



Grupo Latinoamericano
de Emisores de Normas
de Información Financiera

Group of Latin American
Accounting Standard Setters

Are Financial Statements Truly Useful? Challenges in High-Inflation and Hyperinflationary Economic Environments

Hernan Casinelli

Chair | GLASS

Group of Latin American Accounting Standard Setters

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Accounting Standards and Inflation: Introduction and Background





The Conceptual Framework and Financial Reporting Objectives

Resource Allocation Decisions

1

Financial information guides investors and creditors in resource allocation.

Future Cash Inflows

2

Statements assess prospects for future net cash inflows.

Management Stewardship

3

They evaluate management's use of economic resources.

The Conceptual Framework outlines financial reporting objectives. But do financial statements in high-inflation economies truly meet these goals?



The Global Relevance of High-Inflation Accounting

16

Hyperinflationary Countries


These countries meet ASC 830 criteria, often triggering IAS 29.

6

High-Inflation Watchlist

Additional countries are under observation for inflation concerns.

Applying IAS 29 is no longer an isolated issue. The number of affected countries highlights its growing importance for global financial reporting.



Beyond Borders: Why Inflation Affects All Stakeholders



Cross-border Investors

They interpret statements from inflation-impacted functional currencies.



Multinational Groups

They consolidate or equity-account for investments in such environments.



Decision Usefulness

Inflation directly impacts the usefulness and understandability of financial statements for economic decisions.

Inflation's impact extends globally. It influences how investors and multinational corporations assess financial data.

Lessons from Latin America: Argentina's Experience

GLASS Perspective

These insights come from GLASS, the Group of Latin American Accounting Standard Setters.

Reflections are based on Argentina's practical experience.

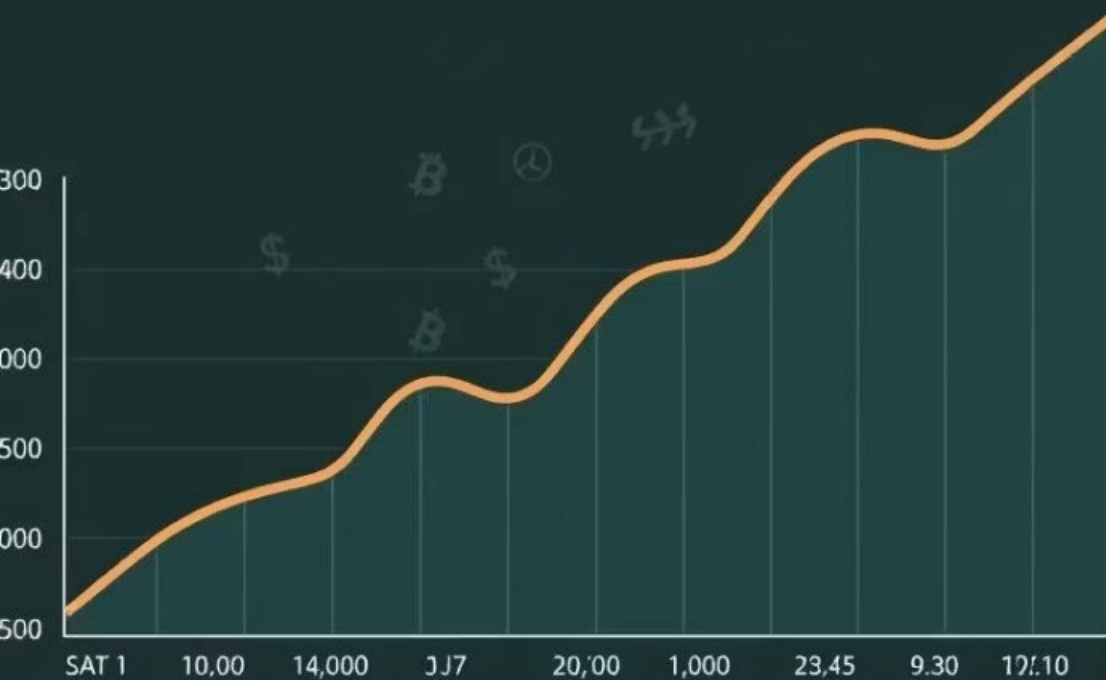
Our reflections are rooted in Latin America, particularly Argentina's long-term experience with inflation accounting.

Insights from Argentina

Argentine entities have applied IAS 29 since 2018. This offers a real-world assessment of user needs.

