IFRS

STAFF PAPER

March 2020

IFRS® Interpretations Committee meeting

Project	**Translation of a Hyperinflationary Foreign Operation (IAS 21 and IAS 29)**		
Paper topic	Comment letters on Tentative Agenda Decision—Presenting Comparative Amounts when a Foreign Operation first becomes Hyperinflationary		
CONTACT(S)	Vincent Louis	vlouis@ifrs.org	+44 (0) 20 7246 6410
	Jawaid Dossani	jdossani@ifrs.org	+44 (0) 20 7332 2742

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 asked whether an entity with a non-hyperinflationary presentation currency:

   (a) restates comparative amounts for a hyperinflationary 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 a hyperinflationary 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).

2. In September 2019, the Committee published a tentative agenda decision. 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 questions in the submission. Therefore, the Committee had not yet obtained evidence

that the matter had widespread effect. Consequently, the Committee tentatively decided not to add this matter to its standard-setting agenda.

3. The objective of this paper is to:

   (a) analyse comments on the tentative agenda decision; and

   (b) ask the Committee whether it agrees with our recommendation to finalise the agenda decision.

Structure of the paper

4. This paper includes the following:

   (a) comment letter summary (paragraphs 6–9);

   (b) staff analysis (paragraphs 10–27); and

   (c) staff recommendation (paragraph 28).

5. There are two appendices to the paper:

   (a) Appendix A—proposed wording of the agenda decision; and

   (b) Appendix B—comment letters.

Comment letter summary

6. We received 12 comment letters by the comment letter deadline. All comment letters received, including any late comment letters, are available on our website[1]. This agenda paper includes analysis of only the comment letters received by the comment letter deadline, which are reproduced in Appendix B.

7. Six respondents (Deloitte, Mazars, the Accounting Standards Board of Japan, the Accounting Standards Committee of Germany, the Institute of Chartered Accountants of Nigeria (ICAN) and Md. Mazedul Islam) agree with the Committee's decision not

[1] At the date of posting this agenda paper, there were no late comment letters.

to add the matter to its standard-setting agenda for the reasons outlined in the tentative agenda decision. Nonetheless,

(a) the ICAN suggests the Committee revisit the agenda decision if circumstances change (ie if there is evidence of diversity in reporting in the future).

(b) Deloitte suggests amending the agenda decision to confirm how the requirements in paragraph 42(a) of IAS 21 apply to the questions in the submission.

8. Some respondents express no disagreement with the Committee's observation of a lack of diversity. Nonetheless, they suggest the Committee analyse the questions in the submission applying IFRS Standards or undertake standard-setting. For example:

(a) KPMG and the Group of Latin American Accounting Standard Setters (GLASS) provide their technical views, and say the lack of observed diversity in reporting does not mean the requirements in IFRS Standards are clear; and

(b) the National Board of Accountants and Auditors (NBAA) [Tanzania] suggests the Committee undertake standard-setting to prevent any possible diversity arising in the future.

9. Respondents' comments, together with our analysis, are presented below.

Staff analysis

Evidence of diversity

Background and update on research

10. As explained in paragraphs 23–25 of Agenda Paper 4C of the Committee's September 2019 meeting (September paper), the responses to outreach and our additional research indicated that:

(a) entities do not restate comparative amounts in their annual financial statements (Question A); and

(b) few, if any, entities restate comparative amounts in their interim financial statements (Question B).

11. Our research involved reviewing annual financial statements for the year ended 31 December 2018—and interim financial statements for the period ended 31 March 2019[2]—of 36 entities to identify the accounting policies applied with respect to the situations described in Question A and Question B.

12. At the time of the September meeting, we noted that few entities published interim financial statements for the period ended 31 March 2019. Only one entity (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.

13. We have updated our research and reviewed interim financial statements for the period ended 30 June 2019. We identified 32 entities that published interim financial statements for this period. Only three entities (of the 32) had restated comparative amounts. We identified no restatements in the interim financial statements of the other 29 entities.

14. In relation to Argentina becoming a hyperinflationary economy, we note that the questions in the submission arise only for 2018 annual financial statements and 2019 interim financial statements for periods ending before 1 July.

Respondents' comments

15. Respondents neither disagree with the Committee's observation of little diversity in the application of IAS 21 with respect to the questions in the submission, nor provide evidence of such diversity.

Staff analysis and conclusion

16. Based on the responses to outreach, comment letters received and our additional research (including the update performed), we continue to agree with the Committee's

[2] We reviewed interim financial statements available in English.

observation that there is little diversity in the application of IAS 21 with respect to the questions in the submission.

Provide a technical analysis or undertaking standard-setting

Respondents' comments

17. Some respondents suggest the Committee analyse the questions in the submission applying IFRS Standards. For example:

    (a) Deloitte says the Committee has received multiple requests about the application of the requirements in IAS 21 to foreign operations that become hyperinflationary. In its view, it would be helpful if the Committee confirmed how the requirements in paragraph 42(a) of IAS 21 apply to the questions in the submission;

    (b) David Hardidge says the Committee has not sufficiently analysed Question B.

18. KPMG suggests the Committee either amend the agenda decision to include technical analysis or undertake standard-setting. It says notwithstanding the lack of diversity in restating comparative amounts, the requirements in IFRS Standards are unclear. KPMG explains why in its view an entity:

    (a) can elect to restate comparative amounts with respect to Question A; and

    (b) is required to restate comparative amounts with respect to Question B, referring to requirements in IAS 29.

19. Similar to KPMG, the GLASS provides its technical analysis of the requirements in IFRS Standards—it explains why in its view entities are required to restate comparative amounts in the questions in the submission. In contrast, the FACPCE (Argentina) explains why in its view entities should not restate comparative amounts.

20. The NBAA acknowledges the lack of diversity but suggests undertaking standard-setting to prevent the development of any possible diversity in the future.

Staff analysis

21. Section 5.16 of the *IFRS Foundation's Due Process Handbook* states:

> …The [Committee] should address issues:
>
> (a) that have widespread effect and have, or are expected to have, a material effect on those affected…

22. Consistent with our analysis in the September paper, the outreach and additional research indicate little diversity in reporting with respect to the questions in the submission. Comments letters on the tentative agenda decision have provided no additional evidence of any such diversity. Therefore, we have not obtained evidence that those matters are widespread.

23. Based on our assessment of the Committee's agenda criteria in paragraph 5.16–5.17 of the *Due Process Handbook*, we continue to agree with the Committee's decision not to add this matter to its standard-setting agenda.

24. We also see little benefit in analysing the questions in the submission—and possibly including explanatory material in the agenda decision—when those matters are not widespread. There are also risks of doing so. We note that:

    (a) the objective of including explanatory material in an agenda decision is to improve the consistency in the application of IFRS Standards. In this situation, we have observed little diversity in the application of IFRS Standards to the questions in the submission.

    (b) there is a risk for the Committee of answering questions relating to matters that are not widespread. The Committee might appear open to acting as a technical enquiry helpdesk in those circumstances, possibly setting a precedent that it will provide technical analysis for any stakeholder question regardless of whether the question arises for one individual or one entity. This is not the Committee's role.

25. The tentative agenda decision does not comment on whether IFRS Standards provide an adequate basis for a company to determine its accounting. It simply outlines the Committee's observation that, in applying paragraph 42(b) of IAS 21, entities

generally do not restate comparative amounts in their interim or annual financial statements in the situations described in Question A and Question B.

Conclusion

26. Based on our analysis, we continue to agree with the Committee's tentative decision:

 (a) not to analyse the questions in the submission applying IFRS Standards; and

 (b) not to add the matter to its standard-setting agenda.

Other comments

27. The table below summarises other comments together with our analysis of those comments:

Respondents' comments	**Staff analysis and conclusion**
Md. Mazedul Islam suggests that entities disclose additional information in these situations.	Paragraph 17(c) of IAS 1 *Presentation of Financial Statements*[3] requires an entity to provide additional disclosures when necessary. We think no change is needed to the agenda decision in this respect.

Staff recommendation

28. On the basis of our analysis, we recommend finalising the agenda decision as published in the September 2019 IFRIC® *Update*, with small changes to reflect the updated analysis and findings. Appendix A to this paper sets out the proposed wording of the final agenda decision.

[3] Paragraph 17 of IAS 1 states: '…A fair presentation also requires an entity… (c) to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.'

Question for the Committee
Does the Committee agree with our recommendation to finalise the agenda decision set out in Appendix A to this paper?

