Staff paper

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IASB® Meeting

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Project	**Translation to a Hyperinflationary Presentation Currency**
Topic	**Disclosure and other aspects**
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Purpose and structure

1. As we explain in Agenda Paper 12, in this agenda paper we include our summary of the feedback, and our analysis and recommendations, about:

   (a) the proposed disclosure requirements included in the Exposure Draft *Translation to a Hyperinflationary Presentation Currency* (Exposure Draft) (paragraphs 3–32)[1]; and

   (b) the proposed requirements for when the economy ceases to be hyperinflationary (paragraphs 33–37).

Summary of staff recommendations in this paper

2. We recommend:

   (a) finalising, with no changes, the proposed requirements for an entity that applies the proposed translation method to disclose:

[1] As we explain in paragraph 6 of Agenda Paper 12, we will present our summary and analysis of feedback on the proposed disclosure requirements for an eligible subsidiary that elects to apply IFRS 19 *Subsidiaries without Public Accountability* at a future meeting.

(i) the fact that all amounts (ie assets, liabilities, equity items, income and expenses, including comparatives) in its financial statements, or in the results and financial position of its foreign operations, have been translated at the closing rate at the date of the most recent statement of financial position; and

(ii) the fact if its presentation currency has ceased to be the currency of a hyperinflationary economy.

(b) finalising, with no changes, the requirement for an entity to disclose summarised financial information about its foreign operations to which the entity has applied the proposed translation method;

(c) requiring an entity that applies the exception from translating comparative information of its foreign operation (see Agenda Paper 12A), to label the comparative summarised financial information of the foreign operation as being prepared applying the change in the general price index the entity has applied to other corresponding figures; and

(d) when the economy of the entity's presentation currency ceases to be hyperinflationary, finalising, with no changes, the proposal for requiring the entity to apply paragraph 39 of IAS 21 *The Effects of Changes in Foreign Exchange Rates* prospectively to amounts arising after the end of its previous reporting period—that is, the entity would not retranslate amounts translated applying the proposed translation method before the beginning of the reporting period.

Proposed disclosure requirements

Introduction

3. The International Accounting Standards Board (IASB) proposed to require an entity subject to the amendments to disclose:

(a) the fact that it applies the proposed translation method;

(b) summarised financial information about foreign operations translated applying the proposed translation method; and

(c) if the economy of the entity's presentation currency ceases to be hyperinflationary, that fact.

4. We group our summaries of the feedback, our analysis and recommendations by:

   (a) the scope of the proposed disclosure requirements (paragraphs 6–10);

   (b) disclosure of the fact that an entity applied the proposed translation method or that its presentation currency ceased to be hyperinflationary (paragraphs 11–18); and

   (c) disclosure of summarised financial information about foreign operations translated applying the proposed translation method (paragraphs 19–32).

5. For simplicity and unless otherwise stated, all references to currencies being either hyperinflationary or non-hyperinflationary refer to the economy of that particular currency.

Scope of the proposed disclosure requirements

6. The proposed disclosure requirements were intended to be applied by an entity that uses (or ceases to use) the proposed translation method. This comprises:

   (a) an entity whose functional currency is non-hyperinflationary that presents its financial statements in a hyperinflationary currency; and

   (b) an entity whose presentation currency is hyperinflationary that translates the results and financial position of a foreign operation whose functional currency is non-hyperinflationary.

Feedback

7. A few of the respondents that do not disagree with the proposed disclosure requirements nonetheless suggest clarifying the entities to which the new disclosures apply. They say, for example, proposed paragraphs 53A and 54A of IAS 21 refer to an entity applying proposed paragraphs 41A and 42A of IAS 21—requirements written from the perspective of an entity that translates its own financial statements. It is therefore unclear whether those disclosure requirements also apply to an entity that applies the proposed translation method to translate the results and financial position of a foreign operation.

Staff analysis

8. Paragraphs 38–43 of IAS 21 apply to an entity that translates its own financial statements into a different presentation currency. Paragraph 44 of IAS 21 requires an entity to apply paragraphs 38–43 (in addition to other paragraphs) when translating the results and financial position of a foreign operation.

9. Consequently, the reference in the proposed disclosure requirements to an entity applying proposed paragraphs 41A and 42A of IAS 21 is intended to capture not only entities that would apply paragraphs 41A and 42A when translating its own financial statements but also to entities that apply those paragraphs when translating the results and financial position of a foreign operation.

