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Translation to a Hyperinflationary Presentation Currency Proposed amendments to IAS 21

Comments to be received by 22 November 2024

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Presentation Currency

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TRANSLATION TO A HYPERINFLATIONARY PRESENTATION CURRENCY

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Introduction

Why is the IASB publishing this exposure draft?

The IFRS Interpretations Committee (Committee) discussed the application of the requirements in IAS 21 *The Effects of Changes in Foreign Exchange Rates* to translate amounts from a functional currency that is the currency of a non-hyperinflationary economy to a presentation currency that is the currency of a hyperinflationary economy. The Committee discussed these requirements in the context of:

- (a) an entity whose presentation currency is the currency of a hyperinflationary economy that translates the results and financial position of a foreign operation whose functional currency is the currency of a non-hyperinflationary economy; and
- (b) an entity whose functional currency is the currency of a non-hyperinflationary economy that presents financial statements in a currency that is the currency of a hyperinflationary economy.

The Committee's research confirmed that the matter is pervasive in many (although not all) jurisdictions and could have a material effect on those entities affected. The Committee observed that the requirements, as they currently stand:

- (a) do not provide an adequate basis for determining the accounting for the first situation which results in diversity in the accounting treatment applied by entities in that situation; and
- (b) could, for both situations, result in information that is not useful to users of financial statements.

The Committee discussed and recommended to the IASB a proposed solution that it considered would improve the usefulness of the resulting information in a simple and cost-effective manner and remove existing diversity. The IASB agreed with the Committee's recommendation and proposes to amend IAS 21 as set out in this exposure draft. If feedback on this exposure draft identifies significant matters not considered when developing the proposals—resulting in the need to invest substantial additional resources to complete this project—the IASB is likely to reconsider the project's priority.

Proposals in this exposure draft

In the situations considered, the reporting entity or the reporting entity's foreign operation has a functional currency that is the currency of a non-hyperinflationary economy. And in both situations the reporting entity's presentation currency is the currency of a hyperinflationary economy. Applying the requirements in IAS 21, the entity translates income, expenses and comparative amounts at historical exchange rates. The IASB observed that in a hyperinflationary economy, money loses purchasing power at such a rapid rate that information is generally useful only if amounts are expressed in terms of a measuring unit current at the end of the most recent reporting period.

The IASB concluded that requiring the entity to present income, expenses and comparative amounts in terms of a measuring unit current at the end of the entity's reporting period would increase the usefulness of that financial information and remove existing diversity.

TRANSLATION TO A HYPERINFLATIONARY PRESENTATION CURRENCY

Consequently, the IASB proposes that when an entity translates amounts from a functional currency that is the currency of a non-hyperinflationary economy to a presentation currency that is the currency of a hyperinflationary economy, the entity translates those amounts, including comparative amounts, using the closing rate at the date of the most recent statement of financial position. The IASB expects this translation method, which is already used in other situations (see paragraph 42 of IAS 21), would result in an entity presenting amounts subject to translation in terms of a current measuring unit.

Who would be affected by the proposals?

The proposed amendments would affect entities translating their financial statements, or the results and financial position of a foreign operation, from a functional currency that is the currency of a non-hyperinflationary economy to a presentation currency that is the currency of a hyperinflationary economy. The IASB expects the proposed translation method to improve the usefulness of information provided to users of financial statements in a simple and cost-effective manner and remove existing diversity.

Next step

The IASB will consider comments it receives on the proposals in this exposure draft and will then decide whether and, if so, how to amend IAS 21.

Invitation to comment

The IASB invites comments on the proposals in this exposure draft, particularly on the questions set out below. Comments are most helpful if they:

- (a) address the questions as stated;
- (b) indicate the specific paragraph(s) to which they relate;
- (c) contain a clear rationale;
- (d) identify any wording in the proposals that is difficult to translate; and
- (e) include any alternative the IASB should consider, if applicable.

The IASB requests that comments be confined to the questions asked in this exposure draft. However, respondents need not answer all the questions in this invitation to comment.

