

AICPA Determines Venezuela “Highly Inflationary”

March 17, 2010

Dear clients and friends:

The American Institute of Certified Public Accountants’ Center for Audit Quality (CAQ) has issued an Alert indicating that U.S. companies should consider Venezuela’s economy as “highly inflationary” and account for operations of subsidiaries there as if the country’s functional currency were the reporting currency for periods beginning on or after December 1, 2009.

In the **Alert** issued on February 18, 2010 the CAQ noted that Venezuela’s cumulative inflation rate has been in excess of 100 percent over the last three years.

In that situation, the Financial Accounting Standards Board’s Codification indicates companies should account for operations of subsidiaries and other entities as if the country’s functional currency were the reporting currency.

For those Venezuelan activities in which the functional currency was previously the Bolivar Fuerte, the activities should be re-measured in the reporting currency (which for U.S. entities will typically be the U.S. dollar). This change affects financial statements for 2010’s first quarter for calendar-year-end companies.

Based on data from Venezuela’s Central Bank, the CAQ determined that the three-year cumulative blend of the country’s National Consumer Price Index (NCPI) and Consumer Price Index (CPI) was 100.78 percent as of November 30, 2009 and 100.47 percent as of December 31, 2009.

When inflation is that high, continued reporting in a local currency could result in overstatements of sales and other activities.

The CAQ noted that according to the International Monetary Fund’s 2009 World Economic Outlook, Myanmar and Zimbabwe are other countries considered highly inflationary.

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MBAF will monitor the CAQ for future Alerts on Venezuela, including any change in its designation as highly inflationary.

If you would like additional information about the accounting requirements for entities in Venezuela, do not hesitate to contact us at (305) 373-5500.

Sincerely,



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