



## Contents

- [The Accounting Framework](#)
- [International Practices Task Force Highlights](#)
- [Monitoring and Disclosure Considerations](#)

# Developments Related to Determining Whether Argentina's Economy Should Be Considered Highly Inflationary

This *Financial Reporting Alert* highlights recent developments related to an entity's determination of whether Argentina's economy should be considered highly inflationary. An entity with operations in Argentina should be aware that these developments could affect its consolidated financial statements for 2017.

## The Accounting Framework

ASC 830-10-45-12<sup>1</sup> (formerly Topic D-55<sup>2</sup>) provides interpretative guidance on the determination of when an economy is considered highly inflationary. It states:

The determination of a highly inflationary economy must begin by calculating the cumulative inflation rate for the **three years that precede the beginning of the reporting period**, including interim reporting periods. If that calculation results in a cumulative inflation rate in excess of 100 percent, the economy shall be considered highly inflationary in all instances. However, if that calculation results in the cumulative rate being less than 100 percent, historical inflation rate trends (increasing or decreasing) and other pertinent economic factors should be considered to determine

<sup>1</sup> For titles of *FASB Accounting Standards Codification (ASC)* references, see Deloitte's "[Titles of Topics and Subtopics in the FASB Accounting Standards Codification.](#)"

<sup>2</sup> EITF Topic No. D-55, "Determining a Highly Inflationary Economy Under FASB Statement No. 52."

whether such information suggests that classification of the economy as highly inflationary is appropriate. Projections cannot be used to overcome the presumption that an economy is highly inflationary if the 3-year cumulative rate exceeds 100 percent. [Emphasis added]

If a determination is made that an economy should be considered highly inflationary, ASC 830 requires the application of highly inflationary accounting at the beginning of the reporting period following the period that such determination was made. For example, if it is determined that Argentina should be considered highly inflationary as of September 30, 2016, an entity would apply highly inflationary accounting beginning October 1, 2016. Under ASC 830, if a country's economy is determined to be highly inflationary, the functional currency of the foreign entity operating in that country must be remeasured to the functional currency of the reporting entity.



### Editor's Note

The guidance on foreign currency translation and highly inflationary economies under IFRSs differs significantly from that in U.S. GAAP. For example, entities reporting under IFRSs would apply the guidance in IAS 29<sup>3</sup> as of the **end** of the reporting period in which the economy is deemed highly inflationary. This *Financial Reporting Alert* focuses only on the ramifications for entities that apply U.S. GAAP; it does not discuss the differences between IFRSs and U.S. GAAP.

## Argentina Inflationary Data Background

Historically, the International Monetary Fund (IMF) has had concerns about the reliability of the inflation data produced by the government of Argentina. For example, the IMF provides the following background in its November 9, 2016, [press release](#) on its decision to lift its censure:

In July 2011, Argentina was found in breach of its obligations under [IMF] Article VIII, Section 5 due to its inaccurate provision of [consumer price index (CPI)] and [gross domestic product (GDP)] data. In light of Argentina's failure to remedy its inaccurate provision, the Executive Board subsequently issued a Statement of Concern and Declaration of Censure on September 17, 2012 and February 1, 2013, respectively, in accordance with the [IMF's] legal framework.

The IMF has continued to report the government-published Argentine CPI and GDP data every six months in its *World Economic Outlook* (WEO) report. In its [April 2016 WEO report](#), the IMF issued the following warning:

The consumer price data for *Argentina* before December 2013 reflect the CPI for the Greater Buenos Aires Area (CPI-GBA), while from December 2013 to October 2015 the data reflect the national CPI (IPCNU). Given the differences in geographical coverage, weights, sampling, and methodology of the two series and the authorities' decision in December 2015 to discontinue the IPCNU, the average CPI inflation for 2014, 2015, and 2016 and end-period inflation for 2015 are not reported in the April 2016 *World Economic Outlook*. On February 1, 2013, the IMF issued a declaration of censure and in June 2015 called on Argentina to implement additional specified actions to address the quality of its official CPI data according to a specified timetable. The new government that took office in December 2015 has stated that it considers that the IPCNU is flawed and announced its determination to discontinue it and to improve the quality of CPI statistics. It has temporarily suspended the publication of CPI data to review sources and methodology. The Managing Director will report to the Executive Board on this issue again by July 15, 2016. At that time, the Executive Board will review the issue in line with IMF procedures.

