IFRS Accounting

Staff paper

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Topic	**Preparing comparative information**
Contacts	Braian Paoli (bpaoli@ifrs.org)
	Dennis Deysel (ddeysel@ifrs.org)

Introduction

1. As we note in Agenda Papers 12 and 12A to this meeting, in this paper we explain and analyse a concern raised by respondents about the cost of preparing comparative information when applying the proposed translation method included in the Exposure Draft *Translation to a Hyperinflationary Presentation Currency* (Exposure Draft).

Structure of this paper

2. This agenda paper includes:

   (a) background (paragraphs 4–5);

   (b) feedback (paragraphs 6–15);

   (c) staff analysis (paragraphs 16–33);

   (d) staff conclusion (paragraph 34);

   (e) appendix A—input from the IFRS Interpretations Committee; and

   (f) appendix B—Illustrative example.

3. Paragraph 2 of Agenda Paper 12A of this meeting includes our recommendations from our analysis in this paper.

Background

4. As we explain in Agenda Paper 12A:

   (a) an entity whose functional currency and presentation currency is the currency of a hyperinflationary economy—and consequently also applies IAS 29 *Financial Reporting in Hyperinflationary Economies* to prepare its financial statements—that translates the results and financial position of a foreign operation, whose functional currency is that of a non-hyperinflationary economy—would apply the proposed translation method when translating the foreign operation. Applying the proposed translation method, the entity would translate all amounts of the foreign operation that are subject to translation, *including comparative amounts*, using the closing rate at the date of the most recent statement of financial position.

   (b) many respondents agree (or do not disagree) with requiring the entity to apply the proposed translation method. However, some respondents are concerned about requiring the entity to apply the proposed translation method, most notably in relation to the cost of applying the proposed translation method when preparing comparative information. In this paper we explain and analyse this specific concern.[1]

5. For simplicity and unless otherwise stated:

   (a) all references to an entity that applies IAS 29 and its foreign operation in this paper refer to an entity and foreign operation of the type described in paragraph 4(a); and

[1] In Agenda Paper 12A we analyse other concerns about the proposed translation method.

(b) all references to currencies being either hyperinflationary or non-hyperinflationary refer to the economy of that particular currency.

Feedback

6. Some respondents are concerned about the cost of preparing comparative information including an entity's foreign operation when applying the proposed translation method. A few of these respondents disagree with the proposed translation method because of this concern. Others agree (or do not disagree) with the proposed translation method but say addressing this matter would improve the proposed translation method.

7. In particular, respondents say applying the proposed translation method, an entity that applies IAS 29 and translates a foreign operation would need to reperform the procedures to prepare the comparative information in its financial statements (for example by consolidation). The example below illustrates the concern.

Example

8. Appendix B to this paper includes a simplified example that illustrates how an entity (Parent P), whose functional currency and presentation currency is that of a hyperinflationary economy (HCU) and that consolidates a foreign operation (Subsidiary S) whose functional currency is that of a non-hyperinflationary economy (NHCU), would apply the proposed translation method. The example also illustrates an alternative approach suggested by respondents. We refer to and use extracts from this example throughout this paper to illustrate particular points.

9. P applies IAS 29 in preparing its financial statements, including paragraph 34 of IAS 29. This paragraph requires P to restate corresponding figures[2] by applying a general price index. Consequently, and as included in paragraph B10 of Appendix B

[2] IAS 29 *Financial Reporting in Hyperinflationary Economies* uses the term 'corresponding figures' to refer to comparative information. We use the two terms interchangeably in this paper.

and illustrated in Table 1 below, when preparing its financial statements for 20X2, P restates its 20X1 figures that it had previously reported by applying the general price index. In the example, the adjustment factor that reflects the change in the general price index for the reporting period is 1.86 (rounded to two decimals).

Table 1—P's 20X1 figures in 20X2

Financial statements of Parent P	20X1 HCU *As previously reported*	Adjustment factor (rounded to two decimals)	20X1 HCU *As reported in 20X2*
Net assets (excluding investment in S)	7,770	× 1.86	14,430
Total comprehensive income	(1,680)	× 1.86	(3,120)

10. Applying the proposed translation method, P would not be able to apply the change in the general price index of 1.86 to the 20X1 figures of S. P would be required to apply the closing rate at 31 December 20X2 of NHCU1:HCU7 (31 December 20X1: NHCU1:HCU3.8). In the example, the adjustment factor that reflects the change in the closing rate for the reporting period is 1.84 (rounded to two decimals).

