
IASB® meeting

Date	June 2023
Project	Primary Financial Statements
Topic	Issues related to IAS 29 <i>Financial Reporting in Hyperinflationary Economies</i> and IAS 12 <i>Income Taxes</i>
Contacts	Yoshiki Kashioka (yoshiki.kashioka@ifrs.org) Roanne Hasegawa (rhasegawa@ifrs.org) Aida Vatrenjak (avatrenjak@ifrs.org)

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS® Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB® *Update*.

Objective

1. This paper sets out the staff analysis and recommendations for IAS 29 *Financial Reporting in Hyperinflationary Economies* and IAS 12 *Income Taxes* issues related to the Exposure Draft *General Presentation and Disclosures*. This paper incorporates the additional feedback on IAS 29 that was received since [Agenda Paper 21E](#) for the March 2023 IASB meeting was published. The IASB was not asked to make decisions in the March 2023 IASB meeting so that we could do further research before asking the IASB to make decisions.

Summary of the staff recommendations in this paper

2. We recommend the IASB clarify in IFRS X that:
 - (a) the gain or loss on the net monetary position is classified in the operating category in the statement of profit or loss when an entity presents it in a single line item applying IAS 29; and

-
- (b) foreign exchange differences arising from assets and liabilities in scope of IAS 12 shall be classified in the income tax category in the statement of profit or loss.
3. We also recommend that the IASB make a consequential amendment to the requirements in paragraph 78 of IAS 12 for classifying foreign exchange differences on deferred tax assets and liabilities to align with the recommendation in paragraph 2(b).

Structure of the paper

4. This paper is structured as follows:
- (a) classification of the gain or loss on the net monetary position recognised applying IAS 29 (paragraphs 5–26); and
 - (b) classification of foreign exchange differences related to assets and liabilities on income taxes (paragraphs 27–37).

Classification of the gain or loss on the net monetary position recognised applying IAS 29

5. This section is structured as follows:
- (a) background (paragraphs 6–11);
 - (b) feedback from stakeholders (paragraphs 12–15); and
 - (c) staff analysis, staff recommendation and question for the IASB (paragraphs 16–26).

Background

Requirements in IAS 29 and current practice in applying IAS 29

6. IAS 29 is required to be applied to the financial statements, including the consolidated financial statements, of any entity whose functional currency is the currency of a hyperinflationary economy (see paragraph 1 of IAS 29)¹.
7. Paragraph 27 of IAS 29 states that the gain or loss on the net monetary position may be:
 - (a) derived as the difference resulting from the restatement of non-monetary assets, owners' equity and items in the statement of other comprehensive income and the adjustment of index linked assets and liabilities; or
 - (b) estimated by applying the change in a general price index to the weighted average for the period of the difference between monetary assets and monetary liabilities.
8. Paragraph 9 of IAS 29 requires an entity to include the gain or loss on the net monetary position in profit or loss and separately disclose it. Paragraph 28 of IAS 29 states that it *may be helpful* if other income and expense items, such as interest income and expense, and foreign exchange differences related to invested and borrowed funds, are presented *together* with the gain or loss on the net monetary position².
[emphasis added]
9. Stakeholders said there are generally two ways that these requirements in IAS 29 are being applied. Entities present the gain or loss on the net monetary position:

¹ Based on the IMF World Economic Outlook report released in April 2023, currently 12 economies are considered hyperinflationary economies.

² The requirements in paragraph 28 of IAS 29 are repeated in the illustrative examples in IFRIC 7 (see paragraph IE6 of IFRIC 7).

- (a) in a single line item in the statement of profit or loss—the location of this line item in the statement of profit or loss is discussed further in paragraphs 19–21 of this agenda paper; or
- (b) together with other income and expenses arising from monetary assets and liabilities—for example, the gain or loss on the net monetary position that is attributable to monetary liabilities is presented in the same line item as interest expenses and foreign exchange differences from these liabilities³.

Proposal in the Exposure Draft

10. The Exposure Draft did not provide specific guidance on the classification in the statement of profit or loss of the gain or loss on the net monetary position recognised applying IAS 29.

