

## Appendix D—Comment letters on the tentative agenda decision



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September 29, 2014

International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

RE: Tentative agenda decisions open for comment in the IFRIC Update

Dear Board Members,

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee), the standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies welcomes the opportunity to presents comments to the Tentative agenda decisions open for comment in the IFRIC Update.

<i>Standard / Topic</i>	<i>Our Comments</i>
IFRS 12 Disclosure of Interests in Other Entities – disclosure of summarized financial information about material joint ventures and associates	We agree that transparency is fundamental and shouldn't be mitigated, in special non-disclosure information of joint ventures or associate companies.
IAS 16 Property, Plant and Equipment and IAS 2 Inventories – 'Core inventories'	This practice can be important to the calculation of taxes, but despite all range of practices within the industries, this is not significant issue to be added to the agenda.
IAS 16 Property, Plant and Equipment – accounting for proceeds and cost of testing on PPE	We agree with the Interpretations Committee consideration that in the light of its analysis of existing IFRS requirements, IAS 16 and IAS 1 contain sufficient guidance.
IAS 21 The Effect of Changes in Foreign Exchange Rate – Foreign exchange restrictions and hyperinflation	For the first point of the issue, about multiple foreign exchange rates, the principle is explicit on paragraph 26 of IAS 21. For the second point of the issue, about lack of exchange rate for a long time especially in hyperinflation scenarios, we do agree that it is not the subject of IAS 21 and should be a scope of a new project.
IAS 39 Financial Instruments: Recognition and Measurement – holder's accounting for exchange of equity instruments	This is a specific case, which derives from a punctual change in the Law that will not happen in the same way.

We agree with the determination of Interpretations Committee not adding the mentioned issues to its agenda. We also suggest that the Committee revise its due process and does not include topics with a clear response in the literature itself in public hearing nor in the Committee agenda in order to prioritize the most relevant issues.

If you have any questions about our comments, please contact us at [operacoes@cpc.org.br](mailto:operacoes@cpc.org.br).

Yours sincerely,

Idésio da Silva Coelho Júnior  
Chair of International Affairs  
Comitê de Pronunciamentos Contábeis (CPC)

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22 September 2014

Dear Mr Upton

**Tentative agenda decision - IAS 21 *The Effects of Changes in Foreign Exchange Rates: Foreign exchange restrictions and hyperinflation***

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the July IFRIC Update of the tentative decision not to take onto the Committee's agenda a request for guidance on the translation and consolidation of the results and financial position of foreign operations in Venezuela (given the strict foreign exchange controls in place).

With respect to the issue of translation of a net investment in a foreign operation when there are multiple exchange rates, we believe that an amendment to IAS 21 via the Annual Improvement Project to confirm that the principle of paragraph 26 applies would be beneficial.

We recognise that addressing the issue of longer-term lack of exchangeability would require consideration of the concepts underpinning IAS 21, and as such may be outside the scope of the Committee's activities. For this reason, we recommend that this issue be highlighted to the IASB for possible consideration as part of any future project on foreign currency translation.

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

Yours sincerely



Veronica Poole  
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September 26, 2014

**Tentative agenda decision – IAS 21 *The Effect of Changes in Foreign Exchange Rate* —foreign exchange restrictions and hyperinflation (Agenda Paper 16)**

Dear Sir/Madam,

We are responding to the July 2014 tentative agenda decision made by the IFRS Interpretations Committee (IC) related to foreign exchange restrictions and hyperinflation in Venezuela. This issue was added to the IC agenda in response to our submission.

*Reasons for disagreement not to pursue the agenda item*

We are disappointed with the IC's response to our submission and the manner in which our submission has been dismissed.

The tentative agenda decision addresses two narrowly-defined accounting issues, both focused on which exchange rate should be used to translate financial statements.

The tentative agenda decision seems to acknowledge the validity of our concern; "...using an official exchange rate to translate an entity's net investment in a foreign operation in Venezuela appeared to not appropriately reflect the financial performance and position of the foreign operation in the group's consolidated financial statements".

However, we do not understand why our submission was reduced to the two narrowly defined issues identified.

We were attempting to describe a significant disparity between the IASB's intended results from applying IAS 29 / IAS 21 and the misleading nature of that application in specific circumstances such as exist in Venezuela today. The net accounting result included in our consolidated financial statements suggests a strengthening net investment position in our foreign operations in the country while the economic reality is a weakening net investment position. We believe that this is a growing concern for many multi-national companies with operations in high-inflationary economies where there is strong central bank intervention and specifically in Venezuela. However, hyperinflation and currency restrictions often co-exist; therefore we do not believe the problem is limited to Venezuela.

We are seeking a practical solution to this issue.

The tentative agenda decision acknowledges the problem and suggests it arises because of a lack of guidance in IAS 21 related to a long-term lack of exchangeability. The outreach performed by the staff confirms this problem is widespread, growing in relation to foreign operations in Venezuela, and may become pertinent for other countries in the near future (e.g. Argentina).

The tentative agenda decision then concludes that the problem is broader than the IC could address because of cross-cutting issues without identifying those cross-cutting issues. It seems to us that a tightly drafted narrow-scope amendment could resolve this issue in a timely fashion and do not understand what the cross-cutting issues might be.

We are aware that both foreign currency translation and hyper-inflationary accounting are the subject of research projects at the IASB. This suggests that any remedy to the acknowledged problem is many years in the future.

We respectfully request that the IC reconsider the issue further and attempt to craft a narrow-scope amendment, or if this is considered a broader issue, that the IC recommend it be addressed urgently by the IASB.

*Possible areas to address in a narrow-scope amendment*

We believe that at least for the distortion arising on consolidation from applying the high inflation accounting current purchasing power indexation model in situations where there is no off-setting impact on the official currency exchange rate should be a relatively easy item to address with a narrow-scope amendment.

We see this issue arising from the requirement to use the IAS 21 paragraphs 42/43 guidance which requires:

*42. ....If the functional currency is the currency of a hyperinflationary economy, the entity's financial statements are restated in accordance with IAS 29 Financial Reporting in Hyperinflationary Economies.*

*The results and financial position of 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....*

*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.*

Relaxation of this requirement in situations where the exchange rate is clearly being distorted by the local central bank would at least reduce the additional impact on the consolidated income statement where there is high inflation with a fixed exchange rate.

We accept that it may be more of a conceptual challenge to change the requirements in IAS 21 and allow deviations from using an “official” exchange rate for measuring foreign exchange transactions or for converting local currency financial statements into the presentation currency for consolidation purposes. However, we nevertheless request that either the IC or the Board examine the potential for a narrow-scope amendment that would permit, in certain limited circumstances, use of an exchange rate that is derived by proxy (eg one solution would be to use an exchange rate that takes into account the interest differential between the local currency and the presentation currency of the parent used for consolidation purposes).

Such an exchange rate should solely be used to produce on consolidation the probable amounts at which the results/retained earnings/intercompany balances of local activities could be repatriated and should take preference over the local official exchange rates.

Please do not hesitate to contact me should you wish to discuss the matters raised in this letter further.

Yours sincerely,

Malcolm Cheetham  
Novartis Group Chief Accounting Officer