Staff paper

Agenda reference: 12A

IASB® meeting

Date	**December 2023**
Project	**Use of a Hyperinflationary Presentation Currency by a Non-hyperinflationary Entity (IAS 21)**
Topic	**Background and summary of prior discussions**
Contacts	Braian Paoli (bpaoli@ifrs.org) Dennis Deysel (ddeysel@ifrs.org)

Introduction

1. The IFRS Interpretations Committee (Committee) discussed the presentation of financial statements in a hyperinflationary presentation currency by an entity whose functional currency is non-hyperinflationary. The question arose in the context of the accounting applied by a parent, with a hyperinflationary functional currency, when it consolidates a subsidiary with a non-hyperinflationary functional currency.[1]

2. In June 2023, the Committee decided to refer the matter to the International Accounting Standards Board (IASB) by recommending that the IASB develops a narrow-scope amendment to address the matter.

[1] In Agenda Papers 12A and 12B, we use the terms:

(a) 'hyperinflationary currency' and 'non-hyperinflationary currency' to refer to a currency that is the currency of a hyperinflationary economy and a currency that is the currency of a non-hyperinflationary economy respectively; and

(b) 'hyperinflationary entity' and 'non-hyperinflationary entity' to refer to an entity that has a functional currency that is the currency of a hyperinflationary economy and an entity that has a functional currency that is the currency of a non-hyperinflationary economy respectively.

Purpose and recommendation

3. The purpose of this meeting is to ask the IASB whether it agrees with:

   (a) the Committee's recommendation to develop a narrow-scope amendment to address the matter; and

   (b) our recommendation to amend IAS 21 *The Effects of Changes in Foreign Exchange Rates* to require an entity to translate all items (assets, liabilities, equity items, income and expenses, including comparatives) at the most recent closing rate if the entity:

      (i) has a non-hyperinflationary functional currency and presents its financial statements in a hyperinflationary presentation currency; or

      (ii) translates the results and financial position of a foreign operation that has a non-hyperinflationary functional currency into a hyperinflationary presentation currency.

Structure and papers for this meeting

4. This agenda paper includes background information and summarises the Committee's prior discussions on the matter. In particular, this agenda paper includes:

   (a) background (paragraphs 6–16);

   (b) research (paragraphs 17–18);

   (c) summary of the Committee's discussions (paragraphs 19–22); and

   (d) two appendices:

      (i) Appendix A—extracts from IAS 21 and IAS 29; and

      (ii) Appendix B—extracts from June 2022 agenda paper on the submitted fact pattern.

5. Agenda Paper 12B for this meeting includes our analysis and recommendations. It also includes our questions for the IASB.

Background

Applicable requirements in IAS 21

6. Paragraphs 39–43 of IAS 21[2] include requirements an entity applies when translating its own financial statements to a different presentation currency. Paragraph 44 of IAS 21 requires an entity to also apply paragraphs 39–43 of IAS 21 when translating financial statements of a foreign operation. The table below summarises these requirements:

<table>
<tr><th>#</th><th>Functional currency</th><th>Presentation currency</th><th>Paragraph in IAS 21</th><th>Translation method</th></tr>
<tr><td>1</td><td>Non-hyperinflationary</td><td>Non-hyperinflationary</td><td rowspan="2">39</td><td rowspan="2">(a) assets and liabilities at closing rate;
(b) income and expenses at exchange rate at the dates of the transactions;
(c) exchange differences from (a) and (b) recognised in other comprehensive income; and
(d) comparative information is as presented in prior period.</td></tr>
<tr><td>2</td><td>Non-hyperinflationary</td><td>Hyperinflationary</td></tr>
<tr><td>3</td><td>Hyperinflationary</td><td>Hyperinflationary</td><td rowspan="2">42</td><td>All amounts (assets, liabilities, equity items, income and expenses, including comparatives) translated at closing rate.</td></tr>
<tr><td>4</td><td>Hyperinflationary</td><td>Non-hyperinflationary</td><td>All amounts (assets, liabilities, equity items, income and expenses, excluding comparatives) translated at closing rate. Comparative information is as presented in the prior period.</td></tr>
</table>

[2] Appendix A to this paper includes relevant extracts of IAS 21 *The Effects of Changes in Foreign Exchange Rates* and IAS 29 *Financial Reporting in Hyperinflationary Economies*.

