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**International  
Accounting Standards  
Board**

*This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.*

*These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.*

### **INFORMATION FOR OBSERVERS**

**Board Meeting:** 15 May 2007, London

**Project:** Annual Improvements

**Subject:** **Minor wording improvements to IAS 29 *Financial Reporting in Hyperinflationary Economies***  
**(Agenda paper 5B)**

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1. The staff have identified that the following issues would be most appropriately resolved via the annual improvements process.

*Issue 1:* Paragraph 6 of IAS 29 describes financial statements as departing from the historical cost basis to the extent that property, plant and equipment and investments are revalued. Should paragraph 6 be revised to reflect the fact that there are also other assets that may or must be revalued?

*Issue 2:* Should the term 'market value' in paragraphs 14 and 19 of IAS 29 be replaced by the defined term 'fair value'?

*Issue 3:* Should the terms 'results of operations' and 'net income' in paragraphs 20 and 28 in IAS 29 be replaced by the more widely used term 'profit or loss' for greater consistency between standards?

## Staff recommendation

2. The staff recommend that the Board:
  - Should add these issues to the annual improvements project; and
  - Should amend IAS 29 as proposed in paragraph 8 of this paper.

## Background

3. The staff note that in the description of historical cost financial statements, IAS 29 identifies departures from historical cost as arising only for property, plant and equipment and investments. Paragraph 6 states:

In most countries, financial statements are prepared on the historical cost basis of accounting without regard either to changes in the general level of prices or to increases in specific prices of assets held, **except to the extent that property, plant and equipment and investments may be revalued**. Some entities, however, present financial statements that are based on a current cost approach that reflects the effects of changes in the specific prices of assets held. (emphasis added)

The staff propose that paragraph 6 of IAS 29 be revised to reflect the fact that there are other assets that may or must be revalued when preparing financial statements.

4. The staff also note that IAS 29 uses certain terms that are inconsistent with defined terms or with more widely used terms for equivalent items in other standards. The terms used by IAS 29 are:

- (a) 'market value' instead of the defined term 'fair value'; and
- (b) 'results of operations' and 'net income' instead of the more widely used term 'profit or loss'.

5. The staff note that the consistency of the standards would be improved if the terms used by IAS 29 were changed to the equivalent defined or more widely used terms.

## Staff recommendation

6. IAS 29 should be amended as proposed in paragraph 8.
7. **Does the Board agree?**

## Drafting

8. The staff recommend that IAS 29 should be amended as follows:

### The restatement of financial statements

...

- 6 Entities that prepare ~~In most countries,~~ financial statements ~~are prepared~~ on the historical cost basis of accounting do so without regard either to changes in the general level of prices or to increases in specific prices of assets held. The exceptions to this are those assets that the entity is required to or chooses to measure on a fair value or revaluation basis, for example ~~except to the extent that~~ property, plant and equipment ~~and investments~~ may be revalued and biological assets must be measured at fair value. Some entities, however, present financial statements that are based on a current cost approach that reflects the effects of changes in the specific prices of assets held.

...

- 8 **The financial statements of an entity whose functional currency is the currency of a hyperinflationary economy, whether they are based on a historical cost approach or a current cost approach, shall be stated in terms of the measuring unit current at the balance sheet date. The corresponding figures for the previous period required by IAS 1 *Presentation of Financial Statements* and any information in respect of earlier periods shall also be stated in terms of the measuring unit current at the balance sheet date. For the purpose of presenting comparative amounts in a different presentation currency, paragraphs 42(b) and 43 of IAS 21 *The Effects of Changes in Foreign Exchange Rates* (as revised in 2003) apply.**

...

### **Historical cost financial statements**

#### **Balance sheet**

...

- 14 All other assets and liabilities are non-monetary. Some non-monetary items are carried at amounts current at the balance sheet date, such as net realisable value and ~~market~~ fair value, so they are not restated. All other non-monetary assets and liabilities are restated.

