



Grupo Latinoamericano
de Emisores de Normas
de Información Financiera



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Group of Latin American
Accounting Standard Setters

Grupo Latino-Americano de
Normatizadores Contábeis



RECOGNITION OF THE EFFECTS OF INFLATION

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THE BEGINNING

2009 – as a member of the EEG, the Argentine Federation of Professional Boards of Economic Sciences made a proposal to the IASB to replace *IAS 29, Financial Reporting in Hyperinflationary Economies*

August 2014 – Argentina and Mexico presented to the Board of Directors of GLASS a joint project to propose that the IASB require the recognition of the effects of inflation in an inflationary economic environment, without hyperinflation (IAS 29)



INTERACTION WITH THE IASB

May 2015 – During the EEG meeting in Mexico, improved inflation disclosures were proposed

August 2015 – GLASS sent the IASB a document addressing the proposed IAS 29 disclosure modifications

September 2015 – Members of GLASS met in London with Hans Hoogervorst, IASB Chairman, during the WSS meeting

April 2016 – A Discussion Paper on inflation accounting was presented at the ASAF meeting



QUESTIONNAIRE

- **December 2016** – Questionnaire was approved to be sent to those countries that deal with the IASB
- **February 2017** – Questionnaire sent to members of IFASS with a response deadline of March 31, 2017
- **April 2017** – Response deadline extended to April 30, 2017
- **May 2017** – Reminder sent to members of IFASS to respond to the questionnaire by May 31, 2017



QUESTIONNAIRE (CONT.)

- **January to June 2018:**
 - 84 countries were identified to have experienced cumulative 3-year inflation in excess of 26% (approximately 8% per year),
 - Email addresses of 70 countries were obtained and 14 more were pending
- **June 2018, questionnaire sent to NSS**
 - Questionnaire in English and Spanish sent with an invitation to respond
 - Response deadline of July 31, 2018 established
- **July 2018, reminder sent to members of NSS**



CONCLUSIONS

- Of 177 countries surveyed, in recent years:
 - 84 have at some time experienced cumulative 3-year inflation of more than 26%
 - 11 have experienced cumulative 3-year inflation of more than 100%
- The questionnaire was sent to 84 countries, and 35 countries responded



COUNTRIES WITH **LOW** INFLATION

- CANADA
 - In Canada, Consumer Price Index (CPI) is the main measure to calculate inflation. The Bank of Canada's target inflation rate is between 1%-3%, and our historical inflation rate is within that range.
- KOREA
 - The annual rates of inflation of the Korean economy over the past 10 years are as follows: Avg 2.46
- TAIWAN
 - The highest and lowest rates in the past 10 years are:
2008: 3.52%; 2009: -0.86%



COUNTRIES WITH **LOW** INFLATION

- AUSTRALIA
 - Consistent and stable inflation within our central bank's target band of 2%-3% since the 1990's
 - Within Australia, inflation is not a significant concern, therefore users are not expected to be overly concerned with that.
- AUSTRIA
 - Because inflation is not on the radar or screen due to the fact that Austria has a very low inflation rate
- REPUBLIC OF KOREA
 - Users are not well aware of the impact that inflation has on financial information



COUNTRIES WITH **LOW** INFLATION

- CHINA
 - So far China hasn't set any special accounting standard for the situation of inflation, and only a few professional users may be aware of such situation and the relevant impact on the financial information in practice.
- JAPAN
 - We are not users of financial information. However, we believe Japanese users have the general knowledge on this topic.
- REPUBLIC OF KOREA
 - Users are not well aware of the impact that inflation has on financial information
 - Users in our country do not appear to have sufficient knowledge of inflation accounting as to discern the effects from the financing structure of the entity.



COUNTRIES WITH **Low** INFLATION

- DENMARK
 - We have not heard of suggestions among Danish companies and accountants to extend the scope of IAS 29.