The submitted fact pattern

7. The Committee received a submission about the accounting applied by a parent with a hyperinflationary functional currency when it consolidates a subsidiary with a non-hyperinflationary functional currency. Because the subsidiary's functional currency is non-hyperinflationary, the parent first applies the requirements in paragraph 39 of IAS 21 to translate, among others, the subsidiary's statement of financial performance and comparative information into the parent's hyperinflationary currency (see row 2 in the table in paragraph 6 above). The submission asked whether after applying IAS 21, the parent restates these amounts applying IAS 29 *Financial Reporting in Hyperinflationary Economies*.

8. We understand from the submission and outreach that a hyperinflationary parent, after applying paragraph 39 of IAS 21 to translate the results and financial position of the non-hyperinflationary subsidiary, applies one of the following accounting treatments:

Financial statements of non-hyperinflationary subsidiary	View I–no restatement	View II–restatement	View III–restatement of comparative amounts only
assets and liabilities as at the end of the current reporting period	no adjustment	no adjustment	no adjustment
income and expenses for the current reporting period	no adjustment	apply, according to paragraphs 26 and 34 of IAS 29, change in general price index from dates income and expenses initially recognised	no adjustment

Financial statements of non-hyperinflationary subsidiary	View I–no restatement	View II–restatement	View III–restatement of comparative amounts only
comparative information	no adjustment	apply, according to IAS 29, change in general price index from beginning of reporting period	apply, according to IAS 29, change in general price index from beginning of reporting period

9. Appendix B to this paper includes extracts from Agenda Paper 2 of the Committee's June 2022 meeting with a simplified fact pattern illustrating the submitted fact pattern and the first two views shown on the table above.

10. The Committee first discussed this submission at its June 2022 meeting. At this meeting, the Committee concluded that, applying IAS 21 and IAS 29, the parent could restate or not restate the subsidiary's results and financial position in terms of the measuring unit current at the end of the reporting period. The Committee asked us to perform further research and outreach before deciding on its recommendation for the IASB. The Committee discussed the findings of our further research and outreach at its meeting in June 2023 and decided to recommend that the IASB develop a narrow-scope amendment to address the submitted fact pattern and a related matter.

The related matter

11. Through further research and outreach, we identified concerns about a related matter—the financial reporting outcome for a non-hyperinflationary entity that presents its financial statements in a hyperinflationary presentation currency (related matter).

12. The Committee did not discuss how the requirements in IAS 21 and IAS 29 apply to the related matter because these Standards provide an adequate basis for a non-hyperinflationary entity to determine the required accounting. The non-hyperinflationary entity does not have a hyperinflationary functional currency and is

therefore not within the scope of IAS 29[3]. Consequently, the non-hyperinflationary entity applies only paragraph 39 of IAS 21 to translate its financial statements into the hyperinflationary presentation currency and does not then restate those amounts applying IAS 29. Our research and outreach did not identify diversity.

13. However, our research and outreach indicated that the outcome of applying only IAS 21 results in financial information that might not be useful and comparable. Respondents said not restating current period income and expenses and comparative information in terms of a current measuring unit (as required by for example, IAS 29) reduces understandability and comparability because the presentation currency is hyperinflationary. As paragraph 2 of IAS 29 explains, in a hyperinflationary economy:

> …money loses power at such a rate that comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

14. The matter is related to the submitted fact pattern because both situations involve an entity—the subsidiary in the submitted fact pattern and the reporting entity in the related matter—with a non-hyperinflationary functional currency that translates its results and financial position into a hyperinflationary presentation currency. Linked to the comments in paragraph 13, feedback on the views in paragraph 8 for the submitted fact pattern said that of the three views, View II improves understandability and comparability by expressing income and expenses and comparative information of all entities within the group in terms of the current measuring unit.

Recommended solution

15. At the Committee's June 2023 meeting, we presented the Committee with a suggested amendment to IAS 21 that would address both the submitted fact pattern and the

[3] Paragraph 1 of IAS 29 (reproduced in Appendix A) states: 'This Standard shall be applied to the financial statements...of any entity whose functional currency is the currency of a hyperinflationary economy'.

related matter (recommended solution). The recommended solution would require amending IAS 21 to amend the translation method that would apply to the translation of results and financial position (either of the reporting entity itself or of the reporting entity's foreign operation) from a non-hyperinflationary functional currency to a hyperinflationary presentation currency (ie row 2 in the table accompanying paragraph 6 of this paper). The recommended solution would require translating all items (assets, liabilities, equity items, income and expenses, including comparatives) at the most recent closing rate.