Appendix A—proposed wording of the agenda decision

A1. We propose the following wording for the final agenda decision (new text is underlined and deleted text is struck through).

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) translates the results and financial position of the hyperinflationary foreign operation into its presentation currency in preparing its consolidated financial statements.

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

(a) its 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, comment letters received and additional research performed, the Committee observed little~~, if any,~~ diversity in the application of IAS 21 with respect to the questions in the request—in applying paragraph 42(b) of IAS 21, entities generally do not restate comparative amounts in their interim or annual financial statements in the situations described above. Therefore, the Committee has not ~~[yet]~~ obtained evidence that the matter has widespread effect.

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

Appendix B––comment letters

KPMG IFRG Limited
15 Canada Square
London E14 5GL
United Kingdom

Tel +44 (0) 20 7694 8871
chris.spall@kpmgifrg.com

Ms Sue Lloyd
International Accounting Standards Board
Columbus Building
7 Westferry Circus
London
E14 4HD

Our ref CS/288

20 November 2019

Dear Ms Lloyd

Tentative agenda decisions: Translating a Hyperinflationary Foreign Operation (IAS 21 and IAS 29)

We appreciate the opportunity to comment on the following tentative agenda decisions (TADs) of the IFRS Interpretations Committee (the Committee):

- Translation of a Hyperinflationary Foreign Operation: Presenting Exchange Differences
- Cumulative Exchange Differences arising before a Foreign Operation becomes Hyperinflationary
- Presenting Comparative Amounts when a Foreign Operation First becomes Hyperinflationary

We have consulted with, and this letter represents the views of, the KPMG network.

We do not support finalising the TADs as currently drafted. Below, we first set out our comments on the technical analysis in relation to each of the three TADs and the current requirements of IFRS standards. We then set out our recommendation for a long-term solution to clarify the issues and to promote consistent application of IFRS standards.

Translation of a Hyperinflationary Foreign Operation: Presenting Exchange Differences

With respect to the first tentative agenda decision, we support the Committee's tentative conclusion that, in the fact pattern described in the request, an entity could either present:

- the restatement and translation effects in other comprehensive income (OCI), or
- the translation effect in OCI and the restatement effect directly in equity.

However, we also believe that it would be permissible for an entity to present the combination of the restatement effect and the translation effect directly in consolidated equity and we disagree with the Committee's apparent tentative view that such an approach is not permitted. The arguments for allowing this alternative approach are as follows:

— The TAD makes reference to the requirements in IAS 21.41 and says that 'the Committee observed this explanation also applies if the functional currency is hyperinflationary.' However, IAS 21.41 does not apply when the functional currency of the foreign operation is hyperinflationary. IAS 21.41 is expanding on IAS 21.39 which states that it applies when the functional currency of the foreign operation is not hyperinflationary. Extending the mandatory applicability of IAS 21.41 to a hyperinflationary environment, when it clearly is focused solely on a non-hyperinflationary environment, seems to be an interpretation rather than a matter to be resolved through an agenda decision.

— Because of the economic interrelationship between the changes in exchange rate and inflation, the hyperinflation and translation effects are interlinked and generally presented together (i.e. as prices measured in the hyperinflationary currency increase, its value against other currencies tends to decrease at a rate that reflects the excess of price inflation in the hyperinflationary currency compared to price inflation in other currencies). Specifically, IAS 21.43 states: "When an entity's functional currency is the currency of a hyperinflationary economy, the entity shall restate its financial statements in accordance with IAS 29 before applying the translation method set out in paragraph 42 [i.e. all amounts translated at the closing rate at the end of the current period], except for comparative amounts that are translated into a currency of a non-hyperinflationary economy." The language and guidance does not contemplate computation of any exchange differences or their separate presentation as a gain or loss in comprehensive income. Proponents of this approach argue that it would not be economically meaningful to provide a split since the remeasurement process under IAS 29 will generally give rise to large increases in the local currency amount of net assets which usually are offset by devaluation in the exchange rate. Indeed, this is why IAS 21 requires all amounts to be translated at year-end exchange rates. Accordingly, proponents argue that IAS 21 does not permit computation of any exchange differences based on first retranslating the current year local-currency IAS 29 financial statements at last year's exchange rate. This approach is quite different from identifying exchange differences arising from remeasurement of foreign currency transactions (which IAS 21 explicitly requires to be included in profit or loss) and identifying those arising from retranslation of the financial statements of a non-hyperinflationary operation (which IAS 21 explicitly requires to be included in other comprehensive income).

— IAS 21 and IAS 29 require a comprehensive remeasurement of the financial statements of a hyperinflationary subsidiary and any adjustments to the measurement of the assets and liabilities of the subsidiary arising from that process are matched by equal and opposite adjustments to the components of equity of the subsidiary. In effect, it may be argued that the changes in equity result from changes in the measuring unit applied to the net investment in the foreign operation. IAS 29 does not view these changes as giving rise to gains or losses, but instead treats them as adjustments to the corresponding equity balances (as per IAS 29.25).

— Also, as corroborated by the staff's research, it seems that there are a number of entities that present both the restatement effect and the translation effect directly in consolidated equity in practice.

Cumulative Exchange Differences arising before a Foreign Operation becomes Hyperinflationary

With respect to the second tentative agenda decision, we would support the Committee's conclusion that in the fact pattern described in the request the entity could retain the pre-hyperinflation foreign currency translation reserve as a separate component of equity until disposal of the foreign operation. However, we believe that the so-called "reclassification" within equity of the pre-hyperinflation translation reserve could also be an acceptable approach and we disagree with the Committee's tentative view that it is not acceptable. We believe that "reclassification" would be an acceptable alternative approach if the entity has adopted a policy to present the restatement effect and the translation effect directly in consolidated equity, as discussed above. In this case, the foreign currency translation reserve is not simply reclassified but rather it is remeasured as nil as a result of retrospective application of the new policy. The arguments for allowing this alternative approach are as follows:

— IFRIC 7.3 and IFRIC 7.BC17 clearly state that the amounts presented at the date of initial application of IAS 29 are calculated as if the currency had always been hyperinflationary, similar to retrospective application of a change in accounting policy. Indeed, the "as if" terminology comes from IAS 8.22 which is the core statement in IFRS as to what retrospective application means. It seems entirely reasonable for an entity to conclude that this retrospective approach would apply also to recalculation of the previous foreign currency translation reserve, just as an entity would apply IAS 21 to changes to foreign currency balances arising on retrospective adoption of other requirements.

— The requirements in IAS 21.39(c) and 41 are not applicable to hyperinflationary economies. In addition, IAS 29.24 states that: "[…] at the beginning of the first period of application of the Standard, the components of owners' equity, except retained earnings and any revaluation surplus, are restated […] any revaluation surplus that arose in previous periods is eliminated. Restated retained earnings are derived from all other amounts in the restated statements of financial position." Consequently, the first application of IAS 29 generates an overall restatement of the opening equity components of the foreign operation whose functional currency becomes hyperinflationary during the financial year. This restatement is relevant also in determining opening equity in the group financial statements, even if the comparatives presented for the prior period are not restated.

— Furthermore, as corroborated by the staff's research, it seems that there are a number of entities that have reclassified within equity the pre-hyperinflation translation reserve in practice.

Presenting Comparative Amounts when a Foreign Operation First becomes Hyperinflationary

With respect to the third agenda decision, we note that the TAD does not provide any technical analysis or insights. The mere fact that the Committee has not observed significant diversity with respect to presentation of comparatives on first application does not mean that the requirements of IFRS standards are clear.

We believe that it is unclear in the current IFRS standards whether on first application of hyperinflationary accounting an entity should restate its comparatives for price changes in prior periods if its presentation currency is not hyperinflationary. In our view, an entity should choose an accounting policy, to be applied consistently, on whether it restates its comparatives in these circumstances. If the entity chooses to restate its comparatives in these circumstances, then they are measured in purchasing power in the functional currency at the previous reporting date and translated into the presentation currency at the closing exchange rate at the previous reporting date.

Also, we believe that an entity would be required to restate comparative amounts in 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. This is because:

— IAS 29 is required to be applied from the start of the annual period in which hyperinflation is identified (see IAS 29.4).

— So, for example, if hyperinflation was identified in Q3 of the comparative year, then IAS 29 should have been applied from the start of Q1 of the comparative year. Indeed IAS 29 would have been applied on this basis in the annual financial statements for the comparative year.