Questions for respondents

Question 1—Proposed translation method
<p>The proposed amendments to IAS 21 would require that when an entity's presentation currency is the currency of a hyperinflationary economy but the functional currency is the currency of a non-hyperinflationary economy, the entity translates its financial statements (or the results and financial position of a foreign operation), including comparatives, at the closing rate at the date of the most recent statement of financial position.</p> <p>Paragraphs BC1–BC14 of the Basis for Conclusions on this exposure draft explain the IASB's rationale for proposing this translation method.</p> <p>Do you agree with the proposed translation method? Why or why not?</p> <p>If you disagree, please explain what aspect of the proposed translation method you disagree with. What changes to the proposed translation method would you suggest instead and why?</p>

Question 2—Proposed disclosure requirements

The proposed amendments to IAS 21 would require an entity using the proposed translation method to disclose:

- (a) the fact that it applies the translation method in proposed paragraph 41A (proposed paragraph 53A(a));
- (b) summarised financial information about its foreign operations translated applying proposed paragraph 41A (proposed paragraph 53A(b)); and
- (c) if the economy referred to in proposed paragraph 41A ceased to be hyperinflationary, that fact (proposed paragraph 54A).

Paragraphs BC20–BC27 of the Basis for Conclusions on this exposure draft explain the IASB's rationale for these proposals.

Do you agree with the proposed disclosure requirements? Why or why not?

If you disagree, please explain what aspect of the proposed disclosure requirements you disagree with. What disclosure requirements would you suggest instead and why?

Question 3—Proposed disclosure requirements for subsidiaries without public accountability

The IASB proposes to require an eligible subsidiary (subsidiaries that are permitted and elect to apply IFRS 19 *Subsidiaries without Public Accountability: Disclosures*) to disclose the same information as that which would be required of other entities applying IFRS Accounting Standards (that is, the IASB proposes not to reduce the disclosure requirements for an eligible subsidiary).

Paragraph BC28 of the Basis for Conclusions on this exposure draft explains the IASB's rationale for these proposals.

Do you agree with the proposed disclosure requirements for eligible subsidiaries? Why or why not?

If you disagree, please explain what aspect of the proposed disclosure requirements you disagree with. What reduced disclosure requirements would you suggest instead and why?

Question 4—Other aspects: Transition requirements and requirements when the economy ceases to be hyperinflationary

The IASB proposes:

- (a) to require an entity to apply the amendments retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;
- (b) not to require an entity to disclose the information that would otherwise be required by paragraph 28(f) of IAS 8 or by paragraph 178(f) of IFRS 19; and
- (c) to permit an entity to apply the amendments earlier than the effective date.

Paragraphs BC33–BC36 of the Basis for Conclusions on this exposure draft explain the IASB's rationale for these proposals.

If the economy referred to in proposed paragraph 41A ceases to be hyperinflationary, the proposed amendments to IAS 21 would require the entity to apply paragraph 39 of IAS 21 prospectively to amounts arising after the end of its previous reporting period—that is an entity would not restate amounts arising before the end of its previous reporting period.

Paragraphs BC16–BC19 of the Basis for Conclusions on this exposure draft explain the IASB's rationale for these proposals.

Do you agree with the proposals? Why or why not?

If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

Deadline

The IASB will consider all written comments received by 22 November 2024.

How to comment

Please submit your comments electronically:

Online <https://www.ifrs.org/projects/open-for-comment/>

By email commentletters@ifrs.org

Your comments will be on the public record and posted on our website unless you request confidentiality and we grant your request. We normally grant such requests only if they are supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data. If you would like to request confidentiality, please contact us at commentletters@ifrs.org before submitting your letter.

[Draft] Amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates*

Paragraphs 39, 42, 47 and 55 are amended. Paragraphs 41A–41B, 53A, 54A and 60O are added. New text is underlined and deleted text is struck through. Paragraphs 38, 40, 41, 43, 44, 53 and 54 are not amended but are included here for ease of reference.

Use of a presentation currency other than the functional currency

Translation to the presentation currency

38 An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, it translates its results and financial position into the presentation currency. For example, when a group contains individual entities with different functional currencies, the results and financial position of each entity are expressed in a common currency so that consolidated financial statements may be presented.

39 **When an entity's functional currency and its presentation currency are the currencies of non-hyperinflationary economies, the** ~~The~~ results and financial position of ~~the an entity whose functional currency is not the currency of a hyperinflationary economy~~ shall be translated into the a different presentation currency using the following procedures:

- (a) assets and liabilities for each statement of financial position presented (ie including comparatives) shall be translated at the closing rate at the date of that statement of financial position;
- (b) income and expenses for each statement presenting profit or loss and other comprehensive income (ie including comparatives) shall be translated at exchange rates at the dates of the transactions; and
- (c) all resulting exchange differences shall be recognised in other comprehensive income.

40 For practical reasons, a rate that approximates the exchange rates at the dates of the transactions, for example an average rate for the period, is often used to translate income and expense items. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

41 The exchange differences referred to in paragraph 39(c) result from:

- (a) translating income and expenses at the exchange rates at the dates of the transactions and assets and liabilities at the closing rate.
- (b) translating the opening net assets at a closing rate that differs from the previous closing rate.