16. The Committee considered this recommended solution when reaching its recommendation for standard-setting and provided input on the recommended solution which we discuss later in the agenda papers for this meeting.

Research

17. We performed research in phases and reported our findings to the Committee as follows:

    (a) in June 2022, we presented feedback from information requests we sent to members of the International Forum of Accounting Standard-Setters, securities regulators and large accounting firms. We received 12 responses: seven from large accounting firms, three from national standard-setters and two from securities regulators. This outreach asked respondents for information about prevalence of the submitted fact pattern and diversity in accounting. Our outreach was intended to help the Committee assess whether the submitted fact pattern had a widespread effect and a material effect on those affected.

    (b) in June 2023, we:

        (i) presented feedback from further research and outreach the Committee asked us to undertake (paragraph 10). This included meetings with four large accounting firms, an organisation representing a group of national standard-setters, a regulator and two users of financial statements (investors). We selected these stakeholders because they are from, or have experience in, jurisdictions where IAS 29 is applied. The purpose of this research and outreach was to gather more information on the accounting applied by entities and the usefulness of information resulting from/costs of applying the different accounting treatments outlined in the table in paragraph 8. We used this information to: (i) assess the feasibility of a possible narrow-scope standard-setting project and the scope of such a project; and (ii) develop a possible solution to address the matter.

(ii) presented the recommended solution together with feedback on that recommended solution (see paragraph 3(b)). Prior to June 2023, we met with three large accounting firms and one preparer operating in a hyperinflationary economy that has a non-hyperinflationary subsidiary to discuss the recommended solution.

18. We include relevant findings throughout the next section of this paper and Agenda Paper 12B.

Summary of the Committee's discussion in June 2023

Why did the Committee recommend standard-setting?

19. The Committee applies the criteria in paragraph 5.16 of the IFRS Foundation's *Due Process Handbook* when considering whether to recommend standard-setting to address a matter. Paragraph 5.16 of the *Due Process Handbook* states:

> The Interpretations Committee decides a standard-setting project should be added to the work plan, either by recommending that the Board develop a narrow-scope amendment or by deciding to develop an IFRIC Interpretation, when all of the following criteria are met:

(a) the matter has widespread effect and has, or is expected to have, a material effect on those affected;

(b) it is necessary to add or change requirements in IFRS Standards to improve financial reporting—that is, the principles and requirements in the Standards do not provide an adequate basis for an entity to determine the required accounting;

(c) the matter can be resolved efficiently within the confines of the existing Standards and the Conceptual Framework; and

(d) the matter is sufficiently narrow in scope that the Board or the Interpretations Committee can address it in an efficient manner, but not so narrow that it is not cost-effective for the Board or the Interpretations Committee and stakeholders to undertake the due process required to change a Standard.

20. The Committee concluded that a narrow-scope standard-setting project that addresses both the submitted fact pattern and the related matter meets the criteria in paragraph 5.16. Agenda paper 5B of the Committee's June 2023 meeting includes our detailed assessment of the criteria. The table below summarises the Committee's considerations of those criteria:

Criteria	Committee's considerations
(a) the matter has widespread effect and has, or is expected to have, a material effect on those affected.	Our research and feedback from the Committee confirmed the submitted fact pattern and the related matter are common in hyperinflationary economies and the effect can be material. Some Committee members said the current trend is that more countries are becoming hyperinflationary.

Criteria		Committee's considerations
(b)	the principles and requirements in the Standards do not provide an adequate basis for an entity to determine the required accounting.	For the submitted fact pattern, the Committee concluded that the principles and requirements in IAS 21 and IAS 29 do not provide an adequate basis to determine the required accounting. For the related matter, IFRS Accounting Standards provide an adequate basis to determine the required accounting. However, given similarities between the related matter and submitted fact pattern, cross-cutting effects of any changes to the accounting requirements and concerns about the outcome, the Committee also included the related matter in its considerations.
(c)	the matter can be resolved efficiently within the confines of the existing Standards and the Conceptual Framework.	The Committee considered that both the submitted fact pattern and the related matter can be resolved efficiently within the confines of IAS 21—our recommended solution provided evidence of how this could be possible.
(d)	the matter is sufficiently narrow in scope, but not so narrow that it is not cost-effective.	There were some questions about the cost-effectiveness (and feasibility) of addressing the submitted fact pattern in isolation. However, the Committee concluded that addressing both the submitted fact pattern and the related matter would increase the cost effectiveness of standard-setting to a point where the matter being addressed would still be sufficiently narrow in scope, but the benefits of standard-setting would outweigh the costs.

