

**IFRS<sup>®</sup> Interpretations Committee meeting**

<b>Project</b>	<b>Translating a Hyperinflationary Foreign Operation (IAS 21 and IAS 29)</b>		
<b>Paper topic</b>	Initial consideration—Presenting Comparative Amounts when a Foreign Operation First becomes Hyperinflationary		
<b>CONTACT</b>	Vincent Louis Jawaid Dossani	<a href="mailto:vlouis@ifrs.org">vlouis@ifrs.org</a> <a href="mailto:jdossani@ifrs.org">jdossani@ifrs.org</a>	+44 (0)20 7246 6470 +44 (0)20 7332 2742

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**Introduction**

1. The IFRS Interpretations Committee (Committee) received a submission about the application of IAS 21 *The Effects of Changes in Foreign Exchange Rates* and IAS 29 *Financial Reporting in Hyperinflationary Economies*. The submitter asks whether, in particular situations, an entity with a non-hyperinflationary presentation currency restates comparative amounts presented in its annual and interim financial statements for a foreign operation whose functional currency becomes hyperinflationary.
2. The objective of this paper is to:
  - (a) provide the Committee with a summary of the matter;
  - (b) present our research and analysis; and
  - (c) ask the Committee whether it agrees with our recommendation not to add the matter to its standard-setting agenda.

## Structure of the paper

3. This paper includes:
  - (a) background information (paragraphs 5–11);
  - (b) outreach and additional research performed (paragraphs 12–22);
  - (c) staff analysis (paragraphs 23–27); and
  - (d) staff recommendation (paragraphs 28–29).
4. This paper also includes one appendix: Appendix A—Proposed wording of the tentative agenda decision.

## Background information

### *The requirements in IFRS Standards*

5. As explained in paragraph 19 of Agenda Paper 4 for this meeting, an entity that includes the results and financial position of a hyperinflationary foreign operation in its consolidated financial statements:
  - (a) first restates the foreign operation's financial statements applying IAS 29; and then
  - (b) translates those financial statements into its presentation currency applying IAS 21.
6. Applying the restatement approach in IAS 29, the entity would restate the foreign operation's comparative amounts in its consolidated financial statements to reflect the measuring unit currency at the date of the financial position (restate comparative amounts)<sup>1</sup>. The entity then translates the foreign operation's financial statements

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<sup>1</sup> Paragraph 34 of IAS 29 requires an entity to restate comparative amounts. This paragraph states: '[c]orresponding figures for the previous reporting period, whether they were based on a historical cost approach or a current cost approach, are restated by applying a general price index so that the comparative financial statements are presented in terms of the measuring unit current at the end of the reporting period.'

applying paragraph 42 of IAS 21. This paragraph limits the application of the restatement requirement in IAS 29 in relation to comparative amounts. Paragraph 42 of IAS 21 states (emphasis added):

The results and financial position of an entity whose functional currency is the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:

(a) all amounts (ie assets, liabilities, equity items, income and expenses, including comparatives) shall be translated at the closing rate at the date of the most recent statement of financial position, *except that*

(b) when amounts are translated into the currency of a non-hyperinflationary economy, *comparative amounts shall be those that were presented as current year amounts in the relevant prior year financial statements (ie not adjusted for subsequent changes in the price level or subsequent changes in exchange rates).*

7. Paragraph 43 of IAS 21 confirms that an entity does not restate comparative amounts presented when it translates the financial statements of a hyperinflationary foreign operation into a non-hyperinflationary currency (paragraph 28 of Agenda Paper 4 reproduces the requirements in paragraph 43 of IAS 21).

### ***The matter***

8. An entity has a hyperinflationary foreign operation and presents its financial statements in a non-hyperinflationary presentation currency. The submitter asks whether the entity:

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Information that is disclosed in respect of earlier periods is also expressed in terms of the measuring unit current at the end of the reporting period. For the purpose of presenting comparative amounts in a different presentation currency, paragraphs 42(b) and 43 of IAS 21 apply’.

