Staff paper

Agenda reference: 12

IASB® meeting

Date	**March 2024**
Project	**Use of a Hyperinflationary Presentation Currency by a Non-hyperinflationary Entity (IAS 21)**
Topic	**Disclosure requirements for subsidiaries without public accountability and due process requirements**
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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 introduce 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. In February 2023 meeting, the IASB tentatively decided to propose adding some disclosure requirements to complement the proposed new translation mechanism.

3. The purpose of this meeting is:

   (a) to discuss whether and to what extent those proposed disclosures requirements should apply to subsidiaries without public accountability; and

   (b) to ask the IASB for permission to begin the process for balloting the Exposure Draft proposing these amendments.

Structure of this paper

4. This paper is structured as follows:

   (a) interaction with the IASB's project Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures:

      (i) summary of staff recommendations (paragraph 6);

      (ii) background (paragraphs 7–12);

      (iii) staff analysis and questions for the IASB (paragraphs 13–21);

   (b) due process steps for publishing an Exposure Draft;

      (i) due process requirements (paragraphs 22–23);

      (ii) due process steps undertaken during this period (paragraph 24);

      (iii) comment period (paragraph 25–26);

      (iv) permission to ballot and intention to dissent (paragraphs 27–28); and

      (v) proposed timetable for balloting and publication (paragraph 29).

5. This paper includes one appendix—due process steps taken in developing the proposed amendments.

Interaction with the IASB's project Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures

Summary of staff recommendations

6. We recommend:

   (a) an eligible subsidiary within the scope of the proposed amendments be required to disclose the fact that the entity's financial statements (or results and financial position of the eligible subsidiary'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.

(b) an eligible subsidiary whose presentation currency ceases to be hyperinflationary be required to disclose that fact.

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

Background

Subsidiaries without public accountability

7. In July 2021 the IASB published Exposure Draft *Subsidiaries without Public Accountability: Disclosures* (*Subsidiaries ED*). The IASB has completed deliberating the proposals in the *Subsidiaries ED* and expects to issue that Standard (Subsidiaries Standard) in May 2024.

8. The Subsidiaries Standard will permit eligible subsidiaries to apply IFRS Accounting Standards with reduced disclosure requirements. An eligible subsidiary that applies the Subsidiaries Standard will apply the requirements in IFRS Accounting Standards except for the disclosure requirements that are replaced by the disclosure requirements in the Subsidiaries Standard. The disclosure requirements in the Subsidiaries Standard will be grouped by the IFRS Accounting Standard to which they relate.

9. The Subsidiaries ED proposed reduced disclosure requirements for IFRS Accounting Standards issued up to February 2021.

10. Agenda Paper 31 of the IASB's September 2023 meeting summarised the IASB's agreed approach to making amendments to the forthcoming Subsidiaries Standard resulting from changes to the disclosure requirements in new or amended IFRS Accounting Standards. As agreed to by the IASB, on an ongoing basis, each exposure draft of a new or amended IFRS Accounting Standard will, if relevant, propose

amendments to the Subsidiaries Standard so that the disclosure requirements in the Subsidiaries Standard remain up to date. In doing so, the IASB is expected to:

(a) apply a set of principles when considering whether new or amended disclosure requirements in IFRS Accounting Standards should be reflected in the Subsidiaries Standard. Users of the financial statements of eligible subsidiaries find information about the following useful:

    (i) short term cash flows and obligations, commitments and contingencies whether recognised as liabilities or not;

    (ii) liquidity and solvency;

    (iii) measurement uncertainties;

    (iv) accounting policy choices; and

    (v) disaggregation of amounts presented in financial statements.

(b) consider holistically the relative costs and benefits of revised disclosure requirements for eligible subsidiaries to ensure that the Subsidiaries Standard meets the needs of users of financial statements of eligible subsidiaries while also being sufficiently appealing to the eligible subsidiaries themselves, so they can benefit from the cost savings associated with applying the Subsidiaries Standard.

Disclosure requirements in the proposed amendments to IAS 21

11. At its February 2024 meeting, the IASB tentatively decided to propose that:

(a) an entity within the scope of the proposed amendments be required to disclose that its financial statements (or the results and financial position of its 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;

(b) an entity whose presentation currency ceases being hyperinflationary be required to disclose that fact; and

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

12. Agenda Paper 12J to the IASB's February 2023 meeting (February agenda paper) provides more information about the reasons for requiring these disclosures.

Staff analysis

Disclosure requirements in paragraphs 11(a)–11(b) of this paper

13. We first considered whether the IASB should require an eligible subsidiary to disclose the information that would be disclosed applying paragraphs 11(a)–11(b) of this paper. We used the criteria in paragraphs 10(a)–10(b) of this paper in our assessment.

