International Practices Task Force Highlights

CAQ

Joint Meeting with SEC Staff

May 21, 2024

NOTICE:

The Center for Audit Quality (CAQ) SEC Regulations Committee and its International Practices Task Force (the Task Force or IPTF) meet periodically with the staff of the SEC (the SEC staff or staff) to discuss emerging financial reporting issues relating to SEC rules and regulations. The purpose of the following highlights is to summarize the issues discussed at the meetings. These highlights have not been considered or acted on by senior technical committees of the AICPA and do not represent an official position of the AICPA or the CAQ. As with all other documents issued by the CAQ, these highlights are not authoritative and users are urged to refer directly to applicable authoritative pronouncements for the text of the technical literature. These highlights do not purport to be applicable or sufficient to the circumstances of any work performed by practitioners. They are not intended to be a substitute for professional judgment applied by practitioners.

These highlights were prepared by a representative of the CAQ who attended the meeting and do not purport to be a transcript of the matters discussed. The views attributed to the SEC staff are informal views of one or more of the staff members present, do not constitute an official statement of the views of the Commission or of the staff of the Commission and should not be relied upon as authoritative. Users are urged to refer directly to applicable authoritative pronouncements for the text of the technical literature.

As available on this website, highlights of Joint Meetings of the SEC Regulations Committee and its International Practices Task Force and the SEC staff are not updated for the subsequent issuance of technical pronouncements or positions taken by the SEC staff, nor are they deleted when they are superseded by the issuance of subsequent highlights or authoritative accounting or auditing literature. As a result, the information, commentary or guidance contained herein may not be current or accurate and the CAQ is under no obligation to update such information. Readers are therefore urged to refer to current authoritative or source material.

I. Attendance

Task Force Members	Observers
Guilaine Saroul, Chair (PwC) Steven Jacobs, Vice-Chair (EY) Regina Croucher (KPMG) Rich Davisson (RSM-US) Rohit Elhance (GT) Adam Dufour (EY)	SEC staff from the Division of Corporation Finance and Office of the Chief Accountant Annette Schumacher Barr (CAQ staff) Erin Cromwell (CAQ staff)

Task Force Members	Observers
Patrick Higgins (PwC) Mark Kronforst (EY) Grace Li (BDO) Kathleen Malone (Deloitte) Paul Manos (KPMG) Erin McCloskey (KPMG) Ignacio Perez Zaldivar (Deloitte) Sergey Starysh (BDO) Cindy Williams (GT)	

II. IFRS 18 – Non-GAAP Considerations

In April 2024, IFRS 18, "Presentation and Disclosure in Financial Statements" (IFRS 18) was issued and will replace IAS 1 "Presentation of Financial Statements." The new standard impacts the presentation of primary financial statements and financial statement footnotes and requires management-defined performance measures (MPMs) to be included in a single footnote to the consolidated financial statements.

Foreign private issuers (FPIs) reporting under IFRS Accounting Standards as issued by the IASB (IFRS) will have to adopt IFRS 18 for annual periods starting on or after January 1, 2027 with retrospective application. Early adoption is permitted. The Task Force and SEC staff discussed some of the interactions between the requirements of IFRS 18 and the SEC's non-GAAP rules and regulations.

The SEC staff observed that, per IFRS 18 par. 117, an MPM is a subtotal of income and expenses that an entity uses in public communications outside financial statements to communicate to users of financial statements management's view of an aspect of the financial performance of the entity as a whole. IFRS 18 identifies certain measures that are excluded from the definition of an MPM, such as those listed in paragraph 118 of IFRS 18 or all measures specifically required to be presented or disclosed by IFRS. When such measures are used in an entity's public communications outside of the financial statements, they would be subject to the SEC's non-GAAP requirements, as applicable, in every instance such measures are communicated.

The staff indicated that, after adoption, FPIs shall disclose information about measures that meet the definition of an MPMs in their financial statement footnotes, as required by IFRS 18. Within the notes to the financial statements, MPMs for which disclosure is required (i.e., relevant subtotals used in public communications outside of the financial statements for the same reporting period as the financial statements, per IFRS 18 pars. B119-B122) are excluded from the definition of a non-GAAP financial measure, per S-K Item 10(e)(5).

III. Consideration on transitioning from IFRS to US GAAP and FPI to domestic forms in a quarter when there is a voluntary change to domestic regime

The Task Force and staff discussed a situation in which an existing registrant qualifying as an FPI and reporting under IFRS Accounting Standards as issued by the IASB (IFRS) files currently using Form 20-F and is not contemplating new registration statements. The registrant has a calendar year-end. The registrant contemplates transitioning from IFRS to US GAAP and starts reporting under US GAAP and using domestic forms after filing its Form 20-F, in for example the first quarter of the next calendar year. The registrant contemplates providing full disclosures for the quarterly financial statements (i.e., not condensed financial statements) and all accounting policies.

The Task Force asked the staff if the registrant would be permitted to start reporting using domestic forms in a Form 10-Q when transitioning from IFRS to US GAAP without recasting and reissuing the prior year annual financial statement under US GAAP.