These exchange differences are not recognised in profit or loss because the changes in exchange rates have little or no direct effect on the present and future cash flows from operations. The cumulative amount of the exchange differences is presented in a separate component of equity until disposal of

the foreign operation. When the exchange differences relate to a foreign operation that is consolidated but not wholly-owned, accumulated exchange differences arising from translation and attributable to non-controlling interests are allocated to, and recognised as part of, non-controlling interests in the consolidated statement of financial position.

41A **When an entity's presentation currency is the currency of a hyperinflationary economy but its functional currency is the currency of a non-hyperinflationary economy, the results and financial position of the entity shall be translated into the presentation currency by translating all amounts (ie assets, liabilities, equity items, income and expenses, including comparatives) at the closing rate at the date of the most recent statement of financial position.**

41B **When the economy whose currency is the entity's presentation currency ceases to be hyperinflationary and the entity's functional currency continues to be the currency of a non-hyperinflationary economy, the entity no longer applies paragraph 41A and instead applies paragraph 39. The entity shall do so prospectively from the beginning of the reporting period in which the economy ceases to be hyperinflationary—ie the entity shall not restate amounts that were translated applying paragraph 41A arising before the beginning of the reporting period.**

42 **When an entity's functional currency is the currency of a hyperinflationary economy, the results and financial position of the an entity whose functional currency is the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:**

- (a)** all amounts (ie assets, liabilities, equity items, income and expenses, including comparatives) shall be translated at the closing rate at the date of the most recent statement of financial position, except that
- (b)** when amounts are translated into the currency of a non-hyperinflationary economy, comparative amounts shall be those that were presented as current year amounts in the relevant prior year financial statements (ie not adjusted for subsequent changes in the price level or subsequent changes in exchange rates).

43 **When an entity's functional currency is the currency of a hyperinflationary economy, the entity shall restate its financial statements in accordance with IAS 29 before applying the translation method set out in paragraph 42, except for comparative amounts that are translated into a currency of a non-hyperinflationary economy (see paragraph 42(b)). When the economy ceases to be hyperinflationary and the entity no longer restates its financial statements in accordance with IAS 29, it shall use as the historical costs for translation into the presentation currency the amounts restated to the price level at the date the entity ceased restating its financial statements.**

Translation of a foreign operation

44 Paragraphs 45–47, in addition to paragraphs 38–43, apply when the results and financial position of a foreign operation are translated into a presentation currency so that the foreign operation can be included in the financial statements of the reporting entity by consolidation or the equity method.

...

47 Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation shall be treated as assets and liabilities of the foreign operation. Thus they shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate in accordance with paragraphs 39, 41A and 42.

...

Disclosure

...

53 When the presentation currency is different from the functional currency, that fact shall be stated, together with disclosure of the functional currency and the reason for using a different presentation currency.

53A **When an entity applies paragraph 41A, the entity shall disclose:**

(a) **the fact that all amounts (ie assets, liabilities, equity items, income and expenses, including comparatives) in its financial statements, or in the results and financial position of its foreign operations, have been translated at the closing rate at the date of the most recent statement of financial position.**

(b) **summarised financial information about its foreign operations for which the results and financial position have been translated in accordance with paragraph 41A. This summarised financial information enables users of financial statements to assess the effect of these foreign operations on the entity's results and financial position.**

54 When there is a change in the functional currency of either the reporting entity or a significant foreign operation, that fact and the reason for the change in functional currency shall be disclosed.

54A **When an entity applies paragraph 41B, the entity shall disclose that its presentation currency has ceased to be the currency of a hyperinflationary economy.**

55 When an entity presents its financial statements in a currency that is different from its functional currency, it shall describe the financial statements as complying with IFRSs only if they comply with all the requirements of IFRSs including the translation method set out in paragraphs 39, 41A and 42.

...

Effective date and transition

...

600 *Translation to a Hyperinflationary Presentation Currency*, issued in [Month, Year], added paragraphs 41A–41B, 53A and 54A and amended paragraphs 39, 42, 47 and 55. An entity shall apply those amendments for annual reporting periods beginning on or after [date to be decided after exposure] retrospectively in accordance with IAS 8. However, an entity is not required to apply paragraph 28(f) of IAS 8. Similarly, an entity that applies IFRS 19 *Subsidiaries without Public Accountability: Disclosures* is not required to disclose the information that would otherwise be required by paragraph 178(f) of IFRS 19. Earlier application of the amendments is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

Appendix—[Draft] Amendments to other IFRS Accounting Standards

IFRS 19 *Subsidiaries without Public Accountability: Disclosures*

Paragraphs 219A, 220A and A5 are added. New text is underlined. Paragraphs 219 and 220 are not amended but are included here for ease of reference.

