Staff paper

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IASB® meeting

Date	**February 2024**
Project	**Use of a Hyperinflationary Presentation Currency by a Non-hyperinflationary Entity (IAS 21)**
Topic	**Disclosure and transition requirements and other matters**
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Introduction and purpose

1. At its December 2023 meeting, the International Accounting Standards Board (IASB) tentatively decided to propose narrow-scope amendments to IAS 21 *The Effects of Changes in Exchange Rates*. The proposed amendments would provide a new translation method for presenting the financial information of a non-hyperinflationary entity in a hyperinflationary presentation currency that would improve the usefulness and comparability of the reported financial information.

2. The purpose of this meeting is to discuss remaining aspects of the proposed amendments (eg disclosure and transition requirements) and ask the IASB for permission to begin the process for balloting the Exposure Draft proposing these amendments.

Structure and papers for this meeting

3. This paper is structured as follows:

   (a) summary of staff recommendations (paragraphs 6–8);

   (b) background and summary of the proposed amendments (paragraphs 9–15);

(c) disclosure requirements (paragraphs 16–30);

(d) transition and early application (paragraphs 31–46); and

(e) requirements for when an entity's presentation currency becomes or ceases to be hyperinflationary (paragraphs 47–50).

4. This paper includes one appendix—Illustration of translation requirements in IAS 21 considering the proposed amendment.

5. Agenda paper 12K assesses the due process steps for these amendments and asks the IASB for permission to begin the process for balloting the Exposure Draft.

Summary of staff recommendations

Disclosure requirements

6. We recommend:

(a) requiring an entity that translates the results and financial position of a foreign operation that has a non-hyperinflationary functional currency into a hyperinflationary presentation currency to disclose summarised financial information about that foreign operation.

(b) requiring an entity within the scope of the proposed amendments[1] to disclose the fact that the entity's financial statements (or results and financial position of the entity's foreign operation) and corresponding figures for previous periods have been translated at the closing rate at the date of the most recent statement of financial position.

(c) requiring an entity whose presentation currency ceases to be hyperinflationary to disclose that fact.

[1] An entity will be in the scope of the proposed amendments when: (a) it has a non-hyperinflationary functional currency and presents financial statements in a hyperinflationary presentation currency or (b) translates the results and financial position of a foreign operation that has a non-hyperinflationary functional currency into a hyperinflationary presentation currency.

Transition and early application

7. We recommend:

   (a) requiring an entity that already applies IFRS Accounting Standards to apply the amendments retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* when that entity first applies the proposed amendments;

   (b) exempting an entity that already applies IFRS Accounting Standards from disclosing the information required applying paragraph 28(f) of IAS 8 when that entity first applies the proposed amendments.

   (c) not providing transition relief for first-time adopters.

   (d) permitting an entity that already applies IFRS Accounting Standards to apply the proposed amendments earlier than the effective date and to require an entity that applies the amendments for an earlier period to disclose that fact.

Presentation currency becoming or ceasing to be hyperinflationary

8. We recommend:

   (a) not including specific requirements to address situations in which an entity's presentation currency becomes hyperinflationary.

   (b) if an entity's presentation currency ceases to be hyperinflationary, requiring the entity to apply paragraph 39(b) of IAS 21 prospectively to income and expenses arising after the end of the previous reporting period. The entity would not retranslate income and expenses arising before the end of the previous reporting period.

Background and summary of the proposed amendments

9. At its June 2022 meeting, the IFRS Interpretations Committee (Committee) discussed a request about applying IAS 21 and IAS 29 *Financial Reporting in Hyperinflationary*

Economies to the consolidation of a subsidiary, whose functional currency is the currency of a non-hyperinflationary economy, by a parent, whose functional and presentation currency is the currency of a hyperinflationary economy.

10. Applying IAS 21, the entity first applies paragraph 39 of IAS 21 to translate the results and financial position of the subsidiary. The question asked was whether, after translating the results and financial position applying paragraph 39 of IAS 21, the entity then restates the subsidiaries results and financial position applying the change in a general price index as required by IAS 29.

