

IFRS in Focus

Reporting on periods ending 30 June 2018—Inflation in Argentina

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IAS 29 *Financial Reporting in Hyperinflationary Economies* requires that the financial statements of entities whose functional currency is that of a hyperinflationary economy to be adjusted for the effects of changes in a suitable general price index, with IAS 21 *The Effects of Changes in Foreign Exchange Rates* then incorporating such adjustments into the retranslation of a foreign operation into its parent's presentation currency. These requirements apply equally to annual financial statements and interim statements prepared under IAS 34 *Interim Financial Statements*.

IAS 29 includes several characteristics of hyperinflation, including a cumulative inflation rate over three years that approaches or exceeds 100 per cent.

- Levels of inflation in Argentina have been high for some time, with a significant increase in May 2018 resulting in inflation indices exceeding 100% on a three-year cumulative basis. It is also understood that the qualitative indicators of hyperinflation are, to varying degrees, present in Argentina.
- In light of the stated preferences in IAS 29 that all entities apply inflation accounting from the same time and using the same general price index, we do not consider that the use of inflation accounting is required in respect of Argentinian peso functional operations for periods ending 30 June 2018. Its use is, however, considered likely to be necessary for subsequent reporting periods (be that as at September or December 2018).
- Entities with material operations in Argentina should, however, provide clear disclosure on the likelihood of inflation accounting applying in future periods.

Inflation in Argentina

Various inflation indices exist in respect of Argentina, however a national consumer price index (CPI) (the measure typically used to assess inflation) has not been consistently reported throughout the last three years. As a result, more local indices such as the City of Buenos Aires index (IPC-BA), the San Luis province index (IPC-SL) and the Greater Buenos Aires Area index (CPI-GBA) have been used (either individually or on a blended basis) to obtain three years of comparative CPI data. Depending on the data selected, three-year cumulative national inflation on a blended basis has exceeded 100 per cent from either September or December 2017.

A national wholesale price index (WPI) has, by contrast, been available on a consistent basis throughout the last three years. The U.S. Center for Audit Quality's (CAQ's) International Practices Task Force (IPTF) referred to this fact in its November 2017 discussion document *Monitoring Inflation in Certain Countries*, which stated that "the WPI has consistently provided national coverage and historically has been viewed as the most relevant and reliable inflation measure by practitioners since Argentina moved to International Financial Reporting Standards." WPI was, on a three-year cumulative basis, observed to be below 100 per cent until the release on May 2018 data on 14 June 2018, which showed a 7.5 per cent increase in the month and a derived three-year cumulative WPI of approximately 109 per cent as at May 2018.

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

A summary of three-year cumulative rates calculated using the various available indices is shown below.

Three-year cumulative indices	31 December 2017	31 March 2018	30 April 2018	31 May 2018
Various CPI indices (national and Buenos Aires)	106%	112%	116%	118%
Various CPI indices (national and San Luis province)	104%	110%	114%	116%
WPI	77%	95%	97%	109%
Source	<i>IPTF Document for discussion: Monitoring Inflation in Certain Countries</i>		<i>Derived from inflation data published by Instituto Nacional de Estadística y Censos de la República Argentina (INDEC)</i>	

Reporting on Argentinian operations at 30 June 2018

As can be seen from the above data, it is expected that as at 30 June 2018 all of the qualitative factors in IAS 29:3 be present and all relevant inflation indices will show a cumulative three-year rate in excess of 100 per cent, providing prima facie evidence that the Argentinian economy is (as defined in IAS 29) hyperinflationary.

However, that conclusion is based on data (the May 2018 WPI index) that only became available in mid-June and leaves open the question of which of the multiple available rates should be considered an appropriate general price index (required by IAS 29 to 'reflect changes in general purchasing power'). The selection of index together with issues around the reliability of data could, depending on the significance of Argentinian operations to a particular entity, give rise to material differences in calculated inflation adjustments.

IAS 29 also stresses the need for consistency between entities in the application of inflation accounting, with IAS 29:4 stating that "it is preferable that all entities that report in the currency of the same hyperinflationary economy apply this Standard from the same date" and IAS 29:37 that "it is preferable that all entities that report in the currency of the same economy use the same index." It is not considered realistic for these aims to be achieved across multiple entities in multiple jurisdictions within the necessary timescale for June 2018 reporting.

Given these significant practical issues and the likely diversity in practice (contrary to the stated aims of IAS 29) that would arise if inflation accounting were to be applied in so limited a timescale, we do not consider that the use of inflation accounting is required in respect of Argentinian operations as at 30 June 2018.

Given the current levels of inflation, with no expectation of significant decreases in the immediate term, the use of inflation accounting is, however, considered likely to be necessary for subsequent reporting periods (be that as at September or December 2018). Entities should prepare for this eventuality in planning their reporting on subsequent periods. Commencement of inflation accounting from 1 July 2018 would also be consistent with the expected approach under U.S. GAAP as reported in [Financial Reporting Alert 18-8](#).

Disclosure in June 2018 financial statements

Both IAS 10 *Events after the Reporting Period* and IAS 34 require disclosure of subsequent events. Applying these requirements, together with the requirements of IAS 1 *Presentation of Financial Statements* on significant accounting judgements, means that the probable use of inflation accounting in subsequent periods should be disclosed in the June 2018 financial statements (annual or interim) of entities with material Argentine operations.

Consideration should also be given to the effect of circumstances in Argentina on other aspects of the financial statements and on appropriate disclosure in the financial statements and/or management commentary. These issues could include:

- Where practicable, an indication of the effect of inflation in the periods on the profits generated by operations in Argentina.
- Any impairment indicators.
- Changes in fair value measurements of Argentine assets and liabilities.

Further information

If you have any questions about the financial reporting effects of inflation in Argentina, please speak to your usual Deloitte contact or get in touch with a contact identified in this *IFRS in Focus*.

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