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Egypt's and Nigeria's Highly Inflationary Status

Introduction

This *Financial Reporting Alert* highlights recent developments related to measures of general inflation (i.e., inflation as measured by consumer price indexes [CPIs]) in Egypt and Nigeria as of September 30, 2024, and discusses accounting considerations for entities that operate in highly inflationary economies. Identification of the Egyptian and Nigerian economies as highly inflationary could significantly affect the consolidated financial statements of entities that have material operations in those economies.

The economies of Egypt and Nigeria are the focus of this publication. Other economies, such as those of the Lao People's Democratic Republic and Malawi, have also been recently identified as highly inflationary, and entities that have material operations in those economies may need to consider similar financial reporting implications.

Highly Inflationary Status

Entities that have foreign operations in highly inflationary economies and use local currency as their functional currency for those operations should consider the guidance in ASC 830.¹ ASC 830-10-45-11 defines a highly inflationary economy as an economy with a cumulative inflation rate of approximately 100 percent or more over a three-year period. ASC 830-10-45-12 states, in part, that 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**" (emphasis added), which means that an entity should evaluate whether an economy is highly inflationary at the end of each reporting period.² If the cumulative inflation calculation demonstrates that the economy has become highly inflationary, the entity should commence

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

² Entities that prepare only annual financial statements should make that determination at the end of each annual period; other entities should make it at the end of each interim period.

the requisite accounting on the first day of the next reporting period (i.e., the first day of the succeeding interim period if the entity prepares interim financial statements). Identification of an economy as highly inflationary requires the financial records of an entity operating in that economy to be remeasured in the functional currency of the entity's immediate parent as of the first day of the next reporting period. In such scenarios, entities should consider whether disclosures are warranted in the reporting period before commencing highly inflationary accounting.

Interested parties have been monitoring inflation in Egypt and Nigeria.³ In mid-October 2024, Egyptian and Nigerian government agencies released CPIs for the period ended September 30, 2024, that indicate that three-year cumulative inflation in those economies exceeded 100 percent as of September 2024. Inflation data published by the Egyptian Central Agency for Public Mobilization and Statistics and included in the Central Bank of Egypt's [monetary policy inflation note](#) for September 2024 indicated cumulative three-year inflation of 101 percent. Data published by the Nigerian National Bureau of Statistics and included in its September 2024 [CPI and inflation report](#) indicated cumulative three-year inflation of 103 percent. Those measures of inflation indicate that in accordance with the guidance in ASC 830, the Egyptian and Nigerian economies are considered to be highly inflationary as of September 2024.

Entities that have material operations in Egypt or Nigeria and interim or annual reporting periods ended September 30, 2024, should evaluate whether the economy of Egypt or Nigeria is highly inflationary as of September 30, 2024. If those entities determine that the economy of Egypt, Nigeria, or both became highly inflationary as of September 30, 2024, they should (1) commence the requisite highly inflationary accounting as of October 1, 2024, and (2) consider appropriate disclosure in financial statements for the period ended September 30, 2024. For more information about determining the existence of a highly inflationary economy and accounting for that determination, see [Sections 7.2 and 7.3](#), respectively, of Deloitte's Roadmap [Foreign Currency Matters](#).

Once a country's economy is classified as highly inflationary, a decrease in the cumulative three-year rate below 100 percent does not necessarily mean that the country's economy is no longer highly inflationary. ASC 830-10-55-25 describes a situation in which a country's economy "should continue to be classified as highly inflationary . . . because there is no evidence to suggest that the drop below the 100 percent cumulative [three-year] rate is other than temporary."

At the 2009 AICPA Conference on Current SEC and PCAOB Developments, the SEC staff indicated that if the three-year cumulative rate of a highly inflationary economy decreases below 100 percent, an entity must consider whether the economy is no longer highly inflationary by using an other-than-temporary type of analysis. In particular, an entity should consider the length of time that the rate has been under 100 percent, the magnitude of the decrease below 100 percent, and the current economic conditions of the country.



Connecting the Dots

The guidance on foreign currency translation and highly inflationary economies under IFRS® Accounting Standards differs significantly from that under U.S. GAAP. For example, among the many differences between accounting for highly inflationary economies under U.S. GAAP and IFRS Accounting Standards is the period in which an entity would consider the economy highly inflationary. Entities that apply IFRS Accounting Standards would apply the guidance in IAS 29⁴ **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 U.S. GAAP and IFRS Accounting Standards.

