

How Registrants Are Accounting for Their Venezuelan Operations

October 2, 2015 — The SEC staff continues to focus on accounting and disclosure considerations related to the foreign currency exchange environment in Venezuela. In particular, because the economic environment in Venezuela has continued to deteriorate, thus limiting the amount of foreign currency exchangeability, entities with operations in Venezuela must continue to assess (1) their conclusions regarding consolidation or deconsolidation of such operations and (2) which exchange rate is appropriate for remeasurement.

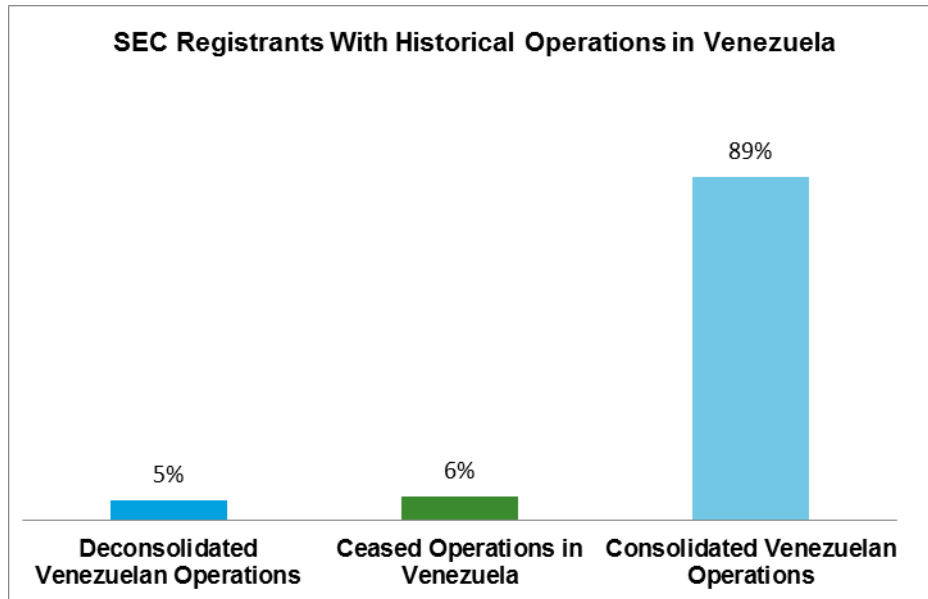
Consolidation Considerations

As previously communicated in [Financial Reporting Alert 14-5, Consolidation and Disclosure Considerations Related to Venezuelan Operations](#) ("FRA 14-5"), we are aware that the SEC staff did not object to a registrant's conclusion to deconsolidate its Venezuelan operations as of December 2014. We understand that the two primary arguments cited by the registrant were (1) an other-than-temporary lack of currency exchangeability and (2) the existence of several government limitations on the registrant's ability to control its Venezuelan operations. Examples of government intervention might include restrictions on (1) labor force reductions, (2) decisions about product mix or pricing, and (3) sourcing of raw materials or other inputs into the production process.

Through recent informal discussions with the SEC staff, the staff indicated that it has not developed new views regarding factors to consider in the determination of whether deconsolidation of an entity's Venezuelan operations is appropriate. However, the staff observed that for certain entities that have deconsolidated their Venezuelan operations, a portion of the charge recorded upon deconsolidation represented an impairment of intercompany receivables between the Venezuelan subsidiary and other consolidated entities (e.g., the parent) that no longer eliminate after the Venezuelan subsidiary is deconsolidated. Therefore, the staff noted that to the extent applicable, registrants that provide disclosures about the financial statement impact of a deconsolidation event of a Venezuelan subsidiary should also disclose the amount of intercompany receivables that may no longer eliminate in consolidation if such deconsolidation were to occur.

