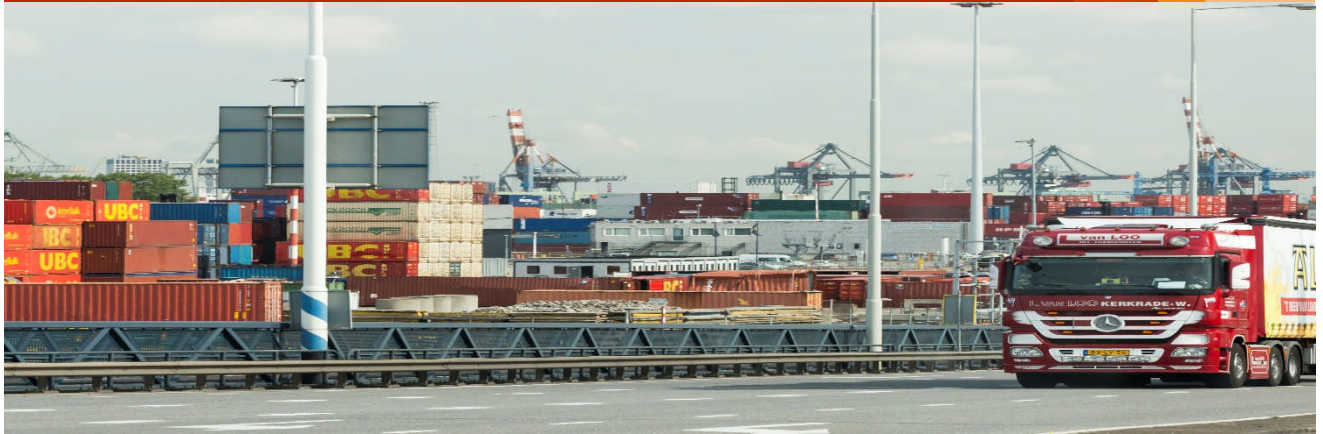


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Exchange rates in Venezuela (IV)

Accounting of DIPRO and DICOM in accordance with Venezuelan Central Bank (Banco Central de Venezuela (BCV)) Resolution N° 16-03-01

Current legislation on exchange rates in Venezuela was amended in March, 2016 through the Exchange Agreement N° 35, to create two new exchange rates: (1) Protected Exchange Rate (DIPRO) and (2) Complementary Floating Exchange Market Rate (DICOM). The mentioned Exchange Agreement is in force since March 10, 2016.

According to Article 2 of the mentioned Exchange Agreement, DIPRO rate will be used for settlement of foreign exchange transactions to pay imports of certain goods of the health and food areas, as well as raw materials and supplies associated with the production of these sectors. To this effect the National Centre for Foreign Commerce (CENCOEX) will publish on its website the product codes to which this rate will apply.

DICOM exchange rate will be applicable to other operations in foreign currencies. According to Article 17 of the Exchange Agreement No. 35, the current alternative market (SIMADI), will continue to operate until it is replaced by a new system within a maximum period of 30 days. While this type of change occurs, DICOM will be the exchange rate resulting from SIMADI system.

Currency sale transactions generated by operations and export activities and / or sale of hydrocarbons, as well as public enterprises and public decentralized institutions of a business nature, may be made at the DICOM exchange rate, reduced by 0.25 %.

As a consequence of the changes before mentioned, the exchange rates at April 11, 2016 are:

- **DIPRO:** Bs 10 /US\$1 (fixed)
- **DICOM:** Daily average defined by supply and demand (Bs. 306.07 / US\$1, at April 8, 2016)

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Acquisitions arising prior to currency Exchange Agreement No. 35

Article 14 of the Exchange Agreement No. 35 provides that operations in foreign exchange for imports, which before the date of enforcement of this exchange agreement, applied the CENCOEX exchange rate (Bs 6.30 / US \$ 1), shall be paid at such rate, provided they have the authorization for the Settlement of Foreign Exchange (ALD) issued until the day immediately preceding the entering force of the exchange Agreement.