— It is therefore reasonable in this example to expect that any re-presentation of information for Q1 or Q2 of the previous year would be prepared on a consistent basis using IAS 29. In any event, calculating IAS 29 amounts for Q1 and Q2 of the comparative year would have been necessary in order to prepare IAS 29 information for Q3 of the comparative year.

Recommendation to the Committee

Overall, it appears that the IFRS standards are not clear on the issues under discussion. Given that the issues are narrow in scope, we believe that they would be most efficiently resolved through an interpretation or amendment of IAS 21 and/or IAS 29.

If the Committee decides not to proceed with developing an interpretation or amendment of IAS 21/ IAS 29, then we recommend the Committee amends the TADs consistent with our substantive comments on the technical analysis set out above.

Please contact Chris Spall on +44 (0) 20 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

KPMG IFRG Limited

KPMG IFRG Limited

cc: Brian O'Donovan, KPMG

Deloitte Touche Tohmatsu Limited
Hill House
1 Little New Street
London
EC4A 3TR

Phone: +44 (0)20 7936 3000
Fax: +44 (0)20 7583 0112
www.deloitte.com/about

Direct phone: +44 20 7007 0884
vepoole@deloitte.co.uk

25 November 2019

Sue Lloyd
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London
United Kingdom
E14 4HD

Dear Ms Lloyd

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*)

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the September 2019 IFRIC Update of the tentative decision not to take onto the Committee's agenda the request for clarification on whether the entity restates comparative amounts presented for the foreign operation in its annual financial statements for the period in which the foreign operation becomes hyperinflationary and 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.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision.

We note by the multiple requests submitted to the Committee that the application of IAS 21 to foreign operations that become hyperinflationary raises questions by stakeholders. To assist in that regards, we believe that it would be useful if the agenda decision confirmed how the requirements of IAS 21 paragraph 42(b) apply to comparative amounts in interim and annual financial statements when the entity has a foreign operation that becomes hyperinflationary and the entity's financial statements are presented in the currency of a non-hyperinflationary economy.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

Veronica Poole
Global IFRS Leader

MAZARS

Mrs Sue Lloyd

IFRS Interpretations Committee

Columbus Building,
7 Westferry Circus, Canary Wharf

London E14 4HD
United Kingdom

Paris, 25 November 2019

Tentative Agenda Decisions – IFRIC Update September 2019

Dear Sue,

MAZARS is pleased to comment on the various IFRS Interpretations Committee Tentative Agenda Decisions published in the September 2019 IFRIC Update.

We have gathered all our comments as appendices to this letter, which can be read separately and are meant to be self-explanatory.

We would like to draw your attention to the issue of training costs to fulfil a contract. While we agree that IAS 38, because its scope explicitly includes training costs, leads to expense those costs when incurred, we question the relevance of this outcome when the training costs are specific to a contract with a customer (they are not general training and cannot be useful to contracts with other customers), are essential for the entity to provide the promised goods or services, and are explicitly chargeable to the customer.
In that situation we believe that the 3 criteria for capitalization of costs in IFRS 15.95 are met, and we do not find it relevant to expense them on the basis of an old standard that probably needs to be revisited.
We therefore believe that the Committee should refer this issue to the Board for further analysis.

61, rue Henri Regnault - 92075 - Paris La-Défense Cedex
Tel: +33 (0)1 49 97 60 00 - Fax: +33 (0)1 49 97 60 01 - www.mazars.fr

MAZARS

Should you have any questions regarding our comments on the various tentative agenda decisions, please do not hesitate to contact Michel Barbet-Massin (+33 1 49 97 62 27) or Edouard Fossat (+33 1 49 97 65 92).

Yours faithfully

Michel Barbet-Massin

Financial Reporting Advisory

Edouard Fossat

MAZARS

Appendix 1

Translation of a Hyperinflationary Foreign Operation: Presenting Exchange Differences (IAS 21 and IAS 29)

https://www.ifrs.org/projects/work-plan/translation-of-a-hyperinflationary-foreign-operation-presenting-exchange-differences/comment-letters-projects/tad-translation-of-a-hyperinflationary-foreign-operation-presenting-exchange-differences/

We agree with the Committee's conclusion that any exchange difference resulting from the translation of a foreign operation shall be presented in OCI, irrespective of whether the currency of the foreign operation is that of a hyperinflationary economy.

We also agree with the Committee that IAS 21 is not clear as to whether the exchange difference relating to the hyperinflationary foreign operation corresponds to the translation effect alone, or also encompasses the IAS 29 restatement effect.

On that basis, the presentation in the statement of financial position of the IAS 29 restatement effect and the translation effect should be consistent with the analysis made by an entity of what encompasses exchange differences:

- If the entity considers that only the translation effect meets the definition of an exchange difference, then the restatement effect shall be recognized through equity and the translation effect in OCI;
- If the entity considers that the combination of restatement and translation effects meets the definition of an exchange difference, both effects shall be recognized in OCI.

Cumulative Exchange Differences arising before a Foreign Operation becomes Hyperinflationary (IAS 21 and IAS 29)

https://www.ifrs.org/projects/work-plan/cumulative-exchange-differences-arising-before-a-foreign-operation-becomes-hyperinflationary/comment-letters-projects/tad-cumulative-exchange-differences-arising-before-a-foreign-operation-becomes-hyperinflationary/

We agree with the Committee that pre-hyperinflation exchange differences shall not be reclassified within equity at the beginning of the period during which the foreign operation becomes hyperinflationary. The only reclassification of pre-hyperinflation exchange differences will arise on disposal of the foreign operation according to IAS 21 paragraph 48.

Some consider that such a reclassification is needed because pre-hyperinflation exchange differences and the effect of the IAS 29 restatement when the foreign operation first becomes

~~hyperinflationary are of similar nature and should therefore be offset in the financial statements. That analysis should lead to consider that the combination of the restatement effect and the translation effect meets the definition of an exchange difference. In that case, the entity will present the first IAS 29 restatement effect within exchange differences in a separate component of equity.~~

Presenting Comparative Amounts when a Foreign Operation First becomes Hyperinflationary

https://www.ifrs.org/projects/work-plan/presenting-comparative-amounts-when-a-foreign-operation-first-becomes-hyperinflationary/comment-letters-projects/tad-presenting-comparative-amounts-when-a-foreign-operation-first-becomes-hyperinflationary/

Considering the outcome of the outreach conducted by the staff on that issue, we agree with the Committee's decision not to add this matter to its standard-setting agenda.

Building a better
working world

Ernst & Young Global Limited
6 More London Place
London
SE1 2DA

Tel: +44 [0]20 7980 0000
Fax: +44 [0]20 7980 0275
ey.com

INVESTOR IN PEOPLE

International Financial Reporting Standards
Interpretations Committee
IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD

5 November 2019

Dear IFRS Interpretations Committee members,

Tentative agenda decision (*IFRIC Update* September 2019) -

- ***Translating a Hyperinflationary Foreign Operation—Presenting Exchange Differences (IAS 21 The Effects of Changes in Foreign Exchange Rates and IAS 29 Financial Reporting in Hyperinflationary Economies)—Agenda Paper 4A***
- ***Cumulative Exchange Differences before a Foreign Operation becomes Hyperinflationary (IAS 21 and IAS 29)—Agenda Paper 4B***
- ***Presenting Comparative Amounts when a Foreign Operation first becomes Hyperinflationary (IAS 21 and IAS 29)—Agenda Paper 4C***

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the above tentative agenda decisions of the IFRS Interpretations Committee ('Committee') published in the September 2019 *IFRIC Update*.

The Committee received a request about several aspects of the application of IAS 21 and IAS 29. The Committee concluded in each of the three resulting tentative agenda decisions 'not to add the matter to its standard-setting agenda'. However, we note that IAS 29 is an old standard that has never been fully reconsidered by the IASB. In particular, IAS 29 is complex to apply by preparers, while the quality of the resulting information for users relies greatly on the reliability of the inflation statistics and an exchange rate that is not severely distorted. In addition, the interaction with IAS 21 is not fully defined and is prone to result in anomalous outcomes. We recommend that staff conduct further outreach to understand how investors use the information that results from the application of IAS 21 and IAS 29 and how the usefulness of the information compares to US GAAP, which applies a very different approach. In our view, the decision whether standard-setting is required should be left to the Board as this would involve a much broader project.