Feedback on recommended solution

21. In addition to deciding to refer the matter to the IASB for narrow-scope standard setting, Committee members gave their views on the recommended solution (as mentioned in paragraph 16 in background section of this paper). This is the same solution we are recommending to the IASB at this meeting.

22. Many Committee members agreed that the recommended solution was the best and most practical solution. We analyse the Committee's feedback in the relevant sections of our analysis in Agenda Paper 12B.

Appendix A—Extracts from IAS 21 and IAS 29

IAS 21 The Effects of Changes in Foreign Exchange Rates

Translation to the presentation currency

…

39 **The results and financial position of an entity whose functional currency is not the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:**

(a) assets and liabilities for each statement of financial position presented (ie including comparatives) shall be translated at the closing rate at the date of that statement of financial position;

(b) income and expenses for each statement presenting profit or loss and other comprehensive income (ie including comparatives) shall be translated at exchange rates at the dates of the transactions; and

(c) all resulting exchange differences shall be recognised in other comprehensive income.

40 For practical reasons, a rate that approximates the exchange rates at the dates of the transactions, for example an average rate for the period, is often used to translate income and expense items. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

41 The exchange differences referred to in paragraph 39(c) result from:

(a) translating income and expenses at the exchange rates at the dates of the transactions and assets and liabilities at the closing rate.

(b) translating the opening net assets at a closing rate that differs from the previous closing rate.

These exchange differences are not recognised in profit or loss because the changes in exchange rates have little or no direct effect on the present and future cash flows from operations. The cumulative amount of the exchange differences is presented in a separate component of equity until disposal of the foreign operation. When the exchange differences relate to a foreign operation that is consolidated but not wholly-owned, accumulated exchange differences arising from translation and attributable to non-controlling interests are allocated to, and recognised as part of, non-controlling interests in the consolidated statement of financial position.

42 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

(b) **when amounts are translated into the currency of a non-hyperinflationary economy, comparative amounts shall be those that were presented as current year amounts in the relevant prior year financial statements (ie not adjusted for subsequent changes in the price level or subsequent changes in exchange rates).**

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 (see paragraph 42(b)). When the economy ceases to be hyperinflationary and the entity no longer restates its financial statements in accordance with IAS 29, it shall use as the historical costs for translation into the presentation currency the amounts restated to the price level at the date the entity ceased restating its financial statements.**

Translation of a foreign operation

44 Paragraphs 45–47, in addition to paragraphs 38–43, apply when the results and financial position of a foreign operation are translated into a presentation currency so that the foreign operation can be included in the financial statements of the reporting entity by consolidation or the equity method.

…

IAS 29 Financial Reporting in Hyperinflationary Economies

1 **This Standard shall be applied to the financial statements, including the consolidated financial statements, of any entity whose functional currency is the currency of a hyperinflationary economy.**

2 In a hyperinflationary economy, reporting of operating results and financial position in the local currency without restatement is not useful. Money loses purchasing power at such a rate that comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

…

7 In a hyperinflationary economy, financial statements, whether they are based on a historical cost approach or a current cost approach, are useful only if they are expressed in terms of the measuring unit current at the end of the reporting period. As a result, this Standard applies to the financial statements of entities reporting in the currency of a hyperinflationary economy. Presentation of the information required by this Standard as a supplement to unrestated financial statements is not permitted. Furthermore, separate presentation of the financial statements before restatement is discouraged.

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 end of the reporting period. The corresponding figures for the**

previous period required by IAS 1 *Presentation of Financial Statements* (as revised in 2007) and any information in respect of earlier periods shall also be stated 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* apply.

…

17 A general price index may not be available for the periods for which the restatement of property, plant and equipment is required by this Standard. In these circumstances, it may be necessary to use an estimate based, for example, on the movements in the exchange rate between the functional currency and a relatively stable foreign currency.

…

26 This Standard requires that all items in the statement of comprehensive income are expressed in terms of the measuring unit current at the end of the reporting period. Therefore all amounts need to be restated by applying the change in the general price index from the dates when the items of income and expenses were initially recorded in the financial statements.