Table 2—P's translation of S's 20X1 figures in 20X2

Financial statements of Parent P	20X1 HCU *As previously translated*	Adjustment factor (rounded to two decimals)	20X1 HCU *As translated in 20X2*
Net assets	475	× 1.84	875
Total comprehensive income	(95)	× 1.84	(175)

11. The two different bases applied (the general price index and the closing rate) to the two sets of comparative information (P's financial information denominated in HCU and S's financial information denominated in NHCU) will require P to reconsolidate

S for 20X1 to prepare the comparative information for its 20X2 consolidated financial statements. Paragraph B10 of Appendix B illustrates this reconsolidation.

12. Respondents say:

(a) the benefits of preparing the comparative information applying the proposed translation method for an entity like P that has a foreign operation like S would not outweigh the costs;

(b) comparative information in the notes and the composition of resulting financial ratios could change from those reported previously—something that users of financial statements (investors) might not understand; and

(c) new elimination differences could arise for the comparative reporting period and the Exposure Draft does not specify how to account for these differences.

Alternative approach

13. Some respondents suggest requiring, or permitting, an entity to restate the comparative information of its foreign operation by applying the change in the general price index that it applies to its corresponding figures in accordance with paragraph 34 of IAS 29—that is, to not use the closing rate as required by the proposed translation method. This paper refers to this suggestion as the 'alternative approach'.

14. Considering the illustrative example in Appendix B, applying the alternative approach, P would not separately consider the two sets of comparative information (P's financial information denominated in HCU and S's financial information denominated in NHCU) but more simply apply the general price index to the consolidated comparative information previously reported, both in the primary financial statements and information disclosed in the notes.

15. We sought feedback from the IFRS Interpretations Committee on the alternative approach at their meeting in March 2025. Appendix A summarises feedback from Committee members. Our analysis below incorporates this feedback.

Staff analysis

16. We acknowledge respondents' concerns and agree that applying the proposed translation method:

    (a) the entity will be required to reperform its procedures to prepare the comparative information and will incur costs in doing so—paragraph B10 of Appendix B illustrates P's reconsolidation of S;

    (b) comparative information in the notes and the composition of resulting financial ratios could change from those reported previously—paragraph B13 of Appendix B illustrates this as the 0.06% (18.92% - 18.86%) change for the ratio of total comprehensive income to total net assets; and

    (c) new elimination differences could arise for the comparative reporting period—paragraph B10 of Appendix B illustrates this as the additional HCU20 (HCU50 – HCU30).

17. Our analysis considers whether, in respect of preparing comparative information:

    (a) the proposed translation method introduces new costs or challenges and whether feedback provides evidence not previously considered (paragraphs 18–23);

    (b) the effect that introducing the alternative approach would have (paragraphs 24–28); and

    (c) other matters (paragraphs 29–33).

Challenges and evidence of challenges

18. Developing the proposals, the International Accounting Standards Board (IASB) was aware of the challenges that could arise in applying the proposed translation method when preparing the comparative information (paragraph BC31 of the Basis for Conclusions). On balance, it concluded the expected benefits of the proposed amendments outweigh their expected costs. As paragraph 18(b) of Agenda Paper 12B

of the IASB's December 2023 meeting notes, a preparer that has direct experience in the situation described said even with the challenges of reperforming procedures to prepare comparative information, the proposed translation method would be simple to apply.

19. We continue to agree with the IASB's conclusion in paragraph BC31 of the Basis for Conclusions that these challenges are not created by the proposed amendments. For example, an entity that applies IAS 29 and also applies the translation method included in paragraph 42(a) of IAS 21 *The Effects of Changes in Foreign Exchange Rates* to translate a foreign operation whose functional currency is that of a different hyperinflationary economy would face similar challenges.[3] However, we acknowledge that under the proposed amendments these challenges would arise in more situations than before.