COUNTRIES WITH **HIGH** INFLATION

• INDONESIA

- Average Inflation Rate per Year
 - Source: the Central Bank of Indonesia
 - Year Average Inflation Rate
 - 2007 - 6.40%
 - 2008 - 10.31%
 - 2009 - 4.90%
 - 2016 - 3.53%

• ISRAEL

- In Israel, there are very low inflation rates during the last years. During the past 10 years the highest rate of inflation was 3.91% and the lowest rate of inflation was -1%.
- During the years 1970-1991 the yearly inflation rate was above 10%. The inflation rate fluctuated at an annual rate of 100-133% from 1979 until 1982. In 1983 and in 1984 the inflation rate reached 191% and 445%, respectively.



COUNTRIES WITH **HIGH** INFLATION

- URUGUAY
 - The highest inflation rate in the last 10 years was 9.44%
 - The lowest inflation rate in the last 10 years was 6.9 %
- VENEZUELA
 - The index rate to calculate inflation is issued by the Central Bank of Venezuela, but the last index issued corresponds to December 2015 (180%), therefore no inflation has been reported for 2016
- CANADA
 - “The effect of deflation or high inflation on the insurance industry” – “inflation (is) a bigger risk to insurers than earthquakes, tsunamis or Europe’s sovereign debt crisis”



COUNTRIES WITH **HIGH** INFLATION

- COSTA RICA
 - Usually users are not aware of the impact inflation has on financial information
- ISRAEL
 - We believe that users of financial information that have experienced high inflation rates and that have knowledge of Israeli GAAP were aware of inflation's impact on financial information.
- MEXICO
 - In Mexico, we have had extended periods of high inflation and even hyperinflation. Therefore, we understand that inflation is a cost that, if not recognized in the financial statements of an entity, can result in decapitalization.



COUNTRIES WITH **HIGH** INFLATION

- **RUSSIA**
 - Users of financial information are aware of the impact itself at large but they hardly understand the particular quantitative characteristics of the influence.
- **URUGUAY**
 - Entrepreneurs are aware of the impact that it has on the real economic performance of their business, but not on their Financial Statements, that is, the important matter that is fundamental is the usefulness of the Financial Statements.
- **PERU**
 - They are aware to the extent that, as mentioned in the previous comment, we experienced situations of hyperinflation and inflation until 2004.



COUNTRIES WITH **HIGH** INFLATION

- CHILE
 - Users of financial information in Chile, as well as the professionals who prepare it, are very aware of the effects of the Monetary Correction in Financial Statements.
- RUSSIA
 - Up to 2002 entities prepared financial statements in accordance with IFRS had applied IAS 29. However many preparers considered application of IAS 29 as a burden rather than as a tool for improvement of the financial statements.
- ISRAEL
 - The accounting standards in Israel required restatement of financial statements in accordance with principals similar to those in IAS 29.



COUNTRIES WITH **HIGH** INFLATION

- AUSTRALIA
 - From an investor perspective the return on equity difference could appear significantly distorted if not adjusted for inflation.



INFLATION BY CONTINENT

In recent years

Continent	High Inflation	Hyperinflation	Responses Received
Africa	19	1	1
Asia	15	1	9
Europe	7	1	11
America	4	2	12
Carribean	2	--	
Oceania	0	0	2
Totals	47	4	35

Inflationary Economies (Questionnaire)

The effects of inflation in financial statements have for several years now been a cause for concern in those regions of the world where inflation is moderate or high. The concern arises from the distortion resulting from the lack of recognition of inflation.

The above concern has been discussed at international accounting meetings, including the IASB, ASAF, IFASS and GLASS.

The question to answer is whether the scope of IAS 29, Financial Reporting in Hyperinflationary Economies, should be widened to require the recognition of the effects of high inflation in the financial statements of entities and not wait until reaching hyperinflation, as IAS 29 currently requires. The IASB's research pipeline includes a possible future project to assess whether such a scope extension would be feasible. That project would not consider amending any other requirements of IAS 29.

The standard-setting bodies in Argentina and Mexico have initiated an investigation to determine the current status of inflation accounting in different regions of the world and, in particular, to determine the needs of the users of financial information of entities that operate in inflationary economic environments. The responses received will provide evidence to the IASB on whether the scope of IAS 29 should be widened.

We would greatly appreciate your responses to this questionnaire.



Country/Jurisdiction: _____

Name of organisation completing the questionnaire: _____

Contact details:

Person: _____

Email address: _____

In your country, has the average annual rate of inflation been greater than 3% over the past 10 years?