Tentative Agenda Decision – Paper 4A
The Committee concluded that '… either the translation effect alone meets the definition of an exchange difference, or the combination of the restatement and translation effects meets that definition'. In our experience, not combining the restatement and translation effects results in problematic outcomes. As illustrated in the Appendix, when calculated separately,

the cumulative restatement effect and the cumulative translation effect depend on the frequency of financial reporting. This effect is exceptionally strong when the exchange rate is not free floating and the devaluations lag the incidence of local inflation. The Committee should explicitly consider this issue before reaching a final conclusion on the separation of the translation effect.

We would be happy to meet with you at your convenience to discuss this issue and other matters related to the concepts and mechanics underlying the standard.

Tentative Agenda Decision – Paper 4B
With respect to the treatment of the cumulative exchange differences before a foreign operation becomes hyperinflationary, the Committee concluded that '… the entity retains the cumulative pre-hyperinflation exchange differences as a separate component of equity … until disposal of the foreign operation'. In the fact pattern described, we agree with the conclusion that the difference should not be reclassified within equity or to profit or loss. However, we note that the Committee does not address the equally important and related questions:

- Where an entity should report the retrospective IAS 29 restatement effect; and
- Whether and where an entity should report the retrospective IAS 21 translation effect on the retrospective IAS 29 restatement effect (i.e., the application of IAS 29 retrospectively changes the profile of the net foreign investment in the past).

A true retrospective application of IAS 21 is even more complex as it would involve determining the impact on assets that are no longer owned and also the need to disentangle it from the closely intertwined IAS 29 effect (see Appendix).

In our view, the Committee should consider whether it might be appropriate to require the combined restatement and translation effect to be accounted for as part of the currency translation component of equity.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas at the above address or on +44 (0)20 7951 3152.

Yours faithfully

Ernst + Young Global Limited

Appendix – Impact of frequency of reporting on IAS 21 and IAS 29 calculations

The two tables below illustrate the following fact pattern:

- The local currency (LCU) is hyperinflationary
- The reporting currency (RCU) is not hyperinflationary
- The LCU/RCU exchange rate is managed by local authorities and moves as follows:
  - 31 December 2018 1.00 LCU = 1.00 RCU
  - 30 June 2019 1.00 LCU = 1.00 RCU
  - 31 December 2019 1.50 LCU = 1.00 RCU
- The Consumer Price Index (CPI) in the hyperinflationary economy moves as follows:
  - 31 December 2018 CPI = 100
  - 30 June 2019 CPI = 135
  - 31 December 2019 CPI = 150
- The subsidiary in the hyperinflationary economy owns a single non-monetary asset with a carrying amount of LCU 1,000 on 31 December 2018
- Comparing Tables 1 and 2, it is clear that the cumulative restatement effect and the cumulative translation effect depend on the frequency of financial reporting
- This also means that a catch-up effect calculated for, say, a single two-year period would differ from the cumulative effect calculated over eight quarters covering the same period

Table 1

	Fx rate LCU/RCU	*CPI*	*Asset local currency*	*Asset reporting currency*	*Effect IAS 21*	*Effect IAS 29*
31/12/2018	1.00	100	1,000	1,000		
30/06/2019	1.00	135	1,350	1,350	0	350
31/12/2019	1.50	150	1,500	1,000	-450	100
				Total	-450	450

Table 2

	Fx rate LCU/RCU	*CPI*	*Asset local currency*	*Asset reporting currency*	*Effect IAS 21*	*Effect IAS 29*
31/12/2018	1.00	100	1,000	1,000		
31/12/2019	1.50	150	1,500	1,000	-333	333
				Total	-333	333

Grupo Latinoamericano
de Emisores de Normas
de Información Financiera

Group of Latin American
Accounting Standard Setters

November 22, 2019

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

RE: Tentative Agenda Decision— Presenting Comparative Amounts when a Foreign operation first becomes Hyperinflationary

Dear members of the IFRS Foundation:

The "Group of Latin American Accounting Standard Setters" – GLASS welcomes the opportunity to comment on the Tentative Agenda Decision Project — **Presenting Comparative Amounts when a Foreign operation first becomes Hyperinflationary** - (the Project).

This response summarizes the views of the directors of the different country's members of the GLASS Board[1] , in accordance with the following due process.

Our position arises from a **general conceptual analysis** of the interaction between IAS 21, IAS 19 and other standards serves as the basis for answering the three points presented as "Tentative Agenda Decisions":

- Tentative Agenda Decision—Cumulative Exchange Differences arising before a Foreign Operation becomes Hyperinflationary (IAS 21 and IAS 29) -
- Tentative Agenda Decision—Presenting Comparative Amounts when a Foreign Operation First becomes Hyperinflationary
- Tentative Agenda Decision—Translation of a Hyperinflationary Foreign Operation: Presenting Exchange Differences (IAS 21 and IAS 29)

The document presenting the aforementioned analysis is attached as part of this response.

Due process

Discussions regarding the modifications proposed in the project were held within a specific Technical Working Group (GTT) created in October 2019, basically formed by GLASS directors representing 9 countries, taking the experience produced in those countries that are experiencing hyperinflation processes.

The GTT discussed the different views included in the summary through teleconferences. In these calls, the GTT developed a final document based on the consensual responses and technical views of all its members. Finally, the GTT document was submitted to and approved by the GLASS Board.

[1] The overall objective of the Group of Latin American Accounting Standard Setters (GLASS) is to present technical contributions with respect to all Exposure Drafts issued by the IASB. Therefore, GLASS aims to have a single regional voice before the IASB. GLASS Board is constituted by: Argentina (Chairman), Mexico (Vice Chairman), Brazil, Chile, Colombia, Costa Rica, Peru, Uruguay and Venezuela.

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General comment

We have read the Decision of the Tentative Agenda of the IFRS Interpretations Committee held on September 17, 2019, which deals with “the project”.

We believe that we can provide useful information based on our experience with this matter, taking into account that many countries in the region had, and some have, high inflation for prolonged periods related to the presentation of financial information in hyperinflationary environments.

Our technical group has developed a study document (attached) related to the application of IFRS in the described context, identifying what we consider the appropriate application of IFRS in its entirety and the accounting treatment that will be applied in the circumstances.

The agenda decision explains that *“whether the entity restates comparative amounts presented for the foreign operation in: (a) its 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”,* and continues: “*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 questions in the request—in applying paragraph 42(b) of IAS 21, entities generally do not restate comparative amounts in their interim or annual financial statements in the situations described above. Therefore, the Committee has not [yet] obtained evidence that the matter has widespread effect. Consequently, the Committee [decided] not to add this matter to its standard-setting agenda.*

Based on our analysis in the document Annex, we understand that comparative information must be restated

Accordingly, because of our conclusions on the matter we ask the IFRS IC to include the submission in its agenda because we consider it is a very relevant issue, with widespread effect and with severe difficulties of understanding in economic environments where hyperinflation never exists or at least doesn’t exist for the last 40 years.

We offer our collaboration with the staff or the committee in the development of the future interpretation in order to produce the input you consider necessary

Contact

If you need to ask some questions about our comments, please contact glenif@glenif.org

Kind regards

Jorge Gil
Chairman
Group of Latin American Accounting Standard Setters (GLASS)

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ANEXX – STUDY PAPER

Measurement of the participation in a Subsidiary

The case raised has the following characteristics:

- The controlling entity has a presentation currency that is not the currency of a hyperinflationary economy as defined in IAS 29;
- The controlling entity 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
- The controlling entity translates the results and financial position of the hyperinflationary foreign operation into its presentation currency in preparing its consolidated financial statements.

Applicable standards:

- The wright application of IFRS requires that all the applicable standards to a particular event or situation have to be considered, and that they have to be applied in its entirety in order to meet the requirements for application of IFRS.
- Measurement of assets, liabilities, income and expense of the period and OCI of the period of the subsidiary for the purpose of consolidation - IFRS 10 *Consolidated Financial Statements*
- Restatement of the measurements of assets, liabilities, income and expense of the period, OCI of the period and Equity, in a hyperinflationary economic environment - IAS 29 *Financial Reporting in Hyperinflationary Economies*
- Translation of the functional currency of the subsidiary (hyperinflationary – i.e. Argentine Peso) to the presentation currency of the controlling entity (not hyperinflationary – i.e. US Dollar) - IAS 21 *The Effects of Changes in Foreign Exchange Rates*

Analysis:

- IFRS 10 doesn't include in its text much details on the consolidation mechanism, which is substantially consistent with the one used for the measurement of participations in other entities using the equity method, contemplated and developed by IAS 28.
- The consolidation mechanism consists basically in incorporating the assets and liabilities of a subsidiary into the consolidated statements, replacing the recognized amount of the participation in the said entity as investment in its separate statements. This also implies the recognition of the causes that generate variations in the investment in the subsidiary, that is to say the variations originated in results of the period, OCI of the period, contributions from and dividends to the stockholders.
- It is also sometimes necessary to modify the amount of participation on the subsidiary recognized, for reasons other than those mentioned, which is the case of changes in equity of the subsidiary due to the recognition of errors from previous periods or retrospective changes in equity because of changes in accounting policies.