IASB's tentative decisions from its redeliberations to date

11. Applying the IASB's tentative decisions in its redeliberations to date, items which relate to the gain or loss on the net monetary position, such as interest income, interest expense and foreign exchange differences, are classified in different categories in the statement of profit or loss. For example:
- (a) interest revenue from financial assets arising from providing financing to customers would be classified in the operating category (see [Agenda Paper 21B](#) of the July 2022 IASB meeting).
 - (b) interest revenue from financial assets, including cash and cash equivalents would be classified in the investing category⁴ (see [Agenda Paper 21B](#) of the May 2021 IASB meeting and [Agenda Paper 21B](#) of the December 2021 IASB meeting).

³ Local accounting standards in some jurisdictions applied prior to adopting IFRS Accounting Standards required entities to apply this approach.

⁴ When an entity invests in financial assets as a main business activity, they would be classified in the operating category.

-
- (c) interest expense from debt instruments issued would be classified in the financing category⁵ (see [Agenda Paper 21A](#) of the July 2021 IASB meeting).
 - (d) foreign exchange differences could be classified into all categories depending on the underlying items, except when applying the general principle would involve undue cost or effort. In that case, an entity classifies the foreign exchange differences in the operating category (see [Agenda Paper 21C](#) of the July 2021 IASB meeting)⁶.

Feedback from stakeholders

Comment letter feedback

- 12. Some stakeholders (especially standard-setters and preparers) asked the IASB to clarify how an entity should classify the gain or loss on the net monetary position applying IAS 29.
- 13. A few stakeholders raised concerns that the requirement in the Exposure Draft that an entity classify foreign exchange differences in the same category of the statement of profit or loss as the income and expenses from the items that gave rise to the foreign exchange differences (see paragraph 11(d)) may lead an entity to judge that it should allocate the gain or loss on the net monetary position to each line item impacted in the statement of profit or loss. These stakeholders were concerned that such an approach would be burdensome for entities to apply and may result in arbitrary allocations.
- 14. A few stakeholders suggested that the gain or loss on the net monetary position should be presented in a single line in a separate category (other than the operating, investing

⁵ When an entity provides financing to customers as a main business activity, they would be classified in the operating category.

⁶ In its meeting in March 2023, the IASB tentatively decided to require an entity to use its judgement to determine in which category in the statement of profit or loss to classify foreign exchange differences on a liability that arises from a transaction that involves operating activities in addition to the raising of finance (see [Agenda Paper 21E](#)).

and financing categories) in the statement of profit or loss together with foreign exchange differences⁷.

Additional feedback

15. Additional feedback was received from a few stakeholders after publishing [Agenda Paper 21E](#) for the March 2023 IASB meeting. These stakeholders said that an entity should use its judgement to reasonably allocate the gain or loss on the net monetary position to each relevant category in the statement of profit or loss rather than the approach of classifying it in the operating category as proposed in Agenda Paper 21E. In their view, such an approach would:
- (a) be consistent with practice applying IAS 29 in their region;
 - (b) result in more useful information for users of financial statements; and
 - (c) not be costly for entities in their region to apply as accounting systems have been set up to capture the required information.

Staff analysis, staff recommendation and question for the IASB

16. As noted in paragraph 9 of this agenda paper, the requirements in IAS 29 are generally being applied in two ways. Considering how to apply the requirements in IAS 29 is beyond the scope of this project. However, we observe that entities often present the gain or loss on the net monetary position in a single line item in the statement of profit or loss⁸.
17. Entities that present the gain or loss on the net monetary position using the approach described in paragraph 9(b) of this agenda paper would present the gain or loss on the

⁷ This point was also raised in the [March 2022 Accounting Standards Advisory Forum \(ASAF\) meeting](#).

⁸ Entities that are required to apply IAS 29 change each period depending on whether the functional currency of the entity is the currency of a hyperinflationary economy. This observation is based on analysis of the financial statements of 25 entities in English that are required to apply IAS 29 in their most recent annual financial statements. Of these 25 entities, 24 entities present the gain or loss on the net monetary position in a single line item in the statement of profit or loss. This observation may change if: (i) other economies become hyperinflationary economies in the future; and (ii) financial statements in other languages or financial statements of additional periods in the past had been analysed.

net monetary position attributable to each item in the same categories in the statement of profit or loss as the foreign exchange differences and interest income and expense that arise from those items. Therefore, in this paper we consider classification of the gain or loss on the net monetary position when an entity presents it in a single line item (using the approach described in paragraph 9(a) of this agenda paper) and whether the IASB should confirm that it is classified in the operating category because:

- (a) the operating category is the default category; and
- (b) the gain or loss on the net monetary position in totality does not meet the requirements to be classified in the investing and financing categories.