Measuring Assets and liabilities denominated in foreign currency – BCV Resolution N° 16-03-01

On April 5, 2016, the Resolution N° 16-03-01, issued by the Venezuelan Central Bank (BCV) was published in the Official Gazette. This resolution establishes the rules for measurement and accounting of transactions denominated in foreign currency.

According to Article 2 of the resolution the measurement of the financial statements and the accounting of assets and liabilities denominated in foreign currency for the banking, insurance and securities market sectors will be made at the DIPRO exchange rate.

Likewise measurement and accounting of bond securities issued by the national public sector in foreign currency and payable in bolivars, will be made at the DIPRO exchange rate.

Alternative market operators, should make the accounting of securities acquired in order to perform operations in this market, at the acquisition price and their subsequent valuation should be at DICOM exchange rate.

The Superintendency of Banking Sector Institutions (SUDEBAN), the National Securities Superintendency (SUNAVAL) and the Superintendency of Insurance Activity (SUDEASEG) will issue regulations they deem relevant for the purpose of ensuring the compliance with the requirements established in the BCV's resolution.

Article 5 of that resolution states that companies in sector different from the ones mentioned before (banking, insurance and securities market sector) will recognize assets in foreign currency at the rate of acquisition, and liabilities should be recognized at the exchange rate at which the obligation was incurred, taking into account the various official exchange rate mechanisms.

The subsequent measurement valuation of balances and transactions will be made at the official exchange rate (DIPRO or DICOM) that represent the rate at which the transaction or balance could be settled on the date when the financial statements are prepared.

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Measuring assets and liabilities denominated in foreign currency in accordance with IAS 21

IAS 21 requires that the rate used to measure and record foreign currency transactions and balances, where several exchange rates are available, is the “rate at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date.” IAS 21 is similar to the BCV Resolution 16-03-01 of the BCV on this regard.

The two official exchange rates available qualify as a “spot” rate and can be used to value monetary assets and liabilities. Judgment is required to determine which rate best reflects the guidance in IAS 21.

There might be specific assets and liabilities that management clearly expects will be settled at a specific rate (for example: an specific liability for which management has properly applied for dollars using CENCOEX at the DIPRO exchange rate); in such a case, that rate should be used. In other less clear circumstances, management should use judgment to determine the appropriate rate at which each balance could have been settled. In some cases, legal advice may be needed to determine the applicable rate under the currency exchange legislation.

The rate (or rates) used in the valuation and the implications should be disclosed clearly. The rate (or rates) used might also be a significant accounting judgment to be disclosed under IAS 1, and management should consider disclosing the sensitivity of using a different exchange rate, as a consequence of a possible foreign exchange fluctuation.

Net assets of a subsidiary in Venezuela

Parent companies typically use the dividend remittance rate to translate the net assets of a foreign operation.

None of the current regulations specifically addresses dividends. Management should therefore use judgment to determine which rate best reflects the rate at which the future cash flows represented by the net investment could have been settled at the balance sheet date.

Management should be aware, in making this judgment, that dollars available for dividends through the previous mechanisms have been very limited during the last years, and it is not yet clear how the new mechanisms will be used for dividends. The current regulations appear to permit the DICOM mechanism to be used for dividends, however no specific regulation was issued on this regard.

Management should consider the particular facts and circumstances, and in some cases the accounting views of the relevant regulator, and might also consider taking legal advice to determine what rate will be available for dividends following the recent changes in the currency exchange legislation.

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The rate used in the translation and the implications should be disclosed clearly. The rate used might also be a significant accounting judgment to be disclosed under IAS 1, and management should consider disclosing the sensitivity of using a different exchange rate.

Cash flows and consolidation

Management should consider disclosing under IAS 7 the implications of the currency exchange controls in Venezuela on whether cash balances are available for general use by the consolidated group.

These limitations for dividend remittance does not imply the loss of control on the Venezuelan subsidiary, for consolidation purposes in accordance with IFRS 10.

Additional Information

Recent history of Exchange rates in Venezuela

As of December 31, 2014 there were three legal exchange rates in Venezuela that qualified as a spot rate and could be used for translation under IAS 21: the official fixed rate, known as CENCOEX, available to certain specific sectors considered to be priority; and the SICAD-I and SICAD-II rates derived from currency auctions.