14. We think an eligible subsidiary should be required to disclose that information because:

(a) these disclosures would provide users with information about accounting policy choices (see paragraph 10(a)(iv)). The use of the translation method proposed in the amendments to IAS 21 would not be an 'accounting policy choice' but rather a consequence of the entity's presentation currency. However, the proposed disclosures would give useful information to users about an accounting policy being applied in the financial statements.

(b) we expect the cost of disclosing the information to be low—the disclosure is a factual statement about an entity's accounting policy.

15. As paragraphs 28–30 of the February agenda paper explains, the requirements in paragraphs 11(a)–11(b) of this paper were based on similar requirements in paragraph 54 of IAS 21 and paragraph 39(a) of IAS 29. We understand eligible subsidiaries will be required to disclose the information required applying those paragraphs.

16. Consequently, we recommend:

    (a) an eligible subsidiary within the scope of the proposed amendments be required to disclose the fact that the entity's financial statements (or results and financial position of the eligible subsidiary'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.

    (b) an eligible subsidiary whose presentation currency ceases to be hyperinflationary be required to disclose that fact.

Question for the IASB
1. **Disclosure requirements in Subsidiaries Standard**—does the IASB agree with our recommendations in paragraph 16?

Summarised financial information about a foreign operation (paragraph 11(c) of this paper)

17. At its February meeting, the IASB tentatively decided to propose requiring an entity that translates the results and financial position of a foreign operation with a non-hyperinflationary functional currency into a hyperinflationary presentation currency be required to disclose summarised financial information about that foreign operation. The requirement would be accompanied by an explanation of the purpose or objective of the requirement which is to allow investors to translate those items into a non-hyperinflationary currency for their analysis.

18. In considering the principles set out in paragraph 10(a), we note:

    a) summarised financial information about the results and financial position of foreign operations would give useful information in relation to disaggregation of amounts presented in the financial statements. In this case, the foreign operation of the eligible subsidiary has:

(i) a functional currency that is different from the presentation currency and is, consequently, likely to have different characteristics and risk profile to other operations within the entity; and

(ii) applying the proposed amendments, would use a specific translation method to translate its results and financial position.

b) summarised financial information about the financial position and results of the foreign operation could help users of the financial statements of eligible subsidiaries better understand the cash flows of the foreign operation which in turn could provide useful information about short term cash flows, commitments and obligations, as well as solvency and liquidity.

19. In considering the costs and benefits of requiring an eligible subsidiary to disclose this information:

(a) we understand that the Subsidiaries Standard will not include the disclosure requirements in IFRS 12 *Disclosure of Interests in Other Entities* for summarised financial information of subsidiaries and material joint ventures and associates (paragraph B10 and B12 of IFRS 12). When proposing the requirement for an entity that is not an eligible subsidiary to disclose summarised financial information about a foreign operation, we considered that in some cases entities might already be disclosing the information applying the requirements in IFRS 12, which would reduce the overall cost of applying the disclosure requirement (see paragraphs 25–27 of the February agenda paper). While the same rationale would not hold true for an eligible subsidiary, we think the cost of requiring an eligible subsidiary to disclose summarised financial information about a foreign operation will not be significant because an eligible subsidiary will already have the necessary financial information of the foreign operation for purposes of applying the translation method and including the foreign operation's results and financial position in its financial statements.

(b) Paragraph A20 of IAS 21 (introduced as part of the IASB's recent amendments to IAS 21 *Lack of Exchangeability*) requires an entity to disclose summarised financial information of a foreign operation when a foreign operation's functional (or presentation) currency is not exchangeable into the presentation (or functional) currency. Paragraph 57A of IAS 21 explains the objective of disclosing this (and other related) information. This requirement is similar to our proposal to require an entity to disclose summarised financial information about a foreign operation to which the IASB's proposed new translation method would apply. The IASB, at its meeting in January 2024 tentatively decided to propose requiring an eligible subsidiary to also disclose summarised financial information about a foreign operation that is subject to a lack of exchangeability—applying the general principle in the Subsidiaries Standard, we understand the objective of requiring that information would not be carried forward.

20. In light of our analysis of the principles to support inclusion in paragraph 18 and our assessment in paragraph 19, on balance, we think the expected benefits of requiring an eligible subsidiary to provide this disclosure outweighs the cost.

21. Consequently, we recommend that the IASB propose that an eligible subsidiary that translates the results and financial position of a foreign operation applying the proposed amendments to IAS 21 be required to disclose summarised financial information about the results and financial position of that foreign operation.

Question 2 for the IASB
2. Disclosure requirement in Subsidiaries Standard—does the IASB agree with our recommendation in paragraph 21?

Due process steps for publishing an Exposure Draft

Due process requirements

22. Paragraphs 6.4 and 6.5 of the Due Process Handbook explain that:

    (a) the development of an exposure draft takes place in public meetings;

    (b) the technical staff prepares agenda papers containing research and recommendations on matters to be addressed and considered by the IASB; and

    (c) the IASB also considers the comments received on any discussion paper, suggestions made by consultative groups and accounting standard-setters, and suggestions arising from consultation with other stakeholders.