Furthermore, since the issuance of FRA 14-5, we are aware of situations in which other registrants have disclosed the conclusion to deconsolidate their Venezuelan operations. On the basis of a recent practice search of public disclosures (the "Disclosures") provided in quarterly and annual reports filed with the SEC for periods ending through July 31, 2015, we identified a population of 100 domestic registrants that disclosed historical operations in Venezuela.

The following chart illustrates the number of companies that have (1) deconsolidated, (2) ceased operations, or (3) continued to consolidate operations in Venezuela, as reported in the Disclosures:

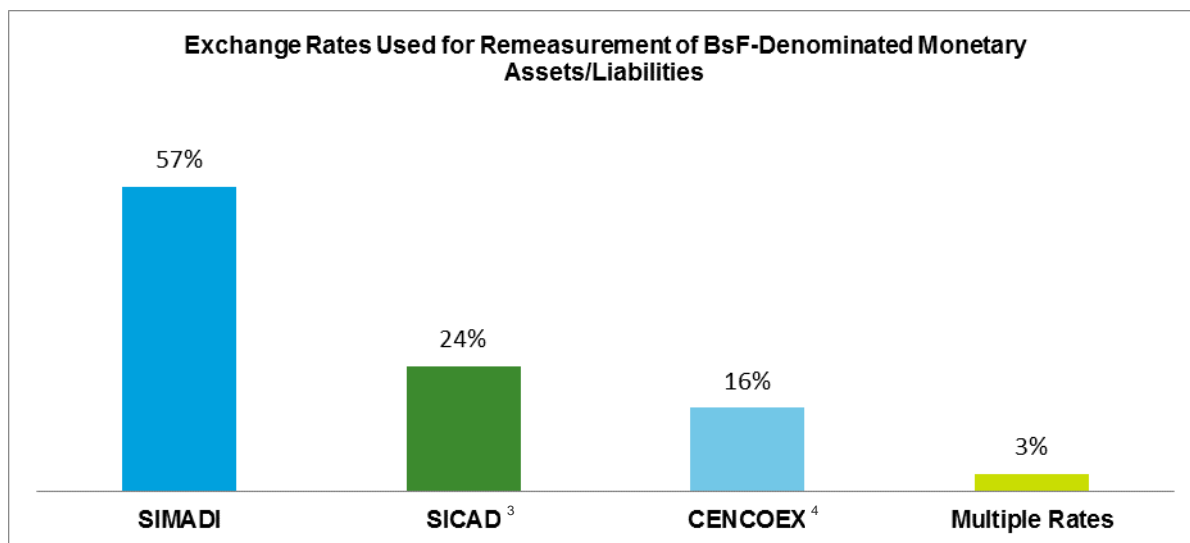


Remeasurement Considerations

As outlined in [Financial Reporting Alert 15-1, Foreign Currency Exchange Accounting Implications of Recent Government Actions in Venezuela](#) (“FRA 15-1”), the Marginal Currency System (SIMADI¹) mechanism commenced operations on February 12, 2015. On the basis of a review of the Disclosures for the 89 domestic registrants that continue to consolidate their Venezuelan operations, we observed that the majority of registrants disclosed the remeasurement of their BsF²-denominated monetary assets/liabilities at the SIMADI rate, as summarized below.

¹ Sistema Marginal de Divisa.

² Venezuelan bolivar fuertes.



In recent informal discussions with the SEC staff, the staff indicated that its views (as described in FRA 15-1) have not changed regarding factors an entity should consider in determining the appropriate currency exchange rate to use for remeasurement of its Venezuelan operations.

A registrant must exercise judgment when determining the exchange rate(s) to use in remeasuring its BsF-denominated monetary balances and should base that judgment on its specific facts and circumstances. Because of the ongoing complexity of accounting and disclosure issues related to the exchange rate environment in Venezuela, we encourage entities with material Venezuelan operations to continue to consult with their accounting advisers and legal counsel.

³ Complementary System of Foreign Currency Acquirement.

⁴ Venezuelan National Center for Foreign Commerce.

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