The staff stated that it would not object to a foreign private issuer voluntarily reporting on domestic forms applying US GAAP without reissuing the prior year annual financial statements prepared under IFRS, which is consistent with the following interpretive guidance provided in 2005 in the *International Reporting and Disclosure Issues in the Division of Corporation Finance,* which states:

> ***Changing to US GAAP for the Primary Financial Statements***
>
> *Similarly, when a registrant voluntarily changes from home-country GAAP to US GAAP all periods must be restated. The timing of the restatement will depend on whether the registrant has also voluntarily elected to file on domestic forms. If so, the change is ordinarily made in the first quarter of a new fiscal year. The first Form 10-Q and each subsequent Form 10-Q should reflect US GAAP in all current and comparative interim periods presented. The annual comparative periods are then recast when the next annual report is filed.*

> *However, the timing of the restatement will be accelerated in the event of a registration statement. Interim financial statements included in a registration statement must be prepared on the same basis of accounting and reporting currency as the annual financial statements, so all comparative interim and annual periods must be restated at that time. This is true even if a registrant is eligible to incorporate previously filed documents by reference*.

The staff added that, although it would prefer registrants make the change in the first quarter, it would generally not object if it was done in a subsequent quarter.

The staff also reminded registrants that to the extent a registration statement was filed after the registrant had issued quarterly financial statements prepared in accordance with US GAAP, they would be expected to recast the annual financial statements under US GAAP.

IV. SAB Topic 4C

SAB Topic 4C states that if there has been a change in capital structure after the date of the latest reported balance sheet but before the release of the financial statements, such changes must be given retroactive effect in the balance sheet. It is common for entities in the process of an IPO to declare and complete a change in capital structure (e.g., stock splits) prior to the effectiveness of its registration statement.

It is clear for U.S. GAAP SEC filers, as a result of the application of SAB Topic 4.C., that if a stock split is effective before the effective date of a registration statement, it is necessary to update the financial statements to retroactively reflect the stock split in the historical earnings per share (EPS) information on an audited basis. The updated financial statements are included in the next registration statement filing.

For companies reporting under IFRS Accounting Standards as issued by the IASB (IFRS), IAS 10, *Subsequent Events,* requires that both adjusting and non-adjusting subsequent events be evaluated through the authorized for issuance date, and that such authorized for issuance date be disclosed in the financial statements. IFRS financial statements are not adjusted after the date of authorization (IAS 10.18), and IAS 10 does not require the financial statement to be reissued to reflect a change in capital structure, e.g. a stock split or reverse stock split subsequent to the date of authorization. FRM 6320.5 states that IFRS filers need not apply SABs that related specifically to U.S. GAAP (e.g., SAB 104). However, in selecting accounting policies under IAS 8, a registrant may apply SABs that relate to U.S. GAAP and otherwise meet the IAS 8 requirements.

Given the above guidance, the Task Force asked the staff whether an IFRS company in the process of an IPO must revise the historical financial statements to reflect a completed stock split prior to the financial statement issuance for the period of the stock split, or whether the stock split could or should be reflected through the use of pro forma financial information outside of the financial statements.

The staff indicated that it would consider this matter further.

V. Statement on the Application of IFRS 19

In May 2024 the IASB issued IFRS 19, *Subsidiaries without Public Accountability: Disclosures* (IFRS 19) and the SEC staff issued *Statement on the Application of IFRS 19, Subsidiaries without Public Accountability: Disclosures, in Filings with the SEC.* The staff shared the following observations regarding the Statement and the application of IFRS 19:

- The Statement was issued to communicate the staff's expectations regarding the application of IFRS 19 in filings with the SEC.
- The determination of whether an entity may elect to apply IFRS 19 is made at the end of the reporting period (i.e., the balance sheet date) [IFRS 19.7].
- SEC rules specify that financial statements prepared in accordance with the applicable financial reporting framework (i.e., U.S. GAAP or IFRS as issued by the IASB) is the minimum requirement and registrants are required to consider whether additional *material* information is needed so that the required financial statements are not misleading [Rule 4-01(a) of Regulation S-X]. Accordingly, while a set of financial statements for an entity that did not have "public accountability" as of the most recent balance sheet date (e.g., financial statements to be filed under S-X Rules 3-05 or 3-09 or as part of a spin-off or initial registration) may comply with IFRS-IASB and IFRS 19, additional disclosures would likely be required in the financial statements in SEC filings, if material. It is the responsibility of preparers and auditors to apply judgement in determining whether additional disclosure that would be material to an investor in the U.S. capital markets is needed.

VI. Exemptive Order on BF Borgers Matter

The staff noted that the Commission issued an order on May 20 to provide exemptive relief to certain registrants affected by the permanent suspension of the audit firm BF Borgers CPA PC and its owner from appearing and practicing before the Commission. The order provides an additional period of time for the filing of quarterly and transition reports on Form 10-Q for issuers that have filed a timely Form 12b-25 notifying the Commission of their inability to file a report on a timely basis. This will provide affected registrants with an additional period of time to hire a new, qualified, independent, PCAOB-registered public accountant and file with the Commission financial information that complies with the requirements of the federal securities laws.

The staff noted that the filing deadline for these registrants will be extended from 5 days to 30 days after the original filing date of the Form 12b-25. The extension applies to the quarter ended March 31, 2024 only.

VII. Next Meeting

The Task Force and staff will meet next on November 19, 2024.