…

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 apply.

35 A parent that reports in the currency of a hyperinflationary economy may have subsidiaries that also report in the currencies of hyperinflationary economies. The financial statements of any such subsidiary need to be restated by applying a general price index of the country in whose currency it reports before they are included in the consolidated financial statements issued by its parent. Where such a subsidiary is a foreign subsidiary, its restated financial statements are translated at closing rates. The financial statements of subsidiaries that do not report in the currencies of hyperinflationary economies are dealt with in accordance with IAS 21.

…

Basis for conclusion on IAS 21

Translation method

…

BC15 The Board debated which method should be used to translate financial statements from an entity's functional currency into a different presentation currency.

BC16 The Board agreed that the translation method should not have the effect of substituting another currency for the functional currency. Put another way, presenting the financial statements in a different currency should not change the way in which the underlying items are measured. Rather, the translation method should merely express the underlying amounts, as measured in the functional currency, in a different currency.

BC17 Given this, the Board considered two possible translation methods. The first is to translate all amounts (including comparatives) at the most recent closing rate. This method has several advantages: it is simple to apply; it does not generate any new gains and losses; and it does not change ratios such as return on assets. This method is supported by those who believe that the process of merely expressing amounts in a different currency should preserve the relationships among amounts as measured in the functional currency and, as such, should not lead to any new gains or losses.

BC18 The second method considered by the Board is the one that the previous version of IAS 21 required for translating the financial statements of a foreign operation.[4] This method results in the same amounts in the presentation currency regardless of whether the financial statements of a foreign operation are:

[4] This is to translate balance sheet items at the closing rate and income and expense items at actual (or average) rates, except for an entity whose functional currency is that of a hyperinflationary economy.

(a) first translated into the functional currency of another group entity (eg the parent) and then into the presentation currency, or

(b) translated directly into the presentation currency.

BC19 This method avoids the need to decide the currency in which to express the financial statements of a multinational group before they are translated into the presentation currency. As noted above, many large groups do not have a single functional currency, but comprise operations with a number of functional currencies. For such entities it is not clear which functional currency should be chosen in which to express amounts before they are translated into the presentation currency, or why one currency is preferable to another. In addition, this method produces the same amounts in the presentation currency for a stand-alone entity as for an identical subsidiary of a parent whose functional currency is the presentation currency.

BC20 The Board decided to require the second method, ie that the financial statements of any entity (whether a stand-alone entity, a parent or an operation within a group) whose functional currency differs from the presentation currency used by the reporting entity are translated using the method set out in paragraphs 38–49 of the Standard.

BC21 With respect to translation of comparative amounts, the Board adopted the approach required by SIC-30 for:

(a) an entity whose functional currency is not the currency of the hyperinflationary economy (assets and liabilities in the comparative balance sheet are translated at the closing rate at the date of that balance sheet and income and expenses in the comparative income statement are translated at exchange rates at the dates of the transactions); and

(b) an entity whose functional currency is the currency of a hyperinflationary economy, and for which the comparative amounts are being translated into the currency of a hyperinflationary economy (both balance sheet and income statement items are translated at the closing rate of the most recent balance sheet presented).

BC22 However, the Board decided not to adopt the SIC-30 approach for the translation of comparatives for an entity whose functional currency is the currency of a hyperinflationary economy, and for which the comparative amounts are being translated into a presentation currency of a non-hyperinflationary economy. The Board noted that in such a case, the SIC-30 approach requires restating the comparative amounts from those shown in last year's financial statements for both the effects of inflation and for changes in exchange rates. If exchange rates fully reflect differing price levels between the two economies to which they relate, the SIC-30 approach will result in the same amounts for the comparatives as were reported as current year amounts in the prior year financial statements. Furthermore, the Board noted that in the prior year, the relevant amounts had been already expressed in the non-hyperinflationary presentation currency, and there was no reason to change them. For these reasons the Board decided to require that all comparative amounts are those presented in the prior year financial statements (ie there is no adjustment for either subsequent changes in the price level or subsequent changes in exchange rates).

