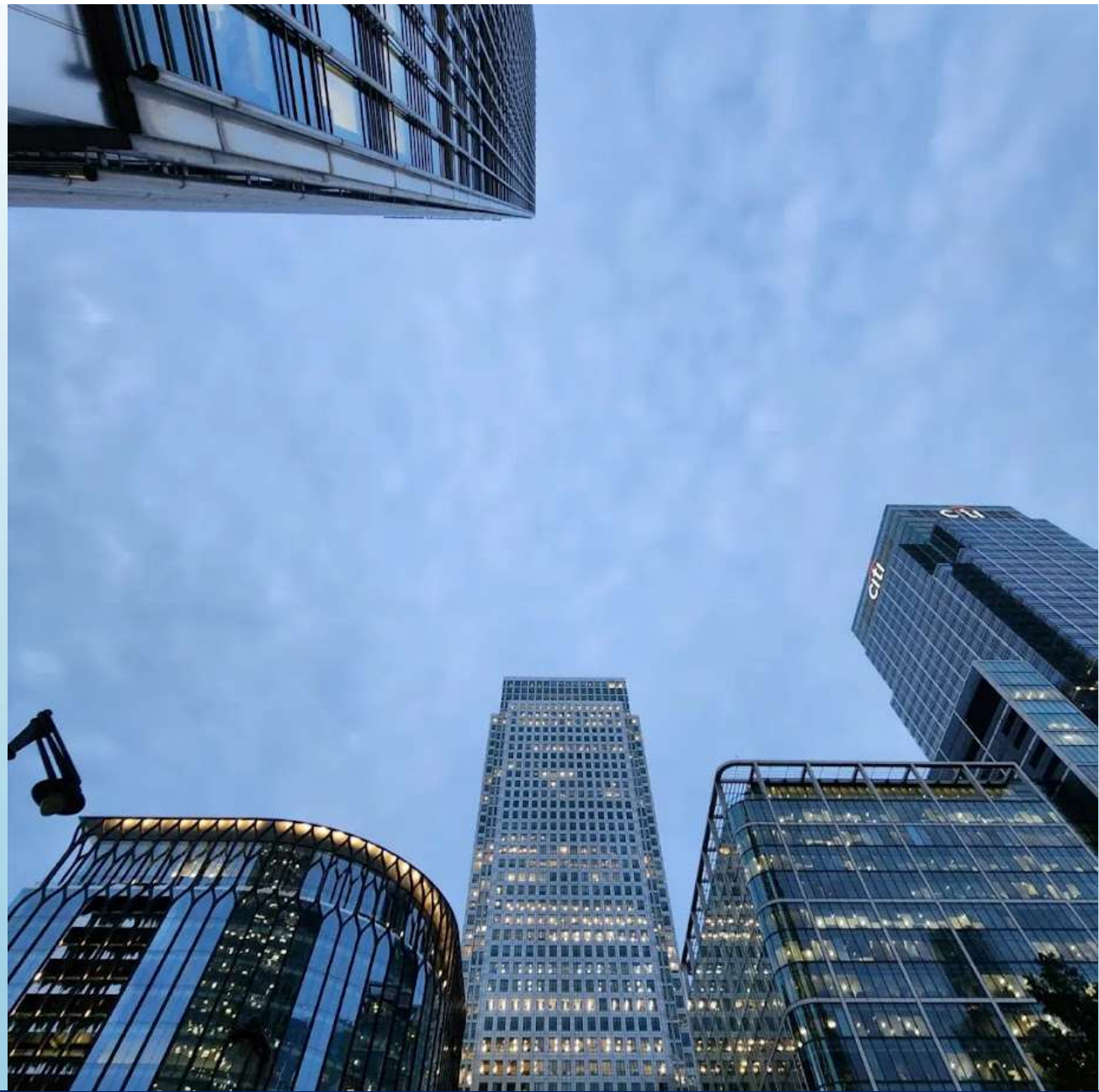




FACPCE

Translation to a Hyperinflationary Presentation Currency



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Agenda: Translation to a Hyperinflationary Presentation Currency (Proposed amendments to IAS 21)

- 1 Background: Why did the IASB publish this exposure draft?
- 2 Proposals in this exposure draft
- 3 Example: How would the proposed amendments work in practice?
- 4 How users and preparers could be affected by the proposals

Background

- The IASB published an exposure draft (ED) proposing changes to IAS 21, based on a recommendation from the IFRS Interpretations Committee.
- These changes address issues in translating amounts from a functional currency that is the currency of a non-hyperinflationary economy to a presentation currency that is the currency of a hyperinflationary economy.
- The goal is to reduce diversity in practice and improve the usefulness of financial information. Feedback will help decide the project's next steps.

