

# Argentina: Exchange rate and related disclosure considerations

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## At a glance

Argentina is considered highly inflationary under US GAAP. As a result, Argentinian operations that would otherwise have the peso as their functional currency are required to adopt the currency of the reporting entity (generally the US dollar for US companies).

The new president of Argentina was inaugurated on December 10, 2023. During his campaign, he proposed certain significant economic changes that would impact the foreign currency-related effects of business transactions in Argentina.

The Blue Chip Swap rate has historically diverged significantly from the “official rate” that is required to be used to measure Argentinian peso-denominated transactions in US dollars, although this divergence has narrowed due to the devaluation of the peso in December 2023. This historical divergence has raised questions as to whether using the Blue Chip Swap rate to record peso-denominated transactions in their Argentinian operations would better reflect economic reality. In addition, the divergence has caused companies to consider additional disclosures to better explain the performance of their Argentinian operations.

## Background

Since July 2018, Argentina has been considered “highly inflationary” under US GAAP. As a result, Argentinian operations that would otherwise have the peso as their functional currency have used a more stable currency (generally the US dollar). Beginning in 2019, exchange controls were put in place to restrict foreign currency purchases in an attempt to stabilize Argentina’s financial markets. Since that time, the Blue Chip Swap rate has diverged significantly from Argentina’s official rate – which is required to be used for remeasurement – due to the economic environment.

On December 10, 2023, Javier Milei was inaugurated as president of Argentina. During his campaign, Milei proposed several significant economic changes in Argentina, including abolishment of the central bank of Argentina and adoption of the US dollar as the official currency of the country. Although the ultimate fate of the various exchange mechanisms in Argentina remains unclear, as of the date of this publication, the Blue Chip Swap rate continues to exist.

Many companies in Argentina that have the US dollar as their functional currency (and therefore, need to remeasure peso-denominated transactions into US dollars) have been concerned that the official rate used to record transactions for Argentinian operations does not reflect economic reality. As a result, questions have been raised as to whether the Blue Chip Swap rate should be used to record transactions. In addition, it has caused companies to consider additional disclosures to better explain the performance of their Argentinian operations.

## What is the Blue Chip Swap rate?

The Blue Chip Swap is a legal mechanism in Argentina for companies and individuals to hold and, in some cases, transfer US dollars. It is effected through the purchase of a US dollar-denominated security onshore, transfer of the security offshore, and sale of the security for US dollars after a holding period. The purchase and sale of the security creates an implied exchange rate. Once US dollars have been received, the company can either hold them offshore to hedge against devaluation of the peso or it may use the US dollars to settle US dollar-denominated obligations.

## Can the Blue Chip Swap rate be used to measure Argentinian peso-denominated transactions?

Since many companies use this mechanism, questions have been raised as to whether the implied rate generated by this mechanism can be used to measure Argentinian peso-denominated transactions. In short, this implied rate cannot be used to measure transactions for US GAAP financial reporting purposes because it does not meet the definition of an exchange rate in ASC 830, *Foreign Currency Matters*.

The Master Glossary defines an exchange rate as follows.

### Exchange rate

The ratio between a unit of one currency and the amount of another currency for which that unit can be exchanged at a particular time.

The implied rate created by the Blue Chip Swap mechanism does not meet the definition of an exchange rate because there is a minimum holding period (that has changed often in the last few years) on the US dollar-denominated security that is purchased. A company is exposed to substantive market risk during the holding period, and therefore, the exact amount of US dollars that will be received cannot be determined until the holding period has expired. Therefore, the gain or loss incurred on the sale of the security is more appropriately characterized as gain/loss on the sale of the security, rather than as a foreign currency transaction gain/loss.

The question remains despite the recent decline in volume of transactions in the Blue Chip Swap market, which is due at least in part to new regulations including requirements to:

- provide five days of notice for any blue-chip swap transaction above 200 million Argentine Pesos, and
- not use the official rate within 180 days of (both prior to and after) accessing the Blue Chip swap market.

## What should companies with operations in Argentina consider disclosing?

Concern that the divergence between the Argentinian official exchange rate and the implied rate (derived from the Blue Chip Swap market) may cause operating results to not reflect economic reality are similar to those expressed with respect to Venezuela in the 2009-2010 timeframe. At that time, the SEC staff encouraged robust disclosure regarding registrants' operations in Venezuela.

Companies should consider additional disclosure to enable an investor to understand the potential impact that future exchange rate changes may have on the consolidated financial statements. A company should consider some or all of the following disclosures depending on the nature and materiality of their Argentinian operations:

- A description of the company's business in Argentina
- A general description of the economic environment in Argentina
- Summarized financial information of the Argentinian entity (including balance sheet, statement of cash flows, and income statement)
- Net monetary assets and liabilities by currency
- Disclosures that enable a reader to understand the risk and accounting impact of an exchange rate change on future operations, financial position, and cash flows
- Additional information related to the impact to non-monetary assets and liabilities (e.g., impairment) if the company were to measure transactions at a different rate

**To have a deeper discussion, contact:**

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