20. As paragraph BC3 of the Basis for Conclusions explains, we understand that entities that apply IAS 29 and have foreign operations follow one of two approaches in preparing comparative information:

    (a) entities that apply Alternative I described in paragraph BC3 do not restate comparative information of the foreign operation;

    (b) entities that apply Alternatives II or III in paragraph BC3 restate all comparative information (including that of the foreign operation) applying the general price index in accordance with paragraph 34 of IAS 29.

21. Entities that:

    (a) apply Alternative I restate their own corresponding figures applying a general price index (in accordance with paragraph 34 of IAS 29) and do not restate the foreign operation's comparative information. Because of the different bases

[3] Paragraph 42(a) of IAS 21 *The Effects of Changes in Foreign Exchange Rates* requires an entity, including entities whose functional currency is that of a hyperinflationary economy and that applies IAS 29. To translate the results and financial position of a foreign operation whose functional currency is that of a different hyperinflationary economy using the closing rate at the date of the most recent statement of financial position.

used, these entities would already need to reperform the procedures to prepare comparative information.

(b) apply Alternative II and Alternative II restate all comparative information applying a general price index. These entities would incur additional costs when applying the proposed translation method in preparing comparative information.

22. On balance, we think the nature and extent of feedback noted in paragraph 12(a) provides additional information about the extent of costs and challenges that entities that apply IAS 29 and that have foreign operations might incur in applying the proposed translation method when preparing comparative information.

23. Consequently, we consider below whether adjusting the proposed translation method using the alternative approach might address some of those challenges and reduce costs without significantly affecting the expected benefits of the proposed translation method.

Alternative approach

24. As we explain in paragraph 13, some respondents suggest requiring, or permitting, entities that apply IAS 29 to restate the comparative information of its foreign operation by applying the change in the general price index that it applies to its other corresponding figures in accordance with paragraph 34 of IAS 29—that is, to not use the closing exchange rate as required by the proposed translation method.

25. We think requiring or permitting this alternative approach as opposed to the proposed translation method would:

(a) reduce preparation costs for all entities, irrespective of their current approach and be simple to apply. Entities would not need to reperform consolidation (or other) procedures to prepare comparative information. Entities that apply Alternative II or Alternative III described in paragraph BC3 of the Basis for Conclusions (paragraph 21(b)) would not need to change the way they prepare comparative information. Entities that apply Alternative I described in paragraph BC3 (paragraph 21(a)) would simply apply the change in general price index that they apply to their other corresponding figures to the comparative figures of the foreign operation and also not have to reperform consolidation (or other) procedures in respect of that comparative information.

(b) still result in useful and comparable information. Entities to which the alternative approach applies would:

(i) still present amounts subject to translation in terms of a current measuring unit—current period information of the foreign operation would be expressed using the closing rate and the comparative information in terms of a general price index; and

(ii) present and disclose information that results in the same financial ratios for the comparative reporting period as reported previously (see respondents comments noted in paragraph 12(b)).

26. We acknowledge that for entities to which the alternative approach applies, investors might not be able to as easily translate the comparative information of the summarised financial information of the foreign operation into the currency of a non-hyperinflationary economy. We think this can be resolved with some amendments to the proposed disclosure requirements and consider this further in Agenda Paper 12C of this meeting.

27. We also considered whether entities should be required or permitted to apply the alternative approach. One of the benefits of the proposed translation method (see paragraph BC29(b) of the Basis for Conclusions) was to remove diversity. We think permitting an entity to apply the alternative approach would result in continued diversity and consequently think that if the IASB decides to introduce the alternative approach, it should *require* entities that apply IAS 29 to apply the alternative approach.

28. In Table 3 we illustrate the entities within the scope of the proposed amendments that would be required to apply the alternative approach:

Table 3—Entities that would be required to apply the alternative approach

Scenarios	In the scope of the proposed translation method	Required to apply the alternative approach
Entity with a non-hyperinflationary functional currency translates its own financial statements to a hyperinflationary presentation currency	Yes	No
Entity with a non-hyperinflationary functional currency translates its foreign operation—whose functional currency is non-hyperinflationary—to a hyperinflationary presentation currency	Yes	No
Entity with a hyperinflationary functional currency translates the financial statement of its foreign operation—whose functional currency is non-hyperinflationary—to a currency of its or another hyperinflationary economy that is the entity's presentation currency	Yes	Yes

Other matters

New elimination differences

29. Some respondents said new elimination differences will arise for the comparative reporting period and the Exposure Draft does not specify how to account for these new differences (see the comments noted in paragraph 12(c)). We understand similar elimination differences already exist in practice. We discussed this in paragraph 19 of Agenda Paper 12B of the IASB's December 2024 meeting. We continue to think that

the proposed translation method does not introduce such differences and consequently, that specifying how to account for these differences is beyond the scope of this project.

