
The Committee received a request about the application of IAS 21 and IAS 29. In the fact pattern described in the request, the entity:

a. has a presentation currency that is not the currency of a hyperinflationary economy as defined in IAS 29;
b. has a foreign operation with a functional currency that is the currency of a hyperinflationary economy as defined in IAS 29 (hyperinflationary foreign operation); and
c. translates the results and financial position of the hyperinflationary foreign operation into its presentation currency in preparing its consolidated financial statements.

Paragraph 43 of IAS 21 requires an entity to restate the results and financial position of a hyperinflationary foreign operation applying IAS 29 before applying the translation method set out in paragraph 42 of IAS 21 (restate/translate approach). The application of the restate/translate approach may result in a change to the entity’s net investment in the hyperinflationary foreign operation. This change would include two effects:

a. a restatement effect resulting from restating the entity’s interest in the equity of the hyperinflationary foreign operation as required by IAS 29; and
b. a translation effect resulting from translating the entity’s interest in the equity of the hyperinflationary foreign operation (excluding the effect of any restatement required by IAS 29) at a closing rate that differs from the previous closing rate.

To illustrate this using a simple example, assume at the beginning of the reporting period that an entity has a 100% interest in a hyperinflationary foreign operation that has a non-monetary asset of 1,000 in local currency (LC), no other assets and no liabilities. Therefore, the foreign operation has net assets (and equity) of LC1,000. The change in the general price index of the hyperinflationary economy during the reporting period is 200%. The entity could, for example, calculate:

a. the restatement effect as (LC1,000 × (1+200%) – LC1,000) × closing exchange rate. This calculation reflects the entity’s interest in the equity of the hyperinflationary foreign operation, restated applying IAS 29, and reported in the entity’s presentation currency; and
b. the translation effect as (LC1,000 × closing exchange rate) – (LC1,000 × opening exchange rate). This calculation reflects the entity’s interest in the equity of the hyperinflationary foreign operation, excluding the effect of the restatement required by IAS 29, multiplied by the difference between the opening and closing exchange rates.

The request asked how the entity presents the restatement and translation effects in its statement of financial position.

Do the restatement and translation effects meet the definition of an exchange difference?
Paragraph 8 of IAS 21 defines an exchange difference as the difference ‘resulting from translating a given number of units of one currency into another currency at different exchange rates’. The Committee concluded that, in the fact pattern described in the request, either the translation effect alone meets the definition of an exchange difference, or the combination of the restatement and translation effects meets that definition.

How does an entity present any exchange difference arising from translating a hyperinflationary foreign operation?
The Committee observed that all requirements in IAS 21 that specify the recognition (or presentation) of exchange differences require an entity to recognise (or present) exchange differences in profit or loss or other comprehensive income (OCI). IAS 21 requires the recognition of exchange differences in profit or loss or OCI—without reference to equity—because exchange differences meet the definition of income or expenses. Accordingly, the Committee concluded that an entity does not recognise exchange differences directly in equity.
Paragraph 7 of IAS 1 *Presentation of Financial Statements* states that components of OCI include ‘gains and losses arising from translating the financial statements of a foreign operation’. Paragraph 41 of IAS 21 explains that exchange differences arising from translating the financial statements of a non-hyperinflationary foreign operation are recognised in OCI—and not in profit or loss—because ‘the changes in exchange rates have little or no direct effect on the present and future cash flows from operations’. The Committee observed that this explanation is also relevant if the foreign operation’s functional currency is hyperinflationary. Accordingly, the Committee concluded that an entity presents in OCI any exchange difference resulting from the translation of a hyperinflationary foreign operation.

**Applying the requirements in IFRS Standards to the restatement and translation effects**

The Committee concluded that, in the fact pattern described in the request, the entity presents:

a. the restatement and translation effects in OCI, if the entity considers that the combination of those two effects meets the definition of an exchange difference in IAS 21; or

b. the translation effect in OCI, if the entity considers that only the translation effect meets the definition of an exchange difference in IAS 21. In this case, consistent with the requirements in paragraph 25 of IAS 29, the entity presents the restatement effect in equity.

In the light of its analysis, the Committee considered whether to add a project on the presentation of exchange differences resulting from the restatement and translation of hyperinflationary foreign operations to its standard-setting agenda. The Committee has not obtained evidence that a project with that scope—undertaken in isolation of other aspects of the accounting for hyperinflationary foreign operations—would result in an improvement in financial reporting that would be sufficient to outweigh the costs. Consequently, the Committee decided not to add the matter to its standard-setting agenda.