11. The Committee concluded at that meeting that 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 and asked us to do further research to enable it to assess whether to recommend narrow-scope standard-setting to address the matter.

12. Our further research identified concerns about a related matter—the financial reporting outcome for an entity whose functional currency is the currency of a non-hyperinflationary economy but presents its financial statements in the currency of a hyperinflationary economy (related matter). While the requirements in IFRS Accounting Standards provide an adequate basis to determine the required accounting for the related matter, the Committee identified concerns about the usefulness and comparability of information resulting from applying the requirements to the related matter.

13. Consequently, the Committee decided to recommend that the IASB develop a narrow-scope amendment that addresses:

    (a) the fact pattern described in the request to the Committee (submitted fact pattern); and

    (b) the related matter.

14. At its meeting in December 2023, the IASB tentatively decided to propose a narrow-scope amendment to IAS 21, which addresses both the submitted fact pattern and the related matter. The proposed amendment would require an entity to translate all

amounts (assets, liabilities, equity items, income and expenses, including comparative amounts) at the closing rate at the date of the most recent statement of financial position if that entity:

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

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

15. Agenda Papers 12A and 12B for the IASB's December 2023 meeting include further information about the background and the rationale for the proposed amendments. The table in the Appendix illustrates how the proposed amendments will change the requirements in IAS 21 for translating financial statements (or the results and financial position of a foreign operation) to a different presentation currency.

Disclosure requirements

16. This section analyses and includes our recommendations on whether the IASB should propose new disclosure requirements as part of the proposed amendments to IAS 21. In performing our analysis, we considered information we identified through:

(a) feedback from stakeholders;

(b) reviewing other comparable disclosure requirements in IAS 21 and IAS 29.

Feedback from stakeholders

17. Some investor stakeholders we spoke to during our outreach said they would like to receive information about items in the entity's financial statements (or the results and financial position of its foreign operation) in the non-hyperinflationary currency.

18. Because the amendments would apply a closing-rate translation method, a user of the financial statements (user) would be able to translate any item that has been presented or disclosed into the non-hyperinflationary currency if they have information about:

    (a) the closing exchange rate at the date of the most recent statement of financial position (paragraphs 19–22); and

    (b) the items in the financial statement to which the entity applied the proposed amendments (paragraphs 23–27).

Closing exchange rate

19. IAS 21 does not require an entity to disclose the exchange rates used when translating financial statement items to the presentation currency unless the entity's functional and/or presentation currency lacks exchangeability.

20. Applying the proposed amendments, an entity would use the closing exchange rate at the date of the most recent statement of financial position. This rate would either be: (a) observable, in which case that exchange rate would be available outside of the financial statements; or (b) estimated applying the requirements of the amendments to IAS 21 *Lack of Exchangeability*, in which case the entity will already be required to disclose the closing exchange rate used.

21. We considered whether it would be beneficial to require an entity to disclose the closing exchange rate in situations in which the rate used would be observable. However, we see no reason to require an entity to specifically disclose the exchange rate used for situations to which the proposed amendments would apply when an entity is not required to do so in any other situation. We also think considering whether an entity should be required to disclose an observable exchange rate in those other situations goes beyond the scope of the project.

22. Consequently, we think the proposed amendments do not need to include additional disclosure requirements in this regard.

Information about items in the financial statement

23. For the related matter, an entity would apply the closing exchange rate to all items in its financial statements. Consequently, a user could translate the entity's financial statements back to the non-hyperinflationary currency by applying the closing exchange rate to the amounts presented and disclosed in the financial statements. Consequently, we think no further disclosure requirements are necessary in this regard.

24. In considering the submitted fact pattern, we heard that information about a foreign operation's items to which an entity has applied the proposed amendments would be useful so that the amounts of the foreign operation can be translated back to the non-hyperinflationary functional currency.