BC23 The Board decided to incorporate into the Standard most of the disclosure requirements of SIC-30 Reporting Currency—Translation from Measurement Currency to Presentation Currency that apply when a different translation method is used or other supplementary information, such as an extract from the full financial statements, is displayed in a currency other than the functional currency (see paragraph 57 of the Standard). These disclosures enable users to distinguish information prepared in accordance with IFRSs from information that may be useful to users but is not the subject of IFRSs, and also tell users how the latter information has been prepared.

Appendix B—Extracts from Agenda Paper 2 of the Committee's June 2022 meeting

Simplified example

B1. Assume Entity P (a parent) has a reporting date of 31 December, and a functional and presentation currency (HC) that is the currency of a hyperinflationary economy. Entity P owns 100% of the equity of Entity S (a subsidiary).

B2. Entity S:

(a) has a functional currency (NHC) that is the currency of a non-hyperinflationary economy;

(b) was set up on 1 January 20X0 through an investment of HC1,000 by Entity P—the exchange rate on that date was NHC1: HC1, which resulted in an investment of NHC1,000 in Entity S;

(c) used the proceeds of this investment to buy a non-depreciable non-monetary asset for NHC1,000 on 1 January 20X0;

(d) generated revenue and cost of sales of NHC100 and NHC80 respectively in 20X0 and 20X1; and

(e) has cash of NHC20 and NHC40 at 31 December 20X0 and 20X1 respectively.

B3. The exchange rates between the two currencies are:

(a)	1 January 20X0:	NHC1: HC1
(b)	31 December 20X0:	NHC1: HC4
(c)	31 December 20X1:	NHC1: HC15
(d)	average rate during 20X0:	NHC1: HC2.5
(e)	average rate during 20X1:	NHC1: HC10

B4. The Consumer Price Index of the hyperinflationary economy in which Entity P operates is:

(a) 31 December 20X0: 100

(b) 31 December 20X1: 300

(c) average price index during 20X0: 75

(d) average price index during 20X1: 225

B5. Entity S's results and financial position at 31 December 20X0 and 20X1 (before applying paragraph 39 of IAS 21) are:

	20X0 (NHC)	20X1 (NHC)
Results		
Revenue	100	100
Cost of sales	(80)	(80)
Financial position		
Cash	20	40
Non-depreciable non-monetary asset	1,000	1,000

Applying paragraph 39 of IAS 21

B6. Applying paragraph 39 of IAS 21, Entity P translates Entity S's results and financial position at the average rate[5] and closing rate respectively. The tables[6] below show Entity S's results and financial position at 31 December 20X0 and 20X1:

	20X0 (NHC)	20X0 exchange rate	20X0 (HC)
	A	B	C = A x B
Results			
Revenue	100	2.5	250
Cost of sales	(80)	2.5	(200)
Financial position			
Cash	20	4	80
Non-depreciable non-monetary asset	1,000	4	4,000

[5] Entity P translates income and expenses at exchange rates at the dates of the transactions. For practical reasons, the average rate for the period is used (paragraph 40 of IAS 21).

[6] The example does not illustrate the resulting exchange differences from translation that Entity P recognises in other comprehensive income (paragraph 39(c) of IAS 21).

	20X1 (NHC)	20X1 exchange rate	20X1 (HC)
	A	B	C = A x B
Results			
Revenue	100	10	1,000
Cost of sales	(80)	10	(800)
Financial position			
Cash	40	15	600
Non-depreciable non-monetary asset	1,000	15	15,000

	20X0 (HC)	20X1 (HC)
Results		
Revenue	250	1,000
Cost of sales	(200)	(800)
Financial position		
Cash	80	600
Non-depreciable non-monetary asset	4,000	15,000

View I

B7. If Entity P were to apply View I, Entity S's results and financial position at 31 December 20X0 and 20X1—included in Entity P's consolidated financial statements—are as illustrated above.

View II

B8. If Entity P were to apply View II, Entity S's results and financial position (current year and comparative amounts) included in Entity P's consolidated financial statements at 31 December 20X1 are:

Entity S's results and financial position at 31 December 20X1 expressed in terms of the measuring unit current at 31 December 20X1

	20X1 (HC)	Change in price index	Restated (HC)
	C	D	E = C x D
Results			
Revenue	1,000	1.3[7]	1,333
Cost of sales	(800)	1.3	(1,067)
Financial position			
Cash	600	1[8]	600
Non-depreciable non-monetary asset	15,000	1	15,000

Entity S's results and financial position at 31 December 20X0 (comparatives) expressed in terms of the measuring unit current at 31 December 20X1