18. This section is structured as follows:

- (a) analysis of current practice (paragraphs 19–22);
- (b) whether to confirm that an entity classifies the gain or loss on the net monetary position in the operating category (paragraphs 23–25); and
- (c) staff recommendation and question for the IASB (paragraph 26).

Analysis of current practice

19. We analysed the financial statements of 24 entities that present operating profit⁹ and the gain or loss on the net monetary position in a single line item in the statement of profit or loss¹⁰ and noted that:

- (a) the location of the gain or loss on the net monetary position was diverse; and
- (b) the gain or loss on the net monetary position was not always presented with foreign exchange differences or interest income and expense.

⁹ Includes subtotals equivalent to operating profit.

¹⁰ These 24 entities are from 13 jurisdictions in all regions and across different industries.

-
20. Six of the 24 entities in our sample included foreign exchange differences both in operating profit and below operating profit. Of these six entities:
- (a) four entities presented the gain or loss on the net monetary position together with interest income and expense below operating profit; and
 - (b) two entities included the gain or loss on the net monetary position in operating profit and the interest income and expense below operating profit.
21. The remaining 18 entities in our sample presented foreign exchange differences in a single location. Of these 18 entities:
- (a) 11 entities presented the gain or loss on the net monetary position together with the foreign exchange differences and the interest income and expenses below operating profit;
 - (b) three entities presented the gain or loss on the net monetary position together with the foreign exchange differences in operating profit and the interest income and expense below operating profit;
 - (c) one entity presented the gain or loss on the net monetary position together with the foreign exchange differences below operating profit and the interest income and expense in operating profit¹¹; and
 - (d) three entities presented the gain or loss on the net monetary position below operating profit. Two of these entities¹² presented the foreign exchange differences and the interest income and expense in operating profit and one entity presented the foreign exchange differences in operating profit and the interest income and expense below operating profit.
22. We acknowledge that specifying the category for classifying the gain or loss on the net monetary position when it is presented in a single line item would result in a change in practice for some entities. However, clarifying how the proposals are to be

¹¹ This entity belongs to the banking industry.

¹² These two entities belong to the banking industry.

applied to the gain or loss on the net monetary position when it is presented in a single line item will ensure that it is classified consistently by all entities.

Whether to confirm that an entity classifies the gain or loss on the net monetary position in the operating category

23. We think that the IASB should confirm that the category for classifying the gain or loss on the net monetary position, when it is presented in a single line item applying IAS 29, is the operating category because:
- (a) the operating category is the default category; and
 - (b) the gain or loss on the net monetary position in totality does not meet the requirements to be classified in the investing or financing categories¹³ (see paragraph 17).
24. We acknowledge that there may be cases where classifying the gain or loss on the net monetary position in a category other than the operating category provides useful information about the entity's financial performance. For example, when an entity has few monetary assets with income and expenses classified in the operating category and substantial monetary liabilities with income and expenses classified in the financing category. In such a case, classification of the gain or loss on the net monetary position in the financing category is likely to provide useful information to users as it is mainly attributable to monetary liabilities. However, requiring an entity to determine which monetary assets and liabilities predominantly give rise to the gain or loss on the net monetary position in order to determine in which category to classify the line item would add complexity.

¹³ The gain or loss on the net monetary position is not:

- (a) income and expense from an asset that generates a return individually and largely independently of other resources held by an entity;
- (b) income and expense from a liability that arises from transactions that involve only the raising of finance; or
- (c) a specified income and expense from a liability that arises from transactions that do not involve only the raising of finance.

25. We also considered and rejected an approach of creating a separate category for the gain or loss on the net monetary position suggested by some stakeholders (see paragraph 14) because we think that a separate category:
- (a) does not necessarily provide a useful structured summary of an entity's income and expenses and may make the statement of profit or loss complex, especially when only some of the entities in a reporting entity group are required to apply IAS 29; and
 - (b) would not include foreign exchange differences and interest income and expense unless the IASB were to change the proposed structure of the statement of profit or loss.

Staff recommendation and question for the IASB

26. Based on our analysis in paragraphs 16–25, we recommend the IASB clarify in IFRS X that the gain or loss on the net monetary position is classified in the operating category in the statement of profit or loss when an entity presents it in a single line item applying IAS 29.

Questions for the IASB

1. Does the IASB agree with the staff recommendation to clarify in IFRS X that the gain or loss on the net monetary position is classified in the operating category in the statement of profit or loss when an entity presents it in a single line item applying IAS 29?