Proposals in this exposure draft

How to translate from a non-hyperinflationary currency to a presentation currency in a hyperinflationary economy?

- All amounts, including comparatives, are translated using the closing exchange rate at the date of the most recent statement of financial position.

This proposal applies to both:

- an entity's financial statements; and
- the results and financial position of its foreign operations.

How would the proposed amendments work in practice?

In the following slides, we present an example of how the proposed method would work:

- (Part I): In the **separate financial statements of a parent entity** (Entity P), whose functional and presentation currencies (CU) are both those of a hyperinflationary economy.
- (Part II): In the **financial statements of Entity Q**, a foreign operation of P. Q functional currency is not that of a hyperinflationary economy, but Q presents its financial statements in the same currency as P (i.e., that of a hyperinflationary economy).
- (Part III) In the **consolidated financial statements of P**, presented in the currency (CU) of a hyperinflationary economy.

Example (Part I)

How would the proposed amendments work in practice?

Part I: Separate financial statements of a parent entity (Entity P)

Both functional currency and presentation currency of P (CU) are those of a hyperinflationary economy

Example (Part I)

How would the proposed amendments work in practice?

Assumptions for 20X1:

- P functional currency is that of a hyperinflationary economic environment (CU).
- Information about inflation for the period is as follows:

	CPI	Coefficient
31/12/20X0	100	2.80
20X1 Average	190	1.47
31/12/20X1	280	1.00

- The exchange rate (ER) on 31 December 20X1 is CU 3.8 per f.CU 1 (f.CU means foreign currency unit).
- CU (20X1) means CU expressed in purchasing power on 31 December 20X1.

Example (Part I) (cont.)

How would the proposed amendments work in practice?

P financial information as of 31/12/20X1:

The information referred as CU (20X1) is expressed in currency units (CU) with purchasing power as of December 20X1.

P' Separate FS	20X1	20X0
	CU (20X1)	CU (20X1)
Monetary assets, net	1,050	2,800
PPE	6,720	7,000
Investments	350	-
Net assets	8,120	9,800
Revenue	1,768.42	
Costs	(1,178.95)	
Depreciation	(280)	
Monetary position result	(1,989.47)	
G/(L)	(1,680)	

CU (20X1) 350 corresponds to the creation of foreign subsidiary Q, with a contribution of 100 CU the last month of the year (ER: 1 f.CU. = 3.5 CU)

Example (Part I) (cont.)

How would the proposed amendments work in practice?

Assumptions for 20X2:

- P functional currency is that of a hyperinflationary economic environment (CU).
- Information about inflation for the period is as follows:

	CPI	Coefficient
31/12/20X1	280	1.86
20X2 Average	400	1.30
31/12/20X2	520	1.00

- The exchange rate (ER) on 31 December 20X2 is CU 7 per f.CU 1 (f.CU means foreign currency unit).
- CU (20X1) and CU (20X2) mean CU expressed in purchasing power on 31 December 20X1 and 20X2, respectively.

Example (Part I) (cont.)

How would the proposed amendments work in practice?

P financial information as of 31/12/20X2:

The information referred as CU (20X2) is expressed in currency units (CU) with purchasing power as of December 20X2.

P' Separate FS	20X2	20X1	20X1
	CU (20X2)	CU (20X2)	CU (20X1)
Monetary assets, net	3,150	1,950	1,050
PPE	11,960	12,480	6,720
Investments	650	650	350
Net assets	15,760	15,080	8,120
Revenue	4,550	3,284.21	1,768.42
Costs	(1,820)	(2,189.47)	(1,178.95)
Depreciation	(520)	(520)	(280)
Monetary position result	(1,530)	(3,694.74)	(1,989.47)
G/(L)	680	(3,120)	(1,680)

Example (Part II)

How would the proposed amendments work in practice?

Financial statements of Entity Q, a P subsidiary

*Q is a foreign operation of P.
Q functional currency is not that of a hyperinflationary economy, but
Q presents its financial statements in the same currency as P (i.e., that
of a hyperinflationary economy)*

Example (Part II)

How would the proposed amendments work in practice?

Subsidiary Q financial information as of 31/12/20X1:

The information is expressed in foreign currency units (f.CU) and translated into CU using the proposal method.

Q' FS	20X1		20X1
	f.CU	Closing 20X1 ER	CU
Monetary assets, net	25	3.8	95
Investment property	100	3.8	380
Net assets	125		475
Revenue	25	3.8	95
G/(L)	25		95

Example (Part II) (cont.)

How would the proposed amendments work in practice?

Subsidiary Q financial information as of 31/12/20X2:

The information is expressed in foreign currency units (f.CU) and translated into CU using the proposal method.