10. We therefore think, no specific changes are needed to the proposed disclosure requirements in terms of the scope of those requirements. We will nevertheless consider ways to clarify the wording to improve the understanding of the scope of entities to which the new disclosure requirements would apply.

Disclosing the fact that an entity applied the proposed translation method or that the presentation currency ceases to be hyperinflationary

11. In proposing the disclosure requirements in paragraph 3(a) and 3(c) of this paper, the IASB noted:

    (a) these disclosures would provide useful information about an entity's accounting policies;

    (b) be factual statements for which the cost of disclosing the information would be low; and

    (c) these disclosures are similar to disclosure requirements in IAS 21 and IAS 29 *Financial Reporting in Hyperinflationary Economies* that address similar situations (for example, paragraph 54 of IAS 21[2] and paragraph 39(a) of IAS 29[3]).

Feedback—overview

12. Most respondents agree (or did not disagree) with the proposed disclosure requirements and say transparency about the basis of preparation would be useful.

13. A few respondents disagree because:

    (a) they disagree with the proposed translation method, particularly for translating the results and financial position of a foreign operation (see Agenda Paper 12A).

[2] Paragraph 54 of IAS 21 *The Effects of Changes in Foreign Exchange Rates* 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.'

[3] Paragraph 39(a) of IAS 29 *Financial Reporting in Hyperinflationary Economies* 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;'

(b) in their view, the proposed requirement is redundant. Paragraph 117 of IAS 1 *Presentation of Financial Statements*[4] already requires disclosure of material accounting policy information.

14. A few of the respondents suggest other disclosures instead of, or in addition to, the requirements in paragraphs 3(a) and 3(c) of this paper which we analyse in paragraph 17.

Staff analysis

15. We continue to agree with the IASB's rationale for proposing the disclosure requirements in paragraph 3(a) and 3(c) of this paper. Feedback on the Exposure Draft did not dispute that rationale.

16. We acknowledge respondents that say that IAS 1 requires an entity to disclose material accounting policy information (the comment in paragraph 13(b)). However, we think it is useful to have the specific requirements in paragraphs 3(a) and 3(c) of this paper for reasons noted in paragraph 11 above. We also note that an entity would not need to duplicate the information if it already provides the information applying IAS 1.

[4] This will be paragraph 27A of IAS 8 *Basis of Preparation of Financial Statements* once IFRS 18 *Presentation and Disclosure in Financial Statements* becomes effective.

Alternate suggestions

17. In Table 1 we analyse respondent's suggestions for other disclosures:

Table 1—Analysis of suggestions for other disclosures

Suggestion	Staff analysis
Requiring an entity to disclose whether either its functional or presentation currency is hyperinflationary	The suggestion goes beyond the scope of the proposed amendments and would apply to entities unaffected by the proposed translation method. IAS 29 already includes disclosure requirements that apply when an entity's functional currency is hyperinflationary.
Requiring an entity to disclose whether any of the entity's foreign operations have a functional currency that is hyperinflationary.	The suggestion is beyond the scope of the proposed amendments. The proposed amendments deal with translating the results and financial position of a foreign operation with a non-hyperinflationary functional currency.
Requiring additional disclosures about the closing rate, for example if it has been estimated[5].	The IASB is not proposing changes to the requirements about the closing rate. We see no reason to require additional disclosure about the closing rate.
Requiring an entity to disclose when its presentation currency has become hyperinflationary.	The proposed requirement for an entity to disclose that it applied the proposed translation method already indicates that an entity's presentation currency is hyperinflationary.

[5] Paragraph 19A of IAS 21 *The Effects of Changes in Foreign Exchange Rates* requires an entity to estimate a spot exchange rate when a currency is not exchangeable into another currency.

Staff recommendation

18. We recommend:

(a) finalising, with no changes, the proposed requirements for an entity that applies the proposed translation method to disclose:

(i) the fact that all amounts (ie assets, liabilities, equity items, income and expenses, including comparatives) in its financial statements, or in the results and financial position of its foreign operations, have been translated at the closing rate at the date of the most recent statement of financial position; and

(ii) the fact if its presentation currency has ceased to be the currency of a hyperinflationary economy.