Venezuela is also subject to IAS 29, but no recent input was available.

Key Findings from Argentina's IAS 29 Application



Empirical Evidence

Argentina's experience since 2018 provides practical evidence on IAS 29's usefulness.

Preparer Feedback

Insights gathered from companies preparing inflation-adjusted statements.

User Feedback

Valuable input from investors and analysts using these statements.

Argentina's application of IAS 29 since 2018 offers valuable empirical data. This includes feedback from both preparers and users.

Preparers' Perspective: Challenges and User Demands



Preparers find inflation accounting challenging. Users still seek non-adjusted historical-cost financial information.

Users' Perspective: Impaired Decision-Making



Valuation Difficulties

Adjusted statements do not support standard valuation techniques.



DCF Model Challenges

Uncertainty in future sales and operating margins complicates DCF.



Preference for Early Info

Users want earlier, clearer inflation impact data.

Investors and analysts report that inflation-adjusted statements hinder standard valuation tools and forecasting. They prioritize practical, decision-useful information over technical adherence.

Navigating Inflation: A Call for Accounting Standards Developed Over Time



The Gap in IFRS Accounting Standards: High Inflation, No Guidance

Current IAS 29 guidance is only triggered by hyperinflation. This leaves a critical gap in IFRS Accounting Standards. Financial statements lose usefulness well before hyperinflation. Users struggle with comparability and reliable information. They often request additional, inconsistent disclosures. This situation complicates understanding inflation's true impact.

Limited Scope

- IAS 29 only applies to hyperinflationary economies.
- Criteria for hyperinflation are strict.

Eroding Usefulness

- Statements deteriorate under high inflation.
- Users demand more disclosures earlier.

Practical Challenges

- Lack of specific guidance creates inconsistency.
- Comparability suffers across entities.

Proposed Solution: High Inflation Disclosures

GLASS proposes a new standard for high inflation. It defines "high inflation" without requiring full restatement. This approach focuses on structured, comparative, and concise disclosures. It addresses critical areas for transparency and user understanding.



Define "High Inflation"

Establish clear thresholds, distinct from hyperinflation. Avoid full restatement or currency changes.



Inflation Risk Disclosures

Entities must disclose exposure and hedging strategies.



Financial Position Impact

Report net monetary position and effects on assets/ liabilities. Provide insights into equity changes.



Financial Performance

Disclose inflation's effects on revenues, expenses, and key subtotals. Align with IFRS 18 principles.



Management-defined Performance Measures

If presented, reconcile MPMs to IFRS figures. Ensure transparency in reporting.

Navigating Hyperinflation: A Multi-Level Analysis



Level 1: Individual Entities with Hyperinflationary Functional Currency

IAS 29 Challenges

IAS 29 mandates restatement, but users often request historical cost or USD-denominated statements.

This suggests that restatement alone does not fully meet user needs for comparability and clarity.

User Information Needs

- Historical-cost financial statements.
- Financials in a stable currency (e.g., USD).

The demand for supplementary information indicates a gap between current IFRS guidance and users' needs.

Level 2: Consolidating Hyperinflationary Entities

Current Issues

Combining IAS 29 and IAS 21 often leads to distorted Key Performance Indicators (KPIs).

This makes it difficult to assess the true contribution of hyperinflationary subsidiaries.

Impact on Comparability

The loss of comparability across different reporting periods or entities is a significant concern.

This hinders effective financial analysis and decision-making for stakeholders.



Specific Proposals by Level

Level 1: Individual Entities

Present historical-cost financial statements, complemented by disclosures on inflationary effects (e.g., high-inflation accounting solution proposal).

If restatement is required by law, reverse the roles: present inflation-adjusted figures as the primary financial statements and provide nominal information as supplementary disclosures, including explanations of the effects of inflation on the business.

Level 2: Consolidation

Aligning with ASC 830 could involve treating the parent's reporting currency as the subsidiary's functional currency.

Implementing a one-time inflation catch-up adjustment for non-monetary assets could restore clarity.

Final Thoughts and Future Directions



Evolution of IFRS

Persistent demand for supplemental information indicates that current IFRS Accounting Standards may not fully meet user needs in inflationary contexts.



Tailored Responses

High-inflation and hyperinflationary environments require tailored, proportional responses from accounting standards.



IASB Leadership

The IASB can lead this effort by supporting technical improvements that enhance relevance, clarity, and decision-usefulness, in line with the Conceptual Framework objectives.



Thank you for your attention

Gracias por su atención