- (a) restates comparative amounts for the foreign operation in its annual financial statements for the period in which the foreign operation becomes hyperinflationary (Question A); and
  - (b) restates comparative amounts for the foreign operation in its interim financial statements in the year after the foreign operation becomes hyperinflationary, if the foreign operation was not hyperinflationary during that comparative interim period (Question B).
9. To illustrate the questions, we use a simplified example. In this example, Entity P:
- (a) has a non-hyperinflationary presentation currency;
  - (b) has an annual reporting date of 31 December;
  - (c) prepares interim financial statements at the end of each quarter applying IAS 34 *Interim Financial Reporting*;
  - (d) presents one year of comparative information; and
  - (e) has a foreign operation that becomes hyperinflationary on 1 July 2018 (ie at the beginning of the third quarter of 2018).

*Question A—Comparative amounts in annual financial statements*

10. The submitter asks whether, in its financial statements for the year ended 31 December 2018, Entity P restates comparative amounts for its foreign operation for the year ended 31 December 2017. In this situation:
- (a) if Entity P were to restate comparative amounts, it would first express those amounts in terms of the measuring unit current at 31 December 2018 and then translate those amounts at the closing rate at that date<sup>2</sup>.

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<sup>2</sup> The submission (see Appendix A of Agenda Paper 4) does not provide detailed information on how an entity would restate comparative amounts. Our description of the restatement approach in this and other paragraphs reflects clarifications we received from the submitter in this respect.

- (b) if Entity P does not restate comparative amounts, those amounts would be unchanged from the amounts presented in Entity P's financial statements at 31 December 2017.

*Question B—Comparative amounts in interim financial statements*

- 11. The submitter asks whether, in its interim financial statements for the period ended 31 March 2019, Entity P restates comparative amounts for its foreign operation for the first quarter ended 31 March 2018<sup>3</sup>. In this case:
  - (a) if Entity P were to restate comparative amounts, it would first express those amounts in terms of the measuring unit current at 31 March 2019 and then translate those amounts at the closing rate at that date.
  - (b) if Entity P does not restate comparative amounts, those amounts would be unchanged from the amounts presented in Entity P's interim financial statements as at 31 March 2018.

**Outreach and additional research performed**

- 12. Paragraphs 8–11 and 15–17 in Agenda Paper 4 for this meeting describe the outreach and additional research performed. The paragraphs below summarise the results of that outreach and research with respect to the matter discussed in this paper.

**Outreach**

- 13. We asked respondents whether, in their experience, entities restate comparative amounts in the situations described in Questions A and B above. Five respondents provided information on this matter. As mentioned in paragraph 12 of Agenda Paper 4, respondents provided information mainly with respect to how entities

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<sup>3</sup> The same matter also arises in interim financial statements for the period ended 30 June 2019 with respect to comparative amounts presented for the period ended 30 June 2018.

account for their Argentinian operations (we understand that Argentina became a hyperinflationary economy—as described in IAS 29—on 1 July 2018).

*Question A—Comparative amounts in annual financial statements*

14. Four respondents said entities do not restate comparative amounts in their annual financial statements in this situation. One respondent also said entities in its jurisdiction do not restate comparative amounts—however, this may be because the amounts are immaterial.

*Question B—Comparative amounts in interim financial statements*

15. Limited information was available as of the date of the outreach (June 2019) with respect to reporting practices for Question B—few entities publish interim financial statements for the period ended 31 March 2019 and entities had not yet published their interim financial statements for the period ended 30 June 2019.
16. Nonetheless, two respondents said entities do not restate comparative amounts in interim financial statements in this situation. One respondent also said entities in its jurisdiction do not restate comparative amounts—however, this may be because the amounts are immaterial. One respondent did not specifically comment on the reporting practices but said diversity is likely.