Alternative II

30. If the IASB adjusts the proposed translation method using the alternative approach, some stakeholders might question why the IASB does not rather require entities that apply IAS 29 to apply Alternative II discussed in paragraph BC3 of the Basis for Conclusions—applying Alternative II, entities restate current period income and expenses *and* comparative figures of its foreign operation using the change in the general price index.

31. Paragraph BC13 of the Basis for Conclusions explains why the IASB decided against proposing Alternative II as a standard-setting solution. Paragraph 22 of Agenda Paper 12A reproduces paragraph BC13.

32. In paragraph BC13(a), the IASB said Alternative II might be a solution to address the accounting matter for entities that apply IAS 29 to translate its foreign operation. However, we think feedback does not provide evidence that disputes the reasons in paragraphs BC13(b)–BC13(d) for deciding against proposing Alternative II as a standard-setting solution:

    (a) *paragraph BC13(c)*—applying Alternative II, the current period results and comparative information of the foreign operation would be expressed using the general price index whereas the financial position remains translated at the closing rate. Respondents did not provide additional evidence about conceptual reasons that support requiring an entity to follow different approaches in translating assets and liabilities and income, expenses and comparative information.

    (b) *paragraph BC13(b)*—applying Alternative II would introduce a new two-step (translate-restate) method in IAS 21 for only the income and expenses of the foreign operation. The proposed translation method was based on an existing translation method in paragraph 42(a) of IAS 21. Because Alternative II would be a new method, and because only the results are restated after translation (as noted in (a) above), the IASB would need to consider developing requirements for accounting for the resulting restatement adjustment.

(c) *paragraph BC13(d)*—due to the added complexity of developing requirements for a new translate-restate approach noted in (a) and (b) above, we continue to agree with the IASB that such an approach would be more costly for entities over the long term and would further reduce an investor's ability to more easily translate amounts of the foreign operation to the currency of a non-hyperinflationary economy.

33. Therefore, on balance, even if the IASB adjusts the proposed translation method using the alternative approach we continue to think Alternative II is not an appropriate standard-setting solution.

Staff Conclusion

34. Based on our analysis, we think the IASB should adjust the proposed translation method using the alternative approach. Paragraph 2 of Agenda Paper 12A includes our recommendation in this respect.

Appendix A: Input from the IFRS Interpretations Committee

A1. At its March 2025 meeting, we asked the IFRS Interpretations Committee for their views about the alternative approach as a possible way forward.

A2. Some Committee's members expressed support and said they heard similar feedback from accounting professionals or entities in jurisdictions that apply IAS 29. They focused on the fact that the alternative approach would reduce costs for entities without significantly reducing the benefits for investors. One Committee member was concerned that, applying the alternative approach, comparative (including summarised) financial information of the foreign operation would not be comparable from year-to-year (see paragraph 26). However, another Committee said the alternative approach would result in better comparability because financial ratios would remain constant from period to period (see paragraph 25(b)).

A3. Other Committee's members reflected on some of the feedback also received through comment letters—mainly in relation to using the closing rate to get to a current measuring unit (see paragraphs 16-24 of Agenda Paper 12A) and the interaction between this fact pattern and broader topics in IAS 29 (see paragraphs 19-26 of Agenda Paper 12)).

Appendix B—Illustrative example

Fact pattern

B1. Parent P has a functional currency and presentation currency that is the currency of a hyperinflationary economy (HCU). P was established at the beginning of 20X1. In the last month of its annual reporting period ending 31 December 20X1, P established Subsidiary S—a foreign operation—with a contribution of HCU350 (or NHCU100). S's functional currency is that of a non-hyperinflationary economy (NHCU). P has no other foreign operations.

