



FACPCE

Hyperinflation accounting

- Reflections from applying IAS 29 *'Financial Reporting in Hyperinflationary Economies'* in Argentina



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Disclaimer

The views and opinions expressed herein represent those of the presenters and do not necessarily reflect the views or opinions of FACPCE or other organizations with which the presenters are affiliated.

Our organization



Integrated by 24 Professional Organizations (one for each state of Argentina).

Created in 1973.

CENCYA, the NSS, is composed of two Commissions (Accounting; Auditing & Assurance).

Standards issued by FACPCE must be endorsed jurisdictionally (according to the federal organization of Argentina).

IFRS Accounting Standards application in Argentina

Status of the use of IFRS Accounting Standards in Argentina

Listed companies mandatorily apply IFRS Accounting Standards (few exceptions exist)

Banks apply Local GAAP that is substantially converged with IFRS Accounting Standards

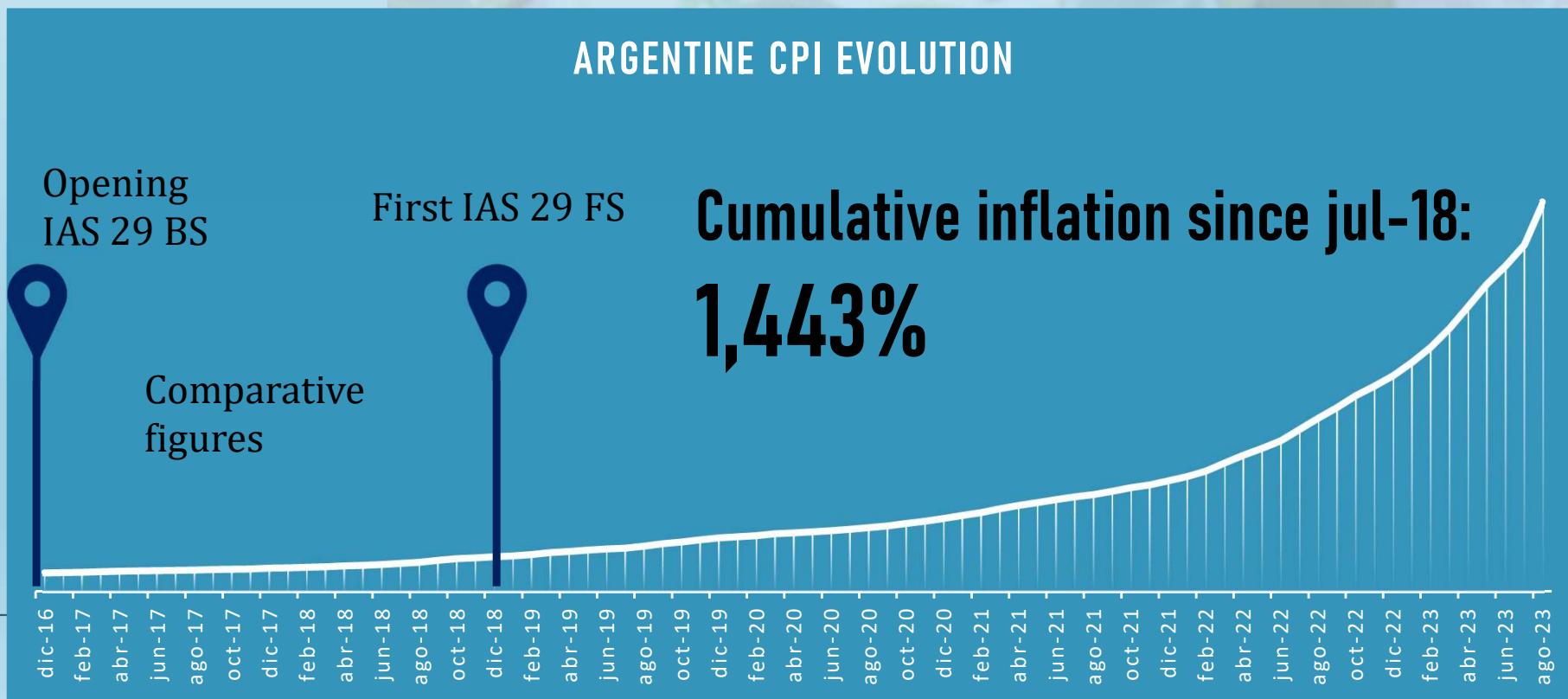
Other entities apply local GAAPs (voluntary use of IFRS Accounting Standards is allowed)

Agenda

- 1 The use of IAS 29 in Argentina: introduction and background
- 2 Operational challenges of applying IAS 29
- 3 Preparers' perspective: what do we usually hear from them?
- 4 Users' perspective: what do we usually hear from them?
- 5 Hyperinflationary environment, behavior and accounting effects

The use of IAS 29 in Argentina: introduction and background

Since 2018, the Argentine peso (ARS, the local currency) has been considered the currency of a hyperinflationary economy for accounting purposes.