If that is the case, in what range does your average annual rate of inflation fall over such period?

- a. + 3% up to 5%
- b. + 5% up to 8%
- c. + 8% up to 15%
- d. + 15% up to 26%
- e. + 26%

Please provide the highest and lowest rates of inflation in the 10[5] year period



1. Inflation produces a loss of purchasing power of the local currency, causing distortion of financial information that is presented in a currency whose purchasing power has varied over time. As a result, it is necessary to make adjustments to ensure that financial statement amounts are expressed in constant purchasing power.

In general, do you think users of financial information in your country are aware of the impact that inflation has on financial information, especially in economic environments with moderate or high inflation?

Yes

No

Comments _____

2. The impact that inflation has on financial information presented in a currency of an economic environment with moderate or high inflation is not the same for all entities because such impact depends on both the level of inflation and the financing structure of the entity. Are users in your country generally aware of this situation?

Yes

No

Comments _____

3. Since inflation is a cost, financial information presented in the currency of an economic environment with moderate or high inflation can show nominal gains in excess of real gains; i.e., gains that include the effects of inflation. For example:

Assume an entity held the following at 1/1/20X6:

Cash CU1,000 and

Equity CU1,000

During the period the rate of inflation was 10% (loss of purchasing power). Additionally, the profit of the period was CU40 (revenue less expenses).

As of 31/12/20X6 it held:

Cash CU1,040

Equity CU1,000

Profit CU40

To maintain its equity in monetary terms (no loss of purchasing power), at the end of the period the entity must have equity of CU1,000 + 10% inflation, i.e. CU1,100.



However, since equity is only CU1,040, it has lost CU60 (CU1,040 vs. CU1,100). In other words, in nominal terms the financial information of the entity shows a profit of CU40, and the inflation adjusted financial information shows a loss of CU60.

In the first case, the entity could pay dividends of CU40, resulting the decapitalization of the entity; in the second case (adjusted for inflation) it can be seen that there is no basis for the payment of a dividend.

In your country, do you think users of financial information are aware of the above described weakness in financial information that does not reflect the impact of inflation?

Yes

No

Comments _____

4. If you responded positively to any of the previous three questions, do users of financial information utilize some other techniques to analyze financial results presented within a moderate or high inflation economic environment?



5. If you responded positively to the previous question, please explain in general terms what techniques and/or procedures are utilized to analyze financial statements.

6. If your responses to questions 2 through 4 were negative, please indicate to which of the following you attribute the lack of awareness of the distortions of financial information:

- a) Lack of knowledge on the topic.
- b) Lack of experience with the restatement of financial information to reflect the effects of inflation.
- c) The use of analytical models that do not capture the distortions of financial statements caused by inflation.
- d) Other causes (please describe) _____

7. In the Appendix 1, summarized financial information is shown for three randomly-selected public entities that issue their financial information in a country whose rate of inflation for the current year was 28.26% and the cumulative rate of inflation for the three years at the end of the period was 66.53%.

The “nominal” information represents the information included in the published financial statements pursuant to IFRS. The information has not been restated, as the indicators set out in IAS 29 for hyperinflation are not considered to be met.

The “restated” information represents the information that has been restated for the effects of inflation by applying the restatement methodology established in IAS 29 for a hyperinflationary economic environment.

In your opinion, how would you rate the published financial information for each of the entities (without applying IAS 29):

- a. Telecommunications:
- Acceptable
 - Insignificantly distorted
 - Significantly distorted
 - Unacceptable



- b. Gas carrier:
- Acceptable
 - Insignificantly distorted
 - Significantly distorted
 - Unacceptable
- c. Gas distributor:
- Acceptable
 - Insignificantly distorted
 - Significantly distorted
 - Unacceptable

8. Please provide any additional comments you think may be useful.



STANDARD SETTING

National &

International

Standards

are very

Dynamic



STANDARD SETTING

A sense of

anticipation

is indispensable



ADOPTION OF IFRS

RISK?

THREAT?

OPPORTUNITY?

CONVERGENCE?

*These are **challenges** we must face with a strong
commitment, and with*

enthusiasm,

dedication and

professionalism



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