...

19 The restated amount of a non-monetary item is reduced, in accordance with appropriate Standards, when it exceeds the amount recoverable from the item's future use (including sale or other disposal). Hence, in such cases, restated amounts of property, plant and equipment, goodwill, patents and trademarks are reduced to recoverable amount, restated amounts of inventories are reduced to net realisable value and restated amounts of current investments are reduced to ~~market~~ fair value.

20 An investee that is accounted for under the equity method may report in the currency of a hyperinflationary economy. The balance sheet and income statement of such an investee are restated in accordance with this Standard in order to calculate the investor's share of its net assets and ~~results of operations~~ profit or loss. Where the restated financial statements of the investee are expressed in a foreign currency they are translated at closing rates.

...

### **Gain or loss on net monetary position**

...

28 The gain or loss on the net monetary position is included in ~~net income~~ profit or loss. The adjustment to those assets and liabilities linked by agreement to changes in prices made in accordance with paragraph 13 is offset against the gain or loss on net monetary position. Other income statement items, such as interest income and expense, and foreign exchange differences related to invested or borrowed funds, are also associated with the net monetary position. Although such items are separately disclosed, it may be helpful if they are presented together with the gain or loss on net monetary position in the income statement.

...

### **Corresponding figures**

34 Corresponding figures for the previous reporting period, whether they were based on a historical cost approach or a current cost approach, are restated by applying a general price index so that the comparative financial statements are presented in terms of the measuring unit current at the end of the reporting period. Information that is disclosed in respect of earlier periods is also expressed in terms of the measuring unit current at the end of the reporting period. For the purpose of presenting comparative amounts in a different presentation currency, paragraphs 42(b) and 43 of IAS 21 *The Effects of Changes in Foreign Exchange Rates* (~~as revised in 2003~~) apply. ...

## **Basis for Conclusions on Proposed Amendments to IAS 29 *Financial Reporting in Hyperinflationary Economies***

*This Basis for Conclusions accompanies, but is not part of, the draft amendments.*

### **Description of financial statements and use of terminology**

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- BC1 The Board has identified that the description of historical cost financial statements in paragraph 6 of IAS 29 does not reflect that there are now several examples of assets that may or must be measured based on a current value rather than a historical value. The Board proposes to address this by rewording paragraph 6 to give examples rather than a definitive list of such assets.
- BC2 The Board has identified the use of the term ‘market value’ in IAS 29 instead of the defined term ‘fair value’. The Board proposes to address this inconsistency by replacing the term ‘market value’ with ‘fair value’.
- BC3 The Board has identified the use of the terms ‘results of operations’ and ‘net income’ in IAS 29 in instances where other Standards use the term ‘profit or loss’ with equivalent meaning. The Board proposes to address this inconsistency by replacing the terms ‘results of operations’ and ‘net income’ with ‘profit or loss’.
- BC4 The Board notes that the consistency of the standards will be improved by changing these terms used by IAS 29 to the equivalent defined or more widely used terms.

## Proposed consequential amendments to IAS 34 *Interim Financial Reporting*

The following amendments to IAS 34 are necessary in order to ensure consistency with the revisions to IAS 29. In the amended paragraphs, new text is underlined and deleted text is struck through.

### Interim financial reporting in hyperinflationary economies

...

- B33 IAS 29 *Financial Reporting in Hyperinflationary Economies* requires that the financial statements of an entity that reports in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at balance sheet date, and the gain or loss on the net monetary position is included in profit or loss ~~net income~~. Also, comparative financial data reported for prior periods is restated to the current measuring unit.
- B34 Entities follow those same principles at interim dates, thereby presenting all interim data in the measuring unit as of the end of the interim period, with the resulting gain or loss on the net monetary position included in the interim period's profit or loss ~~net income~~. Entities do not annualise the recognition of the gain or loss. Nor do they use an estimated annual inflation rate in preparing an interim financial report in a hyperinflationary economy.