The use of IAS 29 in Argentina: introduction and background (cont.)

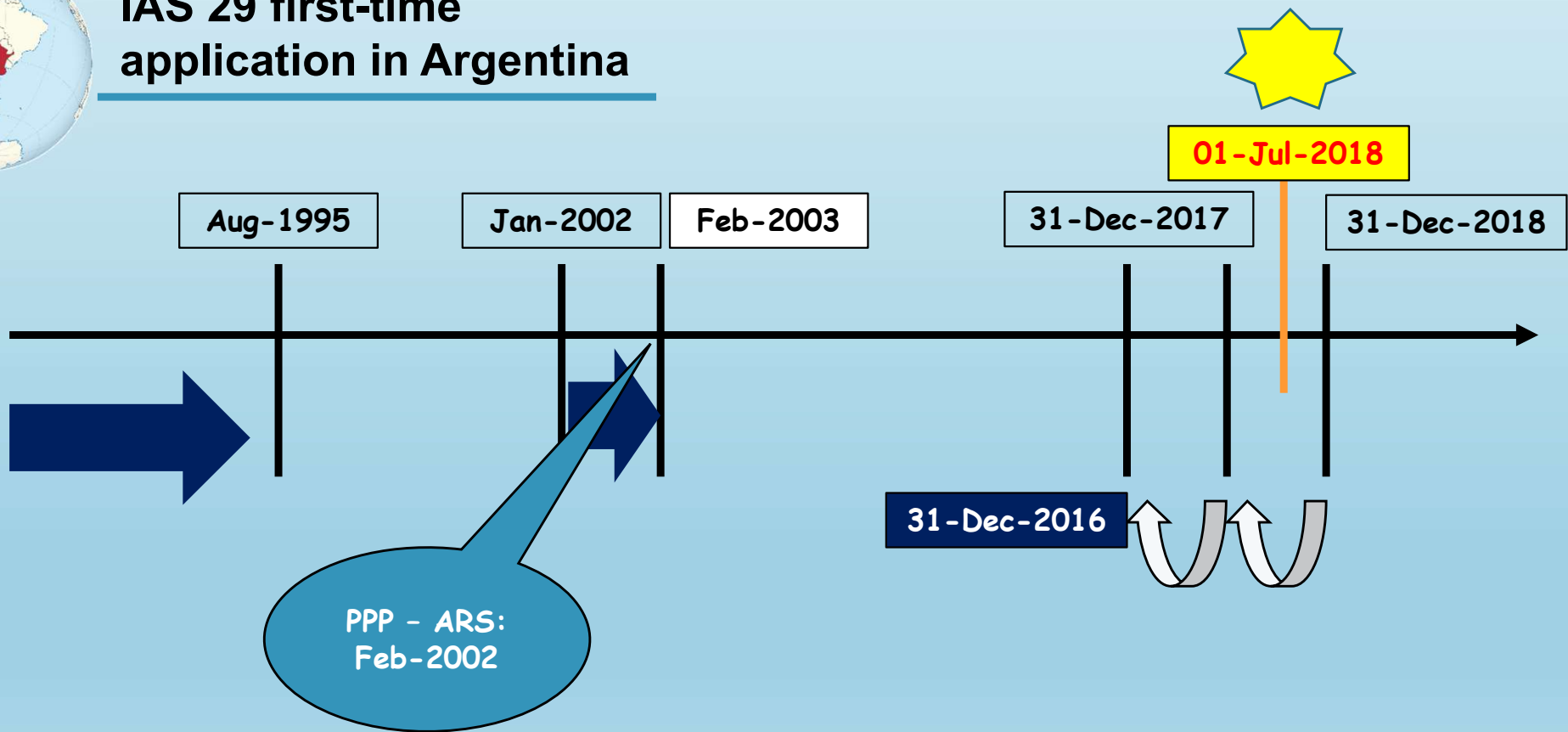
Once the ARS began to be considered the currency of a hyperinflationary economy, several challenges began at the accounting level for local companies:

- IFRS companies **whose functional currency is the ARS** applying IAS 29.
- ARG GAAP companies restate their financial statements (local procedure similar to IAS 29 but **based on a geographical approach**).
- Companies reporting to US groups adopt the US dollar as their functional currency in their consolidation package reports, in accordance with ASC 830.

