

## STAFF PAPER

29–30 January 2014

## IFRS Interpretations Committee Meeting

Project	<b>IAS 29 <i>Financial Reporting in Hyperinflationary Economies</i></b>		
Paper topic	Applicability of the concept of financial capital maintenance defined in constant purchasing power units		
CONTACT(S)	Kenichi Yoshimura	kyoshimura@ifrs.org	+44 (0)20 7246 6905

This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in *IFRIC Update*. The approval of a final Interpretation by the Board is reported in *IASB Update*.

## Introduction

1. The IFRS Interpretations Committee (‘the Interpretations Committee’) received a request to clarify:
  - (a) whether an entity is permitted to use the financial capital maintenance concept defined in terms of constant purchasing power units when the entity’s functional currency is not the currency of a hyperinflationary economy as described in *IAS 29 Financial Reporting in Hyperinflationary Economies*; and
  - (b) whether the entity needs to apply IAS 29 to its financial statements prepared under that concept of financial capital maintenance when it falls within the scope of IAS 29.
2. More specifically, the submitter is asking the Interpretations Committee to clarify that IAS 29 is not applicable if financial statements are prepared under a specific model of a financial capital maintenance concept that is defined in constant purchasing power units, such as the model that is referred to in the submission.
3. The Interpretations Committee discussed this issue in September 2013. In that meeting, the Interpretations Committee observed that:
  - (a) An entity is not permitted to apply the guidance in the *Conceptual Framework* relating to a concept of capital maintenance

that conflicts with existing requirements in a particular IFRS, when applying that IFRS; and

(b) the results of our outreach indicate that these issues are not widespread.

4. On the basis of the observations, the Interpretations Committee tentatively decided not to add these issues to its agenda.

### **Comments received on the tentative agenda decision**

5. We received two comment letters on the tentative agenda decision that was published in September 2013.
6. One respondent (the Canadian Accounting Standards Board (AcSB)) agrees with the decision not to add these issues to the Interpretations Committee’s agenda and with the rationale provided in the tentative agenda decision.
7. The other respondent (Deloitte Touche Tohmatsu Limited (DTTL)) states that they agree with the Interpretations Committee’s statement that the guidance in the *Conceptual Framework* cannot be used to override the requirements in an individual IFRS. However, they note that the conclusion reached on the use of the capital maintenance concept depends on the assumption that an entity is not permitted to apply IAS 29 when the entity’s functional currency is not the currency of a hyperinflationary economy.
8. They further note that IAS 29 is not necessarily clear on this point; accordingly, some jurisdictions hold the view that IAS 29 can be applied to a non-hyperinflationary situation. Accordingly, the respondent thinks that IAS 29 should be amended in an annual improvement project to explicitly state the restriction.

### **Staff analysis**

9. The Interpretations Committee concluded that the guidance in the *Conceptual Framework* does not override any individual IFRS. This is because the guidance in the *Conceptual Framework* is used in the development of an

accounting policy only when no IFRSs specifically apply to a particular transaction, other event or condition and no IFRSs deal with similar and related issues. Thus, the Interpretations Committee observed that an entity is not permitted to apply a concept of capital maintenance that conflicts with the existing requirements in individual IFRSs.

10. We think that the statement in the tentative agenda decision clarifies the Interpretations Committee’s observation that an entity is not permitted to apply the concept of financial capital maintenance defined in constant purchasing power units in a situation that is not hyperinflationary as described in IAS 29.
11. Applying that capital maintenance concept would require remeasurement of financial statements in terms of the measuring unit current at the reporting date. Thus, in a non-hyperinflationary situation, this remeasurement would conflict with the existing requirements for measurement of financial statements items in particular IFRS, including IAS 16 and IAS 38. This is because, in the Interpretations Committee’s view, IAS 29 is applicable only when the entity’s functional currency is the currency of a hyperinflationary economy.
12. We accept the comment made by one of the respondents that the view taken by the Interpretations Committee for the scope of IAS 29 may not be clear from the wording of the existing requirements in IAS 29. However, we note that the results of our outreach indicate that these issues are not widespread and therefore do not think that clarifying the scope of IAS 29 in this respect would meet the agenda criteria for Annual Improvements.
13. On the basis of the analysis above, we think that an amendment to IAS 29 is unnecessary.

**Staff recommendation**

14. Taking into consideration the comments received on the tentative agenda decision, we recommend that the Interpretations Committee should finalise the agenda decision without modifications to the wording of the tentative agenda decision except for some minor editorial changes. The proposed wording of the final agenda decision is presented in **Appendix A** to this Agenda Paper.