³ See, for example, the May 2024 [Document for Discussion](#) released by the International Practices Task Force of the Center for Audit Quality SEC Regulations Committee.

⁴ International Accounting Standard (IAS) 29, *Financial Reporting in Hyperinflationary Economies*.

Foreign Currency Statements and Transactions

Remeasurement of Foreign Currency Transactions

ASC 830-20-30-3 indicates that entities should use the applicable rate at which a transaction could settle as of the transaction date to translate and record the transactions. We are not currently aware of the existence of multiple legal exchange rates in Egypt or Nigeria. However, when a country's economy becomes highly inflationary, it is not uncommon for multiple legal exchange rates to arise depending on the country's monetary policies. If there are multiple exchange mechanisms and published exchange rates that are considered to be legal (official and unofficial), such rates could potentially be available for remeasurement. In those cases, an entity would be required to reevaluate the exchange rate previously used for remeasurement. While the ultimate selection of an exchange rate (or multiple rates) should be based on the entity's specific facts and circumstances, relevant factors for consideration include (but may not be limited to) the following:

- Whether the entity can legally use a specified rate (or multiple rates) to convert currency or settle transactions.
- Whether the exchange rates are published.
- The probability of accessing and obtaining U.S. dollars (USD) by using a particular rate or exchange mechanism.
- The entity's intent and ability to use a particular exchange mechanism.

Translation of Foreign Currency Statements

The accounting effects of a change in functional currency when an entity has a foreign operation in a country with a highly inflationary economy depend on (1) the type of change being made (e.g., local currency to USD or to another foreign currency) and (2) the nature of the assets or liabilities being remeasured (i.e., monetary or nonmonetary). The table below summarizes the consolidated accounting treatment of a change in functional currency as of the first day of a reporting period depending on the type of change.

Effect of Changes in Functional Currency on the Consolidated Financial Statements

Type of Change	Nonmonetary Assets and Liabilities	Monetary Assets and Liabilities	Effect on Cumulative Translation Adjustment (CTA)
Foreign currency to reporting currency (USD)	Translated balances at the end of the prior period become the new accounting basis.	Translated balances at the end of the prior period become the new accounting basis.	No effect.
Foreign currency to other foreign currency	Remeasure into the new functional currency at the rate in effect on the date of the asset's or liability's inception. Then translate into the reporting currency on the basis of the current exchange rate.	Remeasure into the new functional currency at the rate in effect on the date of change. Then translate into the reporting currency on the basis of the current exchange rate.	The difference between the historical basis of nonmonetary assets and liabilities and the new basis is recorded in CTA.

In all scenarios, the rate on the date of change becomes the historical rate at which nonmonetary assets and liabilities are translated in subsequent years. Previously recorded CTA balances are not reversed.

Disclosures

Historically, the SEC staff has focused on accounting and disclosure considerations related to the foreign currency exchange environment in countries whose economies (1) are highly inflationary or (2) risk becoming highly inflationary. Registrants with material operations in an economy at risk for being highly inflationary are encouraged to closely monitor the economic environment within the country and to ensure that appropriate processes are in place for identifying relevant inflation data. Entities with material operations in economies at risk for being highly inflationary are encouraged to carefully consider the requirements in ASC 275 related to disclosing risks and uncertainties resulting from certain concentrations, including concentrations associated with foreign operations and therefore with exposure to foreign exchange risk.

The SEC staff has indicated in informal discussions that a registrant should consider providing additional disclosures, if material, about its operations if those operations are considered highly inflationary and foreign currency restrictions or multiple exchange rates develop. For more information, see [Section 9.5](#) of Deloitte's Roadmap *Foreign Currency Matters*.

Income Tax Accounting

When the functional currency of a foreign operation differs from the currency used to pay income taxes, ASC 740-10-25-3(f) prohibits the recognition of a deferred tax liability or asset for certain temporary differences that arise with respect to assets and liabilities that (1) "are remeasured from the local currency into the functional currency using historical exchange rates" (i.e., nonmonetary items and revenue or expense items related to nonmonetary items) and (2) "result from changes in exchange rates or indexing for tax purposes."

ASC 830-10-45-16 clarifies that it is not appropriate to revise deferred tax assets and liabilities on the books as of the date of conversion to a highly inflationary economy. Rather, such assets and liabilities will be eliminated at the time the tax deduction is taken.

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