	20X0 (HC)	Change in price index	Restated (HC)
	C	D	E = C x D
Results			
Revenue	250	4[9]	1,000
Cost of sales	(200)	4	(800)
Financial position			
Cash	80	3[10]	240
Non-depreciable non-monetary asset	4,000	3	12,000

Entity S's results and financial position at 31 December 20X1 (stated in terms of the measuring unit current at that date)

	20X0 comparatives (HC)	20X1 (HC)
Results		
Revenue	1,000	1,333
Cost of sales	(800)	(1,067)
Financial position		
Cash	240	600
Non-depreciable non-monetary asset	12,000	15,000[11]

[7] Because income and expenses are translated using the average rate during 20X1, restatement to the measuring unit current at 31 December 20X1 requires applying the change in price index from the average price index during 20X1 to the price index at 31 December 20X1, ie 300 ÷ 225 ≈ 1.3.

[8] There is no further adjustment because Entity S's assets are translated into HC using the exchange rate at 31 December 20X1, which means the amounts are already stated in terms of the measuring unit current at that date.

[9] Because income and expenses are translated using the average rate during 20X0, restatement to the measuring unit current at 31 December 20X1 requires applying the change in price index from the average price index during 20X0 to the price index at 31 December 20X1, ie 300 ÷ 75 = 4.

[10] Restatement to the measuring unit current at 31 December 20X1 requires applying the change in price index from 31 December 20X0 to 31 December 20X1, ie 300 ÷ 100 = 3.

[11] The difference in the carrying amount (in HC) of the non-depreciable non-monetary asset arises because the change in closing rate from 31 December 20X0 to 31 December 20X1 does not move in tandem with the change in price index (the

View I—Entity P does not restate Entity S's results and financial position

B9. Applying View I, Entity P does not restate Entity S's results and financial position after applying IAS 21 to translate those amounts from NHC to HC.

B10. Proponents of View I highlight the requirement in the last sentence of paragraph 35 of IAS 29, which states 'the financial statements of subsidiaries that do not report in the currencies of hyperinflationary economies are dealt with in accordance with IAS 21'. In their view, this requirement is clear in explaining that Entity P applies IAS 21 in translating the financial statements of Entity S for inclusion in its consolidated financial statements, and only IAS 21. The objective and requirements in IAS 29 that require financial statements to be restated in terms of the measuring unit current at the reporting date apply only to entities within a group whose functional currency is that of a hyperinflationary economy.

View II—Entity P restates Entity S's results and financial position

B11. Applying View II, Entity P restates Entity S's results and financial position in terms of the measuring unit current at the reporting date, after applying IAS 21 to translate those amounts from NHC to HC.

B12. Proponents of View II highlight requirements in IAS 29 that explain the reason for restating the financial statements of an entity whose functional currency is the currency of a hyperinflationary economy in terms of the measuring unit current at the reporting date. They:

(a) note that paragraph 1 includes within the scope of IAS 29 the *consolidated financial statements* of any entity whose functional currency is that of a hyperinflationary economy.

(b) refer to the overall objective and requirements in IAS 29 that require the financial statements (including current year and comparative amounts) to be

change in exchange rate is greater than the change in price index). If the change in closing rate were to move in tandem with the change in price index, ie closing rate at 31 December 20X1 is NHC1 : HC12, the carrying amount of the non-depreciable non-monetary asset would be HC12,000 (NHC1,000 x 12).

stated in terms of the measuring unit current at the reporting date (paragraphs 2, 7, 8 and 34 of IAS 29, reproduced in Appendix A of this paper).

(c) consider that, in applying View II, Entity P complies with the requirement in paragraph 35 [of IAS 29] to deal with the financial statements of Entity S in accordance with IAS 21. They read the requirements in paragraph 35 as not preventing Entity P from restating Entity S's financial statements after having applied paragraphs 39–41 of IAS 21.

(d) note the requirement in paragraph 36 [of IAS 29], which states 'if financial statements with different ends of the reporting periods are consolidated, all items, whether non-monetary or monetary, need to be restated into the measuring unit current at the date of the consolidated financial statements'. That requirement does not differentiate between hyperinflationary and non-hyperinflationary subsidiaries. It would therefore appear to suggest that the financial statements of all subsidiaries (including non-hyperinflationary subsidiaries) need to be restated in terms of the measuring unit current at the date of the consolidated financial statements.