- Paragraph 3 of IAS 28 describes the applicable method to the measurement of participation in other entities: *The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income.* This expression is complemented by the statements included in paragraph 26 of the same standard that are transcribed below: *26. Many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in IFRS 10. Furthermore, the concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted in accounting for the acquisition of an investment in an associate or a joint venture.*
- The transcribed definitions do not contemplate all the causes of the variations, but they are complemented with paragraph 10 of that standard that states: *10. Under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the investee's profit or loss is recognised in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The investor's share of those changes is recognised in the investor's other comprehensive income (see IAS 1 Presentation of Financial Statements).*
- It can be concluded that IAS 28 requires that all variations that do not arise from reciprocal transactions between the subsidiary and other companies of the group (those that must be eliminated) must be recognized with counterpart in the same concept that gave rise to their recognition in the subsidiary. Thus, the participation in profit or loss for the period must be done under the same concept in the consolidated statements (or in the separate statements of the controlling entity) and the same occurs with all other causes of variations that are recognised, among which can be found retrospective modification of the subsidiary equity that must be recognized, by analogy, as retroactive changes in equity of the controlling entity.
- In that sense, it is clear that the treatment in profit or loss of the period, OCI of the period and other items of Equity must be similar whether it is a subsidiary that must be consolidated or an associate or joint venture that must be recognised using the equity method. Although it is not explicitly established in IAS 28, we can conclude by analogy with the underlying logic in its mechanics that, in case the investee retroactively corrects the magnitude of its assets, for example by the recognition of an error or a change In accounting policy, the controlling entity must make a retrospective correction in the measurement of the book value of the participation in the subsidiary in a similar manner, and its reflection in its equity in the same manner adopted by the investee.

- In the case under analysis, we observe that although the application of IAS 29 for the first time is considered a "change in circumstances", the mechanics described by said standard require that the restatement of the values of assets, liabilities and equity of the entity must be carried out retroactively at the beginning of the oldest period presented, which indicates that the way of recognition have to be identical to that required for cases of errors and changes in accounting policies described in IAS 8.
- Continuing with the previous reasoning, an investor must reflect the change in the magnitude of the equity of the investee at the beginning of the comparative period that is presented, in the same way as the investee, that is to say, modifying the value of the participation in the subsidiary proportionally at the same date, in order to coincide with its equivalent participation in the equity of the investee.
- In the subsidiary, the change in equity results from changes in:

  a) the measurement of the contributions by the stockholders,

  b) the measurement of the items that reflect the accumulated OCI, and

  c) the measurement of the accumulated income.

  Therefore, the controlling entity should reflect the change in the measurement of its participation in the investee with counterpart in the equivalent concepts.

- An additional complexity arises when the controlling entity, as is the case, has a functional or presentation currency that is different, and it is not hyperinflationary (for example, US Dollar). In that case, the net effect arising from the impact of inflation on the economic environment of the investee and the change between the exchange rates of the hyperinflationary currency of the investee and that of the non-hyperinflationary currency of the controlling entity
- This situation generates an exception to the described treatment, which occurs as a result of having to recognize changes in the participation on the subsidiary that have no effect on the investee's equity, which is the one that arises from the need to convert to the presentation currency of the controlling entity (or the functional currency of the entity that has joint control or significant influence), which does not match the functional currency of the investee. This is because at the level of the investee, said situation does not generate any effect on the measurement of its equity, but it does affect the measurement of the investment of the parent in the investee, made in the presentation currency of the group or in the functional currency of the controlling entity in its separate financial statements

Conclusion:

- In the case presented, the wright and comprehensive application of IFRS requires that it proceed as follows:

  a) The investee must correct its financial statements retrospectively <u>at the</u> <u>beginning</u> of the comparative period of the year in which the existence of hyperinflation was identified. Said restatement will result in changes in the measurement of its assets, in the measurements of contributions of owners, in the accumulated OCI and in Accumulated Income by application of the procedures provided in IAS 29.

b) The new measurements of the equity components at that date must be translated at the historical exchange rate with the presentation currency of the controlling entity or the functional currency of the investment entity. The exchange rate is the same as the one used for the measurement of these concepts at the time of recognition, prior to the identification of the existence of hyperinflation in the functional currency of the subsidiary or investee.

a) The differences that arise in the accumulated OCI and in Accumulated Income of the investee at said date, measured in the presentation currency of the controlling entity or the functional currency of the investing entity, will be recognized in the controlling or investing entity respectively in the participation on the OCI of subsidiaries or associates accumulated and in accumulated income and those corresponding to the contributions of owners in accumulated translation differences.

b) The investee must correct its financial statements retrospectively at the closing date of the comparative period of the year in which the existence of hyperinflation was identified. Said restatement will result in changes in the measurement of its assets, in the measurements of contributions of owners, in the accumulated OCI and in Accumulated Income by application of the procedures provided in IAS 29.

c) The measurements of the items must be translated using the closing exchange rate of the period between the investee's hyperinflationary functional currency and the presentation currency of the controlling entity or the functional currency of the investment entity.

d) The difference in the equity measurement at the closing date determined in d) and the equivalent measurement of the initial equity determined in b) corrected by the changes measured in d) must be recognized in the OCI of the period in the item that reflects the difference in translation between currencies..

e) The same procedure has to be applied for the period in which the existence of hyperinflation is identified.

- A simple example of application of the concepts described here is attached, where they are identified at the beginning of the period of application of IAS 29 in Argentina (01/01/2017) and their subsequent recognition both in profit and loss and in OCI.

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APPLICATION EXAMPLE OF THE PREVIOUS CONCEPTS

Argentine Subsidiary (Amounts in nominal AR$)				
	01/01/17	31/12/17	31/12/18	31/12/19
Items	AR$	AR$	AR$	AR$
Monetary Assets	100,00	349,00	674,00	1.051,00
Non Monetary Assets	900,00	855,00	810,00	765,00
Liabilities	0,00	-120,00	-260,00	-410,00
Contributed Capital	-1.000,00	-1.000,00	-1.000,00	-1.000,00
Retained earnings	0,00	0,00	-84,00	-224,00
Profit & Loss of the period	0,00	-84,00	-140,00	-182,00
Control	0,00	0,00	0,00	0,00
Revenue		-600,00	-1.000,00	-1.600,00
Cost of sales (Except depreciation)		375,00	665,00	1.155,00
Depretiation of NM Assets		45,00	45,00	45,00
Other expenses		60,00	90,00	140,00
Income Tax		36,00	60,00	78,00
P&L of the period	0,00	-84,00	-140,00	-182,00

CPI Index Closing date	100,00	130,00	210,00	300,00
CPI Index Period average		115,00	170,00	255,00
US$ Exchange rate Closing date	10,00	11,00	17,00	25,00
US$ Exchange rate Period average		10,50	14,00	21,00
Net investment in Arg Subs	100,00	98,55	72,00	56,24
Net income (expense) from Arg Subs	0,00	7,64	8,24	7,28
Accumulated income (expense) for inv foreign operation	0,00	7,64	15,87	23,15
OCI for inv in foreign operation - income (expense)	0,00	-9,09	-34,78	-23,04
Accumulated OCI for inv foreign operation - income (expense)	0,00	-9,09	-43,87	-66,91