Summarised financial information about foreign operations translated applying the proposed translation method

19. Proposed paragraph 53A of IAS 21 would require an entity that applies the proposed translation method to disclose summarised financial information about its foreign operations for which the results and financial position have been translated in accordance with paragraph 41A. This summarised financial information enables users of financial statements to assess the effect of these foreign operations on the entity's results and financial position.

20. Paragraphs BC25–BC27 of the Basis for Conclusions includes the IASB's rationale for proposing this disclosure requirement. In particular, the IASB noted:

(a) the information would be useful because the information would:

(i) allow investors to translate those amounts into a non-hyperinflationary currency; and

(ii) help investors better understand the foreign operation's cash flows and provide information about the entity's commitments and obligations, and its solvency and liquidity.

(b) although IAS 21 and other IFRS Accounting Standards include disclosure requirements that would result in investors receiving summarised financial information for some foreign operations, there could be other affected foreign operations for which they might not receive summarised financial information.

Feedback—overview

21. Most respondents agree (or do not disagree) with the proposed disclosure requirement for reasons similar to those considered by the IASB.

22. A few respondents disagree because:

(a) they disagree with the proposed translation method, particularly for translating the results and financial position of a foreign operation;

(b) they say disclosures of summarised financial information provided applying other IFRS Accounting Standards are adequate to satisfy investor needs; and/or

(c) they say the requirements in other IFRS Accounting Standards for entities to disclose summarised financial information have different disclosure objectives from the objective of the proposed disclosure requirement.

23. A few respondents also request clarifications and/or make other suggestions which we summarise in paragraph 28.

Staff analysis

24. We continue to agree with the proposal to require an entity to disclose summarised financial information about its foreign operations to which it has applied the proposed translation method. Feedback confirms that the information would be useful for reasons considered by the IASB (see paragraph 20(a)).

25. In Agenda Paper 12A of this meeting we analyse feedback about disagreement with the proposed translation method (the comment in paragraph 22(a) of this paper).

26. We disagree with respondents who say disclosures of summarised financial information provided applying requirements in other IFRS Accounting Standards are adequate for reasons considered by the IASB (the comment in paragraph 22(b)). We note for example, applying other requirements, an entity might not provide information about a branch of the reporting entity[6] that was a foreign operation (unless the branch was subject to a lack of exchangeability).

27. We acknowledge the disclosure requirements in other IFRS Accounting Standards have their own objectives (the comment in paragraphs 22(c)). However, we think in many instances, the disclosures provided applying those requirements would also satisfy the disclosure objective set out proposed paragraph 53A of IAS 21 (see paragraph 19).

Requests for clarification or other suggestions

28. In Table 2 we analyse respondents' requests for clarifications or other suggestions:

Table 2—Analysis of respondents' requests for clarifications or other suggestions

Suggestion	Staff analysis
Clarifying the currency in which to present the summarised financial information	We think clarification is unnecessary. Paragraph 8 of IAS 21 defines the presentation currency as the currency in which the financial statements are presented. We think it is sufficiently clear in the context of the other requirements of IAS 21 that, similar

[6] Paragraph 8 of IAS 21 defines a foreign operation as 'an entity that is a subsidiary, associate, joint arrangement or branch of a reporting entity…'.

	to any other information in the financial statements, any summarised financial information would need to be presented in the presentation currency.
Requiring disaggregation of summarised financial information by foreign operations with different functional currencies.	We think no additional disaggregation requirements are needed. Other requirements for an entity to disclose summarised financial information (for example, paragraph A20(b) of IAS 21) do not require such disaggregation. Feedback did not identify evidence to support such a requirement for the situations covered by these proposed amendments. IFRS 18 *Presentation and Disclosure in Financial Statements* include principles of aggregation and disaggregation that would enable entities to determine the appropriate level of aggregating or disaggregating information disclosed in the notes.
Requiring: (a) disclosure of the functional currencies of all of the entity's foreign operations; (b) providing additional guidance about what	We think no changes are needed in respect of these suggestions/ requests. Even though these disclosure requirements might, in some cases, provide useful information, they would affect more

constitutes 'summarised financial information', including whether the amounts include consolidation adjustments; and (c) amending IFRS 12 *Disclosure of Interests in Other Entities* to require disaggregation of summarised financial information between hyperinflationary and non-hyperinflationary subsidiaries	entities than just those affected by the proposed translation method and, consequently, would go beyond the scope of this project.