In its [October 2016 WEO report](#), the IMF indicated that Argentina's 2016 CPI inflation was projected to be 39 percent and its cumulative three-year inflation rate was projected to be 105 percent by the end of 2016. The latest WEO report did not provide inflation data for 2015 for the same reasons the data was excluded from the April 2016 report (i.e., because of "the differences in geographical coverage, weights, sampling, and methodology"). However, it did include inflation data for earlier years, including the 2014 IPCNU rate of 24 percent and the 2013 and 2012 CPI-GBA rates of 11 percent and 11 percent, respectively. The report also noted that the "new government that took office in December 2015 discontinued the IPCNU,

<sup>3</sup> IAS 29, *Financial Reporting in Hyperinflationary Economies*.

stating that it was flawed, and released a new CPI for the Greater Buenos Aires Area on June 15, 2016.” In addition, the report indicates that the Executive Board stated at its August 31, 2016, meeting that “important progress [had been] made in strengthening the accuracy of the CPI data.”

Accordingly, on November 9, 2016, the IMF decided to lift its censure on the reliability of data published by the new Argentine government. In the press release on the decision, IMF Managing Director Christine Lagarde stated the following:

Today's IMF's Board decision to remove the Declaration of Censure is a testament to the extraordinary efforts made by the new Argentinean administration to strengthen the national statistics agency and produce reliable and trustworthy data. I would like to commend the authorities for their commitment to transparency and determination to improve the accuracy [of] official data in such a short period.

While the IMF's censure has been removed, CPI inflation rates for November and December 2015 have not been published, and no efforts have been undertaken to determine whether the prior years' data should be adjusted. Therefore, as a result of the lack of publicly available information, the estimate of the three-year cumulative inflation rate has to be derived from a combination of any available national, regional, or local CPIs. Depending on which indexes are used in the calculation, the three-year cumulative inflation in Argentina as of September 30, 2016, may or may not exceed 100 percent.

Because of the concerns raised by the IMF regarding the historical reliability of CPI inflation data, some stakeholders have looked to qualitative factors to help them determine whether Argentina's economy is highly inflationary. Others have looked to the wholesale price index (WPI) produced by the Argentina government as a proxy for inflation data to be used in the three-year cumulative inflation calculation. The WPI has consistently provided national coverage (unlike most of the published CPI data) and has been viewed by some local practitioners as providing the most relevant and reliable inflation measures for the country as a whole, even though it is not a CPI. Further, recent information has shown that inflation has started to decelerate under the new government, and the expectation is that inflation could continue to decelerate given the new government's anti-inflationary policies.

Accordingly, entities will face practical challenges and will need to use significant judgment in assessing whether Argentina's economy is considered highly inflationary.

### **International Practices Task Force Highlights**

The International Practices Task Force (the “Task Force”) is a committee of the Center for Audit Quality that meets periodically with the SEC staff to discuss issues related to international reporting and technical accounting.

The Task Force regularly monitors inflation information that may be relevant in an entity's determination of whether a country may be considered highly inflationary.

At its November 17, 2016, meeting with the SEC staff, as well as during a January 18, 2017, conference call, the Task Force discussed the three-year cumulative inflation rate for several countries, including Argentina. The published [highlights](#) of the November meeting contain the following summary of Argentina's three-year cumulative inflation rates:

	<b>Indices Considered[*]</b>	<b>As of 9/30/16</b>	<b>As of 12/31/16</b>
1	Various indices used — Greater Buenos Aires (CPI-GBA) to December 2013, IPCNu January 2014 to October 2015, City of Buenos Aires only index (IPC-GBA) November 2015 to April 2016, new CPI-GBA from May 2016 to relevant period-end	100.2%	104.2%
2	Same as #1 except that the San Luis province index (IPC-SL) was used instead of the IPC-BA for November 2015 to April 2016	98.3%	102.2%
3	National [WPI]	93.5%	90.9% <sup>4</sup>

<sup>[\*]</sup> Other indices or combinations of indices are published in Argentina that registrants may also consider relevant in applying judgment to determining the best available rate that reflects the three-year cumulative inflation in Argentina.

As the table illustrates, depending on the inflation data considered in the computation of the cumulative three-year inflation for the period ended December 31, 2016, the cumulative inflation rates may be above or below 100 percent.

The meeting highlights also outline the Task Force's discussion of how to consider the cumulative inflation data:

The Task Force is aware that in late December 2016, certain US accounting firms submitted a white paper to the SEC staff from the Office of the Chief Accountant that asserted that the firms would not require a registrant to consider Argentina's economy as highly inflationary under US GAAP for the reporting period from October 1, 2016 to December 31, 2016. The SEC staff from the Office of the Chief Accountant, after reviewing the white paper submitted by the firms, stated that the staff would not object to a calendar year-end registrant's determination that Argentina's economy would not be considered highly inflationary under US GAAP for the reporting period from October 1, 2016 to December 31, 2016.

