Ihre Ansprechpartner

Sehr geehrte Damen und Herren,

für Rückfragen zu der beigefügten Publikation „In brief“ zur Thematik
„Accounting considerations for Venezuelan subsidiaries“
stehen Ihnen folgende Ansprechpartner gerne zur Verfügung:

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In brief
A look at current financial reporting issues

December 2015

Accounting considerations for Venezuelan subsidiaries

This In brief supersedes In brief INT2015-03 Consolidation considerations for Venezuelan subsidiaries and *In brief INT2015-04 Exchange rates in Venezuela, for reporting periods starting after 15 December 2015*

Background

Venezuela is a hyperinflationary economy and the government maintains a regime of strict currency controls. Multinational companies continue to face significant difficulty in repatriating earnings from Venezuelan subsidiaries. There is significant uncertainty about exchange rates, the amount that can be repatriated at a given exchange rate and the timing of repatriation. There is a continuing high level of government regulation (that is, fair price regulation and labour law) that might limit the decision-making powers of management.

Exchange rates in Venezuela

Strict currency controls continue in Venezuela. Three legal exchange rates exist between the Venezuelan currency (VEF) and US dollars (USD), all of which meet the definition of a spot rate in IAS 21 'The effects of changes in foreign exchange rates'.

The three rates at 15 December 2015 were:

- CENCOEX: 6.3 VEF/1 USD (fixed).
- SICAD: 13.5 VEF/1 USD (variable average based on each auction).
- SIMADI (*): 199.89 VEF/1 USD (daily variable average based on market transactions).

(*) SIMADI allows both, individuals and entities, to buy and sell foreign currency with fewer restrictions than the other two systems in Venezuela.

Entities should closely monitor this area, in the event further developments exist to the Venezuelan currency controls.

Measuring assets and liabilities denominated in foreign currency

IAS 21 requires the use of spot rates. In determining whether a rate is a spot rate, an entity should consider whether currency is obtainable at an official quoted rate and whether the quoted rate is available for immediate delivery. In practice, a normal administrative delay in obtaining funds would be acceptable.

In addition, IAS 21 requires that the rate used to translate foreign currency transactions and balances where several exchange rates are available, is the *''rate at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date.''*

All three published exchange rates in Venezuela qualify as a spot rate and can be used to translate monetary assets and liabilities. Management will need to consider an entity's specific circumstances and apply judgment to determine which of the three rates best reflects the guidance in IAS 21. There might be specific assets and liabilities that management expects will be settled at a specific rate (for example: a specific liability for which management has applied for dollars using CENCOEX or SICAD, or a specific asset that can be sold using SIMADI). In less clear circumstances, management should use judgment to determine which of the three rates at which each balance could have been settled.

Entities should disclose the rate (or rates) used, the basis for using those rates and the effect on the amounts reported in the financial statements. The rate (or rates) used might also be a significant accounting judgment to be disclosed under IAS 1 'Presentation of financial statements', and management should consider disclosing the sensitivity of using a different exchange rate.

Net assets of a subsidiary in Venezuela

Parent companies typically use the dividend remittance rate to translate the net assets of a foreign operation.

None of the current foreign currency regulations specifically address dividends. Management should therefore use judgment to determine which of three spot rates best reflects the rate at which the future cash flows represented by the net investment could have been settled at the balance sheet date.

Management should be aware, in making this judgment, that dollars available for dividends through these systems have been very limited. The regulations appear to permit SICAD and SIMADI to be used for dividends, but we understand that dollars are only rarely, if ever, delivered for this purpose.

Management should consider the particular circumstances, and views of the relevant regulator, and might also consider taking legal advice to determine which of the three rates will be available for dividends.

The rate used in translation and the impact should be disclosed clearly. The rate used might also be a significant accounting judgment to be disclosed under IAS 1, and management should consider disclosing the sensitivity of using a different exchange rate.

Cash balances

Management should also consider disclosing under IAS 7 'Statement of cash flows' the effect of the exchange controls in Venezuela on whether cash balances are available for general use by the group.

Consolidation of Venezuelan subsidiaries

Some have questioned whether continuing uncertainty and difficulty in repatriation mean that multinational companies should consider de-consolidation of their Venezuelan subsidiaries under IFRS.

Multinational companies should only de-consolidate Venezuelan subsidiaries if they no longer meet the three criteria for control under IFRS 10 'Consolidated financial statements'. Uncertainty about repatriation of profits and exchange restrictions alone are unlikely to result in a loss of control under IFRS 10. However, each circumstance should be addressed on its individual merits.

An investor controls an investee if it has all of the following elements (IFRS 10 para 7 (a)-(c)):
1) power over the investee;
2) exposure, or rights, to variable returns from its involvement with the investee; and
3) the ability to use its power over the investee to affect the amount of the investor's returns.

If one or more of the elements of control changes an entity should reassess control.

An investor will lose control of its subsidiary when it no longer has the power to direct its relevant activities and hence loses the ability to vary its returns. This is a high hurdle. Where an entity has power, it must demonstrate that it has no exposure to variable returns to determine it does not have control. Difficulty in repatriating earnings, and uncertainty about the exchange rate, is not the same as a loss of control.

This follows from paragraph B83 of IFRS 10 that states *"An investor that has power over an investee can lose control of an investee if the investor ceases to be entitled to receive returns or to be exposed to obligations."*

A parent that continues to direct the relevant activities of its investee in Venezuela meets the power criterion. It is likely to remain exposed to the variable returns. Those returns could be positive or negative and are not only financial in nature (see IFRS 10 paras B56 and B57).

Different multinational parents may find themselves in different circumstances. Each fact pattern should be carefully considered, however, we believe that most multinational parents with subsidiaries in Venezuela will continue to consolidate in the current environment.

A parent needs to consider whether significant doubt about control exists. An entity should also consider what should be disclosed to to explain the significant judgements and assumptions made in its control assessment. [IFRS 12 'Disclosure of interests in other entities' para 7]. An entity is also required to disclose significant restrictions on its ability to access or use the assets and settle the liabilities of the group. [IFRS 12 para 13].

Previous exceptions to consolidation

A much earlier version of the consolidation guidance under IFRS (IAS 27, revised in 2003 as part of the first 'Improvements') contained a number of exceptions to consolidation including 'foreign exchange restrictions, controls, or other governmentally imposed uncertainties so severe that they cast significant doubt on the parent's ability to control the subsidiary.'

This specific exception has been removed from IFRS; however, it does remain as a consideration under US GAAP.

In December 2014, a registrant precleared with the SEC staff the registrant's conclusion to deconsolidate its Venezuelan operations and begin accounting for such operations as a cost method investment under US GAAP. (See US In-brief No.US 2015-2).

Hyperinflation

Venezuela is a hyperinflationary economy and IAS 29 'Financial reporting in hyper-inflationary economies' should be applied. Please refer to In brief INT2015-15 'Hyperinflationary economies at 31 December 2015' for a list of hyperinflationary economies at 31 December 2015.