23. Paragraph 6.6 of the Due Process Handbook states:

    > When the [IASB] has reached general agreement on the technical matters in the project and has considered the likely effects of the proposals (see paragraphs 3.76–3.81 [of the Due Process Handbook]), the technical staff presents a paper to the [IASB]:
    >
    > (a) summarising the steps that the [IASB] has taken in developing the proposals, including a summary of when the [IASB] discussed the project in public meetings, public hearings held, outreach activities and meetings of consultative groups;
    >
    > (b) …; and
    >
    > (c) recommending a comment period for the exposure draft.

Due process steps undertaken during the period

24. The appendix sets out the required due process steps in developing and publishing an Exposure Draft together with the current status of, and any planned action for, these steps.

Comment period

25. Paragraph 6.7 of the Due Process Handbook states that the IASB ‘normally allows a minimum period of 120 days for comment on an Exposure Draft’. However, if the matter is narrow in scope and urgent, the IASB may consider a shorter comment period.

26. The proposed amendments are narrow in scope but are not of such an urgent nature as to warrant a comment period of less than 120 days. We therefore recommend a comment period of 120 days, considering that the end of the comment period should not fall on a weekend.

Permission to ballot and intention to dissent

27. This paper demonstrates that the IASB has completed all the applicable due process steps to date for balloting the Exposure Draft. Consequently, we request permission to begin the balloting process.

28. In accordance with paragraph 6.9 of the Due Process Handbook, we also ask if any IASB member intends to dissent from the proposals in the Exposure Draft.

Proposed timetable for balloting and publication

29. We plan to begin the balloting process in the near future and expect to publish the Exposure Draft in the third quarter of 2024.

Questions 3–5 for the IASB
3. **Comment period**—does the IASB agree with our recommendation to allow a comment period of 120 days for the Exposure Draft?
4. **Dissent**—does any IASB member intend to dissent from the proposals in the Exposure Draft?
5. **Permission to begin the process for balloting the Exposure Draft**—is the IASB satisfied that it has complied with the applicable due process steps and that it should begin the process for balloting the Exposure Draft?

Appendix—Due process steps taken in developing the proposed amendments

A1. The following table summarises the required due process steps taken in developing the proposed amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates* as set out in the paper. The table does not list all of the optional steps.

Step	Actions
IASB and IFRS Interpretations Committee meetings held in public, with papers available for observers. All decisions made in public sessions	The IASB discussed the matter at its meetings in December 2023 (see Agenda Paper 12A and 12B (December agenda papers) of that meeting) and this meeting. The IFRS Interpretations Committee (Committee) discussed the matter at its meetings in June 2022 (see Agenda Paper 2) and June 2023 (see Agenda Papers 5–5C). The project page on the IFRS Foundation website was updated after every meeting. Agenda papers were posted on the website before every meeting on a timely basis and a summary of each meeting was included in IASB *Update* or IFRIC *Update* as appropriate.
Analysis of likely effects of the forthcoming Exposure Draft or major amendment, for example, initial costs or ongoing associated costs	The proposed amendments are narrow-in-scope and were developed in response to a submission to the Committee. The Committee identified diversity in accounting for the submitted fact pattern. Its research also identified questions about the usefulness and comparability of information resulting from applying the requirements in IAS 21 to the related matter. The proposed amendments would eliminate diversity in accounting for the submitted fact pattern and improve the usefulness of information provided in connection with both the submitted fact pattern and the related matter. Further and as set out in December agenda papers of the IASB's December 2023 meeting: (a) the proposed amendments use a translation method that exists in IAS 21, is well understood and simple to apply. Consequently, while entities will incur costs to implement the solution, the

	implementation and ongoing costs are not expected to be substantial. (b) investors we spoke to during our research said they typically prefer translating figures back to a non-hyperinflationary currency for purposes of their analysis and were supportive of a solution that facilitated and simplified such a translation—the proposed amendments, in our view, provide such a solution.
Outreach meetings with stakeholders	During the development of the proposals, we held outreach meetings with four large accounting firms, an organisation representing a group of national standard-setters, a regulator, two users of financial statements (investors) and a preparer. (See details in papers 5A of June 2023 Committee meeting)
Due process steps reviewed by the IASB	This step is being met by this agenda paper.
The forthcoming Exposure Draft has an appropriate comment period	This step is being met by this agenda paper—see paragraphs 25–26.
Drafting	
Drafting quality assurance steps are adequate	The IASB as well as the IFRS Foundation's translations, editorial and taxonomy teams will review drafts during the balloting process.
Publication	
Exposure Draft published	We plan to make the Exposure Draft available on our website when published.
Press release to announce publication of the Exposure Draft	We plan to publish a press release on our website with the Exposure Draft.