Effect of our recommendation in Agenda Paper 12A on this proposed disclosure requirement

29. In Agenda Paper 12A of this meeting (see paragraph 2(b) of that paper) we recommend the IASB requiring, as an exception to the proposed translation method, an entity—with a hyperinflationary functional currency and applies IAS 29 *Financial Reporting in Hyperinflationary Economies*—to restate the comparative information of the foreign operation by applying the change in the general price index it applies to corresponding figures in accordance with paragraph 34 of IAS 29

30. In such situations, we think the IASB should require the entity to label the comparative summarised financial information as being prepared applying the change in the general price index the entity has applied to other corresponding figures in

accordance with IAS 29.[7] This would provide investors transparency about the basis on which the comparative summarised financial information has been prepared and would allow them to then translate that information to any non-hyperinflationary currency for further analysis.

31. We note that paragraph 39(c) of IAS 29 already requires an entity to disclose the identity and level of the price index at the end of the reporting period and the movement in the index during the current and the previous reporting period.

Staff recommendations

32. We recommend:

(a) finalising, with no changes, the requirement for an entity to disclose summarised financial information about its foreign operations to which the entity has applied the proposed translation method; and

(b) requiring an entity that applies the exception from translating comparative information of its foreign operation (see Agenda Paper 12A) to label summarised financial information of the foreign operation as being prepared applying the change in the general price index the entity has applied to other corresponding figures.

Proposed requirements for when the economy ceases to be hyperinflationary

Introduction

33. The IASB proposed requiring an entity, whose presentation currency ceases to be hyperinflationary, to apply paragraph 39 of IAS 21 prospectively from the beginning

[7] This requirement would be similar to the requirement in paragraph 22(a) of *IFRS 1 First-time Adoption of International Financial Reporting Standards* for a first-time adopter to label previous GAAP information prominently as not being prepared in accordance with IFRS Accounting Standard.

of the reporting period in which the economy ceases to be hyperinflationary—that is, the entity would not retranslate amounts arising before the beginning of the reporting period. This proposed requirement is consistent with paragraph 38 of IAS 29, which requires an entity to treat amounts expressed in terms of the current measuring unit at the end of the previous reporting period as the basis for the carrying amounts in its subsequent financial statements when an economy ceases to be hyperinflationary.

Feedback

34. Almost all respondents agreed (or did not disagree). Nonetheless:

    (a) one respondent suggests requiring prospective application from the end of the reporting period in which the economy ceases to be hyperinflationary because the economy might still face severe inflationary pressures during that reporting period, hindering the comparability of amounts even within that same reporting period.

    (b) one respondent suggests clarifying 'the beginning of the reporting period', particularly as it relates to interim reports.

Staff analysis

35. We continue to agree with the IASB's proposal to require an entity to apply paragraph 39 of IAS 21 prospectively to amounts arising after the end of its previous reporting period.

36. We disagree with—and consequently recommend no changes in respect of—respondents' suggestions in paragraphs 34(a) and 34(b) above. In particular:

    (a) we acknowledge an entity might continue to face severe inflationary pressures in the year in which the entity's presentation currency ceases to be hyperinflationary (and possibly also in some subsequent years). These same inflationary pressures would apply even when an entity's functional currency is hyperinflationary and that entity applies IAS 29. However, in developing

IAS 29, the IASB decided to no longer require an entity to restate its financial statements to a measuring unit current as at the end of its previous reporting period (paragraph 38 of IAS 29). We do not see any basis to introduce an inconsistency between the requirements for when an entity's functional currency ceases to be hyperinflationary (paragraph 38 of IAS 29) and the requirements for when an entity's presentation currency ceases to be hyperinflationary (the proposed requirement in paragraph 33 of this paper).

(b) the term 'the beginning of the reporting period…' as used in the proposed requirement is consistent with the requirement in paragraph 38 of IAS 29 (which refers to 'the end of the previous reporting period'). We think any clarification in this respect would go beyond the scope of this project because it could also affect how stakeholders apply paragraph 38 of IAS 29.

Staff recommendations

37. We recommend finalising, with no changes, the proposal for requiring the entity to apply paragraph 39 of IAS 21 prospectively to amounts arising after the end of its previous reporting period—that is, the entity shall not retranslate amounts arising applying the proposed translation method arising before the beginning of the reporting period.

Question to the IASB

Question for the IASB
1. Does the IASB agree with our recommendation in paragraph 2?