

To the Point

Argentina's economy considered highly inflationary under US GAAP

Calendar-year registrants with operations in Argentina would begin to account for that economy as highly inflationary no later than 1 July 2018.

What you need to know

- ▶ All of the three-year cumulative inflation rates commonly used to evaluate Argentina's inflation currently exceed 100%. Therefore, we expect entities to conclude that Argentina's economy is highly inflationary under US GAAP no later than 30 June 2018.
- ▶ Because an economy is accounted for as highly inflationary beginning on the first day of the reporting period following the period in which the economy becomes highly inflationary, calendar-year entities that prepare quarterly interim financial statements with operations in Argentina have to begin applying the guidance on highly inflationary accounting no later than 1 July 2018.
- ▶ Entities should remeasure the financial statements of a foreign entity in Argentina as if the functional currency were the reporting currency.

Overview

All of the three-year cumulative inflation rates commonly used to evaluate Argentina's inflation currently exceed 100%. Based on that data, we expect entities with operations in Argentina to conclude that Argentina's economy is highly inflationary under US GAAP no later than 30 June 2018.

Such a conclusion would mean that calendar-year entities that prepare quarterly interim financial statements (e.g., registrants) with operations in Argentina have to begin applying the guidance on highly inflationary accounting in Accounting Standards Codification (ASC) 830, *Foreign Currency Matters*, no later than 1 July 2018 (i.e., the reporting period following the period in which the economy became highly inflationary).

Background

Inflation in Argentina has been high for several years, and local inflation data has not been reported consistently. After declining for several months in 2017, inflation rates have spiked this year due, in part, to tariff adjustments in public services, the devaluation of the Argentine peso and significant increases in the official Argentine interest rate.

A [discussion document](#) prepared by the Center for Audit Quality SEC Regulations Committee and its International Practices Task Force describes inflation data for Argentina through 30 April 2018. Considering this data and more recent data for May 2018, all of the three-year cumulative inflation rates commonly used to evaluate Argentina's inflation currently exceed 100%. The following table presents the trend:

Three-year cumulative indices	12/31/17	3/31/18	4/30/18	5/31/18
Various indices used:	106%	112%	116%	118%
CPI-GBA ¹ (to December 2013)				
IPCNu ² (January 2014–October 2015)				
IPC-BA ³ (November 2015–April 2016)				
New CPI-GBA (May 2016–May 2017)				
New National Index (from June 2017)				
Same as indices above, except IPC-SL ⁴ replaces IPC-BA	104%	110%	114%	116%
National Wholesale Price Index	77%	95%	97%	109%

Key considerations

To determine whether an economy is highly inflationary, the cumulative inflation rate should be calculated for the three years preceding the beginning of the reporting period (including interim reporting periods). Accounting Standards Codification (ASC) 830, *Foreign Currency Matters*, states “[i]f that calculation results in a cumulative inflation rate in excess of 100 percent, the economy shall be considered highly inflationary in all instances.”

An economy is accounted for as highly inflationary under ASC 830 on the first day of the reporting period following the period in which the economy becomes highly inflationary. Therefore, a conclusion that Argentina's economy is highly inflationary as of 30 June 2018 would mean that calendar-year entities that prepare quarterly interim financial statements have to begin accounting for the economy as highly inflationary no later than 1 July 2018.

The financial statements of a foreign entity in a highly inflationary economy have to be remeasured as if the functional currency were the reporting currency.⁵ For example, if an Argentinian operation had an immediate parent with the US dollar as its reporting currency, the Argentinian operation would report its operations using the US dollar. The remeasurement process is intended to produce the same results as if the entity's books of record had been maintained in the reporting currency. Because the new functional currency would be the same as the reporting currency of the parent, the translation of the financial statements into the reporting currency would no longer be necessary.

Entities should disclose the effect of Argentina's economic situation on their financial statements.

How we see it

If the change in the functional currency will have a material effect on the reporting entity's financial statements, it is appropriate for that entity to disclose the effect of Argentina's economic situation in the notes to the financial statements and/or Management's Discussion and Analysis (if the entity is a registrant). These disclosures should be included, at a minimum, in the financial statements for the period in which Argentina's economy was concluded to be highly inflationary.

When the functional currency changes from a foreign currency to the reporting currency, translation adjustments for prior periods must not be removed from equity. The translated amounts for nonmonetary assets and liabilities at the end of the prior period become the accounting basis for those assets in the period of the change and subsequent periods (i.e., the exchange rate on the date of the change becomes the historical rate for the subsequent remeasurement of nonmonetary assets and liabilities).⁶

Next steps

Entities with operations in Argentina should make sure they have appropriate controls in place for monitoring Argentina's inflation data and other relevant information to determine when the economy should no longer be considered highly inflationary.

It is important to note that a three-year cumulative rate of less than 100% should not serve as the sole basis to conclude that the economy is no longer highly inflationary under ASC 830. For further guidance on the accounting for highly inflationary economies, refer to our Financial reporting developments publication, *Foreign currency matters*.

Endnotes:

- ¹ Consumer Price Index (CPI) for the Greater Buenos Aires area.
- ² National CPI.
- ³ CPI for City of Buenos Aires only.
- ⁴ CPI for San Luis province.
- ⁵ ASC 830-10-45-11.
- ⁶ ASC 830-10-45-10.

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