Classification of foreign exchange differences related to assets and liabilities on income taxes

27. This section is structured as follows:
- (a) background (paragraphs 28–34); and
 - (b) staff analysis, staff recommendation and question for the IASB (paragraphs 35–37)

Background

Requirements in current IFRS Accounting Standards for foreign exchange differences related to assets and liabilities on income taxes

28. IAS 12 and IAS 21 *The Effects of Changes in Foreign Exchange Rates* do not have any requirements for the classification of foreign exchange differences arising from assets or liabilities on current tax.
29. Paragraph 78 of IAS 12 states that foreign exchange differences on deferred tax assets or liabilities may be classified as deferred tax expense (income) if that presentation is considered to be the most useful to financial statement users.

Proposals in the Exposure Draft and tentative decision in the IASB's redeliberations to date

30. Paragraph 54 of the Exposure Draft states that an entity shall classify in the income tax category income tax expense or income included in profit or loss applying IAS 12 *Income Taxes*.
31. In its meeting in July 2021, the IASB tentatively decided to require an entity to classify foreign exchange differences in the same category of the statement of profit or loss as the income and expenses from the items that gave rise to the foreign exchange differences, except when doing so would involve undue cost or effort in which case an entity classifies the foreign exchange differences on the item in the operating category (see [Agenda Paper 21C](#))¹⁴.

¹⁴ In its meeting in March 2023, the IASB tentatively decided to require an entity to use its judgement to determine in which category in the statement of profit or loss to classify foreign exchange differences on a liability that arises from a transaction that involves activities in addition to the raising of finance (see [Agenda Paper 21E](#))

Classification of foreign exchange differences related to income taxes in the statement of profit or loss

32. Paragraph 54 of the Exposure Draft states that an entity shall classify in the income tax category income tax expense or income included in profit or loss applying IAS 12 (see paragraph 30). Some might read this paragraph to mean that foreign exchange differences arising from assets or liabilities on current tax do not meet the definition of the income tax category because they are not income taxes in the scope of IAS 12 and, therefore, should not be classified in the income tax category.
33. However, others might read the requirements to mean that applying the general principle for the classification of foreign exchange differences an entity would classify the foreign exchange differences arising from assets or liabilities on current tax in the income tax category (see paragraph 31).
34. In addition, some might think that paragraph 78 of IAS 12 implies that an entity can make an accounting policy choice for the classification of foreign exchange differences arising from deferred tax assets or liabilities.

Staff analysis, staff recommendation and question for the IASB

35. Paragraph BC92 of the Basis for Conclusions on the Exposure Draft states that classifying foreign exchange differences in the same category of the statement of profit or loss as the income and expenses from the items that give rise to them contributes to a faithful representation of an entity's business activities. Therefore, we think foreign exchange differences arising from assets and liabilities in scope of IAS 12 should be classified in the income tax category, unless doing so involves undue cost or effort, applying the general principle of the classification of foreign exchange differences.
36. To avoid diversity in interpretation of the requirements, we recommend the IASB clarify in IFRS X that foreign exchange differences arising from assets and liabilities

in scope of IAS 12 shall be classified in the income tax category in the statement of profit or loss, unless doing so involves undue cost or effort.

37. We also recommend that the IASB amend paragraph 78 of IAS 12 as follows.

Exchange differences on deferred foreign tax liabilities or assets foreign currency denominated tax assets and liabilities

78. ~~IAS 21 requires certain exchange differences to be recognised as income or expense but does not specify where such differences should be presented in the statement of comprehensive income. Accordingly, where~~ If exchange differences on deferred foreign tax liabilities or assets foreign currency denominated assets and liabilities arising from income taxes are recognised in the statement of comprehensive income profit or loss in accordance with IAS 21, such differences may shall be classified as deferred tax expense (income) if that presentation is considered to be the most useful to financial statement users applying the requirements in paragraphs x-y of IFRS X *General Presentation and Disclosure*.

Questions for the IASB

2. Does the IASB agree with the staff recommendation to:
- (a) clarify in IFRS X that foreign exchange differences arising from assets and liabilities in scope of IAS 12 shall be classified in the income tax category in the statement of profit or loss, unless doing so involves undue cost or effort; and
 - (b) amend paragraph 78 of IAS 12 as described in paragraph 37 of this agenda paper?