SICAD-I was created to operate alongside the official mechanism in 2013. It was an auction system that permitted entities in specific sectors to purchase foreign currency for imports. It was not a free auction, as the counterparty that offers the highest price does not necessarily receive foreign currency; and each auction could have different rules and different participants. The Central Bank began publishing the average exchange rate achieved in each auction in December 2013, and in 2014 it became possible to use SICAD-I for international investment and finance transactions, possibly including dividends.

The law was amended in March, 2014 to permit buy-sell cash and securities in foreign currency in a new mechanism named SICAD-II. The new system allowed both individuals and entities to buy and sell foreign exchange with fewer restrictions than the other two mechanisms. It is not yet clear whether SICAD-II was available to use for dividend remittances.

Currency exchange legislation in Venezuela was again amended in February, 2015 to create a new mechanism (known as SIMADI), which permits buy-sell cash and securities in foreign currency. SIMADI allowed both individuals and entities to buy and sell foreign currency with fewer restrictions than other mechanisms in Venezuela (CENCOEX and SICAD). On the same date SICAD-II ceased to operate with the implementation of the new system SIMADI. As of December 31, 2015 there were three legal exchange rates in Venezuela that qualified as a spot rate and could be used for translation under IAS 21: the official fixed rate (CENCOEX), SICAD and SIMADI.

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

The views expressed herein are equally applicable VEN-NIF purposes.

Other related publications

Technical Alert issued in 2014 "Exchange rates in Venezuela – IAS 21" <http://pwc.to/1pcvbZe>

Technical 2015-02 alert 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/23Ulm1R>

2015-03 Technical Alert issued in February 2015. "Exchange Rates in Venezuela (III) SICAD and Simadi accounting in accordance with IFRS (IAS 21)" (Spanish version: <http://pwc.to/25RElMr> / English version: <http://pwc.to/1Ve4e5T>)

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Contact us:

Manuel E. Pereyra G.

manuel.pereyra@ve.pwc.com

+58 (212) 700 61 17

@manuelpereyra

Carlos Vázquez

vazquez.carlos@ve.pwc.com

+58 (212) 700 61 86

Our offices in Venezuela:

Caracas – Sede Corporativa

+58 (212) 700 66 66

Fax: +58 212 991-5210

Barquisimeto

+58 (251) 255 49 83

+58 (251) 255 00 61

+58 (251) 255 04 04

Fax: +58 (251) 254 62 84

Maracaibo

+58 (261) 797 98 05

+58 (261) 797 98 06

+58 (261) 798 38 69

Fax: +58 (261) 798 81 94

Maracay

+58 (243) 232 27 42

+58 (243) 232 27 45

Fax: +58 (243) 232 27 42

Puerto La Cruz

+58 (281) 267 08 45

+58 (281) 418 79 35 al 38

Fax: +58 (281) 286 96 16

Puerto Ordaz

+58 (286) 962 64 51

+58 (286) 962 49 95

+58 (286) 962 59 26

Fax: +58 (268) 962 68 75

Valencia

+58 (241) 824 23 21

+58 (241) 824 13 83

+58 (241) 824 26 04

Fax: +58 (241) 824 49 05

www.pwc.com/ve



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Aunque se han realizado todos los esfuerzos razonables para resumir de manera precisa los aspectos considerados más relevantes, la información contenida en esta publicación podría no ser exhaustiva o se podría haber omitido algo que pudiera ser relevante para un lector particular. Por lo tanto, esta publicación no pretende ser un estudio de todos los aspectos contables de las NIIF o VEN-NIF o un sustituto de la lectura de las normas e interpretaciones cuando se trate asuntos específicos. Espiñeira Pacheco y Asociados (PricewaterhouseCoopers) no acepta ninguna responsabilidad ante cualquier persona que actúe o deje de actuar basada en alguna información contenida en esta publicación. Los lectores no deben actuar basados en esta publicación sin previamente buscar asesoría profesional específica.