*Other comment*

17. One respondent disagreed with the approach for restating comparative amounts as described in paragraphs 10(a) and 11(a) of this paper. The respondent said that an entity restating comparative amounts should:
- (a) express those comparative amounts in terms of the measuring unit current at the end of the *comparative* reporting period; and
  - (b) translate those amounts using the closing rate at the end of the *comparative* reporting period.
18. We note that the submission (see Appendix A of Agenda Paper 4) does not provide detailed information on how an entity would restate comparative amounts. However,

the description in paragraphs 10(a) and 11(a) of this paper reflects clarifications we received from the submitter in this respect.

### ***Additional research***

19. We reviewed annual financial statements for the year ended 31 December 2018, and interim financial statements for the period ended 31 March 2019<sup>4</sup>, of 36 entities to identify the accounting policies applied with respect to the situations described in Question A and Question B.

#### *Question A—Comparative amounts in annual financial statements*

20. We identified 29 entities that explicitly disclose not restating comparative amounts related to their Argentinian foreign operations. Those entities generally explain that this is because IAS 21 does not permit the restatement of comparative amounts.
21. The remaining entities do not specifically disclose their accounting policy in this respect. However, we identified no restatements in those entities' financial statements.

#### *Question B—Comparative amounts in interim financial statements*

22. As explained in paragraph 15 of this paper, few entities publish interim financial statements for the period ended 31 March 2019. Only one entity (out of the seven entities publishing interim financial statements for that period) disclosed that it had restated comparative amounts. We identified no restatements in the interim financial statements of the other six entities.

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<sup>4</sup> We reviewed interim financial statements only available in English.

## Staff analysis

### *Diversity in reporting*

23. As explained above, the responses to outreach and our additional research indicate that entities do not restate comparative amounts in their annual financial statements (Question A).
24. The responses to outreach and our additional research also indicate that few, if any, entities restate comparative amounts in their interim financial statements (Question B). We identified only one entity that restated its interim financial statements.
25. Accordingly, we have no evidence of diversity in reporting with respect to Question A and very limited evidence of diversity with respect to Question B.
26. We contacted the submitter who confirmed that it was unaware of any additional evidence of diversity in reporting.

### ***Should the Committee add this matter to its standard setting agenda?***

*Is the matter widespread and expected to have a material effect on those affected?<sup>5</sup>*

27. The outreach and additional research indicate that there is very little (if any) diversity in reporting with respect to the matters described in the submission. Therefore, we have not obtained evidence that those matters are widespread.

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<sup>5</sup> Paragraph 5.16(a) of the *Due Process Handbook*.



### **Staff recommendation**

28. Based on our assessment of the Committee’s agenda criteria in paragraphs 5.16–5.17 of the Due Process Handbook (discussed in paragraph 27 above), we recommend that the Committee not add this matter to its standard-setting agenda.
29. Appendix A to this paper sets out the proposed wording of the tentative agenda decision.

#### **Questions 1 and 2 for the Committee**

1. Does the Committee agree with our recommendation not to add this matter to its standard-setting agenda?
2. Does the Committee have any comments on the proposed wording of the tentative agenda decision set out in Appendix A to this paper?

**Appendix A—Proposed wording of the tentative agenda decision****Presenting Comparative Amounts when a Foreign Operation First becomes Hyperinflationary (IAS 21 *The Effects of Changes in Foreign Exchange Rates* and IAS 29 *Financial Reporting in Hyperinflationary Economies*)**

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 whose functional currency is the currency of a hyperinflationary economy as defined in IAS 29 (hyperinflationary foreign operation); and
- (c) in preparing its consolidated financial statements, translates the results and financial position of the hyperinflationary foreign operation into its presentation currency.

The request asked whether the entity restates comparative amounts presented for the foreign operation in its:

- (a) annual financial statements for the period in which the foreign operation becomes hyperinflationary; and
- (b) its interim financial statements in the year after the foreign operation becomes hyperinflationary, if the foreign operation was not hyperinflationary during the comparative interim period.

On the basis of responses to outreach and additional research performed, the Committee observed little, if any, diversity in the application of IAS 21 with respect to the matters described in the request. Therefore, the Committee has not obtained evidence that the matter has widespread effect.

Consequently, the Committee [decided] not to add this matter to its standard-setting agenda.