Disclosure requirements

...

IAS 21 *The Effects of Changes in Foreign Exchange Rates*

...

219 When the presentation currency is different from the functional currency, an entity shall disclose that fact together with the functional currency and the reason for using a different presentation currency.

219A When an entity applies paragraph 41A of IAS 21, the entity shall disclose:

- (a) the fact that all amounts (that is assets, liabilities, equity items, income and expenses, including comparatives) in its financial statements, or in the results and financial position of its foreign operations, have been translated at the closing rate at the date of the most recent statement of financial position.
- (b) summarised financial information about its foreign operations for which the results and financial position have been translated in accordance with paragraph 41A. This summarised financial information enables users of financial statements to assess the effect of these foreign operations on the entity's results and financial position.

220 When there is a change in the functional currency of either the reporting entity or a significant foreign operation, an entity shall disclose that fact and the reason for the change in functional currency.

220A When an entity applies paragraph 41B of IAS 21, the entity shall disclose that its presentation currency has ceased to be the currency of a hyperinflationary economy.

...

Appendix A—Effective date and transition

...

Amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates*

...

A5 *Translation to a Hyperinflationary Presentation Currency, issued in [Month, Year], amended IAS 21 The Effects of Changes in Foreign Exchange Rates and added paragraphs 219A and 220A. An entity shall apply these amendments when it applies the amendments to IAS 21.*

Approval by the IASB of Exposure Draft *Translation to a Hyperinflationary Presentation Currency* published in July 2024

The Exposure Draft *Translation to a Hyperinflationary Presentation Currency* was approved for publication by all 14 members of the International Accounting Standards Board (IASB).

Andreas Barckow	Chair
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Bertrand Perrin	
Rika Suzuki	
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Robert Uhl	

Basis for Conclusions on the Exposure Draft *Translation to a Hyperinflationary Presentation Currency*

This Basis for Conclusions accompanies, but is not part of, the Exposure Draft. It summarises the considerations of the International Accounting Standards Board (IASB) when developing the Exposure Draft. Individual IASB members gave greater weight to some factors than to others.

Background

- BC1 The IFRS Interpretations Committee (Committee) received a submission about the application of IAS 21 *The Effects of Changes in Foreign Exchange Rates* and IAS 29 *Financial Reporting in Hyperinflationary Economies*. The submission asked how an entity, whose functional and presentation currencies are the currency of a hyperinflationary economy, translates the results and financial position of a foreign operation, whose functional currency is the currency of a non-hyperinflationary economy. In this situation, the entity applies paragraph 39 of IAS 21 to translate the results and financial position of its foreign operation. Applying this paragraph, the entity:
- (a) translates assets and liabilities for each statement of financial position presented at the closing exchange rate at the date of that statement of financial position;
 - (b) translates income and expenses using exchange rates at the dates of the transactions; and
 - (c) does not restate comparative amounts.
- BC2 Because the entity's functional and presentation currencies are the currency of a hyperinflationary economy, the Committee was asked whether, after applying paragraph 39 of IAS 21, the entity is required to apply paragraphs 26 and 34 of IAS 29 to restate the current period income and expenses and all comparative amounts of its foreign operation in terms of the measuring unit current at the end of the reporting period. (The assets and liabilities of the foreign operation are translated using a closing exchange rate—see paragraph BC1—and the Committee was not asked whether the entity is required to restate those amounts.)
- BC3 The Committee observed that entities apply diverse accounting treatments. They either:
- (a) do not restate current period income and expenses and comparative amounts (Alternative I);
 - (b) restate current period income and expenses and comparative amounts using the change in the general price index (Alternative II); or
 - (c) restate only the comparative amounts using the change in the general price index (Alternative III).
- BC4 Having considered the requirements in IAS 21 and IAS 29, the Committee concluded that an entity could justifiably either restate current period income and expenses and comparative amounts, or not do so.

