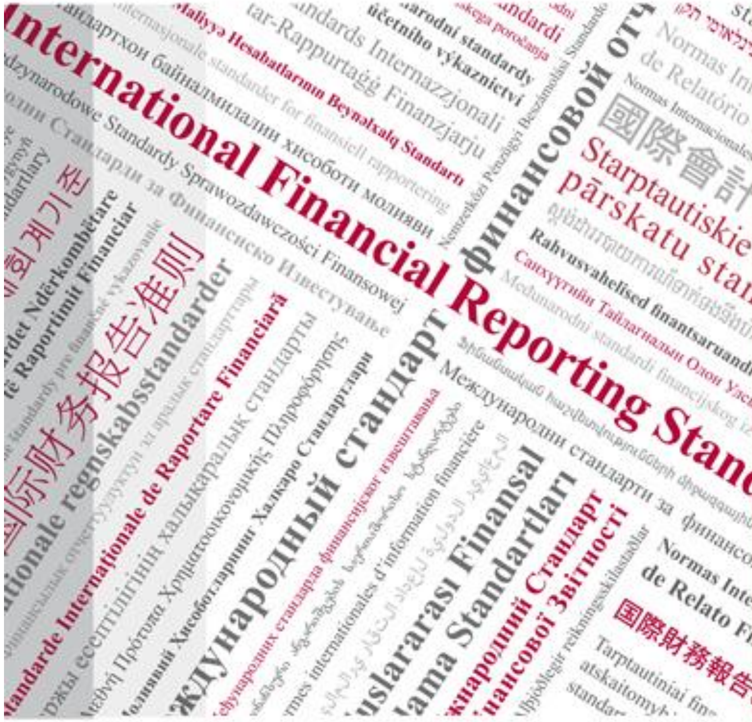
International Financial Reporting Standards



IAS 29 *Financial Reporting in Hyperinflationary Economies*

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CMAC meeting, 27 February 2015
Agenda paper AP2

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

Background

- The IASB has a Standard* that applies to entities for which their functional currency is the currency of a hyperinflationary economy.

- A hyperinflationary economy is characterised by some of the following:
  - the general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power;
  - the general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency;
  - sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short;
  - interest rates, wages and prices are linked to a price index; and
  - the cumulative inflation rate over three years is approaching, or exceeds, 100%.

- The last item on the list tends to attract the most attention when considering what hyperinflation means.

*IAS 29 *Financial Reporting in Hyperinflationary Economies*

Accounting with hyperinflation

- An entity subject to hyperinflation is required to present financial statements that are adjusted using a general price index. The adjustments are designed to adjust all of the reported numbers to a common measuring unit (ie inflation adjusted). Additionally:
  - –The corresponding figures for the previous period, and any information in respect of earlier periods reported, must also be stated in terms of the measuring unit current at the end of the reporting period.
  - –The gain or loss on the net monetary position is included in profit or loss and separately disclosed.
- Once the economy in which the entity has its functional currency emerges from hyperinflation, the measuring unit current at the end of the last reporting period becomes the basis for subsequent reporting under normal IFRS.

Latin America

- In 2010, at the request of the IASB, a group of Latin American standard-setters began looking at issues related to “high” inflation.

- In December 2015 the Brazilian Standard-setter presented a paper to the Accounting Standards Advisory Forum recommending that the “trigger” for the application of IAS 29 be lowered to 26 per cent over three years (ie 8 per cent per annum).

- The Brazilian standard-setter thinks that general price level adjustments should be required for entities in **high inflation** economies, not just those in hyperinflation.

Related issues

- Currency restrictions are sometimes associated with high inflation economies.
- Recently the CMAC, the Global Preparers Forum and the IFRS Interpretations Committee considered restrictions associated with official currency rates in Venezuela.