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Argentine Subsidiary (Amounts in restated AR$)				
	01/01/17	31/12/17	31/12/18	31/12/19
Items	AR$	AR$	AR$	AR$
Monetary Assets	100,00	349,00	674,00	1.051,00
Non Monetary Assets	900,00	1.111,50	1.701,00	2.295,00
Liabilities	0,00	-120,00	-260,00	-410,00
Contributed Capital	-1.000,00	-1.300,00	-2.100,00	-3.000,00
Retained earnings	0,00	0,00	-65,42	-21,43
Profit & Loss of the period	0,00	-40,50	50,42	85,43
Control	0,00	0,00	0,00	0,00
Revenue		-678,26	-1.235,29	-1.882,35
Cost of sales (Except depreciation)		423,91	821,47	1.358,82
Depretiation of NM Assets		58,50	94,50	135,00
Other expenses		67,83	111,18	164,71
Inflation effect (Gain) Loss		46,83	184,45	217,49
Income Tax		40,70	74,12	91,76
P&L of the period	0,00	-40,50	50,42	85,43

Net investment in Arg Subs	100,00	121,86	124,41	117,44
Net income (expense) from Arg Subs	0,00	3,86	-3,60	-4,07
Accumulated income (expense) for inv foreign operation	0,00	3,86	0,26	-3,81
OCI for inv in foreign operation - income (expense)	0,00	18,01	6,15	-2,90
Accumulated OCI for inv foreign operation - income (expense)	0,00	18,01	24,16	21,25
Previously reported Investment (Nominal amounts)	100,00	98,55	72,00	56,24
Previously reported Accumulated OCI (Nominal amounts)	0,00	-9,09	-43,87	-66,91
Previously reported Accumulated Income (Nominal amounts)	0,00	7,64	15,87	23,15

Accumulated difference in Investment measurement	0,00	23,32	52,41	61,20
Accumulated difference in OCI	0,00	27,10	68,03	88,16
Accumulated difference in Profit or loss of the period	0,00	-3,78	-15,62	-26,96

Application of IAS 21 in conjunction with IAS 29

Comments on issues raised by ESMA to IFRS IC

Background

1. On April 17, 2019, the European Securities and Markets Authority (ESMA) sent a note to the IASB IFRS IC chairwoman, Mrs. Sue Lloyd, suggesting that the IFRS IC consider clarifying certain practical applications of IAS 29 *Financial Reporting in Hyperinflationary Economies* in conjunction with IAS 21 *Effects of Changes in Foreign Exchange Rates.*

2. More specifically, the problems identified by the ESMA refer to the case of groups that prepare their consolidated financial statements using a presentation currency not considered hyperinflationary, but which have had to include businesses in Argentina that have the Argentine peso as functional currency (AR$), which is considered the currency of a hyperinflationary economic environment under the terms of IAS 29, and therefore have previously applied the requirements of IAS 29 to measure all the elements related to its financial position, income and expenses and cash flows expressing them in the purchase power at the closing date of the period, reported in AR$.

3. The issues identified by ESMA and on which it has requested clarification are the following:

(a) Scope of the application of paragraph 42 (b) of IAS 21 in the first period in which the functional currency of the foreign operation becomes hyperinflationary and its interaction with paragraph BC17 of IFRIC 7. This includes the presentation of the information of the comparative figures for Q1 and Q2 2019 in the interim financial statements.

(b) The presentation of the combined effects of hyperinflation and the conversion of foreign currency of a foreign operation whose functional currency is the currency of a hyperinflationary economy to a stable presentation currency.

(c) The accounting treatment for the previously accumulated balance of exchange differences in a separate component of equity related to a foreign operation whose functional currency has become hyperinflationary, after the application for the first time of IAS 29 by the foreign operation.

4. The Argentine Federation of Professional Councils of Economic Sciences (FACPCE) knowledge about the concerns related to the application of IAS 29 by Argentine entities that are consolidated in the financial statements of European groups. For this reason, created a technical working group (TWG) to analyze these issues and convey his views on the matter to IFRS IC.

5. The TWG considers that, in order to adequately understand the effect of using the restatement process of IAS 29, the concept of “unit of measure” must be taken into account. Financial information in non-hyperinflationary environments use the functional currency of the entity as a unit of measure according to the parameters of IAS 21. The restatement process in hyperinflationary contexts involves replacing the legal tender in the hyperinflationary economy with a “virtual” currency based on the nominal currency corrected of the distortion produced by inflation on it and converts it into an ideal currency with zero inflation.
In the described context, the variations in the prices of currencies have two components that can be easily identified, which are the change in the purchasing power of the hyperinflationary

currency and the change in the market variables that determine a change in the exchange rate between the hyperinflationary currency and the rest of the currencies with which transactions are made or are used as a presentation currency.
Both variables are highly interdependent in high inflation contexts, so the economic and financial analyzes are made on the devaluations / appreciations of the exchange rate above / below the inflation of the period.
Therefore, in this context it is not useful information to make a separate analysis of the inflation and exchange rate effects since the magnitude of one is substantially determined by the magnitude of the other.
That is why in the solutions that the TWG proposes to the treatment of exchange rates differences related to investments in a foreign operation, is only to separate the cumulative effect at the beginning of the period of application of IAS 29, of the effect that occurs during the reporting period.
Although the application of IAS 29 arises from a change in circumstances and does not represent a change in accounting policy, the requirement of retroactive application as if the environment had always been hyperinflationary, requires that the mechanisms provided for changes in accounting policies be used in relation to the determination of the accumulated effects at the beginning of the comparative period and the subsequent effects.

Issue 1 - Scope of the application of paragraph 42 (b) of IAS 21 in the first period in which the functional currency of the foreign operation becomes hyperinflationary and its interaction with paragraph BC17 of IFRIC 7

1A - The requirements of not changing the comparative figures also apply for the first year in which the foreign operation begins to apply accounting for hyperinflationary economies

6. The TWG has reviewed the relevant paragraphs of the corresponding standards, and has reached the following conclusions:

(a) The use of the term “subsequent changes” in paragraph 42 (b) of IAS 21 could not be construed as a restriction not to keep comparative figures in the presentation currency in the first year in which the foreign business goes on to report under the IAS 29 criteria for a hyperinflationary economy.

(b) However, at the beginning of the first year of application, the entity that includes in its consolidated financial statements a foreign operation whose functional currency is to be considered that of a hyperinflationary economic environment, shall recognize in a cumulative manner directly in the equity, in the item that reflects the accumulated balance of the exchange rates differences of the foreingn operation, the effect of the initial application of IAS 29, in the first day of the year of initial application (see example in paragraph 9).

(c) The point of view of the TWG indicated in 5 (b) is based on the joint application of the requirements of paragraphs 42 (b) and BC22 of IAS 21, where it is clearly established that the objective of the IASB in determining the approach for comparative figures in presentation currency, previously determined in a currency to which accounting for hyperinflationary economies is applied, is consistent with paragraph BC17 of IFRIC 7.

1B - Presentation of financial information in the interim consolidated financial statements that include a foreign operation that began to applying accounting for a hyperinflationary economy

7. When preparing the consolidated financial statements for Q1 and Q2 2019, the comparative figures shall be considered as indicated in the following paragraphs of IAS 34:

(a) Paragraph 28 of IAS 34 states the following:
The entity must apply, in the interim financial statements, the same accounting policies that it applies in its annual financial statements, except as regards the changes in accounting policies carried out after the closing date of the annual financial statements plus recent, which will be reflected in the next to present. (...)

(b) Additionally, paragraph 36 of IAS 34 clarifies that the amounts of income and expenses, which are presented in each interim period, will also reflect all changes in the estimates of the items that have been presented in previous intermediate periods within the same annual period.

(c) However, the same paragraph 36 adds:
(…) The amounts reflected in the intermediate information of previous periods will not be subject to any retroactive adjustment. Paragraphs 16A (d) and 26 require, however, that the entity disclose information about the nature and amount of any significant change in the estimates previously made (...). ……..

8. Therefore, the TWG concludes that the comparative figures for Q1 2019 and Q2 2019 should not be affected in order to recognize the effects of the application of the change in the circumstances that affected the Argentine peso as of July 1, 2018. Comparative information which, from the point of view of the TWG, respects the requirements of IAS 34, follows the following approach:

Q2019	Q2018	Was IAS 29 applied to the comparative figures before its translation to presentation currency?	Application of paragraph 36 of IAS 34
Q12019	Q12018	No	• Use the unrestated amounts of Q12018. • Disclose the information required by IAS 34.16(d) and 26
Q22019	Q22018	No	• Use the unrestated amounts of Q12018. • Disclose the information required by IAS 34.16(d) and 26

9. As of any intermediate closing date after July 1, 2019, the comparative figures shall be those expressed in the purchasing power of the closing month of the comparative year, and then converted using the closing exchange rate of the month corresponding to the end of the comparative intermediate period.