## Questions for the Interpretations Committee

### Questions

1. Does the Interpretations Committee agree with the staff's recommendation that the Interpretations Committee should finalise its decision not to add these issues to its agenda?
2. If the answer to Question 1 is 'yes', does the Interpretations Committee agree with the wording of the final agenda decision in **Appendix A** to this Agenda Paper?

## Appendix A—Proposed wording for the final agenda decision

### **IAS 29 *Financial Reporting in Hyperinflationary Economies*—Applicability of the concept of financial capital maintenance defined in terms of constant purchasing power units**

The Interpretations Committee considered the following two questions:

- (a) whether an entity is permitted to use the financial capital maintenance concept defined in terms of constant purchasing power units that is described in the *Conceptual Framework* when the entity's functional currency is not the currency of a hyperinflationary economy as described in *IAS 29 Financial Reporting in Hyperinflationary Economies*; and
- (b) if such use is permitted, whether the entity needs to apply IAS 29 to its financial statements prepared under a specific model of that concept of financial capital maintenance when it falls within the scope of IAS 29.

The Interpretations Committee observed that the guidance in the *Conceptual Framework* is written to assist the IASB in the development of Standards and that it is also used in the development of an accounting policy only when no IFRSs specifically apply to a particular transaction, other event or condition and no IFRSs deal with similar and related issues. Consequently the guidance in the *Conceptual Framework* relating to the use of a particular capital maintenance concept cannot be used to override the requirements of any individual IFRSs. An entity is not permitted to apply a concept of capital maintenance that conflicts with the existing requirements in a particular IFRS, when applying that IFRS.

In addition, the Interpretations Committee noted that the results of the outreach indicate that these issues are not widespread. For this reason the Interpretations Committee {decided} not to add these issues to its agenda.

November 12, 2013  
(via email to [ifric@ifrs.org](mailto:ifric@ifrs.org))

IFRS Interpretations Committee  
30 Cannon Street, 1st Floor  
London EC4M 6XH  
United Kingdom

Dear Sirs:

**Re: Tentative agenda decision on IAS 29 Financial Reporting in Hyperinflationary Economies**

This letter is the response of the staff of the Canadian Accounting Standards Board (AcSB) to the IFRS Interpretations Committee's tentative agenda decision regarding the applicability of the concept of financial capital maintenance defined in terms of constant purchasing power units, as published in the September 2013 IFRIC Update.

The views expressed in this letter take into account comments from individual members of the AcSB staff but do not necessarily represent a common view of the AcSB or its staff. Views of the AcSB are developed only through due process.

We agree with the Committee's decision not to add this item to its agenda for the reasons provided in the tentative agenda decision.

If you require further information, please contact me at +1 416 204-3276 (email [pmartin@cpacanada.ca](mailto:pmartin@cpacanada.ca)), or Katharine Christopoulos, Principal, Accounting Standards at +1 416 204-3270 (email [kchristopoulos@cpacanada.ca](mailto:kchristopoulos@cpacanada.ca)).

Yours truly,



Peter Martin, CPA, CA  
Director, Accounting Standards

Wayne Upton  
Chairman  
IFRS Interpretations Committee  
30 Cannon Street  
London  
EC4M 6XH

Email: [ifric@ifrs.org](mailto:ifric@ifrs.org)

20 November 2013

Dear Mr. Upton

**Tentative agenda decision - IAS 29 *Financial Reporting in Hyperinflationary Economies*:  
Applicability of the concept of financial capital maintenance defined in terms of constant  
purchasing power units**

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the September IFRIC Update of the tentative decision not to take onto the Committee's agenda a request for clarification of whether an entity is permitted to use the financial capital maintenance concept defined in terms of constant purchasing power units when the entity's functional currency is not the currency of a hyperinflationary economy and, if so, whether IAS 29 *Financial Reporting in Hyperinflationary Economies* needs to be applied when the entity falls within the scope of that standard.

We agree with the statement in the tentative agenda decision that the Conceptual Framework cannot be used to override the requirements of individual IFRSs. However, the conclusion reached on use of the capital maintenance concept depends upon an assumption that IAS 29 prohibits the use of inflation accounting when an entity's functional currency is not the currency of a hyperinflationary economy. We note that IAS 29 is not explicit on this point and we are aware of a body of opinion (particularly in economies subject to high inflation) that IAS 29 does not restrict the use of inflation accounting in this way. On this basis, we believe that an amendment to IAS 29 through the Annual Improvements Project to state this restriction explicitly would provide additional clarity in this area.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0)20 7007 0884.

**Deloitte.**

Yours sincerely

A handwritten signature in black ink, appearing to read 'V. Poole', with a stylized flourish at the end.

Veronica Poole  
Global IFRS Leader