

INFLATION IN ARGENTINA - APPLICABILITY OF IAS 29 *FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES*

INTERNATIONAL FINANCIAL REPORTING BULLETIN
2018/02



Background

IAS 29 requires the financial statements of an entity that reports in the currency of a hyperinflationary economy to restate its operating results and financial position for the effects of inflation. This approach is required because the currency loses its purchasing power at a rate which means that a comparison of transactions that have taken place at different times (including within an accounting period) without restatement would be misleading.

IAS 29 does not set out a 'bright line' of when hyperinflation arises, and instead sets out a number of factors. These include:

- cumulative three year inflation approaching, or exceeding, 100%
- the general population keeps its wealth in non-monetary assets or a relatively stable foreign currency
- the general population regards monetary amounts in terms of a relatively stable foreign currency (and prices may be quoted in that currency)
- sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period (even if it is short)
- interest rates, wages and prices are linked to a price index

In practice, there is significant focus on the first of these indicators (cumulative three year inflation), in part because under US GAAP this is a definitive 'bright line' indicator of hyperinflation.

During the last three calendar quarters, the inflation rate in Argentina has exceeded projections. As at 31 May, all three of the inflation indices show a cumulative three year rate in excess of 100%, with those rates having progressively increased as shown in the table below:

	December 2017	March 2018	April 2018	May 2018
CPI: Multiple rates	105.6	112.2	115.6	117.9
CPI: Multiple rates (except City of Buenos Aires rate replaced with San Luis Province rate)	103.7	110.2	113.5	115.8
Wholesale Price Index (WPI)	77.0	95.0	97.0	108.7

STATUS

Final

EFFECTIVE DATE

Immediate

ACCOUNTING IMPACT

Timing of the application of IAS 29 by entities in Argentina

It has not been straightforward to monitor the level of inflation in Argentina because of a lack of consistency in amounts reported by the previous government, with the International Monetary Fund having had concerns about the consistency of data. Consequently, companies have used the three inflation indices set out in the table above to determine whether Argentina has become hyperinflationary. The first two CPI rates are based on the same data, except that the first uses a City of Buenos Aires index for the period from November 2015 to April 2016, and the other uses the San Luis Province rate for that period. The third is the Wholesale Price Index (WPI) which has been used due to reservations about the accuracy of the two CPI indices and because WPI has been calculated on a more consistent basis for the past three years.

The data set out in the table indicates that there is an expectation that, as at 30 June 2018, all three indices will continue to show cumulative three year inflation above 100%, which suggests that the Argentinian economy is hyperinflationary for the purposes of IAS 29. However, it is noted that this conclusion is based on May data which did not become available until the middle of June. Depending on the indices used, and in the context of questions around the reliability of data, there could be significant differences in the associated adjustments.

These measurement issues also need to be considered in the context of the requirements of IAS 29, in particular paragraph 4 which notes that it is preferable that all entities that report in the currency of the same hyperinflationary economy start to apply IAS 29 from the same date. It is likely that there would be significant diversity in the application of IAS 29 if entities were to attempt to apply it for the purposes of their Q2 2018 financial reports.

Consequently, it is considered that the application of IAS 29 for periods ended 30 June 2018 is not required. However, given the current levels of inflation and the expected levels during the second half of 2018, for subsequent reporting periods (whether for the period to 30 September 2018 or 31 December 2018), entities need to plan for the application of IAS 29.

Key requirements of IAS 29

When IAS 29 is applied for the first time:

- the statements of financial position at the beginning and at the end of the reporting period are restated
- the statement of profit or loss and other comprehensive income for the reporting period is restated
- comparative information for the previous period is restated.

The retrospective application of IAS 29 is a key difference in comparison with US GAAP, under which adjustments are applied prospectively.



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