Issue 2 - Presentation of the combined effects of hyperinflation and the translation of foreign currency of a foreign operation whose functional currency is the currency of a hyperinflationary economy to a stable presentation currency

10. The TWG considers that:

(a) In the first year, the cumulative effect of inflation recognized due to the first year of the application of accounting for hyperinflationary economies directly in equity must be determined, based only in the first year effects, the point of view followed by The IFRIC is that similar treatment should be given to the retroactive application of a standard as a change in accounting policy described in IAS 8, although with the limitations of doing so without modifying the comparative figures in the presentation currency when it is a stable currency.

(b) When converting foreign operations that uses accounting for hyperinflationary economies, the OCI for translation to presentation currency of the fiscal year will highlight the combined effect of the currency translation and the loss in the purchasing power of the functional currency of the foreign operation.

Example

	AR$	US$
Net investment in foreign operation to December 31, 2017 (a)	100	5.56
Net investment in foreign business to December 31, 2017 (b)	350	19.44

(a) Expressed in AR$ before applying IAS 29 - relevant exchange rate: US $ 1 = AR$ 18.
(b) AR$ expressed in purchasing power of December 2018 - relevant exchange rate: US $ 1 = AR$ 18.

The group will present directly in equity US $ 13.89 (US $ 19.44 - US $ 5.56), which arises from the initial application of accounting for hyperinflationary economies in foreign operations.

	AR$	US$
Net investment in foreign operation to December 31, 2017 (c)	518	-
Corresponding result by year 2018 (c)	10	0.25
Net investment in foreign business at December 31, 2017 (c)	528	13.20

(c) AR$ expressed in purchasing power of December 2018 - - relevant exchange rate: US $ 1 = AR$ 40.

The entity will present the following information from the foreign operation (in presentation currency):

Source:	Presentation	Currency
Net investment in foreign business at		
December 31, 2017 (b)	5.56	IAS 21.42
Effect by initial application IAS 29 on		
Foreign operation (Exchange differences in equity)	13.89	IFRIC 7.FC17
Results for the year 2018 (a)	0.25	IAS 21.42
OCI for the year convertion	(6.49)	
Net investment in foreign business at		
December 31, 2018 (a)	13.20	IAS 21.42

The OCI of the year per translation to presentation currency is explained as follows:

		US $
Net investment in foreign business at		
December 31, 2017 - base restated		19.44
Inter-annual inflation 2018:	48,00%	
Exchange rate variation between currencies, 2018:	122.22%	
Difference in variations [(1 + 48%) / (1 + 122.22%)] - 1:	(33.40%)	
OCI per year conversion:		(6.49)

The OCI of the year per translation to presentation currency reflects the combined effect of the inter-annual inflation of the foreign currency and the variation in the inter-annual exchange rate between the functional currency and the presentation currency.

Issue 3 - The accounting treatment of the balance of the account for translation to presentation currency previously accumulated in a separate component of equity, related to a foreign operation whose functional currency has become hyperinflationary, after the application for the first time of accounting for hyperinflationary currencies by the foreign operation

11. In accordance with paragraph 48 of IAS 21, an entity shall reclassify any balance previously accumulated in equity from the conversion of a foreign operation to presentation currency, when it occurs:

(a) a total disposition of a foreign operation; or

(b) a partial disposition of a foreign operation.

12. Given that none of the events provided for in paragraph 48 of IAS 21 occurs in this case, the TWG considers that the entity should not review the balances for conversion previously accumulated in equity related to a foreign operation, for the sole fact that its functional currency has become considered one of a hyperinflationary economic environment.

13. In accordance with the provisions of 5 (b) above, the amount previously accumulated in equity from the conversion of a foreign operation will be modified at the beginning of the period of initial application of IAS 29. The new amount determined, with more modifications that will occur in the following periods will be the amounts to be reversed at the time that some of the conditions provided for in paragraph 48 of IAS 21 referred to above are verified.

Accounting Standards Board of Japan (ASBJ)

Fukoku Seimei Building 20F, 2-2, Uchisaiwaicho 2-Chome, Chiyoda-Ku Tokyo 100-0011, Japan
Phone +81-3-5510-2737 Facsimile +81-3-5510-2717 URL https://www.asb.or.jp/en/

21 November 2019

IFRS Interpretations Committee
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Comments on three Tentative Agenda Decisions relating to
IAS 21 *The Effects of Changes in Foreign Exchange Rates* and
IAS 29 *Financial Reporting in Hyperinflationary Economies*

1. The Accounting Standards Board of Japan (the "ASBJ") welcomes the opportunity to comment on the following three IFRS Interpretation Committee's (the "Committee") tentative agenda decisions relating to IAS 21 *The Effects of Changes in Foreign Exchange Rates* ("IAS 21") and IAS 29 *Financial Reporting in Hyperinflationary Economies* ("IAS 29"), proposed in the September 2019 IFRIC Update.

   - Translating a Hyperinflationary Foreign Operation—Presenting Exchange Differences
   - Cumulative Exchange Differences before a Foreign Operation becomes Hyperinflationary
   - Presenting Comparative Amounts when a Foreign Operation first becomes Hyperinflationary

Translating a Hyperinflationary Foreign Operation—Presenting Exchange Differences

2. The Committee's tentative agenda decision rejects only one view related to the exchange differences that arise from translating the financial performance and financial position of a foreign operation whose functional currency is the currency of

a hyperinflationary economy into a presentation, that is, to present the entire difference in equity. As a result, the tentative agenda decision explains that all or part of the difference will be presented in other comprehensive income ("OCI").

3. However, to resolve this issue comprehensively, we think the Committee should not publish this agenda decision rejecting a certain interpretation but rather research on the needs for a project to revise IAS 29 should first be undertaken. Then, consideration should be given as to where to proceed to standard-setting activities for the following reasons:

   (a) While the issue is related to the concept of capital maintenance, the IASB noted in the course of revising the Conceptual Framework that the issues associated with capital maintenance should be addressed when the IASB undertakes research to determine whether to revise IAS 29. The issue implies that IAS 29 is not necessarily clear.

   (b) IAS 21 and IAS 29 do not provide specific guidance regarding (1) whether the restatement effect and the translation effect should be presented separately; nor (2) where to present the amounts of these effects.

   (c) Although the submitter expressed concerns related to presenting the effects of inflation and the changes in exchange rate separately because of the economic interrelationship between the two, no analysis regarding this concern has been performed.

   (d) Given that the two views that are considered to be acceptable in the tentative agenda decision have different accounting consequences, we think the Committee should consider which view is appropriate.

   (e) Paragraph 88 of IAS 1 requires an entity to include all items of income and expense in profit or loss unless IFRS requires or permits otherwise. In the context of this issue, there is no explicit requirement in IFRS and, therefore, we think that an entity cannot interpret existing guidance to conclude that the difference should be presented in OCI.

Cumulative Exchange Differences before a Foreign Operation becomes Hyperinflationary

~~4. In light of the existing requirements in IFRS standards, we can accept the analysis in the tentative agenda decision as one interpretation. However, we are of the view that the accounting may change depending on how the issue of "Translating a Hyperinflationary Foreign Operation—Presenting Exchange Differences" above (hereinafter referred to as "presenting exchange differences") is analysed. Accordingly, we are of the view that the Committee should consider this issue together with the issue of the presenting exchange differences.~~

Presenting Comparative Amounts when a Foreign Operation first becomes Hyperinflationary

5. Given that diversity in practice has not been identified, we agree with the analysis not to add this issue to the standard-setting agenda.

6. We hope our comments are helpful for the Committee's and the IASB's consideration in the future. If you have any questions, please feel free to contact us.

Yours sincerely,

Atsushi Kogasaka
Chair
Accounting Standards Board of Japan

November 23, 2019
ICAN/SP/R&T/NOV/2019

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Sir,

RE: IAS 21 AND IAS 29 – TRANSLATING A HYPERINFLATIONARY FOREIGN OPERATION│PRESENTING COMPARATIVE AMOUNTS WHEN A FOREIGN OPERATION FIRST BECOMES HYPERINFLATIONARY (AGENDA REF 4C)

The Institute of Chartered Accountants of Nigeria (ICAN) has considered the above Staff Paper and is pleased to submit its comments as follows:

Question1:
Does the Committee agree with our recommendation not to add this matter to its standard-setting agenda?

We agree with the Committee's decision not to add presenting comparative amounts when a foreign operation first becomes hyperinflationary to its standard setting agenda. However, in the events that circumstances change, this position can be revisited.

