

Alert

Technical function

February, 2018 – N° 2

Exchange rates in Venezuela

Use of exchange rates in Venezuela in accordance with the provisions of Foreign Exchange Agreement N° 39 dated January 26, 2018



The current legislation on exchange rates in Venezuela was modified in January 2018, through the publication in Official Gazette No. 41329 of Exchange Agreement No. 39. This regulation among other elements revokes Exchange Agreements N° 38 and 35, the latter being the Exchange Agreement where the Protected Exchange Rate (DIPRO) is established for some particular transactions and the Complementary Exchange Rate (DICOM) for transactions not included in the DIPRO. The aforementioned Exchange Agreement N°39 entered into force on January 26, 2018.

Exchange Agreement N° 39 indicates that the DICOM exchange rate will apply for all foreign currency settlement operations of the public and private sectors as of the effective date thereof.

The DICOM exchange rate will continue to be determined through an auction system, which will be carried out through positions held by individuals or legal entities of the private sector, who may present their bid or offer positions.

As a result of the entry into force of Exchange Agreement No. 39, as of February 23, 2018, there exists in Venezuela a single legal exchange rate, the DICOM. The exchange rate resulting from the second currency auction held in February 2018 as informed by the Central Bank of Venezuela (BCV) was **Bs. 36.131,10/ EUR 1**

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Operations for the acquisition of foreign currency originated prior to the Exchange Agreement N° 39

Article 28 of the Exchange Agreement N° 39 indicates that the exchange rate to be used for all settlement operations in foreign currency will be the DICOM exchange rate.

The transitory provisions establish that, amongst others, for foreign currency acquisition requests that have been filed with the BCV as of January 2, 2017 and until the day before the Exchange Agreement N° 39 came into effect, and whose settlement it is appropriate to carry out this, within the framework of special agreements signed with the National Executive for the attention of commitments linked to obligations, programs and projects of national interest, development programs or high strategic component, the DIPRO exchange rate will apply (Bs 10/US\$ 1).

Valuation of assets and liabilities denominated in foreign currency: • Cost structures • Customs Obligations • Other tax obligations

Article 14 of the Exchange Agreement establishes that entities that acquire foreign currency through the DICOM system will apply as a basis for the determination of their cost structure, the exchange rate resulting from the auction where they are awarded.

Article 31 also establishes that the conversion of foreign currency for the determination of the taxable amount of tax obligations derived from customs operations will be carried out at the DICOM exchange rate in effect on the date of operation. Similarly, Article 33 indicates that the exchange rate to be used for foreign currency conversion for the determination of the amounts to be paid as a result of the customs and tax penalties regimes will be the DICOM exchange rate at the date of the corresponding sanction.

On the other hand, Article 34 of the Exchange Agreement established that the tax obligations included in special laws, as well as the fees and commissions set by the corresponding regulations in foreign currency, may be paid in the currency denominated, in its equivalent in another currency or its equivalent in bolivars at the DICOM exchange rate as of the date of the transaction.

Valuation of assets and liabilities denominated in foreign currency in accordance with IAS 21

International Accounting Standard N° 21 - Effects of changes in foreign currency exchange rates (IAS 21), requires the use of "spot" exchange rates for the valuation of assets and liabilities denominated in foreign currency. In the process of assessing whether the exchange rate is considered as a "spot" rate, the entity must consider whether the foreign currency can be obtained at an "official" exchange rate and if it is available for immediate delivery. In practice, normal administrative delays in obtaining the currency are considered acceptable.

Additionally, the standard indicates that in scenarios where there are multiple exchange rates, the exchange rate used to value and record transactions and balances in foreign currency is the rate at which the future cash flows represented by the transaction or the balance could be settled if such cash flows had occurred on the date of measurement.

The DICOM exchange rate established in the Exchange Agreement N° 39, could be considered as a "spot" exchange rate in accordance with the definition of IAS 21 and therefore applicable for the valuation of assets and liabilities in foreign currency. Entities should disclose the exchange rate used in the valuation of assets and liabilities in foreign currency as well as consider disclosing an analysis in relation to the sensitivity to the financial statements that any significant variation of the exchange rate would have with respect to the exchange rate used at the end of the accounting period.

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Net assets of a subsidiary in Venezuela Parent companies usually use the dividend rate to translate the net assets of a foreign operation.

The current regulations seem to allow the DICOM for the remittance of dividends, however as of the date of this publication, the specific regulations that will govern this matter have not yet been issued.

The facts and particular circumstances must be considered, and in some cases the accounting point of view of the relevant regulatory body. It may be appropriate to consult with legal experts to determine what exchange rate would be available for the payment of dividends based on current exchange legislation.

The exchange rate used in the translation and its accounting implications should be clearly disclosed in the notes to the financial statements. Additionally, an analysis should be considered regarding the sensitivity to the consolidated financial statements that any significant change in the exchange rate would have with respect to the exchange rate used at the end of the accounting period to translate the foreign subsidiary.

Cash flow and consolidation According with International Accounting Standard No. 7 - Cash Flow Statement (NIC 7), it should also be considered, the implications of exchange control in Venezuela and the ability of the Venezuelan entity to remit cash balances for general use by the consolidated group.

A restriction for the payment of dividends does not in itself represent the loss of control over the subsidiary for consolidation purposes in accordance with International Financial Reporting Standard N° 10 (IFRS 10).

Consideration of the Exchange Agreement N° 39 as a subsequent event as of December 31, 2017 According to the provisions of International Accounting Standard N° 10 (IAS 10), the publication of Exchange Agreement N° 39 in January 2018 is considered a subsequent event that does not cause adjustment in the exchange rates used for year ends prior to the publication date. IAS 10 establishes that in the event of subsequent events that do not require adjustment, the entity must disclose: (1) the nature of the event and (2) an estimate of the impact of the event or, failing that, an indication that the estimate can't be determined.

Entities should assess the impact of the Exchange Agreement N°39 in considering the going concern basis.

PwC's point of view regarding accounting principles applicable in Venezuela (VEN-NIF)

The views expressed here are equally applicable in VEN-NIF

Other related publications

- Technical Alert No. 6 issued in April 2014 "Exchange Rates in Venezuela II" (<http://pwc.to/1koNB2Z>)
- Technical Alert 2015-02 issued in January 2015 "Considerations on the consolidation of subsidiaries of multinational companies with operations in Venezuela, according to International Financial Reporting Standards (IFRS)" (<http://pwc.to/1F1XRtL>)
 - Technical Alert 2015-03 issued in February 2015 "Exchange Rates in Venezuela (III)"
 - Accounting for SICAD and SIMADI in accordance with IFRS (IAS 21) (Spanish version: <http://pwc.to/25RElMr> / English version: <http://pwc.to/1Sve4e5T>)
 - Technical alert 2016-02 issued in April 2016 "Exchange rates in Venezuela (IV)"
 - Accounting for DIPRO and DICOM in accordance with Resolution No. 16-03-01 of the Central Bank of Venezuela (BCV) (<https://pwc.to/2EZT4zx>)

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