25. IAS 21 requires an entity to disclose summarised financial information about a foreign operation if the entity's functional or presentation currency is not exchangeable. Other IFRS Accounting Standards also include disclosure requirements that would result in an investor receiving some of this information. For example:

    (a) paragraph B10 of IFRS 12 *Disclosure of Interests in Other Entities* requires an entity to disclose summarised financial information of subsidiaries with material non-controlling interests;

    (b) paragraph B12 of IFRS 12 requires an entity to disclose similar information for material joint ventures and associates; and

    (c) IFRS 8 *Operating Segments* includes disclosure requirements that would apply to a foreign operation if that foreign operation represents a reportable segment.

26. While these requirements would result in a user receiving summarised financial information about many foreign operations, there could be some foreign operations to which the proposed amendments apply for which an investor might not receive summarised financial information. We therefore think it could be useful to require an entity to disclose summarised financial information for a foreign operation to which an entity applies the proposed amendments. We expect that an entity would have the

information readily available, and therefore expect the costs of providing this disclosure to be minimal. To the extent an entity would have already disclosed summarised financial information about that foreign operation applying another requirement in IFRS Accounting Standards (see paragraph 25), the entity would not be required to duplicate that information.

27. Consequently, we recommend requiring an entity that translates the results and financial position of a foreign operation that has a non-hyperinflationary functional currency into a hyperinflationary presentation currency to disclose summarised financial information about that foreign operation.

Reviewing other comparable requirements in IAS 21 and IAS 29

28. In reviewing the disclosure requirements in IAS 21 and IAS 29, we noted:

(a) paragraph 54 of IAS 21 states:

> When there is a change in the functional currency of either the reporting entity or a significant foreign operation, that fact and the reason for the change in functional currency shall be disclosed.

(b) paragraph 39(a) of IAS 29 states:

> The following disclosures shall be made…the fact that the financial statements and the corresponding figures for previous periods have been restated for the changes in the general purchasing power of the functional currency and, as a result, are stated in terms of the measuring unit current at the end of the reporting period;

29. Similar to these requirements, we think it would be useful for a user of the financial statements to know that:

(a) an entity is applying the closing rate method required by the proposed amendments; and

(b) when the entity stops applying that method.

30. Consequently, we recommend:

(a) requiring an entity within the scope of the proposed amendments to disclose the fact that the entity's financial statements (or results and financial position of the entity's foreign operation) and corresponding figures for previous periods have been translated at the closing rate at the date of the most recent statement of financial position; and

(b) requiring an entity whose presentation currency ceases to be hyperinflationary to disclose that fact.

Question for the IASB
1. **Additional disclosure requirements**—does the IASB agree with our recommendations in paragraphs 27 and 30?

Transition and early application

31. This section considers transition requirements for the proposed amendments. We separately considered transition requirements for:

(a) entities already applying IFRS Accounting Standards (paragraphs 33–42);

(b) first-time adopters (paragraphs 43–44).

32. Paragraphs 45–46 include our analysis and recommendations on whether to allow an entity that already applies IFRS Accounting Standards to apply the amendments earlier than the effective date.[2]

[2] We will discuss the effective date at the time of finalising the proposed amendments, should the IASB decide to do so.

Entities already applying IFRS Accounting Standards

33. The proposed amendments will require entities within the scope of the proposed amendments to change how they translate items in their financial statements. Applying IAS 8, this change will be a change in this accounting policy. IAS 8 requires an entity to retrospectively apply a change in accounting policy upon the initial application of an IFRS Accounting Standard that does not include specific transition requirements except to the extent it is impracticable to do so.[3]

34. We think retrospective application would best support the objective of the proposed amendments to enhance the usefulness and comparability of information. Nonetheless, we considered whether entities would be able to apply the proposed amendments retrospectively and the costs of doing so.

35. To apply the proposed amendments retrospectively, an entity would need:

    (a) the applicable financial statements (or the results and financial position for a foreign operation) including comparative information in the non-hyperinflationary functional currency; and

    (b) the closing exchange rate at the date of the most recent statement of financial position.

