

CAQ Alert #2010-11 – February 18, 2010

DEAR CENTER MEMBERS

Monitoring Inflation Status of Certain Countries

This CAQ Alert presents an excerpt of highlights of the November 24, 2009 Joint Meeting of the CAQ SEC Regulations Committee's International Practices Task Force (Task Force) and the SEC (or the Commission) Staff that addresses the inflation status of certain countries, as well as information related to events arising subsequent to the Task Force's meeting with the SEC Staff.

The Task Force meets periodically with the Staff of the SEC to discuss emerging technical accounting and reporting issues relating to SEC rules and regulations. The purpose of the following highlights is to summarize the issues discussed at the meetings. These highlights have not been considered and acted on by senior technical committees of the AICPA, or by the FASB, and do not represent an official position of either organization. In addition, these highlights are not authoritative positions or interpretations issued by the SEC or its Staff. The highlights were not transcribed by the SEC and have not been considered or acted upon by the SEC or its Staff. Accordingly, these highlights do not constitute an official statement of the views of the Commission or of the Staff of the Commission.

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. The approach and the related assumptions used by the Task Force, and the inherent limitations, are summarized in the [May 14, 2009 Task Force meeting Highlights](#).

Conclusion

Venezuela

At the November 24, 2009 meeting, the Task Force discussed the highly inflationary status of the Venezuela economy. The Task Force believes that the definition of a highly inflationary economy should be applied with judgment, consistent with the provisions of the FASB Accounting Standards Codification [Topic 830, Foreign Currency Matters](#).

At the July 27, 2009 meeting, the Task Force discussed using only the Consumer Price Index (CPI) to compute a cumulative three year inflation rate. Based on that computation, Venezuela should be considered highly inflationary for periods beginning on or after July 1, 2009. Please refer to the highlights from the [July 27, 2009 Task Force meeting](#).

The Task Force also noted, commencing January 1, 2008, the National Consumer Price Index (NCPI) has been developed that covers the entire country of Venezuela. However, inflation data is not available to compute a cumulative three year inflation rate for the entire country solely based on the NCPI. If a cumulative three year inflation rate as of October 31, 2009 were calculated using the CPI

information for periods before January 1, 2008, and NCPI information for the periods after January 1, 2008, the resulting three cumulative inflation rate (“blended NCPI and CPI rate”) would be approximately 99.6% for the period ending October 31, 2009. Therefore, the Task Force agreed to continue to monitor inflation developments in Venezuela.

Subsequent to the November 24, 2009 meeting, the Task Force continued to monitor inflation statistics for Venezuela. As of November 30, 2009 and December 31, 2009, the three year cumulative inflation rate using a blended NCPI and CPI rate was approximately 100.78% and 100.47%, respectively. These inflation rates were computed based upon information published by the Central Bank in Venezuela. Consequently, using a blended NCPI and CPI index, Venezuela should be considered highly inflationary for periods beginning on or after December 1, 2009.

Other Countries

Countries Considered Highly Inflationary

Based on the World Economic Outlook database – October 2009 Edition:

The following countries should continue to be considered highly inflationary as of September 30, 2009:

- Myanmar ⁱ
- Zimbabwe

Countries on the Highly Inflationary “Watch List”

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

- Democratic Republic of Congo ⁱⁱ
- Ethiopia
- Guinea ⁱⁱⁱ
- Iran
- Iraq
- São Tomé and Príncipe
- Seychelles

ⁱ The information available on the International Monetary Fund (IMF) website with respect to Myanmar consists of projected data from 2007. Myanmar has not publicly provided information with respect to inflation and there is no central bank website. In light of the fact that current information is not available, and absent evidence to the contrary, Myanmar should remain on the highly inflationary list.

ⁱⁱ Based upon projections for 2009, the three year cumulative inflation rate for The Democratic Republic of the Congo has increased to just over 80%, and has been increasing at approximately a 20% rate over the past two years (40.3% three year cumulative rate in 2007, 65.8% in 2008). Given this trend, it has been added to the Watch List.

ⁱⁱⁱ In April 2009, the IMF revised the information in its database related to Guinea for periods from 2005 through 2009. Based upon the revised information the IMF published on its website, Guinea appears to have had inflation in excess of 100% at December 31, 2008. However, it is unclear why the historical data compiled by the IMF has been revised, and the Task Force currently has no access to local information, only IMF data. The Task Force also notes that in late December 2008, the press reports that there was a military coup in Guinea. In light of the nature of the data, companies with investments in Guinea should obtain more up to date information to

determine the appropriate accounting.

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Sincerely,

Lillian Ceynowa, CPA
Center for Audit Quality
Director of Professional Practice & Member Relations
(212) 596-6084
lceynowa@thecaq.org

Michelle McNulty, CPA
Center for Audit Quality
Technical Manager
Professional Practice & Member Relations
(212) 596-6034
mmcnulty@thecaq.org

Kristen Sutherland, CPA
Center for Audit Quality
Technical Manager
Professional Practice & Member Relations
(212) 596-6221
ksutherland@thecaq.org

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