

INTERNATIONAL PRACTICES TASK FORCE
Center for Audit Quality Washington Office
November 22, 2011
HIGHLIGHTS EXCERPT*

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Attendance

Task Force Members

Paul Curth, Chair (Ernst & Young)
Jonathan Guthart, Vice-Chair (KPMG) (Via Teleconference)
Rich Davisson (McGladrey & Pullen)
Jon Fehleison (KPMG)
Debra MacLaughlin (BDO)
Victor Oliveira (Ernst & Young)
Scott Ruggiero (Grant Thornton)
Catherine Samsel (PricewaterhouseCoopers)
Sondra Stokes (Deloitte & Touche)
Donna Ward (Deloitte & Touche)

Observers

Jill Davis (SEC Staff)
Paul Dudek (SEC Staff)
Craig Olinger (SEC Staff)
Annette Schumacher Barr (Center for Audit Quality Staff)

* Due to the time sensitive nature of this discussion, this excerpt was finalized and posted prior to posting of the full highlights. The complete set of highlights for this meeting will be posted as soon as it is finalized.

Monitoring Inflation in Certain Countries

Introduction

Registrants are responsible for monitoring inflation in countries in which they have operations. Application of “highly-inflationary” accounting as defined by ASC 830 is a judgment to be made by the financial statement preparer. The approach and the related assumptions used to monitor country inflation rates are described below. Under ASC paragraph 830-10-45-12, the determination of a highly-inflationary economy begins by calculating the cumulative inflation rate for the three-year period that precedes the beginning of the reporting period, including interim reporting periods. If that calculation results in a cumulative inflation rate in excess of 100%, the economy should be considered highly-inflationary in all instances. However, if that calculation results in the cumulative rate being less than 100%, historical inflation rate trends and other pertinent factors should be considered.

The Task Force discussed three-year cumulative inflation rates for certain countries. Countries were categorized as follows:

1. Countries with three-year cumulative inflation rates exceeding 100%
2. Countries where the three-year cumulative inflation rates had exceeded 100% in recent years.
3. Countries (a) with three-year cumulative inflation rates between 70% and 100%; (b) where the last known three-year cumulative inflation rates previously exceeded 100% and current actual inflation data has not been obtained; or (c) with a significant increase in inflation during the current period

Description of how inflation rates are calculated

For all countries, data is extracted from the International Monetary Fund ("IMF") website. IMF data is extracted from www.imf.org as follows:

On the home page, click the "Data and Statistics" tab, then click:

- "World Economic Outlook Databases (WEO)" link
 - Select the most recent database
 - Select "By Countries (country-level data)"
 - Select "All Countries", then click the "continue" button.
 - Select "Inflation, end of period consumer prices"
 - Select a date range (e.g., 2007-2011); click "prepare report" and a table is produced with the data; click the "download" link to export to excel. The data table includes the end of period price indices for each country.

The IMF World Economic Outlook ("WEO") report estimates inflation when actual inflation data has not been obtained. The text of the report describes the assumptions and conventions used for the projections

in the WEO. The data that are estimated are highlighted. While the IMF data has limitations (projected inflation data and varying dates through which actual data is included in the table), the calculated three-year cumulative inflation allows us to determine which country's calculations require further analysis.

Using the downloaded table, the three-year cumulative inflation rate is calculated as follows (assuming the current year is end of year 2010):

$$(2010 \text{ End of Year Index} - 2007 \text{ End of Year Index}) / 2007 \text{ End of Year Index}$$

For certain countries, monthly inflation data (CPI) is obtained from each country's respective central bank website or other publicly available information. Often, that data must be manipulated because of differences in presentation or other reasons (for example, some countries have reset their base index back to 100 during recent years). Once the data has been converted to an end of period price based on a consistent index, the same calculation described above is used to calculate the three-year cumulative inflation rate. Using the central bank inflation data also has limitations. While it is often more current than the IMF data, each country releases its inflation data at different times. Finally, some countries' central banks do not currently publish inflation data.

The following information is provided to assist registrants in applying the US GAAP guidance in determining which countries are considered highly-inflationary:

1. Countries with three-year cumulative inflation rates exceeding 100%

Belarus -

Based on calculations derived from the April 2011 WEO Database, the three-year cumulative inflation rate for Belarus was 37% at the end of 2010 and the projected three-year cumulative inflation rate was also estimated to be 37% at the end of 2011 and expected to decrease at least until 2016. However, using the projected index in the September 2011 WEO, the projected three-year cumulative inflation rate for Belarus at the end of 2011 was estimated to be 100%. As published by the National Statistical Committee of the Republic of Belarus, monthly inflation rates increased to 13% in May 2011. The monthly inflation rates ranged between 4% and 14% during the period June 2011 through September 2011.

Based on calculations derived from published information obtained from the WEO Database – September 2011, the National IPM Research Center – Belarusian Monthly Economic Review, and the National Statistical Committee of the Republic of Belarus, the Task Force noted that in Belarus, the 100% threshold was first exceeded in the month of September 2011 (rising to approximately 119%).

Under US GAAP, highly-inflationary accounting is applied as of the first day of the reporting period immediately following the reporting period, including interim reporting periods, in which an economy is assessed to be highly inflationary. However, preparers may not have anticipated the significant and rapid rate of increase in inflation in Belarus. Further there has not been a significant change in the exchange rate between the Belarusian Ruble and the US Dollar in the period from October 1, 2011 to December 31, 2011. Consequently, the SEC staff would not object to registrants

treating the economy of Belarus as highly-inflationary no later than the first reporting period beginning after December 15, 2011.

Registrants should consider whether the impact of the events in Belarus are reasonably likely to have a material effect on financial condition, results of operations and cash flows. For example, MD&A disclosures should enable a reader to understand the risk of any significant accounting impact of an exchange rate change on future operations, financial position and cash flows.

2. Countries where the three-year cumulative inflation rates had exceeded 100% in recent years

Based on calculations derived from the WEO Database – September 2011:

- **Democratic Republic of Congo** - The three-year cumulative inflation rate for The Democratic Republic of the Congo was approximately 96%.
- **Venezuela** - The three-year cumulative inflation rate for Venezuela was approximately 98%

The SEC staff would expect registrants to continue to treat the economies of the Democratic Republic of Congo and Venezuela as highly-inflationary.

3. Countries (a) with three-year cumulative inflation rates between 70% and 100%; (b) where the last known three-year cumulative inflation rates previously exceeded 100% and current actual inflation data has not been obtained; or (c) with a significant increase in inflation during the current period

- **Myanmar** – The last known three-year cumulative inflation rate previously exceeded 100% and current actual inflation data has not been obtained. The information available on the WEO - September 2011 with respect to Myanmar consists of projected data from 2009.

There may be additional countries with three-year cumulative inflation rates exceeding 100% or that should be monitored which are not included above because the sources used to compile this list do not include inflation data for all countries or current inflation data.