- BC5 In carrying out further research to determine whether to recommend standard-setting, the Committee was alerted to a related situation in which an entity, whose functional currency is that of a non-hyperinflationary economy, presents its financial statements in the currency of a hyperinflationary economy. In this situation, the entity also applies paragraph 39 of IAS 21 to translate its financial statements. IAS 29 applies only to the financial statements of entities whose functional currency is that of a hyperinflationary economy, and therefore, there is no question as to whether this entity is required to then apply IAS 29 to restate income and expenses and comparative amounts in terms of a current measuring unit.
- BC6 Stakeholders who were consulted said amounts presented in the currency of a hyperinflationary economy are useful only if expressed in terms of a current measuring unit. This view is consistent with the principles in paragraphs 2 and 7 of IAS 29. In the related situation, income and expenses and comparative amounts would not be restated. In the situation described in the submission, unless an entity applies Alternative II (described in paragraph BC3(b)), income and expenses and comparative amounts of the foreign operation would also not be restated.
- BC7 The Committee noted that when an entity translates amounts from a functional currency that is the currency of a non-hyperinflationary economy to a presentation currency that is the currency of a hyperinflationary economy, applying the requirements in IAS 21 does not result in useful information. The Committee's research confirmed that this accounting matter is pervasive in many (although not all) jurisdictions and could have a material effect on entities affected.
- BC8 The Committee discussed and recommended to the IASB a proposed solution that the Committee considered would improve the usefulness of the resulting information in a simple and cost-effective manner and remove existing diversity. Limited feedback on the proposed solution suggested it would be supported. Given the Committee's work, the IASB could address the accounting matter efficiently in this narrow-scope project. Paragraphs BC29–BC32 consider the likely effects of the proposed amendments.

Proposed amendments to IAS 21

Proposed solution—use of the closing rate

- BC9 The proposed amendments in this exposure draft would require an affected entity to translate all amounts subject to translation, including comparative amounts, using the closing rate at the date of the most recent statement of financial position (proposed translation method). This translation method is already set out in paragraph 42 of IAS 21 and is applied by entities with a functional currency that is the currency of a hyperinflationary economy. The IASB does not intend to change the situations to which paragraph 42 of IAS 21 applies but is proposing to amend the beginning of that paragraph for consistency with proposed paragraph 41A and the proposed amendments to paragraph 39.

BC10 IAS 29 requires an entity to restate its financial statements in terms of a current measuring unit by applying the change in a general price index. The IASB considered whether translating amounts using the closing rate at the date of the most recent statement of financial position would result in those amounts being expressed in terms of a current measuring unit. Although at a given point in time exchange rates might not fully reflect differing price levels between the two economies to which the currencies relate, the IASB concluded that translating amounts using the closing rate would result in those items being expressed in terms of a current measuring unit because:

- (a) paragraph 17 of IAS 29 allows entities to estimate a general price index using movements in the exchange rate between the functional currency and a relatively stable foreign currency when a general price index is not available.
- (b) entities in the situation described in the submission to the Committee that apply Alternative II (described in paragraph BC3(b)) translate the assets and liabilities of its foreign operation at the closing rate at the date of the statement of financial position without further restatement. The IASB therefore understands that the closing rate is accepted as a proxy for a current measuring unit for assets and liabilities. The IASB has not identified a conceptual reason to suggest that it is necessary for the current measuring unit for income and expenses and comparative amounts to differ from the current measuring unit for assets and liabilities.
- (c) in developing IAS 21, the IASB decided not to require an entity to restate comparative amounts in situations in which the entity's functional currency is the currency of a hyperinflationary economy and its presentation currency is that of a non-hyperinflationary economy (see paragraph BC22 of the Basis for Conclusions on IAS 21). One of the reasons for that decision was, if exchange rates fully reflect differing price levels between the two economies to which they relate, translating comparative amounts would result in the same amounts for the comparatives as were reported as current year amounts in the prior year financial statements. This rationale assumes a sufficient link between changes in a price index and changes in exchange rates.

BC11 An entity applying the proposed amendments to IAS 21 would express all amounts subject to translation in terms of a current measuring unit, and therefore the entity would not need to consider the applicability of IAS 29.

Other solutions

BC12 The IASB considered other possible solutions, specifically the accounting alternatives applied in practice to the situation described in the submission to the Committee (see paragraph BC3). Of those alternatives, only Alternative II (in which an entity uses the closing rate at the date of the statement of financial position to translate the financial position and the general price index to restate the results and comparative amounts of the foreign operation) expresses all amounts in terms of a current measuring unit. Some said

Alternative II would best address the situation in the submission because, in their view, restating income and expenses and comparative amounts using a general price index, as required by IAS 29, would best reflect the economic effects of hyperinflation.

