FINANCIAL ACCOUNTING SERIES

ACCOUNTING STANDARDS UPDATE

No. 2010-19
May 2010

Foreign Currency (Topic 830)

Foreign Currency Issues: Multiple Foreign Currency Exchange Rates

An announcement made by the staff of the U.S. Securities and Exchange Commission

An Amendment of the *FASB Accounting Standards Codification*™

Financial Accounting Standards Board
of the Financial Accounting Foundation

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Purpose

SEC Staff Announcement

The purpose of this Update is to codify the SEC Staff Announcement made at the March 18, 2010 meeting of the FASB Emerging Issues Task Force (EITF) by the SEC Observer to the EITF. The Staff Announcement provides the SEC staff's view on certain foreign currency issues related to investments in Venezuela.

Staff announcements made at EITF meetings are effective as of the announcement date, in this case, March 18, 2010, unless otherwise noted.

Amendments to the *FASB Accounting Standards Codification*™

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2 and 3. Terms from the Master Glossary are in **bold** type. Added text is <u>underlined</u>, and deleted text is ~~struck out~~.

Securities and Exchange Commission (SEC) Content

Amendments to Subtopic 830-30

2. Add paragraph 830-30-S99-1 and related headings, with no link to a transition paragraph, as follows:

Foreign Currency Matters—Translation of Financial Settlements

SEC Materials

<u>> SEC Staff Guidance</u>

<u>> > Announcements Made by SEC Staff at Emerging Issues Task Force (EITF) Meetings</u>

<u>> > > SEC Staff Announcement: Foreign Currency Issues: Multiple Foreign Currency Exchange Rates</u>

<u>**830-30-S99-1** This SEC staff announcement provides the SEC staff's views on Foreign Currency Issues.</u>

> <u>The SEC staff has received a number of inquiries regarding certain foreign currency issues related to investments in Venezuela. This announcement is in response to those inquiries that have been received by the SEC staff on the issues described below.</u>
>
> <u>Amongst other requirements, current restrictions of foreign currency exchange in Venezuela provide that entities use the official rate of exchange (official rate) to exchange funds. The official rate is set by the Venezuelan government and in order to use the official rate to exchange</u>

currency, entities seek the ability to utilize the official rate from Venezuela's Commission for Administration of Foreign Currencies (CADIVI).

As an alternative to the use of the official rate it may also be legal to utilize the parallel rate. It is possible that the parallel rate provides entities with a more liquid exchange and entities can access the parallel rate using a series of transactions via a broker. The parallel rate has recently been significantly different from the official rate.

Reported Balances in an Entity's Financial Statements That Differ from Their Underlying U.S. Dollar Denominated Values

With respect to accounting for a subsidiary in Venezuela in cases where the parent's reporting currency is the U.S. dollar and the Venezuelan subsidiary's functional currency is the Venezuelan Bolivar ("Bolivar" or "BsF"), the staff has recently become aware of the following fact pattern: In years prior to 2010, certain entities may have used the parallel rate to remeasure certain U.S. dollar denominated balances that the Venezuelan subsidiary held and then subsequently translated the Venezuelan subsidiary's assets, liabilities, and operations using the official rate. The effect of this accounting treatment resulted in reported balances in an entity's financial statements that differed from their underlying U.S. dollar denominated values. (The staff notes that these differences arise when different rates are used for remeasurement and translation.) In order to illustrate the impact that these differences may have on different accounts within the financial statements, two illustrations are provided below.

First, assume that at a period end prior to January 1, 2010 (for a calendar year entity), a U.S. entity's Venezuelan subsidiary held $10 million of cash denominated in U.S. dollars. Further assume that at the period end, the parallel rate was 5 Bolivars to every 1 U.S. dollar and the official rate was 2 Bolivars to every 1 U.S. dollar. Upon the remeasurement of the U.S. denominated cash to Bolivars and the subsequent translation of the Venezuelan subsidiary's financial statements, an entity would have reported cash of $25 million for financial reporting purposes. (The $25 million is calculated as follows: First, the $10 million of cash is remeasured using the parallel rate to 50 million BsF; subsequently, the 50 million BsF is translated back to U.S. dollars using the official rate of 2 Bolivars to 1 U.S dollars, resulting in a translated reported balance of $25 million.)

Second, assume that at a period end prior to January 1, 2010 (for a calendar year entity), a U.S. entity's Venezuelan subsidiary held $15 million of accounts payable denominated in U.S. dollars (also assume the exchange rates are the same as in the example above). Upon the remeasurement of the U.S. denominated accounts payables to Bolivars and the subsequent translation of the Venezuelan subsidiary's financial statements, an entity would have reported accounts payable of $37.5 million for financial reporting purposes. (The $37.5 million is calculated as follows: First, the $15 million of accounts payable is remeasured using the parallel rate to 75 million BsF; subsequently, the 75 million BsF is translated back to U.S. dollars using the official rate of 2 Bolivars to 1 U.S. dollars, resulting in a translated reported balance of $37.5 million.)

Finally, the staff has noted that Venezuela has met the thresholds for being considered highly inflationary and accordingly, calendar year entities that have not previously accounted for their Venezuelan investment as highly inflationary will begin applying highly inflationary accounting beginning January 1, 2010.