Q' FS	20X2		20X2
	f.CU	Closing 20X2 ER	CU
Monetary assets, net	325	7	2,275
Investment property	100	7	700
Net assets	425		2,975
Revenue	300	7	2,100
G/(L)	300		2,100

Example (Part II) (cont.)

How would the proposed amendments work in practice?

Subsidiary Q comparative amounts as of 20X2:

The information is expressed in foreign currency units (f.CU) and re-translated into CU using the proposal method.

Q' FS	20X1		20X1
	f.CU	Closing 20X2 ER	CU
Monetary assets, net	25	7	175
Investment property	100	7	700
Net assets	125		875
Revenue	25	7	95
G/(L)	25		175

Example (Part II) (cont.)

How would the proposed amendments work in practice?

Subsidiary Q FS, current and comparative amounts, as of 31/12/20X2:

The information, both current and comparative amount, is presented in CU using the proposal method.

Q' FS	20X2	20X1
	CU	CU
Monetary assets, net	2,275	175
Investment property	700	700
Net assets	2,975	875
Revenue	2,100	95
G/(L)	2,100	175

When retranslating the comparative figures, no exchange differences arise to be presented in other comprehensive income (OCI).

Example (Part III)

How would the proposed amendments work in practice?

Consolidated financial statements of P

Presented in the currency (CU) of a hyperinflationary economy

Example (Part III)

How would the proposed amendments work in practice?

P Consolidated financial information, as of 31/12/20X1:

The information is presented in currency units (CU)

P' Consolidated FS 20X1	P	Q	Eliminations	Consolidated
	CU	CU	CU	CU
Monetary assets, net	1,050	95		1,145
PPE / Investment Property	6,720	380		7,100
Investments	350	-	(350)	-
Net assets	8,120	475	(350)	8,245
Revenue	1,768.42	95		1,863.42
Costs	(1,178.95)	-		(1,178.95)
Depreciation	(280)	-		(280)
Monetary position result	(1,989.47)	-		(1,989.47)
G/(L)	(1,680)	95		(1,585)

Example (Part III) (cont.)

How would the proposed amendments work in practice?

P Consolidated financial information, as of 31/12/20X2:

The information is presented in currency units (CU)

P' Consolidated FS 20X2	P	Q	Eliminations	Consolidated
	CU	CU	CU	CU
Monetary assets, net	3,150	2,275		5,425
PPE / Investment Property	11,960	700		12,660
Investments	650	-	(650)	-
Net assets	15,760	2,975	(650)	18,085
Revenue	4,550	2,100		6,650
Costs	(1,820)	-		(1,820)
Depreciation	(520)	-		(520)
Monetary position result	(1,530)	-		(1,530)
G/(L)	680	2,100		2,780

Example (Part III) (cont.)

How would the proposed amendments work in practice?

P Re-Consolidated comparative amounts, as of 31/12/20X2:

The information is presented in currency units (CU)

P' Consolidated FS 20X2 <i>(Comparative amounts)</i>	P CU	Q CU	Eliminations CU	Consolidated CU
Monetary assets, net	1,950	175		2,125
PPE / Investment Property	12,480	700		13,180
Investments	650	-	(650)	-
Net assets	15,080	875	(650)	15,305
Revenue	3,284.21	175		3,459.21
Costs	(2,189.47)	-		(2,189.47)
Depreciation	(520)	-		(520)
Monetary position result	(3,694.74)	-		(3,694.74)
G/(L)	(3,120)	175		(2,945)

Example (Part III) (cont.)

How would the proposed amendments work in practice?

P Consolidated FS, as of 31/12/20X2:

The information is presented in currency units (CU)

P' Consolidated FS 20X2	20X2	20X1		20X1
	CU	CU		CU
Monetary assets, net	5,425	2,125	≠	1,145
PPE / Investment Property	12,660	13,180	≠	7,100
Investments	-	-		-
Net assets	18,085	15,305	≠	8,245
Revenue	6,650	3,459.21	≠	1,863.42
Costs	(1,820)	(2,189.47)	≠	(1,178.95)
Depreciation	(520)	(520)	≠	(280)
Monetary position result	(1,530)	(3,694.74)	≠	(1,989.47)
G/(L)	2,780	(2.945)	≠	(1,585)

Example (Part III) (cont.)

How would the proposed amendments work in practice?

P Consolidated FS, as of 31/12/20X2:

The information is presented in currency units (CU)

P' Consolidated FS 20X2	20X2	20X2		20X1
	CU	CU		CU
Capital	18,200	18,200	≠	9,800
Retained earnings	(2,945)	-		-
P/L of the year	-	(2,945)	≠	(1,585)
Difference	50	50	≠	30
Net assets	18,085	15,305	≠	8,245

How users could be affected by the proposals

What did we hear?

