IFRS 8 since many of the staff's comments on segment reporting would have been applicable under the new standard.

Example of an SEC Comment

- We note that you supply certain channels to cable operators and you provide pay television broadcast service in the UK and Ireland. Please tell us in more detail the factors you considered in concluding that you have no reportable segments within your business under IAS 14 and US GAAP.

Background and Analysis: IAS 14 required that an entity, in determining segments to report, use a risks-and-rewards approach to identify two sets of segments (business and geographical). The entity's "system of internal financial reporting to key management personnel" served only as the starting point for identifying such segments. One set of segments was regarded as primary and the other as secondary. However, the approach in IFRS 8 is consistent with the pure management approach of identifying reportable segments under U.S. GAAP. The operating segments are identified on the basis of what is reported to the chief operating decision maker (CODM). IFRS 8.5 defines an operating segment as a component of an entity:

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

Because IFRS 8 is substantially converged with U.S. GAAP, we would expect future SEC comments to be consistent with comments currently received by domestic filers. (For more information about the SEC's comments to domestic filers, see Deloitte's *SEC Comment Letters on Domestic Registrants — A Closer Look*.) For domestic filers, the SEC staff frequently asks how operating segments were determined and what financial information is received and reviewed by the CODM. The SEC staff will most likely review the information in the forepart of the Form 20-F, such as the business section and operating and financial review and prospects section, and information from public sources, such as the entity's Web site, analysts' reports, and press releases, for consistency with the entity's segment disclosures.

Once the entity identifies its operating segments, it must determine which operating segments are reportable. Under IFRS 8.11, an entity must separately report information about each operating segment that:

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

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

- a. the nature of the products and services;
- b. the nature of the production processes;
- c. the type or class of customer for their products and services;

- d. the methods used to distribute their products or provide their services; and
- e. if applicable, the nature of the regulatory environment, for example, banking, insurance or public utilities.

As noted above, the distinction between business and geographical segments under IAS 14 no longer exists and reporting segments are based solely on the company's internal reporting structure. For domestic filers, the SEC staff has indicated that it views aggregation as a "high hurdle." Entities should maintain detailed analyses of their operating segments and consideration of the aggregation criteria. Regarding the evaluation of the aggregation of operating segments, the SEC staff believes that investors are interested in reviewing the same information that the company's management reviews.

Disclosures

Overview of SEC Staff Comments: The SEC staff commented on the completeness of the disclosures under IFRS 8, specifically those related to information about products and services and major customers.

Examples of SEC Comments

- Please tell us how you have met the disclosure requirements of paragraph 32 of IFRS 8 related to information about products and services.
- Please revise future filings to include disclosures regarding the extent of [Company A's] reliance on major customers as outlined in paragraph 34 of IFRS 8, if applicable.

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

IFRS 8.21 requires an entity to "give effect to the principle" in IFRS 8.20 by providing the following disclosures for each period for which it presents a statement of comprehensive income:

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

IFRS 8.21 further states:

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

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

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

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

- *Information about geographical areas* — IFRS 8.33 states:

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

- a. revenues from external customers (i) attributed to the entity's country of domicile and (ii) attributed to all foreign countries in total from which the entity derives revenues. If revenues from external customers attributed to an individual foreign country are material, those revenues shall be disclosed separately. An entity shall disclose the basis for attributing revenues from external customers to individual countries.

b. non-current assets [footnote omitted] other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts (i) located in the entity's country of domicile and (ii) located in all foreign countries in total in which the entity holds assets. If assets in an individual foreign country are material, those assets shall be disclosed separately. . .

- *Information about major customers* — IFRS 8.34 states:

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

Appendix A: SEC Staff Review Process

The SEC's Division of Corporation Finance selectively reviews filings made under the Securities Act of 1933 and the Securities Exchange Act of 1934. In January 2009, the SEC staff issued an [overview](#) that explains its filing review and comment letter process.¹ The overview aims to increase transparency in the review process and expresses the staff's willingness to discuss issues with registrants. For example, the overview indicates that the "[staff] views the comment process as a dialogue with a company about its disclosure" and that a "company should not hesitate to request that the staff reconsider a comment it has issued or reconsider a staff member's view of the company's response to a comment at any point in the filing review process."

The overview is divided into two main sections:

- *The Filing Review Process* — This section explains that the Division comprises 11 offices staffed by experts in specialized industries, accounting, and disclosures. The section includes background on the different types (required and selective) and levels of review and covers the comment process, indicating that "[m]uch of the [staff's] review [process] involves reviewing the disclosure from a potential investor's perspective and asking questions that an investor might ask when reading the document." The section also addresses how to respond to staff comments and close a filing review.
- *The Reconsideration Process* — This section emphasizes that "staff members, at all levels, are available to discuss disclosure and financial statement presentation matters with a company and its legal, accounting, and other advisors." In addressing a registrant's potential request for the SEC staff to reconsider a staff member's comment or view on a registrant's response, the staff emphasizes that registrants do not have to "follow a formal protocol." However, the staff explains where registrants should start and the steps involved in the normal course of the reconsideration process. The staff also specifies contact information for each office for both accounting and financial disclosure matters and legal and textual disclosure matters.