Disclosures

The staff believes that in cases where reported balances for financial reporting purposes differ from the actual U.S. dollar denominated balances (such as in the illustrations above), a registrant should make disclosures that inform users of the financial statements as to the nature of these differences. When material, the disclosures in both annual and interim financial statements should, at a minimum, consist of the following (The staff is aware that certain registrants have already filed their 2009 Form 10-K's and accordingly the staff would not necessarily expect these specific disclosures to be included in these registrant's 2009 Form 10-K's.):

- Disclosure of the rates used for remeasurement and translation.
- A description of why the actual U.S. dollar denominated balances differ from the amounts reported for financial reporting purposes, including the reasons for using two different rates with respect to remeasurement and translation.
- Disclosure of the relevant line items (e.g. cash, accounts payable) on the financial statements for which the amounts reported for financial reporting purposes differ from the underlying U.S. dollar denominated values.
- For each relevant line item, the difference between the amounts reported for financial reporting purposes versus the underlying U.S. dollar denominated values.
- Disclosure of the amount that will be recognized through the income statement (as well as the impact on the other financial

statements) as part of highly inflationary accounting beginning in 2010 (see below).

Impact of Highly Inflationary Accounting on Differences between Amounts Recorded for Financial Reporting Purposes versus the Underlying U.S. Dollar Denominated Values

The staff notes that upon application of highly inflationary accounting (January 1, 2010 for calendar year registrants), registrants must follow the accounting outlined in paragraph 830-10-45-11, which states that "the financial statements of a foreign entity in a highly inflationary economy shall be remeasured as if the functional currency were the reporting currency."

Accordingly, upon the application of highly inflationary accounting requirements, a U.S. reporting currency parent and subsidiary effectively utilize the same currency (U.S. dollars) and accordingly there should no longer be any differences between the amounts reported for financial reporting purposes and the amount of any underlying U.S. dollar denominated values that are held by the subsidiary. Therefore, the staff believes that any differences that may have existed prior to applying highly inflationary accounting requirements between the reported balances for financial reporting and the U.S. dollar denominated balances should be recognized in the income statement, unless the registrant can document that the difference was previously recognized as a cumulative translation adjustment (in which case the difference should be recognized as an adjustment to the cumulative translation adjustment).

Furthermore, the staff believes that these differences should be recognized at the time of adoption of highly inflationary accounting.

Other

The SEC staff is aware that the EITF will be discussing certain issues related to foreign currency, including the accounting for multiple exchange rates in Venezuela, and accordingly the guidance in this staff announcement is intended to be interim guidance pending the EITF completing its deliberations.

3. Add paragraph 830-30-S00-1 as follows:

830-30-S00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
830-30-S99-1	Added	2010-19	05/11/2010

Amendments to the XBRL Taxonomy

The following elements are proposed additions to the XBRL taxonomy as a result of the amendments in this Update.

Standard Label†	Definition	Codification Reference
Foreign Currency Exchange Rate, Remeasurement	The foreign exchange rate used to remeasure amounts denominated in a currency other than the functional currency into the functional currency.	830-30-S99-1
Foreign Currency Exchange Rate, Translation	The foreign exchange rate used to translate amounts denominated in the functional currency to the reporting currency.	830-30-S99-1
Description Of Difference Between Reported Amount and Reporting Currency Denominated Amount	Description of why the actual reporting currency-denominated balances differ from the amounts reported for financial reporting purposes, including the reasons for using two different rates with respect to remeasurement and translation. For example, in certain jurisdictions, companies may utilize an official exchange rate and also a parallel rate.	830-30-S99-1
Schedule Of Differences Between Reported Amount and Reporting Currency Denominated Amount [Table]	Schedule that provides the reporting currency-denominated amounts, amounts reported for financial reporting purposes, and the differences between the two amounts by each relevant line item on the financial statements.	830-30-S99-1

†The Standard Label and the Element Name are the same (except that the Element Name does not include spaces). If they are different, the Element Name is shown in *italics* after the Standard Label.

Standard Label†	Definition	Codification Reference
Schedule Of Differences Between Reported Amount and Reporting Currency Denominated Amount [Axis]	Information pertaining to the reporting currency-denominated amounts, amounts reported for financial reporting purposes, and the differences between the two amounts by each relevant line item on the financial statements.	830-30-S99-1
Financial Statement Line Items With Differences in Reported Amount and Reporting Currency Denominated Amounts [Domain]	The line items on the financial statements for which the amounts reported for financial reporting purposes differ from the underlying reporting currency-denominated amounts.	830-30-S99-1
Financial Statement Line Items With Differences in Reported Amount and Reporting Currency Denominated Amounts [Line Items]		
Asset, Reporting Currency Denominated, Value	The reporting currency-denominated asset value.	830-30-S99-1
Liability, Reporting Currency Denominated, Value	The reporting currency-denominated liability value.	830-30-S99-1
Revenues and Gains, Reporting Currency Denominated, Value	The reporting currency-denominated revenue (including gains) amount.	830-30-S99-1
Expenses and Losses, Reporting Currency Denominated, Value	The reporting currency-denominated expense (including losses) amount.	830-30-S99-1

Standard Label†	Definition	Codification Reference
Difference Between Reported Amount and Reporting Currency Denominated Amount, Value	The amount of difference between the reported amount and the reporting currency-denominated amount. The default debit balance is based on the reported amount that is greater than the reporting currency-denominated amount.	830-30-S99-1
Amount Recognized in Income Due to Inflationary Accounting	The amount that will be recognized through the income statement (as well as the impact on the other financial statements) as part of highly inflationary accounting.	830-30-S99-1