BC13 The IASB considered, but decided against, proposing Alternative II for several reasons:

- (a) although Alternative II could work for the situation described in the submission (see paragraph BC1), applying it to the related situation (see paragraph BC5) would be complex. The financial statements of an entity described in the related situation are outside the scope of IAS 29. Therefore, Alternative II would provide a solution to address this situation only if the IASB either expanded the scope of IAS 29 or if it introduced an arbitrary rules-based amendment to IAS 29 to include within its scope the financial statements of entities described in the related situation. Alternative II could therefore have wider and unintended consequences.
- (b) IAS 21 requires an entity to apply the same translation method in translating its results and financial position and those of a foreign operation to a different presentation currency. Applying Alternative II in circumstances such as those described in the submission while applying a different translation method to the related situation would result in two different translation methods for similar situations.
- (c) applying Alternative II, an entity translates its financial position (or that of its foreign operation) using the closing rate at the date of the statement of financial position but translates its results and comparative amounts (or those of its foreign operation) at the spot exchange rate. The entity then restates these results and comparative amounts using a general price index. The IASB has not identified a conceptual reason for requiring an entity to follow different approaches in translating assets and liabilities and income, expenses and comparative amounts for the accounting matter being addressed. In contrast, the proposed translation method would result in an entity applying a consistent translation method to all amounts subject to translation.
- (d) compared with the proposed translation method, Alternative II would be costlier for preparers to apply and more difficult for users of financial statements (investors) to understand. Alternative II involves two steps, which would require an entity to use both an exchange rate and a general price index. In comparison, the proposed translation method would, in the IASB's view, be less costly for preparers to apply and easier for investors to understand. The proposed translation method would also facilitate easy translation of amounts to the currency of a non-hyperinflationary economy (an investor would simply need to know the closing rate at the date of the most recent statement of financial position and the amounts subject to translation).

- BC14 The IASB also considered whether to address only the question raised in the submission and not the related situation (or vice versa). However, the accounting matter that arises in both situations is the same: does an entity's application of paragraph 39 of IAS 21 result in useful information, or would the usefulness of information be improved by an entity expressing amounts subject to translation in terms of a current measuring unit? Providing a solution for only one situation and not the other would not be cost-effective. IAS 21 requires an entity to apply the same translation method in presenting its financial statements and in translating the results and financial position of a foreign operation. The IASB is not aware of any compelling argument to favour another approach in proposing a solution for the accounting matter addressed in this exposure draft.

Addressing other matters

- BC15 During research on this project, some stakeholders suggested considering other application questions. However, the IASB observed that none of the other matters raised could be addressed efficiently within the narrow scope of the project. In particular, those other matters:
- (a) did not relate to new application questions on the interaction between IAS 21 and IAS 29;
 - (b) were not sufficiently narrow in scope for the IASB or the Committee to address them in an efficient manner; or
 - (c) have been considered as part of the IASB's Third Agenda Consultation.

When the economy ceases to be hyperinflationary

- BC16 The IASB considered whether specific requirements would be necessary to address situations in which the economy whose currency is an entity's presentation currency becomes or ceases to be hyperinflationary and the entity's functional currency continues to be the currency of a non-hyperinflationary economy.
- BC17 If that economy becomes hyperinflationary, the entity would be in the scope of the proposed amendments. Such an entity would be required to no longer apply paragraph 39 of IAS 21 and instead to apply the proposed translation method by translating all amounts subject to translation (including comparative amounts) at the closing rate at the date of the most recent statement of financial position. The IASB concluded that specific requirements are unnecessary to address this situation because entities would have, or would be able to access, necessary information to apply the proposed translation method without incurring undue costs.
- BC18 If the economy ceases to be hyperinflationary, the entity would be required to no longer apply the proposed amendments and instead to apply paragraph 39 of IAS 21. Paragraph 39(b), for example, requires an entity to translate income and expenses at the 'exchange rates at the dates of the transactions'. In accordance with that paragraph, an entity would be required to determine exchange rates at the dates of transactions for which it had previously – while

applying the proposed translation method—used only the closing rates. The IASB considered that doing so might be impracticable or unduly onerous.

- BC19 The IASB proposes to require an entity to apply paragraph 39 prospectively to amounts arising after the end of the previous reporting period. Under these proposals, an entity would not retranslate amounts arising before the end of the previous reporting period. This proposed requirement is consistent with paragraph 38 of IAS 29, which requires an entity to treat amounts expressed in terms of the current measuring unit at the end of the previous reporting period as the basis for the carrying amounts in its subsequent financial statements when an economy ceases to be hyperinflationary.

