

Discussion Document D – November 20, 2007 Joint Meeting of International Practices Task Force (IPTF) and SEC Staff

Topic: Monitoring Inflation in Certain Countries

Background:

At the March 2003 meeting of the Task Force, it was noted that it would be helpful to be more proactive in assessing the inflationary status of countries. As a result, it was agreed that a mechanism be developed for proactively monitoring the inflationary status of countries. That approach and the related assumptions used by the Task Force are described below:

Approach

The Task Force agreed to regularly consider the inflationary status of a number of countries for the purpose of determining whether they were highly inflationary as defined in FASB Statement 52. It was agreed that inflation rates be monitored regularly (monthly to the extent possible) in order to identify cases where the Task Force could discuss a country's inflationary status. Based on the cumulative inflation information, countries would be categorized as follows:

1. Countries that are clearly highly inflationary (i.e., that have cumulative inflation approaching or exceeding 100%).
2. Countries with increasing cumulative inflation rates that should be monitored.
3. Countries that are clearly not highly inflationary (i.e., with sufficiently low cumulative inflation).

Assumptions

The following assumptions were developed as a means of screening countries in order to determine whether the Task Force should discuss their inflationary status:

- Inflation rates used would be based on a consumer price index, unless otherwise noted. Where an index other than the CPI is used, the Task Force would need to discuss the appropriateness of the index.
- Inflation information would be derived from the "International Financial Statistics" on the IMF website. In cases where information is not provided to the IMF, local sources would be used (e.g., country central bank data).
- Countries with cumulative inflation rates not exceeding a certain level, say 70%, generally would not be considered highly inflationary based on quantitative

factors alone. However, qualitative factors ultimately would be considered pursuant to EITF Topic D-55, as deemed necessary by the Task Force.

- Countries with cumulative inflation rates between 70% and 100% would be assessed for highly inflationary status given recent trends, based on the guidance in EITF Topic D-55. For example, in cases where the cumulative rate has declined below 100%, is that decline “other than temporary”? Or, in cases where the inflation rate has been increasing, is the cumulative rate at a level that “approximates” 100%? In addition, countries with a significant increase in inflation during the current period would be monitored.

In certain cases inflation information is not updated regularly. In such cases the following was agreed:

- Where a country was previously considered highly inflationary (i.e., the last known cumulative inflation rate previously exceeded or approached 100%), presume that still highly inflationary.
- Where a country was previously not considered highly inflationary (i.e., the last known cumulative inflation rate did not previously exceed or approach 100%), deduce the current inflation rate necessary in order to exceed 100% (the “deduced rate”). The deduced rate would be calculated solely for the purpose of determining whether or not the Task Force should analyze a particular country’s inflationary status. The ultimate determination of that status would depend on all relevant facts and circumstances.
 - If deduced inflation rate for the current period(s) exceeds a certain level, say 30%, then presume that not highly inflationary unless the deduced rate is consistent with the trend in recent known periods.
 - If deduced inflation rate does not exceed a certain level, say 30%, then presume highly inflationary unless the deduced rate is not consistent with the trend in recent known periods.

The Task Force agreed that qualitative factors also should be considered. The Task Force noted that the existence of objective and verifiable evidence would be necessary for a country to no longer be considered highly inflationary.

Task Force Recommendation:

Countries considered highly inflationary

The Task Force concluded that the following countries should be considered highly inflationary through December 31, 2007:

Angola*
Myanmar

Zimbabwe

* The Task Force agreed that Angola would come off highly inflationary status as of the first period beginning after December 31, 2007.

Regarding the Dominican Republic, which came off highly inflationary status in 2007, the Task Force agreed that registrants may change status as of the first period beginning after March 15, 2007, if practicable, but no later than the first period beginning after September 15, 2007.

Countries on the highly inflationary “watch list”

The following countries are on the Task Force’s inflation “watch list”:

Eritrea
Guinea
Haiti
Venezuela
Iran
Zambia

SEC Staff Response: The Staff agrees with the Task Force recommendation.