B2. The applicable financial assumptions are:

Table B1—Applicable inflation factors and exchange rates

Date	Inflation factor 20X1	Inflation factor 20X2	Exchange rate NHCU1:HCU
31/12/20X1	2.8		3.8
31/12/20X2		1.86	7.0

Consolidation procedures

B3. To consolidate S:

(a) applying the proposed translation method to the current reporting period, P translates the results and financial position of S at the closing rate. In the consolidation workings included in this appendix, columns B–D illustrate this step. (For ease of identification, we also shade these columns).

(b) applying paragraph B86 of IFRS 10 *Consolidated Financial Statements*, P combines like items of assets, liabilities, equity, income, expenses and cash flows of P with those of S and offsets (eliminate) the carrying amount of P's investment in S. In the consolidation workings included in this appendix, columns E–G illustrate this step.

B4. The appendix illustrates possible consolidation workings for 20X1 and 20X2 (other methods might exist).

Preparing and presenting 20X1 financial statements

B5. In Table B2 we illustrate how P prepares and presents its 20X1 consolidated financial statements. P:

(a) applies IAS 29 to determine its amounts (column A). We do not illustrate how Parent P applies IAS 29.

(b) applies the proposed translation method to translate S (columns B to D).

(c) consolidates S (columns E to G).

Table B2—P's consolidation workings for 20X1

DT / (CT)	A	B	C	D = B × C	E = A + D	F = Eliminations	G = E + F
	P	**S**	Closing rate	**S**			**Group**
20X1	HCU	NHCU		HCU	HCU	HCU	HCU
Net assets (excluding investment in S)	7,770	125	3.8	475	8,245		8,245
Investment in S	350				350	(350)	-
Share capital	(9,800)	(100)	3.8	(380)	(10,180)	380	(9,800)
Total comprehensive income	1,680	(25)	3.8	(95)	1,585	(30)	1,555

B6. The elimination difference of HCU30 (marked in column F) arises because P applies IAS 29 and does not translate its investment in S using the closing exchange rate. We understand such an elimination difference also arises applying existing requirements and is not created by the proposed amendments. The example shows one way of recognising the elimination difference.

B7. The alternative approach affects only comparative information of P's foreign operation (S) and is not relevant when P prepares and presents 20X1 financial statements. P was established at the beginning of 20X1 and S was established only in the last month of P's annual reporting period ending 31 December 20X1.

Preparing and presenting 20X2 financial statements

B8. In Table B3 we illustrate how P prepares and presents its 20X2 consolidated financial statements. Parent P:

(a) applies IAS 29 to determine its amounts (column A). We do not illustrate how Parent P applies IAS 29.

(b) applies the proposed translation method to translate S (columns B to D).

(c) consolidates S (columns E to G).

Table B3—P's consolidation workings for 20X2

DT / (CT)	A	B	C	D = B × C	E = A + D	F = Eliminations	G = E + F
	P	**S**	Closing rate	**S**			**Group**
20X2	HCU	NHCU		HCU	HCU	HCU	HCU
Net assets (excluding investment in S)							
- carried over from 20X1	14,430	125	7.0	875	15,305		15,305 [a]
- movement for 20X2	680	300	7.0	2,100	2,780		2,780 [b]
Investment in S	650				650	(650)	-
Share capital	(18,200)	(100)	7.0	(700)	(18,900)	700	(18,200)
Total comprehensive income							
- carried over from 20X1	3,120	(25)	7.0	(175)	2,945	(50)	2,895
- movement for 20X2	(680)	(300)	7.0	(2,100)	(2,780)		(2,780)

B9. The elimination difference of HCU50 (marked in column F) arises, for one, because P applies IAS 29 and restates its investment in S from HCU350 to HCU650 using the change in a price index for 20X2. We understand that such an elimination difference also arises applying existing requirements and is not created by the proposed amendments. The example shows one way of recognising the elimination difference.

Preparing comparative information—applying the proposed translation method

B10. In Table B4 we illustrate how P prepares and presents the comparative information for its 20X2 consolidated financial statements in accordance with the proposed translation method. Parent P:

(a) applies IAS 29 to determine its comparative amounts (column A). We do not illustrate how Parent P applies IAS 29.

(b) applies the proposed translation method to translate S's comparative amounts (columns B to D).