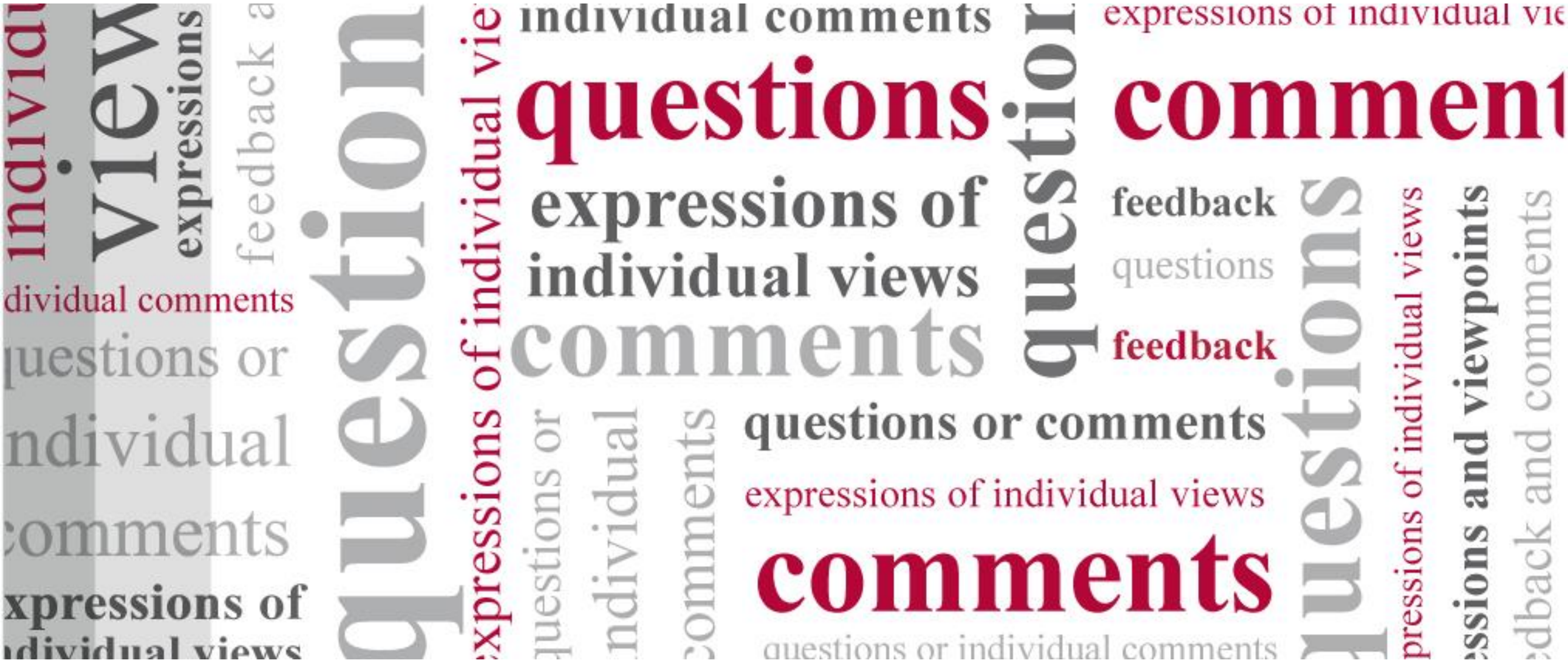
IASB actions

- The IASB will consider the Brazilian request at its meeting in April 2015.

- The staff are likely to recommend that the IASB give this subject a lower priority with the view to removing it from the research agenda for the following reasons:
  - broadening the application of IAS 29 without considering its suitability more generally is risky without further assessment—few entities apply the Standard now and we have heard anecdotal concerns about its requirements;
  - the issue of inflation accounting is a broad and fundamental issue that is best considered in the Conceptual Framework because it should be considered in conjunction with capital maintenance concepts; and
  - issues related to currency restrictions can be more effectively addressed at the Implementation level.

Question for CMAC: Does the CMAC have any comments or concerns about the initial staff assessment?

Thank you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