- Users of the financial statements of an entity applying the proposal believe they will benefit.
- This is because it becomes easier to 'backtrack' to figures in the non-hyperinflationary functional currency.
- The feedback we have received from users of consolidated financial statements presented in the currency of a hyperinflationary economy varies, depending on the composition of each group.
- Most of what we heard expressed the need for the IASB to clarify where the difference identified when applying the proposed method in the preparation of consolidated financial statements should be presented.

How preparers could be affected by the proposals

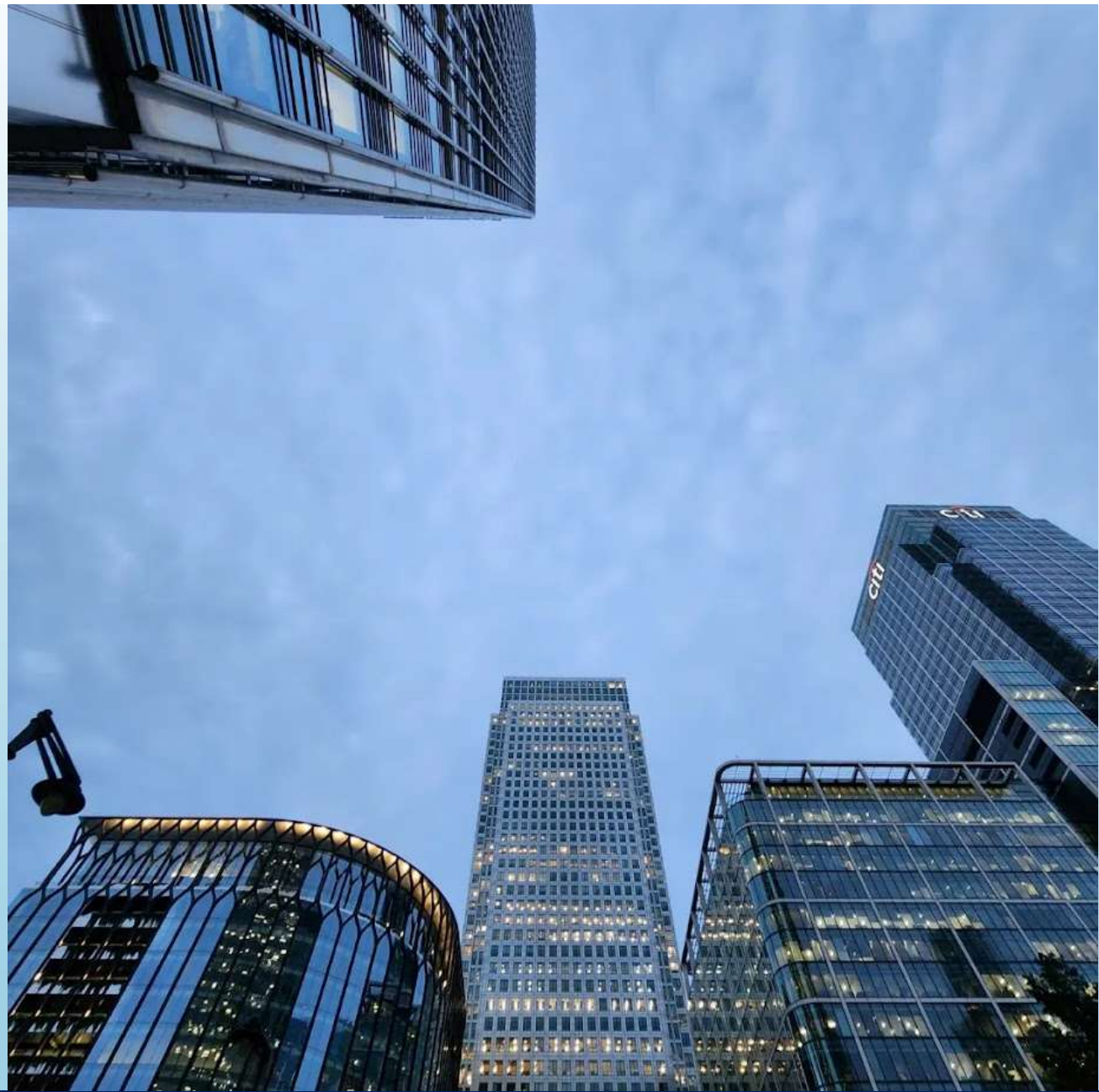
What did we hear?

- Some preparers of consolidated financial statements presented in the currency of a hyperinflationary economy have expressed concerns about the costs involved in re-consolidating the comparative figures.
- They have also expressed certain doubts about how to apply the equity method in separate financial statements when using the proposal. Therefore, the IASB could clarify this matter, either within this project or as part of the project to revise IAS 28, Associates and Joint Ventures.



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Thank you!



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