The first-time application of IAS 29: technical fundamentals



IAS 29 first-time application in Argentina



Operational challenges of applying IAS 29

During IAS 29's first year of application

IDENTIFYING THE INDEX PRICE

- Due to problems associated with previous official statistics

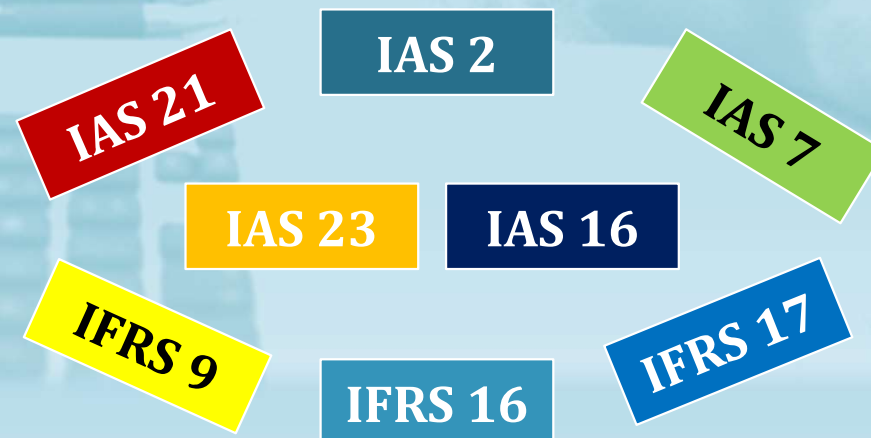
APPLYING THE IFRIC 7 APPROACH

- Difficulties mainly with restating the oldest non-monetary items

Since IAS 29 was implemented

LACK OF INTERACTION

- Other IFRS Accounting Standards do not seem to be designed for properly interaction with IAS 29



Operational challenges of applying IAS 29

Just some examples:

IAS 2

Restatement of manufactured items is very challenging since each component of cost is expressed in a different power purchasing unit.

IAS 7

Restatement procedure for cash flows is not clear, as a result of a lack of practice.

IAS 16

Detailed records of acquisition dates of items of PP&E may not be available or capable of estimation.

IAS 21

(1) Treatment of comparative figures once translated into a stable currency both in initial application and beyond. – (2) Presentation currency for non-IAS 29 companies.

IAS 23

Removing prior borrowing cost capitalizations is very challenging both in initial application and beyond.

IFRS 9

Several challenges (restatements of financial gains and financial costs, hedge accounting application, ECL model application, etc.).

IFRS 16

Accounting for inflation-adjusted contracts is very challenging, especially for lessees with numerous contracts.

IFRS 17

Limited experience around the world with this interaction.

Preparers' perspective: what do we usually hear from them?

"Preparing financial statements in compliance with IAS 29 is more expensive, but it doesn't necessarily improve a companies' interaction with investors, lenders and creditors."

The Board does not understand...

Our main audience does not understand...



Accounting staff

Board of Directors

Users' perspective: what do we usually hear from them?

"Using inflation-adjusted financial statements does not solve the underlying problem: the local currency does not perform all the functions of a currency."



Most currency ('money') definitions highlight three functions that a currency must fulfill:

1. Being a medium of exchange, a trusted means of payment.
2. Serving as a unit of account, allowing goods and services to be priced.
3. Acting as a store of value.

Users' perspective: what do we usually hear from them? (cont.)

"Using inflation-adjusted financial statements does not solve the underlying problem: the local currency does not perform all the functions of a currency."



Main emerging issues from financial statements prepared using a 'non-currency':

- Lack of meaning when assessing key performance indicators (KPIs) of a company's economic and financial management.
- No improvement in the predictive quality of accounting information.
- Figures that produce signals contrary to other information and intuition.

Hyperinflationary environment, behavior and accounting effects

Hyperinflationary environment



The local currency loses relevance



Corporate and analyst behavior change



Accounting effects





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Thank you!



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