Appendix E—Additional comment letter on the tentative agenda decision

IAS 21 / IAS 29 – Foreign exchange restrictions and hyperinflation

We do not agree with the tentative decision not to add the issues to the IFRS IC's agenda. In our view, this tentative decision does not provide any solution for the issues raised. Moreover, we would appreciate a robust answer at least to the first issue.

The essence of the first issue, the translation issue, is that (in respect of a certain item) one official exchange rate is permitted, whereas another exchange rate that would more appropriately reflect current economics, i.e. inflation, is not "available", i.e. is not permitted. Although IAS 21.26 contains a principle in case that several exchange rates are ***available***, this is not the case in the circumstances submitted. Therefore, applying IAS 21.26 “by extension” would, in our view, not be possible; no other suitable guidance addresses this issue. Furthermore, as the official exchange rate does not reflect the current inflation level, and as no other (more appropriate) exchange rate is available (permitted), this contradicts the (intention of) application of IAS 29. The solution should rather be an amendment or clarification of IAS 21 than of IAS 29.

In addition, we note that disclosures do not provide an exhaustive answer on this issue. Also, the IFRS IC should not disregard the fact that IAS 21 does not provide guidance for mandatorily applying different exchange rates for different items. Even if the issue does currently not appear to be widespread, the IFRS IC should not disregard that IAS 21 lacks guidance for solving the issue of potentially translating different items in the financial statements at different exchange rates due to regulatory requirements.

Further, we point to the fact that the different exchange rates seen in Venezuela appear to be applied to specific products and industries. One potential solution could be derived from the following interpretation: For some products and industries an official exchange rate applies that is "more advantageous" than the rate that applies to others – it is essentially a selective import preference. Assuming that an economically appropriate exchange rate can be determined at any point in time, the difference between this rate and the respective officially prescribed rate could be seen as some kind of Government Grant. In particular, the (comparative) advantage of a specific (official) exchange rate for certain products or services could be seen as a separate (Government Grant) asset.

Finally, if the IFRS IC still considers the issue not being within its competences it should hand the issue over to the IASB.