Question2:

Does the Committee have any comments on the proposed wording of the tentative agenda decision set out in Appendix A to this paper?

We have no comments on the proposed wording of the tentative agenda decision.

We thank you for giving our Institute the opportunity to contribute to the work of IFRS Foundation

Yours faithfully,

For: Registrar/Chief Executive

Ben Ukaegbu, PhD, ACA
Deputy Registrar, Technical Services

(NBAA)

THE NATIONAL BOARD OF ACCOUNTANTS AND AUDITORS

TANZANIA

TEL NOS: +255 26 2963318-9
E-MAIL: info@nbaa.go.tz
WEBSITE: www.nbaa.go.tz

NATIONAL AUDIT OFFICE "AUDIT HOUSE",
8TH FLOOR, 4 UKAGUZI ROAD,
P. O. BOX 1271,
41104 TAMBUKARELI,
DODOMA, TANZANIA

Our Ref: CCD.562/573/01

21st November, 2019

Chief Executive Officer,
IFRS Foundation
Columbus Building
7 West ferry Circus
Canary Wharf
London E14 4HD

Dear Sir/Madam

RE: PRESENTING COMPERATIVE AMOUNTS WHEN A FOREIGN OPERATION FIRST BECOMES HYPERINFLATIONARY

Refer to the heading above.

NBAA support the conclusion reached by the IFRS Interpretation Committee on the request which asked whether the entity restates comparative amounts presented for the foreign operation in:

a. its 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.

In principle we are supportive of the decision reached by the committee basing on the additional research conducted and as far as in applying paragraph 42(b) of IAS 21, entities generally do not restate comparative amounts in their interim or annual financial statements in the situations described above, however we are of the view that consideration should be given for amending the requirement for mitigating potential effect which might possibly take place in the future regarding the scenario asked.

If you require any clarification on our comments, please contact the undersigned.

Thank you in advance for your cooperation.

Yours sincerely,

CPA Angyelile V. Tende
For: EXECUTIVE DIRECTOR

ASCG • Zimmerstr. 30 • 10969 Berlin

Sue Lloyd
Chair of the IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH

United Kingdom

IFRS Technical Committee

Phone: +49 (0)30 206412-12

E-Mail: info@drsc.de

Berlin, 11 November 2019

Dear Sue,

IFRS IC's tentative agenda decisions in its September 2019 meeting

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on the tentative agenda decisions taken by the IFRS Interpretations Committee (IFRS IC) and published in the September 2019 *IFRIC Update*.

We fully agree with all **tentative agenda decisions**. However, we suggest that one detail in the reasoning for the tentative agenda decision on IFRS 16 be made more prominent: As the main conclusion (see fourth paragraph) appears to be that the "customer's right of use" (i.e. the right to direct how and for what purposes an asset is used) mainly depends on whether or not "the customer has the right to make all *relevant* decisions" – which the customer seems to have in this fact pattern –, it should be underlined in this context that "*relevant*" connotes to "*affect[ing] the economic benefits to be derived from the use*".

~~In respect of the **final agenda decision on IFRS 15**, we reiterate our concern that we had already addressed upon the respective tentative decision, i.e. not addressing the follow-up question of how to account for compensations that exceed the transaction price. We take the view that this question deserves being addressed by the IFRS IC or the IASB, as, in many cases, the answer on this question could affect the answer on the main question.~~

If you would like to discuss our views further, please do not hesitate to contact Jan-Velten Große (grosse@drsc.de) or me.

Yours sincerely,

Andreas Barckow

President

PO Box 1411
Beenleigh QLD 4207
25 November 2019

Ms Sue Lloyd
Chair IFRS Interpretations Committee
International Accounting Standards Board
Columbus Building, 7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Online submission: https://www.ifrs.org/projects/work-plan/translation-of-a-hyperinflationary-foreign-operation-presenting-exchange-differences/

Dear Sue

Tentative agenda decisions — Translating a Hyperinflationary Foreign Operation (IAS 21 and IAS 29)

- **Translating a Hyperinflationary Foreign Operation—Presenting Exchange Differences (IAS 21 and IAS 29)**
- **Cumulative Exchange Differences arising before a Foreign Operation becomes Hyperinflationary (IAS 21 and IAS 29)**
- **Presenting Comparative Amounts when a Foreign Operation First becomes Hyperinflationary (IAS 21 and IAS 29)**

I am pleased to make this submission on the above Tentative Agenda Decisions (TADs) relating to Translating a Hyperinflationary Foreign Operation.

I have extensive experience in accounting advice on International Financial Reporting Standards across a wide range of clients, industries and issues in the for-profit, not-for-profit, private and public sectors.

My clients have included listed companies, unlisted and private companies, charitable and not-for-profit organisations, federal, state and local government departments and agencies in the public sector, and government owned corporations (government business enterprises). I also have some commercial, standard setting and academic experience.

Overall

I do not support issuing the TADs as drafted.

Translating a Hyperinflationary Foreign Operation—Presenting Exchange Differences (IAS 21 and IAS 29)

The draft TAD permits a separate restatement adjustment to be recognised directly in equity. I disagree with that option in the absence of an explanation by the Committee of why the restatement adjustment is a direct to equity item on consolidation. Because the adjustment is not a transaction with owners as owners, the adjustment would appear to meet the definition under IAS 1 of total comprehensive income:

> ***Total comprehensive income* is the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners.**

What is the restatement adjustment?

While adjusting equity of an entity reporting in a hyperinflationary currency to a current purchasing power concept makes sense, such an adjustment to equity makes less sense when the results are being reported in a stable currency of the consolidated group.

If the Committee permits an accounting policy choice as to whether a separate restatement adjustment is recognised, it needs to explain what this restatement adjustment represents in respect of the consolidated group. When preparers make a choice, they need (under IAS 8) to understand whether the separate recognition of a restatement adjustment represents fairly the "transaction, other event or condition".

Should the restatement adjustment be separately recognised?

Under principle-based accounting standards, the restatement adjustment should represent something, and not just be based on an interpretation that separate recognition is permitted because the standards do not prohibit it.

I could not identify any intention in IAS 21 and IAS 29 that would require the complexity of recycling part of the translation process and not the remainder. This indicates to me that any restatement adjustment is part of the translation process and not something to be separately recognised.

Other related matters

If the Committee permits the separate recognition of a restatement adjustment, it should explain how the requirement of IAS 29 paragraph 24 and the elimination of the revaluation surplus is presented in the consolidated statement of comprehensive income. This is important, as the requirements of IAS 21 prohibit restatement of comparatives.

The Committee should also acknowledge the effects of equity accounting and whether there is any flow-through of the restatement adjustment of an associate or jointly-controlled entity to the consolidated group.

Cumulative Exchange Differences arising before a Foreign Operation becomes Hyperinflationary (IAS 21 and IAS 29)

There is an issue under of IAS 29 paragraph 24 on first application of IAS 29 in relation to that part of the consolidated revaluation surplus that is eliminated. If the Committee permits the separate recognition of a restatement adjustment, the Committee needs to explain how this elimination is treated.

~~If the Committee decided that all IAS 29 adjustments are part of the translation process, then I would support this TAD.~~

~~Similar to my comments above on the complexity of recycling part of the translation process and not the remainder, I could not identify any intention in IAS 21 and IAS 29 that would require the complexity of separately accounting for the pre-hyperinflation exchange difference. This indicates to me that such accounting is not required under a principles-based approach.~~

Presenting Comparative Amounts when a Foreign Operation First becomes Hyperinflationary (IAS 21 and IAS 29)

I do not believe that the Committee has sufficiently analysed the issue in relation to quarterly reporting.

The Committee should undertake such analysis if it permits a separate restatement adjustment to be recognised. The analysis should consider how this restatement adjustment is determined and accounted for, particularly in relation to quarterly reporting.

Yours sincerely,

David Hardidge
https://www.linkedin.com/in/davidhardidge/

Tentative Agenda Decision?Presenting Comparative Amounts when a Foreign Operation First becomes Hyperinflationary

Md. Mazedul Islam
Keinsmith58@gmail.com

The Committee decision in this regard is absoulately perfect. But the following matters might be taken since not present in financial statement is the violation of 1. Presentation of fair financial statement 2. Disclosute:

1. Use separate sheet or financial statement for this financial matter.
2. A notice might be issued with this separate sheet.
3. Note must be added.