

Cumulative Exchange Differences before a Foreign Operation becomes Hyperinflationary (IAS 21 *The Effects of Changes in Foreign Exchange Rates* and IAS 29 *Financial Reporting in Hyperinflationary Economies*)—March 2020

The Committee received a request about the application of IAS 21 and IAS 29. In the fact pattern described in the request, the entity:

- a. has a presentation currency that is not the currency of a hyperinflationary economy as defined in IAS 29;
- b. has a foreign operation with a functional currency that is the currency of a hyperinflationary economy as defined in IAS 29 (hyperinflationary foreign operation); and
- c. translates the results and financial position of the hyperinflationary foreign operation into its presentation currency in preparing its consolidated financial statements.

Before the foreign operation becomes hyperinflationary, IAS 21 requires an entity to:

- a. present in other comprehensive income (OCI) any exchange differences resulting from translating the results and financial position of that non-hyperinflationary foreign operation; and
- b. present in a separate component of equity the cumulative amount of those exchange differences (cumulative pre-hyperinflation exchange differences).

The request asked whether the entity reclassifies within equity the cumulative pre-hyperinflation exchange differences once the foreign operation becomes hyperinflationary—that is, whether the entity transfers the cumulative pre-hyperinflation exchange differences to a component of equity that is not subsequently reclassified to profit or loss.

Paragraph 41 of IAS 21 requires an entity to present the cumulative amount of exchange differences recognised in OCI in a separate component of equity ‘until disposal of the foreign operation’. Further, paragraphs 48 and 48C of IAS 21 require an entity to reclassify the cumulative amount of those exchange differences—or a proportionate share of that cumulative amount—from equity to profit or loss on disposal—or partial disposal—of a foreign operation (except as specified in paragraph 48C).

Accordingly, the Committee concluded that, in the fact pattern described in the request, the entity presents the cumulative amount of the exchange differences as a separate component of equity (to which paragraph 48 or 48C of IAS 21 applies) until disposal or partial disposal of the foreign operation. The entity does not reclassify within equity the cumulative pre-hyperinflation exchange differences once the foreign operation becomes hyperinflationary.

The Committee concluded that the principles and requirements in IAS 21 provide an adequate basis for an entity to determine how to present the cumulative pre-hyperinflation exchange differences once a foreign operation becomes hyperinflationary. Consequently, the Committee decided not to add the matter to its standard-setting agenda.