Disclosure requirements

All entities other than subsidiaries without public accountability

- BC20 Stakeholders said new disclosure requirements may be needed to complement the proposed translation method. Investors said that for the purpose of their analysis, they would find useful information that enables them to translate amounts in an entity's financial statements (or the results and financial position of its foreign operation) to the currency of a non-hyperinflationary economy.
- BC21 The IASB proposes to require an entity to disclose the fact that (i) it is applying the proposed amendments; and (ii) it has stopped applying the proposed amendments when the economy whose currency is its presentation currency ceases to be hyperinflationary. These proposed requirements are similar to disclosure requirements in IAS 21 and IAS 29 that address similar situations.
- BC22 The IASB also considered what information investors would need to allow them to translate amounts in an entity's financial statements (or the results and financial position of its foreign operation) to the currency of a non-hyperinflationary economy. Information about the amounts to which a closing rate would be applied would facilitate such analysis.

Amounts to which the proposed translation method would apply

- BC23 The IASB considered separately situations in which an entity would apply the proposed translation method to its financial statements and those in which it would apply the proposed translation method to the results and financial position of a foreign operation.
- BC24 For situations in which an entity translates its financial statements, the IASB concluded that there is no need to require additional disclosures because the closing rate would have been applied to all amounts in the entity's financial statements.
- BC25 For situations in which an entity would apply the proposed amendments to the results and financial position of a foreign operation, summarised financial information about the entity's foreign operations would allow investors to translate those amounts into the currency of a non-hyperinflationary economy. Paragraph A20(b) of IAS 21 already requires an entity to disclose summarised financial information about a foreign operation if the foreign

operation's functional or presentation currency is not exchangeable into the other currency. Other IFRS Accounting Standards also include disclosure requirements that would result in an investor receiving summarised financial information about a foreign operation. For example:

- (a) paragraph B10 of IFRS 12 *Disclosure of Interests in Other Entities* requires an entity to disclose summarised financial information for subsidiaries with material non-controlling interests;
- (b) paragraph B12 of IFRS 12 requires an entity to disclose similar information for material joint ventures and associates; and
- (c) IFRS 8 *Operating Segments* includes disclosure requirements that would apply to a foreign operation that represents a reportable segment.

BC26 Although these requirements might result in investors receiving summarised financial information for some foreign operations, there could be other affected foreign operations for which an investor might not receive summarised financial information. Consequently, the IASB proposes to require an entity to disclose summarised financial information about its foreign operations to which it has applied the proposed translation method. However, an entity would not be required to duplicate information it had already provided in accordance with other requirements in IFRS Accounting Standards.

BC27 The IASB also observed that summarised financial information about an entity's foreign operations would provide useful information about the composition of the amounts presented in an entity's financial statements. In this situation, any of the entity's foreign operations to which it had applied the proposed translation method would have a functional currency that is the currency of a non-hyperinflationary economy and a presentation currency that is a currency of a hyperinflationary economy. Therefore, these foreign operations would be likely to have different characteristics and a different risk profile from the entity's other operations. This information could help investors better understand the foreign operation's cash flows and provide useful information about the entity's commitments and obligations, and its solvency and liquidity.

Subsidiaries without public accountability

BC28 As a consequential amendment, the IASB decided to propose that an eligible subsidiary applying IFRS 19 *Subsidiaries without Public Accountability: Disclosures* be required to disclose the same information that, under the proposals, other entities applying IFRS Accounting Standards would be required to disclose. In particular:

- (a) *the disclosure requirements in proposed paragraphs 219A(a) and 220A*—these disclosures would provide useful information about an eligible subsidiary's accounting policies (see paragraph BC33(d) of IFRS 19). These disclosures would be factual statements for which the cost of disclosing the information would be low.

- (b) *the disclosure requirement in proposed paragraph 219A(b)*—for reasons set out in paragraph BC27, summarised financial information about the results and financial position of an eligible subsidiary’s foreign operations would provide useful information in relation to the composition of amounts presented in the eligible subsidiary’s financial statements. This information could also help users (particularly lenders) better understand the cash flows of the foreign operation and consequently would provide useful information about the eligible subsidiary’s short-term cash flows, commitments and obligations, and its solvency and liquidity (see paragraphs BC33(a) and (b) of IFRS 19). The IASB expects that this information is readily available to preparers (for example, for consolidation purposes).