36. In our view, specific transition requirements are not needed because we expect both inputs to be available with minimal additional cost. Notably, paragraph 39 of IAS 21 already requires an entity to translate assets and liabilities using the closing exchange rate at the date of the most recent statement of financial position.

Other considerations

37. For the related matter, applying the proposed amendments retrospectively would mean that at transition, the entity would translate all items, including comparative amounts at the closing exchange rate at the date of the most recent statement of

[3] Paragraphs 19(b) and 23–27 of IAS 8.

financial position. Doing so would result in no exchange differences and consequently there would be no remaining accumulated exchange differences in the financial statements resulting from translating the entity's financial statements to a different presentation currency. This outcome is consistent with what would have happened if the entity had always applied the proposed amendments when translating its financial statements.

38. For the submitted fact pattern, applying the proposed amendments retrospectively would mean that at transition, the entity would translate the results and financial position (including comparatives) of its foreign operation at the closing exchange rate at the date of the most recent statement of financial position. As row 4 of the table accompanying paragraph 19 of Agenda Paper 12B of the IASB's December 2023 paper notes, this could result in elimination differences upon consolidation (for example, for intra-group transactions). The IASB, at its meeting in December 2023, agreed with our assessment that no further action was necessary to address how an entity would account for elimination differences that arise when applying the proposed amendments. Elimination differences that arise upon transition would be similar to elimination differences that arise when applying the proposed amendments on an ongoing basis and consequently, we think no specific transition requirements are necessary in respect of such elimination differences.

Disclosure requirements in IAS 8

39. When an entity adopts a new accounting policy due to the introduction of a new IFRS requirement, the entity is required to disclose the information required by paragraph 28 of IAS 8. Paragraph 28(f) of IAS 8 requires an entity to disclose:

> …for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
>
> (i) for each financial statement line item affected; and
>
> (ii) if IAS 33 *Earning per Share* applies to the entity, for basic and diluted earnings per share.

40. The proposed amendments will affect all line items in the financial statements (or the results and financial position of a foreign operation), including comparative information. In the year of transition, an entity would be required to maintain two translation methods to comply with the requirement in paragraph 28(f) of IAS 8. We think the costs of requiring an entity to do so would outweigh the benefits.

41. We also note that IAS 29 does not prescribe any disclosure requirements for reconciling 'historical' and 'restated' financial information when an entity first applies the requirements in that standard. Paragraph 7 of IAS 29 discourages the separate presentation of the financial statements before restatement because:

> 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.

Conclusion

42. We recommend:

    (a) requiring an entity that already applies IFRS Accounting Standards to apply the amendments retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* when that entity first applies the proposed amendments; and

    (b) exempting an entity that already applies IFRS Accounting Standards from disclosing the information required applying paragraph 28(f) of IAS 8 when that entity first applies the proposed amendments.

First time adopters

43. Paragraph 7 of IFRS 1 *First-time Adoption of International Financial Reporting Standards* requires a first-time adopter to use—in its opening IFRS statement of financial position and throughout all periods presented in its first IFRS financial statements—accounting policies that comply with each IFRS Accounting Standard

effective at the end of its first IFRS reporting period (subject to particular exemptions). We considered whether any specific exemptions from retrospective application of the proposed amendments would be required for a first-time adopter.

44. To apply the proposed amendments in its opening IFRS statement of financial position and throughout all periods presented in its first IFRS financial statements, a first-time adopter would need the same two inputs described in paragraph 35 which the entity should have available with minimal cost. Therefore, we think no exemption for first-time adopters is required.

Early application

45. We recommend permitting an entity that already applies IFRS Accounting Standards to apply the amendments earlier than the effective date. Given the proposed amendments' benefits, we see no reason to prohibit an entity from applying the proposed amendments earlier than the effective date.

46. We also recommend that if an entity applies the amendments for an earlier period, the entity should be required to disclose that fact.

