



IFRS Alert

Argentina expected to be declared hyper-inflationary in 2018 Issue 2018 - 03

Executive summary

IAS 29 'Financial Reporting in Hyperinflationary Economies' requires the financial statements of any entity whose functional currency is hyperinflationary to be restated for changes in its general purchasing power. Although discussions are still continuing, we expect Argentina to be declared hyperinflationary in the second half of 2018. Entities with operations in Argentina should therefore start planning for the application of IAS 29 now.

Requirements of IAS 29

IAS 29 requires the financial statements of any entity whose functional currency is the currency of a hyperinflationary economy to be restated for changes in the general purchasing power of that currency so that the financial information provided is more meaningful.

Indicators of hyperinflation

The Standard lists factors that indicate an economy is hyperinflationary. One of the indicators of hyperinflation is if cumulative inflation over a three-year period approaches, or is in excess of, 100 per cent. This is often seen in practice as being a particularly significant indicator given that under US GAAP this threshold is considered a 'bright-line' in terms of whether an economy is hyper-inflationary or not. While IAS 29 differs from US GAAP in referencing other indicators of hyper-inflation, there is nevertheless a natural desire for a certain amount of consistency between IFRS and US GAAP in terms of which economies are considered hyper-inflationary.

The rationale behind IAS 29

The currency of a hyperinflationary economy loses purchasing power so quickly that comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading. Consequently, IAS 29 requires the figures included in the financial statements, including all comparative information, to be expressed in units of the functional currency current, in terms of purchasing power, as at the end of the reporting period.

The mechanics of restatement

IAS 29 requires that amounts in the Statement of Financial Position that are not already expressed in terms of the measuring unit current at the end of the reporting period are restated by applying a general price index. In summary:



- assets and liabilities linked by agreement to changes in prices, such as index linked bonds and loans, are adjusted in accordance with the agreement
- non-monetary items carried at amounts current at the end of the reporting period, such as net realisable value and fair value, are not restated
- all other non-monetary assets and liabilities are restated
- monetary items are not restated because they are already expressed in terms of the monetary unit current at the end of the reporting period. Monetary items are money held and items to be received or paid in money.

Application to Argentina

As noted above, an important indicator of hyperinflation under IAS 29 is if cumulative inflation over a three-year period approaches, or is in excess of, 100 per cent.

Initial inflation figures for May 2018 showed that all of the major inflation indices in Argentina exceeded 100% on a cumulative three year period. This includes the National Wholesale Price Index (WPI), which has shown the lowest rate of inflation in recent times.

While discussions are ongoing, forecasts of inflation indicate that all of the major inflation indices will remain above 100% at the end of 2018. IAS 29.4 states that it is preferable that all entities that report in the currency of a hyperinflationary economy apply IAS 29 from the same date. We expect this to be in the second half of 2018.



Grant Thornton International Ltd comment

Implications for clients

Assuming that Argentina is declared hyper-inflationary in the second half of 2018 as we currently expect, it will have significant consequences for entities in Argentina and for groups outside Argentina that have operations in the country.

For example, they will need to:

- adapt accounting systems so as to be able to process the inflationary adjustments.
- train staff at almost all levels on the mechanics of adjusting for hyperinflation
- restate comparative amounts in the financial statements.

Further communication

As noted above, we expect Argentina to be declared hyperinflationary in the second half of 2018. We will issue a further IFRS Alert when this occurs.

© 2018 Grant Thornton International Ltd.

IFRS Alerts are developed as an information resource summarising new pronouncements issued by the International Accounting Standards Board and the IFRS Interpretations Committee. This document is intended as a guide only and the application of its contents to specific situations will depend on the particular circumstances involved. While every care has been taken in its presentation, personnel who use this document to assist in evaluating compliance with International Financial Reporting Standards should have sufficient training and experience to do so. No person should act specifically on the basis of the material contained herein without considering and taking professional advice. Neither Grant Thornton International Ltd (GTIL), nor any of its personnel nor any of its member firms or their partners or employees, accept any responsibility for any errors this document might contain, whether caused by negligence or otherwise, or any loss, howsoever caused, incurred by any person as a result of utilising or otherwise placing any reliance upon it.

"Grant Thornton" refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.