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

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

To increase the transparency of the Division's review process, comment letters are made public, via the SEC's Web site, no more than 45 days after the review is completed. See [Appendix C](#) for tips on searching the SEC's comment letter database.

¹ An overview of the legal and regulatory policy offices is also available on the SEC's [Web site](#).

Appendix B: Best Practices for Managing Unresolved SEC Comment Letters

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

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

Oral Comments

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

Disclosure Requirements

Under the Securities Offering Reform,¹ large accelerated filers, accelerated filers, and well-known seasoned issuers must disclose in their Forms 10-K the substance of any material unresolved SEC staff comments that were issued 180 or more days before the end of the current fiscal year.

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

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

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

Full-Text Search Feature

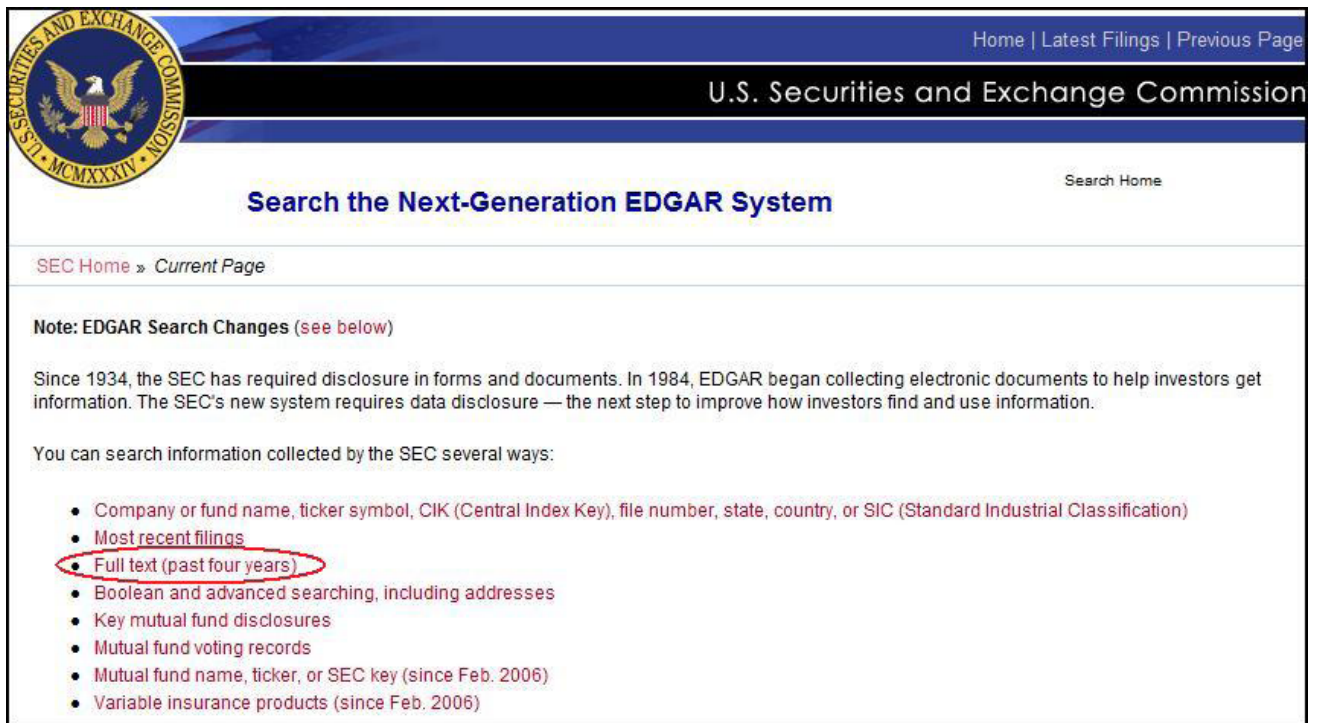
This is one of the more helpful tools for finding relevant comment letters on the SEC's Web site. The Full-Text Search feature allows users to search the complete text of all filings posted electronically within the last four years. It performs two types of searches: basic and advanced. The basic search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

To access the advanced search feature:

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



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



Home | Latest Filings | Previous Page

U.S. Securities and Exchange Commission

Search Home

Search the Next-Generation EDGAR System

SEC Home » Current Page

Note: EDGAR Search Changes (see below)

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

You can search information collected by the SEC several ways:

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

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



Home | FAQ

U.S. Securities and Exchange Commission

Full-Text Search

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

Search For Text:

[Advanced Search Page](#)

Search Reset

4. This brings up the following Web page.

Home | FAQ

U.S. Securities and Exchange Commission

Full-Text Search

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

Search For Text: [Basic Search Page](#)

In Form Type: All Forms **Results Per Page:** 10

Sort By: Date (Latest First) **Use Stemming:**

For Company Name:

Or Central Index Key (CIK):