The staff indicated that registrants with Argentine operations should continue to closely monitor the economic environment within the country and have appropriate processes in place to identify relevant inflation data in order to determine whether Argentina should be considered a highly inflationary economy on an ongoing basis.

The three-year cumulative inflation rates presented above as of December 31, 2016 reflect inflation data published by Argentina's Bureau of Statistics in January with respect to December 2016. That data is relatively consistent with the data as of September 30, 2016 with WPI (the only consistently calculated national index) improving.

As a result, it does not appear that Argentina would be required to be considered highly inflationary under US GAAP for the reporting period from January 1, 2017 to March 31, 2017. However, the Task Force is not aware of any consultation with the staff regarding Argentina related to the January 1 to March 31, 2017 period.

Registrants should closely monitor all inflation data and conditions in Argentina throughout 2017 to determine whether there is a change that would result in Argentina being considered highly inflationary.

## Monitoring and Disclosure Considerations

As the meeting highlights above note, the SEC staff specified that it would not object to a determination that, for the October 1, 2016, through December 31, 2016, reporting period, Argentina's economy is not highly inflationary. In addition, the Task Force indicated that both the quantitative and qualitative considerations for the fourth calendar quarter did not

<sup>4</sup> The decrease in the WPI rate from September 30, 2016, to December 31, 2016, is not the result of deflation in Argentina. Rather, it reflects the outcome of high inflation figures from 2013 that are no longer being incorporated into the cumulative-average rate as a result of the passage of time.

significantly change and that therefore it does not appear that Argentina is required to be considered highly inflationary for the period beginning on January 1, 2017. Nevertheless, registrants with material Argentine operations should continue to closely monitor the economic environment within the country and ensure that appropriate processes are in place for identifying relevant inflation data (i.e., inflation data for periods after January 1, 2017) to determine whether highly inflationary treatment would be appropriate in a future quarter, including the period beginning April 1, 2017.

Specifically, for periods beginning April 1, 2017, registrants should review the inflation data published by Argentina's Bureau of Statistics for each calendar month of 2017 and assess how it affects their determination of whether they should consider Argentina to be highly inflationary under U.S. GAAP.

Further, given the continued scrutiny of Argentina's inflationary status, entities with material operations in Argentina should carefully consider the requirements in ASC 275 to provide disclosures about risks and uncertainties resulting from certain concentrations, including concentrations associated with foreign operations and therefore with exposure to foreign exchange risk.

In addition, SEC Regulation S-K, Item 303,<sup>5</sup> requires registrants to disclose in their MD&A any known trends, events, or uncertainties that are reasonably likely to have a material effect on their liquidity, capital resources, or results of operations.

The SEC staff has also historically provided informal guidance for registrants with foreign operations that may be subject to material risks and uncertainties, such as political risks, currency risks, and business climate and taxation risks. The staff has reminded registrants that the effects on their consolidated operations of an adverse event related to these risks may be disproportionate to the size of their foreign operations. Therefore, the staff has historically encouraged registrants to discuss in their MD&A any trends, risks, and uncertainties related to their operations in individual countries or geographic areas and possibly to supplement such disclosures with disaggregated financial information about those operations.

In addition, SEC Regulation S-K, Items 503(c)<sup>6</sup> and 305,<sup>7</sup> require registrants to disclose risks, including risk factors and market risk. The SEC staff has emphasized that registrants should present tailored risk factors in their filings and avoid using boilerplate language. Therefore, registrants with operations in Argentina should consider whether to provide more specific discussion and enhanced explanations of how foreign currency risks could materially affect their business. This discussion may be supplemented with quantitative information that puts the risks in context.

<sup>5</sup> SEC Regulation S-K, Item 303, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

<sup>6</sup> SEC Regulation S-K, Items 503(c), "Prospectus Summary, Risk Factors, and Ratio of Earnings to Fixed Charges: Risk Factors."

<sup>7</sup> SEC Regulation S-K, Items 305, "Quantitative and Qualitative Disclosures About Market Risk."

This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor.

Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

As used in this document, "Deloitte" means Deloitte & Touche LLP, a subsidiary of Deloitte LLP. Please see [www.deloitte.com/us/about](http://www.deloitte.com/us/about) for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.

Copyright © 2017 Deloitte Development LLC. All rights reserved.