Questions for the IASB
2. Transition—does the IASB agree with our recommendations: (a) to require an entity that already applies IFRS Accounting Standards to apply the amendments retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* when that entity first applies the proposed amendments; (b) to exempt an entity that already applies IFRS Accounting Standards from disclosing the information required applying paragraph 28(f) of IAS 8 when that entity first applies the proposed amendments? (c) to not provide transition relief for first-time adopters?

(d)	to permit an entity that already applies IFRS Accounting Standards to apply the proposed amendments earlier than the effective date and to require an entity that applies the amendments for an earlier period to disclose that fact?

Presentation currency becoming or ceasing to be hyperinflationary

47. In the course of our analysis, we identified the need to consider whether specific requirements would be needed to address situations in which an entity's presentation currency becomes or ceases to be hyperinflationary.

48. If the presentation currency becomes hyperinflationary (and the entity is consequently in the scope of the amendments), the entity would have been applying paragraph 39 of IAS 21 and would now need to start translating all items (including comparative information) at closing rates at the date of the most recent statement of financial position (that is, the translation method included in the proposed amendments). We think the entity would be able to apply the proposed amendments and no specific requirements are necessary to address this situation.

49. If the presentation currency of an entity within the scope of the proposed amendments ceases to be hyperinflationary, the entity would need to stop applying the proposed amendments and apply the translation method in paragraph 39 of IAS 21. Paragraph 39(b) requires income and expenses to be translated at the '..exchange rates at the dates of the transactions'. Applying these requirements an entity would be required to determine exchange rates at the dates of transactions for which it previously, while applying the proposed amendments, used only the closing exchange rates. We think doing so might be impracticable or unduly onerous. We think that in such situations, an entity should apply the requirements of paragraph 39(b) prospectively to income and expenses arising after the end of the previous reporting period income. The entity would not retranslate income and expenses arising before the end of the previous reporting period. Such a requirement would also be consistent with, for example, the requirements in paragraph 38 of IAS 29 which require an entity to treat amounts

expressed in terms of measuring unit current at the end of the previous reporting period as the basis for the carrying amounts in its subsequent financial statements.

50. Consequently, we recommend:

(a) not including specific requirements to address situations in which an entity's presentation currency becomes hyperinflationary.

(b) if an entity's presentation currency ceases to be hyperinflationary, requiring the entity to apply paragraph 39(b) of IAS 21 prospectively to income and expenses arising after the end of the previous reporting period. The entity would not retranslate income and expenses arising before the end of the previous reporting period.

Question for the IASB
3. **When a presentation currency ceases to be hyperinflationary**—does the IASB agree with our recommendations in paragraph 50?

Appendix—Illustration of translation requirements in IAS 21 considering the proposed amendments

A1. The table below illustrates how the proposed amendments will change the requirements in IAS 21 for translating financial statements (and the results and financial position of a foreign operation) to a different presentation currency. The text that is struck through shows existing requirements that would be changed; the underlined text shows the proposed new requirements and grey text shows requirements that would remain unchanged. The text in the table is shown for illustration purposes only and is not intended to reflect the final wording that would be included in an exposure draft proposing the amendments.

#	Functional currency	Presentation currency	Paragraph in IAS 21	Translation method
1	Non-hyperinflationary	Non-hyperinflationary	39	(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.
2	Non-hyperinflationary	Hyperinflationary	~~39~~ X [new paragraph]	~~(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.~~

#	Functional currency	Presentation currency	Paragraph in IAS 21	Translation method
				All amounts (assets, liabilities, equity items, income and expenses, **including** comparatives) translated at closing rate as of the date of the most recent statement of financial position.
3	Hyperinflationary	Hyperinflationary	42	All amounts (assets, liabilities, equity items, income and expenses, **including** comparatives) translated at closing rate.
4	Hyperinflationary	Non-hyperinflationary		All amounts (assets, liabilities, equity items, income and expenses, **excluding** comparatives) translated at closing rate. Comparative information is as presented in the prior period.