Or Standard Industrial Classification: All SICs

Between These Dates:

Start Date: End Date:

The following are tips for using this page:

Form Types

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

Performing Searches

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

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

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

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

Modifications to Searches

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

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

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

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

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

Other Search Criteria

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

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

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

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

Example

09/14/2006 [EX-10.1 of 10SB12G for AOB BIOTECH INC](#)

COMPANY NAME(S) - [AOB BIOTECH INC (CIK - 1363449) (SIC - 6022)]

Exhibit 10.1 DEVELOPMENT AGREEMENT In this Agreement AOB BIOTECH INC. (“Developer”), a California registered company, doing business at 301 North Lake Ave., Pasadena and SuperMax USA, INC. (“Contractor”), located at Japan, agrees that on August, 2005. AOB BIOTECH INC. is to develop five formulas

Displaying Search Results

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

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

Example of Benefits of Using Full-Text Search

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

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

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

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

Finding Search Terms Within the Filing Document

HTML or Text Documents

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

PDF Documents

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

Additional Help on Using Full-Text Search

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

Appendix D: Deloitte IFRS and SEC Resources

Deloitte Publications

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. The module is 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 2009 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>	Guidance on applying 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 on 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 that includes a description of the IASB structure; biographies of IASB members; an IASB/IASB chronology; a table on use of IFRSs around the world; summaries of all IFRSs; and overviews of all IASB agenda projects. Updated annually.
Comparison of IFRSs and U.S. 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.

Did You Know . . . ?

Deloitte's SEC Reporting Interpretations Manual includes interpretive guidance and more than 125 Q&As on the following topics:

- *Understanding the SEC.*
- *Business combinations* — Providing financial statements of an acquired business as required under Regulation S-X, Rule 3-05.
- *Unconsolidated subsidiaries and equity method investees* — Providing financial information of unconsolidated subsidiaries and equity method investees as required under Regulation S-X, Rules 3-09 and 4-08(g).
- *Pro forma financial information.*
- *Real estate operations* — Providing financial information of acquired real estate operations as required under Regulation S-X, Rule 3-14.

- *Registrant's financial statements.*
- *Guarantor statements* — Providing guarantor financial statements as required under Regulation S-X, Rule 3-10.

The SEC Reporting Interpretations Manual is available on Technical Library: The Deloitte Accounting Research Tool. For more information, including subscription details and an online demonstration, visit www.deloitte.com/us/techlibrary.

In addition, in August 2009, Deloitte added *SEC Reporting for Business Combinations and Related Topics — A Roadmap to Applying SEC Regulation S-X to the Acquisition of a Business* to its Roadmap series. When a registrant acquires, or it is probable that it will acquire, a significant business or real estate operation (acquiree), it may be required to provide separate financial statements of the acquiree and pro forma financial information in a Form 8-K, registration statement, or proxy statement. This new roadmap is a valuable tool for understanding the related SEC reporting considerations. In addition, the roadmap covers how certain provisions of ASC 805 (formerly Statement 141(R)) affect the SEC reporting considerations for business combinations. The codified roadmap features an executive summary as well as over 100 Deloitte interpretive Q&As.

Appendix E: Glossary of Standards

IFRS 8, *Operating Segments*

IFRS 7, *Financial Instruments: Disclosures*

IFRS 3, *Business Combinations*

IFRS 2, *Share-based Payment*

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

IAS 39, *Financial Instruments: Recognition and Measurement*

IAS 38, *Intangible Assets*

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

IAS 34, *Interim Financial Reporting*

IAS 33, *Earnings per Share*

IAS 27, *Consolidated and Separate Financial Statements*

IAS 18, *Revenue*

IAS 14, *Segment Reporting*

IAS 12, *Income Taxes*

IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*

IAS 1, *Presentation of Financial Statements*

IFRIC Interpretation 18, *Transfers of Assets From Customers*

IFRIC Interpretation 15, *Agreements for the Construction of Real Estate*

IFRIC Interpretation 13, *Customer Loyalty Programmes*

FASB Accounting Standards Codification Topic 280, *Segment Reporting* [Statement 131]

FASB Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures* [Statement 157]

FASB Statement No. 157, *Fair Value Measurements*

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

SEC Regulation S-X, Rule 4-08, "General Notes to Financial Statements"

SEC Regulation S-X, Rule 3-14, "Special Instructions for Real Estate Operations to Be Acquired"

SEC Regulation S-X, Rule 3-10, "Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered"

SEC Regulation S-X, Rule 3-09, "Separate Financial Statements of Subsidiaries Not Consolidated and 50 Percent or Less Owned Persons"

SEC Regulation S-X, Rule 3-05, "Financial Statements of Businesses Acquired or to Be Acquired"

SEC Regulation S-X, Rule 3-04, "Changes in Other Stockholders' Equity"

SEC Final Rule Release 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*

Exchange Act Rule 12h-6, "Certification by a Foreign Private Issuer Regarding the Termination of Registration of a Class of Securities Under Section 12(g) or the Duty to File Reports Under Section 13(a) or Section 15(d)"