(c) reconsolidates S (columns E to G).

Table B4—P's consolidation workings for 20X2—preparing comparative information in accordance with the proposed translation method

DT / (CT)	A	B	C	D = B × C	E = A + D	F = Eliminations	G = E + F
	P	**S**	Closing Exchange rate	**S**			**Group**
20X1	HCU	NHCU		HCU	HCU	HCU	HCU
Net assets (excluding investment in S)	14,430	125	7.0	875	15,305		15,305
Investment in S	650				650	(650)	-
Share capital	(18,200)	(100)	7.0	(700)	(18,900)	700	(18,200)
Total comprehensive income	3,120	(25)	7.0	(175)	2,945	(50)	2,895

B11. Applying the proposed translation method, P applies the closing rate at the end of 20X2 to translate the comparative information of S of 20X1 (columns B–D). P's own comparative information (column A) is restated applying the change in the price index for 20X2 in accordance with paragraph 34 of IAS 29. We agree with respondents that say this necessitates a reconsolidation of 20X1 for P to present consolidated comparative information in 20X2 (columns E–G).

B12. We note that additional elimination differences HCU20 arise for 20X1 when P prepares the comparative information for 20X2. When P prepared the 20X1 information in 20X2, the elimination difference was HCU30 (see column F in Table B2 in paragraph B5). When P prepares the 20X1 information for 20X2, the elimination difference is HCU50 (see column F of Table B4).

B13. In Table B5 we illustrate an extract from the consolidated financial statements of P for 20X2 when applying the proposed translation method. We note that:

(a) in accordance with the proposed translation method, P applies the same measurement basis to S for both reporting periods—the current period and comparative period results and financial position of S are translated using the closing rate at the end of 20X2. This enables easy translation of both periods to a non-hyperinflationary currency.

(b) financial ratios change from those reported previously. For example, in columns B and C the ratio for 20X1 of total comprehensive income to total net assets changes with 0.06% (18.92% - 18.86%) from year-to-year.

Table B5—Extracts from P's consolidated financial statements for 20X2 when applying the proposed translation method

	A = from col. G from Table B3	B = from col. G from Table B4	C = from col. G from Table B2
	20X2	**20X1**	**20X1**
Extract: statement of financial position			*As previously reported*
Total net assets	a + b 18,085	15,305	8,245
Share capital	18,200	18,200	9,800
Extract: statement of changes in equity			
Total comprehensive income			
- opening balance	(2,895)	-	-
- for the year	2,780	(2,895)	(1,555)
% of total net assets	15.37%	(18.92%)	(18.86%)

Preparing comparative information—applying the alternative approach

B14. In Table B6 we illustrate an extract from the consolidated financial statements of P for 20X2 when applying the alternative approach. We note that:

(a) P applies a one-step approach to determine comparative amounts for the entire group (column B);

(b) theoretically, opening balances of the current period (for example, HCU 2,895 for opening retained earnings in column A) do not agree to comparative amounts.[4] An adjustment would be needed. This is, however, not a unique occurrence for entities that applies IAS 29 and does not only arise from the alternative approach.

(c) the alternative approach maintains the financial ratios from year-to-year. For example, in columns B and C the ratio for 20X1 of total comprehensive income to total net assets remains unchanged at 18.86%).

Table B6—Extracts from P's consolidated financial statements for 20X2 when applying the alternative approach

	A = from col. G from Table A3	B = C × 1.86	C = from col. G from Table A2
	20X2	**20X1**	**20X1**
Extract: statement of financial position			*As previously reported*
Total net assets	a + b 18,085	15,336	8,245
Share capital	18,200	18,229	9,800
Extract: statement of changes in equity			
Total comprehensive income			
- opening balance	(2,895)	-	-
- for the year	2,780	(2,892)	(1,555)
% of total net assets	15.37%	(18.86%)	(18.86%)

[4] The difference arises because the opening balance is translated at the closing rate in accordance with the proposed translation method. The closing balance was restated applying the general price index. This is similar to what happens for, for example, monetary assets and liabilities of P. P would restate the closing balance in the comparative figures in accordance with paragraph 34 of IAS 29 but is required to not restate the current period balance in accordance with paragraph 12 of IAS 29.