IFRS Alert

Argentina expected to be declared hyper-inflationary in 2018
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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.