Effects analysis

Benefits

- BC29 The IASB expects the proposed amendments to improve the usefulness of financial statements presented in the currency of a hyperinflationary economy (and the usefulness of information about the results and financial position of the entity’s foreign operations that are subject to the proposed amendments). In particular, the proposed amendments would:
- (a) result in affected entities providing more useful information by presenting amounts subject to translation in terms of a current measuring unit. As IAS 29 notes, in a hyperinflationary economy, financial statements are useful only if they are expressed in terms of the measuring unit current at the end of the reporting period.
 - (b) remove diversity in accounting for the situation described in the submission to the Committee (see paragraph BC1).
 - (c) improve the comparability of financial statements presented in the currency of a hyperinflationary economy because, currently, an entity whose functional currency is that of a hyperinflationary economy is required to restate its results and financial position in accordance with IAS 29. However, an entity whose functional currency is that of a non-hyperinflationary economy but that presents its financial statements in the currency of a hyperinflationary economy would not restate its results and financial position.
 - (d) generally allow for easy translation of amounts subject to translation into the currency of a non-hyperinflationary economy. Some investors indicated that being able to do so would assist them in their analysis.
 - (e) remove the accumulation of exchange differences that arise when an entity translates its financial statements from the currency of a non-hyperinflationary economy to the currency of a hyperinflationary economy. When the entity applies paragraph 39 of IAS 21, it recognises exchange differences in other comprehensive income and accumulates those differences in a separate component of equity. Stakeholders question the usefulness of this accumulation, which is never

recognised in profit or loss because the cumulative amount does not relate to a foreign operation.

Costs

BC30 The IASB does not expect affected entities to incur significant initial or ongoing implementation costs. In the IASB's view the proposed translation method would be simple to apply because:

- (a) the closing rate at the date of the most recent statement of financial position would be applied to all amounts subject to translation.
- (b) the proposed narrow-scope amendments make use of a translation method that is already set out in IAS 21. Therefore, the proposed amendments would result in no fundamental change to the principles in IAS 21, nor would they add new complexities to that Standard.
- (c) the proposed amendments would not change the way underlying items are measured, nor would they generate new exchange gains and losses.

BC31 Some stakeholders said the proposals could present some practical challenges if an entity, whose functional and presentation currencies are both the currency of a hyperinflationary economy, would be required to translate the results and financial position of its foreign operation applying the proposed translation method. In those circumstances, the entity would apply IAS 29 and restate its income and expenses and comparative amounts using the general price index. The entity would then use the closing rate at the date of the most recent statement of financial position to translate the income and expenses and comparative amounts of its foreign operation. In that situation, differences might arise between the entity's own amounts and the foreign operation's amounts for current and prior inter-company transactions. The IASB acknowledged the potential challenges in accounting for such differences but noted that the proposed amendments build on a translation method already set out in IAS 21. Therefore, any challenges related to applying the proposed translation method already exist in IAS 21; they are not created by the proposed amendments.

Conclusion

BC32 The IASB concluded that the expected benefits of the proposed amendments outweigh their expected costs. Given the Committee's work, the IASB could address the accounting matter efficiently in this narrow-scope standard-setting project. The IASB noted that if feedback on this exposure draft identifies significant matters not considered when developing the proposals—resulting in the need to invest substantial additional resources to complete this project—the IASB is likely to reconsider the project's priority.

Transition

Entities already applying IFRS Accounting Standards

- BC33 IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires an entity to apply IFRS Accounting Standards (or amendments to them) retrospectively, except to the extent it is impracticable to do so.
- BC34 The IASB proposes to require an entity to apply the amendments retrospectively in accordance with IAS 8. In the IASB's view, the benefits of requiring an entity to do so would outweigh the costs because:
- (a) the consistent application of the amendments throughout all periods presented would enhance the usefulness of information for investors; and
 - (b) the inputs needed to apply the amendments retrospectively are expected to be readily available to entities at minimal or no additional cost (those inputs are the applicable financial information, such as comparative amounts in the currency of a non-hyperinflationary economy and the closing rate at the date of the most recent statement of financial position).
- BC35 In reaching its decision and assessing the expected benefits and costs in paragraph BC34, the IASB noted that it will set the mandatory effective date to allow jurisdictions sufficient time to incorporate the new requirements into their legal systems and preparers sufficient time to prepare for the new requirements.
- BC36 The IASB decided not to require an entity to disclose the information that would otherwise be required by applying paragraph 28(f) of IAS 8 when the entity first applies the amendments. Similarly, an eligible subsidiary that applies IFRS 19 would not be required to disclose the information that would otherwise be required by paragraph 178(f) of IFRS 19. Without such an exemption, an entity would be required to maintain two translation methods solely to meet this disclosure requirement. The IASB concluded that the costs of requiring an entity to provide this disclosure would outweigh the expected benefits.

First-time adopters

- BC37 For reasons similar to those discussed in paragraph BC34, the IASB concluded that there is no reason to provide an exemption for first-time adopters (as defined in IFRS 1 *First-time Adoption of International Financial Reporting Standards*).



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